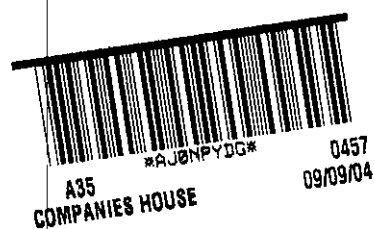


Investec Annual Report and Financial Statement 2004

3633621



Corporate information

Investec Limited and Investec plc

Secretary and Registered Office Investec Limited

Selwyn Noik
100 Grayston Drive
Sandown Sandton 2196
PO Box 785700 Sandton 2146
Telephone (27 11) 286 7957
Facsimile (27 11) 286 7966

Investec plc

Richard Vardy
2 Gresham Street
London EC2V 7QP
United Kingdom
Telephone (44) 20 7597 4485
Facsimile (44) 20 7597 4491

Investor Relations

Ursula Munitich
Tanya Reid
Natalie van der Bijl
Margaret Arnold
Telephone (27 11) 286 7070
Facsimile (27 11) 286 7014
e-mail: investorrelations@investec.co.za
Internet address: www.investec.com/group/links/investorrelations

Internet Address

www.investec.com

Registration Number

Investec Limited Reg. No. 1925/002833/06
Investec plc Reg. No. 3633621

Auditors

Ernst & Young
KPMG Inc.

Transfer Secretaries in South Africa

Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street Johannesburg 2001
PO Box 61051 Marshalltown 2107
Telephone (27 11) 370 5000

Transfer Secretaries in the UK

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgewater Road
Bristol BS99 7NH
United Kingdom
Telephone (44) 870 702 0001

Investec Offices - Contact Details

Refer to details at the end of the report

Contents

01

Overview
of the year

pg001

02

Investec in
perspective

pg035

03

Divisional
review

pg045

04

Risk and
governance

pg079

05

Remuneration
report

pg117

06

Additional
information

pg135

07

Financial
statements

pg145

Mission statement, philosophies and values

Mission Statement

We strive to be a distinctive specialist banking group, driven by commitment to our core philosophies and values

Philosophies

- Single organisation
- Meritocracy
- Focused businesses
- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance
- We thrive on change, continually challenging the status quo and recognising that success depends on flexibility, innovation and enthusiasm in meeting the needs of our changing environment.
- We believe that open and honest debate is the appropriate process to test decisions, seek consensus and accept responsibility.
- We are creative individuals who co-operate and collaborate unselfishly in pursuit of group performance.
- We respect the dignity and worth of the individual through openness and tolerance of difference and by the sincere, consistent and considerate manner in which we interact.

Values

- We demand cast-iron integrity in all internal and external dealings, consistently and uncompromisingly displaying moral strength and behaviour which promotes trust.
- We will break china for the client, having the tenacity and confidence to challenge convention.
- We show concern for people, support our colleagues and encourage growth and development.
- We require talented people with passion, energy and stamina, who exercise common sense in achieving effective performance in a high pressure, multi-task environment.
- We promote entrepreneurial flair and the freedom to operate within the context of risk consciousness, sound judgement and the obligation to do things properly.

Financial highlights

UK GAAP ¹	31 March 2004	% change	31 March 2003*
Profit and Loss Account and Selected Returns			
Earnings attributable to ordinary shareholders before exceptional items and amortisation of goodwill (£'000)	106 082	18.3%	89 668
Headline earnings (£'000)	105 752	26.5%	83 595
Operating profit before amortisation of goodwill, exceptional items and taxation (£'000)	132 139	54.1%	85 762
Operating profit: South Africa and Other (% of total)	58.6%		81.0%
Operating profit: Non-South Africa and Other (% of total)	41.4%		19.0%
Cost to income ratio (%)	72.7%		80.0%
Staff compensation to operating income ratio (%)	47.3%		51.1%
Return on average equity shareholders' funds (%)	16.0%		13.1%
Return on average tangible net asset value (%)	27.5%		26.0%
Annuity income as a percentage of operating income (%)	67.8%		69.1%
Net-interest income as a percentage of operating income (%)	18.8%		21.3%
Non-interest income as a percentage of operating income (%)	81.2%		78.7%
Effective tax rate (%)	21.6%		6.3%
Balance Sheet			
Total capital resources (£ millions)	1 346	40.4%	958
Total shareholders' funds (£ millions)	809	26.4%	640
Total equity shareholders' funds (excl. preference shares)(£ millions)	682	6.6%	640
Total assets (£ millions)	15 361	3.0%	14 914
Core loans and advances (£ millions)	5 060	29.4%	3 909
Core loans and advances as a percentage of total assets (%)	33.0%		26.2%
Total assets under administration (£ millions)	47 805	17.9%	40 559

Financial highlights

UK GAAP ¹	31 March 2004	% change	31 March 2003*
Salient Financial Features and Key Statistics			
Earnings per share before exceptional items and amortisation of goodwill (pence)	103.7	7.9%	96.1
Headline earnings per share (pence)	103.4	15.4%	89.6
Basic earnings per share (pence)	59.9	>100%	(67.6)
Diluted earnings per share (pence)	59.5	>100%	(67.6)
Dividends declared per share (pence)	58.0	7.4%	54.0
Dividend cover (times)	1.79		1.78
Net tangible asset value per share (pence)	431.8	15.2%	374.9
Weighted number of ordinary shares in issue (million)	102.3	9.7%	93.3
Total number of shares in issue (million)	118.6	5.0%	113.0
Combined group market capitalisation (£ millions)	1 292	85.9%	695
Closing share price (pence)	1 089	77.1%	615
Number of employees in the group	4 458	(8.5%)	4 874
Average \$/£ exchange rate	1.69	(9.0%)	1.55
Average ZAR/£ exchange rate	12.02	20.1%	15.04

Notes:

Refer to definitions on pages 229 and 230.

* Restated for changes to accounting policies and disclosures.

Presentation of financial information

Under the contractual arrangements implementing the Dual Listed Companies Structure (DLC) structure, Investec Limited and Investec plc effectively form a single economic entity, in which the economic and voting rights of shareholders are equalised. In accordance with this structure, the directors of the two companies consider that for financial reporting purposes, the fairest presentation is achieved by consolidating the results and financial position of both companies using merger accounting principles.

Accordingly, the results for Investec plc set out on pages 150 to 157 presents the results and financial position of the combined DLC group under UK GAAP, denominated in Pounds Sterling (i.e. "Investec's consolidated results").

Investec had previously reported its consolidated results both in accordance with SA GAAP, denominated in Rands and UK GAAP, denominated in Pounds Sterling. In terms of the new JSE listing requirements, and agreed to by the JSE, the group is only required to report its consolidated results in accordance with UK GAAP denominated in Pounds Sterling. However, because SA GAAP differs in certain respects from UK GAAP, the group sets out a high-level reconciliation and summary of these principal differences on page 227.

The financial information contained throughout this document has been prepared in accordance with UK GAAP. All references in this document referring to "Investec" or "the group" relate to the combined DLC group comprising Investec Limited and Investec plc.

Chairman's statement

- Hugh Herman

Results

I am pleased to report an improved performance in the group's operations in the past year. A steady improvement in economic conditions across the globe resulted in a relatively good year for financial markets. As stability returned to equity markets, investor sentiment became increasingly positive and activity levels picked up, along with stock market valuations.

The more favourable economic and financial environment supported the performance of Investec's businesses. This, together with tight cost control and disciplined capital management, enabled the group to grow basic earnings per share before goodwill amortisation and exceptional items by 7.9% - to 103.7 pence from 96.1 pence. Total dividends per share for the year amounted to 58.0 pence, compared to 54.0 pence in 2003.

Overall performance

The better market environment was conducive to the group's Investment Banking and Private Client Stockbroking and Portfolio Management activities. Performance was further enhanced by consistently strong results from the Private Banking division. In the UK, the Treasury and Specialised Finance division achieved a remarkable turnaround, fostered by the restructuring of the trading activities undertaken in the previous financial year.

Overall performance was partially offset by a weaker result from the South African Treasury and Specialised Finance activities, which recovered somewhat in the second half of the financial year. Last year's exceptional result from the South African life assurance activities, which benefited from substantial operational earnings as a result of restructuring and rationalisation, wasn't repeated this year.

Empowerment and transformation

In the past few years, Investec participated, along with other financial institutions in South Africa, in negotiating and drafting the guidelines for the Financial Sector Charter. This document, which provides a framework to enable broad-based black economic empowerment (BEE) through greater inclusion and empowerment of all segments of South African society, was finalised and published in October 2003.

During the year, we demonstrated an established commitment to empowerment and transformation, when Investec Limited concluded a pioneering empowerment shareholding transaction, the first of its kind in the sector. Subsequently, we were recognised for our transformation and BEE initiatives in South Africa and awarded the "Most Progressive Established Company of the Year" (*BusinessMap Foundation*).

We remain committed to transformation and will continue to play a meaningful role in BEE and growing South Africa's economy. This role is given added impetus through the pledge of our employees to an internal employment equity process and the ongoing support of our businesses for black owned and managed companies.

Sustainability

Investec's current efforts towards integrating sustainability at all levels of the business have added value in demonstrating the link between socially responsible management and good business practice. The group believes that it is in the long-term interests of the business, employees, shareholders and broader stakeholders that a tangible commitment to sustainability is embraced and embedded into all its activities.

The group has played an active role in supporting corporate social investment activities focusing on projects that are entrepreneurial and sustainable and empower people through education and skills training. Our efforts to build a strong culture also encourage a desire to give back to the communities in which we live and do business. Over the years, our employees have developed a strong spirit to give back to communities, not just in monetary terms, but also through volunteering their time and skills to charitable projects.

During the year, Investec was selected for inclusion in the Kempen SNS Smaller Europe SRI Index, the first sustainable index for smaller European companies. Investec was also included in the recently launched JSE Socially Responsible Investment Index, the first index of its kind in an emerging market. We performed well and were commended for the quality of our triple bottom-line reporting as well as for our move to using an internationally recognised reporting framework.

While our South African operations are more advanced in the integration of sustainability, we are confident that our non-South African operations will continue to develop their own approaches to sustainability integration during the next financial year.

Integrity

In the past few years, the corporate environment has been marked by intense regulatory scrutiny, particularly in the financial services industry where there is increased pressure to improve the structure and practices of financial markets. The board is committed to high standards of corporate governance and business ethics in all its activities, which will remain the cornerstone of our business.

During the year under review, Investec Limited was assigned an extremely sound corporate governance rating by CA Ratings in an independent governance rating, based on the principles of King II and on international practices. Factors supporting the rating include the receptiveness of directors and senior management to open and vigorous debate, the clear organisational alignment of goals and the extensive consultative management approach.

As we strive to strengthen further our own policies and procedures, a primary priority remains our commitment to integrity in everything we do.

Acknowledgements

In these modern times, where there is increasing corporate governance and regulatory pressure, a strong board is

essential to the effective management of the company. I would like to acknowledge the invaluable contribution made by all the directors in the past year and extend my sincerest appreciation to the Chief Executive and Managing Director for their vital contribution and resolute loyalty to the group.

We were deeply saddened by the sudden death of John Abell, the lead non-executive director on the Board of Directors of Investec plc and Investec Limited, on 26 May 2004. John was a member of the board since 1993 and made a significant contribution. His wise counsel will be greatly missed.

In February 2004, we announced that Fani Titi, Chief Executive of the Tiso Group, was appointed a non-executive director on the boards of Investec Limited and Investec plc. Fani is a distinguished business leader and thoughtful corporate director and we welcome the contribution he is already making to the board.

The year's accomplishments would not have been possible without the focused dedication and teamwork of all our employees. Their invaluable contribution and generous spirit are the essence of Investec and it is through their endeavours and expertise that we were able to produce a creditable performance for the year.

Finally, to our shareholders and clients, thank you for the trust and confidence you place in Investec.

Outlook

As we enter the 2005 financial year, growing corporate earnings and consumer confidence continue to support healthy equity markets worldwide. While we cannot, of course, forecast with certainty how global events will shape the markets in which we operate, we can confirm that our employees and management will remain focused and committed to serving our stakeholders.

As a group, we look forward to the year ahead, and its challenges and opportunities with confidence. It is our strong sense of internal drive and dedication, steadfast morale and determination to secure an even firmer positioning in the regions in which we operate that form the basis of the optimism with which we view the future.

Hugh Herman
Chairman



Review by the chief executive officer and managing director

- Stephen Koseff and Bernard Kantor

Overview of performance

On balance, 2003 proved to be a more favourable operating environment than was anticipated at the beginning of the financial year. Economic growth was better in most major economies, equity markets rose, and business confidence increased, improving market sentiment in general. The more favourable market environment, together with successful rationalisation and restructuring of the group's operations in the previous year, benefited Investec, with better performance from most business areas.

Profits were boosted by stronger performance from the group's operations in the UK and Australia, and the elimination of losses from the US operations. The UK business experienced a significant turnaround in performance due to the result of robust result from Private Banking and Treasury and Specialised Finance. These factors were offset to some extent by a weaker performance from the South African Treasury and Specialised Finance division and a decline in income from the South African life assurance activities.

The salient financial features of the year under review include:

- Operating profit of the group's operations before exceptional items and goodwill amortisation increased 54.1% - from £85.8 million to £132.1 million.
- Investec plc and its subsidiaries accounted for 41.4% (2003: 19.0%) of Investec's operating profit before exceptional items and amortisation of goodwill.
- The ratio of total operating expenses to total operating income decreased from 80.0% to 72.7%.
- Investec Bank (UK) Limited successfully placed a £200 million, 12-year subordinated note in the UK market to a diversified range of investors.
- Investec Bank Limited issued R1.5 billion (£127.5 million) in non-cumulative, non-redeemable and non-participating preference shares.
- The operational effective tax rate of the group (excluding the tax effect on exceptional items) increased from 6.3% to 21.1%.

For more details on the group's performance in the period under review, see pages 9 to 29.

Commendable turnaround in the UK performance

The UK businesses recorded an operating profit before exceptional items and amortisation of goodwill of £38.7 million, an increase of 71.7% over the previous financial year. The strong results from the Private Banking and Treasury and Specialised Finance divisions were supported by a solid performance from Carr Sheppards Crosthwaite. Furthermore, the Investment Banking activities benefited from greater corporate activity and a streamlined cost base but without the benefit of any significant private equity realisations.

Mixed performances from the Southern African businesses

The Southern African businesses posted an operating profit before exceptional items and amortisation of goodwill of £77.4 million, representing an increase of 11.4%. The operations benefited from the strength of the Rand and a solid performance from the Investment Banking and Private Banking divisions. This strong performance was offset by a poor performance from the Treasury and Specialised Finance division and a decline in the earnings of the group's Assurance Activities and Central Funding division.

Solid performance from the Australian businesses

The Australian operating profit before exceptional items and amortisation of goodwill increased by 62.5% to £9.6 million, as a result of favourable market conditions. The business experienced solid activity levels and made good progress in all its core activities. In October 2003, Investec Bank (Australia) received a favourable long-term deposit and

issuer rating of Baa2 from Moody's, enabling the group to enhance its funding base.

Israel benefits from a better economic and financial environment

The Israeli operation benefited from cost cutting initiatives undertaken in the previous period and a stronger economic and financial environment. Despite performance reported in nominal terms being weakened by negative inflation, operating profit before exceptional items and amortisation of goodwill increased by 69.3% to £5.9 million. Assets under management increased by 104% to NIS20.2 billion (£2.4 billion), from NIS9.9 billion (£1.3 billion). Investec Bank (Israel) continues to grow its market share in the mutual funds custody business and is now taking on new business from two additional independent fund managers. Subsequent to the year end the group sold its stake in Investec Bank (Israel) to First International Bank of Israel. Further details are provided on page 148.

Improved performance from the US business

The heavily reduced ongoing operations in the US, consisting of several fixed income trading operations and a small equities trading desk supporting Investec Bank (Israel)'s clients, posted a modest operating profit before exceptional items and amortisation of goodwill of £0.4 million. The fundamental restructuring of the US business was completed and, with the exception of run-off related activities, all other businesses in Investec USA and Investec Inc. ceased operating as of 31 May 2003.

Investec recognised for empowerment and transformation initiatives

Over the past few years, Investec has been particularly active in promoting black economic empowerment (BEE) within the financial services sector, having been at the forefront of several empowerment initiatives before BEE became a legislative prerequisite. Investec played an important role in the development of the Financial Sector Charter, which seeks to promote BEE in the South African financial services sector and was released in October 2003. Of further significance, in April 2004, Investec was recognised for its BEE and transformation initiatives in South Africa, receiving the *BusinessMap Foundation's* "Most Progressive Established Company of the Year" award.

During the year, Investec concluded a significant deal with two empowerment companies - Tiso Group and Peu Investment Group - that will greatly enhance the participation of BEE in the South African market. The transaction with Tiso and Peu is unique in that it introduces black shareholders at a holding company level, with 25.1% of Investec Limited now owned by Tiso, Peu, a development trust and an employee trust. To ensure that broad-based empowerment takes place, the Entrepreneurship

Development Trust was created to augment these transactions, effectively leading to communities participating in 60% of the 25.1% shareholding the BEE consortium acquired in Investec Limited. In November 2003, the transaction was concluded, with the group issuing 5.6 million new shares (£46.0 million).

Investec believes that BEE, if properly implemented, is critical to economic and social transformation in South Africa and the cornerstone for longer-term sustainable development. Investec's proactive approach to BEE - which focuses on ingraining this commitment into the group's culture and values, and provides a source of competitive business advantage - positions the group as a leader in developing innovative and effective solutions to the challenges facing the sector in South Africa.

Sustainable development - the "Investec way"

As an international group, Investec recognises that sustainability is more than just BEE and also involves managing a number of direct and indirect social and natural environmental impacts. Investec's journey to sustainability is an integral part of its business strategy and critical to its future success.

In keeping with the Investec entrepreneurial spirit, the group's sustainability efforts focus on issues that are most relevant to the business of a specialist bank. The group is committed to making a material contribution to its business, moving beyond a "tick-the-box" approach to doing it the "Investec way". This means being innovative, relevant, practical and having due regard for the values and culture of the organisation.

In the past year, the group committed to sustainable development as a strategic intention and began a group-wide internal engagement process, to ensure each division understands the implications of sustainable development. This process of internal debate and interaction is essential for embedding the concept of sustainability throughout the organisation, and for ensuring that the group identifies and proactively addresses key opportunities and risks within each division. Investec is confident that this objective will be reached.

Looking to the year ahead, the group faces a number of exciting challenges as the process of translating the concept of sustainability into operational reality continues. During the coming year, Investec will be undertaking various initiatives to raise employee awareness and understanding of sustainability, and to further embed sustainability principles into the group's operations at all levels.

Strategic direction

During the 2003 financial year, a comprehensive worldwide exercise was undertaken in which every employee had an opportunity to comment on the values of the organisation.

the extent to which they are or are not lived, and changes they would recommend. This input of employees was considered at an international Investec management conference in April 2004. Furthermore, progress was made in crystallising the group's strategic direction and resulted in the revision of the group's mission statement, as follows: "Investec strives to be a distinctive specialist banking group driven by commitment to our core philosophies and values."

In considering the concept of being distinctive, management recognised that the following questions need continual consideration:

1. How does the group build and retain distinctive human talent?
2. How can integrity and morality in business practices act as a source of distinction?
3. What are the values that will make Investec truly distinctive?
4. What will define success and delivery of distinctive results?

Consequently, the group commenced a process to drive its mission to all areas of its operations and to clearly articulate its strategic direction. This direction - which will centre on the need to be distinctive - incorporates renewed client focus, employees who are recognised and rewarded for their achievements, intensified cooperation and collaboration between divisions, the fostering of an entrepreneurial environment and renewed efforts among all Investec's people to actively live the values.

The group continues to concentrate on building a full service specialist bank in South Africa and a niche specialist bank in the UK and other countries. This focus is based on a recognition that Investec cannot compete on all fronts and has to allocate resources where it can achieve meaningful growth and return on equity. Management has also recognised that Investec needs to drive its return on equity to more than 20% and reduce its operating leverage, by lowering its cost to income ratio to 65%. This requires ongoing assessment of activities that do not meet these targets. In the past few years, Investec has demonstrated an ability to take tough decisions and to align the group to changes in operating conditions. Management is committed to dealing with situations that inhibit the achievement of the above targets.

Acknowledgements

Investec's performance in the past year reflects the collective efforts of employees worldwide. We would like to thank all employees for their persistent energy and dedicated efforts, which remain undiminished and made a vital contribution towards the group's efforts.

We would also like to extend our sincerest appreciation to the Chairman and board of directors for their unwavering support and disciplined leadership, which are vital for

effective decision-making and corporate governance which enabled the group to produce commendable results.

We welcome Fani Titi, Chief Executive Officer of the Tiso Group, to the board of directors and look forward to the skilled insight that his knowledge and experience will bring to the group. Fani was appointed to the boards of Investec Limited and Investec plc as a non-executive director in January 2004.

On a sad note, we mourn the death of John Abell, a non-executive director on the board of directors of Investec plc and Investec Limited, on 26 May 2004. John was appointed to the Investec board in 1993 and his contribution - both professional and personal - will be deeply missed.

Lastly, we would like to extend our gratitude to all our stakeholders for their dedication and commitment; our shareholders, for their consistent support; and our clients, for depending on us to be their trusted advisors and more importantly, for choosing us to be their partners.


Outlook for 2004

The past few years have been challenging for the financial services industry, with international economic events and weak stock market conditions weighing heavily on performance. Notwithstanding this, the operational health of the group's activities is sound, with vigilant management of costs and significant measures taken to address the non-performing elements of the business. Ongoing cost discipline will remain a priority and the group is committed to maintaining rigorous cost reduction.

Looking ahead to 2004, while uncertainties remain, conditions appear to be improving and investors are becoming increasingly optimistic. In particular, the recent announcement that South Africa is to host the 2010 World Cup Soccer should result in positive economic activity and create a conducive environment for the group's infrastructural finance activities. Higher and more stable equity markets are creating a more positive environment for Investec's activities in the UK and Australia.

The group strives to continue to build distinctive businesses in its core areas of operation, focusing on where it can compete effectively. By maintaining concentration on the fundamentals of growing earnings, improving efficiency and maintaining credit quality, Investec is confident that it can continue to build a sustainable business model that will deliver value to shareholders.


Stephen Koseff
Chief Executive Officer


Bernard Kantor
Managing Director

Financial review

Introduction

This commentary and analysis of the group's financial results for the year ended 31 March 2004 should be read together with the financial statements and the notes to such statements on pages 150 to 224. The commentary and analysis are based on the group's consolidated financial results presented in accordance with UK GAAP and denominated in Pounds Sterling. The financial information discussed below is based on the period under review, and may not necessarily reflect the financial condition or results of the operations of the group going forward.

Key income drivers

Investec provides a wide range of financial products and services to a niche client base in two principal markets,

South Africa and the UK, as well as certain other markets, including Australia, the US and Israel. Investec is organised into four principal business divisions: Investment Banking, Private Client Activities, Treasury and Specialised Finance and Asset Management.

In addition, Investec's head office provides certain group-wide integrating functions including Risk Management, Information Technology, Finance, Investor Relations, Marketing, Human Resources and Organisational Development. It is also responsible for the group's central funding and other activities, such as Investec's Property business, Trade Finance and Traded Endowment operations.

A detailed description of the group's principal businesses is provided elsewhere in this report.

An overview of Investec's key income drivers

Business activity	Key income drivers	Income impacted primarily by	Profit & loss account - reflected as
Investment Banking			
Corporate Finance	Fees resulting from the provision of capital markets and financial advisory work	<ul style="list-style-type: none"> • Macro- and micro-economic fundamentals • Industry-specific trends • Underlying stock market activity, particularly in Investec's primary markets 	Fees and commissions - deal
Institutional Research, Sales and Trading	Brokerage commissions	<ul style="list-style-type: none"> • Stock market trading volume and volatility • Client allocation of broking transactions • Investec's ability to source securities and execute trades on behalf of its clients 	Fees and commissions - annuity
Private Equity and Direct Investments	Sale of investments and revaluation of trading investments	<ul style="list-style-type: none"> • Macro- and micro-economic market conditions • Availability of profitable exit routes • Whether appropriate market conditions exist to maximise gains on sale 	Dealing profits
Private Client Activities			
Private Banking	<ul style="list-style-type: none"> • Interest earned in connection with the bank's lending activities • Fees earned for advisory and lending services • Income earned in respect of private client investment banking activities 	<ul style="list-style-type: none"> • The size of Investec's loan portfolio • The general state of the property market (in South Africa, UK and Australia) • Rate environment • The demand for Investec's specialised advisory services • Quality of transactions and deal flow 	<ul style="list-style-type: none"> • Net interest income • Fees and commissions - annuity - deal • Dealing profits
Private Client Portfolio Management and Stockbroking	<ul style="list-style-type: none"> • Fees levied as a percentage of assets under management • Commissions earned for executing transactions for clients 	<ul style="list-style-type: none"> • Movements in the value of assets underlying client portfolios • The level of clients' investment activity, which, in turn, is affected by, among other things, the performance of the stock markets, the equity investment risk appetite of Investec's clients and market liquidity 	Fees and commissions - annuity - deal
Treasury and Specialised Finance			
Financial Markets Activities	Proprietary trading and activity supporting client flow	<ul style="list-style-type: none"> • How well these businesses are positioned to react to sudden changes in market liquidity, volume and volatility • Limitations imposed on trading opportunities as a result of applicable regulatory capital requirements 	<ul style="list-style-type: none"> • Net interest income • Dealing profits
Banking Activities	Activity related to the management of the group's liquidity and interest rate exposure and the provision of a range of treasury and financial products to the government and inter-bank, corporate and institutional markets	<ul style="list-style-type: none"> • The degree of sophistication of the financial markets in which the group operates • The resulting demand for highly specialised structuring advice • Ongoing development of the private finance initiative and public private partnership markets • The group's credit rating and its ability to attract lower cost funding 	<ul style="list-style-type: none"> • Net interest income • Fees and commissions - deal

An overview of Investec's key income drivers

Business activity	Key income drivers	Income impacted primarily by	Profit & loss account - reflected as
Asset Management			
Asset Management	Fees levied as a percentage of assets under management	<ul style="list-style-type: none"> • Movement in the value of the underlying assets 	Fees and commissions - annuity
Assurance	<ul style="list-style-type: none"> • Premiums earned and benefits paid for existing policies • The investment performance of the assets' underlying policies 	<ul style="list-style-type: none"> • The types of policies written • Economic factors in South Africa that affect the performance of the assets supporting such policies • The underlying assumptions used in the actuarial valuation of policy liabilities • Ability to gain market share • Service levels 	Income from long-term assurance business
Group Services and Other Activities			
<ul style="list-style-type: none"> • International Trade Finance business • Worldwide Property business • US - continuing activities • UK Traded Endowments business • Central costs • Central funding 	<ul style="list-style-type: none"> • These businesses earn a variety of management and banking fees, brokerage, commissions and income on the sale of investment and dealing properties and second hand traded endowments • As this division is responsible for the group's central funding requirements, this income is offset by the cost of group funding (net of return on the group's central capital) 	<p>A variety of factors, including:</p> <ul style="list-style-type: none"> • Property market activity, particularly in South Africa • Interest rate environment • Rand/Dollar exchange rate, in the case of the International Trade Finance operations • Traded endowment market (second hand) 	All categories of income other than income from long-term assurance business

Risks relating to Investec's operations

Investec faces a number of risks that could affect its business operations. These risks are summarised briefly in the table below. For information pertaining to the management and monitoring of these risks, see the references provided.

Key risks	Further information
Market risk, conditions and fluctuations could adversely affect Investec's businesses in many ways	See pages 90 to 92
Investec's risk management policies and procedures may leave it exposed to unidentified or unanticipated risks	See pages 79 to 83
Credit risk exposes Investec to losses caused by financial or other problems experienced by its clients or other third parties	See pages 83 to 89
Liquidity risk may impair Investec's ability to fund its operations and adversely affect its financial condition	See page 94
Investec's net interest earnings may be adversely affected by interest rate risk	See pages 14 and 95
Investec may be unable to recruit, retain and motivate key personnel	See the 2004 Sustainability Report
Employee misconduct could harm Investec and is difficult to detect	See pages 95 to 98, 100 to 101
Operational risk may disrupt Investec's business or result in regulatory action	See pages 95 to 98
Investec may be vulnerable to the failure of its systems and breaches of its security systems	See pages 95 to 98
Investec may have insufficient capital in the future and may be unable to secure additional financing when it is required	See pages 22 to 24
The financial services industry in which Investec operates is intensely competitive	
Legal and regulatory risks are substantial in Investec's businesses	See pages 98 to 99

Additional risks and uncertainties not presently known to Investec or that Investec currently deems immaterial may in the future also impair its business operations. Investec's business, financial condition or results of operations could be materially adversely affected by any of these risk factors.

Risks relating to the markets in which Investec operates

Due to the nature of the group's businesses, it was and will continue to be affected by changes in a number of macro-economic fundamentals. These include the condition of worldwide financial markets, general economic cycles, levels of exchange and interest rates, and inflation, in particular in South Africa, the UK and Australia, where the group derives most of its profit as well as, to a lesser extent, the US and Israel.

Macro-economic data

The tables below set out macro-economic data for the group's two principal geographies, South Africa and the UK, as of and for the two years ended 31 March 2004.

Fluctuations in exchange rates

Since the end of July 2002, following the implementation of

the group's Dual Listed Companies structure, Investec's reporting currency changed from South African Rands to Pounds Sterling.

A substantial proportion of Investec's operations are conducted by Investec entities outside the UK. The results of operations and the financial condition of Investec's individual companies are reported in the local currencies in which they are domiciled, including Rands, Australian Dollars, US Dollars and Israeli Shekels. These results will then be translated into Pounds Sterling at the applicable foreign currency exchange rates for inclusion in Investec's consolidated financial statements. In the case of the profit and loss accounts, the weighted average rate for the relevant period is applied and, in the case of the balance sheets, the relevant closing rate is used.

In the past, the exchange rates between local currencies and Pounds Sterling fluctuated. The translation effect of such fluctuations in the exchange rates of the currencies of those

South Africa

	31 March 2004	31 March 2003
GDP (real growth) ⁽¹⁾⁽²⁾	1.4%	3.7%
Consumer price index (% change over the period) ⁽³⁾	3.3%	10.4%
JSE All Share Index ⁽⁴⁾	10 692.6	7 679.9
JSE All Share Index (% change over the period)	39.2%	(30.2%)
Per capita GDP (R'000) ⁽²⁾⁽⁵⁾	NA ⁽³⁾	26.1
Per capita GDP (real growth) ⁽²⁾⁽⁵⁾	NA ⁽³⁾	(0.1%)

Notes:

- (1) Source: SA Statistics and Investec Securities.
- (2) Data for calendar year ending during the period.
- (3) Data not yet available.
- (4) Source: I-NET Bridge.
- (5) Source: SA Reserve Bank and Investec Securities.

UK

	31 March 2004	31 March 2003
UK GDP (% change over the period)	2.5%	2.2%
UK RPI (% change over the period)	2.1%	3.0%
FTSE All Share	2 197.0	1 735.7
FTSE All Share (% change over the period)	26.6%	(32.1%)
UK GDP per capita (£'000)	17.1	17.9
UK GDP per capita (% change over the period)	2.1%	3.0%

Source: Datastream.

countries in which Investec operates against Pounds Sterling may adversely/positively affect Investec's results of operations and financial condition. This report notes where the impact of depreciation/appreciation of these currencies against Pounds Sterling is key to understanding the performance of the group's businesses.

During the period under review, the Rand appreciated by approximately 20% against the Pound Sterling. This had a substantially positive impact on the group's consolidated results, as the South African operations generated 58.6% of the group's operating profit before taxation, exceptional items and amortisation of goodwill.

The table below sets out movements in relevant exchange rates against the Pound Sterling over the reporting period. These rates are indicative only and are not necessarily the rates at which the relevant currencies were converted into Pounds Sterling, for the purposes of preparation of the group's consolidated financial statements.

Fluctuations in interest rates

The shape of the yield curve, the time lag between changes in interest rates applicable to assets and liabilities, and the volatility of interest rates in each of Investec's principal geographic markets can affect its net interest income, by either positively or negatively affecting the spread between

interest paid and interest earned. As a matter of policy, the group does not take on unhedged, long-dated interest rate positions.

During the period under review, the substantial decline in South African interest rates had a negative impact on the group's net interest margin, as discussed on page 15 and 61 to 62. The table below sets out movements in certain interest rates affecting the group's businesses over the reporting period.

Basis of preparation of the consolidated financial statements

Investec's consolidated financial statements, from which the financial information discussed below is extracted, were prepared in accordance with UK GAAP. Investec has fully consolidated the financial statements of all subsidiary companies in which it holds more than one-half of the voting rights or over which it exercises control. Companies in which Investec owns between 20% and 50% of the outstanding voting stock are accounted for using the equity method of accounting. The minority interests of owners of shares in Investec's non-wholly owned subsidiaries are reflected in the group's consolidated financial statements.

Exchange rates

Currency per £1.00	31 March 2004		31 March 2003	
	Period end	Average	Period end	Average
South African Rand	11.67	12.02	12.51	15.04
US Dollar	1.83	1.69	1.57	1.55
Israeli Shekel	8.30	7.51	7.43	7.41
Australian Dollar	2.41	2.45	2.62	2.75

Source: Reuters and Oanda.com.

Interest rates

	31 March 2004		31 March 2003	
	Period end	Average	Period end	Average
South African Prime Overdraft	11.50	13.81	17.00	16.33
JIBAR - 3 month	8.05	9.86	13.42	12.70
UK Clearing Banks Base Rate	4.00	3.71	3.75	3.96
LIBOR - 3 month	4.38	3.83	2.52	3.15

Source: I-NET Bridge.

Accounting policies and disclosures

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its consolidated financial statements. The accounting policies used in the preparation of the consolidated financial statements are set out in the notes to the consolidated financial statements. During the year the group adopted certain new UK accounting standards. Furthermore, certain restatements were made to the prior year's consolidated accounts. Information in this regard is set out on pages 158 and 159.

Salient features of the group's results in the year under review

Profit and loss account analysis

Total operating income

Total operating income increased by 8.0% from £519.3 million for the year ended 31 March 2003 to £560.7 million for the year ended 31 March 2004. The various components of Investec's total operating income are analysed briefly below. In completing this analysis, commentary is only provided on the group's continuing operations as the decline in the earnings of the discontinued operations, in all cases, is reflective of the winding down and closing down of the businesses in the US during 2003. Further details on the key income drivers and significant variances in the various components of the group's operating income can be found in the description of the group's principal businesses on pages 45 to 78.

Net interest income

Net interest income represents interest earned net of interest paid in connection with Investec's portfolio of bank accounts, deposits, loans and financial structured products. Net interest income declined by 4.6% to £105.7 million. The group reported sound growth in its Private Banking lending portfolios and in its UK Treasury and Specialised Finance banking and lending businesses. This, however, was partially offset by an increase in interest paid on subordinated debt, following the raising of approximately £85.7 million (£1 billion) of subordinated debt in South Africa towards the end of the 2003 financial year and of a further £200 million in the UK in February 2004. Furthermore, net interest income was negatively affected by a significant decline in interest rates that occurred in South Africa over the period.

Net fees and commissions receivable

Net fees and commissions receivable consist of fees receivable for the provision of fund management, investment advice, banking services, retainers, institutional stockbroking commissions and brokerage, and similar items that are likely to recur due to the repetitive nature of these activities (i.e. "fees and commissions receivable - annuity income"). Also included are facility arrangement fees, corporate finance fees and similar items that are transactional in nature and therefore generate more erratic income streams (i.e. "fees and commissions receivable - deal income"), offset by fees and commissions payable which predominantly comprise brokerage payable, banking fees and other similar charges (i.e. "fees and commissions payable").

Net fees and commissions receivable increased by 15.3% from £276.2 million for the year ended 31 March 2003 to £318.4 million for the year ended 31 March 2004. This was attributable largely to increased lending turnover in the Private Banking businesses, the growth and strong performance of the UK Treasury and Specialised Finance banking and advisory activities, and the turnaround in the group's Corporate Finance operations in the UK. Furthermore, the appreciation of the Rand had a positive impact on this growth, particularly in the Asset Management division.

Dealing profits (trading income)

Dealing profits comprise: trading income; the marking-to-market of interest rate instruments, equities and other securities such as foreign exchange instruments; profit on the disposal of dealing properties; income generated by the Traded Endowments operations; and the profit/loss on realisation of the group's trading investments.

Dealing profits increased by 57.8% to £91.0 million for the year ended 31 March 2004. This was as a result of the strong performances of the UK Treasury and Specialised Finance trading activities and the South African property business, and an improved performance in the loss making UK Traded Endowments business. Furthermore, the trading investments held in the Investment Banking and Private Equity portfolios and certain other investments held in the group's corporate portfolio benefited from improved equity market levels. This was partially offset by the poor trading performance of the South African Treasury and Specialised Finance division.

Income from long-term assurance business

The group's South African life assurance activities, conducted by Investec Employee Benefits (IEB), did not have the benefit of the substantial operational earnings from the restructuring and rationalisation of its activities in the previous period. Operating income declined by 81.7% to £5.1 million.

Return on shareholders' funds in the long-term assurance business

The return on shareholders' funds in the long-term assurance business increased by 55.1% to £24.1 million. The substantial growth is as a result of an increase in long-term assurance assets attributable to shareholders - from £108.5 million to £265.3 million. The large increase in net asset value was as a result of retained profits (as no dividend was paid out of IEB), together with a decrease in inter-company loans between IEB and its holding company. This return requires separate disclosure in line with life assurance reporting. A natural consequence is a decline in the other operating income generated by the Central Funding division.

Other operating income

Other operating income declined by 53.1% from £27.8 million for the year ended 31 March 2003 to £13.0 million for the year ended 31 March 2004. In addition to the decline explained in the paragraph above, other operating income also declined because the Investment Banking division benefited from a significant realisation in the UK Private Equity division in the prior year.

Total annuity type income

Investec defines annuity income as net interest income, net fees and commissions receivable - annuity income and the return on shareholders' funds in the long-term assurance business. Annuity income as a percentage of total income decreased from 69.1% to 67.8% for the year ended 31 March 2004.

Administrative expenses

Operating expenses consist primarily of personnel costs (including wages and salaries, social security and similar pension related costs), business and equipment expenses, and premises and marketing costs. Total administrative expenses decreased by 1.4% from £400.8 million to £395.2 million. This was mainly due to the rationalisation of the group's activities in the US and in its UK Investment Banking operations undertaken during the 2003 financial year. This was largely offset by an increase in costs expressed in Pounds Sterling, due to the appreciation of the Rand and ongoing expansion of the group's Australian operations.

Investec Limited experienced a 2.0% decline in expenses in Rand terms, while the expenses of Investec plc declined by 11.8% in Pound Sterling terms.

The ratio of total operating expenses to total operating income decreased from 80.0% to 72.7%. The cost-to-income ratio in South Africa increased from 62.3% to 63.5%. The ratio in the prior period was positively affected by substantial restructuring profits generated by the group's Assurance Activities. The cost-to-income ratio for Investec plc's operations decreased from 89.7% to 78.4%. This was as a result of the rationalisation and restructuring of these

operations and the improvement in operating profit of the plc businesses.

Included in the numbers for the year ended 31 March 2003, is £44.3 million in costs relating to the discontinued operations, broken down as follows: personnel costs £24.0 million; business expenses £11.4 million; equipment expenses £5.7 million; premises costs £3 million; and marketing costs £0.2 million.

Further detail on the level of administrative expenses within the group's principal divisions can be found on pages 45 to 78.

Provision for bad and doubtful debts

The bad and doubtful debts charge in the profit and loss account increased by 14.5% to £20.9 million. The percentage of gross non-performing loans (NPLs) to core loans and advances increased from 1.5% to 1.7%. Total provision coverage remains conservative both as a percentage of gross NPLs and net NPLs (gross NPLs net of security), at 99.9% and 354.6% respectively. In addition, the group's general provision coverage as a percentage of net loans and advances decreased marginally to 1.2%. Further information on the group's asset quality is provided in the Risk Management section on pages 87 to 89.

Operating profit before amortisation of goodwill and exceptional items

As a result of the foregoing factors, Investec's operating profit before taxation, amortisation of goodwill and exceptional items increased by 54.1% - from £85.8 million in 2003 to £132.1 million in 2004.

A detailed description of the performance of the group's principal divisions as well as its Group Services and Other Activities division can be found on pages 73 to 78. Furthermore, a detailed description of the performance of the group in the various geographies in which it operates is outlined on pages 6 to 7.

Goodwill amortisation and impairments

The charge for goodwill amortisation and impairment decreased significantly from £122.3 million to £50.6 million. The prior year figure included £49.6 million relating to additional impairments of the business acquired from Fedsure Holdings Limited. Included in the current period is an amount of £8.1 million relating to an impairment of the Traded Endowments business acquired through Fedsure.

The following table sets out information on Investec's total operating income for the period under review:

UK GAAP £'000	31 March 2004	% of total income	31 March 2003	% of total income	year on year % change
Net interest income	105 663	18.8%	110 701	21.3%	(4.6%)
Dividend income	3 450	0.6%	3 597	0.8%	(4.1%)
Fees and commissions receivable	318 373	56.8%	276 191	53.2%	15.3%
- Annuity (net of payable)	250 563	44.7%	232 431	44.8%	7.8%
- Deal	67 810	12.1%	43 760	8.4%	55.0%
Dealing profits	91 015	16.2%	57 668	11.1%	57.8%
Income from long-term assurance business	5 082	0.9%	27 779	5.3%	(81.7%)
Return on shareholders' funds in the long-term assurance business	24 122	4.3%	15 551	3.0%	55.1%
Other operating income	13 028	2.4%	27 780	5.3%	(53.1%)
Total operating income	560 733	100.0%	519 267	100.0%	8.0%

The following table sets out information on Investec's total operating income by geography for the period under review:

UK GAAP £'000	31 March 2004	% of total income	31 March 2003	% of total income	year on year % change
South Africa and Other	258 221	46.1%	218 424	42.1%	18.2%
UK and Europe	244 114	43.5%	220 016	42.4%	11.0%
Australia	26 081	4.7%	18 053	3.5%	44.5%
Israel	22 506	4.0%	20 485	3.9%	9.9%
USA	9 811	1.7%	13 702	2.6%	(28.4%)
Discontinued Operations	--	0.0%	28 587	5.5%	>(100%)
Total operating income	560 733	100.0%	519 267	100.0%	8.0%

The following table sets out information on Investec's total operating income by division for the period under review:

UK GAAP £'000	31 March 2004	% of total income	31 March 2003	% of total income	year on year % change
Investment Banking	87 918	15.7%	64 184	12.4%	37.0%
Private Banking	148 774	26.5%	120 001	23.1%	24.0%
Private Client Portfolio Management and Stockbroking	58 400	10.4%	51 223	9.9%	14.0%
Treasury and Specialised Finance	113 842	20.3%	92 292	17.8%	23.3%
Asset Management	104 903	18.7%	89 707	17.3%	16.9%
Assurance Activities	5 082	0.9%	27 779	5.3%	(81.7%)
Group Services and Other Activities	41 814	7.5%	45 494	8.7%	(8.1%)
Discontinued Operations	--	0.0%	28 587	5.5%	>(100%)
Total operating income	560 733	100.0%	519 267	100.0%	8.0%

The following table sets out information on Investec's net interest income by division for the period under review:

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Investment Banking	6 484	4 548	1 936	42.6%
Private Banking	78 914	65 506	13 408	20.5%
Private Client Portfolio Management and Stockbroking	4 677	4 668	9	0.2%
Treasury and Specialised Finance	41 405	31 892	9 513	29.8%
Asset Management	2 900	2 993	(93)	(3.1%)
Group Services and Other Activities	(28 717)	(2 965)	(25 752)	>(100%)
Discontinued Operations	—	4 059	(4 059)	>(100%)
Net interest income	105 663	110 701	(5 038)	(4.6%)

The following table sets out information on Investec's net fees and commissions receivable by division for the period under review:

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Investment Banking	51 501	36 141	15 360	42.5%
Private Banking	62 180	46 449	15 731	33.9%
Private Client Portfolio Management and Stockbroking	52 456	45 569	6 887	15.1%
Treasury and Specialised Finance	35 389	24 491	10 898	44.5%
Asset Management	100 129	85 976	14 153	16.5%
Group Services and Other Activities	16 718	11 082	5 636	50.9%
Discontinued Operations	—	26 483	(26 483)	>(100%)
Net fees and commissions receivable	318 373	276 191	42 182	15.3%

The following table sets out information on Investec's dealing profits by division for the period under review:

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Investment Banking	23 721	9 233	14 488	>100%
Private Banking	6 380	7 812	(1 432)	(18.3%)
Private Client Portfolio Management and Stockbroking	1 137	936	201	21.5%
Treasury and Specialised Finance	35 634	35 454	180	0.5%
Asset Management	1 736	722	1 014	>100%
Group Services and Other Activities	22 407	4 472	17 935	>100%
Discontinued Operations	—	(961)	961	>100%
Dealing profits	91 015	57 668	33 347	57.8%

The following table sets out information on Investec's other operating income by division for the period under review:

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Investment Banking	5 904	12 654	(6 750)	(53.3%)
Private Banking	1 213	234	979	>100%
Private Client Portfolio Management and Stockbroking	130	50	80	>100%
Treasury and Specialised Finance	(1 458)	341	(1 799)	>(100%)
Asset Management	138	16	122	>100%
Group Services and Other Activities	7 101	15 479	(8 378)	(54.1%)
Discontinued Operations	-	(994)	994	>100%
Other operating income	13 028	27 780	(14 752)	(53.1%)

The following table sets out information on Investec's administrative expenses for the period under review:

UK GAAP £'000	31 March 2004	% of total expenses	31 March 2003	% of total expenses	year on year % change
Personnel costs	(265 234)	67.1%	(265 437)	66.2%	0.1%
Business expenses	(65 924)	16.7%	(74 628)	18.6%	11.7%
Equipment (excluding depreciation)	(22 838)	5.8%	(25 569)	6.4%	10.7%
Premises (excluding depreciation)	(26 248)	6.6%	(22 303)	5.6%	(17.7%)
Marketing expenses	(14 944)	3.8%	(12 843)	3.2%	(16.4%)
Total administrative expenses	(395 188)	100.0%	(400 780)	100.0%	1.4%

The following table sets out information on Investec's administrative expenses by geography for the period under review:

UK GAAP £'000	31 March 2004	% of total expenses	31 March 2003	% of total expenses	year on year % change
South Africa and Other	(158 149)	40.0%	(130 863)	32.7%	(20.9%)
UK and Europe	(197 079)	49.9%	(187 599)	46.8%	(5.1%)
Australia	(15 824)	4.0%	(11 501)	2.9%	(37.6%)
Israel	(14 911)	3.8%	(14 525)	3.6%	(2.7%)
USA	(9 225)	2.3%	(11 980)	2.9%	23.0%
Discontinued Operations	-	0.0%	(44 312)	11.1%	>100%
Total administrative expenses	(395 188)	100.0%	(400 780)	100.0%	1.4%

The following table sets out information on Investec's administrative expenses by division for the period under review:

UK GAAP £'000	31 March 2004	% of total expenses	31 March 2003	% of total expenses	year on year % change
Investment Banking	(49 636)	12.6%	(49 164)	12.3%	(1.0%)
Private Banking	(86 176)	21.8%	(75 290)	18.8%	(14.5%)
Private Client Portfolio Management and Stockbroking	(48 899)	12.4%	(45 487)	11.3%	(7.5%)
Treasury and Specialised Finance	(72 837)	18.4%	(66 577)	16.6%	(9.4%)
Asset Management and Assurance Activities	(79 794)	20.2%	(71 896)	17.9%	(11.0%)
Group Services and Other Activities	(57 846)	14.6%	(48 054)	12.0%	(20.4%)
Discontinued Operations	—	0.0%	(44 312)	11.1%	>100%
Total administrative expenses	(395 188)	100.0%	(400 780)	100.0%	1.4%

The following table sets out information on Investec's operating profit before taxation, exceptional items and amortisation of goodwill by geography for the period under review:

UK GAAP £'000	31 March 2004	% of total	31 March 2003	% of total	year on year % change
South Africa and Other	77 428	58.6%	69 479	81.0%	11.1%
UK and Europe	38 734	29.3%	22 562	26.3%	71.7%
Australia	9 626	7.3%	5 924	6.9%	62.5%
Israel	5 918	4.5%	3 496	4.1%	69.3%
USA	433	0.3%	970	1.1%	(55.4%)
Discontinued Operations	—	0.0%	(16 669)	(19.4%)	>100%
Total	132 139	100.0%	85 762	100.0%	54.1%

The following table sets out information on Investec's operating profit before taxation, exceptional items and amortisation of goodwill by division for the period under review:

UK GAAP £'000	31 March 2004	% of total	31 March 2003	% of total	year on year % change
Investment Banking	37 719	28.5%	13 524	15.8%	>100%
Private Banking	45 397	34.4%	29 588	34.5%	53.4%
Private Client Portfolio Management and Stockbroking	8 465	6.4%	4 413	5.1%	91.8%
Treasury and Specialised Finance	35 805	27.1%	20 198	23.6%	77.3%
Asset Management	24 611	18.6%	17 715	20.7%	38.9%
Assurance Activities	4 582	3.5%	26 830	31.3%	(82.9%)
Group Services and Other Activities	(24 440)	(18.5%)	(9 837)	(11.6%)	>(100%)
Discontinued Operations	—	0.0%	(16 669)	(19.4%)	>100%
Total	132 139	100.0%	85 762	100.0%	54.1%

The following table sets out information on Investec's amortisation and impairment of goodwill by geography for the period under review:

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
South Africa and Other	(31 673)	(87 392)	55 719	63.8%
UK and Europe	(12 919)	(23 979)	11 060	46.1%
Australia	(6 052)	(5 195)	(857)	(16.5%)
Israel	-	(33)	33	>100%
USA	-	-	-	-
Discontinued Operations	-	(5 703)	5 703	>100%
Amortisation and impairment of goodwill	(50 644)	(122 302)	71 658	58.6%

The following table sets out information on Investec's exceptional items for the period under review:

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Provision for losses on termination and disposal of group operations - discontinued	(5 103)	(9 437)	4 334	>100%
Impairment of goodwill on discontinued operations	-	(19 047)	19 047	>100%
Profit on termination and disposal of group operations - continuing	13 632	5 800	7 832	>100%
Fundamental reorganisation and restructuring costs - continuing	-	(6 073)	6 073	>100%
Exceptional items	8 529	(28 757)	37 286	>100%

The following table sets out information on Investec's taxation charge by geography for the period under review:

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
South Africa and Other	(16 291)	(9 967)	(6 324)	(63.4%)
UK and Europe	(6 300)	13 684	(19 984)	>(100%)
Australia	(2 833)	(2 452)	(381)	(15.5%)
Israel	(3 474)	(427)	(3 047)	>100%
USA	399	-	399	>100%
Discontinued Operations	-	(6 215)	6 215	>100%
Taxation	(28 499)	(5 377)	(23 122)	>(100%)

Share of income of associated companies

The group's principal associate is Capital Alliance Limited (CAL). An amount of R134 million (£11.2 million) was accrued, representing Investec's share in CAL's estimated operating earnings for the year ended 31 March 2004.

Exceptional items

During 2004, exceptional items related to:

- Losses on termination of the group's operations in the US, which amounted to £5.1 million. The group made a final exceptional charge (including future run-off costs) for the closure of these operations. Any future costs incurred in excess of this charge, will be treated as non-exceptional operating expenses.
- A profit of £13.7 million that was realised on disposal of group operations, largely relating to the sale of the companies, 100 Grayston Drive Property (Pty) Limited and Block E Power Station Properties (Pty) Limited, at market value.

Taxation

The operational effective tax rate of the group (excluding the tax effect on exceptional items) increased from 6.3% to 21.1%. In 2003, the group's UK operation booked an £8 million corporation tax credit, as an adjustment to prior years, and also reversed £8 million of deferred tax provisions. This resulted in a net reduction of the effective tax rate in the prior year. The effective tax rate in South Africa increased from 14.3% to 21.0% as the group uses its assessed losses. Furthermore, the effective tax rate in Israel increased significantly from 12.2% to 58.7% because taxation is paid on inflation-adjusted earnings, which exceeded nominal earnings during the year, given the negative inflation rate.

Minority interest

Minority interest reflects that portion of Investec's operating profit after taxation that is contributed to the minority shareholders of its subsidiaries.

Earnings/loss attributable to ordinary shareholders

As a result of the foregoing factors, earnings attributable to ordinary shareholders increased from a loss of £62.6 million in 2003 to a profit of £68.8 million in 2004.

Earnings attributable to ordinary shareholders before exceptional items and amortisation of goodwill

Earnings attributable to ordinary shareholders before exceptional items and amortisation of goodwill increased by 18.3% - from £89.7 million in 2003 to £106.1 million in 2004.

Further information is contained on page 182.

Balance sheet analysis

Capital resources

Total capital resources increased by 40.4% to £1.3 billion.

UK GAAP £'000	31 March 2004	31 March 2003
Subordinated liabilities (including convertible debt)	497 858	279 702
Minority interests - equity	39 029	38 804
Called up share capital	165	158
Share premium account	1 020 890	980 321
Treasury shares	(52 102)	(40 987)
Shares to be issued	2 666	2 428
Perpetual preference shares	126 698	—
Revaluation reserves	43 142	29 160
Other reserves	(168 402)	(166 907)
Profit and loss account	(164 088)	(164 205)
Shareholders' funds	808 969	639 968
- Equity	682 271	639 968
- Non-equity	126 698	—
Capital resources	1 345 856	958 474

Total shareholders' funds increased by £169.0 million during the period under review to £809.0 million. This was mainly as a result of the issue of R1.5 billion (£127.5 million) in non-cumulative, non-redeemable and non-participating preference shares and 5.6 million ordinary shares (£46.0 million) in Investec Limited.

The return on average tangible equity shareholders' funds increased from 26.0% to 27.5% and the return on average total equity shareholders' funds, inclusive of goodwill, increased from 13.1% to 16.0%.

Capital adequacy

Investec plc and Investec Limited are well capitalised and capital adequacy ratios comfortably exceed the minimum regulatory requirements. The capital adequacy (applying South African Reserve Bank rules to Investec Limited's capital base) is 15.1% (March 2003: 12.2%). The capital adequacy (applying Financial Services Authority rules to Investec plc's capital base) is 17.3% (March 2003: 14.2%).

Net tangible asset value per share

In calculating the net tangible asset value per share, the group assumes that all previously issued Compulsory Convertible Debentures (CCDs) are treated as equity. Under UK GAAP however, a portion of these CCDs is

treated as debt and not included in shareholders' funds. Furthermore, as discussed above, the consideration paid for the group's own shares are deducted from shareholders' funds (referred to as treasury shares). As a result, the group believes that certain adjustments should be made to more appropriately reflect the net tangible asset value per share.

The table below sets out the calculation of Investec's net asset value per share for the period under review:

UK GAAP £'000	31 March 2004	31 March 2003	Notes
A Shareholders' funds	808 969	639 968	Per the balance sheet.
B Less: preference shares	(126 698)	–	Per the balance sheet.
C Convertible debt included in subordinated liabilities	38 258	51 635	Debt component of CCDs (included in equity under SA GAAP) relating to unsecured, Class "A", Class "A" Series 11, Class "B" and Class "C" subordinated CCDs. Refer to a more detailed explanation of the difference between SA GAAP and UK GAAP on page 227.
D CCDs issued by Investec Limited included in in subordinated liabilities	3 447	4 189	These CCDs (approximately 1.9 million shares) relate to the group's staff share schemes but have largely remained unallocated.
E Less: Intangible fixed assets	(251 508)	(299 773)	Per the balance sheet.
F Add: Final dividend accrued but not paid	30 879	25 468	
Tangible net asset value	503 347	421 487	
Number of shares in issue	118.6	113.0	
CCDs	3.6	3.6	Relates to C above.
CCDs	0.1	0.2	Allocated in terms of D above.
Less: Treasury shares	(5.8)	(4.3)	Per page 206.
Number of shares in issue in this calculation (millions)	116.5	112.5	
Tangible NAV per share (pence)	431.8	374.9	

Managing the group's capital resources

In line with Investec's objective to increase shareholder value through a group-wide discipline that links capital allocation and structuring, performance measurement, investment decisions and capital-based incentive compensation into one integrated framework, the Capital Committee oversees the various components contributing towards effective capital management governance.

The proposed capital management framework seeks to optimise the use of the group's capital by determining:

- The optimal amount of total capital commensurate with the group's overall risk profile in order to:
 - o Support business strategies, including any inherent growth assumptions.
 - o Meet targeted credit ratings and regulatory ratios.
 - o Protect against losses, maintain liquidity and buttress the group's capital requirements to cater for future opportunistic acquisitions.

- Capital allocation to activities with the most favourable returns and highlighting those activities which are unduly capital intensive.
- The most efficient composition of the group's capital base.

Against this background, the Capital Committee manages the capital structure of Investec Limited and Investec plc. The Chief Executive Officer chairs the committee, and other permanent members include certain executive and non-executive directors, the Global Head of Group Finance and the Global Head of Corporate Governance and Compliance. Management from various disciplines is co-opted onto the committee, where specific expertise is required.

An assessment of economic capital utilised

In order to assess the return on economic capital utilised, the group believes that certain adjustments should be made

to the profit and loss analysis and balance sheet analysis as reflected under UK GAAP.

The group believes that these adjustments are necessary as they reflect the actual utilisation of capital and return thereon, notwithstanding accounting conventions.

The methodology applied in assessing the utilisation of the group's economic capital is as follows:

- A notional return on capital (net of the cost of subordinated debt) which is managed and borne in the centre is allocated from "Group Services and Other Activities" to the business segments based on their total capital utilisation.
- Shareholders' funds as shown under UK GAAP is increased to reflect permanent capital which is reflected under subordinated debt.
- The final dividend is added back to shareholders' funds which, under UK GAAP, reduces reserves.

The table below sets out the calculation of adjusted shareholders' funds in terms of "economic capital utilised":

£'000	31 March 2004	31 March 2003	Average
Equity shareholders' funds (including minorities) per balance sheet	721 298	678 772	700 035
Add: Convertible debt included in subordinated liabilities	41 705	55 824	48 765
Final dividend declaration	30 879	25 468	28 174
Adjusted shareholders' funds	793 882	760 064	776 974
Goodwill per balance sheet	(251 508)	(299 773)	(275 640)
Adjusted tangible shareholders' funds	542 374	460 291	501 334
Operating profit before amortisation of goodwill and exceptional items	132 139	85 762	
Share of associated companies before goodwill	11 205	11 350	
Revised operating profit	143 344	97 112	
Tax on ordinary activities	(27 821)	(5 377)	
Revised operating profit after tax	115 523	91 735	
Pre-tax return on average adjusted shareholders' funds	18.4%	11.3%	
Pre-tax return on average adjusted tangible shareholders' funds	28.6%	18.8%	
Post-tax return on average adjusted shareholders' funds	14.9%	10.6%	
Post-tax return on average adjusted tangible shareholders' funds	23.0%	17.8%	

The table below sets out Investec's ROE by division for the period under review:

£'000	IB*	PB*	PCSB*	TSF*	AM*	ASU*	GSO*	Disc. Ops*	Total group
Total operating profit**	37 719	45 397	8 465	35 805	24 611	4 582	(13 235)	—	143 344
Notional return on regulatory capital	2 903	23 182	693	26 232	1 433	1 731	(56 171)	—	—
Cost of subordinated debt	(1 709)	(13 093)	(410)	(13 994)	(823)	(851)	30 880	—	—
Absorption of additional residual costs^	(4 020)	(2 567)	(83)	(3 030)	(1 350)	(550)	11 600	—	—
Adjusted earnings/(losses) - 2004	34 893	52 919	8 665	45 013	23 871	4 912	(26 929)	—	143 344
Adjusted earnings/(losses) - 2003	15 409	41 287	5 052	35 757	16 817	24 721	(25 317)	(16 614)	97 112
Adjusted shareholders' funds - 2004	42 760	231 041	17 862	215 233	171 694	16 989	98 303	—	793 882
Adjusted shareholders' funds - 2003	49 503	218 836	22 788	206 254	191 846	31 759	36 851	2 227	760 061
Adjusted average shareholders' funds	46 132	224 939	20 325	210 744	181 770	24 374	67 577	1 113	776 974
Adjusted tangible shareholders' funds - 2004	23 663	215 533	6 903	203 934	9 782	5 353	77 206	—	542 374
Adjusted tangible shareholders' funds - 2003	24 406	197 727	7 577	92 207	16 057	16 575	3 515	2 227	460 291
Adjusted average tangible shareholders' funds	24 035	206 630	7 240	198 071	12 920	10 964	40 361	1 113	501 334
Return on adjusted average shareholders' funds - 2004	75.6%	23.5%	42.6%	21.4%	13.1%	20.2%	(39.8%)	—	18.4%
Return on adjusted average shareholders' funds - 2003^^	29.8%	19.6%	20.6%	18.1%	7.8%	74.9%	(22.6%)	<(100%)	11.3%
Return on adjusted average tangible shareholders' funds - 2004	>100%	25.6%	>100%	22.7%	>100%	44.8%	(66.7%)	—	28.6%
Return on adjusted average tangible shareholders' funds - 2003^^	66.8%	22.1%	70.6%	19.7%	>100%	>100%	(33.5%)	<(100%)	18.8%

* Where: IB = Investment Banking PB = Private Banking PCSB = Private Client Portfolio Management and Stockbroking
TSF = Treasury and Specialised Finance AM = Asset Management ASU = Assurance Activities
GSO = Group Services and Other Activities Disc. Ops = Discontinued Operations

** Includes share of income of associated companies and is reflected before taxation.

^ This allocation represents a portion of the costs remaining in the centre which are indirectly allocated to operating divisions as they facilitate their operations but are excluded in calculating performance incentive remuneration. These allocations are based on managements' estimates of relative benefit derived.

^^ As disclosed in the prior year as 2002 figures were not restated for changes to accounting policies and disclosures.

The table below sets out Investec's ROE by geography for the period under review:

£'000	Southern Africa	UK & Europe	Australia	Israel	USA	Disc Ops*	Total group
Total operating profit	77 428	38 734	9 626	5 918	433	—	132 139
Share of income of associated companies	11 381	—	(300)	(17)	141	—	11 205
Tax on profit on ordinary activities**	(15 613)	(6 300)	(2 833)	(3 474)	399	—	(27 821)
Profit on ordinary activities after taxation - 2004	73 196	32 434	6 493	2 427	973	—	115 523
Profit on ordinary activities after taxation - 2003	70 845	36 246	3 472	3 034	—	(21 862)	91 735
Adjusted shareholders' funds - 2004	303 829	395 770	49 854	43 019	1 410	—	793 882
Adjusted shareholders' funds - 2003	283 140	381 358	42 243	51 096	—	2 227	760 064
Adjusted average shareholders' funds	293 485	388 564	46 049	47 058	705	1 113	776 974
Adjusted tangible shareholders' funds - 2004	208 386	251 443	38 116	43 019	1 410	—	542 374
Adjusted tangible shareholders' funds - 2003	164 295	216 489	26 184	51 096	—	2 227	460 291
Adjusted average tangible shareholders' funds	186 341	233 967	32 150	47 058	705	1 113	501 334
Pre tax return on average tangible shareholders' funds - 2004	47.7%	16.6%	29.0%	12.5%	81.4%	—	28.6%
Pre tax return on average tangible shareholders' funds - 2003^^	41.8%	9.1%	24.2%	7.2%	*	<(100%)	18.8%
Pre tax return on average shareholders' investment - 2004	30.3%	10.0%	20.3%	12.5%	81.1%	—	18.4%
Pre tax return on average shareholders' investment - 2003^^	24.5%	5.2%	13.9%	7.2%	*	<(100%)	11.3%
Post tax return on average tangible shareholders' funds - 2004	39.3%	13.9%	20.2%	5.2%	>100%	—	23.0%
Post tax return on average tangible shareholders' funds - 2003^^	36.6%	14.8%	14.2%	6.3%	*	<(100%)	17.8%
Post tax return on average shareholders' investment - 2004	24.9%	8.3%	14.1%	5.2%	>100%	—	14.9%
Post tax return on average shareholders' investment - 2003^^	21.4%	8.3%	8.2%	6.3%	*	<(100%)	10.6%

*The calculations for the US for the year ended 31 March 2003 are based on the numbers for the continuing and discontinued operations and the resultant returns are shown for the US operations as a whole.

**Excluding taxation on exceptional items.

^^ As disclosed in the prior year as 2002 figures were not restated for changes to accounting policies and disclosures.

Total assets

Total assets increased by 3.0% - from £14.9 billion at 31 March 2003 to £15.4 billion at 31 March 2004.

UK GAAP £ millions	31 March 2004	31 March 2003	Variance	% change
South Africa and Other	9 138	8 177	961	11.8%
UK and Europe	4 987	5 592	(605)	(10.8%)
Australia	480	300	180	60.0%
Israel	728	813	(85)	(10.5%)
USA	28	32	(4)	(12.5%)
Total assets	15 361	14 914	447	3.0%

- The South African operations experienced solid growth in assets, largely as a result of an increase in loans and advances to clients driven by strong book growth in the Private Banking and Structured Finance businesses.
- The assets of the UK operations declined, largely as a result of the winding down of the interest rate business during 2003.
- The Australian operation continued to benefit from the expansion of its activities in all core areas of business.

Detailed geographical balance sheets can be found on pages 168 and 169.

Total assets under administration

Total assets under administration increased by 17.9% - from £40.6 billion to £47.8 billion. This was mainly attributable to growth in assets under management of £6.8 billion across all ranges of third party funds, largely due to improved equity values and the appreciation of the Rand against the Pound Sterling.

The following table sets out information on Investec's assets under administration by geography as at 31 March 2004:

UK GAAP £ millions	South Africa & Other	UK, Australia, Israel & USA	Total group
Retail	2 867	2 762	5 629
Institutional	7 865	5 693	13 558
Private clients	3 738	7 322	11 060
- Private clients-discretionary	456	4 175	4 631
- Private clients-non-discretionary	3 282	3 147	6 429
Properties managed for third parties	950	16	966
Acceptances on behalf of clients	-	1	1
Scip lending	-	1 230	1 230
Total third party assets	15 420	17 024	32 444
On balance sheet assets	9 138	6 223	15 361
Total assets under administration	24 558	23 247	47 805

The following table sets out information on Investec's assets under administration by geography as at 31 March 2003:

UK GAAP £ millions	South Africa & Other	UK, Australia, Israel & USA	Total group
Retail	2 224	1 994	4 218
Institutional	5 877	5 630	11 507
Private clients	2 066	6 306	8 372
- Private clients-discretionary	364	2 681	3 045
- Private clients-non-discretionary	1 702	3 625	5 327
Properties managed for third parties	423	14	437
Acceptances on behalf of clients	-	2	2
Script lending	-	1 109	1 109
Total third party assets	10 590	15 055	25 645
On balance sheet assets	8 177	6 737	14 914
Total assets under administration	18 767	21 792	40 559

Additional information

Number of employees

The tables below set out information on the number of employees by division and by geography over the four-year period to 31 March 2004:

As at	March 2004	March 2003	March 2002	March 2001
Investment Banking				
South Africa and Other	102	105	116	147
UK and Europe	114	101	156	140
Australia	21	16	30	-
USA	-	68	111	3
Israel	39	46	49	54
Total	276	336	462	344
Private Banking				
South Africa and Other	675	628	571	542
UK and Europe	334	329	293	319
Australia	43	55	43	74
USA	-	-	-	-
Israel	54	73	51	97
Total	1 106	1 085	958	1 032
Private Client Portfolio Management and Stockbroking				
South Africa and Other	117	144	148	164
UK and Europe	346	400	415	402
Australia	-	-	-	-
USA	-	-	292	130
Israel	-	-	-	-
Total	463	544	855	996

The tables below sets out information on the number of employees by division and by geography over the four-year period to 31 March 2004:

As at	March 2004	March 2003	March 2002	March 2001
Private Client Activities Total				
South Africa and Other	792	772	719	706
UK and Europe	680	729	708	721
Australia	43	55	43	74
USA	–	–	292	430
Israel	54	73	51	97
Total	1 569	1 629	1 813	2 028
Treasury and Specialised Finance				
South Africa and Other	258	283	271	300
UK and Europe	134	156	166	128
Australia	8	10	11	–
USA	43	33	7	–
Israel	34	25	48	13
Total	477	507	503	441
Asset Management				
South Africa and Other	517	490	512	413
UK and Europe	257	267	245	252
Australia	–	–	–	–
USA	–	–	6	5
Israel	10	14	–	–
Total	784	771	763	670
Assurance Activities	156	490	576	–
Group Services and Other Activities				
South Africa and Other	802	757	815	678
UK and Europe	246	256	235	176
Australia	40	22	–	–
USA	32	30	272	421
Israel	76	76	90	78
Total	1 196	1 141	1 412	1 353
Total number of employees	4 458	4 874	5 529	4 836
By Geography				
South Africa and Other	2 627	2 897	3 009	2 244
UK and Europe	1 431	1 509	1 510	1 417
Australia	112	103	84	74
USA	75	131	688	859
Israel	213	234	238	242
Total number of employees	4 458	4 874	5 529	4 836

Performance and objectives

ROE and RONAV*

Total shareholders' funds and capital adequacy ratios (CAR)

Specific provisions as a % of net non-performing loans

Investec objectives and targets

Investec's objective is to continue to focus on increasing its ROE, as opposed to nominal capital, through the efficient deployment of its capital base. The group intends to generate ROE in excess of its cost of capital. All businesses which do not possess the potential to generate the required ROE over the long-term have been placed under strategic review and the group will consider its options with respect to these businesses.

Investec intends to maintain a sufficient level of capital to satisfy regulatory requirements, as well as take advantage of opportunities that may arise in the financial services industry focusing on increasing the group's return on equity in the medium to long-term.

Setting a target in this area is susceptible to economic and market conditions. The group however, strives to achieve a coverage of 100% of specific provisions to net non-performing loans. Furthermore, the group aims to achieve a ratio of general provisions to net loans and advances in excess of 1%.

Investec has set itself the following targets over the medium to long-term:

Group ROE: 20% in Pound Sterling terms.
Investec Limited ROE: 30% in Rand terms.
Investec plc ROE: 15%-20% in Pound Sterling terms.

The group would like to maintain a capital adequacy ratio of between 13% - 16% for Investec Limited and Investec plc.

Investec performance

The return on average tangible equity shareholders' funds increased from 26.0% to 27.5% and the return on average total equity shareholders' funds, inclusive of goodwill increased from 13.1% to 16.0%.

Total shareholders' funds increased by £169.0 million during the period under review mainly as a result of the issue of R1.5 billion (£127.5 million) in non-cumulative, non-redeemable and non-participating preference shares and 5.6 million ordinary shares (£46.0 million) in Investec Limited.

Investec plc and Investec Limited are well capitalised and capital adequacy ratios comfortably exceed the minimum regulatory requirements. The capital adequacy (applying South African Reserve Bank rules to Investec Limited's capital base) is 15.1% (March 2003: 12.2%). The capital adequacy (applying Financial Services Authority rules to Investec plc's capital base) is 17.3% (March 2003: 14.2%).

Provision levels exceed regulatory requirements. The percentage of gross non-performing loans (NPLs) to core loans and advances increased from 1.5% to 1.7%. Total provision coverage remains conservative both as a percentage of gross NPLs and net NPLs (gross NPLs net of security), at 99.9% and 354.6% respectively. In addition, the group's general provision coverage as a percentage of net loans and advances decreased marginally to 1.2%.

Notes:

*Where ROE is return on equity shareholders' funds and RONAV is return on net tangible equity shareholders' funds.

**Where earnings and EPS are shown before exceptional items and amortisation of goodwill.

Annuity income as a % of operating income

Cost to income ratio

Earnings and EPS**

Dividends

The extreme volatility experienced in international markets highlights the importance of the group's diverse portfolio of integrated businesses and profit streams. The group aims to increase its focus on its annuity income base thereby improving its ability to perform in volatile financial markets.

Investec has set itself the following target over the medium to long-term:

70% - 75% annuity/recurring income as a percentage of operating income.

Overall, annuity income as a percentage of total operating income declined from 69.1% to 67.8%. The movement in the components of the group's operating income is discussed on pages 15 and 16.

The cost to income (COI) ratio is still considered to be high against group objectives. The group has significantly rationalised and restructured its operations over the past two years in an effort to reduce its overall cost base. Increased emphasis has now been placed on enhancing income growth while at the same time ensuring effective constraint of costs.

Investec has set itself the following targets over the medium to long-term:

Group COI ratio: less than 65% in Pound Sterling terms.
Investec Limited COI ratio: 50% in Rand terms.
Investec plc COI ratio: 65% - 75% in Pound Sterling terms.

Total administrative expenses decreased by 1.4% from £400.8 million to £395.2 million principally due to the rationalisation of the group's activities in the US and in its UK Investment Banking operations undertaken during the 2003 financial year. This was largely offset by an increase in costs expressed in Pounds Sterling due to the appreciation of the Rand and the continued expansion of the group's Australian operations.

Group COI ratio: 72.7% (2003: 80.0%).
Investec Limited COI ratio: 56.8% (2003: 54.6%).
Investec plc COI ratio: 80.5% (2003: 92.6%).

In the medium to long-term the group aims to achieve growth of 10% in excess of inflation (in Pound Sterling terms). The group continually strives to build and maintain a sustainable business model.

The financial year was characterised by a more favourable market environment benefiting the activities of the group with basic earnings per share before exceptional items and goodwill amortisation increasing 7.9% to 103.7 pence from 96.1 pence.

investec intends to maintain a dividend cover of between 1.7 and 2.3 times based on earnings per share before exceptional items and amortisation of goodwill, denominated in Pounds Sterling. Interim and final dividends will be declared and proposed in accordance with the above policy.

For the current year the board has proposed a dividend of 58.0 pence per share equating to a dividend cover of 1.79.

Five year review - summarised consolidated balance sheets

UK GAAP £'000

For the year ended 31 March¹

	2004	2003	2002	2001	2000
Assets					
Cash and balances at central banks	363 862	348 343	457 222	477 646	589 939
Treasury bills and other eligible bills	332 208	243 019	197 767	254 655	247 889
Loans and advances to banks	1 704 715	2 758 797	2 583 205	2 341 300	3 635 295
Loans and advances to customers	6 345 818	4 883 903	4 780 480	4 741 682	4 853 137
Debt securities	1 466 437	1 931 265	4 377 877	5 417 962	4 106 735
Equity shares	418 254	147 638	204 352	265 013	168 063
Interests in associated undertakings	70 006	62 422	45 026	3 272	15 677
Other participating interests	9 135	—	—	55 051	33 847
Intangible fixed assets	251 508	299 773	384 900	242 891	226 414
Tangible fixed assets	146 326	205 982	186 761	165 241	144 717
Own shares	43 780	52 223	42 130	39 133	59 974
Other assets	1 081 131	1 211 441	1 177 727	865 250	1 195 420
Prepayments and deferred income	81 511	124 390	97 968	—	—
Long-term assurance business attributable to the shareholder	265 315	108 528	67 116	—	—
	12 580 036	12 377 724	14 602 531	14 869 096	15 277 107
Long-term assurance assets attributable to policyholders	2 781 335	2 536 319	2 354 401	1 114 666	752 987
	15 361 371	14 914 043	16 956 932	15 983 762	16 030 094
Liabilities					
Deposits by banks	1 233 609	2 129 292	3 645 308	4 063 422	4 304 382
Customer accounts	7 211 292	6 354 867	7 068 220	8 075 740	8 689 252
Debt securities in issue	621 857	1 089 756	606 246	—	—
Other liabilities	1 969 855	1 580 881	2 106 191	1 623 913	1 387 723
Accruals and deferred income	185 600	254 413	218 132	264 263	257 016
Pension fund liability	11 967	10 041	—	—	—
	11 234 180	11 419 250	13 644 097	14 027 338	14 638 373
Long-term assurance liabilities attributable to policyholders	2 781 335	2 536 319	2 354 401	1 114 666	752 987
	14 015 515	13 955 569	15 998 498	15 142 004	15 391 360
Capital resources					
Subordinated liabilities(including convertible debt)	497 858	279 702	190 659	239 129	83 977
Minority interests equity	39 029	38 804	33 473	23 459	26 815
Called up share capital	165	158	7 530	6 701	6 566
Share premium account	1 020 890	980 321	814 089	563 567	515 333
Treasury shares	(52 102)	(40 987)	—	—	—
Shares to be issued	2 666	2 428	41 148	35 285	35 285
Perpetual preference shares	126 698	—	—	—	—
Revaluation reserves	43 142	29 160	11 202	832	(284)
Other reserves	(168 402)	(166 907)	(176 833)	(110 404)	(88 928)
Profit and loss account	(164 088)	(164 205)	37 166	83 189	59 970
Shareholders' funds	808 969	639 968	734 302	579 170	527 942
- equity	682 271	639 968	691 201	536 069	527 942
- non-equity	126 698	—	43 101	43 101	—
	1 345 856	958 474	958 434	841 758	638 734
	15 361 371	14 914 043	16 956 932	15 983 762	16 030 094

Note:

¹ The numbers for the year ended 31 March 2002, 2001 and 2000 have not been restated for changes to accounting policies and disclosures

Five year review - summarised consolidated profit and loss accounts

UK GAAP £'000

For the year ended 31 March¹

	2004	2003	2002	2001	2000
Net interest income	105 663	110 701	163 830	159 087	118 488
Dividend income	3 450	3 597	2 081	5 231	8 567
Fees and commissions receivable	340 528	330 959	415 918	390 577	332 044
- annuity	272 718	287 199	335 845	302 623	263 791
- deal	67 810	43 760	80 073	87 954	68 253
Fees and commission payable	(22 155)	(54 768)	(74 671)	(51 444)	(47 388)
Dealing profits	91 015	57 668	49 485	36 179	25 519
Income from long-term assurance business	5 082	27 779	31 079	-	-
Return on shareholders' funds in the long-term assurance business	24 122	15 551	-	-	-
Other operating income	13 028	27 780	30 949	11 264	44 220
Other income	455 070	408 566	454 841	391 807	362 962
Total operating income	560 733	519 267	618 671	550 894	481 450
Administrative expenses	(395 188)	(400 780)	(428 510)	(385 758)	(324 609)
Staff costs	(265 234)	(265 437)	(275 231)	(250 791)	(210 134)
Premises (excluding depreciation)	(8 885)	(5 058)	(9 221)	(8 050)	(6 393)
Operating rental expenses	(17 363)	(17 245)	(16 634)	(14 054)	(14 242)
Equipment (excluding depreciation and operating rental expenses)	(22 838)	(25 569)	(31 980)	(30 386)	(20 663)
Business expenses	(65 924)	(74 628)	(79 717)	(63 723)	(59 206)
Marketing expenses	(14 944)	(12 843)	(15 727)	(18 754)	(13 971)
Depreciation of tangible fixed assets	(12 448)	(14 417)	(16 926)	(13 925)	(13 142)
Provision for bad and doubtful debts	(20 958)	(18 308)	(14 668)	(18 015)	(20 225)
Operating profit before exceptional items and amortisation of goodwill	132 139	85 762	158 567	133 196	123 474
Operating profit from continuing operations	132 139	102 431	158 862	133 196	123 474
Operating loss from discontinued operations	-	(16 669)	(295)	-	-
Share of income/(loss) of associated companies (net of goodwill)	9 073	9 706	3 083	(143)	148
Amortisation and impairment of goodwill	(50 644)	(122 302)	(98 435)	(20 885)	(14 281)
Other exceptional items	8 529	(28 757)	(17 529)	-	-
Profit/(loss) on ordinary activities before taxation	99 097	(55 591)	45 686	112 168	109 341
Taxation on profit on ordinary activities	(28 499)	(5 377)	(28 540)	(30 044)	(36 091)
Profit/(loss) on ordinary activities after taxation	70 598	(60 968)	17 146	82 124	73 250
Minority interests - equity	(1 813)	(1 646)	(1 586)	(1 170)	(1 668)
Profit/(loss) attributable to shareholders	68 785	(62 614)	15 560	80 954	71 582
Earnings attributable to ordinary shareholders before exceptional items and amortisation of goodwill	106 082	89 668	127 613	100 906	87 246

Note:

The numbers for the year ended 31 March 2002, 2001 and 2000 have not been restated for changes to accounting policies and disclosures.

Five year review - salient features

UK GAAP¹

For the year ended 31 March²

Profit and Loss Account and Selected Returns

	2004	2003	2002	2001	2000
Earnings attributable to ordinary shareholders before exceptional items and amortisation of goodwill (£'000)	106 082	89 668	127 613	100 906	87 246
Headline earnings (£'000)	105 752	83 595	115 777	100 906	87 246
Operating profit before taxation, exceptional items and amortisation of goodwill (£'000) ³	132 139	85 762	158 567	133 196	123 474
Investment Banking	42 078	17 294	46 293	47 953	56 135
Private Client Activities	62 136	40 911	42 489	36 246	29 132
Treasury and Specialised Finance	44 298	27 951	51 784	52 301	40 871
Asset Management	26 865	19 479	20 911	21 252	17 942
Assurance Activities	5 082	27 779	31 079	—	—
Group Services and Other Activities	(48 320)	(30 983)	(33 694)	(24 556)	(20 606)
Discontinued operations	—	(16 669)	(295)	—	—
Operating profit: Southern Africa and Other (% of total)	58.6%	81.0%	51.6%	25.6%	15.4%
Operating profit: Non-Southern Africa and Other (% of total)	41.4%	19.0%	48.4%	74.4%	84.6%
Cost to income ratio (%)	72.7%	80.0%	72.0%	72.6%	70.2%
Staff compensation to operating income ratio (%)	47.3%	51.1%	44.5%	45.5%	43.6%
Return on average equity shareholders' funds (%)	16.0%	13.1%	19.4%	18.2%	16.9%
Return on average tangible net asset value (%)	27.5%	26.0%	37.2%	31.6%	29.0%
Annuity income as a percentage of operating income (%)	67.8%	69.1%	68.7%	74.5%	69.6%
Net-interest income as a percentage of operating income (%)	18.8%	21.3%	26.5%	28.9%	24.6%
Non-interest income as a percentage of operating income (%)	81.2%	78.7%	73.5%	71.1%	75.4%
Effective tax rate (%)	21.6%	6.3%	18.0%	22.6%	29.2%

Balance Sheet

Total capital resources (£ millions)	1 346	958	958	842	639
Total shareholders' funds (£ millions)	809	640	734	579	528
Total assets (£ millions)	15 361	14 914	16 957	15 984	16 030
Core loans and advances (£ millions)	5 060	3 909	3 314	3 299	3 083
Core loans and advances as a percentage of total assets (%)	33.0%	26.2%	19.5%	20.6%	19.2%
Total assets under administration (£ millions)	47 805	40 559	44 219	43 977	45 853

Salient Financial Features and Key Statistics

Earnings per share before exceptional items and amortisation of goodwill (pence)	103.7	96.1	139.8	125.9	109.9
Headline earnings per share (pence)	103.4	89.6	126.8	125.9	109.9
Basic earnings per share (pence)	59.9	(67.6)	14.8	99.2	90.2
Diluted earnings per share (pence)	59.5	(67.6)	13.9	96.4	89.6
Dividends declared per share (pence)	58.0	54.0	53.8	68.7	61.4
Dividend cover (times)	1.79	1.78	2.60	1.83	1.79
Net tangible asset value per share (pence)	431.8	374.9	373.8	— ⁽⁴⁾	— ⁽⁴⁾
Weighted number of ordinary shares in issue (million)	102.3	93.3	91.3	80.2	79.4
Total number of shares in issue (million)	118.6	113.0	92.2	81.0	80.6
Closing share price (pence)	1 089	615	805	1 729	2 487
Market capitalisation (£ millions)	1 292	695	742	1 400	2 005
Number of employees in the group	4 458	4 874	5 529	4 836	4 441

Notes:

¹ Refer to definitions on pages 229 and 230.

² The numbers for the year ended 31 March 2002, 2001 and 2000 have not been restated for changes to accounting policies and disclosures.

³ The numbers for the operating divisions are shown pre allocation of central costs, as the group only adopted a policy of allocating these costs to the operating divisions in 2003.

⁴ Calculation not comparable.

Investec in perspective

An essential pillar of Investec's operating philosophy is that it does not seek to be all things to all people. The group's core philosophy has been to build well-defined, value-added businesses focused on serving the needs of select market niches where the group can compete effectively. Investec's strategic goals and objectives are motivated by the desire to develop an efficient and integrated business on an international scale through the active pursuit of clearly established core competencies in the group's four principal business areas, namely:

- Investment Banking
- Private Client Activities
- Treasury and Specialised Finance
- Asset Management

In addition, Investec's head office provides certain group-wide integrating functions including Risk Management, Information Technology, Finance, Investor Relations, Marketing, Human Resources and Organisational Development. It is also responsible for the group's central funding as well as other activities, such as its Property business, Trade Finance and Traded Endowments operations.

The business divisions are effectively managed as autonomous international business segments, enabling them to remain focused on trends and dynamics within their particular industries. Notwithstanding, as a result of the inter-related nature of their target markets and activities, a degree of interaction takes place between each business to ensure clients benefit from dealing with the broader Investec group. The group's services are supplemented by a common thrust consisting of the group's culture, mission and philosophies. This helps the business segments across the jurisdictions to operate as an integrated network.

History of significant events

Since Investec was founded in South Africa in 1974, it has expanded through a combination of substantial organic growth and a series of strategic acquisitions in South Africa, the UK and other geographies in which Investec operates.

1980 - 1990

Develop
business in
South Africa

- Investec secures a banking licence in 1980.
- Investec lists on the JSE in 1986.
- Growth is driven organically and via acquisitions.
- Investec focuses on building a strong base from which to internationalise.

1992

Embark on
international
strategy

- Investec acquires London-based Allied Trust Bank Ltd - first international acquisition.
- Investec embarks on an international drive to boost capability and enhance critical mass in select geographical markets.

2002

London
listing

- July 2002 - Investec implements a DLC Structure with listings on the LSE and JSE.

2003

Empowerment
transaction

- Empowerment partners acquire a 25.1% stake in Investec Limited.

For a summary of the group's history and acquisitions made in each geography and core area of activity please see the group's website at www.investec.com/grouplinks/investorrelations.

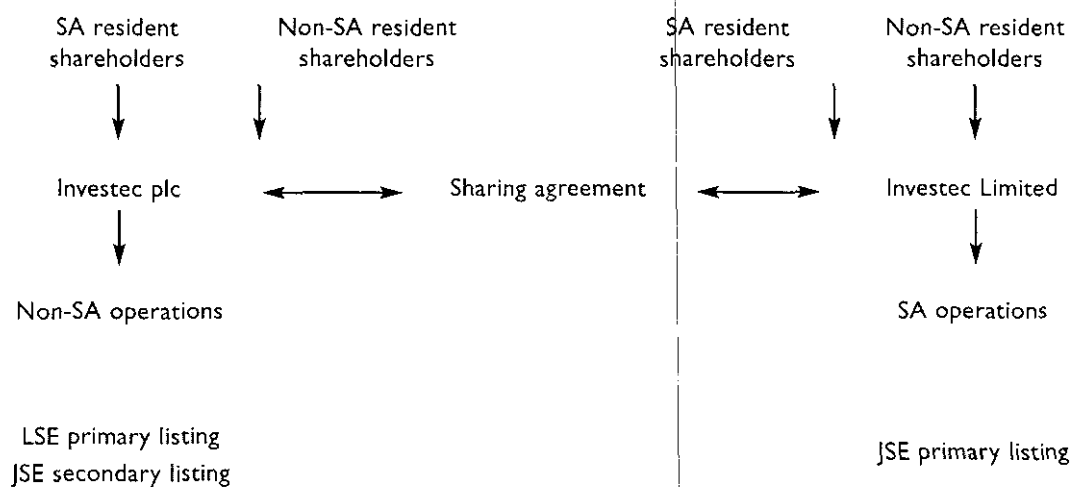
An overview of Investec's dual listed companies structure

Introduction

During July 2002 Investec Group Limited (since renamed Investec Limited), which is headquartered in South Africa, implemented a Dual Listed Companies (DLC) structure and listed its offshore businesses on the London Stock Exchange.

A circular regarding the establishment of a DLC structure was issued on 20 June 2002.

A simplified illustration of the DLC structure



Further information on the group's DLC structure can be found in the circular mentioned above as well as in the preliminary offering circular issued on 8 July 2002. A copy of these circulars can be found on the group's website at www.investec.com/grouplinks/investorrelations.

Geographic representation - as at 31 March 2004

1	United States New York Investec (US) Incorporated Gerber Trade Finance Inc			Investec Asset Management Holdings (Pty) Ltd Investec Personal Investments (Pty) Ltd Investec Asset Management (Pty) Ltd	10	Luxembourg Investec SA Investec Finance SA
2	British Virgin Islands Tortola Investec Overseas Finance (BVI) Ltd			Reichmans Ltd Investec Analytics (Pty) Ltd Investec Assurance Ltd Silica Holdings (Pty) Ltd	11	Switzerland Geneva Reichmans SA Investec Bank (Switzerland) AG Radcliffes Trustee Company SA
3	Namibia Windhoek Investec Asset Management Namibia (Pty) Ltd Investec Fund Managers Namibia (Pty) Ltd	7	Ireland Dublin Investec Private Equity Management (Ireland) Ltd Investec Bank (UK) Ltd - Irish Branch Investec Gandon Ltd Investec Asset Management Ireland Ltd		12	Israel Jerusalem, Tel Aviv Investec Bank (Israel) Ltd
4	Botswana Gaborone Investec Asset Management Botswana (Pty) Ltd Investec Fund Managers Botswana (Pty) Ltd				13	Mauritius Port Louis Investec Bank (Mauritius) Ltd
		8	Channel Islands St Peter Port, St Helier Investec Asset Management Guernsey Ltd Investec Personal Portfolio Management Ltd Investec Bank (Channel Islands) Ltd Investec Trust (Jersey) Limited		14	Hong Kong Investec Hong Kong (Pty) Ltd Investec Asset Management Asia Ltd
5	Swaziland Mbabane Swaziland Portfolio Managers (Pty) Ltd				15	Australia Brisbane, Melbourne, Sydney Investec Wentworth Private Equity (Pty) Ltd Investec Private Advisors (Pty) Ltd Investec Bank (Australia) Ltd
6	South Africa Cape Town, Durban, Johannesburg, Port Elizabeth, Pretoria, Investec Bank Ltd Investec Securities Ltd Investec Property Group Ltd Investec Employee Benefits Ltd	9	United Kingdom London Investec Bank (UK) Ltd Carr Sheppards Crosthwaite Ltd Investec Asset Management Ltd Traded Endowment Policies Limited Investec Investment Management Ltd Investec Fund Managers Ltd			

039

Annual Report 2004

Investec in perspective: by geography

	Scope of activity*	% of operating profit** Investec total £132.1mn	% of attributable earnings** Investec total £103.4mn
South Africa and Other (including Botswana and Mauritius)	Asset Management, Assurance Activities, Investment Banking, Private Client Activities, Property Activities, Reichmans International Trade Finance, Traded Endowments*, Treasury and Specialised Finance	58.6% Profit: £77.5mn	59.6% Earnings: £61.6mn
UK and Europe (including Guernsey, Ireland, Jersey, Switzerland)	Asset Management, Investment Banking, Private Client Activities, Property Activities, Reichmans International Trade Finance, Treasury and Specialised Finance	29.3% Profit: £38.7mn	31.3% Earnings: £32.4mn
Australia	Investment Banking, Private Client Activities, Treasury and Specialised Finance	7.3% Profit: £9.6mn	6.3% Earnings: £6.5mn
Israel	Asset Management, Investment Banking, Private Client Activities, Treasury and Specialised Finance	4.5% Profit: £5.9mn	1.8% Earnings: £1.9mn
United States	Fixed Income Trading, US Equities Trading, Israeli Nasdaq Trading	0.3% Profit: £0.4mn	1.0% Earnings: £1.0mn

* The stage of development of these activities varies between each geographic region. Refer to pages 45 to 78 for a detailed description and operating review of the group's activities. The Traded Endowments business resides in the UK but is still owned by Investec Limited and is thus reflected as such for segmental reporting purposes.

% of assets** Investec total £15 361mn	% of NAV** Investec total £542.3mn	Number of employees** Investec total 4 458	COI/ROE**	Global management
59.5% Assets: £9 138mn	38.4% NAV: £208.4mn	58.9% Employees: 2 627	COI: 63.5% ROE: 24.9%	SA Joint MDs: Andy Leith and Glynn Burger SA Deputy Chairman: David Lawrence
32.5% Assets: £4 987mn	46.4% NAV: £251.4mn	32.1% Employees: 1 431	COI: 82.9% ROE: 8.3%	Bradley Fried
3.1% Assets: £480mn	7.0% NAV: £38.1mn	2.5% Employees: 112	COI: 61.7% ROE: 14.1%	Geoff Levy
4.7% Assets: £728mn	7.9% NAV: £43.0mn	4.8% Employees: 213	COI: 70.4% ROE: 5.2%	Alan Tapnack
0.2% Assets: £28mn	0.3% NAV: £1.4mn	1.7% Employees: 75	COI: 95.6% ROE: >100%	John Murabito

** Operating profit represents profit before taxation, exceptional items and amortisation of goodwill. Attributable earnings is shown after taxation and minority interest but before exceptional items and amortisation of goodwill. COI is cost to income ratio. Operating profit, attributable earnings, total assets and COI have been calculated in accordance with UK GAAP. NAV is net adjusted tangible shareholders' funds and ROE is return on adjusted average shareholders' funds as calculated on pages 24 to 26. Refer to pages 166 to 171 for detailed segmental information, including comparative figures for the year ended 31 March 2003.

Investec in perspective: by division

	Scope of activity*	Geographic representation	Core client base
Investment Banking	<ul style="list-style-type: none"> • Corporate Finance • Institutional Research, Sales and Trading • Private Equity • Direct Investments 	<ul style="list-style-type: none"> • Principal markets: Australia, South Africa, UK • Other: Ireland, Israel 	Mid to large capitalisation companies, unlisted corporations, fund managers, government and parastatals
Private Client Activities	<p>Private Banking</p> <p>Private Client Portfolio Management and Stockbroking</p>	<ul style="list-style-type: none"> • Principal markets: Australia, South Africa, UK • Other: Channel Islands, Israel, Switzerland • Principal markets: South Africa, UK 	<p>High income and high net worth individuals</p> <p>Mainly high net worth individuals (includes charities in the UK)</p>
Treasury and Specialised Finance	<ul style="list-style-type: none"> • Deposit taking, lending, advisory services, structuring and proprietary trading 	<ul style="list-style-type: none"> • Principal markets: South Africa, UK • Other: Australia, Ireland, Israel, Mauritius 	Select corporate clients, public sector bodies, financial institutions, banks, financial brokers
Asset Management	<p>Asset Management: Institutional, Retail</p> <p>Assurance Activities: Investec Employee Benefits</p>	<ul style="list-style-type: none"> • Principal markets: Southern Africa, UK • Other: Europe, Hong Kong, US • Principal market: South Africa 	<p>Retirement savers via pension fund consultants (institutional) and independent financial advisers (retail)</p> <p>Individuals, corporates and institutions</p>
Group Services and Other Activities	<ul style="list-style-type: none"> • Central Costs • Central Funding • Other Activities: Property Worldwide, International Trade Finance, UK Traded Endowments 	<ul style="list-style-type: none"> • Principal markets: South Africa, UK • Other: Australia, Israel, US 	

* The stage of development of these activities varies between each geographic region. Refer to pages 45 to 78 for a detailed description and operating review of the group's activities.

** Operating profit represents profit before taxation, exceptional items and amortisation of goodwill, as determined in accordance with UK GAAP. Refer to pages 166 to 171 for detailed segmental information, including comparative figures for the year ended 31 March 2003.

% of operating profit**
Investec total £132.1mn

Number of employees**
Investec total: 4 458

Salient features

Global
management

28.5%

Profit: £37.7mn

6.2%

Employees: 276

- SA: No. 1 M&A house (*Dealmakers Survey*)
- UK: recognised market positioning

Andy Leith and
Bradley Fried

40.8%

Profit Pvt Bank: £45.4mn***
Profit PCSB: £8.5mn***

35.2%

Employees Pvt Bank: 1 106***
Employees PCSB: 463***

- SA: Voted as the best private bank (*PWC Survey*)
- Global loan portfolio: 1993: £0.6bn → 2004: £3.4bn
- SA: largest player
- UK: long standing reputation
- Total funds under management: 1997: £0.4bn → 2004: £11.1bn

Sam Hackner and
Steven Heilbron

SA: Henry Blumenthal
UK: Steve Elliott

27.1%

Profit: £35.8mn

10.7%

Employees: 477

- Strong position in SA
- Building international capability

Richard Forlee

22.1%

Profit IAM: £24.6mn
Profit Assurance: £4.5mn

21.1%

Employees IAM: 784
Employees Assurance: 156

- SA: market leading position
- UK: building recognised platform
- Total funds under management: 1993: £41.8mn → 2004: £20.6bn
- Acquired from Fedsure and significantly rationalised

Hendrik du Toit

Ade Animashahun

Geographic

(18.5%)

Loss: £24.4mn

26.6%

Employees: 1 196

*** Where Pvt Bank refers to the group's Private Banking business and PCSB refers to the group's Private Client Portfolio Management and Stockbroking business.

Integrated global management structure

Investec's management structure, reporting lines and responsibilities have been built around geographic, product and functional roles. It is structured around global divisional leaders, global roles and geographic business leaders. This management structure enables the group to meet the challenge of regional responsiveness and global competence. The integrated global model enables the group to take advantage of best economies of scale, leverage resources and core competencies, and exploit synergies across all regions in which the group operates.

The directors believe that the links between its overlapping parts, and the degree of effective integration, make the structure an effective model. The quality of the links is a result of values-based behaviour and practice, which are key drivers of Investec's culture.

Global Roles

Chairman - Hugh Herman

Chief Executive Officer - Stephen Koseff

Managing Director - Bernard Kantor

Group Risk and Finance Director - Glynn Burger

Geographic Business Leaders

South Africa

Andy Leith
Glynn Burger
David Lawrence

United Kingdom

Bradley Fried

Israel

Alan Tapnack

USA

John Murabito

Australia

Geoff Levy

SE Asia

Richard Forlee

Divisional Business Leaders

Private Banking

Sam Hackner and
Steven Heilbron

Private Client

Stockbroking
Geographic

Treasury and

Specialised Finance
Richard Forlee

Investment Banking

Andy Leith and
Bradley Fried

Asset Management

Hendrik du Toit

Support Structures

Banking, Institutions and Corporate Relations - David Lawrence

Chief Integrating Officer - Allen Zimble

Corporate Governance and Compliance - Bradley Tapnack

Finance - Rayanne Jacobson

Human Resources - Patsy McCue

IT - Simon Shapiro

Marketing - Raymond van Niekerk

Risk Management - Ciaran Whelan

Organisational Development - Caryn Solomon

Investment Banking

Includes: Corporate Finance, Institutional Research, Sales and Trading, Private Equity, Direct Investments

UK GAAP £'000	31 March 2004	31 March 2003	% change
Net interest income	6 484	4 548	42.6%
Other income	81 434	59 636	36.6%
Provision for bad and doubtful debts	—	(589)	>100%
Admin expenses and depreciation	(50 199)	(50 071)	(0.3%)
Operating profit*	37 719	13 524	>100%
Corporate Finance	8 206	464	>100%
Institutional Research, Sales and Trading	4 129	(3 176)	>100%
Private Equity	6 749	11 868	(43.1%)
Direct Investments	18 635	4 368	>100%
Operating profit*	37 719	13 524	>100%
South Africa and Other	27 147	4 898	>100%
UK and Europe	2 939	4 297	(31.6%)
Australia	4 312	2 532	70.3%
Israel	3 066	1 797	70.6%
USA	255	—	>100%
Operating profit *	37 719	13 524	>100%
Cost to income ratio (%)	57.1%	78.0%	
Number of employees	276	336	(17.9%)

*Before taxation, exceptional items and amortisation of goodwill.

Scope of activities

The Investment Banking division engages in a range of investment banking activities. The business positions itself as a "super boutique", focusing on specific market niches. It targets clients seeking highly customised service, which Investec offers through a combination of domestic depth and expertise within each geography and a client centric approach.

The client base of the division includes:

- Major listed and unlisted corporations, fund managers, government and parastatals.

Product	Geography	Description
Corporate Finance	Australia, South Africa, UK	<ul style="list-style-type: none">• Domestic businesses benefiting from access to an international network.• Mid-market focus in the UK and Australia with a penetration into larger clients, specifically in South Africa.
Institutional Research, Sales and Trading	Israel, South Africa, UK	<ul style="list-style-type: none">• Research operated on an international platform.• Blue chip domestic institutional client base.
Private Equity	Australia, South Africa, UK	<ul style="list-style-type: none">• Portfolio of third party investments acquired through UK acquisition of Hambros PLC.• Small but growing private equity businesses in South Africa and Australia.
Direct Investments	Australia, South Africa, UK	<ul style="list-style-type: none">• Largely a business leveraging off Corporate Finance's market knowledge and deal flow.• Focus on quoted companies.• Selective, opportunistic approach.

Management structure

Joint Global Heads of Investment Banking

Bradley Fried

Andy Leith

Australia

Corporate Advisory

Geoff Levy

Private Equity

John Murphy

Ireland

Michael Cullen

Israel

Yoel Berger

South Africa

Corporate Finance

Kevin Kerr

Khumo Shuenyane

Hugo Steyn

Private Equity

Thomas Prins

Investec Securities Institutional Stockbroking

Carole Mason

Kevin Brady

Craig Tate

Management Services

Kevin McKenna

UK

Investec Investment Banking and Securities

Erik Anderson

Keith Anderson

Jeremy Bedford

David Currie

Andrew Feinstein

Trevor Gattfield

Richard Hickinbotham

David Kantor

Christian Maher

Jeremy McKeown

Ray Milner

Nigel Tose

Private Equity

Rob Cohen

Operations

Ockert Olivier

Overview of performance

The Investment Banking division benefited from a better market environment, recording an improved operating profit before exceptional items and amortisation of goodwill. Profit increased from £13.5 million to £37.7 million.

The variance in operating profit of the Corporate Finance, Institutional Research, Sales and Trading divisions over the period can be explained as follows:

- Net interest income decreased mainly as a result of the decline in the return on inflation-linked instruments in the division's Israeli business.
- The Corporate Finance operations in South Africa, UK and Australia performed well. The solid growth in net fees and commissions receivable is largely attributable to the significant turnaround in the group's UK operations, which benefited from an increase in commissions on market making stocks and witnessed a strong increase in advisory fees received.
- Dealing profits largely relate to the market making

activities of the UK operations and the proprietary activities of the Institutional Stockbroking division in South Africa.

- The reduction in expenses largely reflects the restructuring of the division's UK operations, which took place towards the end of the 2003 financial year-end.

The variance in operating profit of the Private Equity and Direct Investments divisions over the period can be explained as follows:

- Net interest income increased as the proportion of interest bearing assets to overall assets increased.
- Net fees and commissions receivable reflect private equity management and success fees earned.
- Dealing profits represent the year to date cumulative increase in the value of the trading investments held in the division's direct investments and private equity portfolios. Furthermore, dealing profits includes the profit/loss on realisation of these investments, which were previously reflected as part of "other operating income".

Operating profit* - Corporate Finance and Institutional Research, Sales and Trading

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Net interest income	1 947	5 722	(3 775)	(66.0%)
Net fees and commissions receivable	49 075	34 766	14 309	41.2%
Dealing profits	3 172	4 836	(1 664)	(34.4%)
Other operating income and dividends received	1 922	152	1 770	>100%
Admin expenses and depreciation	(43 781)	(47 599)	3 818	8.0%
Provision for bad and doubtful debts	—	(589)	589	>100%
Operating profit*	12 335	(2 712)	15 047	>100%

*Before taxation, exceptional items and amortisation of goodwill.

Operating profit* - Private Equity and Direct Investments

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Net interest income	4 537	(1 174)	5 711	>100%
Net fees and commissions receivable	2 426	1 375	1 051	76.4%
Dealing profits	20 549	4 397	16 152	>100%
Other operating income and dividends received	4 290	14 110	(9 820)	(69.6%)
Admin expenses and depreciation	(6 418)	(2 472)	(3 946)	>(100%)
Provision for bad and doubtful debts	—	—	—	>100%
Operating profit*	25 384	16 236	9 148	56.3%

*Before taxation, exceptional items and amortisation of goodwill.

- o Realised gains amounted to approximately £10 million (e.g. Growthpoint, AAV (Abacus), NAIL, PG Bison).
- o Unrealised gains amounted to approximately £10 million (e.g. AMB, Cadiz, Growthpoint, Metboard, Chlorchem).
- Other operating income for the year largely comprises dividends received and profits generated on the further realisation of certain investments, which were regarded as longer term in nature. In the prior year, the UK Private Equity division benefited from the partial sale of Focus.

Developments

Key business developments over the past year are outlined below.

Corporate Finance

UK and Europe

- More favourable stock market conditions and a reduced cost base in the Investment Banking division in the UK enabled it to achieve a major turnaround in performance.
- The division concluded two initial public offerings (IPOs) during the second half of the financial year.
- Statistics:
 - o The number of merger and acquisition (M&A) transactions completed during the period increased to 18 (2003: 13), with the value rising to £960 million (2003: £826 million).
 - o The number of fund-raising transactions completed during the period increased to 13 (2003: 10), with the value decreasing to £173.6 million (2003: £449.0 million - included the Telkom capital raising to the value of £323 million).
- The division continues to build both the quality and size of its corporate client list, with the addition of 15 clients during the period versus the loss of 15 clients (nine of these were takeovers, where a fee was earned for the sale or management buyout of the company).

South Africa

- The Corporate Finance division maintained its strong positioning with a steady level of activity.
- The division focused on corporate restructuring activities, black economic empowerment (BEE) transactions, de-listings, and two high profile investment banking deals, namely NAIL and AMB.
- All of the division's major clients were retained and several new mandates were gained during the period, particularly for BEE transactions.
- Statistics:
 - o The number of corporate finance transactions completed during the period increased to 93 (2003: 55), with the value decreasing to R20 billion

(2003: R56.0 billion).

- o The number of sponsor broker deals completed during the period increased to 82 (2003: 45), with the value decreasing to R17.5 billion (2003: R57.8 billion).
- The division was ranked first in the volume of M&A transactions and second in general corporate finance by volume and value in the *Dealmakers Magazine Survey* for Corporate Finance (March 2004). It was also lead adviser on four of the top 10 deals of the year.
- The division was also ranked first for advising on the highest value of M&A transactions and second for advising on the highest volume, in the *Ernst & Young Survey* (March 2004).

Australia

- The corporate advisory business benefited from an upturn in M&A activity, with a strong deal pipeline.
- The division advised on 15 (2003: 20) deals valued at A\$2.7 billion (2003: A\$2.5 billion) during the financial year.

US and Israel

- Investment banking activities in the US ceased at the end of May 2003.
- In Israel, domestic market conditions improved during the period, with the division participating in three underwriting deals since January 2004.

Institutional Research, Sales and Trading

UK and Europe

- The division's secondary commissions benefited from higher equity market levels.
- The proportion of revenue from the small and mid-cap stocks improved as a result of increased activity in the small and mid-cap space, in addition to greater facilitation in the division's market-making stocks.
- Furthermore, the commissions from large cap stocks also increased during the period.
- Rankings of Investec in the *UK Small Mid-Cap Survey* (2003) were encouraging:
 - o Ranked first for "Most improved product and service".
 - o Ranked third for "Aggregated research team".
 - o Individual analysts received top three rankings in five of the sectors covered and top five in nine sectors.

South Africa

- The lower average volumes traded on the JSE Securities Exchange South Africa (JSE) continued to have a negative impact on the agency business of Investec Securities.
- The Structured Equity Desk also struggled as a result of Rand volatility and uncertain market trends.
- The division's league table recognition was not accompanied by any commensurate increase in revenue because of an ongoing lack of market volumes.
- As a result, the division underwent a restructuring and

realignment in the second half of the financial year, with the team downsized and the research focus streamlined.

- Noteworthy client rankings indicate that Investec Securities Limited is well positioned to leverage off the credible platform that was created.
- BEE is an important weighting in allocation and Investec Securities Limited is regarded as the only black empowered firm with a credible full service value proposition.

Israel

- The broking business benefited from ongoing growth in domestic market volumes.
- During the period, a new securities platform was launched to support the foreign securities business and provide greater functionality for clients.

Private Equity and Direct Investments

UK and Europe

- The Private Equity division did not perform as well as it did in the previous year, when it benefited from a significant realisation in one of the underlying funds.
- The aggregate book value of the Private Equity portfolio was £22.4 million (2003: £23.4 million).

South Africa

- Improved equity market levels during the financial year benefited the values of the Private Equity and Direct Investments portfolios.
- The aggregate book value of the trading investments held in the division's Private Equity portfolio was R207.0 million (2003: R134.0 million).

Outlook

The outlook for the Investment Banking division is naturally geared towards the state of global equity markets. The restructuring and rationalisation exercise undertaken in the 2003 financial year benefited the division, which is now in a better position to deal with external market and economic conditions.

Strategic focus

Mission: To be a premier international investment bank distinguished by our leadership in chosen niches; our people and their approach; and our bond with our clients.

The primary objective of the division is to secure its current positions and continue to build its operations in each of the markets in which it operates, with a strong focus on enhancing overall profitability.

UK and Europe

- **Investment Banking and Securities**
 - Perpetuate full service offering.
 - Maintain position in mid cap space.
 - Continue to grow independent large cap securities franchise.
 - Focus externally on gaining clients and providing superior service.
 - Improve institutional rankings via a systematic account management programme.

South Africa

- **Corporate Finance**
 - Leverage leading position in local market with traditional corporates to increase share of parastatal and government advisory mandates.
 - Improve size and profile of client base.
 - Identify appropriate investment banking transactions to leverage structuring skills and market knowledge.
 - Build on group's increasingly strong international banking presence to participate in cross-border transactions with South African corporates.
 - Continue with strategy relating to BEE.
- **Institutional Research, Sales and Trading**
 - Establish niche as uniquely South African house, with selective international capability.
 - Research-centric, characterised by the most in-depth, insightful, innovative and independent South African coverage.
 - Leverage off current client base.
 - Continue to be a significant contributor of ideas/transactions within the group.
- **Private Equity**
 - Leverage off the Investec brand and network.
 - Focus on quality not quantity in selected industries.
 - Concentrate on closer co-operation with empowerment partners.

Australia

- Maintain and grow market share.
- Expand network and continue to leverage off reputation.
- Build a solid deal pipeline.
- Continue to build Private Equity portfolio.
- Leverage off enhanced brand awareness.
- Further integrate operations into Investec's international network.

Private Client Activities

Includes: Private Banking and Private Client Portfolio Management and Stockbroking

UK GAAP £'000	31 March 2004	31 March 2003	% change
Net interest income	83 591	70 174	19.1%
Other income	123 583	101 050	22.3%
Provision for bad and doubtful debts	(14 203)	(12 611)	(12.6%)
Admin expenses and depreciation	(139 109)	(124 612)	(11.6%)
Operating profit*	53 862	34 001	58.4%
Private Banking	45 397	29 588	53.4%
Private Client Portfolio Management and Stockbroking	8 465	4 413	91.8%
Operating profit*	53 862	34 001	58.4%
South Africa and Other	19 610	12 722	54.1%
UK and Europe	30 627	18 884	62.2%
Australia	3 025	930	>100%
Israel	600	1 465	(59.0%)
Operating profit *	53 862	34 001	58.4%
Cost to income ratio: overall (%)	67.1%	72.8%	
Private Banking	59.9%	64.8%	
Private Client Portfolio Management and Stockbroking	85.5%	91.4%	
Number of employees	1 569	1 629	(3.7%)
Private Banking	1 106	1 085	1.9%
Private Client Portfolio Management and Stockbroking	463	544	(14.9%)

*Before taxation, exceptional items and amortisation of goodwill.

Scope of activities

Private Client Activities comprises two businesses: Private Banking and Private Client Portfolio Management and Stockbroking. The group conducts these activities in two

principal markets, South Africa and the UK, and has a limited service offering in Australia, the Channel Islands, Ireland, Israel, Mauritius and Switzerland.

	South Africa	UK	Australia	Channel Islands	Ireland	Israel	Mauritius	Switzerland
Private Banking								
Structured property finance	•	•	•	•	•		•	•
Investment management	•	•	•	•	•			•
Treasury and banking	•	•	•	•	•	•		•
Private client investment banking	•	•	•					
Specialised lending	•	•	•			•	•	
Trust and fiduciary	•	•		•			•	•
Private Client Portfolio Management and Stockbroking								
Investment management and stockbroking	•	•						

Private Banking - target market

- **South Africa:** High net worth individuals (net asset value R50 million+ and investable assets R15 million+), private clients (net asset value R5 million+ and earnings R1 million+) and professionals (earnings R0.5 million+).
- **UK:** Targeted at individuals with a net asset value of £5 million+ and investable assets of £3 million+.
- **Australia:** Targeted at individuals with net investable assets of greater than AUD\$2 million.

Private Client Portfolio Management and Stockbroking - target market

- **Investec Securities Limited, South Africa:** Targeted at mass affluent and high-income sector and above with R1 million+ to invest.
- **Carr Sheppards Crosthwaite, UK:** Targeted at individuals with investable assets of £0.5 million+, and smaller charities (<£20 million).

Management structure

Private Banking

Joint Global Heads of Private Banking

Sam Hackner
Steven Heilbron

Australia

Mark Joffe
Tim Johansen
Ivan Katz
Robert Lipman
Tim Macphillamy
Brendan O'Sullivan
Michael Sack

Israel

Yossi Zelnick

South Africa

Steven Heilbron
Paul Hanley
Michael Barr
David de Villiers
Lianne D'Agnese
Colin Franks
Warren King
Michael Leisegang
Wayne Preston
Wessel Oosthysen
Les Scott
Tim Till
Carol-Ann van der Merwe
Andy Vogel

UK and Europe

Steven Heilbron
Leon Blitz
Alan Blecher
Robert Clifford
Robert Cohen
Chris Forsyth
Kim Hillier
Paul Hunt
Colin Jensen
Antonia Kerr
Linda McBain
Mort Mirghavameddin
Ciaran McNamara
Walter Steinberg
Paul Stevens

Private Client Portfolio Management and Stockbroking

Investec Securities Limited, South Africa

Henry Blumenthal
Jonathan Bloch
Peter Clucas
Paul Deuchar
Donald Glyn
Raymond Goss
Fairfax Gray
Craig Hudson
Cy Jacobs
Steve Liptz
Alistair Martin
Etienne Nel
Angus Robertson
Andy Vogel

Carr Sheppards Crosthwaite, UK

Steve Elliott
Nick Bagshawe
Clive Brangwin
David Bulteel
Adam Burr
Fred Carr
Alun Evans
Chris Hills
Robert Leach
Ian Maxwell Scott
Grant Nowell-Mitchell
Mark Redmayne
Tony Richards

Private Banking

Overview of performance

The Private Banking division performed well, increasing operating profit before exceptional items and amortisation of goodwill by 53.4%, to £45.4 million.

The Private Banking lending book growth since 31 March 2003 was as follows:

- UK grew by 14.7% in Pound Sterling terms to £1 062 million.
- South Africa grew by 26.4% in Rand terms to R22.5 billion (£1 906 million).
- Australia grew by 28.7% in Australian Dollar terms to A\$543 million (£225 million).
- Israel remained relatively stable at NIS1.4 billion (£169 million).

The variance in operating profit over the period can be explained as follows:

- A strong increase in net interest income in South Africa, the UK and Australia was driven by a healthy growth in advances.
- Solid growth in net fees and commissions receivable is attributable to increased lending turnover in all operations. Furthermore, the division continued to benefit from its diverse activities, with structured and

transactional banking fees in South Africa, and specialised lending and fiduciary fees in the UK, experiencing strong growth over the period.

- Dealing profits were positively influenced by the sale of and increase in value of certain investments, respectively, held by the division, which arose out of the provision of investment banking services to private clients. The activities of the private client investment banking business are positioned well below the radar screen of the traditional corporate finance and private equity houses, and focus on the active wealthy entrepreneur. Furthermore, the division is well equipped to offer small to medium size businesses the service of partnering their personal and business requirements by providing advisory and asset acquisition services. As a result, the division took certain equity positions in the businesses of these private clients.
- An increase in administration expenses and depreciation is mainly attributable to the South African operations, which experienced a 15.0% increase in costs in Rand terms. This was largely as a result of an increase in personnel costs (given an increase in headcount) and a rise in incentive-based remuneration in line with strong growth in profitability. Furthermore, the division's marketing costs grew as a result of a new branding campaign launched in South Africa.
- An increase in provision for bad and doubtful debts was mainly as a result of solid book growth and appreciation of the Rand against the Pound Sterling over the period.

Salient features of the loan portfolio

£ millions

For the year ended 31 March

	UK		South Africa	
	2004	2003	2004	2003
Residential	623	*	675	462
Commercial	277	*	631	447
Other sectors	52	*	—	—
Cash-backed lending	27	*	—	—
Other private bank loans	97	*	624	510
Total gross core loans and advances	1 076	937	1 930	1 419
Specific provisions	(3)	(2)	(13)	(9)
General provisions	(11)	(9)	(11)	(8)
Net core loans and advances	1 062	926	1 906	1 402
Gross non-performing loans (NPLs)	13	11	33	16
Asset quality				
Gross NPLs as a % of core loans and advances	1.2%	1.2%	1.7%	1.1%
Specific provisions as a % of gross NPLs	23.1%	18.2%	39.4%	56.3%
Total provisions as a % of gross NPLs	107.7%	100.0%	72.7%	106.3%
General provisions as a % of performing loans	1.0%	1.0%	0.6%	0.6%
Deposit book	1 520	1 387	887	598

* Comparative information not available.

Operating profit* - Private Bank

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Net interest income	78 914	65 506	13 408	20.5%
Net fees and commissions receivable	62 180	46 449	15 731	33.9%
Dealing profits	6 380	7 812	(1 432)	(18.3%)
Other operating income and dividends received	1 300	234	1 066	>100%
Admin expenses and depreciation	(89 174)	(77 802)	(11 372)	(14.6%)
Provision for bad and doubtful debts	(14 203)	(12 611)	(1 592)	(12.6%)
Operating profit*	45 397	29 588	15 809	53.4%

* Before taxation, exceptional items and amortisation of goodwill.

Developments

Key business developments over the past year are outlined below.

UK and Europe

- Strong performances were recorded across all of the Private Banking businesses.
- The property lending business continued its sound performance against a backdrop of a somewhat less buoyant property market, with a diversified loan portfolio.
- The property book is well secured and the group believes that loan-to-value ratios of between 65% to 70% are conservative. Stress testing a fall of 30% in property values could result in a total naked exposure of approximately £18 million. Specifically, a fall of 30% in residential property values could result in a naked exposure of approximately £7 million.
- The division experienced good growth in private client investment banking transactions.
- The specialised lending and investment management teams produced significant year-on-year growth through focusing on identified niche opportunities.
- The migration of the banking call centre to South Africa was bedded down during the year and the concomitant cost savings were realised.

South Africa

- The Private Bank in South Africa produced strong performance despite a decline in interest rates during the period.
- The private client investment banking portfolio had a particularly good performance, after benefiting from the sale of certain investments held by the division and an increase in the value of others.
- The developments during the period include the following:
 - In December 2003, R1.4 billion (£120 million) of residential mortgage loans were securitised to enhance the effective use of capital.

- A specialist advisory team was established to focus on advice for high net worth individuals applying for amnesty in excess of \$1 million.
- The division focused on black economic empowerment transactions as it leverages off the group's empowerment transaction.
- The division was rated the number one private bank for the fourth consecutive year in the *PriceWaterhouseCoopers SA Banking Survey (2003)*.

Australia

- The private client further business performed particularly well as it continues to further leverage off the Wentworth brand and client base.
- The division's performance was enhanced by strong growth within the property investment banking team.
- Developments during the period included a focus on establishing a private client investment banking unit.
- The positive Moody's rating received, improved the ability to raise non-institutional high net worth deposits.

Outlook

The Private Bank comprises of a range of diversified, niched business units and geographies. The property activities in South Africa, the UK and Australia remain core to the private bank operations as a critical asset class for the high net worth community. These activities are balanced by the continued growth and development of the alternate business streams. In this light, private client investment banking, investment management and specialised lending activities are beginning to achieve varying scale as we further penetrate the identified target markets.

Strategic focus

Mission: To be the specialist banking partner of choice in the creation of distinctive value for our targeted clientele.

Core to this mission, the Private Bank identifies specialised areas of differentiation. These vary according to the demographics and maturity of each business unit within each geography. The selected competitive space, is therefore niched and looks to explore opportunities which are often less crowded and more value add in nature. The target market, talent pool and infrastructure are developed in line with this strategy.

UK and Europe

- Continued penetration of chosen target market.
- Product and service innovation remains core.
- Focus on identifying opportunities within specialised lending and investment management.
- Leveraging private client investment banking.
- Ongoing property focus with an emphasis on further balancing the revenue line.

South Africa

- Suitably positioned through its established experience, extensive network and distinctive approach.
- Ongoing product innovation and enhancement.
- Focus on black economic empowerment initiatives - finding empowerment partners for high net worth clients and providing funding.
- Continue to build the private client investment banking portfolio.
- Structured lending transactions continue to be a focus as they gather momentum.

Australia

- Continue to expand diversity of revenue base.
- Further growth of the private client funding base.
- Product innovation.
- Maintain a focus on the quality of client base.
- Ongoing growth of property investment banking.
- Further establishment of a private client investment banking unit.
- Creating and distributing special opportunities for sophisticated investors.

Private Client Portfolio Management and Stockbroking

Overview of performance

The Private Client Portfolio Management and Stockbroking division recorded a strong result. Operating profit before exceptional items and amortisation of goodwill was £8.5 million, increasing by 91.8%.

Developments

Key business developments over the past year are outlined below.

UK and Europe

- Carr Sheppards Crosthwaite performed well, with the operating environment more conducive to investment activity than in the previous financial year.
- Funds under management increased 25.5% to £5.9 billion from £4.7 billion, with £770 million attributable to market movement.
- Of the £5.9 billion, £3.7 billion and £2.2 billion were managed on a discretionary and non-discretionary basis, respectively.
- Net new funds under management of £360 million (2003 : £376 million) were generated in discretionary mandates.
- The Charities Property Fund experienced another period of solid growth, increasing £65 million to £165 million during the period.

Operating profit* - Private Client Portfolio Management and Stockbroking

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Net interest income	4 677	4 668	9	0.2%
Net fees and commissions receivable	52 456	45 569	6 887	15.1%
Dealing profits	1 137	936	201	21.5%
Other operating income and dividends received	130	50	80	>100%
Admin expenses and depreciation	(49 935)	(46 810)	(3 125)	(6.7%)
Provision for bad and doubtful debts	-	-	-	-
Operating profit*	8 465	4 413	4 052	91.8%

* Before taxation, exceptional items and amortisation of goodwill.

- Costs increased largely as a result of an increase in incentive-based remuneration in line with improved profitability.

South Africa

- Poor stock market volumes in South Africa restricted the performance of Investec Securities.
- Total funds under management grew by 17.2% to R30.0 billion (£2.5 billion) from R25.6 billion (£2.0 billion) in 2003.
- Of the R30.0 billion, R24.7 billion (£2.1 billion) and R5.3 billion (£454 million) were managed on a discretionary and non-discretionary basis, respectively.
- Many efforts were taken to reduce costs during the period, with headcount declining from 114 to 117 at year-end. Costs declined by 8.8% in Rand terms.
- During the period, a campaign commenced to increase the awareness of Investec Securities Online, with the overall objective to move clients onto the electronic platform as a means of communicating with clients, to provide further cost savings.

Outlook

The outlook for the Private Client Portfolio Management and Stockbroking businesses is susceptible to the overall performance of global equity markets and the division is poised to take advantage of any pick-up in market volumes.

Strategic focus

The group continues to investigate opportunities to enhance its competitive positioning and profitability.

UK and Europe

- Maintain high levels of service and attract appropriate high net worth clients.
- Concentrate on core activities where the division has critical mass.
- Further develop the smaller charities niche market.
- Resume the push of investment related services.
- Migrate into collective investment schemes, particularly unit trusts, to achieve diversity in portfolios.
- Increase the marketing of investment related services.
- Restructure the London fund manager teams to create more efficient and balanced units.
- Shift focus from stockbroking business to private client segregated fund management business.
- Focus on self-investment pension plans as a growth area.

South Africa

Mission: To entrench Investec as the premier South African wealth creation and management stockbroking house.

- Achieve revenue diversification through alternative products and services.
- Focus on revenue generation by extracting more value from existing clients and attracting new clients
- Drive towards annuity income.
- Enhance cross-divisional relationships.

Treasury and Specialised Finance

Includes: deposit taking, lending, advisory services, structuring and proprietary trading in the corporate, project, public sector and institutional markets

UK GAAP £'000	31 March 2004	31 March 2003	% change
Net interest income	41 405	31 892	29.8%
Net fees and commissions receivable	35 389	24 491	44.5%
Dealing profits	35 634	35 454	0.5%
Other operating income and dividends received	1 414	455	>100%
Admin expenses and depreciation	(74 095)	(67 836)	(9.2%)
Provision for bad and doubtful debts	(3 942)	(4 258)	7.4%
Operating profit*	35 805	20 198	77.3%
Banking Activities	33 104	23 242	42.4%
Financial Markets Activities	2 701	(3 044)	>100%
Operating profit*	35 805	20 198	77.3%
South Africa and Other	18 887	26 604	(29.0%)
UK and Europe	14 015	(5 659)	>100%
Australia	436	(865)	>100%
Israel	2 467	118	>100%
Operating profit*	35 805	20 198	77.3%
Cost to income ratio	65.1%	73.5%	
Number of employees	477	507	(5.9%)

* Before taxation, exceptional items and amortisation of goodwill.

Scope of activities

Investec's Treasury and Specialised Finance division provides a wide range of products, services and solutions to select corporate clients, public sector bodies and financial institutions. The division undertakes the bulk of Investec's proprietary trading activities. Furthermore, all non-private client deposit taking, corporate and public sector lending, project finance, advisory and structuring activities are transacted through the division.

The division has eight product areas that are divided equally between Banking Activities and Financial Markets Activities, as set out below.

The division's breadth of operations represents a portfolio of diversified business units. The Banking Activities are characterised by more predictable revenues, while the Financial Markets Activities tend to be more volatile.

Banking Activities

Treasury - corporate treasury and asset and liability management

Provides Rand, Sterling, Euro and US Dollar funding to the group, and manages liquidity and interest rate risk on behalf of the group. Provides a broad range of treasury products and services to the corporate and public sector markets.

Financial Products

Involved in commercial paper, bond origination, securitisation, financial engineering, preference share investments and structures, equities scrip lending, credit structuring, credit derivatives and the development of investment products.

Structured and Asset Finance

Involved in structured and conventional lending and advice, asset leasing and finance, preference share finance, mezzanine debt financing, leveraged buy-out funding, executive share schemes and financing solutions for corporate, government and public sector clients.

Project and Resource Finance

Advisory services, debt arranging and underwriting and equity raising in the mining and resources, energy, infrastructure and industrial sectors.

Financial Markets Activities

Interest Rates

Involved with interest rate products, forward rate agreements, interest rate swaps, money market instruments, government and certain public sector bonds, interest rate options and repurchase agreements.

Foreign Exchange

Participant in the spot, forward exchange, currency swaps and currency derivatives markets, principally in ZAR and G7 currencies and certain emerging markets currencies.

Equity Derivatives

Involved with major equity index options, certain single stock options, equity structured products, futures index arbitrage and equity warrants. Provides hedging and structuring services to financial intermediaries, institutions and companies.

Commodities

Participant in precious and base metals. Provides hedging and structured trades for clients in the spot and derivatives markets.

	Banking Activities				Financial Markets Activities			
	Treasury	Financial Products	Structured & Asset Finance	Project & Resource Finance	Interest Rates	Foreign Exchange	Equity Derivatives	Commodities
South Africa	•	•	•	•	•	•	•	
UK	•	•	•	•	•	•	•	•
Ireland	•		•				•	
Israel	•				•	•		
Australia	•		•	•				
Mauritius	•		•					

Management structure

Regional Management

Richard Forlee	International
Michael Cullen	Ireland
Craig McKenzie	Mauritius
Richard Wainwright	South Africa
David van der Walt	UK

Financial Markets Activities

Interest Rates

Brett Hopkins	South Africa
John Barbour	UK

Foreign Exchange

Grant Barrow	South Africa
Philip Wells	UK/International

Equity Derivatives

Milton Samios	International co-head/South Africa
Peter Alderson	International co-head/UK
Loran Gallagher	Ireland

Commodities

Paul Plewman	UK/International
--------------	------------------

Banking Activities

Treasury - Balance Sheet

Clive Sindelman	South Africa
John Barbour	UK
Peter Binetter	Australia

Treasury - Corporate

Aisling Dodgson	Ireland
Gary Gorman	South Africa
Carol Grainger	UK

Financial Products

Richard Wainwright	International
Mark Currie	South Africa
Ruth Lease	Co-head/UK
Michael Schewitz	Co-head/UK

Structured and Asset Finance

David van der Walt	International
Anton Millar	SA Structured Finance
Vusumuzi Mahlangu	SA Public Sector Finance
David Kuming	SA Mezzanine Debt
Alistair Crowther	UK Structured Finance
Paul Unsworth	UK Asset Finance

Project and Resource Finance

José de Nobrega	International/Resource Finance
Michael Meeser	SA Project Finance
Maurice Hochschild	UK Project Finance
Richard Longes	Australia Project Finance

Operations

Kevin McKenna	International/South Africa
Jodi Joseph	UK

Divisional Compliance and Legal

Pauline Trollip	International
-----------------	---------------

Information Technology

Mylene Walker	International/South Africa
Tanis Jardin	UK

Financial Control

Alan Byrne	Ireland
Stuart Spencer	South Africa
Melanie Abromowitz	UK

Financial Institutions Group

Helmut Bahrs	International/South Africa
Michael Jameson-Till	UK

Settlements

Christa Hefer	South Africa
Vanessa Clark	UK

Overview of performance

The Treasury and Specialised Finance division posted operating profit before exceptional items and amortisation of goodwill of £35.8 million, an increase of 77.3% from £20.2 million. The UK Treasury and Specialised Finance division achieved a considerable turnaround, with operating profit before exceptional items and amortisation of goodwill increasing to £14.0 million from a loss of £5.7 million. For the South African Treasury and Specialised Finance division, however, operating profit before exceptional items and amortisation of goodwill declined from £26.6 million to £18.9 million.

The variance in operating profit over the period can be explained as follows:

- Net interest income in the UK operations benefited from the growth in the division's banking and lending businesses, albeit off a low base. Furthermore, in Israel, the declining rate environment was conducive for both bond and equity markets and the division benefited from effective management of its bond portfolio. On the other hand, net interest income in South Africa decreased by 12.7% in Rand terms, as a consequence of the declining interest rate environment, in which this division experienced a margin squeeze resulting from its assets repricing quicker than its liabilities.
- A substantial increase in net fees and commissions receivable is attributable to the rapid growth and successful performance of the relatively new banking and advisory teams in the UK (acquired Project Finance team in December 2001 and Structured Finance team in July 2002). Following the restructuring of the Treasury and Specialised Finance businesses in the UK, the group made a concerted effort to grow the banking and advisory businesses. In South Africa, the division experienced good growth in structured finance fees received, although deal fees within the Project Finance division declined over the prior period.
- The UK division reported solid growth in dealing profits, which was offset by a poor trading performance in the South African operations. In South Africa, the trading books were positioned for interest rate cuts that occurred over the period, but not aggressively enough to cover the margin squeeze that emanated from the decline. The currency trading desk was affected negatively by significant steepening of the US Dollar interest rate curve. In the UK, the division benefited from restructuring of its trading activities undertaken in the prior year and from an improved performance from

the equity derivatives and commodities trading desks.

The equity derivatives division benefited from newly commenced trading in total return equity swaps and from convertible bond arbitrage, while the commodities desk posted solid results as a result of a growth in the number of aluminium, copper, nickel and gold trades off the back of increased levels of client business.

- Administrative expenses grew largely as a result of the appreciation of the Rand against the Pound Sterling over the period.

Developments

Key business developments over the past year are outlined below.

Banking Activities

In the UK, the Banking Activities performed particularly well, with the number of successfully concluded transactions increasing significantly over the previous financial year. In South Africa, however, a general slowdown in infrastructural finance subdued the performance of the division's Banking Activities.

Treasury

- Asset creation opportunities in the UK were limited, although treasury activity increased due to the overall level of activity in the markets.
- The performance of the South African treasury desk was negatively impacted by unprecedented interest rate cuts of 5.5% from July 2003 to December 2003. The desk experienced a margin squeeze resulting from its assets repricing quicker than its liabilities.

Financial Products

- The UK operations performed well due to good fee income earned from credit structuring and a healthy performance on the credit default swap trading book.
- Performance from the South African business was commendable, with reasonable activity in all areas, including securities origination, financial engineering and preference share investment and the second successful securitisation of the Private Bank loan book.

Structured and Asset Finance

- The structured finance division in the UK performed strongly, with several large transactions concluded during the financial year resulting in significant fee income. Most notable was the joint lead arranger role in a £1.4 billion asset-backed lease deal.
- In South Africa, structured finance increased the size of its core advances book from R7.6 billion to R9.1 billion (£780 million). The division concluded approximately 80 new deals during the period, with particularly strong results from the mezzanine debt team.

Project and Resource Finance

- The project finance division in the UK focused on building a strong deal pipeline and is well established in the market.
- UK Project Finance rankings:
 - *Project Finance (2004)*:
 - Received the PPP/Healthcare Deal of the Year in Europe for the Southern Derbyshire Acute Hospitals £400 million PFI project.
 - *Infrastructure Journal League Table ratings (2003)*:
 - Ranked second in healthcare by value of deals closed and third by number of mandates won.
 - Ranked third by number of deals closed in defence.
 - Ranked fifth as financial advisor in Western Europe by number of mandates won.
 - Ranked fifth as arrangers in Africa and Middle East and in Asia.
- In South Africa, the strong Rand and a slowdown in government spending had a negative impact on the performance of the division.
- In Australia a specialist clean energy fund, Viridis, is being further established.

Trading Activities

In the UK, the Trading Activities performed considerably better due to an improved market environment for commodities and equities and the division's focus on client directed flows and not speculative views. In South Africa, a number of strategic and structural changes were made during the period, with a substantial reduction in proprietary trading and increased focus on client flow transactions and structured trade opportunities. The group's overall value at risk declined considerably over the period. For further information see page 91.

Interest Rates

- In the UK, trading and hedging opportunities were limited.
- In South Africa, the trading books were positioned for interest rate cuts that occurred over the period, but not aggressively enough to cover the margin squeeze that emanated from the decline.

Foreign Exchange

- In the UK, the strategy of the desk was revisited during the period and the desk is now focused on servicing mid tier banks and corporate client flows.
- The division in South Africa posted a disappointing performance as a result of trading losses incurred in the first half of the year. Speculative interest rate position taking on this desk was reduced significantly as the business is more focused on client business. Investec was rated the leading forex service provider in the niche banks category in South Africa for the fourth year running (*PMR Golden Arrow Awards, 2004*).

Equities Derivatives

- The UK business continued to perform well, largely due to the good performance of convertible bond trading and other structured trades. The desk began the distribution of derivatives in Hong Kong in December 2003 through a joint venture there. While modest volumes continue to rise.
- Activity continued to be subdued in the South African market, reflected in the decline in the volume of warrants. A reduction in market volatility resulted in a decrease in institutional business, which impacted performance negatively.

Commodities

- In the UK, the division significantly curtailed its speculative trading activities, limiting trading to levels required to facilitate client business. The commodities desk performed well as a result of an increase in the number of aluminium, copper, nickel and gold trades off the back of increased levels of client business.
- The strategy of the commodities division was revised with the closure of the sales desk in South Africa in January 2004.

Outlook

The Southern African operations did not perform as well as expected in the past financial year. Major changes were made through cost-cutting initiatives, staff changes and scaling down of certain activities. The division expects better performance this year:

In the UK, a solid platform has been created, particularly in the Banking Activities. The division will continue expanding in areas where it sees long-term profit and growth potential.

Strategic focus

The division's objectives include:

- Remaining specialised and competing only in areas where it can be distinctive and competitive.
- Ensuring intense management of capital usage and related return, balancing growth with return on capital.
- Pursuing diversification in order to reduce the risks inherent in operating as principal, through product breadth, skills depth and geographic spread.
- Targeting business areas which show potential for significant and sustainable growth.
- Improving distribution capabilities, with particular focus on the Hong Kong joint venture.

Asset Management

Includes: Asset Management and Assurance Activities

UK GAAP £'000	31 March 2004	31 March 2003	% change
Asset Management			
Net interest income	2 900	2 993	(3.1%)
Net fees and commissions receivable	100 129	85 976	16.5%
Other income	1 874	738	>100%
Provision for bad and doubtful debts	—	(40)	>100%
Admin expenses and depreciation	(80 292)	(71 952)	(11.6%)
Operating profit*	24 611	17 715	38.9%
South Africa and Other	22 740	16 171	40.6%
UK and Europe	1 614	1 426	13.2%
Israel	257	118	>100%
Operating profit*	24 611	17 715	38.9%
Cost to income ratio (%)	76.5%	80.2%	
Number of employees	784	771	1.7%
Funds under management (£ millions)	20 568	16 828	22.2%
Assurance Activities			
Operational earnings	5 082	27 779	(81.7%)
Allocation of group central charges	(500)	(949)	47.3%
Operating profit*	4 582	26 830	(82.9%)
Number of employees	156	490	(68.2%)

*Before taxation, exceptional items and amortisation of goodwill.

Asset Management

Market positioning

	Area	Position
South Africa	Institutional segregated	Market leader
	Retail and portfolio products	Market leader
UK	Public sector fixed income	Market leader
	Retail	Successful contender aspiring to leadership
	Institutional (pension)	Recognised competitor

Scope of activities

Southern Africa

- One of the largest managers of third party institutional assets in South Africa, and a market leader in specialist equity, fixed interest, balanced and absolute return funds. It is also a key player in the institutional funds market in Botswana and Namibia.
- A leading player in the South African retail funds market via the unit trust and portfolio product offerings.

UK

- Provides portfolio management services to the UK institutional market, and is a leading provider of liquidity management to the public sector. Products offered include equity, fixed income and balanced portfolios.
- Has a rapidly growing retail funds business which offers a comprehensive range of investment options, covering both bonds and equities with a diverse geographic spread, to the upper end of the UK retail funds market.
- Offshore fund ranges are distributed in Investec's two core markets, namely South Africa and the UK, as well as via select channels into the offshore territories of Asia, Europe and the US.

Management structure

Executive committee

Hendrik du Toit	Chief Executive Officer	André Roux	Head of Fixed Income, SA
Kim McFarland	Chief Operating Officer	Mark Samuelson	Head of Institutional, UK
John Green	Managing Director, SA	Andy Sowerby	Joint Managing Director, UK Retail
Domenico Ferrini	Deputy Managing Director, SA	David Aird	Joint Managing Director, UK Retail
John McNab	Chief Investment Officer, SA	Nick Mottram	Head of Equities, UK
Gail Daniel	Head of Equities, SA	John Stopford	Head of Fixed Income, UK

Overview of performance

Investec Asset Management delivered operating profit before exceptional items and amortisation of goodwill of £24.6 million, which represented growth of 38.9% in Pound Sterling terms and 11.1% in Rand terms. Assets under management increased by 22.2% in Pound Sterling terms to £20.6 billion and by 14.0% in Rand terms to R240.0 billion over the year. The key features of the year were ongoing penetration of the UK pension and independent financial advisory channels and strong investment performance across the product range.

Noteworthy developments over the year include:

- Solid investment performance.
- Strengthened presence in core markets.
- Aggressive promotion of South African specialist products on the back of good performance.
- Combining the need to outsource more administrative functions with the low cost advantages of South Africa.

Market recognition:

- *Global Investor's Firm to Watch 2004.*
- Runner-up, European specialist manager of the year, *Financial News*.
- Best all rounder over the last three years, *Professional Adviser*.
- *Financial Adviser/LIA* five-star service award.
- South African fund manager of the year, *Plexus*.
- Best large manager over one, three and five years, *Standard & Poor's (South Africa)*.
- *ACI and Personal Finance Raging Bull* awards management company of the year (South Africa).

The variance in operating profit over the period can be explained as follows:

South Africa

- Operating profit of the South African operation in Rands (approximately R273 million) is 12.4% higher than the previous year.
- The South African institutional business recorded inflows from third party clients of R3.9 billion (£334 million), although this was once again negatively impacted by outflows from former Fedsure clients of R5.3 billion (£454 million). While the year saw a positive turnaround in domestic and international markets, this was off a relatively low base and, therefore, the market impact on revenue was only slightly positive in comparison to the 2003 financial year. A decrease in former Fedsure related revenue (due to the outflows) was partly offset by an increase in performance fee income. Strict cost controls were applied over the period.
- The South African Personal Investments business started the year in a tough market environment, not conducive for the raising of individual investment products. As a result, the business embarked on immediate cost saving initiatives. The more favourable market conditions from May boosted both flows and funds under management, resulting in net inflows for the year of R273 million (£23 million).

UK and other international operations

- Operating profit for the UK operations in Pound Sterling (approximately £1.6 million) is 13.2% higher than the previous year. Revenue increased mainly due to the strong net inflows on the onshore (£284 million) and offshore (£236 million) retail book and the strengthening of the market. Although the institutional book showed net outflows of £50 million, the mix of the book shifted, in line with stated strategy, in favour of the higher fee paying pension fund business, which generated new business of £480 million. Cost controls remained tight over the period.

Movements in funds under management

£ millions	Total	Institutional	Retail	UK & Other	SA	SA (R'mn)
31 March 2003	16 828	12 478	4 350	7 498	9 330	116 744
New clients and funds	2 581	2 487	94	1 402	1 179	14 245
Disinvestments and funds closed	(2 069)	(2 004)	(65)	(1 166)	(903)	(10 777)
Existing client movements	(146)	(666)	520	218	(364)	(4 353)
Market/forex movement	3 374	2 635	739	361	3 013	27 129
31 March 2004	20 568	14 930	5 638	8 313	12 255	142 988

Developments

Key business developments over the past year are outlined below.

South Africa

- Solid performance from a resilient business.
- Excellent specialist investment performance, with Value, Growth and Equity prominent over all periods.
- Unit trust investment performance was particularly good (*Plexus* and *S&P* awards).
- Significant new institutional mandates of R3.9 billion (£334 million) affected by former Fedsure outflows of R5.3 billion (£454 million).
- Successful strengthening of key IFA/fund distributor relationships.
- Outsourced investment administration.
- Excellent South African specialist investment performance (*Plexus* award for best mutual fund company and dominating specialist surveys).

- South African balanced investment performance:
 - Long-term (13 years) Excellent, second since inception
 - Medium-term (3-5 years) Not yet out of the woods
 - Short-term (1 year) Improving (above median)

UK and other international operations

UK Institutional

- Solid performance and progress continues.
- Shift of book in favour of higher margin pension fund business - away from short-term fixed income products offered to insurance companies and local authorities.
- Outflows from cash clients mask £1.2 billion of new business won (includes £252 million committed business).
- Ongoing progress with top tier investment consultants.

Investec in the South African unit trust industry

	31 March 2004	31 March 2003	31 March 2002
Investec Asset Management funds under management (R millions)	23 542	18 484	19 965
Total industry size (R millions)	243 539	174 075	176 338
Market share (%)	9.7%	10.6%	11.3%
Size ranking in industry	4th of 28	4th of 29	2nd of 29
Industry gross sales (R millions)	205 559	142 793	133 908
Investec Asset Management % of gross industry sales	12.2%	12.6%	10.1%

Source: Association of Collective Investment statistics.

- Global Investor's "Firm to Watch 2004" award is evidence of evolution from entrant to competitor in the market.
- Strong three-year investment performance:
 - o UK equities 1st quartile over 3 years
 - o Global equities 1st quartile over 3 years
 - o Global fixed income 1st quartile over 3 years
 - o UK balanced 1st quartile over 3 years

UK Retail

- Particularly strong performance.
- Onshore funds under management exceeded £1 billion for the first time (from £275 million in 1998).
- Net sales of £284 million into onshore range.
- Ongoing growth of UK market share.
- *Financial Adviser/LIA* five-star service award (ranked seventh out of 129).

Offshore

- Strong net sales of £236 million as a result of good sales from Europe and Asia. South Africa sales subdued due to the strength of the Rand.

Outlook

The business has developed in line with management expectations over the past year. In the UK, the brand is well established and it is now time to leverage the solid platform that was built over the last five years. In South Africa, Investec Asset Management's position as the leading multi-specialist investment business must be further enhanced. It is important for the brand position of Investec Asset Management in South Africa that the restoration of the balanced product range continues. The challenges of transformation in this market and the onus on Investec to contribute to this process will be pursued with vigour. On the offshore side, the expansion of the newly established bridgehead in Taiwan and the development of the market for international investment product in Southern Africa will be the major objectives. Talent management will be a key area of focus in the coming year. Finally, the implementation of the outsourcing of the back offices is another important objective.

The Investec Asset Management team looks forward with confidence to meeting the competitive challenges of the coming year.

Investec in the UK retail funds industry

	31 March 2004	31 March 2003	31 March 2002
Investec Asset Management funds under management (£ millions)	1 128	666	649
Total industry size (£ millions)	246 040	188 267	242 281
Size ranking in industry	52nd of 127	58th of 129	62nd of 136
Industry net retail sales (£ millions)	8 855	6 842	8 206
Investec Asset Management % of net industry sales	3.2%	2.7%	2.2%
Industry gross retail sales (£ millions)	29 766	26 839	27 475
Investec Asset Management % of gross industry sales	1.5%	1.2%	0.9%

Source: Investment Management Association statistics.

Assurance Activities

Head of Assurance Activities

Ade Animashahun

Scope of activities

The group's South African life assurance activities are conducted by Investec Employee Benefits (IEB).

IEB mainly comprises:

- A Risk Only business.
- An Investment Only business.

The Risk Only business provides death and disability benefits on a standalone basis, where another company is responsible for member administration. The business also manages disability claims and provides various disability and underwriting services.

It is IEB's intention to aggressively grow this line of business and to become a significant player in the market without the legacy of huge administration systems. Investec is confident that this line of business will be successfully integrated into the group as the nature of the business fits into the group's core competencies of risk management. The division finalised its strategy for the Risk Only business and is revising its products and operating procedures, in line with client feedback.

The Investment Only business designs and manufactures specialised investment products, together with other

divisions within the group, which then distribute these products to their clients.

Overview of performance

For the year ended 31 March 2004, the group's life assurance activities reported operating profit before exceptional items and amortisation of goodwill of £1.6 million - a decline of 82.9%. In the comparative period the previous year, IEB generated substantial non-recurring operational earnings from the restructuring and rationalisation of its activities.

Developments and outlook

- There are still opportunities for IEB in the market as the division does not link product to administration and thus does not compete directly with specialist administrators.
- The objective is to manage and wind down the following discontinued businesses, to protect the maximum value for shareholders and policyholders:
 - o Industrial Business.
 - o Guaranteed Funds.
 - o Linked Funds - the majority are to be transferred to Investec Asset Management.
- The headcount was significantly reduced to 156 at the end of the year, from 190 in the previous year.

Long-term assurance business attributable to the shareholder

UK GAAP £'000	31 March 2004	31 March 2003
Investec Employee Benefits Limited		
The embedded value comprises:		
Net tangible assets of life company including surplus	343 590	273 072
Reallocated to investments in associated undertakings	(58 832)	(50 824)
Elimination of intercompany balances	(27 842)	(120 833)
Value of in-force business	8 399	7 113
	265 315	108 528
Movements in embedded value		
At beginning of year	108 528	67 116
Profit after tax per profit and loss account	5 082	27 779
Return on shareholders' funds	24 122	15 551
Exchange adjustments	12 244	(1 316)
Gain on revaluation of investment properties	4 327	14 949
Reclassification of shareholder assets	111 012	(15 551)
At end of year	265 315	108 528
Income from long-term assurance business comprises		
Premium income	264 423	306 110
Investment income	157 717	13 920
Total income	422 140	320 030
Operating expenses	(19 029)	(21 003)
Policyholder's benefits paid	(416 556)	(419 310)
Decrease in technical provisions	139 280	457 680
Re-insurance premium expense	(115 972)	(277 387)
Operating profit	9 863	60 010
Tax charged to technical account	(5 564)	(8 296)
Surplus attributable to shareholders	4 299	51 714
Value of in-force business	783	(23 935)
Income from long-term assurance business	5 082	27 779

No current taxation has been provided on the surplus attributable to shareholders due to the availability of brought forward taxation losses. A deferred tax charge of £5.25 million has been raised representing a reduction to deferred tax asset attributable to shareholders in respect of the amount of taxation losses utilised during the current year.

Long-term assurance business attributable to the shareholder

UK GAAP	31 March 2004	31 March 2003
Assumptions		
The economic assumptions are based upon a long-term view of economic activity and are therefore not adjusted for market movements which are considered to be short-term. This approach is considered to be the most appropriate given the long-term nature of the portfolio of products. The economic assumptions are derived by adding appropriate long-term risk/equity margins to the benchmark gilt i.e. R153. The principal economic assumptions (relating to the South African economy) which have been used for the periods under review are as follows:		
Risk-adjusted discount rate (%)	12.8	13.4
Return on equities (gross of tax) (%)	11.8	12.4
Return on fixed interest securities (gross of tax) (%)	9.8	10.4
Return on property investments (gross of tax) (%)	10.8	11.4
Return on cash held (gross of tax) (%)	7.3	7.4
Inflation rate (%)	6.3	6.4
Balance sheet	£'000	£'000
The assets of the long-term assurance fund attributable to the shareholder are detailed below:		
Investments	326 264	176 858
Intercompany loans due	27 842	120 833
Other assets	61 207	64 176
Assets of long-term assurance fund attributable to shareholder	415 313	361 867
Current liabilities	(71 723)	(88 795)
Net asset value	343 590	273 072
Investments shown above comprise:-		
Fixed interest securities	40 118	14 034
Stocks, shares and unit trusts	94 448	14 259
Investment properties	76 484	51 468
Associate	58 832	50 824
Deposits	56 382	46 273
	326 264	176 858
Qualifying capital (net of inadmissible assets) (£ millions)	348.07	276.50
Statutory capital adequacy requirement (CAR) (£ millions)	8.83	23.60
CAR cover (times)	39.44	11.72

Group Services and Other Activities

Includes: Other Activities, Central Funding of Investec and Central Costs

UK GAAP £'000	31 March 2004	31 March 2003	% change
International Trade Finance	2 725	978	>100%
Property Worldwide	10 125	5 413	87.0%
USA continuing businesses	178	970	(81.6%)
UK Traded Endowments	(3 279)	(8 945)	63.3%
	9 749	(1 584)	>100%
Central Funding	(8 463)	7 161	>(100%)
Central Costs	(25 726)	(15 414)	(66.9%)
Operating loss*	(24 440)	(9 837)	>(100%)

UK GAAP £'000	Southern Africa	UK & Europe	Australia	Israel	USA	Total group
31 March 2004						
International Trade Finance	1 038	1 687	-	-	-	2 725
Property Worldwide	8 604	1 521	-	-	-	10 125
USA continuing businesses	-	-	-	-	178	178
UK Traded Endowments	(3 279)	-	-	-	-	(3 279)
Central Funding	(10 680)	(1 615)	4 304	(472)	-	(8 463)
Central Costs	(11 221)	(12 054)	(2 451)	-	-	(25 726)
Operating (loss)/profit*	(15 538)	(10 461)	1 853	(472)	178	(24 440)
31 March 2003						
International Trade Finance	211	767	-	-	-	978
Property Worldwide	4 142	1 271	-	-	-	5 413
USA continuing businesses	-	-	-	-	970	970
UK Traded Endowments	(8 945)	-	-	-	-	(8 945)
Central Funding	(4 677)	8 034	3 806	(2)	-	7 161
Central Costs	(8 477)	(6 458)	(479)	-	-	(15 414)
Operating (loss)/profit*	(17 746)	3 614	3 327	(2)	970	(9 837)

* Before taxation, exceptional items and amortisation of goodwill.

Management structure

Banking, Institutions and Corporate Relations
David Lawrence

Chief Integrating Officer
Allen Zimble

Corporate Governance and Compliance
Bradley Tapnack

Corporate Social Investment
Lisa Kropman

Economics Research
Carole Mason

Facilities
Craig Gunnell

Group Finance
Rayanne Jacobson

Human Resources
Patsy McCue

Information Technology
Simon Shapiro

Investor Relations
Ursula Munitich

Marketing
Raymond van Niekerk

Organisational Development
Caryn Solomon

Risk Management
Ciaran Whelan

Secretarial
Selwyn Noik and Richard Vardy

Tax
Justin Cowley and Pankaj Shah

Investec Property Group
South Africa

Sam Leon
Sam Hackner
Andrew Cox
Angelique de Rauville
David Donald
Norbet Sasse

UK
Paul Stevens

ReichmansCapital
Robin Jacobson
Howard Tradonsky
John Wilks

Traded Endowments
Rob Cohen

Other Activities

Other Activities comprise two types of operations:

- Those that are better managed separately due to the specific expertise that would be diluted if incorporated and split across the business operations.
- Those that do not yet fall into one of Investec's four principal business divisions and have been grown organically by Investec or retained following acquisition. These operations include Property Worldwide (in South Africa and the UK), International Trade Finance and Investec's UK Traded Endowments business.

Property Worldwide

The services provided by the Property division in South Africa include management of property investment funds (listed and unlisted), property trading and development, property administration and listed property portfolio management.

The Property division in the UK manages a portfolio of commercial properties inherited from the acquisition of Berkeley Hambro in 1998.

The worldwide Property divisions continued to perform well, posting an operating profit before exceptional items and amortisation of goodwill of £10.1 million (2003: £5.4 million).

The variance in operating profit can be explained as follows:

- The South African Property division experienced a strong growth in net fees and commissions receivable, largely as a result of the significant increase in total assets under management. Furthermore, the division continued to benefit from high levels of activity, with dealing revenue increasing from £2.2 million to £4.8 million.
- For the Property division in South Africa, costs grew by

38.2% in Rand terms, largely as a result of an increase in headcount required to deal with greater business activity and expanded portfolios.

Developments

UK

- As at 31 March 2004, the UK property portfolio had a book value of £25.0 million (2003: £29.6 million).
- Increases in interest rates in the UK during the period appear to have had minimal effect on market activity.
- Investment in commercial property remains popular for private investors diversifying longer-term pension arrangements and institutions are starting to return to the market.
- The Property division is becoming increasingly involved in mezzanine finance for the commercial property lending of the Private Bank, with the intention to replace the direct property book with mezzanine finance deals within the next three years.

South Africa

- The Property division in South Africa continued to perform well, with total assets under management increasing by 43.8% to R12.5 billion (£1 billion).
- Developments during the period include:
 - Primegro and Growthpoint merger.
 - Acquisition and successful integration of Provest.
 - Growthpoint's acquisition of Investec's Sandton and Cape Town properties, which was facilitated by Investec Property Group.
- For the Property Trading and Development division, opportunities for structured transactions declined during the period but it was successful in developing vacant land on behalf of the funds managed by Investec Property Group.
- The Property division will continue to focus on increasing the size of existing funds through strategic acquisitions and, consequently, grow properties under administration and enhance the quality of the fund portfolios.

Operating profit* - Property Worldwide

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Net interest income	(378)	(1 171)	793	67.7%
Other income	21 134	12 964	8 170	63.0%
Admin expenses and depreciation	(10 585)	(6 380)	(4 205)	(65.9%)
Provision for bad and doubtful debts	(46)	(46)	(46)	>(100%)
Operating profit*	10 125	5 413	4 712	87.0%

*Before taxation, exceptional items and amortisation of goodwill.

International Trade Finance

The International Trade Finance business, known as ReichmansCapital, offers trade, asset and debtor finance to small and medium sized owner managed businesses. The division provides clients with working capital, to fund the acquisition of assets and facilitate growth.

Developments

- ReichmansCapital produced commendable results, with good growth in the division's book of 11.8% to R604 million (£50 million).
- All three areas of business, particularly Trade Finance which benefited from lower interest rates and the strong Rand, reported good performances.
- The division will continue its strategy of pursuing organic growth and exploiting opportunities in existing target markets.

Traded Endowments

Investec's Traded Endowments business, which operates in the UK, was acquired in June 2001 as part of the acquisition from Fedsure. This business involves the purchase of with-profit endowment policies in the secondary market at a price above their surrender value yet below the asset value.

These policies are then sold to investors who want to diversify their investment portfolios with an insurance product.

Developments

- The negative publicity surrounding endowment policies in the UK market continued during the year and the narrowly based IFA intermediary network remains price sensitive.
- There was an improvement in the retail market for traded endowment policies during the period and retail sales picked up as a result of improved activity in the second half of the financial year.
- Nevertheless, the trading environment continues to be uncertain and the division remains under strategic review.

US continuing businesses

The heavily reduced ongoing operations in the US, consisting of several fixed income trading operations and a small US equities trading desk, posted a modest operating profit before exceptional items and amortisation of goodwill of £0.4 million.

Operating profit* - International Trade Finance

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Net interest income	6 216	3 258	2 958	90.8%
Other income	373	3	370	>100%
Admin expenses and depreciation	(2 865)	(1 977)	(888)	(44.9%)
Provision for bad and doubtful debts	(999)	(306)	(693)	>(100%)
Operating profit*	2 725	978	1 747	>100%

Operating loss* - UK Traded Endowments

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Net interest income	163	(857)	1 020	>100%
Other income	1 884	(763)	2 647	>100%
Admin expenses and depreciation	(5 326)	(7 325)	1 999	27.3%
Provision for bad and doubtful debts	—	—	—	—
Operating loss*	(3 279)	(8 945)	5 666	>100%

*Before taxation, exceptional items and amortisation of goodwill.

Operating profit* - US continuing businesses

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Net interest income	310	(137)	447	>100%
Other income	9 241	13 838	(4 597)	(33.2%)
Admin expenses and depreciation	(9 373)	(12 731)	3 358	26.4%
Provision for bad and doubtful debts	—	—	—	—
Operating profit*	178	970	(792)	(81.6%)

*Before taxation, exceptional items and amortisation of goodwill.

Central Funding

Investec has a business model of maintaining a central pool of capital, so as to ensure that economies of scale with respect to corporate investments, funding and overall management are obtained.

Investec uses various sources of funding, the determination of which depends on the specific financial and strategic requirements it faces at that time. The funds raised are applied towards making acquisitions, funding central services and debt obligations, and purchasing corporate assets and investments not allocated to the four operating divisions.

Investec's Capital Committee manages the group's central capital pool in order to assist in effective capital management governance. Further information on the Capital Committee is provided on pages 23 and 24.

The Central Funding division posted an operating loss of £8.5 million (2003: profit of £7.2 million).

The variance in earnings over the period can be explained as follows:

- The revenue generated by the Central Funding division is derived from the pool of assets not allocated to any specific division, including shareholder assets in the life company. Analysis of the performance of this division requires consideration of all three classes of revenue together:
 - Net interest income declined for the following reasons:
 - A significant increase in shareholders' funds for the life assurance company. Investec Employee Benefits (IEB). This occurred as a result of retained profits (as no dividend has been paid out of IEB), together with a decrease in inter-company loans between IEB and its holding company. In terms of life assurance accounting, the increased return generated on these assets has to be reflected as an increase in the return on shareholders' funds.
 - A switch in funding in the UK, at the time of the London listing, from Dollar debt to more expensive Pound Sterling borrowings, to more appropriately match assets and liabilities.

Operating (loss)/profit* - Central Funding

UK GAAP £'000	31 March 2004	31 March 2003	Variance	% change
Net interest income (excluding interest on sub-debt and debentures)	10 989	21 749	(10 760)	(49.5%)
Return on shareholders' funds in the long-term assurance business	24 122	15 551	8 571	55.1%
Other income	13 276	6 558	6 718	>100%
	48 387	43 858	4 529	10.3%
Interest paid on sub-debt and debentures	(45 105)	(25 090)	(20 015)	>(100%)
Admin expenses and depreciation	(8 828)	(11 103)	2 275	20.5%
Provision for bad and doubtful debts	(2 917)	(504)	(2 413)	>(100%)
Operating (loss)/profit*	(8 463)	7 161	(15 624)	>(100%)

*Before taxation, exceptional items and amortisation of goodwill.

- o A reduction in interest earned on surplus assets in South Africa as a consequence of a significant decline in interest rates over the period.
- Other income comprises approximately £3 million profit earned from the share buy-back undertaken by Insinger, in which the group held approximately 8%. The remainder of the income earned is principally attributable to the recovery in market values in investments held by the group.
- Interest on subordinated debt increased by £16.2 million to £36.6 million. This was as a result of the raising of subordinated debt of approximately £85.7 million (£1 billion) towards the end of the 2003 financial year and one month's cost of the UK £200 million subordinated debt raised in February 2004.
- Expenses largely include: legal costs associated with transactions relating to corporate assets, capital raisings, personnel and other costs relating to the teams which manage the group's central pool of capital.
- Provisions relate to the additional regulatory provisions the group is required to hold on its shareholder assets across all jurisdictions.

Central Costs

Central Costs is made up of functional areas that provide services centrally across all of the group's business operations. Consistent with Investec's philosophy of operating as a single organisation, Central Costs provides integrating mechanisms between the business operations. These services do not form part of the four operating divisions, however, the group has recently adopted a policy of allocating a portion of these costs to the divisions.

Investec's principal Central Costs, relating to the operations and control of its business, are Group Risk Management, Group Information Technology, Group Finance, Investor Relations, Group Marketing and Organisational Development. Other group support services include: Head

Office, Internal Audit and Compliance, Legal, Company Secretarial, Tax, Information Centre, Regulatory and Facilities.

There are certain costs amounting to £25.7 million (2003: £15.4 million) that are strategic in nature and which have not been allocated to the operating divisions:

- South Africa: £11.2 million (2003: £8.5 million).
- UK: £12.0 million (2003: £6.4 million).
- Australia: £2.5 million (2002: £0.5 million).

The increase in these unallocated costs over the period can be explained as follows:

- Costs increased for the South African operations mainly as a result of: a growth in insurance, professional and audit fees and in rental charges following the sale of the assets and liabilities of 100 Grayston Drive Property (Pty) Limited and Block E Power Station Properties (Pty) Limited. This accounts for approximately £1.3 million of the variance. Furthermore, the appreciation of the Rand against the Pound Sterling accounts for approximately £1.4 million of the variance.
- As part of the group's ongoing rationalisation and restructuring exercise, coupled with an effort to retain key employees, the UK operations incurred additional expenses during the second half of the year. This was mainly in relation to retrenchment costs and additional incentive-based remuneration provided. This accounts for approximately £3.6 million of the variance.
- For the UK operations, premises expenses rose as a result of an increase in municipal rates and a provision against the loss of rent from a sub-tenant, following the renegotiation of the lease contract. This accounts for £1 million of the variance.
- An increase in general expenses within the UK operations related to insurance, business recovery costs and marketing spend. This accounts for approximately £900 000 of the variance.
- The Australian operations experienced a growth in costs as a result of expansion of the business. This accounts for £2 million of the variance.

Risk management

Introduction

Effective risk management is critical to Investec's operations. Taking international best practice into account, the group follows a comprehensive risk management process, which involves identifying, understanding and managing the risks associated with each of its businesses.

Investec monitors and controls risk exposure through focused, yet complementary, market, credit, liquidity, operational and legal risk reporting teams. This approach is core for assuming a tolerable risk and reward profile, helping Investec to pursue growth across its business.

In addition, a culture of risk awareness, control and compliance is embedded in Investec's day-to-day activities.

While each business unit retains primary responsibility for managing the risks that come with its business, a centralised division, Group Risk Management (part of Group Services), independently monitors, manages and reports on Investec's risk, as mandated by the Board of Directors. Group Risk Management has established operational divisions in South Africa and the UK, and smaller risk divisions in other regions.

Group Risk Management's key objectives are to:

- Be the custodian of Investec's risk management culture.
- Set and approve risk parameters and limits across the

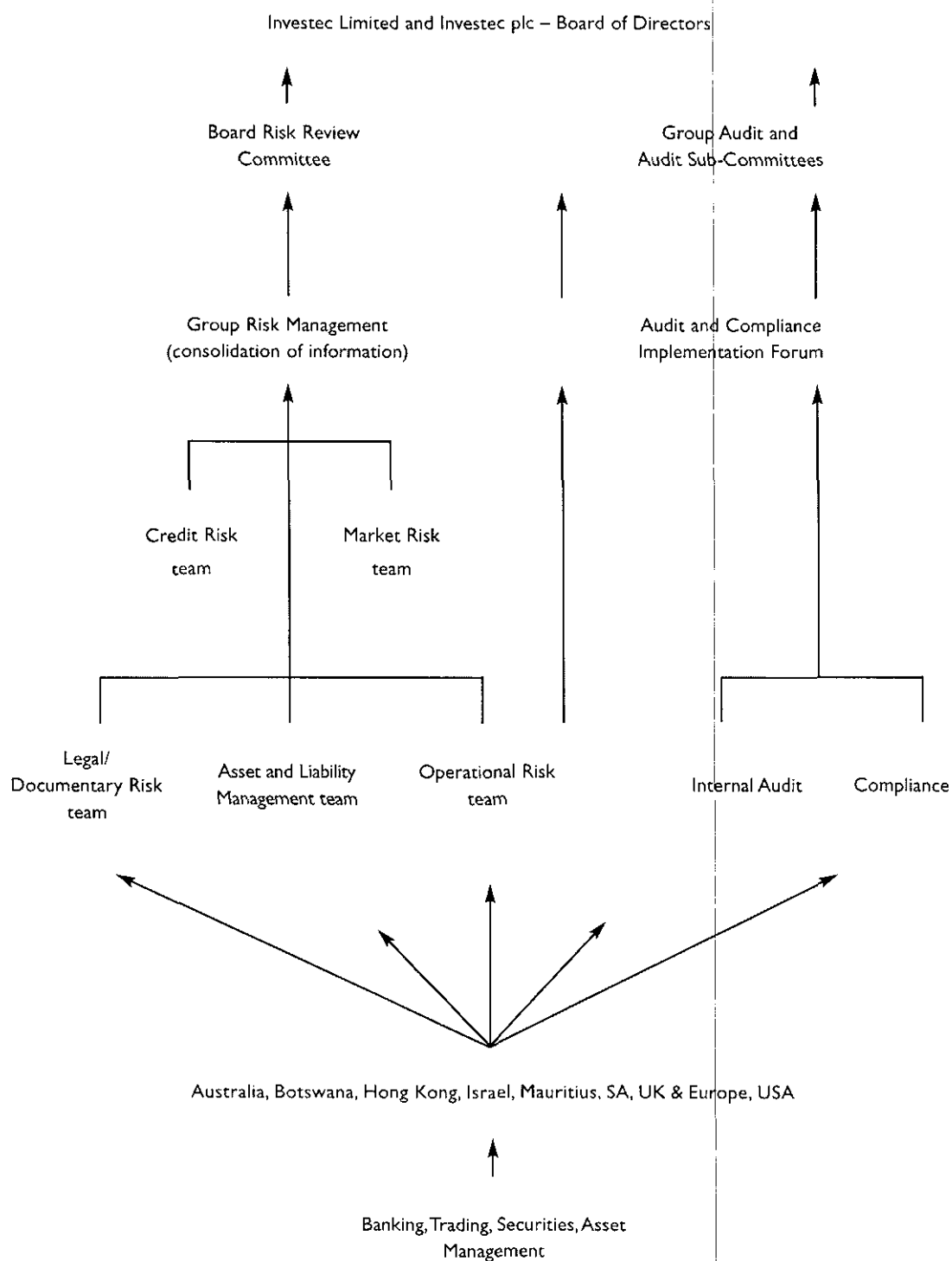
group and ensure they are implemented and adhered to consistently.

- Aggregate and monitor Investec's exposure across risk classes.
- Co-ordinate risk management activities across the organisation, covering all legal entities and jurisdictions.
- Give the boards reasonable assurance that the risks Investec is exposed to are identified and, to the best extent possible, managed and controlled.
- Facilitate various risk committees, as mandated by the Board of Directors.

Group Risk Management operates within an integrated geographical and divisional structure, in line with Investec's management approach, ensuring that the appropriate processes are used to address all risks across the group. Group Risk Management divisions with international responsibility are locally responsive yet globally aware. This helps to ensure that all initiatives and businesses operate within Investec's defined risk parameters and objectives.

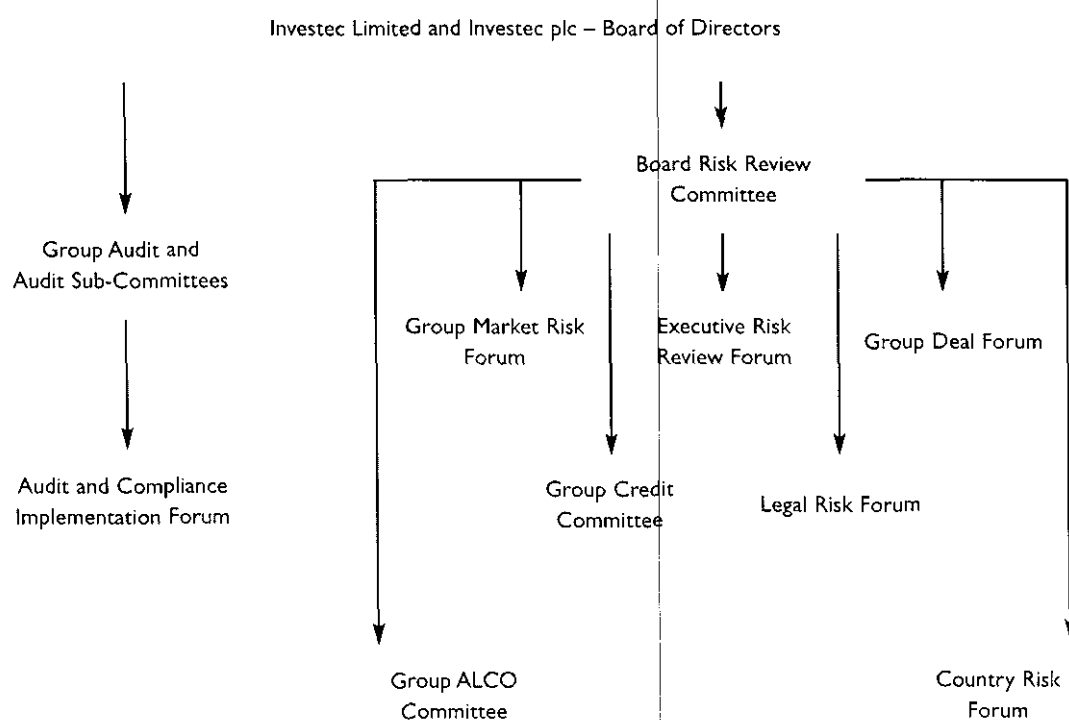
As a function that aims to meet Investec's international needs, Group Risk Management continually seeks new ways to enhance its risk management techniques. An important consideration, however, is that the effectiveness of any bank's policies and procedures for managing risk can never be completely or accurately predicted or fully assured.

Risk management framework



Risk management committees and forums

A number of committees and forums identify and manage risk at both a business unit level in various locations and at a group level, as shown in the diagram and described more fully below. These committees and forums operate together with Group Risk Management.



Committee

Board Risk Review Committee

Members: executive and non-executive directors; senior management

Chairman: Stephen Koseff (CEO)

Frequency: monthly

Executive Risk Review Forum

Members: executive directors and senior management

Chairman: Stephen Koseff (CEO)

Frequency: weekly

Function

- Acts as agent of the board to ensure all decisions of the Board on risk management policies and procedures are implemented and monitored throughout Investec.
- Ensures that the risk management structure is adequate with sufficient resource and budget and would report exceptions to the board.
- Ratifies exposure limits for market and credit risk.
- Ensures that there is an ongoing process of risk and control identification, particularly regarding changes to business objectives and the bases of measuring risk.
- Reviews and evaluates the most significant risks Investec faces in the ordinary course of business (credit, market, liquidity, operational, legal and reputational).
- Ensures that limits are adhered to and agreed recommendations to mitigate risks are implemented.
- Receives a weekly report from Group Risk Management to assist it in the review and recommendation process.

Committee

Function

Group Credit Committee

Members: executive and non-executive directors; senior management
Chairman: Glynn Burger (Risk Director)
Frequency: weekly

- Considers and approves the granting of credit to counterparties in excess of the mandates granted to divisional and other forums credit on a global basis.
- Sets Investec's maximum counterparty exposures.

Country Risk Forum

Members: executive and non-executive directors; senior management
Chairman: Glynn Burger (Risk Director)
Frequency: ad hoc

- Considers and manages risks associated with the country in which Investec assumes exposure. New countries are reviewed as and when required.

Group Market Risk Forum

Members: Global Heads of Risk, Market Risk and the trading desks; senior management; members of the market risk teams; other members from Group Risk Management
Chairman: Glynn Burger (Risk Director)
Frequency: monthly (or ad hoc if required)

- Manages market risk by identifying and quantifying risks, on the basis of current and future expectations and ensuring that trading occurs within defined parameters.

Group Asset and Liability Committee

Members: executive and non-executive directors; senior management; financial officers; Global Treasurer; Global Head of Asset Liability Management
Chairman: Glynn Burger (Risk Director)
Frequency: Monthly (or ad hoc if required)

- Sets and reviews Investec's funding and liquidity framework and policies and ensures compliance with these.
- Mandates the regional Asset and Liability Committees to manage liquidity risk in line with Investec's parameters.
- Management of interest rate risk mismatch.
- Further detail is provided on pages 93 and 94.

Group Legal Forum

Members: executive and non-executive directors; senior management; division legal managers
Chairman: David Nurek (Global Head of Legal Risk)
Frequency: half yearly (or ad hoc if required)

- Considers and manages legal risks throughout the group.

Group Deal Forum

Members: executive and non-executive directors; senior management
Chairman: Glynn Burger (Risk Director)
Frequency: weekly

- Considers, approves and mitigates the risks inherent in any acquisition, disposal or other non-standard transaction that Investec is considering.

Group Audit and Audit Sub-Committees and Audit and Compliance Implementation Forum

Members: non-executive directors
Chairman: Donn Jowell (non-executive director)
Frequency: at least four times per year

- The duties and responsibilities of the Audit Committee are described on page 110.
- The Internal Audit, Compliance and Operational Risk departments report to the Audit Committees.

Risk management information and the board

The executive and non-executive directors are widely represented on the group's risk management committees and forums (see above). Directors' involvement in these committees and forums shows a "hands on" style, which facilitates a detailed understanding of Investec's day-to-day activities.

Management provides detailed risk information reports to the Board of Directors in South Africa and the UK. Reports contain a balanced assessment of significant risks and the effectiveness of the risk management procedures and systems in managing these risks. The **risk management reports** generally include:

- Balance sheet management review, including the group's liquidity position. The analysis is presented by region and includes a high level summary and detailed supporting schedules.
- Market risk review, including a desk-by-desk analysis of the positions on book, value at risk and expected tail losses.
- Credit exposure reports, including large exposures, level of arrears, sector analysis, draw downs, provisions and recoveries.
- New credit facilities approved during the period.
- Property investments, corporate finance information (underwriting commitments) and group investments.
- Operational risk information.

Risk, policies and procedures

Investec, in its ordinary course of business, is exposed to various risks, including credit, market, asset and liability management, operational, legal and reputational risk. The processes that measure, monitor and mitigate these risks follow.

The information below provides an overview of the types of risks the group is exposed to and developments that occurred over the period under review.

Credit risk management framework

Credit risk represents the potential loss to the group as a result of a counterparty being unable or unwilling to meet its obligations. Credit risk arises from two types of transactions:

- Lending transactions, giving rise to counterparty risk - the risk that a counterparty would be unable or unwilling to repay capital and interest on advances and loans made to it.
- Trading transactions, giving rise to issuer, settlement and replacement risk. Issuer risk is the risk that payments due from the issuer of a financial instrument will not be received. Settlement risk is the risk that the settlement

of a transaction does not take place as expected, with one party making a payment without the other. Replacement risk is the risk that an in-the-money derivative instrument needs to be replaced following default by the original counterparty.

The group has credit risk exposure in the geographies in which it operates. The nature and degree of credit risk vary depending on the type of business transacted within each geography. Information in this regard is provided below.

Management and measurement of credit risk

To manage, measure and mitigate credit risk, independent **credit functions exist in each geography where the group assumes credit risk**. These operate under board approved delegated discretionary limits, policies and procedures. Outside local limits, transactions are presented to the Group Credit Committee. All decisions to transact are unanimous.

The fundamental principles Investec uses to manage credit risk include:

- A clear definition of the group's target market.
- A quantitative and qualitative assessment of the creditworthiness of the group's counterparties.
- Appropriate credit granting criteria.
- An analysis of all related risks, including concentration.
- Prudential limits.
- Regular monitoring of existing and potential exposures once facilities have been approved.
- A high level of executive and non-executive involvement in decision-making and review.

In addition to the Group Credit Committee, the following **specialist forums** exist to assist in measuring and monitoring credit risk:

- Intensive Care Committee, which manages assets at risk.
- Watch List Committee, which oversees and manages exposures in arrears that require additional attention and supervision.
- Country Risk Forum, which considers and manages risk associated with the countries in which Investec assumes exposure.
- A dedicated team ensures the implementation of necessary systems and models to meet the forthcoming requirements relative to Basel II. An initial calculation of the changes to regulatory capital show that this will bring about mainly a neutral position, with some business streams absorbing more capital and others less.

Regular reporting of the credit risk within the group's activities is made to management, the executive and the board. The board regularly reviews the appetite for credit risk, which is documented in policy statements and implemented by the group credit function.

Credit risk in South Africa

Credit risk is assumed mainly through Investec's Treasury and Specialised Finance and Private Banking activities.

Treasury and Specialised Finance

Investec Corporate Treasury provides a broad range of money market and foreign exchange products to corporates and investors. Investec is an active market maker in the spot and forward US Dollar/Rand inter-bank markets. Trading transactions giving rise to issuer, settlement and replacement risk in a volatile interest rate and currency environment were among the primary areas of potential credit risk in the year under review.

The Specialised Finance, Project Finance and Resource Finance businesses involve lending money on a structured basis, with full recourse, to either a suitable asset or to an entity's balance sheet to which the funds are advanced. The Resource business is increasingly exposed to countries presenting complex legal and political risks. Extensive knowledge of Africa, good technical and financial skills and strong adherence to prudent country risk limits ensure that concentration risks are well managed. Exposures are monitored continuously and assets provided as security in support of borrowing facilities are generally easily realisable.

Typical asset classes that are funded will include property, plant and equipment, infrastructure and aircraft.

Specific credit limits are set for each counterparty and monitored daily to ensure failure risk is mitigated. The credit appetite for each counterparty is based on the financial strength of the principal borrower, underlying security, cash flow and in the case of trading products the nature of the underlying security traded.

Private Bank

The Private Bank provides an extensive range of banking services and products, foreign exchange, daily transactional banking, deposits, treasury and cash investments, and lending products, to high net worth individuals, privately owned corporates and other client entities (e.g. family trusts).

A range of lending products are offered to support the needs of a chosen target market. Residential mortgages and commercial property make up the bulk of the Private Bank lending exposures. The residential property portfolio reflects good quality residential properties at fairly conservative loan to value ratios in desirable areas, in keeping with the lifestyles of Private Banking clients.

Exposure to commercial, retail and industrial properties are at conservative loan to security values. Income producing assets are generally let to good quality anchor tenants.

There is an element of concentration risk to the South African property market as a result of the nature of private client borrowing activities. This risk is mitigated by reviewing all properties offered as security prior to advancing funds. In

addition, Investec's internal valuers or a bank approved panel of external valuers regularly review commercial property values. Furthermore, serviceability of a loan advanced against property is a primary consideration in the credit assessment process and not only asset value. Extensive use of fixed rate funding has served to mitigate much of the interest rate volatility experienced recently.

Investec constantly monitors property exposures by stress testing the property portfolio. This is undertaken by assuming a sharp fall in property values, the inability of the borrower to service or repay from independent means and interest rate shocks resulting in rental income falling below interest expenses.

Year in review

Over the past financial year, a number of notable financial market trends had an impact on the assessment of credit risk for Investec. These trends include:

- **Increased volatility** of Rand exchange rates and a strengthening Rand (contrary to market expectations). **Increased volatility of interest rates** and downward parallel shifts in key Rand yield curves (the extent of the downward shift was also not anticipated by the market).
- The unanticipated changes in currency and interest rate movements have significant credit risk implications. The reason for this is that counterparties may not have fully anticipated and provided for the liquidity and profit and loss implications of derivative transactions associated with the hedging of their foreign exchange and interest rate risk. It is also important to note that foreign exchange and interest rate products make up a significant proportion of the total treasury operations in the banking sector, both from a volume of trading and profit and loss contribution perspective.

For both interest rate and foreign exchange products, Investec implemented advanced exposure simulation methodologies, which enabled it to more accurately identify the level of exposures to counterparties for these trading activities. These simulation methodologies recognise volume of trading, volatility of products traded, deal tenor and credit mitigants in deriving granular counterparty exposure profiles (and in so doing allow for roll-off risk assessments).

In keeping with worldwide banking trends and following the criteria set out in **Basel II**, the internal methodologies applied in quantifying foreign exchange and interest rate exposures comply with paragraph 438 of the New Basel Capital Accord (April 2003). The accord specifies that:

"The criteria by which estimates of Exposure at Default (EAD) are derived must be plausible and intuitive, and represent what the bank believes to be material drivers of EAD. The choices must be supported by credible internal analysis by the bank. The bank must be able to provide a breakdown of its EAD experience by the factors it sees as the drivers of EAD. A bank must use all relevant information in its derivation of EAD estimates. Across facility types, a bank must review its estimates

of EAD when material new information comes to light and at least on an annual basis."

With regard to the new Basel Accord, Investec believes that the **Foundation Internal Ratings Based Approach** is now the most appropriate option available. This will provide capital recognition for portfolios of high credit quality and hence Investec's target market. A Basel II compliant corporate borrower rating model has operated for a number of years, with a bank rating model implemented recently. Various Basel II projects, leading to implementation within the proposed Basel II time frames, are currently under way.

These methodologies were implemented during the 2004 financial year and resulted in an early warning system for management to take proactive steps to reduce or mitigate increased credit risks. As a result of sound proactive credit risk methodologies, the interest rate and currency volatility over the year under review did not result in significant exposures that exceeded approved credit limits.

Credit risk in Mauritius

Investec Bank (Mauritius) Limited offers a range of banking services and its primary business activities are corporate lending, property finance and structured finance to corporate and private clients. Limits are monitored daily to ensure that excesses are identified timeously and remedial action is taken immediately, if necessary.

Credit risk in the UK, Channel Islands, Ireland and Switzerland

Credit risk arises mainly through the group's banking business, Investec Bank (UK) Limited, and its Dublin branch, Investec Bank (Channel Islands) Limited and Investec Bank (Switzerland) AG.

There are also some counterparty exposures within Investec Asset Management Limited and Carr Sheppards Crosthwaite Limited, where group funds are placed on a short-term basis with other UK banks.

Investec Bank (UK) Limited, Investec Bank (Channel Islands) Limited and Investec Bank (Switzerland) AG

The main credit exposures are in Investec Banking and Securities, Treasury and Specialised Finance and the Private Bank.

Investec Banking and Securities

The division buys and sells certain exchange traded securities, with sales and purchases on a delivery against payment basis to exchange approved counterparties. Some credit risk arises should a market counterparty fail and the trade has to be replaced at current market prices, which may be different to those originally executed. Limits are set for each counterparty and monitored intra-day to ensure failure risk is mitigated. Limits are based on the financial standing of the counterparty and the underlying security traded.

Treasury and Specialised Finance

The Treasury and Specialised Finance division, as part of the daily management of liquidity, places funds with banks and other financial institutions. It also has exposures to rated and non-rated corporates.

Banks and financial institutions are highly rated and usually of a systemic nature. Corporate exposures, if not highly rated, are secured on assets either with regular amortisation or are self liquidating from the charged assets.

A well spread portfolio is ensured and, other than placements with highly rated systemic banks, the maximum individual exposure to a counterparty or counterparty group is around £15 million.

There is little exposure to emerging markets and hard limits are placed on inter-group exposures and to South Africa.

Private Bank

The Private Bank provides secured lending to individuals, privately owned corporates and other client entities.

Facilities are secured on property or easily realised liquid security. Repayment is from clearly identifiable income streams or, for property development loans, from the sale of the developed asset.

Typical of private banking, there is some concentration of risk within the UK property sector, which comprises residential and commercial properties. Conservative loan to security values are adopted and income producing assets are generally let to good quality tenants.

Residential properties are located in quality locations for which there is international demand. Commercial properties are driven by the calibre of location and tenant. There is little speculative commercial property development unless this is pre-let or against clients' surety. Development comprises predominantly residential properties, with an aversion to high value single unit developments.

All facilities are reviewed regularly and property values are monitored by Investec's appointed panel of valuers. This information is used to stress test the property portfolio, assuming both a sharp fall in property values and the inability of the borrower to service or repay the loan from independent means. On an extreme basis, assuming property values fell by 30% and no client could service their debt, the exposure not covered by the realised property value would be approximately £18 million. (£11 million in relation to commercial property exposure and £7 million in relation to residential property exposure).

Credit risk in Australia

The main business of Investec Bank (Australia) Limited is to target private clients and their related entities. Advances are secured predominantly on property securities.

At present, the loan portfolio is dominated by property related transactions, which reflects the growth and maturity of the respective business units that operate in this geography. Property market risk is minimised by:

- Confining activity to major metropolitan areas.
- Ensuring that lending is against secure income streams and demonstrable exit strategies, which can both service and extinguish the borrower's obligations.
- Obtaining recourse to individual and corporate borrowers over and above collateral security.
- Avoiding speculative transactions.

In addition, specialised asset finance to corporates and project finance are undertaken on a limited basis.

Surplus liquidity is placed with highly rated domestic banks and financial institutions.

Credit risk in Israel

Investec Bank (Israel) Limited maintains a conservative and cautious credit policy, designed to improve the quality of the credit portfolio and develop it in accordance with the economic conditions prevalent in the region. The bank operates a credit risk management and control system at both an individual client and overall management level, including routine control of exposures to clients active in the capital market.

Credit risk in each of the bank's divisions follows below.

Securities division

Credit is provided mainly to leading institutional organisations, mutual funds managers and portfolio managers, secured primarily by liquid financial assets (deposits and securities).

Specialised Finance

The division provides specialised finance services to listed and private companies, by way of domestic and international factoring, corporate finance and trade related finance. Exposure is securitised through various collateral, including credit risk insurance policies, factoring agreements and account receivables assignments.

Private Bank

Credit is provided to individual clients and companies owned and usually guaranteed by them. Credit is secured mainly by liquid financial assets and mortgages on real estate properties.

Credit risk classification system and provisioning policy

Investec's credit risk policy incorporates the following:

- All borrowing accounts are reviewed daily and action is taken to remedy any excesses.

- The group has a very strict arrears policy, where any amount over £2,000 or currency equivalent more than 30 days overdue being classified as an arrears position.
- An exposure is classified as **non-performing** when there is a prospect of non-recovery of interest or capital or it is deemed imprudent to bring interest to account. This definition is in accordance with regulatory requirements.
- Exposures in arrears are continually scrutinised. Based on this scrutiny, if it becomes evident that the account requires additional supervision and attention, it will be included in the **managed book** and fall under the Watchlist Committee, comprising members of the Group Credit Committee and the Credit Risk team. Unless there are reasonable prospects of recovering interest and capital in full, the accounts are classified as non-performing. Each individual exposure that is in arrears is assessed on its merits and classified accordingly.
- The Watchlist Committee assesses perceived and actual deterioration of a counterparty's credit risk profile. The "watchlist" is managed and monitored on an ongoing basis, with review by the relevant boards and the Board Risk Review Committee.
- Interest is charged on non-performing accounts. The corresponding amount is not brought to income but credited to a suspended interest provision.
- A **specific bad debt provision** is made when there is a probability that Investec will not be able to collect the full amount of capital and interest due.
- The amount of the provision is determined after taking into account:
 - o The value of the asset or other collateral securing the debt.
 - o The value of other assets owned by the debtor, after considering secured and unsecured liabilities.
 - o The value of any sureties or guarantees given for the debt.
 - o The amount, if any, already raised as a provision for suspended interest.
- **General provisions** augment specific provisions and provide cover for loans that are impaired at the balance sheet date but which will not be identified as such until some time in the future.
 - o The group's general provision has been determined taking into account the structure and risk characteristics of the group's loan portfolio.
- Management collectively weighs up a number of complex and changing factors in determining the adequacy of provisions. These factors include management's view of the extent of existing risks in the loan portfolio and prevailing economic conditions.

Quality of the group's loan portfolio and provision levels

Further details of the quality of the group's loan portfolio are shown on subsequent pages.

Loans and advances to customers by loan
type: 31 March 2004

Other loans and advances	2.3%
Lease and instalment debtors	3.0%
Residential mortgages	13.2%
Other secured private bank lending	15.6%
Commercial property	25.6%
Corporate and public sector	40.3%

Loans and advances to customers by loan
type: 31 March 2003

Other loans and advances	3.6%
Lease and instalment debtors	3.9%
Residential mortgages	10.9%
Other secured private bank lending	12.4%
Commercial property	24.2%
Corporate and public sector	45.0%

Asset quality, specific and general provisions

UK GAAP £'000	31 March 2004	31 March 2003
Total loans and advances to customers	6 436 077	4 966 887
Less : cash equivalent debtors	1 286 357	975 238
Core loans and advances to customers	5 149 720	3 991 649
Managed book*	(134 351)	(107 481)
Net loans and advances to customers	5 015 369	3 884 168
Average net loans and advances to customers	4 449 768	3 562 515
Consolidated profit and loss provision charge	20 958	18 308
Specific provisions	29 870	30 813
General provisions	60 359	52 171
Total provisions	90 229	82 984
Gross non-performing loans*	90 347	60 677
Security	(64 904)	(36 132)
Net non-performing loans	25 443	24 545

Adequacy of provisions

Consolidated profit and loss provision charge as a % of average loans and advances to customers	0.47%	0.51%
Specific provisions as a % of core loans and advances to customers	0.58%	0.77%
General provisions as a % of net loans and advances to customers	1.20%	1.34%
Total provisions as a % of core loans and advances to customers	1.75%	2.08%
Total provisions as a % of gross non-performing loans	99.87%	136.76%
Total provisions as a % of net non-performing loans	354.63%	338.09%
Gross non-performing loans as a % of core loans and advances to customers	1.75%	1.52%

* As defined on page 86.

The table below presents the group's loans and advances to customers by loan type:

UK GAAP £'000	31 March 2004	31 March 2003
Category analysis		
Corporate and public sector	2 584 876	2 233 061
Commercial property	1 650 590	1 203 448
Residential mortgages	852 653	618 020
Other secured private bank lending	1 006 997	541 362
Lease and instalment debtors	195 748	194 946
Other loans and advances	145 213	176 050
	6 436 077	4 966 887
Problem country exposure		
Total advances to problem countries	19 171	42 493
Problem country risk provisions	-	-

The advances are secured by 100% pledge over the assets with additional risk cover in the form of Credit Guarantee Insurance Corporation (CGIC) commercial CGIC political cover and cash collateral.

Asset quality information by geography

31 March 2004

UK GAAP £'000	Core loans and advances	General provisions	Specific provisions	Total provisions	Gross NPLs	Security held against NPLs	Net NPLs
South Africa and Other	3 036 465	37 476	19 111	56 587	67 590	47 265	20 325
UK and Europe	1 657 655	18 821	4 295	23 116	14 292	8 946	5 346
Australia	256 045	2 545	585	3 130	584	950	(366)
Israel	199 555	1 517	5 879	7 396	7 881	7 743	138
Total group	5 149 720	60 359	29 870	90 229	90 347	64 904	25 443

31 March 2003

UK GAAP £'000	Core loans and advances	General provisions	Specific provisions	Total provisions	Gross NPLs	Security held against NPLs	Net NPLs
South Africa and Other	2 231 178	30 212	19 661	49 873	30 266	9 980	20 286
UK and Europe	1 339 996	18 254	3 572	21 826	17 223	13 636	3 587
Australia	176 301	2 046	692	2 738	4 996	6 208	(1 212)
Israel	244 174	1 659	6 888	8 547	8 192	6 308	1 884
Total group	3 991 649	52 171	30 813	82 984	60 677	36 132	24 545

Where: NPLs is non-performing loans.

Core loans and advances to customers by geography: 31 March 2004

Israel	3.9%
Australia	4.9%
UK and Europe	32.2%
South Africa and Other	59.0%

Core loans and advances to customers by geography: 31 March 2003

Israel	6.1%
Australia	4.4%
UK and Europe	33.6%
South Africa and Other	55.9%

Market risk management framework

Market risk management encompasses the quantification and management of the risks of financial loss relating to the group's trading activities. Trading activities include transactions where Investec acts as principal with clients or the market. Market risk, therefore, exists where the group has 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 market value of these positions (including derivatives) has the potential to change, caused by adverse movements in market factors such as interest and foreign exchange rates; equity, bond and commodity prices; volatility; and credit spreads. The Market Risk Management team's role is to independently identify, quantify, monitor and manage these risks.

Group policy is to **manage the risks in each jurisdiction where the risk is assumed**. As such, local risk management teams exist in the various locations. Local limits have been set to contain potential losses to within acceptable risk tolerance levels. A Global Market Risk Forum (mandated by the various boards of directors) manages the market risks on a basis consistent with pre-approved principles and policies. Investec's market risk position is further reported to the Executive Risk Review Forum, the group executive, the Board Risk Review Committee and the Board of Directors.

Role of the Market Risk Forum and Market Risk Management team

The Market Risk Forum performs the following functions:

- Sets the policy for the Market Risk Management team and ensures compliance with this policy.
- Sets and changes risk limits. This involves:
 - Preparing an in-depth analysis of the various risks considering both normal market conditions and extreme or infrequent events.
 - Deciding on appropriate methodology and manner in which to set a limit.
 - Determining an appropriate level at which the risks should be set.
- Reviews and approves pricing and other risk models.

The Market Risk Management team performs the following key functions:

- Monitors risk limits and the nature of market risks on a daily basis, including reviewing concentrated positions.
- Calculates and analyses Value at Risk (VaR) daily.
- Performs a profit attribution, where the daily traded income of the bank 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.
- Reviews the market risks on Investec's books and ensures that it is prudently positioned, taking into account agreed policies, prevailing markets and liquidity, hedging strategies and the relationship between risk and reward.
- Provides temporary pre-approval of any excesses to risk limits.

Measurement of market risk

A variety of measurement techniques are used to quantify the market risk arising from the group's trading activities. These include **sensitivity analysis** and **VaR**. **Stress testing** and **scenario analysis** are also used to simulate extreme conditions to supplement these core measures.

VaR is a technique for estimating future potential losses, due to price movements over a given time horizon, at a stated level of confidence. The group uses historically simulated VaR based on historical prices over a 250-day period, a 95% confidence level and a one-day holding period. The table below represents the group's VaR on trading portfolios as at the year ended 31 March 2004, for a 95% confidence level and a one-day holding period, assuming no mitigating action is taken. This means that there is a one in 20 chance that daily losses will be at least as large as the reported VaR amount. VaR, however, does not indicate how much the group can expect to lose in these cases. Expected Tail Loss (ETL) quantifies the amount the group can expect to lose when the VaR threshold is exceeded.

Year in review

The following major external events occurred during the period under review:

- The **Rand exchange rate** strengthened considerably against the US Dollar from 7.93 to 6.37. The appreciation of the currency had little effect on the foreign exchange trading portfolios.
- The trading books were positioned for the 550 basis point **interest rate cuts** that occurred in South Africa over the period, but not aggressively enough to cover the margin squeeze that emanated from such a decline.
- The **US Dollar interest rate curve** steepened significantly during mid-2003 - up to 70 basis points. This movement had a substantial unfavourable effect on the foreign interest rate trading portfolio.
- Liquidity in both the Rand interest rate derivative and equity derivative markets continued to reduce as speculators withdrew from these markets.
- There were no specific events to report on affecting the group's non-Southern African operations.

Trading risk appetite

Following a strategic review of the trading operations in the UK in the prior year, the South African Treasury and Specialised Finance division undertook a similar review in the current year. As a consequence, **proprietary risk taking activities have been curtailed** (in comparison to previous periods), and an increased focus has been placed on supporting client activity. The group's philosophy is that trading should largely be conducted to facilitate primary clients in deal execution. The effects of this are clearly reflected in the VaR figures below. A comparison of the consolidated highest VaR figures for Investec Limited during the year, to the figure at the end of the period, highlights that the risk exposure is currently 55% less than the year's peak.

VaR 95% (one-day)**31 March 2004**

£'000	Investec Limited	Investec plc	Consolidated
Interest rates	283	4	282
Equity	112	358	378
Foreign exchange	247	20	238
Commodities	—	125	125
Consolidated*	453	424	599
Limits (aggregated)	2 143	3 050	5 193
Highest	1 013	462	1 156
Lowest	273	214	315
Average	637	330	623

VaR 95% (one-day)**31 March 2003**

£'000	Investec Limited	Investec plc	Consolidated
Interest rates	164	9	163
Equity	273	282	376
Foreign exchange	552	36	556
Commodities	—	57	57
Consolidated*	695	299	840
Limits (aggregated)	2 997	2 700	5 697
Highest	1 100	870	1 370
Lowest	660	240	920
Average	960	450	1 300

* The consolidated VaR is significantly lower than the sum of the VAR figures for each traded market. This is due to offsets which take place as a result of the correlation between the various asset classes.

ETL 95% (one-day)

31 March 2004

£'000	Investec Limited	Investec plc	Consolidated
Interest rates	461	6	462
Equity	148	503	512
Foreign exchange	406	84	377
Commodities	—	143	143
Consolidated	633	554	871

31 March 2003

£'000	Investec Limited	Investec plc	Consolidated
Interest rates	221	14	221
Equity	355	347	433
Foreign exchange	712	41	730
Commodities	—	69	69
Consolidated	856	346	968

Stress testing

The portfolio stress tested under extreme market conditions (15 standard deviations) will result in a loss of £4.9 million in Investec Limited, £3.9 million in Investec plc and £8.8 million on a consolidated group basis (based on a one-day holding period).

31 March 2004

£'000	Investec Limited	Investec plc	Consolidated
Interest rates	2 163	29	2 192
Equity	858	2 743	3 601
Foreign exchange	1 887	151	2 038
Commodities	—	959	959
Consolidated	4 908	3 883	8 791

31 March 2003

£'000	Investec Limited	Investec plc	Consolidated
Interest rates	1 230	68	1 298
Equity	2 048	2 115	4 163
Foreign exchange	4 140	270	4 410
Commodities	—	428	428
Consolidated	7 418	2 880	10 298

Market risk - derivatives

The group enters 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 in order to take into account possible correlations.

The tables below reflect the group's derivative trading portfolio at the end of the financial year on the basis of the notional principal and the fair value of all derivatives.

The **notional principal** indicates Investec's 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 the rights and obligations arising from that instrument been closed out by the group 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.

Notional principal

31 March 2004	£'mn
Foreign exchange derivatives	8 055
Interest rate derivatives	98 789
Equity and stock index derivatives	14 705
Commodity derivatives	6 329
Credit derivatives	59

Fair value

31 March 2004	Positive £'mn	Negative £'mn
Foreign exchange derivatives	481	315
Interest rate derivatives	473	394
Equity and stock index derivatives	209	189
Commodity derivatives	296	233
Credit derivatives	—	—
Effect of netting	(936)	(936)
Net fair values	523	195

Further information in this regard can be found on pages 216 to 218.

Balance sheet risk management framework

Balance sheet risk management encompasses the financial risks relating to the group's assets and liabilities, comprising

liquidity, funding, concentration and non-trading interest rate risks on balance sheet.

The Treasury and Specialised Finance division centrally manages the raising of liabilities and sourcing of assets and also manages the mismatch between these assets and liabilities. In this regard, the Treasury division is required to minimise earnings volatility within the group's overall funding, liquidity and concentration parameters.

The objective set for the Balance Sheet Risk Management team is to independently identify, quantify and monitor risks, which are mitigated by the central Treasury through the implementation of appropriate on- and off- balance sheet strategies, dynamically adjusting to changing economic conditions. **Thus, the team provides governance and oversight of the Treasury division's activities.**

Group policy is to **centralise asset and liability management** within each jurisdiction. Regional Asset Liability Management Committees (ALCOs) are mandated by their respective boards of directors and group ALCO to manage the balance sheet risks on a consistent basis with pre-approved principles and policies. Detailed policies cover both domestic and foreign currency funds and set out sources and amounts of funds necessary to ensure the continuation of Investec's operations without undue interruption. Investec hedges any currency exchange risk arising from deposit and loan banking activities. The size, materiality, complexity, maturity and depth of the market as well as access to stable funds will determine the risk appetite for the region. In addition, the specific applicable statutory requirements further dictate what policies are adopted in each region.

Investec's **overall group liquidity policy** requires each jurisdiction to be self-funding so that there is no reliance on inter-group lines either from or to other group entities.

The **techniques employed** by the Balance Sheet Risk Management team combine traditional gap analysis and simulation. These include quantitative models and stress tests designed to measure the range of possible future liquidity needs and potential distribution of net interest income over a range of scenarios. The modelling process is supported by ongoing technical and economic analysis.

Investec's balance sheet position is reported to management, the Executive Risk Review Forum, the Board Risk Review Committee and the Board of Directors.

Role of the Asset Liability Management Committee

The Asset Liability Management Committee (ALCO) performs the following functions:

- Sets the policy for liquidity, interest rate mismatch/risk and funding concentration and ensures compliance with this policy. The policy translates into limits pertaining to

the liquidity gap ratios, amount of liquefiable assets, depositor concentration and interest rate exposure regarding the structural / commercial banking book.

- Implements the methodology, techniques and processes used to measure liquidity and interest rate exposure and further directs the development of scenarios covering risk factors and assumptions in view of expected economic conditions and market circumstances and stress tests.
- Reviews the structure of Investec's balance sheet and ensures that it is prudently positioned, taking into account agreed policies, prevailing markets, book runoff and business growth projections.
- Sets investment, funding and hedging strategies and funding targets to be implemented by Treasury, in line with cash flow projections. In this way, it manages the risk/reward relationship that exists between liquidity and interest rate risk on an ongoing basis.
- Maintains liquidity contingency plans and identifies alternative sources of domestic and foreign currency funds necessary to ensure continuation of Investec's operations without undue interruption. This is done in accordance with the regulatory requirements pertaining to the jurisdiction, under a range of adverse general, business, and economic scenarios.

Liquidity risk

Liquidity risk is the risk that the bank does not have sufficient cash to meet its financial obligations, especially in the short term, at acceptable costs.

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

The group has always recognised the **importance of liquidity risk management**. (This was highlighted by the small bank crisis in South Africa, which placed liquidity risk management at the forefront). Liquidity management is vital to preserving market confidence and safeguarding the group's reputation.

Investec bases its liquidity management processes on four essential elements:

- Maintenance of a stock of readily available, high quality liquid assets and near cash in excess of its statutory requirements as well as strong balance sheet liquidity ratios.
- Preparation of cash flow projections (assets and liabilities) and funding requirements corresponding to the forecasted cash flow mismatch, which are translated into short- and long-term funding strategies within each legal entity and globally.
- Management of concentration risk, being undue reliance on any single depositor, grouping of depositors, market sector and instrument, maturing at any one time. Diversification is achieved by variation of the counterparty, instrument and term.
- Maintenance of liquidity contingency plans and the identification of alternative sources of funds in the market so as to ensure that cash flow estimates and commitments can be met under a range of adverse general, business and economic scenarios.

Investec further acknowledges the importance of its retail and private client base as the principal source of stable and well-diversified funding for its private banking risk assets. In the UK, Investec's Private Banking division generates a stable source of retail deposits, which exceed client loans.

Year in review

Highlights and developments during the period under review include:

- Investec successfully embarked on several initiatives which had the effect of **depositor substitution via permanent capital raising and structural debt funding**. These developments were:
 - Investec Bank Limited, a wholly owned subsidiary of Investec Limited, issued R1.5 billion (£127.5 million) non-cumulative, non-redeemable and non-participating preference shares issue in August 2003.
 - Investec Limited issued 5.6 million shares (approximately £46.0 million) in November 2003, in terms of the implementation of its empowerment transaction (further details can be found on page 7).
 - The Private Bank in South Africa securitised a further R1.4 billion (£120 million) of its loan portfolio in November 2003.
 - Investec Bank (UK) Limited, a wholly owned subsidiary of Investec plc, issued £200 million subordinated step up notes in February 2004.
- **Investec Bank (Australia) Limited** more than doubled its deposit base following the acquisition of a banking licence in August 2002.
- Further consolidation in the South African banking sector resulted in an increase in the group's South African deposit base.

The group is currently unaware of any circumstances that could significantly detract from its ability to raise term funding.

Non-trading interest rate risk

Interest rate risk is defined as the impact on the net interest earnings, as a result of increases or decreases in the levels of interest rates, volatility and changes in the shape of the term structure of interest rates, when these changes are applied to Investec's rate sensitive assets and liabilities.

Interest rate risk management comprises mitigating undesirable risk and enhancing margin/maximising net interest income, during changing interest rate cycles, within the predefined risk appetite of the group. Interest rate risk arising from fixed interest loans and deposits with a term of more than one year is materially hedged through the purchase and sale of interest rate swaps.

Investec bases its interest rate risk management processes on four fundamental steps:

- Measurement and analysis of traditional interest rate mismatch gaps detailing the sources of interest rate exposure.
- Earnings-at-Risk simulation on a forecasted balance sheet covering a wide range of scenarios within the following categories:
 - Investec's interest rate forecasts and "house" view.
 - Imposed yield curve stress tests on the observed interest rate profile.
 - Stochastic interest rate scenarios giving rise to a distribution of possible earnings.
- Technical interest rate analysis and economic review of fundamental developments and trends.
- Management of interest rate risk by ALCO, having been alerted to both the structural causes and yield curve scenarios that give rise to undesirable risks, which is mitigated through the implementation of appropriate on and off balance sheet strategies.

Year in review

Significant market events within the last year include the following:

- **Geopolitical developments** and further corporate scandals continued to give rise to a degree of economic uncertainty. As a result of the increased volatility, a number of depositors preferred to keep their cash in short-term products. The group's interest rate risk profile reduced as a result.
- With **global interest rates at a near historic low**, South Africa entered a downward interest rate cycle. The frequency of Monetary Policy Committee meetings was changed from quarterly to bi-monthly in order to keep pace with the economic reality. During the year the South African Reserve Bank lowered the repo rate by

550 basis points. In line with market expectations, Investec shortened the duration of its liabilities both on balance sheet and through off balance sheet hedging activities.

Operational risk

Operational risk is defined as the risk of losses or earnings volatility arising from failed or inadequate internal processes, people, technology or from external events.

The group recognises operational risk as a significant risk category and seeks to manage this risk within acceptable levels. The group continues to embed a consistent enterprise-wide operational risk conscious environment that aims to better understand sound operational risk management practices, promote such sound practices, and analyse operational risk incidents, both internal and external.

Sound operational risk management practices at Investec include:

- Senior management responsibility for implementation and management of such risk.
- An independent specialist Operational Risk Management function that monitors and facilitates consistent practices and processes across the group.
- Board review and monitoring through Board Risk Committees and Audit Committees.

The group Operational Risk Management function focuses on:

- Sound operational risk management practices:
 - Identification and assessment of operational risks.
 - Indicator development.
 - Incident and loss event data gathering.
- Enterprise risk programmes:
 - Business continuity risk.
 - Information security risk.
 - Change management risk.
- Financial crime.

Sound operational risk management practices, as identified by the Bank of International Settlements (BIS), are set out below and key Investec practices are highlighted:

Principle ¹	Key Investec practices
Board and senior management responsibility <ul style="list-style-type: none"> • Framework • Strategy 	<ul style="list-style-type: none"> • Framework and process described and communicated • Approach identified • Reporting to Board Risk Review Committee and Audit Committee
Senior management implement <ul style="list-style-type: none"> • Consistent in organisation • Policies, processes, products 	<ul style="list-style-type: none"> • Independent specialist risk management function • Core policies in place • Core practices continue to be embedded and assessed
Reporting <ul style="list-style-type: none"> • Information • Escalation • Framework effectiveness • Management performance 	<ul style="list-style-type: none"> • Data collected • Key issue reporting • Reporting line to Board Risk Committees
Risk identification <ul style="list-style-type: none"> • Inherent risk 	<ul style="list-style-type: none"> • Risk identification and assessment in place for three years • Risks are assessed and scored based on inherent risk, controls in place and the consequent residual risk <ul style="list-style-type: none"> ◦ At business unit level ◦ At group level
Risk assessment <ul style="list-style-type: none"> • Processes 	<ul style="list-style-type: none"> • Continuous enhancing of documented processes • Action plans are developed to address high residual risk
Systems implemented <ul style="list-style-type: none"> • To monitor <ul style="list-style-type: none"> ◦ Operational risk exposures ◦ Loss events • By major business line 	<ul style="list-style-type: none"> • Core processes and technology tools in place • Risk scoring • Incident and loss event data gathering • Integrated technology being assessed
Control or mitigate operational risk <ul style="list-style-type: none"> • Policies, processes, procedures • Risk mitigation <ul style="list-style-type: none"> ◦ Limitation ◦ Control 	<ul style="list-style-type: none"> • Risk and control assessment • Scoring and action plans • Internal audit reviews • Enterprise risk programmes • Insurance
Supervisor requires an effective system <ul style="list-style-type: none"> • Identify • Measure • Monitor • Control 	<ul style="list-style-type: none"> • Risk assessment and loss event tools • Integrated processes • Reporting to Board Risk Review Committee
Independent supervisory evaluations <ul style="list-style-type: none"> • Direct or indirect • Evaluate principles • Reporting practices 	<ul style="list-style-type: none"> • SARB Accord Implementation Forum Risk Committee participation • Board Risk Review Committee reporting and review
Public disclosure <ul style="list-style-type: none"> • Risk exposure • Quality of risk management 	<ul style="list-style-type: none"> • Basel II Pillar Three requirements assessed • Early adoption where considered meaningful

¹As set out by the BIS Sound Practices for the Management and Supervision of Operational Risk - February 2003.

Year in review

Sound operational risk management practices

Operational risk management in the group continues to develop. Industry practices are monitored to assess the appropriateness of the group's approach and framework as well as ensure that stakeholder expectations are met.

During the year, **operational risk forums were established** to share information and assist with process and practice implementation initiatives.

A detailed understanding of process and practice needs was completed and an assessment of available integrated technology solutions was undertaken. Technology solutions were found to be at varying stages of development and sophistication, confirming the developing nature of operational risk in the industry.

Enterprise risk assessment and identification continued to be embedded at business unit level. These support the operational risk identification process and the regulatory expectations (as set out in the "Turnbull Guidance of the UK Combined Code" and the South African King II "Code of Corporate Practices and Conduct") for the board review of the risk and control environment. These assessments are reported to and reviewed by the Board Risk Review Committee. They also support the South African Banks Act reporting requirements.

An **incident and loss event database was designed** and developed to supplement the existing specialist pockets of data. Progress was made in gathering internal data and further refinements will be made over the next year.

During the year, the Operational Risk Management team facilitated, with the group Facilities function, a **health and safety risk assessment** across the South African operations. The risk assessment was designed to proactively assess the practices in operation at each location at which the group operates, to evaluate whether the group was providing a safe and secure operating environment for all staff. No significant remediation activities were identified.

The group's **UK operations** identified and reviewed all **outsourcing arrangements** in line with the Financial Services Authority guidance on outsourcing. A register was established and a process initiated for review and approval of new outsourcing arrangements as well as reviews and renewals.

The group assessed the **Basel II expectations** and will in principle adopt the Standardised Approach, including the Alternate Standardised Approach, to determining operational risk capital. Where possible, partial implementation will be adopted and consideration will be given to migrating to the Advanced Measurement Approach. The various qualifying criteria, as set out in Consultation Paper Three of the Basel Capital Accord and Financial

Service Authority near final supervisory requirements were reviewed.

Enterprise risk programmes

Technology risk management continued to receive attention.

Business continuity risk

- Business continuity risk remains a significant focus of operational risk management. The availability of systems and the ability to successfully restore technology platforms, resume operations and continue operating core business processes are essential for the group in the event of disruption to operations.
- The group continues to enhance its capability through the business continuity community by embedding the necessary disciplines via a programme of practice, review, assessment and alignment.
- There were no significant disruptions to operations during the year.
- Various aspects of Investec's business continuity programme are formally measured. These include test results, notification exercises, assessment of the group's continuity capability and conducting relevant benchmarks.
- During the year, the board adopted a group-wide policy setting out the practices and standards expected with regard to this risk.
- Further refinements and focus on building resilience in operations will be undertaken in 2005.
- Risk assessments to identify potential threats to availability and continuity of operations were initiated.

Information security risk

- The last year saw a dramatic increase in malicious attacks from the internet, designed to both compromise and disrupt the operation of the group.
- The group established a dedicated Information Security Team, headed by the group Information Security Officer and supported by specialist operational risk resources. This successfully protected the group and the information assets against the onslaught of computer viruses, worms and hackers.
- The group's information security process is based on the international standard ISO17799, ensuring common processes and standards are implemented across all business units and country operations. A global approach is also taken to monitoring Investec's systems and networks, to ensure that even its weakest link is stronger than necessary.
- Ongoing vigilance is essential to ensure that the group's information remains confidential, has integrity and is available.

Change management risk

- Change management includes the management of all system changes to live and business continuity environments. Changes introduce risk to the organisation and, as such, need to be effectively managed. This necessitates that a robust, standardised

process is followed to ensure a smooth transition during implementation and to minimise disruption resulting from the changes.

- The change management process is implemented and managed at the business unit level in accordance with the global policy. The Operational Risk Management team oversees the process in the business units and provides assurance to various stakeholders that the process is followed and risks are mitigated.
- During the year, the group's change management activities were enhanced as follows:
 - A group-wide change management policy was defined.
 - The definition was facilitated and robust, standardised change management processes were implemented in the business units.
 - Independent oversight, by the Operational Risk Management team, of the process in the business units was introduced, ensuring that the process is followed and risks are mitigated.
 - Issue resolution and appropriate escalation were facilitated.
 - Information technology incidents were assessed in relation to change management, giving input back into the change management process.
- There were no significant incidents that caused material disruption to the operations of the group.

Processes

- Documentation.
 - The documentation of key processes and associated risks continues to receive attention.
- New business.
 - A new business policy was developed and integrated into the existing risk processes.
 - Significant new business initiatives are subject to risk assessments to identify potential risks and the appropriate mitigation activities, including internal controls, insurance, regulatory approval, risk measuring and reporting.

Financial crime

- Financial crime and fraud risk is considered a key operational risk.
- The focus is on risk identification, loss investigation, recovery and prosecution and recommending enhanced practices to mitigate this risk.
- Organised crime remains a key concern of the group, including terrorist financing.
- Incidents of fraud are investigated, recovery initiated and legal action implemented. It is the group's policy to take conclusive action on all financial crime that is identified as being perpetrated against the group. Case information is collected and compiled by the specialists in the correct manner, to facilitate the legal process and obtain the necessary convictions.
- Regular reviews of the client database are conducted with comparisons to an international database of "undesirable persons", to assess client quality.
- Suspicious, unusual and threshold transactions are

monitored, assessed, investigated and reported to the Financial Intelligence Centre, as required by the South African Financial Intelligence Centre Act. A number of reports were made during the year. The group's Legal division reviews all proposed reports.

- The Group Information Officer deals with all requests for information received in accordance with the South African Promotion of Access to Information Act and from regulatory and investigatory agencies.
- Emerging trends experienced include:
 - Increased syndicate activity and organised crime.
 - Identity theft.
 - Increased regulatory expectation e.g. money laundering and "know your client" requirements.
- During the year, the following cases were investigated:

Industry issues

The group participates in certain industry forums and in the South African Reserve Bank's Accord Implementation Forum processes.

Alignment with internal audit processes is encouraged, to facilitate re-use of information and knowledge and an integration of the risk and control activities of the group's risk control framework.

Legal risk management

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

Investec's policy is to identify, manage, monitor and mitigate legal risks throughout the group. It seeks 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 procedures.

The overall responsibility for this policy rests with the Board of Directors. The boards delegate responsibility for implementation of the policy to the Global Head of Legal Risk who, in turn, assigns responsibility for controlling these risks to the managers of appropriate departments and focused units throughout the group.

The scope of Investec's activities, which brings about legal risk, is continuously reviewed and includes the following areas:

- Relationship contracts.
- Legislation/governance.
- Litigation.
- Corporate events.
- Dual Listed Companies structure.
- 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.
- Establishment of minimum standards for mitigating and controlling each risk, including the nature and extent of work to be undertaken by the group's internal and external legal resources.
- Establishment of procedures to monitor compliance, taking into account the required minimum standards.
- Establishment of legal risk forums, bringing together the various legal risk managers, to ensure Investec keeps abreast of developments and changes in the nature and extent of the group's activities, and to benchmark Investec's processes against best practice.

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 his appointed deputy. Minutes of the meetings are circulated to the Chief Executive Officer of each legal entity as well as to the Group Risk Operational Risk division.

Internal Audit

Internal Audit's primary role is to provide objective assurance to the board that the management processes in place are adequate to identify and monitor significant risks and that the control environment is effective in managing those risks. Internal Audit's ancillary role is to assist in the evaluation and enhancement of risk management, controls and governance processes.

An Internal Audit charter, approved by the Group Audit Committees and reviewed annually, governs internal audit activity within the group. The charter defines the role and

objectives, authority and responsibility of the function.

As a result of the regulatory responsibilities arising from the Dual Listed Companies structure, there are essentially two group Internal Audit divisions (located in Johannesburg and London) for Investec Limited and Investec plc. Internal Audit functions reporting into Investec plc also exist in Tel Aviv and Sydney, with an audit committee in each of the respective jurisdictions. All Internal Audit departments use similar risk based methodologies. The heads of Internal Audit report at each Audit Committee meeting and meet regularly with the chairman of their entity's Audit Committee. They operate independently of executive management and also have ready access to the Chief Executive Officer and Chairman of the board. For administrative and co-ordination purposes, they report to the Global Head of Corporate Governance and Compliance.

Annually, Internal Audit conducts a formal risk assessment for all businesses incorporating management's own risk assessment (Turnbull). A comprehensive annual audit plan is derived from this assessment and identifies areas of focus, which are confirmed with executive management and approved by the responsible Audit Committee. High risk businesses and processes are audited annually, with other areas covered at regular intervals based on their risk profile. Given the group's dependence on IT systems, there is an increased focus on auditing technology risks. The annual plan is reviewed regularly to ensure that it remains relevant and responsive, given changes in the group's operating environment. The Audit Committee approves changes to the plan.

Internal Audit proactively reviews its audit practices and resources for adequacy and appropriateness, to meet the increasingly demanding corporate governance and regulatory expectations. Audit teams comprising well-qualified staff with appropriate experience ensure that the function has the competencies to match the diverse requirements of the group. Where specific specialist skill or additional resources are required this would be obtained from a third party.

Significant control failures are reported, in terms of an escalation protocol, to the Audit and Compliance Implementation Forum, where rectification procedures and progress are monitored, as well as to the appropriate Audit Committee.

Compliance

Introduction

Compliance risk is defined as the risk of non-compliance with the letter and spirit of all relevant statutes, regulations, supervisory requirements and industry codes of conduct to which the group is subject. In keeping with its values, the group also strives to maintain the highest standards of integrity and ethical behaviour in its dealings with stakeholders.

The group is subject to extensive supervisory and regulatory regimes in South Africa, the UK, Europe, the US, Australia, Hong Kong, Israel and in the other countries around the world in which it operates. The South African Reserve Bank is the lead regulator of the group.

In order to meet the regulatory requirements arising from the implementation of the Dual Listed Companies structure, independent **Group Compliance functions exist within Investec Limited and Investec plc**. The respective Group Compliance functions carry out their responsibilities under terms of reference approved by the board and the Audit Committee. A Group Compliance Officer, who operates independently from executive management and is responsible for ensuring that compliance risk within each group is adequately managed, heads each function. Each Group Compliance Officer reports directly to the Chief Executive Officer and the Global Head of Compliance, with unrestricted access to the Chairman of the Audit Committee.

The Group Compliance functions are structured on a decentralised operating model that consists of a central Group Compliance function, supported by specialist operational compliance functions within the relevant operating entities or divisions. Compliance officers have been appointed in all significant business units. The operational compliance functions report to the Group Compliance Officer, as part of a matrix management reporting structure.

Compliance risk is addressed through the development and implementation of effective compliance processes, which include providing advice and training on regulatory matters, development of policies and procedures affecting regulatory issues, and monitoring adherence to these policies and procedures through the implementation of a risk-based monitoring methodology.

The Group Compliance functions work closely to ensure that compliance risk is managed consistently throughout the broader group. A key responsibility of the Global Compliance Officer and the Group Compliance Officers is to develop and maintain constructive working relationships with regulators and supervisors in jurisdictions where the group is represented.

Developments

Southern Africa

During April 2003, the Financial Action Task Force, an inter-governmental body which develops and promotes policies to combat money laundering and terrorist financing, evaluated South Africa on its anti-money laundering arrangements. In June 2003, the task force admitted South Africa as the first African member.

The primary piece of legislation governing anti-money laundering activities in South Africa is the Financial Intelligence Centre Act 2001 (FICA), which came into full effect in June 2003. To address the regulatory requirements imposed by FICA, a Money Laundering Control Officer was appointed, responsible for developing the group anti-money laundering policy and for overseeing compliance with relevant anti-money laundering legislation. In developing the group anti-money laundering policy, account was taken of international best practices published by the task force and the Basel Committee on Banking Supervision.

Conduct of business matters also received considerable regulatory focus during the period, with the introduction of the Financial Advisory and Intermediary Services Act 2002 (FAIS). The objective of FAIS is to regulate the rendering of certain financial advisory and intermediary services for a wide range of financial products, and requires the providers of such services to be licensed. Although FAIS was promulgated in November 2002, the relevant sections of the act only come into effect on 1 October 2004. The act will have a significant impact on the group and a project to address the requirements imposed by the act was initiated at group level.

The Compliance function also sought to manage compliance risk through obtaining high-level representation on a number of industry bodies that were invited to participate in the development of the draft legislation and industry guidelines. These include the Banking Council South Africa, the Compliance Institute of South Africa, and the Life Offices Association and FAIS Advisory Council.

As a result of the introduction of FICA and FAIS, the group is under an obligation to provide training to employees to ensure that they remain aware of their regulatory obligations and remain competent to perform their functions. In this regard, members of the Group Compliance function actively participated in industry initiatives to develop industry-based compliance training programmes.

UK

The regulatory environment in the UK continues to evolve, with the Financial Services Authority (FSA) issuing new regulations and 40 new consultation papers within the past year. Of particular relevance to the business units are proposed or actual changes to regulations affecting the issuance of research materials, financial promotions, product distribution channels (polarisation regime) and the regulation

for the first time of certain types of mortgage products. Changes to the Proceeds of Crime Act and the Joint Money Laundering Steering Committee Guidance Notes further strengthened the UK's anti-money laundering regime and the industry had to respond to these changes.

The Compliance department participated in a number of "industry themed" visits from the regulator; in addition to participating in the FSA's periodic ARROW review process (the process by which the regulator assesses the regulatory risk of each regulated firm), and routine supervisory visits. A FSA supervisory visit to Carr Sheppards Crosthwaite in September 2003 noted certain compliance failings in the processes adopted by the firm. Subsequent to the year end the FSA imposed a fine of £500,000 on Carr Sheppards Crosthwaite. Management co-operated fully with the FSA in taking prompt and effective remedial action to rectify these shortcomings and were commended by the FSA for their approach in resolving the matter.

The Compliance department restructured significantly during the year, to enhance its capacity to provide the strength and breadth of service needed to ensure compliance with evolving UK regulations. Stemming from this initiative, common objectives across Investec plc were identified, which will further encourage improvements and consistency across the businesses.

USA

Regulatory scrutiny continues to escalate in the US. Research and investment banking and anti-money laundering efforts continue to receive considerable attention. In addition, in recent months, mutual fund timing activities as a whole came under significant scrutiny by US regulators, the Securities and Exchange Commission and the New York Attorney General. First, US regulators were investigating late-trading scenarios in which the client, taking advantage of market information disclosed after the close of the market, places an order after the market close and receives that day's price. By doing so, such clients will be treated more favourably than others in contravention of the mutual funds'

prospectus. Of note, Investec stated market policies prohibit late trading. Second, the regulators contend that short-term trading of a mutual fund has a negative effect on long-term investors, as the fund must adjust its investment strategies to handle the fluctuations in purchases and sales of the fund. Investec cooperated with the regulators in their investigations. There are no indications that Investec is the subject or target of further investigation.

Australia

During the past year, the Australian regulatory environment underwent substantial reform, with the introduction of new legislation, Australian Securities and Investments Commission policy statements and Australian Prudential Regulation Authority standards. The most significant legislation was the Financial Services Reform Act, which brought about a uniform licensing, conduct and disclosure regime for Australian financial markets, products and services. Investec Bank (Australia) adapted its licences and further developed its compliance framework to ensure it can comply with this expanding regulatory and legislative environment.

Israel

Following the appointment of a dedicated Compliance Officer in 2002, resources in the Compliance department were increased to meet the requirements of an increasingly regulated environment. Management established a Compliance Enforcement Coordination Committee, to facilitate the implementation of the annual compliance plan.

During 2003, the Compliance department implemented and trained all employees on new consumer protection laws. The most significant new legislation relates to the requirement to pre-notify clients of charges for services provided by banks.

Following a Bank of Israel directive on anti-money laundering, the Compliance Officer included the implementation and monitoring of anti-money laundering policies in the detailed Compliance annual work plan.

Credit ratings

In general, Investec has been assigned strong ratings for credit quality, capacity for timely repayment and financial strength. Historically, rating agencies tended to focus on rating the combined Investec group. However, in terms of the implementation of Investec's Dual Listed Companies structure, Investec Limited and Investec plc 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 Limited, Investec Bank (UK) Limited and Investec Bank (Australia) Limited. Certain rating agencies have also continued to rate Investec Limited (formerly Investec Group Limited). The ratings as at 31 March 2004 are set out below.

Ratings for Investec Limited

Capital Intelligence Ratings

Foreign currency - short-term rating	A3*
Foreign currency - long-term rating	BBB-*

CA Ratings

Short-term local currency debt rating	A-1+
Long-term local currency debt rating	A+

Fitch

Individual rating	B/C
Support rating	5
International short-term	F3*
International long-term	BBB*

Ratings for Investec Bank Limited a wholly owned subsidiary of Investec Limited

Capital Intelligence Ratings

Domestic strength rating	A-
Foreign currency - short-term rating	A3*
Foreign currency - long-term rating	BBB-*

Fitch

Individual rating	B/C
Support rating	3
International short-term	F3*
International long-term	BBB*
Domestic short-term	F1
Domestic long-term	A+

Global Credit Ratings

Short-term rating	A-1+
Long-term rating	A+

Moody's - Foreign

Bank financial strength	C-
Short-term bank deposit	Prime 2*
Long-term bank deposit	Baa2*

Moody's - National

Bank financial strength	A3
Short-term bank deposit Prime	Prime 1
Long-term bank deposit	A1

* constrained by the sovereign rating for South Africa.

Ratings for Investec Bank (UK) Limited a wholly owned subsidiary of Investec plc**Fitch**

Individual rating	C
Support rating	5
Short-term rating	F2
Long-term rating	BBB+
Subordinated note rating	BBB

Global Credit Ratings

Short-term rating	A2
Long-term rating	A-

Moody's

Bank financial strength	C-
Short-term bank deposit	Prime 2
Long-term bank deposit	Baa2
Subordinated note rating	Baa3

Ratings for Investec Bank (Australia) Limited a wholly owned subsidiary of Investec plc**Moody's**

Bank financial strength	D+
Short-term bank deposit	Prime 2
Long-term bank deposit	Baa2

Directors' responsibility and corporate governance

"Extremely sound approaches, processes and systems are extremely carefully planned and designed with intent to achieve appropriate goals almost without fail; the application is of extremely high standard and has become a culture. Stakeholders are assured that their interests are judged extremely important in every case"

CA Ratings - AAg Corporate Governance Rating, Investec Limited, November 2003

Introduction

While the **board retains responsibility** for the overall process and structure of corporate governance of the group, each business area and all employees worldwide are also responsible for adherence to good corporate governance practices.

Investec recognises that good governance:

- Protects the brand of the organisation.
- Mitigates against reputational impacts.
- Supports the trust and confidence of stakeholders.
- Leads to effectiveness, efficiency and sustainability.
- Enhances the capital market perception of the group.

Sound corporate governance continues to be instilled in the group's values, culture, processes, functions and organisational structure. Over time, the group has created the structures necessary to formalise oversight and to ensure that the values remain embedded in all businesses and processes. Investec continues to refine these structures, including a written **Statement of Values**, which serves as **Investec's Code of Ethics** and has always been a pillar of its culture.

The group's values and philosophies form the framework against which behaviour, practices and activities are measured, to assess the characteristics of good governance. Investec's values demand that the directors and employees

of the group conduct all internal and external dealings with integrity, consistently and uncompromisingly displaying moral strength and behaviour which promotes trust.

Governance highlights

Investec's governance philosophy is to focus on practices that add competence rather than mere compliance. The group is aware that a simple "tick box" approach can result in responses that are not demonstrable and do not add to the governance environment.

The board recognises that corporate governance practices must be appropriate and relevant for the size, nature and complexity of the group, to prevent stifling of the entrepreneurial spirit, while promoting sound practices within the context of economic performance.

Investec continued to refine its corporate governance practices during the year under review. The governance environment is monitored, and developments and emerging issues are assessed and addressed as considered appropriate.

The following matters highlighted in the previous year's report were addressed during the year:

- Non-executive status of the Chairman - following the Myburgh review, the South African Reserve Bank (SARB) raised a concern relating to the Chairman's non-executive status. This was fully addressed and the SARB accepted that the arrangements that are now in place satisfy its requirements with regard to his non-executive status.
- Size of the Investec Bank Limited board - this was reviewed and is considered to be operating effectively. Investec also reviewed the independence of the non-executive directors.
- Director Affairs Committee - this was established. See the section on board committees below for more detail.

Governance achievements

Governance achievements during the year under review include:

Aag - extremely sound corporate governance rating assigned by CA Ratings in an independent governance rating of Investec Limited

The rating assigned by CA Ratings was based on the principles of the South African King II "Code of Corporate Practices and Conduct" (King II) and international practices. The focus was on approaches, processes, systems and application of practices and whether these supported long-term sustainability.

Factors identified that supported the rating were:

- Directors and senior management are receptive to open and vigorous debate.
- A clear organisational alignment of goals.
- An extensive consultative management approach.

The review also highlighted certain suggestions to further refine and enhance the governance practices within Investec Limited, which the board will consider.

Board and Audit Committee assessments

Internal assessments were conducted to assess the effectiveness and performance of the boards and the Audit Committees of Investec Limited and Investec plc. The boards of the significant subsidiaries of the group were also assessed.

The assessments were initiated by the Chairmen of the board and Audit Committee respectively, completed by all members of the board and Audit Committee, and reviewed and reported on by the Global Head of Corporate Governance and Compliance.

The assessments, which took the form of a questionnaire, were based on the King II, London Combined Code (1998), Blue Ribbon and OECD guidelines. The Smith report on Audit Committees forms part of the London Combined Code.

The role and functioning of the Internal Audit and Compliance functions were assessed as part of the Audit Committee assessment.

Matters identified are being addressed by the Chairmen of the board and Audit Committee.

Participated actively in the development of the Financial Sector Charter in South Africa

Senior management of Investec Limited played an active role in the working committee established by the Banking Council South Africa to deliberate and develop a framework that proactively redresses the socio-economic challenges in South Africa.

The charter was well received by all stakeholders and has moved into practical implementation during the year.

Reviewed and addressing the risk management expectations of the revised Basel Capital Accord (Basel II) that is planned for implementation in 2007

The group implemented plans and actions to address the requirements of the new capital accord due for implementation in 2007. These include participation in industry fora, reviews of internal processes and appropriateness of disclosures.

Reviewed the revised London Combined Code

In July 2003, the Financial Reporting Council published a new London Combined Code on Corporate Governance. The revised code followed the review of the role and effectiveness of non-executive directors by Sir Derek Higgs as well as the review of audit committees by Sir Robert Smith. The revised code applies for reporting years beginning on or after 1 November 2003. The group has reviewed the recommendations made in the revised code and where relevant, changes have been, and will continue to be made to comply with these provisions, which are applicable for the group's 2005 financial year.

Black economic empowerment

During November 2003, Investec Limited concluded a groundbreaking shareholding transaction between three empowerment partners and an employee trust, which resulted in the empowerment consortium acquiring 25.1% of the issued share capital of the company. Furthermore, Investec won the "Most progressive established company of the year", presented by *BusinessMap*, in recognition of its carefully crafted, tailor-made approach to black economic empowerment and the need for transformation.

Inclusion in sustainability indices

Investec plc was included in the Kempen/SNS Smaller Europe Socially Responsible Investment Index, the first sustainable index for small European companies, which was launched on 1 October 2003. Furthermore, Investec Limited was included in the JSE Socially Responsible Investment Index, which was launched in May 2004.

Reporting awards

The group continued to receive recognition for its ongoing commitment to provide timely, detailed and relevant disclosure to stakeholders and was rated in the excellent category (just outside the top 10) of the top 100 listed companies on the JSE in terms of the *Ernst & Young Excellence in Financial Reporting Awards*.

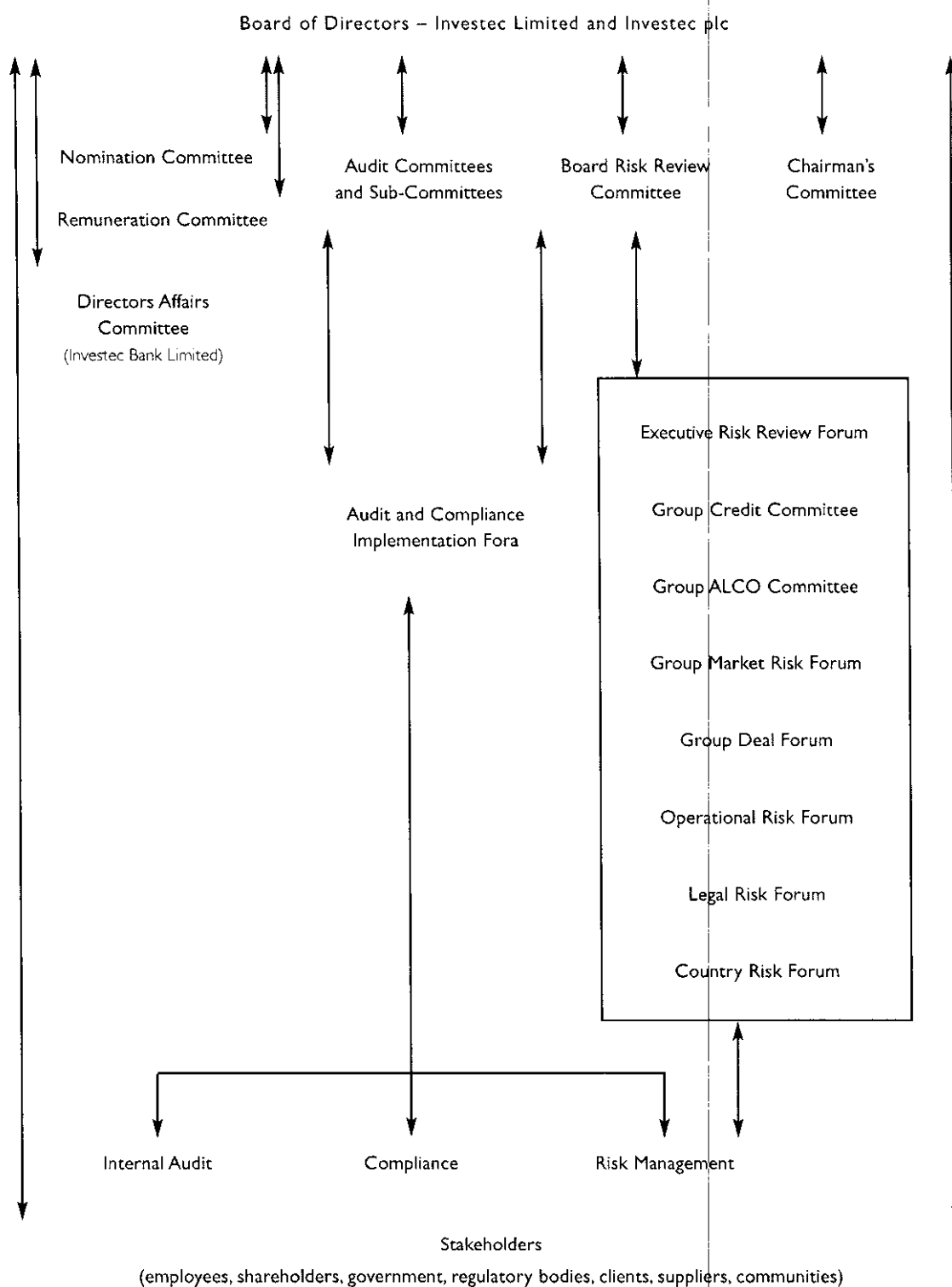
Internal control issues

During the period under review the following issues with respect to internal controls are noted:

- As advised at the time of the group's interim results a dealer suppressed dealing information, which action was facilitated by a manipulation of controls resulting in a loss. The relevant controls have been remedied and enhanced by senior management.
- A regulatory review of Carr Sheppards Crosthwaite's compliance related procedures and processes by the UK

Governance organisation

The governance practices can be depicted as follows:



Financial Services Authority (FSA), noted certain failings in the processes adopted by the firm. Subsequent to the year end the FSA imposed a fine of £500,000 on Carr Sheppards Crosthwaite. Carr Sheppards Crosthwaite co-operated fully with the FSA in taking prompt and effective remedial action to rectify these shortcomings and was commended by the FSA for its approach in resolving the matter.

Executive management has reviewed both the incidents and has implemented corrective action and enhanced control processes to mitigate these risks from reoccurring.

Board statement

The board is of the view that the group complied with King II and the London Combined Code (1998) principles during the period under review, except as follows:

King II

- The Chairman of the board is not considered to be independent but has further enhanced his non-executive status, as discussed elsewhere in this report.
- The Chairman of the Investec Limited Audit Committee and the combined group Audit Committee is not independent, but is considered by the board to be the most appropriate non-executive director to chair the Audit Committee, as set out below in the review of the Audit Committee on page 110.

London Combined Code (1998)

- With regret, subsequent to the year end, John Abell, the senior independent non-executive director passed away unexpectedly. The board will review the appointment of a senior independent non-executive director shortly.

Other international business units operate in accordance with the governance recommendations of their jurisdiction, but with clear reference at all times to group values and culture.

The view of the board is based on the following practices, which were in operation during the period under review.

Financial reporting and going concern

The **directors are responsible** for monitoring and reviewing the preparation, integrity and reliability of the Investec plc and Investec Limited consolidated financial statements, accounting policies and the information contained in the annual report.

In discharging this responsibility, the directors are supported by an ongoing process for **identifying, evaluating and managing the significant risks** faced by the group, which was in place for the year under review and up to the date of approval of the annual report and financial statements. The process is implemented by Investec management and independently monitored for effectiveness by the audit, risk and other sub-committees of the board, which are referred to below.

Investec operates under a Dual Listed Companies (DLC) structure (see page 37), which requires compliance with the corporate and accounting regulations of both the UK and South Africa.

The financial statements of the group were prepared on the **going concern** basis, taking into consideration the following matters:

- Corporate governance practices.
- Accounting policies adopted.
- The nature and complexity of the business of the group.
- The risks assumed by the group.
- Key business and control processes in operation.
- The operation of board committee support structures.

The board is of the opinion, based on its knowledge of the group, key processes in operation and specific enquiries, that adequate resources exist to support the group on a going concern basis over the next year:

Board of Directors

General

The **composition** of the boards of Investec Limited and Investec plc is set out on pages 139 to 140. The boards of Investec plc and Investec Limited are separate and subject to legal obligations particular to each company. The boards comprise the same persons who are authorised, as board members, to manage Investec as if it were a unified economic enterprise.

The majority of the board members are **non-executive directors**. An assessment of the boards of Investec Limited and Investec plc based on the King II and the London Combined Code (1998) criteria for **independence**, respectively, was completed and reviewed by the board. In terms of these respective evaluations, the following persons are **not considered to be independent non-executive directors**:

- Board of Investec Limited: Messrs HS Herman, DE Jowell, IR Kantor; P Malungani and F Titi.
- Board of Investec plc: Messrs HS Herman, DE Jowell, IR Kantor; P Malungani and F Titi.

The board is of the view, however, that the **majority of the non-executive directors are independent** of management in order to promote the interests of stakeholders. The balance of executive and non-executive directors is such that no one person or group can dominate the board processes. Arising out of the South African Reserve Bank (SARB) Myburgh review, a recommendation was made that a majority of non-executive directors on the Investec Limited and Investec Bank Limited boards should be independent by 2009. The board will consider this matter over the next year.

The roles of the **Chairman** (Hugh Herman) and the **Chief Executive Officer** (Stephen Koseff) are separate. During the year, the Chairman further distanced himself from any executive authority and status, thus enhancing his status as a non-executive director.

The board is considered to be appropriately **skilled** with regard to its responsibilities and the activities of the group. The **skill and experience** profile of the board is regularly considered, to ensure an appropriate and relevant board composition. The **board profile** on pages 139 and 140 sets out brief biographies of the members of the board.

The boards understand and accept their **responsibility** for the performance and affairs of the group.

Identification, selection and appointment of directors are dealt with by the Nomination Committee. **Induction and ongoing awareness** of emerging issues and developing matters are provided to directors, to enable familiarity and an understanding of the business of the group and the operating environment. This process was improved during the year under review.

In terms of the Companies' Articles of Association, each director is required to seek **re-election** at least every three years. Details of the directors presenting themselves for re-election at the Annual General Meetings (AGM) in August 2004 may be found in the Notice of the AGMs. Service contract details are set out in the remuneration report on page 119.

In accordance with the London Combined Code (1998), John Abell was appointed the **senior independent non-**

executive director during the period under review. With regret, John Abell passed away unexpectedly in May 2004 and the board will look to appoint a new senior independent non-executive director shortly. The non-executive directors meet regularly without the executive directors present, under the auspices of the senior independent non-executive director.

The board has **unrestricted access** to senior management and company secretaries, information, documentation and records as needed to fulfill their responsibilities. In addition, each director has access to **specialist independent advice** through the senior independent director.

The **company secretaries** of Investec Limited and Investec plc are both experienced and appropriately skilled. They are supported by the group Head of Corporate Governance and Compliance.

Board meetings are scheduled annually in advance and are held equally in South Africa and the UK in any calendar year, in line with the requirements as laid down in terms of the group's DLC structure. **Agendas** have been established and directors are able to add any matters to these agendas. Directors are provided with **full board papers**, to enable them to consider in advance the issues on which they will be requested to give decisions.

Board meeting attendance

Investec Limited and Investec plc	8 April 2003	20 May 2003	9 July 2003	1 Oct 2003	26 Nov 2003	4 Feb 2004
Executive directors						
S Koseff (Chief Executive Officer)	✓	✓	✓	✓	✓	✓
B Kantor (Managing Director)	✓	✓	✓	✓	✓	✓
GR Burger (Group Risk & Finance Director)	✓	✓	✓	✓	✓	✓
A Tapnack	✓	✓	✓	✓	✓	✓
Non-executive directors						
HS Herman (Chairman)*	✓	✓	✓	✓	✓	✓
JN Abell	✓	✓	✓	✓	✓	✓
SE Abrahams	✓	✓	✓	✓	✓	✓
GFO Alford	✓	✓	✓	✓	✓	✓
H Fukuda (appointed 21 July 2003)				A	✓	✓
GMT Howe (appointed 21 July 2003)				✓	✓	✓
DE Jowell*	✓	✓	✓	✓	✓	✓
IR Kantor*	✓	✓	✓	✓	✓	✓
Sir C Keswick	✓	✓	A	A	A	✓
MP Malungani*	✓	A	✓	✓	✓	✓
PRS Thomas	✓	✓	✓	✓	✓	✓
F Titi* (appointed 30 Jan 2004)						A

A = Apology

* Non-executive directors who are considered not to be independent.

Role and responsibility of the board

The board **retains full and effective control** of the group and is ultimately accountable and responsible for the performance and affairs of the group. This includes responsibility for reviewing and guiding corporate strategy, through the establishment of key policies and objectives, understanding the key risks faced by the group, determining the risk tolerance of the group and the processes in operation to mitigate these.

The board defined the limits of **delegated authority** and is ultimately responsible for assessing and managing risk policies and philosophies; overseeing major capital expenditures, acquisitions and disposals; approving the establishment of businesses; and approving the introduction of new products and service offerings.

In discharging its responsibilities, the board is supported by members of Investec **management**, who are required to implement the board plans and strategies. The board monitors management's progress in this regard on an ongoing basis.

Furthermore, the board, directly or through its **sub-committees**:

- Continually assesses both the quantitative and qualitative aspects of the group's performance through a comprehensive system of financial and non-financial monitoring. This involves an annual budget process, detailed monthly reporting and management strategic and operational updates.
- Approves the annual budgets and business plans.
- Monitors the group's compliance with relevant laws, regulations and codes of business practice.
- Monitors the group's communication with all stakeholders.
- Identifies and monitors key risk areas and key performance indicators.
- Reviews processes and procedures to ensure the effectiveness of the group's internal systems of control.

The board is accountable to all Investec's stakeholders for exercising leadership, integrity and judgement in pursuit of its strategic goals and objectives. This is to achieve long-term

sustainable growth and prosperity for the group.

As noted in the "Governance achievements" section, **board performance** was internally assessed during the year under review.

Board sub-committees

The board is supported by **specialist committees**, discussed below:

- Chairman's Committee
- Audit Committee
 - Audit and Compliance Implementation Forum
- Board Risk Review Committee
 - Executive Risk Review Forum
 - Group Asset and Liability Committee
 - Group Credit Committee
 - Country Risk Forum
 - Group Market Risk Forum
 - Group Deal Forum
 - Operational Risk Forum
- Directors Affairs Committee
- Nomination Committee
- Remuneration Committee

These committees have specific terms of reference, appropriately skilled members, independent non-executive director membership, senior management participation and access to specialist advice when considered necessary. While not required by King II and the London Combined Code (1998), arising out of the Myburgh report, the SARB recommended that all non-executive directors should participate in at least one Board Committee. This recommendation will receive board consideration and will be appropriately assessed.

Chairman's Committee

Role and responsibility

The Chairman's Committee is responsible for reviewing the group's strategy and managing its business affairs. Responsibility for the day-to-day operations of the business is delegated to senior management as described above.

Membership and attendance

Investec Limited Chairman's Committee	30 July 2003	29 Sept 2003	24 March 2004
HS Herman (Committee Chairman)	✓	✓	✓
GR Burger (Group Risk and Finance Director)	✓	✓	✓
DE Jowell (non-executive director)	✓	A	✓
B Kantor (Managing Director)	✓	✓	✓
S Koseff (Chief Executive Officer)	✓	✓	✓
DM Lawrence (executive director - Investec Bank Limited)	A	✓	✓
A Tapnack (executive director)	✓	A	✓
B Tapnack (executive director - Investec Bank Limited)	✓	✓	✓

A = Apology

Audit Committees

Role and responsibility

The various Audit Committees are responsible for, among other things:

- The review and recommendation for the board's approval of Investec's combined consolidated and individual company reports and financial statements and other published financial reporting documents.
- Review of the appropriateness of the combined group's and individual companies' accounting policies and their application.
- Overseeing Investec's external audit process in the review of reports and accounts.
- Consideration of the external audit scope, fees and audit findings.
- Review of Internal Audit plans, reports, capacity and capability, and the reliance by external audit on the work and findings of Internal Audit.
- Review of non-audit services provided by the group's external auditors.
- Focus on Investec's compliance with legal requirements, accounting standards and the relevant listing requirements.
- Measures to maintain effective systems of internal financial control and for reporting non-financial operating data.

Membership and attendance

Investec has a combined DLC group Audit Committee

(referred to in this section as the DLC Audit Committee), which is chaired by Donn Jowell.

In accordance with the requirements of the London Combined Code (1998) and King II, all members of the DLC Audit Committee are non-executive directors and a majority of the voting members are independent directors. Donn Jowell is not considered to be an independent non-executive director. The board considered this situation and having regard to his knowledge of the group and his objectivity, is satisfied that he is currently the most appropriate non-executive director to chair the Audit Committee.

Furthermore, in terms of the DLC structure, Investec Limited and Investec plc have individual Audit Committees that share similar responsibilities to the DLC Audit Committee and report to the DLC Audit Committee. The members of the Audit Committee of Investec plc are non-executive directors and are considered to be independent in terms of the London Combined Code. The members of the Audit Committee of Investec Limited are non-executive directors and the majority are considered to be independent in terms of King II.

A number of senior managers are invited (or required by the various Audit Committee charters) to attend the Audit Committee meetings. The risk and compliance managers, internal auditors, respective firms of external auditors and non-executive directors all have unrestricted access to the Chairman of each Audit Committee and to one another.

Investec DLC Audit Committee	19 May 2003*	24 Nov 2003*		
DE Jowell (Chairman)	✓	✓		
JN Abell	✓	✓		
SE Abrahams (non-voting member)	A	✓		
GFO Alford	✓	✓		
Sir C Keswick	✓	A		
Investec Limited Audit Committee	7 April 2003	27 Aug 2003	17 Nov 2003	2 Feb 2004
DE Jowell (Chairman)	✓	✓	✓	✓
SE Abrahams	✓	✓	✓	✓
PRS Thomas	✓	✓	A	✓
Investec plc Audit Committee	19 May 2003	7 July 2003	29 Sept 2003	24 Nov 2003
JN Abell (Chairman)	✓	✓	✓	✓
SE Abrahams	A	A	✓	✓
GFO Alford	✓	✓	✓	✓
GMT Howe (appointed 29 August 2003)			✓	✓
Sir C Keswick	✓	✓	A	✓

A = Apology

* = Annual and interim results review of the consolidated group.

Audit and Compliance Implementation Forum

The Audit and Compliance Implementation Forum continued to evolve in the year under review.

The forum is attended by certain executive directors and heads of risk and control functions. Non-executive directors attend by invitation. The purpose of this forum is to facilitate the timely escalation, response and understanding of risk and control matters that require a response from management. The forum performs a key role in enhancing risk and control consciousness and the associated control environment of the group. It supports and provides key insights to the Audit Committees.

Board Risk Review Committee

Role and responsibility

The purpose of the committee is to ensure that:

- All decisions of the board on risk management policies and procedures are implemented and monitored throughout Investec.
- The risk management structure is adequate, with sufficient resources and budget, and exceptions are

reported to the board.

- Exposure limits for market, counterparty and credit risk are ratified.
- There is an ongoing process of risk and control identification, particularly for any changes to business objectives and the bases of measuring risk.

The Board Risk Review Committee defines the processes by which internal financial control risk is assumed and monitored. The Audit Committee is responsible for reviewing these processes, which are the domain of the Board Risk Review Committee. The independent Group Risk Management division provides the expertise, processes and techniques from which the processes can be built and monitored daily.

A number of committees are dedicated to aspects of risk management and report directly to the Board Risk Review Committee and the Board of Directors. These include the Group Asset and Liability Committee, Group Credit Committee, Country Risk Forum, Group Market Risk Forum and Group Deal Forum. Details of these committees can be found in the section on "Risk management" on pages 79 to 82.

Membership Board Risk Review Committee

Chairman	S Koseff (Chief Executive Officer)
Members	<p>Non-executive directors</p> <p>JN Abell SE Abrahams GMT Howe DE Jowell Sir C Keswick PRS Thomas</p> <p>Executive directors of DLC and subsidiary boards</p> <p>GR Burger (Group Risk and Finance Director) RPMA Forlee B Fried B Kantor (Managing Director) DM Lawrence A Tapnack B Tapnack</p> <p>Senior management</p> <p>JKC Whelan IR Wohlman</p>
Meeting times during the year	Monthly

Executive Risk Review Forum

Role and responsibility

The Executive Risk Review Forum supplements the Board Risk Review Committee and its purpose is to:

- Evaluate the most significant risks Investec faces in the ordinary course of business (credit, market, liquidity, operational, legal and reputational).
- Ensure that limits are adhered to and that agreed recommendations to mitigate risk are implemented.
- Act as agent of the board to ensure that all decisions of the board on risk management policies and procedures

- are implemented and monitored throughout group.
- Ensure the group-wide risk management structure is adequately resourced and has an appropriate budget.
- Provide regular reports to the board with emphasis on effectiveness of the control framework.
- Provide regular reports on group-wide adherence to regulatory requirements and advise on how changes to regulatory requirements will affect the group.
- Ensure that there is an ongoing process of risk and control identification, particularly in line with any changes to business objectives, for example, the commencing of a new trading area or product stream.

Membership

Chairman	S Koseff (Chief Executive Officer)
Members	GR Burger (Group Risk and Finance Director) RPMA Forlee B Fried S Hackner PR Jacobson B Kantor (Managing Director) DM Lawrence AWJ Leith A Tapnack B Tapnack DM van der Walt RJ Wainwright JKC Whelan IR Wohlman
Meeting times during the year	Every Friday except on the Board Risk Review Committee dates

Directors Affairs Committee

Investec Bank Limited, a wholly owned subsidiary of Invesec Limited, as required in terms of the South African Banks Act, established the Directors Affairs Committee.

Role and responsibility

The role of the committee is to:

- Assist the board in the determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the bank.
- Establish and maintain a board directorship continuity programme entailing:
 - A review of the performance of and planning for successors to the executive directors.
- Measures to ensure continuity of non-executive directors.
- A regular review of the composition of skills, experience and other qualities required for the effectiveness of the board.
- An annual assessment of the board as a whole and of the contribution of each individual director.
- Assist the board in the nomination of successors to key positions in the bank and ensure that a management succession plan is in place.
- Assist the board in determining whether the employment of any director should be terminated.
- Assist the board in ensuring that the bank was at all times in compliance with all applicable laws, regulations and codes of conduct of practices.

Membership

Chairman	HS Herman
Members	Non-executive directors D Motsepe Dr: MZ Nkosi F Titi RAP Upton
Meeting times during the year	Twice a year

Nomination Committee

Role and responsibility

The committee will:

- Regularly review the board structure, size and composition and make recommendations to the board on any changes that are deemed necessary.
- Identify and nominate candidates for the approval of the board to fill board vacancies as and when they arise, as well as put in place plans for succession, in particular, for the Chairman, the Chief Executive Officer and the Managing Director.
- Make recommendations to the board for the continuation (or not) in service of a director.
- Make recommendations to the board for the

continuation (or not) in service of any director who has reached the age of 65 years.

- Recommend directors who will be retiring by rotation to be put forward for re-election.
- Assist the board in defining the role of the senior non-executive director as required by the London Combined Code (1998).

Membership

Chairman	HS Herman
Members	SE Abrahams Sir C Keswick
Meeting times during the year	Annually

Remuneration Committee

Role and responsibility

The role of the Remuneration Committee is discussed in detail on pages 117 to 119.

Membership and attendance

	8 April 2003	20 May 2003	9 July 2003	1 Oct 2003	26 Nov 2003	4 Feb 2004
GFO Alford (Chairman)	✓	✓	✓	✓	✓	✓
JN Abell	✓	✓	✓	✓	✓	✓
Sir C Keswick	✓	✓	✓	✓	✓	✓

Management and succession planning

Global business unit heads, geographic management, and 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. Investec's **management structure**, reporting lines and the division of responsibilities are built around a geographic, divisional and functional network, as depicted on page 44.

Furthermore, each strategic business unit has its own executive management committee and is responsible for taking and implementing operational decisions, managing risk and aligning divisional objectives with the group strategy and vision.

Matters of **succession** are considered regularly. Decision making is spread to encourage and develop an experienced

pool of talent. As at the year end, the Executive Committee and Group Management Forum in South Africa were augmented with selected senior management appointments.

Internal control

The group adopted the **Turnbull guidance** ("Internal Control: Guidance for Directors on the Combined Code"), issued by the Institute of Chartered Accountants of England and Wales in 1999, and continued to embed the principles throughout the group during the year under review.

Risks and controls are reviewed regularly for appropriateness and effectiveness. The Board Risk Review Committee assists the board in this regard. Leading 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.

The system of internal control is designed to manage, not eliminate, significant risks faced by the group and was in place for the year under review. It is recognised that such a system can only provide a reasonable, and not absolute, assurance against material misstatement or loss.

This is achieved within the group through a combination of risk identification, evaluation and monitoring process, appropriate decision and oversight forums and control functions such as Risk Management, Internal Audit and Compliance. These ongoing processes were in place throughout the year under review.

As part of the process, the overall Investec business was broken down into strategic business units. Through establishment of a network of local risk champions, each unit was empowered with the responsibility and accountability for management of its own risk. Each business unit now follows a consistent risk assessment process through workshops facilitated by Group Risk Management. Objectives to achieve shareholder value are defined, and the risks to these objectives and controls for each risk are identified and evaluated. The action plans and risk and control issues arising from this process are reviewed regularly at the relevant executive and management committees based at a business unit level.

These risk assessments are reviewed regularly by senior management and at least annually by the Board Risk Review Committee.

Internal Audit reports any control recommendations to senior management, risk management and the relevant Audit Committee.

Appropriate processes exist to ensure that timely corrective actions are taken on matters raised by Internal Audit.

Significant risks are reviewed weekly by the Executive Risk Review Forum and monthly by the Board Risk Review Committee. Significant and material breaches of prescribed controls are reported to the Board Risk Review Committee and the Audit Committee. Reports from the Audit Committees, Board Risk Review Committee and control functions are reviewed at each board meeting.

Internal financial control

Financial controls throughout the group focus on critical risk areas. These areas are, as appropriate, identified by operational management, confirmed by group management, monitored by the board, reviewed by Group Risk Management, assessed by the risk assurance functions of Internal Audit and Compliance.

Internal financial controls are based on established policies and procedures. Management is responsible for implementing internal financial controls, ensuring that personnel are suitably qualified and that an appropriate segregation exists between duties and independent review.

Processes are in place to monitor internal control effectiveness, identify and report material breakdowns, and ensure that timely and appropriate corrective action is taken.

The directors consider that the group's system of internal financial control is adequately designed to:

- Provide reasonable, although not absolute, assurance of both the integrity and reliability of financial information.
- Identify and appropriately mitigate significant risks.
- Safeguard, verify and maintain accountability of assets.
- Prevent and detect fraud.
- Support business objectives and sustainability under normal and adverse operating conditions.
- Ensure compliance with applicable laws and regulations.

Risk management

The board is responsible for the total process of risk management and the system of internal control and implemented a number of committees (as mentioned above) to assist in this regard. Senior management are responsible for identifying risk and implementing appropriate mitigation and controls within their businesses. An independent Group Risk Management division, which is accountable to the board, is responsible for designing and reviewing the process of risk management.

Risk management is discussed in more detail on pages 79 to 103.

Internal audit

Each significant jurisdiction has an Internal Audit presence that is appropriate for the size, nature and extent of business conducted. Smaller jurisdictions are supported by the Internal Audit teams of the Investec Limited and Investec plc groups.

A risk based audit approach is followed. Annual audit plans are approved by the Audit Committee.

Heads of Internal Audit report to the Head of Corporate Governance and Compliance, and have unrestricted access to the Chairmen of the various Audit Committees.

For further details on the group's Internal Audit function, see page 99.

External audit

The group's external auditors are Ernst & Young and KPMG Inc. The independence of the external auditors is recognised.

The Audit Committee meets with the external auditors to review the scope of the external audit, budgets and any audit matters arising.

The external auditors attend the Audit Committee meetings and have access to the Chairmen of the various Audit Committees. Non-audit services are dealt with in terms of an agreed policy.

Compliance

The group recognises its responsibility to conduct business in accordance with the laws and regulations in the jurisdictions in which it conducts business.

The group Compliance function is supported by compliance officers in the business units.

For further details on the group's Compliance function, see page 100 to 101.

Regulation and supervision

The group is subject to external regulation and supervision by various supervisory authorities - the main ones being the South African Reserve Bank (SARB), the UK Financial Services Authority (FSA) and the Australian Prudential Regulatory Authority.

In terms of the DLC structure, the SARB Banking Supervision Department is the lead supervisor of the combined Investec group, comprising Investec Limited and Investec plc. The SARB is also the supervisor of Investec Limited, while the FSA in the UK is the supervisor of Investec plc. The group attempts to establish and maintain open and active dialogue with its regulators and supervisors. Processes are in place to respond proactively and pragmatically to emerging issues. The group reports to regulators and supervisory bodies regularly. Where appropriate, the group participates in industry committees and discussion groups to maintain and enhance the regulatory environment in which it operates.

Communication and stakeholder relations

The Board of Directors subscribes to a philosophy of providing meaningful, transparent, timely and accurate financial and non-financial information to its primary stakeholders, which include employees, shareholders, government, regulatory bodies, clients, suppliers, rating agencies, the media, communities and industry investment analysts. This is to help these stakeholders make meaningful assessments and informed investment decisions about the group. Investec endeavours to present a balanced and understandable assessment of the group's position by addressing material matters of significant interest and concern. The board recognises the importance of ensuring an appropriate balance in meeting the diverse needs and

expectations of all the group's stakeholders and building lasting relationships with them.

The Investor Relations area continues to be enhanced and interaction with major stakeholders is ongoing. The Investor Relations division reports back regularly to the operating divisions, the group executive and the board on various matters and concerns raised by stakeholders. The group was again considered by independent evaluations of the annual report to have excellent stakeholder communication.

The Annual General Meeting is considered a forum in which all stakeholders can raise matters of concern.

Various shareholder representative organisations in the UK raised a number of matters with the group during the year. These were all responded to and, where appropriate, adopted in the practices of the group. The group will continue to engage these bodies, to remain informed of emerging governance issues.

Dealings in securities

Dealings in securities are subject to a policy that has operated for a number of years. Investec's policy is based on regulatory guidance and industry practice.

The policy discourages speculative trading, encourages transparency and is monitored by the Group Compliance division. A closed period policy is in place during periods of price sensitivity, during which officers and staff are precluded from dealing in securities of the group.

All personal dealings are required to be conducted through the group's securities operation, to further enhance transparency and monitoring.

Values and code of conduct

The group has a strong organisational culture of entrenched values, which forms the cornerstone of the expected behaviour of the group towards all stakeholders, both internal and external. These values are embodied in a written Statement of Values, which serves as the group's Code of Ethics and is continually reinforced. The group's Code of Ethics is updated from time to time. The group regularly conducts values workshops across the entire group, to review with all members of staff the values, their meaning, relevance and importance in the daily operations of the group.

The group views all employees as the custodians of ethical behaviour, which is reinforced through internal processes, policies and procedures. As such, all new employees are invited to attend induction processes at which the group's philosophies, values, culture, risk management and

compliance procedures are explained and discussed. Furthermore, the group's Organisational Development team plays an important role in facilitating the understanding and ongoing practice of the group's values, philosophies and culture. In addition to the group values, acceptable business practices are communicated through the Human Resource practices manual, which is available online on the group's intranet.

Investec continually strives to conduct its business with uncompromising integrity and fairness so as to promote complete trust and confidence in the banking industry.

Employee participation and skills development

Investec recognises that people are its most important asset. Its philosophy, therefore, is to employ the highest calibre individuals, who are characterised by integrity, intellect and innovation, and demonstrate compatibility with Investec's philosophy and core values. Investec has a flat, integrated structure, where individuality is encouraged. The group is committed to meaningful employee participation in the affairs of the group and to skills development. This is elaborated on in the group's 2004 sustainability report.

Employee ownership

Material employee ownership is one of Investec's fundamental philosophies. As at 31 March 2004, management and staff held an effective interest in Investec of approximately 20%. Ownership of the group is devolved to employees through the various share options and leveraged equity schemes, and participation in ownership by all employees is actively encouraged.

Information on the various schemes can be found in the remuneration report on pages 121 to 125.

Sustainable business practices

Sound governance at Investec covers economic, social and environmental performance and practices.

The group's 2004 sustainability report details Investec's initiatives, programmes, activities and successes in demonstrating the group's commitment to corporate social responsibility.

The 2004 sustainability report has been published as a separate document and has been packaged with the annual report. It is also available on request and on the group's website: www.investec.com/group/links/investorrelations

Remuneration report

Statement from the Chairman of the Board Remuneration Committee

The remuneration report has been prepared by the Remuneration Committee and has been approved by the Board of Directors.

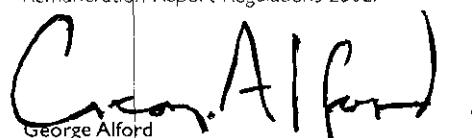
The board believes that a properly constituted and effective remuneration committee is key for improving the link between directors' pay and performance, with the ultimate aim of enhancing the group's competitiveness.

The primary purpose of the committee is to determine the group's policy on the remuneration of executive directors and the remuneration package for each executive director. The committee is made up exclusively of non-executive directors, and executive directors are not involved in determining their own remuneration packages.

This report describes the group's current remuneration policy and details the directors' remuneration for the 2004 financial year.

The report is intended to comply with the provisions of the 1998 London Combined Code, the UK Directors' Remuneration Report Regulations 2002, the UK Financial Services Authority Listing Rules, the South African King II "Code of Corporate Practice and Conduct" and the JSE Securities Exchange South Africa (JSE) Listing Rules. In addition, the board recognises the recommendations made in the revised London Combined Code (the 2003 Code), which will become effective for all listed companies for reporting years beginning on or after 1 November 2003. Where relevant, changes have been, and will continue to be made to comply with these provisions, which are applicable for the group's 2005 financial year.

Furthermore, the auditors are of the opinion that the auditable part of this report on pages 127 to 133 has been properly prepared, in accordance with the Directors' Remuneration Report Regulations 2002.



George Alford

Chairman, Board Remuneration Committee

Composition and role of the committee

The members of the Remuneration Committee during the year were George Alford (Chairman), John Abell and Sir Chips Keswick. The committee members are independent non-executive directors and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The committee's principal responsibilities and objectives are to:

- Make recommendations to the board, within agreed terms of reference, on the group's framework of executive remuneration, and to determine on their behalf specific remuneration packages for executive directors.
- Ensure that executive directors are appropriately and fairly remunerated and incentivised for their contribution to the group's performance, taking into account both qualitative and quantitative factors.
- Review comparable companies' remuneration practices. This is to ensure that competitive reward strategies and programmes are in place, which will attract and retain qualified and experienced management and executives necessary to meet the group's objectives and safeguard shareholder interests.
- Administer and establish performance targets for Investec's employee share schemes.
- Ensure that the comments, recommendations and rules within South Africa and the UK pertaining to director's remuneration are given due regard, in determining the packages and arrangements of executive directors.
- Review the remuneration packages for executive management.

The committee is authorised by the board to seek any information it requires from any employee of the group in order to perform its duties.

Meetings

The committee met six times during the financial year and all members attended the meetings. The Company Secretary of Investec plc, Richard Vardy, acted as Secretary to the committee.

Advisers to the committee

Where appropriate, the committee has access to independent executive remuneration consultants. The selection of the advisers is at the discretion of the committee Chairman, and the group bears any expenses relating to the appointment of external consultants. During the financial year, the committee continued to use the services of Sibson Consulting. Furthermore, the group has used the services of Linklaters, which has advised on a number of issues pertaining to the group's share incentive plans. Linklaters is Investec plc's legal adviser.

Group Human Resources also advises the committee. The Human Resources division is a specialist function within the group and provides supporting information and documentation relating to matters that are presented to the committee. This includes comparative data and motivations for proposed salary, bonus and share awards. The Head of the group's Human Resources division, Patsy McCue, is not a board director and is not appointed by the committee.

While the Chief Executive Officer has the right to address any meeting of the committee, he plays no role in the determination of his remuneration package or any other executive director's remuneration package.

Policy on executive directors' and employees' remuneration

The group's philosophy is to employ the highest calibre individuals, who are characterised by integrity, intellect and innovation. Investec strives to inspire entrepreneurship within all areas of the group by providing a working environment that stimulates extraordinary performance, so that executive directors and employees may be positive contributors to the group, its clients and their communities.

Investec rewards executive directors and employees as individuals for their contribution through payment of an industry competitive annual package, a variable performance reward and ownership in the form of share incentive scheme participation. Overall rewards, however, are considered secondary in importance to Investec's core values of work content (greater scope of responsibility, variety of work and high level of challenge) and work affiliation (entrepreneurial feel to company and unique culture) in the attraction, retention and motivation of employees.

Investec has a strong entrepreneurial, merit and values-based culture, characterised by a high degree of passion, energy and stamina. The ability to live and perpetuate the stated values, culture and philosophies of the group in the pursuit of excellence is considered paramount in determining overall reward levels. These values clearly apply in the case of the executive directors.

Both the type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining the success and long-term progress of Investec.

The key principles of Investec's overall remuneration policy for executive directors and employees, which was applied during the financial year, are as follows:

- Reward programmes are designed and administered to align directors' and employees' interests with those of the group's stakeholders.
- Reward programmes are clear and transparent, in order to retain individual interest in, and identification with, the short and long-term success of Investec.

- Total rewards comprise a fixed and variable component.
- A significant proportion of rewards, including both annual and long-term incentive components, are explicitly linked to the performance of the business and the individual business units. Investec recognises the performance of the business and the individual. As indicated above, however, both qualitative and quantitative issues form an integral part of the determination of reward levels.
- Reward levels are targeted to be commercially competitive, on the following basis:
 - The most relevant competitive reference points for reward levels are based on the scope of responsibility and individual contribution made.
 - Appropriate benchmark, industry and comparable organisations' remuneration practices are reviewed regularly.
 - For executive directors, the FTSE UK Speciality and Other Finance firms provide the most appropriate benchmark.
 - For employees, a combination of firms from the JSE Financial 15 and the FTSE UK Speciality and Other Finance sector offer the most appropriate benchmark.
 - In order to avoid disproportionate packages across areas of the group and between executives, adjustments are made at any extremes to ensure broad internal group consistencies. Adjustments may also be made to the competitive positioning of pay components for individuals, in cases where a higher level of investment is needed in order to build or grow either a business unit or the group's capability in a geography.
- The total cash element of compensation (base salary plus annual bonus) is linked to the relevant competitive market (see above) at upper quartile levels.
- The reward strategy is open to internal as well as external scrutiny and challenge, and reward programmes are communicated to executive directors.

At the time of writing, the committee's intentions were to apply the same philosophies and principles for the determination of the executive directors' reward packages for the 2005 financial year. These philosophies and principles, however, are subject to appropriate review.

Policy on non-executive directors' remuneration

The policy on the remuneration packages for non-executive directors is agreed and determined by the board. During the previous financial year, the committee conducted a peer group review in order to determine the appropriate level for non-executive directors' packages.

Following the peer group review, it was agreed that the non-executive directors (with the exception of the Chairman) would be paid a basic retainer of £35,000, during the 2004 financial year, for their services as directors. Additional fees of £10,000 are payable for chairing or being a member of

the group Audit or Remuneration Committee. Furthermore, £5,000 per annum is payable for being a member of an Investec plc subsidiary board and R8,000 is payable per meeting for being a member of the Investec Bank Limited board. Fees are also payable for any consulting and other services that are provided to the group. At the time of writing, the committee's intentions were to maintain this fee structure for non-executive directors for the 2005 financial year, except as follows:

- The fee payable for being a member of the Investec Bank Limited board will increase from R8,000 to R12,000 per meeting.
- The chairman of the Remuneration Committee will receive £15,000.

These fee structures, however, are subject to appropriate review.

During the 2004 financial year, the Chairman received a total fee of £250,000 for his services as a director and it is intended that he will receive £275,000 for the 2005 financial year.

Furthermore, non-executive directors may not participate in the group's share incentive plans. Prior to the implementation of the group's Dual Listed Companies (DLC) structure in July 2002, certain non-executive directors did participate in Investec Group Limited's (now Investec Limited's) share incentive plans.

Service contracts and terms of employment

The executive directors of the group have indefinite contracts of employment, terminable by either party giving six months' written notice to the other. Each executive director is entitled to receive a basic salary and is also eligible for an annual bonus, the amount of which will be determined at the discretion of the committee. Furthermore, the executive directors may elect to sacrifice a portion of their annual salary to receive company benefits such as a travel allowance and medical aid. The full costs of these benefits will be deducted from their annual salary. The contracts of employment do not contain provisions for compensation payable on early termination.

Non-executive directors do not have service contracts and letters of appointment confirm the terms and conditions of their service. Unless the non-executive directors resign earlier or are removed from their positions, they will be appointed as directors until the close of the group's annual general meeting (AGM) in 2005 (subject to re-election as directors at that AGM and in terms of the provision of the Articles of Association).

Dates of appointment to the board

The boards of Investec plc and Investec Limited are separate and subject to separate legal obligations for each respective company. They comprise the same persons who are authorised, as boards, to manage Investec as if it were a unified economic enterprise.

The directors of Investec plc, and the dates on which they were appointed to the board, are set out in the table below:

Name	Date of appointment	Notice period	Compensation payable on early termination of contract
Executive directors			
S Koseff (Chief Executive Officer)	26 June 2002	6 months	No
B Kantor (Managing Director)	26 June 2002	6 months	No
GR Burger (Group Risk and Finance Director)	3 July 2002	6 months	No
A Tapnack	1 July 2002	6 months	No
Non-executive directors			
HS Herman (Chairman)	26 June 2002		
JN Abell	19 March 2002		
SE Abrahams	26 June 2002		
GFO Alford	26 June 2002		
H Fukuda OBE	21 July 2003		
GMT Howe	21 July 2003		
DE Jowell	26 June 2002		
IR Kantor	26 June 2002		
Sir C Keswick	26 June 2002		
MP Malungani	26 June 2002		
PRS Thomas	26 June 2002		
F Titi	30 January 2004		

The directors of Investec Limited, and the dates on which they were appointed to the board, are set out in the table below:

Name	Date of appointment	Notice period	Compensation payable on early termination of contract
Executive directors			
S Koseff (Chief Executive Officer)	6 October 1986	6 months	No
B Kantor (Managing Director)	8 June 1987	6 months	No
GR Burger (Group Risk and Finance Director)	3 July 2002	6 months	No
A Tapnack	1 July 2002	6 months	No
Non-executive directors			
HS Herman (Chairman)	1 January 1994		
JN Abell	26 June 2002		
SE Abrahams	21 October 1996		
GFO Alford	26 June 2002		
H Fukuda OBE	21 July 2003		
GMT Howe	21 July 2003		
DE Jowell	1 January 1989		
IR Kantor	30 July 1980		
Sir C Keswick	26 June 2002		
MP Malungani	26 June 2002		
PRS Thomas	29 June 1981		
F Titi	30 January 2004		

Note: The board of Investec Group Limited (now Investec Limited) was reconstituted in terms of the implementation of the group's DLC structure in July 2002. In terms of providing information on the date that directors have been appointed to the Investec Limited board, it would be misleading, in the case of those directors who had been members of the Investec Group Limited board, to indicate that they have only been directors since the date of implementing the group's DLC structure. As a result, for those directors concerned, the dates of appointment reflect the date that they were first appointed to the Investec Group Limited board.

Biographical details of the directors of the board

These details can be found on pages 139 and 140.

Policies on the components of remuneration and employment

The reward package for executive directors and employees comprises:

- Base salary and benefits.
- Annual bonuses.
- Long-term share incentive plans.

The committee reviews the elements of the reward package relative to appropriate benchmarks and other comparable organisations, the value of individuals in perpetuating the group's values and culture, and the possible replacement cost of such individuals.

The elements of the reward package, as listed above, are discussed below and the components for each director are detailed in tables accompanying this report.

Base salary and benefits

Salaries are reviewed annually and reflect the relative skills and experience of, and contribution made by, the individual. Base pay levels are linked to the relevant competitive market (as discussed on page 119) at median levels.

Benefits provide long-term financial value based on continuous employment and are targeted at competitive levels. These are delivered through flexible and tailored packages. Benefits include pension schemes; life, disability and personal accident insurance; medical cover; and other benefits, as dictated by competitive local market practices.

Annual bonus

Annual bonuses are linked to business performance, based on target business unit performance goals. Individual annual incentive levels are allocated, based on individual performance, as determined by the committee. Furthermore, as discussed previously, qualitative issues are integral in the determination of annual bonuses.

The total cash element of compensation (base salary plus annual bonus) is targeted at the relevant competitive market (as discussed on page 119) at upper quartile levels for meeting target performance goals.

In this regard, if business and individual performance goals are achieved or bettered, the variable element of the total reward package is likely to be substantially higher than the relevant target market. This is in order to ensure that overall reward levels are finally positioned at the upper quartile level. In certain circumstances, therefore, the annual bonus may be more than 100% of the base salary. The committee has set an upper limit for the annual bonus for executive directors at a maximum of three times their respective annual base salaries.

Long-term share incentive plans

The group has a number of share incentive plans that are designed to link the interests of the directors and employees with those of shareholders and long-term organisational interests, through performance and risk-based equity grants. The share plan vehicles in operation, and in which the directors are eligible to participate, are outlined below. Directors and employees collectively hold approximately 20% of the group's issued share capital, as detailed in tables accompanying this report.

Share option/incentive plans

Investec plc Share Option Plan 2002 (approved and unapproved)

Allocations under this scheme are granted to all new full-time employees and, on a discretionary basis, certain other employees, including directors and executives, in the group in all jurisdictions, excluding South Africa, Botswana, Namibia and Mauritius.

Under this scheme, options are granted, over Investec plc shares, at the prevailing market value and each tranche of the options may only be exercised if the committee is satisfied that the relevant performance conditions have been met. These conditions require growth in headline earnings per share (EPS) over the relevant option period to equal or exceed the UK Retail Price Index (RPI), plus 3% compounded annually over the same period. In choosing the performance targets for this plan, the committee considered the merits of EPS-based targets against alternative possibilities, such as comparative performance or comparative growth in return on average shareholders' funds (ROE) against a basket of other companies. The committee determined that EPS-based targets are most appropriate as they measure the underlying growth of the group. The committee intends to continue to apply this during 2005 but keeps the whole matter of the suitability of target-linked share based remuneration under periodic review.

Grants up to the value of £30,000 are made to UK employees on the approved plan. Options exceeding £30,000 and grants in jurisdictions other than the UK are made on the unapproved plan.

Under the approved plan, options vest in tranches of 20%, 30% and 50% at the third, sixth and ninth anniversaries of the grant respectively. Any portion of the tranches that is not, or cannot, be exercised lapses on expiry of 90 days after each anniversary.

The options in terms of the unapproved plan become exercisable in tranches of 25% each on the second, third, fourth and fifth anniversaries of the grant respectively. They similarly lapse 90 days after each anniversary if the options are not, or cannot be, exercised.

Investec plc Share Appreciation Option Plan 2002

Under this scheme, options are granted which, when exercised, pay out a cash amount based on the increase in the Investec Limited share price. This scheme is used to achieve the same objectives as the unapproved plan in circumstances in which the regulatory authorities of the

previous plan, or of the country in which the intended participant is resident, or the individual or corporate taxation consequences of such participation, make participation in the previous scheme impossible or inadvisable.

It is thus a scheme which, by duplicating the provisions of the previous scheme, enables the group to place a proposed participant in the same position by way of cash settlement or otherwise, as he would have been had he participated in the unapproved plan.

Investec Group Limited UK Share Option Plan

Prior to listing on the London Stock Exchange (LSE) on 29 July 2002, the group operated this plan in terms of which options over the then listed Investec Group Limited shares were granted to employees, directors and executives in all jurisdictions, excluding South Africa, Botswana, Namibia and Mauritius. The options were exercisable in tranches of 25% each on the second, third, fourth and fifth anniversaries of the grant. Performance conditions were not attached, as at the time this was not deemed appropriate, and the options did not lapse until the 10th anniversary of the grant.

Participants have ongoing rights in terms of the plan, on which the last grant was made on 20 June 2002. No further options will be granted under this plan.

Investec Limited Security Purchase and Option Scheme Trust 2002

Allocations under the option scheme of this trust are granted to all new full-time employees and, on a discretionary basis, certain other employees, including directors and executives, in the group in South Africa, Botswana, Namibia and Mauritius. Since listing on the LSE on 29 July 2002, three grants have been made in terms of the option scheme. The most recent grant was made on 3 December 2003.

As with the UK scheme above, options are granted at the prevailing market value and each tranche may only be exercised if the committee is satisfied that the performance conditions have been met. These conditions require growth in headline EPS over the relevant performance period to equal or exceed the UK RPI, plus 3% compounded annually over the same period. The reasons for adopting an EPS-based target are the same as those outlined above. Subject to this performance condition being met, options become exercisable in tranches of 25% each on the second, third, fourth and fifth anniversaries of the grant and will lapse 90 days after each such anniversary if the options are not, or cannot be, exercised.

Prior to listing on the LSE, offers of shares in terms of the purchase scheme were made, for which participants have a liability to the trust for the purchase consideration of the shares. They bear the risk for any potential loss in the market value of the underlying shares but are entitled to any rise in such market value after the offer becomes

exercisable. Purchase offers become exercisable in tranches of 25% each on the second, third, fourth and fifth anniversaries of the effective date of acceptance of the offer, but none of the tranches lapse until the 10th anniversary of the acceptance of the offer. At this anniversary date, the entire offer lapses. Performance conditions were not applied to these shares, as at the time this was not deemed appropriate.

Investec Limited Security Purchase and Option Scheme Trust

Prior to listing on the LSE on 29 July 2002, the group operated the scheme in terms of which options were granted to, and offers of shares under the purchase scheme were accepted by, employees, directors and executives in South Africa, Botswana, Namibia and Mauritius.

The options and purchase allocations were exercisable in tranches of 25% each on the second, third, fourth and fifth anniversaries of the grant. Performance conditions were not attached, as at the time this was not deemed appropriate, and neither the options nor the purchase scheme allocations lapse until the 10th anniversary of the grant or effective date of the offer respectively. Participants have ongoing rights in terms of the plan, on which the last grant was made on 20 June 2002.

The participants in the purchase scheme bear the risk for any potential loss in the market value of the underlying shares, but are entitled to any rise in such market value after the offer becomes exercisable.

The Investec Limited Security Purchase Scheme 2003

This scheme came into effect in terms of the implementation of Investec Limited's empowerment transaction announced in May 2003 (for further details, see page 7). In terms of this transaction, empowerment parties, of which the above employee share scheme is a component, acquired 25.1% of the issued share capital of Investec Limited.

Allocations under the scheme of this trust are granted to employees of Investec Limited and any participating subsidiary registered or operating in South Africa, excluding executive directors of Investec Limited, who are African, Coloured or Indian. The executive management of Investec Limited, under the guidance of the Board of Directors, will decide which empowerment employees will participate in the scheme and the number of securities to which such empowerment employees are entitled. The trustees of the scheme will review these allocations.

Shares under this scheme are granted, over Investec Limited shares only, with the initial grants being at R90.00 per share (the price at which the transaction was concluded). No performance conditions have been attached, as this is a purchase scheme using existing shares, requiring no new shares to be issued. The shares become exercisable in tranches as follows:

- 10% of original number of securities offered, on 15 May 2006.
- 10% of original number of securities offered, on 15 May 2007.
- 10% of original number of securities offered, on 15 May 2008.
- 20% of original number of securities offered, on 15 May 2009.
- 20% of original number of securities offered, on 15 May 2010.
- 30% of original number of securities offered, on 15 May 2011.

No shares may be released from the scheme until 15 May 2011.

Leveraged equity plans

A group of senior and executive managers, including certain Investec Limited/ Investec plc directors, who have or can have a significant impact on the business, have been granted participation in leveraged equity plans known as Fintique II and Fintique III, details of which are outlined below.

Fintique II

Fintique II was constituted on 31 July 1996, via a special purpose vehicle (SPV), initially available to 235 selected executives, senior managers and directors. Participants acquired units in the SPV, where the underlying instruments are compulsory convertible debentures, which convert into 886 Investec shares for every 1,000 units in Fintique II.

The scheme was funded through:

- Cash contributions from participants.
- The upfront sale of the income stream on the debentures and the right to the redemption proceeds.

Fintique II participants have a right to receive a combination of Investec Limited and Investec plc shares on maturity of the scheme on 31 July 2008. They also have an obligation to pay any potential shortfall on maturity, for which they have signed a personal surety.

All the units in Fintique II were fully vested as at 31 July 2002. As at 31 March 2004, the unit holder had a liability of R77.63 per share. A total of 4.0 million units have been issued in terms of the scheme, converting into approximately 3.5 million shares.

Fintique III

Fintique III was constituted in Guernsey (British Virgin Islands) on 15 December 1998, via its own SPV, initially available to 500 selected executives, senior managers and directors. Participants acquired units in the SPV, where the underlying instruments were compulsory convertible

debentures, which convert into 763.2 Investec shares for every 1,000 units in Fintique III.

The scheme was funded by:

- Cash contributions from participants.
- The sale of the income stream on the debentures to third parties.
- The short sale of Investec shares.
- The sale of call options* over Investec shares.
- Loans from Investec Bank (Mauritius) Limited and Investec Bank Limited.

Fintique III participants have an obligation to pay an amount of R102.38 or £5.45 per share, on maturity of the scheme on 15 December 2004, for which each participant has signed a personal surety.

In terms of the scheme structure, 70% of the shares are free or vested, with a further 30% becoming vested on 15 December 2004. The value of each share within the scheme as at 31 March 2004 was R24.29 and £4.25 after taking into consideration the settlement of the liability referred to above.

A total of 9.5 million units have been issued in terms of the scheme, converting into approximately 8.8 million shares on a gross basis.

Share investment vehicle - Spurwing

Spurwing is a risk-based, closed-end, share investment vehicle, created to allow a leveraged return on Investec shares. This was implemented on 31 March 2003 via two British Virgin Island SPVs and made available to 37 participants, including selected executives, senior managers and directors, as well as select business associates.

Spurwing was funded through:

- Substantial cash contributions by the participants.
- The sale of certain call options* over Investec shares to the Investec Staff Share Scheme.
- A loan from Investec Bank (Mauritius) Limited.

The participation vehicles will be wound up at the end of December 2008. A total of 4.1 million shares have been issued in terms of this vehicle.

**Note: the sale of call options has been done within the SPV and not by any individual directors.*

Summary of Investec's share option plans

The table below provides a high-level summary of the information on the share option plans outlined above.

Plan	Eligibility	Date implemented	Option/shares	Maximum award per individual ¹
Investec plc Share Option Plan 2002 (approved plan)	<ul style="list-style-type: none"> New and existing UK full-time employees - grants up to the value of £30,000 Directors and executives 	28 August 2002	Investec plc	<ul style="list-style-type: none"> Cumulative limit of 500,000 across all option plans In any financial year: 1x remuneration package
Investec plc Share Option Plan 2002 (unapproved plan)	<ul style="list-style-type: none"> New and existing full-time employees Excluding employees in SA, Botswana, Namibia and Mauritius UK employees - grants exceeding £30,000 Directors and executives 	28 August 2002	Investec plc	<ul style="list-style-type: none"> Cumulative limit of 500,000 across all option plans In any financial year: 1x remuneration package
Investec plc Share Appreciation Option Plan 2002	<ul style="list-style-type: none"> New and existing full-time employees Excluding employees in SA, Botswana, Namibia and Mauritius UK employees - grants exceeding £30,000 Directors and executives 	28 August 2002	Cash settled based on the increase in the Investec Limited share price	<ul style="list-style-type: none"> Cumulative limit of 500,000 across all option plans In any financial year: 1x remuneration package
Investec Group Limited UK Share Option Plan	<ul style="list-style-type: none"> Employees - excluding SA, Botswana, Namibia and Mauritius Directors and executives 	1 November 1999	Investec Group Limited (prior to implementation of DLC structure)(now Investec Limited and Investec plc)	<ul style="list-style-type: none"> Cumulative limit of 500,000 across all option plans In any financial year: 1x remuneration package
Investec Limited Security Purchase and Option Scheme Trust 2002	<ul style="list-style-type: none"> New and existing full-time employees in SA, Botswana, Namibia and Mauritius Directors and executives 	20 June 2002	Investec Limited	<ul style="list-style-type: none"> Cumulative limit of 500,000 across all option plans In any financial year: 1x remuneration package
Investec Limited Security Purchase and Option Scheme Trust	<ul style="list-style-type: none"> Employees in SA, Botswana, Namibia and Mauritius Directors and executives 	25 November 1988	Investec Limited	<ul style="list-style-type: none"> Cumulative limit of 500,000 across all option plans In any financial year: 1x remuneration package

Notes:

¹ The limits for allocations to employees and executive management during a financial year may be exceeded if the directors determine that exceptional circumstances make it desirable that options should be granted in excess of that limit.

² This represents the number of options issued to all

participants. For further details, see the Director's Report on page 146. More details on the directors' shareholdings are also provided in tables accompanying this report.

³ As from the date of the implementation of the group's DLC structure (29 July 2002), the maximum number of shares which may be allocated under all of the group's

Performance conditions	Vesting period	Options granted during the year ²	Total issued as at 31 March 2004 ²⁺³
Growth in headline EPS \geq UK RPI plus 3% compounded annually over the period of the grant	Tranches of 20%, 30% and 50% at the third, sixth and ninth anniversaries respectively	180,452	Number: 614,576 % of issued share capital of company: 0.8%
Growth in headline EPS \geq UK RPI plus 3% compounded annually over the period of the grant	Tranches of 25% each on the second, third, fourth and fifth anniversaries	959,584	Number: 6,587,117 % of issued share capital of company: 8.8%
Growth in headline EPS \geq UK RPI plus 3% compounded annually over the period of the grant	Tranches of 25% each on the second, third, fourth and fifth anniversaries	9,827	Number: 267,553 % of issued share capital of company: 0%
None	Tranches of 25% each on the second, third, fourth and fifth anniversaries	Last grant made on 20 June 2002. No further grants will be made	Number: Nil
Growth in headline EPS \geq UK RPI plus 3% compounded annually over the period of the grant	Tranches of 25% each on the second, third, fourth and fifth anniversaries	912,550	Number: 5,819,363 % of issued share capital of company: 13.2%
None	Tranches of 25% each on the second, third, fourth and fifth anniversaries	Last grant made on 20 June 2002. No further grants will be made	Number: 2,273,383 % of issued share capital of company: 5.2%

option plans may not exceed 10% of the issued share capital of the company. The issued share capital of Investec plc and Investec Limited at 31 March 2004 was 74.6 million shares and 44.0 million shares respectively. In terms of the London Listing Requirements, shares allocated in terms of the share incentive plans prior to

the implementation of the DLC structure are not considered when calculating the 10% threshold.
² The market price of an Investec plc share as at 31 March 2004 was £10.89 (2003: £6.15).
³ The market price of an Investec Limited share as at 31 March 2004 was R125.30 (2003: R76.50).

Performance graphs

Investec is an international specialist banking group that provides a diverse range of financial products and services to a niche client base in two principal markets, the UK and South Africa, as well as in certain other geographies, including Australia and Israel. The group is not considered to be purely a commercial bank and focuses on the following four core areas of activity: Investment Banking, Private Client Activities, Treasury and Specialised Finance and Asset Management.

The group has implemented a DLC structure, in terms of which it has primary listings in Johannesburg and London (for further information, see page 37). The listing on the LSE took place on 29 July 2002, although the group has been listed in South Africa since 1986.

The market price of the group's shares on the JSE was R125.30 as at 31 March 2004, ranging from a low of R77.50 to a high of R151.00 during the financial year. Furthermore, the market price of the group's shares on the LSE was £10.89 as at 31 March 2004, ranging from a low of £6.12 to a high of £11.81 during the financial year.

The UK Directors' Remuneration Report Regulations 2002 require this report to include a performance graph of the company's total shareholder return performance against that of a broad market index.

Investec has found it difficult to find an appropriate group of companies to benchmark itself against because of its specialist activities. A number of companies within the FTSE Speciality and Other Finance Index conduct very similar

activities to Investec, although they do not necessarily have the same geographical profile. Nevertheless, the group believes that this is the most appropriate index against which to measure its performance on the LSE. Selection of an appropriate index against which to measure the group's performance on the JSE is more difficult. None of the companies within the financial sector could be considered direct comparators as they are generally commercial banks, and asset management or insurance companies. The group, however, still considers the JSE Financial 15 Index a more appropriate benchmark than the JSE Top 40 Index.

The graphs below show the cumulative shareholder return for a holding of the group's shares (in green), firstly in Sterling on the LSE, compared to the average total shareholder return of other members of the FTSE Speciality and Other Finance Index and secondly in Rands on the JSE compared to other members of the JSE Financial 15 Index. The information for Investec plc is only available from the end of July 2002, when it was listed on the LSE.

The graph that indicates Investec plc's performance relative to the FTSE Speciality and Other Finance Index is included in terms of the requirements of the UK Directors' Remuneration Report Regulations 2002. However, since there is no five-year history of Investec plc's share price performance, the graph on Investec Limited's performance on the JSE has been included, in order to provide stakeholders with a more complete picture.

During the period under review the return to shareholders of Investec plc (measured in Pounds Sterling) and Investec Limited (measured in Rands) was 85.9% and 72.9%, respectively.

Audited information

Directors' annual remuneration

The following table shows a breakdown of the annual remuneration (excluding equity awards) of directors for the year ended 31 March 2004:

Name	Gross remuneration 2004 ¹	Salaries, directors fees and other remuneration 2004 ^{2,3}	Total other benefits 2004 ⁴	Annual bonus 2004 ⁵	Total remuneration expense 2004	Total remuneration expense 2003 ⁶
	£	£	£	£	£	£
Executive directors						
S Koseff						
(Chief Executive Officer)	350 000	311 633	38 367	625 000	975 000	580 000
B Kantor						
(Managing Director)	350 000	316 773	33 227	625 000	975 000	630 000
GR Burger						
(Group Risk and Finance Director)	216 403	183 777	32 626	625 000	841 403	517 570
A Tapnack	237 702	215 000	22 702	250 000	487 702	487 742
Total Pounds Sterling	1 154 105	1 027 183	126 922	2 125 000	3 279 105	2 215 312
Non-executive directors						
HS Herman (Chairman)	—	250 000	—	—	250 000	186 311
JN Abell	—	70 000	—	—	70 000	43 250
SE Abrahams	—	103 074	—	—	103 074	59 332
GFO Alford	—	70 000	—	—	70 000	40 000
Dr HK Davies ⁷	—	—	—	—	—	1 009
GH Davin ⁷	—	—	—	—	—	1 278
H Fukuda OBE ⁸	—	26 250	—	—	26 250	—
GMT Howe ⁸	—	31 558	—	—	31 558	—
DE Jowell	—	182 116	—	—	182 116	127 760
IR Kantor	—	40 000	—	—	40 000	22 500
Sir C Keswick	—	60 000	—	—	60 000	40 000
MP Malungani	—	36 997	—	—	36 997	23 750
DR Motsepe ⁷	—	—	—	—	—	1 009
Dr MZ Nkosi ⁷	—	—	—	—	—	2 851
PRS Thomas	—	102 409	—	—	102 409	57 785
F Titi ⁹	—	8 496	—	—	8 496	—
Total Pounds Sterling	—	980 900	—	—	980 900	606 835
Total Pounds Sterling	1 154 105	2 008 083	126 922	2 125 000	4 260 005	2 822 147

Notes:

¹ Gross remuneration comprises base salary and other benefits (see point 4 below).

² As mentioned elsewhere in this report, the fees of the non-executive directors, including the Chairman, were adjusted by the board, following a peer group review undertaken by the Remuneration Committee during the prior financial year.

³ The salaries of S Koseff and B Kantor were adjusted by the Remuneration Committee following a peer group review undertaken during the prior financial year, in order to align their base salaries at median levels in line with the group's philosophy, as discussed elsewhere in this report. GR Burger is paid gross remuneration in Rands of R2.6 million, which represents an increase of 4% in Rand terms over the prior year (2003: R2.5 million). The Pound Sterling increase of 29.14% reflects the appreciation of the Rand against Pounds Sterling of approximately 20% over the period.

⁴ The executive directors receive other benefits which may include pension schemes; life, disability and personal accident insurance; and medical cover, on similar terms to other senior executives.

⁵ The annual bonuses paid to executive directors increased substantially, reflective of the improvement in operating profit of 54.1% to £132.1 million and the improvement in the return to shareholders of Investec plc and Investec Limited of 85.9% and 72.9%, respectively. The Remuneration Committee believes that the overall remuneration packages (comprising base salary and annual bonus) of the executive directors are still below that of the comparative peer group (as reflected on page 119) and that the annual bonus awarded is well below the maximum limit for variable remuneration as set out on page 121.

* A breakdown of the components of the reward packages for the executive directors in the 2003 financial year is as follows:

Name	Gross remuneration £	Salary £	Total other benefits £	Annual bonus £	Total remuneration expense £
Executive directors					
S Koseff (Chief Executive Officer)	280 000	248 253	31 747	300 000	580 000
B Kantor (Managing Director)	280 000	252 434	27 566	350 000	630 000
GR Burger (Group Risk and Finance Director)	167 570	143 834	23 736	350 000	517 570
A Tapnack	237 742	215 000	22 742	250 000	487 742
Total Pounds Sterling	965 312	859 521	105 791	1 250 000	2 215 312

* Resigned with effect from 26 June 2002. In terms of the implementation of the DLC structure, the board and board committees of Investec Group Limited (now Investec Limited) were reconstituted.

* Appointed to the board with effect from 21 July 2003.

* Appointed to the board with effect from 30 January 2004.

Retirement benefits

None of the executive directors belong to a defined benefit pension scheme and all are members of one of the group's defined contribution schemes. The total contribution to these schemes, payable by the company, included in the total salary of the director or included in benefits paid as highlighted in the table above, is as follows:

Name	2004 £	2003 £
Executive directors		
S Koseff (Chief Executive Officer)	28 080	22 697
B Kantor (Managing Director)	26 364	23 261
GR Burger (Group Risk and Finance Director)	24 960	18 157
A Tapnack	21 500	22 742
Total Pounds Sterling	100 904	86 857
Non-executive directors		
HS Herman (Chairman)	-	11 348

Directors' shareholdings and options

The company's register of directors' interests contains full details of directors' shareholdings and options.

The tables that follow provide information on the directors' shareholdings and options for the year ended 31 March 2004.

Directors' shareholdings in Investec plc and Investec Limited shares as at 31 March 2004

Name	Beneficial and non-beneficial interest ¹	Beneficial and non-beneficial interest ¹	% of shares in issue ²	Beneficial and non-beneficial interest ¹	Beneficial and non-beneficial interest ¹	% of shares in issue ²
	Investec plc ³	Investec plc	Investec plc	Investec Limited ⁴	Investec Limited	Investec Limited
	1 April 2003	31 March 2004	31 March 2004	1 April 2003	31 March 2004	31 March 2004
Executive directors						
S Koseff	782 401	871 997	1.2%	341 987	181 386	0.4%
B Kantor	370 267	100	-	792 795	1 050 000	2.4%
GR Burger	404 275	445 360	0.6%	143 465	80 977	0.2%
A Tapnack	-	-	-	-	-	-
Non-executive directors						
HS Herman	214 833	255 205	0.3%	67 442	48 905	0.1%
JN Abell	283	283	-	166	166	-
SE Abrahams	-	-	-	-	-	-
GFO Alford	-	-	-	-	-	-
H Fukuda OBE	-	1 000	-	-	-	-
GMT Howe	-	-	-	-	-	-
DE Jowell	73 732	60 000	0.1%	43 302	-	-
IR Kantor ⁵	250 867	250 867	0.3%	450	450	-
Sir C Keswick	3 150	3 150	-	1 850	1 850	-
MP Malungani ⁶	-	-	-	-	1 545 778	3.5%
PRS Thomas	137 162	137 162	0.2%	51 191	51 191	0.1%
F Titi ⁴	-	-	-	-	364 000	0.8%
Total number	2 236 970	2 025 124	2.7%	1 442 648	3 324 703	7.5%

Notes:

- ¹ Towards the end of the 2003 financial year, certain directors acquired shares through a special purpose vehicle called Spurwing. These shares are included in the amounts reflected under beneficial interests.
- ² The total number of Investec Limited and Investec plc shares in issue as at 31 March 2004 was 44.0 million and 74.6 million respectively.
- ³ The market price of an Investec plc share as at 31 March 2004 was £10.89 (2003: £6.15).
- ⁴ The market price of an Investec Limited share as at 31 March 2004 was R125.30 (2003: R76.50).
- ⁵ In addition to his shareholdings reflected in the table above, I Kantor has an interest in options over Investec Limited shares, the details of which are as follows:
- I Kantor acquired 200 000 European call options at an average strike price of R110.00 per option, on 26 February 2004 in the market - expiring on 19 February 2007.
 - I Kantor acquired 200 000 European call options at an average strike price of R136.83 per option, on 26 February 2004 in the market - expiring on 19 February 2007.
 - I Kantor sold 200 000 European put options at an average strike price of R136.83 per option, on 26 February 2004 in the market - expiring on 19 February 2007.
- ⁶ On 15 May 2003, Investec Limited announced that it has entered an empowerment transaction with Tiso Group (Tiso), Peu Investment Group (Peu) and the Entrepreneurship Development Trust. In terms of this transaction, Tiso, Peu, the broad-based Entrepreneurship Development Trust and an Employee Share Trust have acquired a 25.1% stake in the issued share capital of Investec Limited. This transaction was concluded at the end of November 2003. MP Malungani is the Chairman of Peu and F Titi is the Chief Executive Officer of Tiso.

The directors, together with all other employees of the Investec Limited group, are beneficiaries of the Investec Limited Security Purchase and Option Scheme and are therefore interested in:

- 20,268 (2003: 125,785) Investec Limited shares.
- 2,503,918 (2003: 3,738,753) Investec plc shares.

The directors, together with all other employees of the Investec plc group, are beneficiaries of the Investec plc Jersey Number 1 trust and are therefore interested in:

- Call options in respect of 1,398,236 (2003: 1,398,236) Investec plc shares at £7.93 per share.
- Call options in respect of 449,693 (2003: 449,693) Investec plc shares at £10.52 per share.

The directors, together with all other employees of the Investec plc group, are beneficiaries of the Investec plc Guernsey Number 1 trust and are therefore interested in:

- Call options in respect of 6,600 (2003: 6,600) Investec plc shares at £7.93 per share.
- Call options in respect of 6,221 (2003: 6,221) Investec plc shares at £10.52 per share.

Directors' interests in the Investec Limited security purchase and option scheme trust as at 31 March 2004

Investec Limited security purchase scheme - Investec plc shares

Name	Balance of shares as at 1 April 2003	Number of shares for which liability was settled during the year	Date liability was settled	Average original offer price	Market price at date of repayment of liability	Balance of shares as at 31 March 2004	Settlement period
Executive directors							
GR Burger	20 046	20 046	27 Jan 2004	R45.06	R142.11	-	
A Tapack	2 277	-	-	R57.05	-	2 277	1 April 2004 to 1 July 2004
Non-executive directors							
HS Herman	13 714	13 714	27 Jan 2004	R38.66	R142.11	-	
Total number	36 037	33 760				2 277	

Investec Limited security purchase scheme - Investec Limited shares

Name	Balance of shares as at 1 April 2003	Number of shares for which liability was settled during the year	Date liability was settled	Average original offer price	Market price at date of repayment of liability	Balance of shares as at 31 March 2004	Settlement period
Executive directors							
GR Burger	11 774	11 774	27 Jan 2004	R45.06	R142.00	-	
A Tapack	1 337	-	-	R57.05	-	1 337	1 April 2004 to 1 July 2004
Non-executive directors							
HS Herman	8 054	8 054	27 Jan 2004	R38.66	R142.00	-	
Total number	21 165	19 828				1 337	

Notes:

The shares in the tables above are held in terms of the Investec Limited share purchase scheme, for which the directors have a liability for any related scheme debt. No shares were granted in terms of this scheme during the year. As at 31 March 2004, all the shares were fully vested. No options have been allocated to directors in terms of this scheme.

GR Burger settled his share liability on 27 January 2004, when the market value was R142.11 per Investec plc share and R142.00 per Investec Limited share. The shares were originally granted in terms of the purchase scheme over 1993 to 1995 at an average price of R45.06 per share.

² HS Herman settled his share liability on 27 January 2004, when the market value was R142.11 per Investec plc share and R142.00 per Investec Limited share. The shares were originally granted in terms of the purchase scheme over 1994 to 1995 at an average price of R38.66 per share.

Directors' attributable interest in Investec plc and Investec Limited shares through a leveraged equity plan called Fintique II as at 31 March 2004

	Entitlement to Investec plc shares	Entitlement to Investec plc shares	Entitlement to Investec Limited shares	Entitlement to Investec Limited shares	Settlement period	Total entitlement (i.e. Investec Limited and Investec plc shares) - % interest in scheme
	1 April 2003	31 March 2004	1 April 2003	31 March 2004		31 March 2004
Executive directors						
S Koseff	78 145	122 800	45 895	72 121	1 April 2004 to 31 July 2008	5.4%
B Kantor ²	78 145	122 800	45 895	72 121	1 April 2004 to 31 July 2008	5.4%
GR Burger ³	67 680	101 171	39 748	59 417	1 April 2004 to 31 July 2008	4.5%
A Tapnack	33 491	33 491	19 669	19 669	1 April 2004 to 31 July 2008	1.5%
Non-executive directors						
HS Herman	78 145	78 145	45 895	45 895	1 April 2004 to 31 July 2008	3.5%
IR Kantor	50 236	50 236	29 504	29 504	1 April 2004 to 31 July 2008	2.2%
Total number	385 842	508 643	226 606	298 727		22.5%

Notes:

All the shares that the directors are entitled to in terms of the Fintique II scheme are fully vested and can be taken up at a price of R77.63 per share, based on the valuation of the scheme as at 31 March 2004. The market price of Investec plc shares and Investec Limited shares as at 31 March 2004 was £10.89 and R125.30, respectively. The directors are at risk for any shortfall on maturity of the scheme.

S Koseff acquired entitlements in terms of the Fintique II scheme to 44,654 Investec plc shares and 26,226 Investec Limited shares on 22 September 2003, for a cash amount of R10.84 per share plus a future liability of R79.00 per share.

² B Kantor acquired entitlements in terms of the Fintique II scheme to 44,654 Investec plc shares and 26,226 Investec Limited shares on 22 September 2003, for a cash amount of R10.84 per share plus a future liability of R79.00 per share.

³ GR Burger acquired entitlements in terms of the Fintique II scheme to 33,491 Investec plc shares and 19,669 Investec Limited shares on 22 September 2003, for a cash amount of R10.84 per share plus a future liability of R79.00 per share.

Directors' attributable interest in Investec plc and Investec Limited shares through a leveraged equity plan called Fintique III as at 31 March 2004

	Entitlement to Investec plc shares	Entitlement to Investec plc shares	Entitlement to Investec Limited shares	Entitlement to Investec Limited shares	Settlement date	Total entitlement (i.e. Investec Limited and Investec plc shares) - % interest in scheme
	1 April 2003	31 March 2004	1 April 2003	31 March 2004		31 March 2004
Executive directors						
S Koseff	193 310	247 617	113 531	59 224	15 Dec 2004	3.6%
B Kantor	193 310	247 617	113 531	59 224	15 Dec 2004	3.6%
GR Burger	134 149	171 711	78 786	41 224	15 Dec 2004	2.5%
A Tapnack	67 023	85 608	39 362	20 777	15 Dec 2004	1.3%
Non-executive directors						
HS Horman	147 166	188 452	86 432	45 146	15 Dec 2004	2.8%
SE Abrahams	11 651	14 610	6 843	3 884	15 Dec 2004	0.2%
DE Jowell	17 477	21 915	10 264	5 826	15 Dec 2004	0.3%
PRS Thomas	14 564	18 263	8 554	4 855	15 Dec 2004	0.3%
Total number	778 650	995 793	457 303	240 160		14.6%

Note:

In terms of the scheme structure, 70% of the shares are free or vested, with a further 30% becoming vested on 15 December 2004. The share entitlements through the Fintique III scheme can be taken up on maturity of the scheme (15 December 2004) for a maximum consideration of R96.00 to R102.38 per share for Rand denominated units and £5.45 for Pound Sterling denominated units, based on the current leverage position of the scheme. The share entitlements disclosed in the above table represent gross entitlements, which amount to a share entitlement of approximately 84.59% per unit held. Due to the leverage nature of the scheme, the directors' entitlements to Investec shares will reduce to 72.83% per unit on maturity of the scheme. The mix of Investec Limited and Investec plc shares are indicative and, while the total net entitlement will remain the same, the combination of shares receivable on maturity will vary. The directors are at risk for any shortfalls on maturity of the scheme. The market price of Investec plc shares and Investec Limited shares as at 31 March 2004 was £10.89 and R125.30, respectively.

During the course of the year the securities within the scheme were restructured resulting in a change in directors' entitlements to Investec plc and Investec Limited shares respectively, although the directors' overall entitlements within the scheme remained unchanged.

Directors' interest in options - Investec plc shares as at 31 March 2004

Name	Date of grant	Exercise price	Number of Investec plc shares	Balance at 31 March 2003	Balance at 31 March 2004	Period exercisable
Executive directors						
S Koseff	20 Dec 2002	R111.96	33 000	33 000	33 000	20 Dec 2004 to 20 Mar 2008
B Kantor	20 Dec 2002	£7.93	50 000	50 000	50 000	20 Dec 2004 to 20 Mar 2012
GR Burger	28 Aug 2002	R164.50	63 000	63 000	63 000	20 June 2004 to 20 March 2008
	20 Dec 2002	R111.96	33 000	33 000	33 000	
A Tapnack	28 Aug 2002	£10.52	47 250	47 250	97 250	20 June 2004 to 20 March 2012
	20 Dec 2002	£7.93	50 000	50 000		

Note:

No grants were made and no options were exercised or lapsed during the financial year. The market price of an Investec plc share as at 31 March 2004 was £10.89 (2003: £6.15). A total of 74.6 million Investec plc shares were in issue as at 31 March 2004.

Directors' interest in options - Investec Limited shares as at 31 March 2004

Name	Date of grant	Exercise price	Number of Investec Limited shares	Balance at 31 March 2003	Balance at 31 March 2004	Period exercisable
Executive directors						
S Koseff	20 Dec 2002	R111.32	17 000	17 000	17 000	20 Dec 2004 to 20 Mar 2008
GR Burger	20 June 2002	R164.50	37 000	37 000	37 000	20 June 2004 to
	20 Dec 2002	R111.32	17 000	17 000	17 000	20 March 2008
A Tapnack	20 June 2002	R164.50	27 750	27 750	27 750	20 June 2004 to 20 Sept 2007

Notes:

No grants were made and no options were exercised or lapsed during the financial year. The market price of an Investec Limited share as at 31 March 2004 was R125.30 (2003: R76.50). A total of 44.0 million Investec Limited shares were in issue as at 31 March 2004.

- S Koseff's and GR Burger's options were granted in terms of the Investec Limited share option and purchase scheme trust 2002.
- B Kantor's and A Tapnack's options were granted in terms of the Investec plc share option plan 2002.
- Options granted on 20 December 2002 were based on the weighted average market value of the preceding five days.
- The options granted on 20 June 2002 and 20 December 2002 were made for no consideration.
- The options granted on 20 December 2002 had certain performance conditions attached (see page 121), which, to summarise, required growth in headline earnings per share over the relevant option period to equal or exceed the UK RPI plus 3% (compounded annually over the same period). There were no performance conditions attached to the options granted on 20 June 2002.
- Options granted on 20 December 2002 included grants to certain senior executives (other than directors), which were greater than 100% of their annual remuneration. The allocations were deemed to be exceptional, but were approved by the Remuneration Committee, as they believed the allocations were necessary in order to retain the skills and contributions of these individuals.

Directors' interest in derivatives covering Investec Limited and Investec plc shares

As discussed on page 123, these derivatives have been entered into through a SPV and not by any of the individual directors.

The directors, together with a selected group of senior managers who are beneficiaries of Fintique III and as part of the scheme's leveraged nature, are indirectly interested in:

- Call options in respect of 0 (2003: 630,000) Investec plc shares at a strike of R145 per share, which expired on 4 March 2004.
- Call options in respect of 0 (2003: 370,000) Investec Limited shares at a strike of R145 per share, which expired on 4 March 2004.
- Call options in respect of 1,260,000 (2003: 1,260,000) Investec plc shares at a strike of R170 per share, which expire on 14 December 2004.
- Call options in respect of 740,000 (2003: 740,000) Investec Limited shares at a strike of R170 per share, which expire on 14 December 2004.
- Call options in respect of 441,000 (2003: 441,000) Investec plc shares at a strike of R170 per share, which expire on 30 July 2004.
- Call options in respect of 259,000 (2003: 259,000) Investec Limited shares at a strike of R170 per share, which expire on 30 July 2004.

The directors, together with a selected group of senior managers who are beneficiaries of Spurwing and as part of the scheme's leveraged nature, are indirectly interested in:

- Call options in respect of 123,935 (2003: 123,935) Investec plc shares at a strike of £7.93 per share, which expire on 20 December 2004.
- Call options in respect of 487,003 (2003: 487,003) Investec plc shares at a strike of £7.93 per share, which expire on 20 December 2005.
- Call options in respect of 397,091 (2003: 397,091) Investec plc shares at a strike of £7.93 per share, which expire on 20 December 2006.
- Call options in respect of 396,807 (2003: 396,807) Investec plc shares at a strike of £7.93 per share, which expire on 20 December 2007.
- Call options in respect of 455,914 (2003: 455,914) Investec plc shares at a strike of £10.52 per share, which expire on 20 December 2007.

Conclusion

The Remuneration Committee will continue to ensure that Investec's reward packages remain competitive, provide appropriate incentive for performance and take due regard of the culture, values and philosophies of the group. The committee will keep the existing remuneration arrangements, as discussed in this report, under review during the 2005 financial year.

Signed on behalf of the board

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

George Alford

Chairman, Board Remuneration Committee

Shareholder analysis

The group has implemented a Dual Listed Companies structure in terms of which it has primary listings both in Johannesburg and London (see page 37).

Investec plc, which houses the majority of the group's non-South African businesses, was listed on the London Stock Exchange on 29 July 2002. Investec plc also has a secondary listing on the JSE Securities Exchange South Africa (JSE). Investec Limited, which houses the group's Southern African and Mauritius operations, has been listed in South Africa since 1986.

As at 31 March 2004 Investec plc and Investec Limited had 74,633,746 and 43,999,527 ordinary shares in issue, respectively.

Spread of ordinary shareholders as at 31 March 2004

Investec plc ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
14 788	1 to 500	81.4%	1 600 900	2.2%
1 359	501 - 1 000	7.5%	994 110	1.3%
1 256	1 001 to 5 000	6.9%	2 754 440	3.7%
252	5 001 to 10 000	1.4%	1 824 204	2.4%
349	10 001 to 50 000	1.9%	8 197 769	11.0%
75	50 001 to 100 000	0.4%	5 125 237	6.9%
95	100 001 and over	0.5%	54 137 086	72.5%
18 174		100.0%	74 633 746	100.0%

Investec Limited ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
13 880	1 to 500	88.9%	1 102 275	2.5%
700	501 - 1 000	4.5%	516 490	1.2%
759	1 001 to 5 000	4.8%	1 706 558	3.9%
159	5 001 to 10 000	1.0%	1 177 167	2.7%
8	10 001 to 50 000	0.1%	5 675 636	12.9%
46	50 001 to 100 000	0.3%	3 170 556	7.2%
59	100 001 and over	0.4%	30 650 845	69.6%
15 611		100.0%	43 999 527	100.0%

Shareholder classification

	Investec Limited number of shares	% holding	Investec plc number of shares	% holding
Public*	34 900 947	79.32%	62 476 282	83.71%
Non-public	9 098 580	20.68%	12 158 464	16.29%
Non-executive directors of Investec Limited/Investec plc**	102 562	0.23%	707 667	0.94%
Executive directors of Investec Limited/Investec plc	1 312 363	2.98%	1 317 457	1.77%
Investec staff share scheme and leveraged ownership schemes	2 272 544	5.17%	10 133 440	13.58%
Tiso Group**	2 800 000	6.36%	-	-
Peu Investment Group**	2 611 111	5.94%	-	-
Total	43 999 527	100.00%	74 633 746	100.00%

* As per the JSE listing requirements.

** In November 2003, Investec Limited implemented an empowerment transaction as detailed on page 7. The shareholdings held by F Titi and MP Malungani are shown under the holdings of Tiso Group and Peu Investment Group, respectively.

Largest beneficial shareholders as at 31 March 2004

In accordance with the terms provided for in Section 212 of the UK Companies Act 1985 and Section 140A of the South African Companies Act, 1973, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as disclosed below.

Investec plc

Beneficial owner	Number of shares	% holding
1 Fintique III (BVI)*	7 388 741	9.90%
2 Public Investment Commissioner (SA)	7 356 351	9.86%
3 Old Mutual Life Assurance (SA)	3 997 137	5.24%
4 Spurwing Investments Ltd (CI)	3 220 000	4.31%
5 Investec Ltd Security Purchase and Option Scheme Trust 2002 (SA)	2 700 000	3.62%
6 Citigroup Global Markets UK Equity (UK)	2 015 260	2.70%
7 Legal and General Pooled Index Fund (UK)	1 838 911	2.46%
8 Momentum Life Assurance (SA)	1 622 227	2.17%
9 Liberty Life Association of Africa (SA)	1 415 552	1.90%
10 Sanlam (SA)	1 265 511	1.70%
Cumulative total	32 819 690	43.86%

The top 10 beneficial shareholders account for 43.86% 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.

Investec Limited

Beneficial owner	Number of shares	% holding
1 Public Investment Commissioner (SA)	5 390 850	12.25%
2 Ed Trust International Investments (SA)**	2 800 000	6.36%
3 Tiso International Investments Pty Ltd (SA)**	2 800 000	6.36%
4 Peu International Investments Pty Ltd (SA)**	2 611 111	5.94%
5 Old Mutual Life Assurance (SA)	2 366 830	5.36%
6 Fintique III (BVI)*	2 111 259	4.80%
7 Sanlam (SA)	1 375 072	3.13%
8 Spurwing Investments Ltd (CI)	915 000	2.08%
9 Momentum Life Assurance (SA)	906 673	2.06%
10 Investment Solutions (SA)	853 086	1.94%
Cumulative total	22 129 881	50.28%

The top 10 beneficial shareholders account for 50.28% of the total shareholding in Investec Limited. 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.

* A small group of senior and executive management, including certain Investec Limited/ Investec plc directors, who have or can have a significant impact on the business, have been granted participation in leveraged equity plans known as Fintique II and Fintique III. In terms of these plans, participants acquired units that entitled them to the risks and, on maturity of the plans in 2004 and 2008, future benefits of ownership of the underlying Investec shares. Further detail on these plans is provided on pages 121 to 125.

** In November 2003, Investec Limited implemented an empowerment transaction as detailed on page 7.

Geographic holding by beneficial owner as at 31 March 2004**Investec plc**

Other	3.3%
UK and Europe	24.3%
Channel Islands	4.4%
USA	1.2%
British Virgin Islands	9.9%
South Africa	56.9%

Investec Limited

Other	1.6%
UK and Europe	1.5%
Channel Islands	3.6%
USA	3.6%
British Virgin Islands	4.8%
South Africa	84.9%

Note: The percentage holding in the British Virgin Islands represents the holding in Fintique III as discussed above.

Share statistics

Investec Limited (formerly Investec Group Limited) ordinary shares in issue

For the year ended 31 March	2004	2003	2002	2001	2000
Closing market price per share (cents)					
- year end	12 530	7 650	13 000	19 700	26 020
- highest	15 100	17 440	24 580	27 800	30 000
- lowest	7 750	7 650	13 000	19 200	18 440
Number of ordinary shares in issue (million)	44.0	38.4 ¹	96.2	81.0	80.6
Market capitalisation (£ millions) ²	14 860	8 645	14 196	19 286	24 095
Number of shareholders	15 611	17 957	19 445	3 454	3 070
Monthly average volume of shares traded ('000) ³	98.99	—	—	—	—

Investec plc ordinary shares in issue

For the year ended 31 March ⁴	2004	2003
Closing market price per share (pence)		
- year end	089	615
- highest	181	960
- lowest	612	607
Number of ordinary shares in issue (million)	74.6	74.6
Market capitalisation (£ millions) ⁵	812	459
Monthly average volume of shares traded ('000)	99.56	69.6
Price earnings ratio ⁶	10.5	6.3
Dividend cover (times) ⁶	1.79	1.78
Dividend yield (%) ⁶	5.3%	8.8%
Earnings yield (%) ⁶	9.5%	15.6%
Number of shareholders	18 174	20 684

Notes:

- ¹ The number of shares in issue has reduced significantly following the implementation of the DLC structure, in terms of which Investec plc was unbundled from Investec Group Limited (now Investec Limited).
- ² The JSE has agreed to use the total number of shares in issue for the combined group, comprising Investec Limited and Investec plc, in calculating market capitalisation i.e. a total of 118.6 million shares in issue for the year ended 31 March 2004.
- ³ Information prior to the implementation of the DLC structure is not comparable.
- ⁴ Investec plc has only been listed on the LSE since 29 July 2002.
- ⁵ The LSE only include the shares in issue for Investec plc i.e. 74.6 million, in calculating market capitalisation, as Investec Limited is not incorporated in the UK.
- ⁶ Calculations are based on the group's consolidated earnings per share before exceptional items and amortisation of goodwill, and dividends per share as prepared in accordance with UK GAAP and denominated in Pounds Sterling.

Directorate Investec Limited and Investec plc

Executive Directors

Stephen Koseff (52)^{6,7}

BCom CA (SA) H Dip BDP MBA
Chief Executive Officer

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. His directorships include the JSE Securities Exchange South Africa, Investec Bank Limited, Investec Bank (UK) Limited and The Bidvest Group Limited.

Bernard Kantor (54)^{6,7}

Managing Director

Bernard joined Investec in 1980. He has had diverse experience within Investec as a Manager of the Trading division, Marketing Manager and Chief Operating Officer. His directorships include Investec Bank Limited, Investec Bank (UK) Limited and Phumelela Gaming and Leisure Limited.

Glynn R Burger (47)^{6,7}

BAcc CA(SA) H Dip BDP MBL

Executive Director responsible for Finance and Risk.

Glynn joined Investec in 1980. He has had diverse experience within Investec as Chief Accounting Officer, Group Risk Manager and Joint Managing Director for South Africa. His directorships include Investec Bank Limited.

Alan Tapnack (57)⁷

BCom CA (SA)

Alan practised as a chartered accountant and is a former partner of Price Waterhouse and former Managing Director of Grey Phillips Bunton Mundell and Blake, a leading South African marketing services group. Alan joined Investec in 1991. He recently stepped down as Chief Executive Officer of Investec's UK operations. He is also responsible for Investec's Israeli operations. His directorships include Investec Bank (UK) Limited and Carr Sheppards Crosthwaite Limited.

Non-Executive Directors

Hugh S Herman (63)^{5,6}

BA LLB LLD (Honoris CAUSA)
Non-Executive Chairman

Hugh practised as a lawyer before joining Pick 'n Pay, a leading South African retail group, where he became Managing Director. He joined Investec in 1994. His directorships include Investec Bank Limited, Investec Bank (UK) Limited, Pick 'n Pay Holdings Limited and Pick 'n Pay Stores Limited.

John N Abell (72)^{1,2,4,7}

MA (Hons)

John was the former Chairman and Chief Executive of Orion Royal Bank and former Chairman of CIBC Wood Gundy Europe. His directorships include Investec Bank (UK) Limited. Passed away 26 May 2004.

Sam E Abrahams (65)^{1,2,3,5,7}

FCA CA (SA)

Sam is a former international partner and South African Managing Partner of Arthur Andersen. His current directorships include Foschini Limited, Super Group Limited, Investec Bank Limited and Phumelela Gaming and Leisure Limited.

George F O Alford (55)^{1,2,4}

BSc (Econ) FCIS FIPD MSI

George is former Head of Private Banking and Head of Personnel at Kleinwort Benson Group, and is currently a senior advisor to the FSA. His directorships include Investec Bank (UK) Limited.

Haruko Fukuda OBE (57)

MA (Cantab) DSc

Previously Chief Executive of the World Gold Council. Directorships include, AB Volvo, The Foreign and Colonial Investment Trust PLC and Aberdeen Asian Smaller Companies Investment Trust PLC. Advisor to Metro AG and Lazard.

Directorate Investec Limited and Investec plc

Non-Executive Directors (continued)

Geoffrey MT Howe (54)^{2,7}

MA (Hons)

Geoffrey is a former Managing Partner of Clifford Chance LLP and Director and Group General Counsel of Robert Fleming Holdings Ltd. He is also a former Chairman of Railtrack Group plc. His current directorships include Jardine Lloyd Thompson Group plc, The JP Morgan Overseas Investment Trust plc and Ahli United Bank plc. He is also an advisor to a number of leading professional and financial service organisations.

Donn E Jowell (62)^{1,3,6,7}

BCom LLB

Donn is Chairman of and a consultant to Jowell Glyn & Marais Inc, the South African legal advisers to Investec Limited. His current directorships include Investec Bank Limited and various other Investec companies.

Ian R Kantor (57)

BSc (Eng) MBA

Ian is former Chief Executive of Investec Bank Limited, resigning in 1985 and relocating to the Netherlands. His current directorships include Insinger de Beaufort Holdings SA (where he is Chairman of the management board and in which Investec holds an 8.6% interest), Bank Insinger de Beaufort NV and Investec Bank (UK) Limited.

Sir Chips Keswick (64)^{1,2,4,5,7}

Sir Chips is former Chairman of Hambros Bank Limited and Hambros PLC and a former director of Anglo American Plc. He was on the Court of the Bank of England. His directorships include De Beers SA, De Beers Consolidated Mines Limited, Persimmon Plc and Investec Bank (UK) Limited.

Mangalani Peter Malungani (46)

BCom MAP LDP

Peter is Chairman of Pea Investment Group (Proprietary) Limited. He is Chairman of Phumelela Gaming and Leisure Limited and is a Director of Super Group Limited, BACSA (Business Against Crime South Africa) and Investec Bank Limited. He is deputy Chairman of Capital Alliance Holdings Limited and Capital Alliance Life Limited.

Peter R S Thomas (59)^{2,7}

CA (SA)

Peter is a chartered accountant and former Managing Director of The Unisec Group Limited. His current directorships include Investec Bank Limited.

Fani Titi (42)

BSc (Hons) MA MBA

Fani is currently Chief Executive Officer of Tiso Group, a former Chairman of the Armaments Corporation of South Africa Limited and a Director of The Bidvest Group Limited and Kumba Resources Limited.

Notes:

- The dates on which the directors were appointed to the boards of Investec Limited and Investec plc can be found on page 120.
- Mr. Geoffrey MT Howe and Miss Haruko Fukuda were appointed as independent non-executive directors to the boards of Investec Limited and Investec plc on 21 July 2003.
- Mr Fani Titi was appointed as a non-executive director to the boards of Investec Limited and Investec plc on 30 January 2004.

The directors serve as Chairman or members on the following committees.

- ¹ Combined group/DLC Audit Committee
- ² Investec plc Audit Committee
- ³ Investec Limited Audit Committee
- ⁴ Remuneration Committee
- ⁵ Nomination Committee
- ⁶ Chairman's Committee
- ⁷ Board Risk Review Committee

Details on these committees can be found on pages 110 to 113.

Directorate

Investec Bank Limited
Reg. No. 1969/004763/06

Executive Directors

David M Lawrence (53)
BA(Econ) (Hons) MCom
Deputy Chairman

Glynn R Burger (47)
BAcc CA(SA) H Dip BDP MBL

Bernard Kantor (54)
Managing Director

Stephen Koseff (52)
BCom CA(SA) H Dip BDP MBA
Chief Executive Officer

Bradley Tapnack (57)
BCom CA(SA)

Non-Executive Directors

Hugh S Herman (63)
BA LLB LL.D (Honoris CAUSA)
Non-Executive Chairman

Sam E Abrahams (65)
FCA CA(SA)

Donn E Jowell (62)
BCom LLB

Mangalani Peter Malungani (46)
BCom MAP LDP

Daphne R Motsepe (47)
BR BCompt MBA

Dr Morley Z Nkosi (69)
BSc MBA PhD

Peter R S Thomas (59)
CA(SA)

Fani Titi (42)
BSc (Hons) MA MBA

Russel A P Upton (69)
CA(SA)

Directorate

Investec Bank (UK) Limited

Hugh S Herman (63)

BA LLB LLD (Honoris CAUSA)
Non-Executive Chairman

Bradley Fried (38)

BCom CA(SA) MBA
Managing Director

John N Abell (72)

MA (Hons)

George F O Alford (55)

BSc (Econ) FCIS FIPD MSI

Peregrine Crosthwaite (55)

Resigned 31 March 2004

Michael A Jameson-Till (59)

Bernard Kantor (54)

Ian R Kantor (57)

BSc(Eng) MBA

Sir Chips Keswick (64)

Stephen Koseff (52)

BCom CA(SA) H Dip BDP MBA

Richard PMA Forlee (43)

BCom CA (SA) MBA
Resigned 23 June 2004

Alan Tapnack (57)

BCom CA(SA)

David M van der Walt (39)

BCom (Hons) CA (SA)

Ian R Wohlman (49)

ACIB

Investec Bank (Israel) Limited

Hugh S Herman (63)

BA LLB LLD (Honoris CAUSA)
Non-Executive Chairman

Alan Tapnack (57)

BCom CA(SA)
Deputy Chairman

Jonathan Irroni (54)

BA
Managing Director and Chief Executive Officer

Talya Aharoni (52)

MBA

Amihai Ayalon (59)

David Golan (63)

MBA

Bernard Kantor (54)

Stephen Koseff (52)

BCom CA(SA) H Dip BDP MBA

Mordechai Limon (80)

MBA

Oren N Most (53)

MBA

Shimon Ravid (68)

PhD

Zvi Zur (81)

Directorate

Investec Asset Management (Pty) Limited Reg. No. 1984/011235/07

Hugh S Herman (63)

BA LLB LLD (Honoris CAUSA)
Chairman

Hendrik J du Toit (42)

BCom (Hons) MCom MPhil
Chief Executive Officer

Gail Daniel (36)

BA (Hons) MBA

George H F Brits (44)

PhD MBA
Resigned 1 April 2004

Robert A Coombe (35)

BCom CA(SA) ACMA
Resigned 1 April 2004

Elsabé de Vries (41)

BAcc BCompt (Hons) CTA MBA

Domenico Ferrini (35)

BCom

Jeremy B Gardiner (39)

BCom (Hons)

John C Green (38)

BCom BLaw
Appointed 1 April 2004

Roelof C Horne (40)

BCom (Hons) CA(SA)

Bernard Kantor (54)
Thabo Khojane (31)

BA Hons (Econ) BSc (Eng)

Stephen Koseff (52)

BCom CA(SA) H Dip BDP MBA

Kim M McFarland (39)**

BAcc CA(SA) MBA

John T McNab (37)

BEng MEng CFA

Andre D Roux (50)

MSc (Oxford) MPhil (Cambridge)

Mark I Samuelson (39)

BCom

** British

Directorate

Investec Bank (Australia) Limited

David Gonski (50)

BCom LLB
Chairman

Geoffrey Levy (45)

BCom LLB
Chief Executive Officer

Alan Chonowitz (49)

BAcc MCom CA(SA)

Sam Hackner (48)

BCom (Hons) CA(SA)

Hugh S Herman (63)

BA LLB LL.D (Honoris CAUSA)

Stephen Koseff (52)

BCom CA(SA) H Dip BDP MBA

David M Lawrence (53)

BA(Econ) (Hons) MCom

Andy W J Leith (44)

BCom CA(SA)

Richard A Longes (58)

BA LLB MBA

Robert C Mansfield (52)

BCom

John W Murphy (51)

BCom MCom ACA FASA

Investec Bank (Mauritius) Limited

Hugh S Herman (63)

BA LLB LL.D (Honoris CAUSA)
Non-Executive Chairman

Pierre de Chasteigner du Mee (51)

ACEA FBIM FMAAT

Stephen Koseff (52)

BCom CA(SA) H Dip BDP MBA

David M Lawrence (53)

BA(Econ) (Hons) MCom

Angelo J Letimier (56)

Craig C McKenzie (43)

BSc MSc CFA

Investec plc financial statements (incorporating the results of Investec Limited)

Director's report

Nature of business

Investec is an international, specialist banking group that provides a diverse range of financial products and services to a niche client base in two principal markets, the United Kingdom and South Africa, as well as certain other geographies including Australia. Investec is organised into four principal divisions, namely Investment Banking, Private Client Activities, Treasury and Specialised Finance and Asset Management. In addition, Investec's head office provides certain group-wide integrating functions such as Risk Management, Information Technology, Finance, Investor Relations, Marketing, Human Resources and Organisational Development. It is also responsible for the group's central funding as well as other activities, such as the group's property business, trade finance and traded endowment operations. A review of the operations for the year can be found on pages 45 to 78.

This report deals with the requirements for the consolidated Investec group (comprising the legal entities Investec plc and Investec Limited).

Authorised and issued share capital

Investec plc and Investec Limited

Details of the share capital is set out in note 33 in the financial statements.

Pursuant to the black economic empowerment deal which was announced during 2003, Investec Limited issued 5,600,000 ordinary shares for cash at R90.00 per share on 27 November 2003. In terms of the group's Dual Listed Companies structure (see page 37 for further information) the number of Investec plc Special Converting Shares of £0.001 each in issue must equal the number of Investec Limited ordinary shares of ZAR0.001 each in issue.

Accordingly, on 4 February 2004, Investec plc issued 5,600,000 plc Special Converting Shares of £0.001 each by way of a bonus issue from reserves.

Investec Limited

On 30 March 2004, Investec Limited issued 877 variable rate redeemable cumulative preference shares of 60 cents each for a total consideration of R877 million (£75 million).

Financial results

The results of Investec plc (incorporating Investec Limited) are set out in the financial statements and accompanying notes for the year ended 31 March 2004.

Ordinary dividends

Investec plc

An interim dividend of 13.5 pence per share was declared to shareholders registered on 19 December 2003. Together with the interim dividend of 14.5 pence per ordinary share declared by Investec Limited on the SA DAN and SA DAS shares, as provided by the DLC structure Sharing Agreement, the total interim distribution to shareholders of Investec plc, paid on 5 January 2004, equated to 28 pence per share (2003: 26 pence).

The directors have proposed a final dividend of 30 pence per share (2003: 28 pence) to shareholders registered on 30 July 2004 to be paid on 23 August 2004. The final dividend is subject to the approval of members of Investec plc at the Annual General Meeting scheduled for 19 August 2004.

The holder of 7,388,741 Investec plc shares has agreed to waive its rights to the proposed final dividend.

Investec Limited

An interim dividend of 309 cents per share (2003: 395 cents) was declared to shareholders registered on 19 December 2003 and paid on 5 January 2004. Dividends in aggregate amounting to R107,592,008 were declared on the SA DAN and SA DAS shares, equivalent to 14.5 pence per Investec plc ordinary share. Together with the interim dividend of 13.5 pence per ordinary share declared by Investec plc, this equated to a total interim distribution to shareholders of Investec plc of 28 pence (309 cents) per share.

Director's report

The directors have proposed a final dividend of 360 cents per share (2003:356 cents) to shareholders registered on 30 July 2004 to be paid on 23 August 2004. The final dividend is subject to the approval of members of Investec Limited at the Annual General Meeting scheduled for 19 August 2004.

The holder of 2,111,259 Investec Limited shares has agreed to waive its rights to the proposed final dividend.

Preference dividend

Preference dividends of £7,553,000 were accrued by Investec Limited.

Directors and secretaries

Details of the directors and secretaries of Investec plc and Investec Limited are reflected on pages 139 and 140 and at the beginning of the Annual Report.

Ms H Fukuda OBE and Mr GMT Howe were appointed to the board with effect from 21 July 2003 and Mr F Titi was appointed with effect from 30 January 2004.

With regret, Mr JN Abell, a non-executive director, passed away unexpectedly on 26 May 2004.

Directors and their interests

Directors' shareholdings and options to subscribe are set out on pages 129 to 133.

The company's register of directors' interests contains full details of directors' shareholdings and options to subscribe.

Share incentive trusts

Details regarding options granted during the year are set out on page 208.

Audit committee

An audit committee comprising non-executive directors meets regularly with senior management, the external auditors, Operational Risk, Internal Audit, Group Compliance and the Group's Finance and Accounting division to consider the nature and scope of the audit reviews and the effectiveness of the Group's risk and control systems. Further details on the role and responsibility of the Audit Committee are set out on page 110.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors. A resolution to re-appoint Ernst & Young LLP as auditors will be proposed at the next Annual General Meeting.

Contracts

Refer to page 119 for details of contracts with directors.

Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on pages 164 and 165.

Major shareholders

Investec plc

At 31 March 2004 the following were the beneficial owners of 3% or more of the issued ordinary shares of the company:

Fintique III (BVI) Limited	9.90%
Public Investment Commissioner	9.86%
Old Mutual Life Assurance	5.24%
Spurwing Investments Limited	4.31%
Investec Ltd Security Purchase and Option Scheme Trust 2002	3.62%

Investec Limited

At 31 March 2004 the following were the beneficial owners of 3% or more of the issued ordinary shares of the company:

Public Investment Commissioner	12.25%
Ed Trust International Investments	6.36%
Tiso International Investments Pty Ltd	6.36%
Peu International Investments Pty Ltd	5.94%
Old Mutual Life Assurance	5.36%
Fintique III (BVI) Limited	4.80%
Sanlam	3.13%

Special resolutions

Investec plc

At the Annual General Meeting held on 7 August 2003, special resolutions were passed in terms of which:

- A renewable authority was granted to the Company to acquire its own shares in terms of Section 166 of the Companies Act, 1985.
- A renewable authority was granted to the Company to allot equity securities of the Company for cash without application of the pre-emption rights provided by section 89 of the Companies Act, 1985
- Article 62.2 of the Articles of Association was amended to correct a typographical error.

Investec Limited

At the Annual General Meeting held on 7 August 2003, a special resolution was passed granting a renewable general authority, until the next Annual General Meeting, for Investec Limited or its subsidiaries to acquire shares in Investec Limited.

Investec Limited subsidiary companies

In addition to amendments to the Articles of Association and name changes of various subsidiary companies, a number of special resolutions were passed as indicated in the table below.

Director's report

Investec Limited Subsidiary	Effective date	Special resolution
Barfold Investments Limited	23 July 2003	Reduction of R967 554 652 in stated capital. Reduction in the number of authorised no par value shares from 300 000 000 to 100 Consolidation of issued share capital from 76 066 076 ordinary no par value shares to 100 ordinary no par value shares
Grayinvest Limited	4 February 2004	Acquisition and cancellation of 14 990 000 ordinary shares of the company at R0.50 per share
Investec Bank Limited	10 June 2003	Increase in authorised share capital by the creation of 15 000 000 non-redeemable, non-cumulative, non-participating preference shares of R0.01 each
Investec International Holdings (Pty) Limited	9 February 2004	Amendment to Articles of Association to allow for acquisition of own shares Acquisition and cancellation of 500 986 ordinary shares of the company at R4.26 per share
Investec Investments Limited	9 February 2004	General authority for the company or its subsidiaries to acquire shares in Investec Investments Limited and for Investec Investments Limited to acquire shares in its holding company
investec Private Trust Limited	29 September 2003	Stated capital account reduced by R8 538 626.80 Consolidation of issued share capital from 9 833 018 000 ordinary no par value shares into 100 ordinary no par value shares
SIB Investments Limited	4 February 2004	Acquisition and cancellation of 80 000 000 ordinary shares of the company at R7.00 per share
Secfin Finance Limited	9 March 2004	Acquisition and cancellation of 799 900 ordinary shares of the company at R1.00 per share
Sibvest Limited	25 September 2003	Acquisition and cancellation of 2 666 567 ordinary shares of the company at R40.00 per share
Vesque Limited	16 October 2003	Acquisition and cancellation of 223 619 900 ordinary shares of the company at R0.01 per share

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and comply with applicable United Kingdom law and accounting standards. These policies are set out on pages 158 to 163.

Creditor payment policy

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

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 of the group's performance by means of Employee Share Schemes.

Donations

During the year, the Investec plc made donations for charitable purposes, totalling £391,079. Furthermore, Investec Limited made donations for charitable purposes, totalling £1,145,380. Investec plc made no political donations, while Investec Limited made political donations of R2.5 million to the two main political parties in South Africa.

Director's 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 among its employees and within the community in which it operates. Investec's 2004 Sustainability Report was produced as a separate report accompanying the Annual Report for 2004.

Subsequent events

On 16 June 2004 Investec plc, the controlling shareholder of Investec Bank (Israel) Limited (the Bank), reached an agreement with First International Bank of Israel whereby it has agreed to sell its 80.28% stake in the Bank to First International Bank of Israel.

The purchase price will be based on the net asset value of the Bank subject to adjustments. It is the intention of the parties to sign an agreement within 14 days of the 16 June 2004. It is not practical to make an estimate of the financial effect of this proposed transaction.

The transaction amounts to less than 5% of the Investec group's combined market capitalisation. At 31 March 2004, as reflected in the consolidated accounts of the combined Investec group (comprising Investec plc and Investec Limited), Investec Bank (Israel) Limited reported an operating profit after taxation but before exceptional items and amortisation of goodwill of £1.9 million and its shareholders' funds at that date were approximately £48 million.

The sale of the shares is dependent on the approval of the relevant regulatory authorities in Israel, South Africa and the United Kingdom, including the Bank of Israel and the Israeli Antitrust authorities. The agreement also requires the approval of the Board of Directors of both parties.

By order of the board



Richard Vardy
Secretary - Investec plc



Selwyn Noik
Secretary - Investec Limited

28 June 2004

Directors' responsibilities statement

The following statement, which should be read in conjunction with the Auditor's report set out on page 149, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to 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 profit or loss of the company for that financial year.

The directors consider that in preparing the financial statements on pages 150 to 157, and 164 to 226 and the additional information contained on pages 1 to 44, the company has used appropriate accounting policies which have been consistently applied and have been supported by reasonable and prudent judgements and estimates, and that all accounting standards which the directors consider to be applicable have been followed.

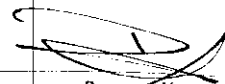
The financial statements of the company have been prepared on the going concern basis. The directors are of the opinion, based on its knowledge of the company, key processes in operation and specific enquiries, that adequate resources exist to support the company on a going concern basis over the next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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the board



Stephen Koseff
Chief Executive Officer



Bernard Kantor
Managing Director

28 June 2004

Report of the independent auditors

We have audited the group's financial statements on pages 150 to 226 for the year ended 31 March 2004 which comprise Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Consolidated Shareholders' Funds and the related notes 1 to 44. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information on pages 127 to 133 in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements on page 148.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement on pages 104 to 116 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, unaudited part of the Directors' Remuneration Report, Chairman's Statement, Chief Executive Officer and Managing Directors' Report, A Detailed Analysis of the group's Performance, Divisional Reviews and Corporate Governance Report and Risk Management. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

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 as at 31 March 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor

London
28 June 2004

Consolidated profit and loss accounts

For the year ended 31 March

2004

2003*

(£'000) Notes	Notes	Before goodwill & exceptional items		Total	Before goodwill & exceptional items		Total
		Goodwill & exceptional items	Goodwill & exceptional items		Goodwill & exceptional items	Goodwill & exceptional items	
Interest receivable - interest income arising from debt securities		91 845	-	91 845	171 066	-	171 066
Interest receivable - other interest income		588 067	-	588 067	678 615	-	678 615
Interest payable		(574 249)	-	(574 249)	(738 980)	-	(738 980)
Net interest income		105 663	-	105 663	110 701	-	110 701
Dividend income	4	3 450	-	3 450	3 597	-	3 597
Fees and commissions receivable		340 528	-	340 528	330 959	-	330 959
- Annuity		272 718	-	272 718	287 199	-	287 199
- Deal		67 810	-	67 810	43 760	-	43 760
Fees and commission payable		(22 155)	-	(22 155)	(54 768)	-	(54 768)
Dealing profits	5	91 015	-	91 015	57 668	-	57 668
Income from long-term assurance business	25	5 082	-	5 082	27 779	-	27 779
Return on shareholders' funds in the long-term assurance business	25	24 122	-	24 122	15 551	-	15 551
Other operating income		13 028	-	13 028	27 780	-	27 780
Other income		455 070	-	455 070	408 566	-	408 566
Total operating income		560 733	-	560 733	519 267	-	519 267
Administrative expenses	6	(395 188)	-	(395 188)	(400 780)	-	(400 780)
Depreciation and amortisation		(12 448)	(50 644)	(63 092)	(14 417)	(122 302)	(136 719)
- tangible fixed assets	22	(12 448)	-	(12 448)	(14 417)	-	(14 417)
- amortisation and impairment of goodwill	20	-	(50 644)	(50 644)	-	(122 302)	(122 302)
Provision for bad and doubtful debts	15	(20 958)	-	(20 958)	(18 308)	-	(18 308)
Operating profit/(loss)		132 139	(50 644)	81 495	85 762	(122 302)	(36 540)
Operating profit/(loss) from continuing operations		132 139	(50 644)	81 495	102 431	(116 599)	(14 168)
Operating loss from discontinued operations		-	-	-	(16 669)	(5 703)	(22 372)
Operating profit/(loss)		132 139	(50 644)	81 495	85 762	(122 302)	(36 540)
Share of income of associated companies		11 205	(2 132)	9 073	11 350	(1 644)	9 706
Exceptional items	9	-	8 529	8 529	-	(28 757)	(28 757)
Provision for losses on termination and disposal of group operations - discontinued		-	(5 103)	(5 103)	-	(9 437)	(9 437)
Losses on termination and disposal of group operations - discontinued		-	(24 328)	(24 328)	-	(16 493)	(16 493)
Less provision made last year		-	19 225	19 225	-	7 056	7 056
Impairment of goodwill on discontinued operations		-	-	-	-	(19 047)	(19 047)
Profit on termination and disposal of group operations - continuing		-	13 632	13 632	-	5 800	5 800
Fundamental reorganisation and restructuring costs - continuing		-	-	-	-	(6 073)	(6 073)
Profit/(loss) on ordinary activities before taxation		143 344	(44 247)	99 097	97 112	(152 703)	(55 591)

*Restated (refer to accounting policies)

Consolidated profit and loss accounts

For the year ended 31 March

2004

2003*

(£'000) Notes	Notes	Before goodwill & exceptional items		Goodwill & exceptional items		Before goodwill & exceptional items		Goodwill & exceptional items		Total	
Profit/(loss) on ordinary activities before taxation (continued)		143 344		(44 247)		99 097		97 112		(152 703)	(55 591)
Tax on profit on ordinary activities	10	(27 821)		(678)		(28 499)		(5 377)			(5 377)
Tax on profit on ordinary continuing activities		(27 821)		—		(27 821)		838		—	838
Tax on loss on ordinary discontinued activities		—		—		—		(6 215)		—	(6 215)
Tax on termination and disposal of group operations - continuing		—		(678)		(678)		—		—	—
Profit/(loss) on ordinary activities after taxation		115 523		(44 925)		70 598		91 735		(152 703)	(60 968)
Minority interests - equity		(1 888)		75		(1 813)		(1 646)		—	(1 646)
Profit/(loss) attributable to shareholders		113 635		(44 850)		68 785		90 089		(152 703)	(62 614)
Dividends - including non-equity	11	(63 709)		—		(63 709)		(53 428)		—	(53 428)
Retained profit/(loss) for the year		49 926		(44 850)		5 076		36 661		(152 703)	(116 042)
Profit/(loss) attributable to shareholders						68 785					(62 614)
Amortisation and impairment of goodwill						50 644					122 302
Profit on termination and disposal of group operations (net of deferred tax and minority interests)						(13 029)					(5 800)
Provision for losses on termination and disposal of group operations (net of deferred tax)						5 103					28 484
Amortisation of goodwill of associates						2 132					1 644
Fundamental reorganisation and restructuring costs						—					6 073
Preference dividends						(7 553)					(421)
Earnings before goodwill and exceptional items						106 082					89 668
Earnings per share (pence)											
- Basic	11					59.9					(67.6)
- Diluted	11					59.5					(67.6)
Excluding goodwill and exceptional items											
- Basic	11					103.7					96.1
- Diluted						100.7					91.9
Headline earnings - basic	11					103.4					89.6
Dividends per share (pence)	11					58.0					54.0

*Restated (refer to accounting policies)

Consolidated statement of recognised gains and losses

For the year ended 31 March

(£'000)	2004	2003*
Profit/(loss) for the year attributable to shareholders	68 785	(62 614)
Currency translation differences on foreign currency net investments	(4 104)	(13 870)
Unrealised surplus on revaluation of investment properties	13 982	18 265
Actuarial losses recognised on pension fund schemes	(1 294)	(9 707)
Total recognised gains and losses for the year	77 369	(67 926)
Prior year adjustments in respect of changes in accounting policies	(2 226)	
Total gains and losses since last annual report	75 143	

In addition to the above prior year adjustments net assets at 31 March 2003 have also been reduced by £54.8 million as a result of changes in accounting policies that have had no impact on gains and losses as explained in the accounting policies note.

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis. Accordingly, no note of historical cost profits and losses has been included.

*Restated (refer to accounting policies)

Consolidated balance sheet

For the year ended 31 March

(£'000)	Notes	2004	2003*
Assets			
Cash and balances at central banks		363 862	348 343
Treasury bills and other eligible bills	12	332 208	243 019
Loans and advances to banks	13	1 704 715	2 758 797
Loans and advances to customers	14	6 345 848	4 883 903
Debt securities	16	1 466 437	1 931 265
Equity shares	17	418 254	147 638
Interests in associated undertakings	18	70 006	62 422
Other participating interests	19	9 135	–
Intangible fixed assets	20	251 508	299 773
Tangible fixed assets	22	146 326	205 982
Own shares	23	43 780	52 223
Other assets	24	1 081 131	1 211 441
Prepayments and accrued income		81 511	124 390
Long-term assurance business attributable to the shareholder	25	265 315	108 528
		<u>12 580 036</u>	<u>12 377 724</u>
Long-term assurance assets attributable to policyholders	26	2 781 335	2 536 319
		<u>15 361 371</u>	<u>14 914 043</u>
Liabilities			
Deposits by banks	27	1 233 609	2 129 292
Customer accounts	28	7 211 292	6 354 867
Debt securities in issue	29	621 857	1 089 756
Other liabilities	30	1 969 855	1 580 881
Accruals and deferred income		185 600	254 413
Pension fund liability		11 967	10 041
		<u>11 234 180</u>	<u>11 419 250</u>
Long-term assurance liabilities attributable to policyholders	26	2 781 335	2 536 319
		<u>14 015 515</u>	<u>13 955 569</u>
Capital resources			
Subordinated liabilities (including convertible debt)	32	497 858	279 702
Minority interests - equity		39 029	38 804
Called up share capital	33	165	158
Share premium account		1 020 890	980 321
Treasury shares	34	(52 102)	(40 987)
Shares to be issued	35	2 666	2 428
Perpetual preference shares	36	126 698	–
Revaluation reserves		43 142	29 160
Other reserves		(168 402)	(166 907)
Profit and loss account		(164 088)	(164 205)
Shareholders' funds		<u>808 969</u>	<u>639 968</u>
- equity		<u>682 271</u>	<u>639 968</u>
- non equity		<u>126 698</u>	<u>–</u>
		<u>1 345 856</u>	<u>958 474</u>
		<u>15 361 371</u>	<u>14 914 043</u>
Memorandum items			
Commitments	40	522 879	496 638
Contingent liabilities	41	267 441	348 906
		<u>790 320</u>	<u>845 544</u>

The directors' approved the accounts on 28 June 2004

S. Koseff

Chief Executive Officer

*Restated (refer to accounting policies)



Consolidated cash flow statement

For the year ended 31 March

(£'000)	Notes	2004	2003*
Net cash (outflow)/inflow from operating activities	38	(489 492)	114 779
Dividends received from associated undertakings		3 769	2 286
Returns on investments and servicing of finance			
Preference share dividend paid		(7 553)	(421)
Interest paid on subordinated debt and compulsorily convertible debentures		(45 110)	(25 090)
Net cash outflow from return on investments and servicing of finance		(52 663)	(25 511)
Taxation		(31 917)	(21 151)
Capital expenditure and financial investment			
Purchase of investment securities		(2 451 611)	(3 348 563)
Sale and maturity of investment securities		2 791 001	3 190 235
Purchase of own shares		1 655	11 401
Purchase of tangible fixed assets		(9 818)	(7 746)
Sale of tangible fixed assets		2 960	19 296
Net cash inflow/(outflow) from capital expenditure and financial investment		334 187	(135 377)
Acquisitions and disposals			
Net cash outflow from the purchase of interests in subsidiary undertakings		(4 772)	(672)
Net cash inflow/(outflow) from the disposal of group undertakings		44 999	(8 579)
Investment in associated undertakings		—	(1 598)
Repayment of the loan capital in associated undertaking		—	1 220
Net cash inflow/(outflow) from acquisitions and disposals		40 227	(9 629)
Equity dividends paid - ordinary share dividends		(52 810)	(54 335)
Financing			
Proceeds from the issue of subordinated liabilities		216 056	48 650
Repayments of compulsorily convertible debentures		(13 939)	(11 980)
Proceeds from shares to be issued		238	—
Proceeds from issue of preference ordinary share capital		127 484	—
Proceeds from issue of ordinary share capital		45 757	36 830
Share issue expenses		(2 031)	(32 213)
Net proceeds on acquisitions and disposals of treasury shares		14 126	(38 543)
Buy-back of ordinary share capital		—	(5 079)
Net cash inflow/(outflow) from financing		387 691	(2 335)
Increase/(decrease) in cash		138 992	(131 273)

*Restated (refer to accounting policies)

Consolidated cash flow statement

For the year ended 31 March

(£'000)	Notes	2004	2003*
Cash flow reconciliation			
Increase/(decrease) in cash		138 992	(131 273)
Cash and demand bank balances at beginning of the year		<u>1 033 902</u>	<u>1 165 175</u>
Cash and demand bank balances at end of the year		<u>1 172 894</u>	<u>1 033 902</u>
Cash and demand bank balances at end of year comprise:			
Cash		363 862	348 343
Demand bank balances		<u>809 032</u>	<u>685 559</u>
		<u>1 172 894</u>	<u>1 033 902</u>

*Restated (refer to accounting policies)

Reconciliation of shareholders' funds and

For the year ended 31 March

(£'000)	Share capital Investec Limited	Share premium Investec Limited	Treasury Shares	Capital reserve account	Share capital Investec plc
At 31 March 2002 - as previously reported	7 530	814 089		-	-
Prior year adjustments:					
Adoption of full requirements of FRS 17:					
Retirement benefits	-	-	-	-	-
Adoption of UITF 37:Purchase and sale of own shares	-	2 444	(2 444)	-	-
	-	-	-	-	-
At 31 March 2002* - restated for prior year adjustments	7 530	816 533	(2 444)	-	-
Year ended 31 March 2003*					
Foreign currency adjustments	-	-	-	-	-
Retained loss for the year	-	-	-	-	-
Retained earnings of associates	-	-	-	-	-
Issue of shares on listing	-	(0)	-	-	3
Conversion of shares to be issued	374	86 402	-	-	-
Issue of shares to staff share scheme	-	-	-	-	2
Buyback of shares to be issued	-	-	-	-	-
Buyback and cancellation of shares	(148)	(4 931)	-	-	-
Conversion from debentures	1	-	-	-	-
Adjustment to par value of Investec Limited shares	(7 712)	-	-	7 712	-
Unbundling of Investec plc from Investec Limited	-	(290 535)	-	-	108
Movement in treasury shares	-	(16 231)	(38 543)	-	-
Investec plc transfer to capital redemption reserve fund	-	-	-	50	-
Issue expenses	-	(4 741)	-	-	-
Transfer to pension deficit fund	-	-	-	-	-
Revaluation of investment properties**	-	-	-	-	-
Transfers on disposal of revalued investment properties	-	-	-	-	-
At 31 March 2003* - restated for prior year adjustments	45	586 497	(40 987)	7 762	113
At 31 March 2003 - as previously reported	45	600 284	-	7 762	113
Cumulative prior year adjustments to 31 March 2003*	-	(13 787)	(40 987)	-	-
Year ended 31 March 2004					
Foreign currency adjustments	-	-	-	-	-
Retained profit for the year	-	-	-	-	-
Retained earnings of associates	-	-	-	-	-
Reduction in shareholding of associate	-	-	-	-	-
Issue of shares	1	45 750	-	-	6
Issue of perpetual preference shares	-	-	-	-	-
Share issue expenses	-	(1 245)	-	-	-
Re-issue of treasury shares	-	(3 936)	14 126	-	-
Purchase of treasury shares	-	-	(25 241)	-	-
PLC transfer to capital reserve	-	-	-	150	-
Transfer to pension deficit fund	-	-	-	-	-
Revaluation of investment properties**	-	-	-	-	-
At 31 March 2004	46	627 066	(52 102)	7 912	119

*Restated (refer to accounting policies)

**Revaluation of investment properties is subject to taxation on realisation.

movements in reserves

Share premium Investec plc	Shares to be issued	Perpetual preference shares	Revaluation reserves investment properties	Equity accounted reserves	Foreign currency reserves	Profit and loss account	Total
-	41 148	-	11 202	3 287	(180 120)	37 166	734 302
-	-	-	-	-	-	487	487
-	-	-	-	-	(32)	(960)	(992)
-	-	-	-	-	-	-	-
-	41 148	-	11 202	3 287	(180 152)	36 693	733 797
-	-	-	-	1 727	(15 597)	-	(13 870)
-	-	-	-	-	-	(116 042)	(116 042)
-	-	-	-	9 064	-	(9 064)	-
36 826	-	-	-	-	-	-	36 829
-	(38 148)	-	-	-	-	-	48 628
27 701	-	-	-	-	-	-	27 703
-	(572)	-	-	-	-	-	(572)
-	-	-	-	-	-	-	(5 079)
-	-	-	-	-	-	-	1
-	-	-	-	-	-	-	-
356 769	-	-	-	-	-	(66 342)	-
-	-	-	-	-	7 002	-	(47 772)
-	-	-	-	-	-	(50)	-
(27 472)	-	-	-	-	-	-	(32 213)
-	-	-	-	-	-	(9 707)	(9 707)
-	-	-	18 265	-	-	-	18 265
-	-	-	(307)	-	-	307	-
393 824	2 428	-	29 160	14 078	(188 747)	(164 205)	639 968
393 824	2 428	-	29 160	14 078	(195 717)	(155 009)	696 968
-	-	-	-	-	6 970	(9 196)	(57 000)
-	-	-	-	1 124	(5 228)	-	(4 104)
-	-	-	-	-	-	5 076	5 076
-	-	-	-	3 515	-	(3 515)	-
-	-	-	-	(1 056)	-	-	(1 056)
-	238	-	-	-	-	-	45 995
-	-	127 484	-	-	-	-	127 484
-	-	(786)	-	-	-	-	(2 031)
-	-	-	-	-	-	-	10 190
-	-	-	-	-	-	-	(25 241)
-	-	-	-	-	-	(150)	-
-	-	-	-	-	-	(1 294)	(1 294)
-	-	-	13 982	-	-	-	13 982
393 824	2 666	126 698	43 142	17 661	(193 975)	(164 088)	808 969

Accounting policies

Basis of presentation

The group comprises Investec plc, Investec Limited and their subsidiary undertakings.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets.

These financial statements have been prepared having regard to Part VII, Chapter II of, and Schedule 9 to, the Companies Act 1985 in accordance with applicable UK accounting standards, and with the Statement of Recommended Practice issued by the British Bankers' Association, except where noted in the financial statements below.

Under UK GAAP the accounts of Investec plc and Investec Limited have been combined in accordance with S227 (5) of the Companies Act 1985 on the grounds that they form a single economic entity. The merger method of accounting has been used to account for the combination in accordance with the provisions of FRS 6 applying to group reconstructions, since the Dual Listed Company structure was brought into effect, in the 2003 financial year, by de-merging the then existing Investec group into two sub-groups headed by Investec plc and Investec Limited by virtue of share for share transfers which did not alter the rights of existing shareholders or the interest of any minority. The nature of the DLC merger has resulted in the inclusion of amounts attributable to the shareholders of both Investec plc and Investec Limited in capital and reserves on the balance sheet, and in attributable profit.

The effect of the DLC merger 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. This is demonstrated by the following key features of the arrangements:

- The shareholders of Investec plc and Investec Limited have a common economic interest in both groups;
- The shareholders of Investec plc and Investec Limited take key decisions, including the election of directors, through a joint electoral procedure under which the shareholders of the two companies effectively vote on a joint basis;
- Investec plc and Investec Limited have a common Board of Directors, a unified management structure and joint objectives; and
- Dividends and capital distributions made by the two companies are equalised.

If either Investec plc or Investec Limited proposes to pay a dividend to its shareholders, then the other Company must

pay a matching cash dividend of an equivalent amount per share to its shareholders. If either Company is prohibited by law or is otherwise unable to declare, pay or otherwise make all or any portion of such a matching dividend, the Investec plc or Investec Limited will, so far as it is practicable to do so, enter into such transactions with each other as Boards agree to be necessary or desirable so as to enable both Companies to pay dividends as nearly as practicable at the same time.

Changes to accounting policies and comparative information

The accounting policies adopted by the group are consistent with the prior year except as noted below.

The group adopted the following new UK accounting standards during the year:

UITF 37: Purchase and sale of own shares (excluding ESOP trusts)

The group has adopted UITF 37 in respect of own shares held. In summary the impact for the group is as follows:

- Consideration paid for the group's own shares are deducted from shareholders' funds (referred to as 'treasury shares').
- No gain or loss is recognised in the profit and loss account or statement of total recognised gains and losses on the purchase, sale or cancellation of the group's own shares.

The impairment charge booked in the 2003 financial year that would not have been booked under UITF 37 was a loss of £935 thousand. The adoption of UITF 37 resulted in treasury shares being included within capital resources amounting to £52.1 million at 31 March 2004 and £41 million at 31 March 2003. Previously these own shares were presented within assets on the balance sheet.

Included in the restatement related to own shares is a correction of £10.2 million in share premium and foreign currency reserves. This is as a result of an overstatement of own shares and share premium in 2002 in relation to the issuance of shares to group schemes.

FRS 17 - Retirement Benefits

The group has fully adopted the requirements of FRS 17 in respect of retirement benefits. In line with the objective of the standard, the group reflects the fair value of assets and liabilities and any related funding arising from defined benefit schemes within the group.

Accounting policies

The implementation of FRS 17 resulted in a reduction of net assets at 31 March 2003 of £9.1 million (£10.1 million representing FRS 17 deficit less the SSAP 24 accrual of £0.9 million). This change in policy increased net assets at 31 March 2002 by £0.5 million (£0.4 million representing the FRS 17 deficit less the SSAP 24 accrual of £0.9 million). The charge to the consolidated statement of recognised gains and losses relating to FRS 17 for the 2003 financial year was £9.7 million, net of deferred taxation. The impact on the statement of recognised gains and losses for 2004 was a charge of £1.3 million, net of deferred taxation. FRS 17 resulted in interest income of £0.1 million in 2003 and interest payable of £0.9 million in 2004.

Restatements to prior year's consolidated profit and loss accounts

In the US business, certain directly attributable variable staff costs were netted against the dealing profits generated there from. In the current financial year these costs (£4.9 million) have been included under administrative expenses (staff costs) with a corresponding restatement to the prior year (£8.3 million).

In the prior year income on shareholders' funds within the life assurance business of £15.5 million was reflected as part of interest margin. In the current year this return on shareholders' funds (£24.1 million) is disclosed as a separate line item in the consolidated profit and loss account.

Further, there were minor reclassifications between income categories. Specifically, they relate to interest earned on cash balances held on behalf of third parties (disclosed under net interest income instead of annuity fees and commissions receivable); returns generated on private client investment banking activities (disclosed under dealing profits instead of fees and commissions receivable); income from the group's interest in securitisation schemes (disclosed under net interest income instead of other operating income); income on certain trading positions (included in dealing profits instead of other operating income); and the funding costs associated with scrip lending activities (deducted from fees and commissions receivable instead of interest income). The net effect of the above was a decrease in net interest income of £3.4 million, a decrease of £0.4 million in net fees and commissions' receivable, a decrease in other operating income of £0.2 million, all of which were offset by an increase in dealing profits of £4.0 million.

The above reclassifications were made so as to reflect the nature of the underlying transactions in a more meaningful

manner. The reclasses have no net impact on the profit and loss account.

Restatement to the weighted average number of shares in issue ("the wanos")

Investec has established a number of share incentive plans that are designed to link the interests of employees with shareholders and long-term organisational interest through performance and risk-based equity grants. These schemes are required to be consolidated into the accounts of the group. However, to the extent that the underlying risks and rewards inherent in these schemes have already vested with the participants, Investec is entitled to recognise its respective pro-rata share of any income on related balances. This accounting treatment has been consistently applied in the current and prior years.

Historically shares that were not entitled to dividends were not included in the wanos. In order to match the wanos to the group's share of income associated with such schemes, the wanos has been increased by the weighted number of shares vested, notwithstanding no dividend being payable on these shares.

The impact of this change in methodology has resulted in the wanos increasing from 90,878,706 to 93,291,446 in the prior year, resulting in comparative earnings per share - pre goodwill and exceptional items decreasing from 98.7 pence (including the effects of UITF 37 and FRS 17 per above) to 96.1 pence.

Had the original methodology been applied in the current year, the wanos would have been 97,330,743 (instead of 102,300,071) and the equivalent earnings per share - pre goodwill and exceptional items would have been 109.0 pence (instead of 103.7 pence), an increase of 10.4% over the prior year.

Basis of consolidation

The group financial statements incorporate the financial results of the group and its subsidiaries. All subsidiaries in which the group holds more than one half of the voting rights or over which it exercises control are consolidated from the effective dates of acquisition and up to the effective dates of disposal, except entities where they are held with a view to subsequent resale. In the case of Investec Bank (Israel) Limited, whose accounts are compiled to 31 December annually, the group uses interim management accounts, drawn up to 31 March annually.

Entities, other than subsidiary undertakings, in which the group has a participating interest and exercises significant influence

Accounting policies

over operating and financial policies, are treated as associates. In the group accounts, associates are accounted for using the equity method. Other participating interests on which the group does not exercise significant influence are accounted for at the lower of cost and net realisable value.

The consolidated financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the consolidated balance sheet at the group's share of net assets plus unamortised goodwill.

Positive goodwill arising on the acquisition of subsidiaries is amortised against income over its useful economic life, for a period not exceeding 20 years. Negative goodwill arising on acquisitions is included within intangible fixed assets and released to profit and loss account initially over the period that non-monetary assets are recovered and then over the periods expected to benefit. Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

In order to reflect the different nature of the shareholders' and policyholders' interests in the long-term assurance business, the value of the long-term assurance business attributable to shareholders and the assets and liabilities attributable to policyholders are classified under separate headings in the consolidated balance sheet.

The group operates various Employee Benefit Trusts. In terms of UITF 13, the assets and liabilities of the Employee Benefit Trusts are consolidated within the group financial statements.

Foreign entities

The net assets of foreign subsidiaries are translated at closing rates of exchange and the translation differences arising are taken to reserves. The results of these companies are translated at weighted average rates of exchange for the relevant period. The difference between the profit and loss translated at an average rate and the closing rate is recorded as a movement in reserves. Any exchange differences on foreign currency loans which are used to hedge the net investment in foreign subsidiaries are also taken to reserves.

Goodwill arising on the acquisition of foreign entities is translated at the closing exchange rate.

Foreign currency transactions

Monetary assets and liabilities in foreign currencies are translated into the local reporting currency at market rates of exchange ruling at the balance sheet date. All foreign currency transactions are translated into the local reporting currency 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.

Debt securities and equity shares

Shares and securities intended for use on a continuing basis in the group's activities are classified as investment securities. Such shares and securities are stated at cost less provision for any impairment in value. The cost of dated investment securities is adjusted for the amortisation of premiums or discounts on a level yield basis over the period to maturity.

Debt securities held for the purpose of hedging are valued on the same basis as the liabilities which are being hedged. Other debt securities and equity shares are included in the balance sheet at market value. Changes in the market value of such assets are recognised in the profit and loss account as 'Dealing profits' as they arise.

Where securities are sold subject to a commitment to repurchase them, they remain on Balance Sheet. Obligations for the repurchase of these securities are included under deposits by banks and customer accounts. 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 included in loans and advances to banks or loans and advances to customers.

Stock lending and borrowing transactions that are not cash collateralised are not included in the balance sheet. Stock lending and borrowing transactions which are cash collateralised are accounted for in the same way as securities sold or purchased subject to repurchase commitments.

Financial instruments

Financial instruments in the trading book are measured at fair value, whereas financial instruments in the non-trading book, including loans and investment securities, are measured at amortised cost. Income and expenses on trading instruments are recognised in the profit and loss account in full in the current period, whereas income and expenses on non-trading instruments are amortised over the life of the instrument, with adjustments made to reflect changes in estimated premiums and discounts.

Derivatives

Derivatives are used to hedge interest, exchange rate and equity exposures related to non-trading positions. Instruments used for hedging purposes include swaps, equity derivatives, credit derivatives, forward rate agreements, futures, options and combinations of these instruments. In addition, the use of derivatives and their sale to customers as risk management

Accounting policies

products is an integral part of the group's trading activities. Derivatives entered into for trading purposes include swaps, equity derivatives, credit derivatives, commodity derivatives, forward rate agreements, futures, options and combinations of these instruments.

Where the group has entered into legally binding netting agreements, positive and negative values of derivatives are offset within the balance sheet totals.

Exposures to market risks are limited through the use of hedging instruments. The criteria used for a derivative instrument to be classified as a designated hedge include:

- the transaction must effectively reduce the price or interest rate or credit risk of the asset, liability or cashflow to which it is linked; and
- adequate evidence of the intention to link with the underlying risk inherent in the asset, liability or cashflow; and
- the transaction must be designated as a hedge at the inception of the derivative contract.

The hedging instruments are accounted for on the same basis as the underlying asset, liability, position or cash flow being hedged with income and expense being recognised in the profit and loss account. Hedging transactions which are superseded, cease to be effective or are terminated prior to the end of the life of the asset, liability or cashflow being hedged are measured at fair value. Any profit or loss arising is deferred and amortised into income or expense over the remaining life of the item previously hedged. When the underlying asset, liability position or cashflow is terminated prior to the hedging transaction, the hedging transaction is measured at fair value and the resulting profit or loss is included in the category of income or expense relating to the previously hedged transaction.

Instalment credit, leases and rental agreements

Amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances. Finance charges on finance leases and instalment credit transactions are credited to income in proportion to the capital balances outstanding. Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Specific and general provisions for bad and doubtful debts

Specific provisions represent the quantification of actual and expected losses from identified accounts and are deducted from loans and advances in the balance sheet. The amount of specific provision raised is the group's conservative estimate of the amount needed to reduce the carrying value of the

asset to the expected ultimate net realisable value, taking into account the financial status of the customer and any security for the loan. Included in the specific provisions are amounts in respect of interest that is not serviced. The charge for provision for bad and doubtful debts in the profit and loss account includes the unserviced interest which has been transferred to specific provisions. Doubtful debts are written off against the balance sheet and provision in part, or in whole, when the extent of the loss incurred has been determined.

General provisions augment specific provisions and provide cover for loans which are impaired at the balance sheet date but which will not be identified as such until some time in the future. The group's general provision has been determined taking into account the structure and the risk characteristics of the group's loan portfolio. A number of complex and changing factors are collectively weighed by management in determining the adequacy of provisions. These factors include management's view of the extent of existing risks in the loan portfolio and prevailing economic conditions. General provisions are deducted from loans and advances to customers in the balance sheet.

Tangible fixed assets

Tangible fixed assets are stated at original cost. Depreciation is provided on a straight-line basis over their anticipated useful lives. Leasehold improvements are amortised over the shorter of 20 years and the remaining period of the leases.

The annual rates used to depreciate assets are as follows:

Computer equipment	33%
Motor vehicles	20% - 25%
Equipment	20%
Furniture and fittings	10% - 20%
Freehold properties	2%

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Certain of the group's properties are held for long-term investment. Investment properties are accounted for in accordance with SSAP 19, as follows:

- (i) investment properties are revalued semi-annually. The surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost, or its reversal, on an individual property is expected to be permanent, in which case it is recognised in the profit and loss account for the year; and
- (ii) no depreciation is provided in respect of freehold investment properties or leasehold investment properties where the lease has over 20 years to run.

Although the Companies Act would normally require the

Accounting policies

systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the financial statements to give a true and fair view, since the current value of investment properties, and changes to that current value, are of prime importance rather than a calculation for systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been included cannot be separately identified or quantified.

Dealing properties

Dealing properties are included in other assets and are stated at the lower of cost and net realisable value.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation

The directors have implemented FRS 19 on deferred taxation. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are the differences between the group's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

Deferred tax assets are not recognised in respect of capital losses as crystallisation of capital gains and the eligibility of potential capital losses is uncertain.

Deferred tax is recognised in respect of future remittance of retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable (or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary).

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Long term life assurance

1) Investec Employee Benefits

Investec Employee Benefits is engaged in writing long-term

assurance business, including the provision of life assurance, pensions and annuities. The company is structured into policyholders' funds and a shareholder's fund. All premiums received, investment returns, claims and expenses, and changes in liabilities to policyholders are accounted for within the related long-term assurance fund. Any surplus, which is determined annually by the Appointed Actuary after taking account of these items, may either be distributed between the shareholder and the policyholders according to a predetermined formula or retained within the long-term assurance fund. The shareholder will also levy investment management and administration charges upon the long-term assurance fund.

The group accounts for its interest in long-term assurance business using the embedded value basis of accounting. The value of the shareholder's interest in the long-term assurance business ('the embedded value') included in the group's balance sheet is an actuarially determined estimate of the economic value of the group's life assurance subsidiaries, excluding any value, which may be attributed to future net business. The embedded value comprises the net tangible assets of the life assurance subsidiaries, including any surplus retained within the long-term assurance funds, which could be transferred to the shareholder, and the present value of the in-force business. The value of the in-force business is calculated by projecting the future surpluses and other net cash flows attributable to the shareholder arising from business written by the balance sheet date, using appropriate economic and actuarial assumptions, and discounting the result at a rate which reflects the shareholder's overall risk premium.

Changes in the embedded value, which are determined on a post-tax basis, are included in the profit and loss account.

The assets held within the long-term assurance funds are legally owned by the life assurance companies, however the shareholder will only benefit from ownership of these assets to the extent that surpluses are declared or from other cashflows attributable to the shareholder. Reflecting the different nature of these assets, they are classified separately on the group's balance sheet as 'Long-term assurance assets attributable to policyholders', with a corresponding liability to the policyholders also shown. Investments held within the long-term assurance funds are included on the following basis: equity shares, debt securities and unit trusts are valued at market prices; investment properties are reflected at directors' valuation, and loans are at cost less amounts written off.

2) Investec Assurance Limited

The policy liabilities of Investec Assurance Limited comprise

Accounting policies

unit-linked business sold to retirement funds and individual investors. All liabilities are directly related to asset values and the company assumes no mortality risk.

The liabilities are valued on a basis consistent with the asset values and comply with the Financial Soundness Valuation basis, as is accepted accounting practice in South Africa.

Investments are reflected at market value. Where market value cannot be determined, investments are reflected at directors' valuation.

Income from long term assurance business comprises interest, dividends and rental income received on investments held, as well as premium income in respect of linked business sold. Gains and losses arising as result of the fluctuation in the market value of investments, whether realised or unrealised, are accounted for as movements in the long term assurance fund.

Income recognition

Interest income is recognised in the profit and loss account as it accrues other than interest the collectability of which is considered doubtful which is credited to a suspense account and excluded from interest income. The closing balance on the suspense account is netted in the balance sheet against accrued interest receivable or, as the case may be, the amount debited to the borrower. Suspended interest is written off when there is no longer any realistic prospect of it being recovered.

Dealing profits is shown net of the funding cost of the underlying positions and includes the unrealised profits on trading portfolios, which are marked to market daily.

Commissions and fees include fees earned from providing advisory services, portfolio management and the arranging of financing for clients. All such commissions and fees are recognised as revenue when the related services are performed. Fees and commissions charged in lieu of interest are taken to income on a level yield basis over the period of the loan. Equity investments received in lieu of corporate finance fees are included in trading securities and valued accordingly.

Other operating income includes realised profits and losses on disposal of investments and dividends received.

Retirement 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 they become payable 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 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 or deficit in the balance sheet net of deferred taxation (to the extent that it is considered recoverable).

The movement in the scheme surplus/deficit is split between operating charges, financing items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Capital instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Notes to the financial statements

For the year ended 31 March

(£'000)	Principal Activity	Country of Incorporation	Interest % 2004	Interest % 2003
I. Principal subsidiary and associated companies				
Direct subsidiaries of Investec plc				
Investec Holding Company Limited	Investment holding	England and Wales	100	100
Indirect subsidiaries of Investec plc				
Investec Bank (Australia) Ltd	Banking institution	Australia	100	100
Investec SA	Investment holding	Luxembourg	100	100
Investec Holdings (UK) Ltd	Holding company	England and Wales	100	100
Investec I Ltd	Investment holding	England and Wales	100	100
Investec Bank (UK) Ltd	Banking institution	England and Wales	100	100
Investec Group (UK) PLC	Holding company	England and Wales	100	100
Investec Asset Finance PLC	Leasing company	England and Wales	100	100
Investec Finance PLC	Debt issuer	England and Wales	100	100
Investec Group Investments (UK) Ltd	Investment holding	England and Wales	100	100
Investec Investment Holdings AG	Investment holding	Switzerland	100	100
Guinness Mahon & Co Limited	Investment holding	England and Wales	100	100
Investec Bank (Channel Islands) Ltd	Banking institution	Guernsey	100	100
Investec Trust (Switzerland) S.A. (Formerly Radcliffes Trustee Company S.A.)	Trust company	Switzerland	100	100
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100	100
Investec Trust (Guernsey) Limited	Trust company	Guernsey	100	100
Investec Trust (Jersey) Limited (Formerly Theodoros Trust & Law Group Limited)	Trust company	Jersey	100	100
Carr Sheppards Crosthwaite Ltd	Stockbroking and portfolio management	England and Wales	100	100
Investec Asset Management Limited	Asset management	England and Wales	100	100
Investec Ireland Ltd	Financial services	Ireland	100	100
Investec US Inc (Formerly Investec Ernst and Company Inc)	Financial services	USA	100	100
Investec Bank (Israel) Ltd	Banking institution	Israel	80	80
European Capital Company Ltd	Project finance	England and Wales	100	100

Notes to the financial statements

For the year ended 31 March

(£'000)	Principal Activity	Country of Incorporation	Interest % 2004	Interest % 2003
I. Principal subsidiary and associated companies (continued)				
Direct subsidiaries of Investec Limited				
Invego Investments Ltd	Investment holding	South Africa	100	100
Investec Asset Management Holdings (Pty) Ltd	Investment holding	South Africa	100	100
Investec Assurance Ltd	Insurance company	South Africa	100	100
Investec Bank Ltd	Registered bank	South Africa	100	100
Investec Employee Benefits Holdings Ltd				
(Formerly Wilcardo Investments 6 (Pty) Ltd)	Investment holding	South Africa	100	100
Investec Int. (Gibraltar) Limited	Investment holding	Gibraltar	100	100
Investec Securities Ltd	Registered stock broker	South Africa	100	100
Sibvest Limited				
(Formerly Securities Investment Bank Ltd)	Investment holding	South Africa	100	100
Fedsure International Ltd	Investment holding	South Africa	100	100
Investec Property Group Holdings Ltd	Investment holding	South Africa	100	100
Indirect subsidiaries of Investec Limited				
Grayinvest Limited				
(Formerly Investec Ltd)	Investment holding	South Africa	100	100
Barfold Investments Ltd				
(Formerly South African Druggists Ltd)	Investment holding	South Africa	100	100
Investec Asset Management (Pty) Ltd	Asset management	South Africa	100	100
Investec Insurance Brokers (Pty) Ltd	Insurance broking	South Africa	100	100
Investec International Holdings (Pty) Ltd	Investment holding	South Africa	100	100
Investec Fund Managers SA Ltd	Unit trust management	South Africa	100	100
Investec Bank (Mauritius) Ltd	Banking institution	Mauritius	100	100
Investec Property Group Ltd				
(Formerly IPG Property Trading & Development (Pty) Ltd)	Property trading	South Africa	100	100
Reichmans Ltd	Trade financing	South Africa	100	100
Investec Employee Benefits Ltd				
(Formerly Fedsure Life Assurance Ltd)	Long-term insurance	South Africa	100	100
Traded Endowment Policies Ltd				
(Formerly Fedsure Traded Endowments Ltd)	Endowments trading	United Kingdom	100	100
Principal associated company of Investec Limited				
Capital Alliance Ltd	Long-term insurance	South Africa	29.0	29.2

Notes to the financial statements

For the year ended 31 March

(£'000)	Investment Banking	Private Client Activities	Treasury & Specialised Finance	Asset Management & Assurance	Group Services & Other	Discontinued Operations	Total group
2. Segmental analysis							
Business analysis 2004							
Net interest income	6 484	83 591	41 405	2 900	(28 717)	—	105 663
Dividend income	308	87	2 872	—	183	—	3 450
Net fees and commissions receivable	51 501	114 636	35 389	100 129	16 718	—	318 373
Dealing profits	23 721	7 517	35 634	1 736	22 407	—	91 015
Income from long-term assurance business	—	—	—	5 082	—	—	5 082
Return on shareholders' funds in the long-term assurance business	—	—	—	—	24 122	—	24 122
Other operating income	5 904	1 343	(1 458)	138	7 101	—	13 028
Operating income	87 918	207 174	113 842	109 985	41 814	—	560 733
Administrative expenses	(49 636)	(135 075)	(72 837)	(79 794)	(57 846)	—	(395 188)
Depreciation	(563)	(4 034)	(1 258)	(998)	(5 595)	—	(12 448)
Provision for bad and doubtful debts	—	(14 203)	(3 942)	—	(2 813)	—	(20 958)
Operating profit/(loss) before amortisation and impairment of goodwill	37 719	53 862	35 805	29 193	(24 440)	—	132 139
Share of (loss)/income of associated companies	—	—	(300)	9 373	—	—	9 073
Amortisation and impairment of goodwill	(5 841)	(4 347)	(2 658)	(23 754)	(14 044)	—	(50 644)
Other exceptional items	—	—	—	—	13 632	(5 103)	8 529
Profit/(loss) on ordinary activities before taxation	31 878	49 515	32 847	14 812	(24 852)	(5 103)	99 097
Net intercompany interest	(5 447)	(89 585)	169 311	185	(74 464)	—	—
Total assets (£ million)	304	4 562	5 515	3 388	1 592	—	15 361

Notes to the financial statements

For the year ended 31 March

(£'000)	Investment Banking	Private Client Activities	Treasury & Specialised Finance	Asset Management & Assurance	Group Services & Other	Discontinued Operations	Total group
2. Segmental analysis (continued)							
Business analysis 2003							
Net interest income	4 548	70 174	31 892	2 993	(2 965)	4 059	110 701
Dividend income	1 608	-	114	-	1 875	-	3 597
Net fees and commissions receivable	36 141	92 018	24 491	85 976	11 082	26 483	276 191
Dealing profits	9 233	8 748	35 454	722	4 472	(961)	57 668
Income from long-term assurance business	-	-	-	27 779	-	-	27 779
Return on shareholders' funds in the long-term assurance business	-	-	-	-	15 551	-	15 551
Other operating income	12 654	284	341	16	15 479	(994)	27 780
Operating income	64 184	171 224	92 292	117 486	45 494	28 587	519 267
Administrative expenses	(49 164)	(120 777)	(66 577)	(71 896)	(48 054)	(44 312)	(400 780)
Depreciation	(907)	(3 835)	(1 259)	(1 005)	(6 467)	(944)	(14 417)
Provision for bad and doubtful debts	(589)	(12 611)	(4 258)	(40)	(810)	-	(18 308)
Operating profit/(loss) before amortisation and impairment of goodwill	13 524	34 001	20 198	44 545	(9 837)	(16 669)	85 762
Share of (loss)/income of associated companies	(23)	(11)	(1)	9 693	48	-	9 706
Amortisation and impairment of goodwill	(6 795)	(13 469)	177	(74 419)	(22 093)	(5 703)	(122 302)
Other exceptional items	(3 066)	(595)	4 355	-	(967)	(28 484)	(28 757)
Profit/(loss) on ordinary activities before taxation	3 640	19 926	24 729	(20 181)	(32 849)	(50 856)	(55 591)
Net intercompany interest	(2 625)	(54 766)	73 971	(14 322)	(327)	(1 931)	-
Total assets (£ million)	257	3 191	7 388	2 948	1 130	-	14 914

The Statement of Recommended Practice on Segmental Reporting by Banks recommends, inter alia, net assets to be disclosed by class of business and geographical segment. In the view of the directors it would not be meaningful to provide this information by class of business since economic capital of certain significant businesses of the group is not held in, or allocated to, these businesses, but is held centrally.

As the business of the group is mainly that of banking and insurance, no segmental analysis of turnover is given.

Notes to the financial statements

For the year ended 31 March

(£'000)	United Kingdom & Europe	Southern Africa	Australia	Israel	Discontinued USA Operations	Total group
2. Segmental analysis (continued)						
Geographical analysis 2004						
Net interest income	43 594	37 513	13 210	10 874	472	105 663
Dividend income	249	3 162	12	27	—	3 450
Net fees and commissions receivable	172 334	121 422	12 571	10 026	2 020	318 373
Dealing profits	23 981	59 034	277	977	6 746	91 015
Income from long-term assurance business	—	5 082	—	—	—	5 082
Return on shareholders' funds in the long-term assurance business	—	24 122	—	—	—	24 122
Other operating income	3 956	7 886	11	602	573	13 028
Operating income	244 114	258 221	26 081	22 506	9 811	560 733
Administrative expenses	(197 079)	(158 149)	(15 824)	(14 911)	(9 225)	(395 188)
Depreciation	(5 204)	(5 898)	(259)	(934)	(153)	(12 448)
Provision for bad and doubtful debts	(3 097)	(16 746)	(372)	(743)	—	(20 958)
Operating profit before amortisation and impairment of goodwill	38 734	77 428	9 626	5 918	433	132 139
Share of income/(loss) of associated companies	—	9 249	(300)	(17)	141	9 073
Amortisation and impairment of goodwill	(12 919)	(31 673)	(6 052)	—	—	(50 644)
Other exceptional items	—	13 632	—	—	—	8 529
Profit/(loss) on ordinary activities before taxation	25 815	68 636	3 274	5 901	574	99 097
Taxation	(6 300)	(16 291)	(2 833)	(3 474)	399	(28 499)
Minorities	(41)	(1 267)	—	(505)	—	(1 813)
Profit/(loss) attributable to shareholders	19 474	51 078	441	1 922	973	68 785
Net intercompany interest	(8 787)	10 259	(369)	—	(1 103)	—
Cash and balances at central banks	9	104	3	248	—	364
Treasury bills and other eligible bills	7	187	138	—	—	332
Loans and advances to banks	953	551	65	131	5	1 705
Loans and advances to customers	2 425	3 476	253	192	—	6 346
Debt securities	638	678	—	133	17	1 466
Equity shares	255	159	2	—	2	418
Interests in associated undertakings	1	67	1	—	1	70
Participating interests	9	—	—	—	—	9
Intangible fixed assets	145	95	12	—	—	252
Tangible fixed assets	18	113	1	13	1	146
Own shares	—	44	—	—	—	44
Other assets	479	576	4	20	2	1 081
Prepayments and accrued income	48	42	1	(9)	—	82
Long term assurance assets	—	3 046	—	—	—	3 046
Total assets (£ million)	4 987	9 138	480	728	28	15 361

Notes to the financial statements

For the year ended 31 March

(£'000)	United Kingdom & Europe	Southern Africa	Australia	Israel	USA	Discontinued Operations	Total group
2. Segmental analysis (continued)							
Geographical analysis 2003							
Net interest income	56 359	31 652	7 817	10 951	(137)	4 059	110 701
Dividend income	305	3 083	192	17	-	-	3 597
Net fees and commissions receivable	136 075	92 468	9 987	7 852	3 326	26 483	276 191
Dealing profits	11 290	35 203	(7)	1 958	10 185	(961)	57 668
Income from long-term assurance business	-	27 779	-	-	-	-	27 779
Return on shareholders' funds in the long-term assurance business	-	15 551	-	-	-	-	15 551
Other operating income	15 987	12 688	64	(293)	328	(994)	27 780
Operating income	220 016	218 424	18 053	20 485	13 702	28 587	519 267
Administrative expenses	(187 599)	(130 863)	(11 501)	(14 525)	(11 980)	(44 312)	(400 780)
Depreciation	(6 205)	(5 193)	(196)	(1 127)	(752)	(944)	(14 417)
Provision for bad and doubtful debts	(3 650)	(12 889)	(432)	(1 337)	-	-	(18 308)
Operating profit/(loss) before amortisation and impairment of goodwill	22 562	69 479	5 924	3 496	970	(16 669)	85 762
Share of income/(loss) of associated companies	-	9 689	-	(35)	52	-	9 706
Amortisation and impairment of goodwill	(23 979)	(87 392)	(5 195)	(33)	-	(5 703)	(122 302)
Other exceptional items	(5 353)	5 080	-	-	-	(28 484)	(28 757)
(Loss)/profit on ordinary activities before taxation	(6 770)	(3 144)	729	3 428	1 022	(50 856)	(55 591)
Taxation	13 684	(9 967)	(2 452)	(127)	-	(6 215)	(5 377)
Minorities	(1 033)	(153)	-	(460)	-	-	(1 646)
Profit/(loss) attributable to shareholders	5 881	(13 264)	(1 723)	2 541	1 022	(57 071)	(62 614)
Net intercompany interest	942	5 049	(902)	-	(3 158)	(1 931)	-
Cash and balances at central banks	13	90	2	243	-	-	348
Treasury bills and other eligible bills	-	175	68	-	-	-	243
Loans and advances to banks	2 143	401	31	153	31	-	2 759
Loans and advances to customers	1 825	2 648	174	236	1	-	4 884
Debt securities	1 077	702	-	141	11	-	1 931
Equity shares	59	85	1	-	3	-	148
Interests in associated undertakings	4	58	-	-	-	-	62
Intangible fixed assets	165	119	16	-	-	-	300
Tangible fixed assets	20	168	1	16	1	-	206
Own shares	-	52	-	-	-	-	52
Other assets	203	994	6	24	(15)	-	1 212
Prepayments and accrued income	83	40	1	-	-	-	124
Long term assurance assets	-	2 645	-	-	-	-	2 645
Total assets (£ million)	5 592	8 177	300	813	32	-	14 914

Notes to the financial statements

2. Segmental analysis (continued)

The Statement of Recommended Practice on Segmental Reporting by Banks recommends, inter alia, net assets to be disclosed by class of business and geographical segment. In the view of the directors it would not be meaningful to provide this information by class of business since the economic capital of certain significant businesses of the group is not held in, or allocated to, these businesses, but is held centrally. Similarly, an analysis by geographical segment would not be meaningful, because of the way in which the Group has been structured and funded historically.

The Statement of Recommended Practice on Segmental Reporting by Banks and the Companies Act recommends the disclosure by geographical segment of gross income, consisting of interest receivable, dividend income, fees and commissions receivable, dealing profits and other operating income. In the view of the directors, interest receivable and fees and commissions receivable are monitored on a net basis and an aggregate split of fees and commissions receivable and payable by geographical segment would not provide meaningful disclosure. Consequently, gross income is not separately disclosed.

The Statement of Recommended Practice on Segmental Reporting by banks recommends that the geographical analysis be based on the location of the office at which the transaction was recorded or the location of the customer. The group geographical analysis is based on the location of the office at which the transaction was recorded, except for the traded endowment business. Although the traded endowment business is conducted and recorded in the United Kingdom, it has been allocated to the South African segment as the business is held by Investec Limited and managed as part of the South African operations.

As the business of the group is mainly that of banking and insurance, no segmental analysis of turnover is given.

A geographical breakdown of business operating profit before goodwill amortisation is shown below:

For the year ended 31 March

(£'000)	United Kingdom & Europe	Southern Africa	Australia	Israel	USA	Discontinued Operations	Total group
2004							
Investment Banking	2 939	27 147	4 312	3 066	255	—	37 719
Private Client Activities	30 627	19 610	3 025	600	—	—	53 862
Treasury and Specialised Finance	14 015	18 887	436	2 467	—	—	35 805
Asset Management	1 614	22 740	—	257	—	—	24 611
Assurance	—	4 582	—	—	—	—	4 582
Group Services and Other Activities	(10 461)	(15 538)	1 853	(472)	178	—	(24 440)
Discontinued Operations	—	—	—	—	—	—	—
Total group	38 734	77 428	9 626	5 918	433	—	132 139
2003							
Investment Banking	4 297	4 898	2 532	1 797	—	—	13 524
Private Client Activities	18 884	12 722	930	1 465	—	—	34 001
Treasury and Specialised Finance	(5 659)	26 604	(865)	118	—	—	20 198
Asset Management	1 426	16 171	—	118	—	—	17 715
Assurance	—	26 830	—	—	—	—	26 830
Group Services and Other Activities	3 614	(17 746)	3 327	(2)	970	—	(9 837)
Discontinued Operations	—	—	—	—	—	(16 669)	(16 669)
Total group	22 562	69 479	5 924	3 496	970	(16 669)	85 762

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

2. Segmental analysis (continued)

Further breakdowns of businesses line operating profit before goodwill amortisation are shown below:

Investment Banking

Corporate Finance

8 206 464

Institutional Research and Sales and Trading

4 129 (3 176)

Direct Investments

18 635 4 368

Private Equity

6 749 11 868

37 719 13 524

Private Client Activities

Private Banking

45 397 29 588

Private Client Portfolio Management and Stockbroking

8 465 4 413

53 862 34 001

Treasury and Specialised Finance

Banking Activities

33 104 23 242

Financial Market Activities

2 701 (3 044)

35 805 20 198

Asset Management and Assurance

Asset Management

24 611 17 715

Assurance

4 582 26 830

29 193 44 545

Group Services and Other Activities

International Trade Finance

2 725 978

Property Worldwide

10 125 5 413

US continuing operations

178 970

UK Traded Endowments

(3 279) (8 945)

9 749 (1 584)

Central Funding

(8 463) 7 161

Central Costs

(25 726) (15 414)

(24 440) (9 837)

Discontinued Operations

— (16 669)

132 139 85 762

Notes to the financial statements

For the year ended 31 March

(£'000)

Continuing

Discontinuing

2004

2003

2004

2003

3. Discontinuing operations

Interest receivable - interest income arising from debt securities

91 845 170 839 - 227

Interest receivable - other interest income

588 067 669 548 - 9 067

Interest payable

(574 249) (733 745) - (5 235)

Net interest income

105 663 106 642 - 4 059

Dividend income

3 450 3 597 - -

Fees and commissions receivable

340 528 297 907 - 33 052

annuity

272 718 256 584 - 30 615

deal

67 810 41 323 - 2 437

Fees and commission payable

(22 155) (48 199) - (6 569)

Dealing profits

91 015 58 629 - (961)

Income from long-term assurance business

5 082 27 779 - -

Return on shareholders' funds

24 122 15 551 - -

Other operating income

13 028 28 774 - (994)

Other income

455 070 384 038 - 24 528

Total operating income

560 733 490 680 - 28 587

Administrative expenses

(395 188) (356 468) - (44 312)

Depreciation and amortisation

(63 092) (130 072) - (6 647)

Provision for bad and doubtful debts

(20 958) (18 308) - -

Operating profit/(loss)

81 495 (14 168) - (22 372)

Share of income of associated companies

9 073 9 706 - -

Provision for losses on termination and disposal

of group operations - discontinued

- - (5 103) (9 437)

Losses on termination and disposal of group operations-discontinued

- - (24 328) (16 493)

Less provision made last year

- - 19 225 7 056

Impairment of goodwill on discontinued operations

- - (19 047)

Profits on termination and disposal of group operations - continuing

13 632 5 800 - -

Fundamental reorganisation and restructuring costs - continuing

(6 073) - -

Profit/(loss) on ordinary activities before taxation

104 200 (4 735) (5 103) (50 856)

Notes to the financial statements

For the year ended 31 March

(£'000)

2004 2003

4. Dividend income

Income from equity shares

3 450 3 597

5. Dealing profits

Interest rate instruments

(4 121) 27 677

Foreign exchange instruments

9 031 12 200

Commodities trading

(4 903) 4 263

Profit on disposal of dealing properties

4 875 4 391

Equities and other securities

84 261 10 162

Traded endowments

1 872 (1 025)

91 015 57 668

6. Administrative expenses

Staff costs (including directors' remuneration)

239 336 233 513

Wages and salaries

12 951 18 514

Social security costs

12 947 13 410

Pension and provident fund contributions

265 234 265 437

Other administrative expenses

Premises (excluding depreciation)

8 885 5 058

Operating rental expenses

17 363 17 245

Equipment (excluding depreciation and operating rental expenses)

22 838 25 569

Business expenses

65 924 74 628

Marketing expenses

14 944 12 843

129 954 135 343

395 188 400 780

The following amounts were paid to the auditors

Audit fees

3 466 3 627

Other services

1 220 585

4 686 4 212

Audit fees by audit firm

2 316

Ernst & Young LLP

1 148

KPMG Inc

2

Other

3 466

Number of employees

The number of persons employed by the group was as follows:-

Private Client Activities

Number Number
1569 1 629

Treasury and Specialised Finance

477 507

Investment Banking

276 336

Asset Management

784 771

Assurance

156 490

Group Services and Other Activities

1 196 1 141

4 458 4 874

Details of the directors' emoluments, pensions and their interests are disclosed in the directors' remuneration report on pages 117 to 134.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

7. Group profits on ordinary activities before tax is stated after:

Income:

Gains on disposal/reclassifications of investment securities

12 828 25 269

Operating lease income

5 061 5 016

8. Pension costs

Defined benefit obligations

--

Defined contributions

12 947 13 410

Pension and provident fund contributions

12 947 13 410

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of the Guinness Mahon Pension Fund Scheme ("GM Scheme") and the Investec Asset Management Pension scheme ("IAM Scheme"). The group has this year adopted FRS 17 in respect of defined benefit schemes. The schemes have been valued at 31 March 2004 by qualified independent actuaries in accordance with FRS 17. There were no unpaid contributions, in relation to the defined contribution schemes, outstanding at the year end.

The major assumptions used were:

31 March	2004	2003	GM Scheme 2002	IAM Scheme 2002
Discount rate	5.60%	5.50%	6.00%	6.10%
Rate of increase in salaries	3.65%	3.25%	4.25%	4.25%
Rate of increase in pensions in payment for pre 1997 pension (GM Scheme)	1.90%	1.67%	1.83%	--
Rate of increase in pensions in payment for post 1997 pension	2.90%	2.50%	2.75%	2.70%
Inflation	2.90%	2.50%	2.75%	2.70%

Notes to the financial statements

The assets held in the scheme and the expected rates of return were:

31 March	Value at 2004 £'000	Long term rate of return expected	Value at 2003 £'000	Long term rate of return expected	Value at 2002 £'000	Long-term rate of return expected
GM Scheme						
Equities	23 391	7.70%	17 986	6.50%	34 539	7.25%
Gilts	43 933	4.70%	32 484	4.50%	24 405	5.25%
Insurance policy	–	–	9 405	5.50%	10 161	6.25%
Cash	1 041	4.00%	2 934	3.75%	1 655	4.00%
Total market value of assets	68 365		62 809		70 760	
Present value of plan liabilities	(83 186)		(74 456)		(68 331)	
Deficit in the plan	(14 821)		(11 647)		2 429	
Irrecoverable surplus	–		–		(2 429)	
Deficit in the plan	(14 821)		(11 647)		–	
Related deferred tax asset	4 446		3 494			
Net pension liability	(10 375)		(8 153)		–	
IAM Scheme						
Equities	5 059	7.70%	3 804	8.25%	5 545	8.25%
Gilts	1 492	4.70%	1 386	4.50%	1 157	5.25%
Cash	222	4.00%	527	3.75%	328	4.00%
Total market value of assets	6 773		5 717		7 030	
Present value of plan liabilities	(9 047)		(8 414)		(7 571)	
Deficit in the plan	(2 274)		(2 697)		(541)	
Related deferred tax asset	682		809		162	
Net pension liability	(1 592)		(1 888)		(379)	

Notes to the financial statements

For the year ended 31 March

2004	GM £'000	IAM £'000	Total £'000
8. Pension costs (continued)			
The following amounts have been recognised in the performance statements in the year to 31 March under the requirements of FRS 17:			
2004			
No amount has been charged to operating profit relating to current and past service costs as the schemes are closed.			
Analysis of amount credited/(debited) to other finance income			
Expected return on pension scheme assets	3 183	390	3 573
Interest on pension scheme liabilities	(4 015)	(460)	(4 475)
Net return	(832)	(70)	(902)
Analysis of amount recognised in statement of total recognised gains and losses (STRGL):			
Actual return less expected return on pension scheme assets	5 311	852	6 163
Experience gains and losses arising on the scheme liabilities	(1 871)	-	(1 871)
Changes in assumptions underlying the present value of the scheme liabilities	(5 782)	(359)	(6 141)
Actuarial (loss)/gain recognised	(2 342)	493	(1 849)
Deferred tax	703	(148)	555
Actuarial (loss)/gain recognised in the STRGL	(1 639)	345	(1 294)
Movement in deficit during the year:			
Deficit in the scheme at beginning of the year	(11 647)	(2 697)	(14 344)
Movement in year	-	-	-
Net returns	(832)	(70)	(902)
Actuarial (loss)/gain	(2 342)	493	(1 849)
Deficit in scheme at end of year	(14 821)	(2 274)	(17 095)
2003			
Analysis of amount credited/(debited) to other finance income			
Expected return on pension scheme assets	4 001	524	4 525
Interest on pension scheme liabilities	(4 001)	(458)	(4 459)
Net return	-	66	66
Analysis of amount recognised in statement of total recognised gains and losses (STRGL):			
Actual return less expected return on pension scheme assets	(9 038)	(1 654)	(10 692)
Experience gains and losses arising on the scheme liabilities	(451)	394	(57)
Changes in assumptions underlying the present value of the scheme liabilities	(4 968)	(962)	(5 930)
Impact of change in irrecoverable surplus	2 810	-	2 810
Actuarial loss recognised	(11 647)	(2 222)	(13 869)
Deferred tax	3 494	668	4 162
Actuarial loss recognised in the STRGL	(8 153)	(1 554)	(9 707)
Movement in surplus/(deficit) during the year:			
Surplus/(deficit) in the scheme at beginning of the year	2 429	(541)	1 888
Movement in year	-	66	66
Net returns	-	66	66
Actuarial loss	(14 076)	(2 222)	(16 298)
Deficit in scheme at end of year	(11 647)	(2 697)	(14 344)

Notes to the financial statements

For the year ended 31 March

	GM	IAM	Total
History of experience gains and losses: 1 April 2003 to 31 March 2004			
Difference between the expected and actual return on scheme assets:			
Amount (£ '000)	5 311	852	6 163
Percentage of scheme assets at year end	7.8%	12.6%	8.2%
Experience gains and losses of scheme liabilities:			
Amount (£ '000)	(1 871)	–	(1 871)
Percentage of the present value of the scheme liabilities at year end	(2.2%)	–	(2.0%)
Total amount recognised in statement of total recognised gains and losses:			
Amount (£ '000)	(2 342)	493	(1 849)
Percentage of the present value of the scheme liabilities at year end	(2.8%)	5.4%	(2.0%)
Contributions in the year ended 31 March 2004 were £NIL for both schemes. Employer contributions for the GM scheme will be reviewed at 31 March 2005. Both schemes are closed to new entrants and accrual of service ceased on 31 March 2002.			
History of experience gains and losses: 1 April 2002 to 31 March 2003			
Difference between the expected and actual return on scheme assets:			
Amount (£ '000)	(9 038)	(1 654)	(10 692)
Percentage of scheme assets at year end	(14.4%)	(28.9%)	(15.6%)
Experience gains and losses of scheme liabilities:			
Amount (£ '000)	(451)	394	(57)
Percentage of the present value of the scheme liabilities at year end	(0.6%)	4.7%	(0.1%)
Total amount recognised in statement of total recognised gains and losses:			
Amount (£ '000)	(11 647)	(2 170)	(13 817)
Percentage of the present value of the scheme liabilities at year end	(15.6%)	(25.8%)	(16.7%)
Contributions in the year ended 31 March 2003 were £NIL for both schemes.			

Notes to the financial statements

9. Non-operational exceptional items

2004

Losses of £5.1 million on termination of the group's operations in the US were recorded. The group made a final exceptional charge (including future run-off costs) for the closure of these operations. This charge was raised in the first half of the current financial year and to the extent that any costs are incurred in future periods (inclusive of the second half of the 2004 financial year) in excess of this charge, they will be treated as non-exceptional operating expenses. There was no tax or minority effect on the above.

A £13.6 million profit on disposal of group operations relating to the sale of the companies, 100 Grayston Drive Property (Pty) Limited, Block E Power Station Properties (Pty) Limited, Westrust (Pty) Ltd, and Investec Bank (Botswana) Limited at market value. The tax effect and minority interest in relation to the £13.6 million profit was £678 000 and £75 000 respectively.

2003

Losses of £28.5 million in respect of the disposal and termination of substantial components of the US operations.

Profit of £5.8 million on the termination of the Securities Investment Bank Limited.

Costs of £6.1 million relating to the fundamental reorganisation and restructuring of business units within the Group. No tax credit is attributable to this cost in the year as the group has not recognised a deferred tax asset for all of its losses in the year due to the level of total deferred tax asset compared to forecast profit (in the legal entities in which the tax losses reside). These unrecognised losses have been treated as attributable to the reorganisation and restructuring costs.

Notes to the financial statements

For the year ended 31 March

(£'000)	2004	2003
10. Taxation		
Corporation tax		
United Kingdom		
- current tax on income for the year	1 330	560
- adjustments in respect of prior years	(521)	(8 000)
- corporation tax before double tax relief	809	(7 440)
- double tax relief	(1 425)	(560)
	(616)	(8 000)
Overseas current tax charge		
Current tax on income for the year		
Europe	2 553	2 295
Southern Africa	9 920	7 271
Australia	2 962	2 679
Israel	3 678	1 629
USA	(399)	4 596
	18 714	18 470
Adjustment in respect of prior years		
Southern Africa	3 587	1 960
Australia	-	(274)
USA	-	1 330
	3 587	3 016
Secondary taxation on companies(*)	783	1 551
Total corporation tax	22 468	15 037
Deferred tax		
United Kingdom	4 363	(7 980)
Southern Africa	2 001	(814)
Australia	(129)	47
Israel	(204)	(1 202)
USA	-	289
	6 031	(9 660)
Total tax charge for the year	28 499	5 377
Tax on continuing businesses	28 499	(838)
Tax on discontinued businesses	-	6 215
	28 499	5 377

Please refer to note 3 on page 172 for details on discontinuing operations.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

10. Taxation (continued)

Items which affect the tax rate going forward are:

Estimated tax losses arising from trading activities, available for relief against future taxable income

United Kingdom

15 500 20 000

Europe

29 405 29 405

South Africa

6 484 7 523

51 389 56 928

£2.6m (2003 - £11.9m) of the above losses had been recognised as deferred tax assets.

The rates of corporation tax for the relevant years are:

United Kingdom

30% 30%

Europe (average)

20% 20%

South Africa

30% 30%

Australia

30% 30%

Israel

45% 45%

USA(*)

35% 35%

Profit/(loss) on ordinary activities before taxation

99 097 (56 595)

Tax on profit on ordinary activities

28 499 5 377

Effective tax rate

28.8% (9.5%)

The tax charge on activities for the year is different to the standard rate as detailed below:

Tax on profit/(loss) on ordinary activities before taxation at UK rate of 30%

29 729 (16 979)

Tax adjustments relating to foreign earnings

(12 268) (6 283)

Taxation relating to prior years

(521) (8 000)

Capital allowance in excess of depreciation

(7 405) 589

Goodwill

7 226 42 405

Permanently disallowed items for corporation tax purposes

6 543 1 301

Carried forward utilisation of capital and trading losses

(1 287) (22)

Other timing differences

451 2 026

Current tax charge

22 468 15 037

(*) These are the statutory federal tax rates and therefore exclude state and local income taxes which range from 7.3% to 9%.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

11. Dividends and earnings per share

Ordinary dividends - pence per share

Interim	28.0	26.0
Final	30.0	28.0
	<u>58.0</u>	<u>54.0</u>

Ordinary dividends

Interim	25 277	27 539
Final	30 879	25 468
	<u>56 156</u>	<u>53 007</u>

Preference dividends

Dividends	7 553	421
Total dividends	<u>63 709</u>	<u>53 428</u>

Earnings per share - pence per share

Basic earnings per share (pence per share) are calculated by dividing the profit attributable to the ordinary shareholders in Investec plc by the weighted average number of ordinary shares in issue during the year:

59.9	(67.6)
------	--------

Group profit/(loss) attributable to the shareholders per profit and loss account

Group profit/(loss) attributable to the shareholders per profit and loss account	68 785	(62 614)
Preference dividends	(7 553)	(421)
Group profit/(loss) attributable to ordinary shareholders	<u>61 232</u>	<u>(63 035)</u>

Diluted earnings per share - pence per share

Group profit/(loss) attributable to ordinary shareholders	<u>61 232</u>	<u>(63 035)</u>
---	---------------	-----------------

Diluted earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to the ordinary shareholders of Investec plc, adjusted for the effects of dilutive ordinary potential shares, by the weighted average number of shares in issue during the year plus the weighted average number of ordinary shares that would be issued on conversion of the dilutive ordinary potential shares (being share options outstanding not yet exercised) during the year:

59.5	(67.6)
------	--------

Weighted average number of shares in issue during the year

Weighted average number of shares in issue during the year	114 884 639	107 559 259
Weighted average number of treasury shares	(12 584 568)	(14 267 814)
	<u>102 300 071</u>	<u>93 291 445</u>

Weighted average number of shares in issue resulting from future dilutive potential shares

Weighted average number of shares in issue resulting from future dilutive potential shares	718 364	—
Adjusted weighted number of shares potentially in issue	<u>103 018 435</u>	<u>93 291 445</u>

Excluding goodwill amortisation and exceptional items - pence per share

Basic earnings per share excluding goodwill and exceptional items (pence per share) are calculated by dividing the profit before deducting goodwill amortisation and impairment and exceptional items attributable to the ordinary shareholders in Investec plc by the weighted average number of ordinary shares in issue during the year:

103.7	96.1
-------	------

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

11. Dividends and earnings per share (continued)

Reconciliation between group profit/(loss) attributable to ordinary shareholders and earnings attributable to ordinary shareholders excluding goodwill and exceptional items

Profit/(loss) attributable to ordinary shareholders	61 232	(63 035)
Amortisation and impairment of goodwill	50 644	122 302
Profit on termination and disposal of group operations		
- continuing (net deferred tax and minority interest)	(13 029)	(5 800)
Provision for losses on termination and disposal of group operations (net of deferred tax)	5 103	9 437
Impairment of goodwill on discontinued operations	-	19 047
Amortisation of goodwill of associates	2 132	1 644
Fundamental reorganisation and restructuring costs - continuing	-	6 073
Earnings attributable to ordinary shareholders before exceptional items and amortisation of goodwill	106 082	89 668

Reconciliation between earnings per share and earnings per ordinary share before exceptional items and amortisation of goodwill

Earnings per ordinary share	59.9	(67.6)
Amortisation and impairment of goodwill	49.5	131.1
Profit on termination and disposal of group operations		
- continuing (net deferred tax and minority interest)	(12.7)	(6.2)
Provision for losses on termination and disposal of group operations (net of deferred tax)	4.9	10.1
Impairment of goodwill on discontinued operations	-	20.4
Amortisation of goodwill of associates	2.1	1.8
Fundamental reorganisation and restructuring costs - continuing	-	6.5
Earnings per ordinary share before exceptional items and amortisation of goodwill	103.7	96.1

Headline earnings per share

Headline earnings per share (pence per share) has been calculated in accordance with the definition in the Institute of Investment Management Research ("IIMR") Statement of Investment Practice No. 1, "The Definition of Headline Earnings".

	103.4	89.6
Profit/(loss) attributable to ordinary shareholders	61 232	(63 035)
Amortisation and impairment of goodwill	50 644	122 302
Profit on termination and disposal of group operations		
- continuing (net deferred tax and exceptional items)	(13 029)	(5 800)
Provision for losses on termination and disposal of group operations (net of deferred tax)	5 103	9 437
Impairment of goodwill on discontinued operations	-	19 047
Amortisation of goodwill of associates	2 132	1 644
Profit on sale of investment equities	(330)	-
Headline earnings attributable to ordinary shareholders	105 752	83 595

In terms of the DLC sharing agreements, Investec plc and Investec Limited shareholders share equally in the profits of the group. Accordingly in the earnings per share calculations the weighted average number of shares in issue includes both the Investec plc and Investec Limited shares in issue.

12. Treasury bills and other eligible bills

Dealing securities held at fair value

Treasury bills

Other unlisted eligible bills with banks

20 631	42 156
166 796	132 545
187 427	174 701

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

12. Treasury bills and other eligible bills (continued)

Investment securities held at cost

Other unlisted eligible bills with banks

144 781	68 318
144 781	68 318
332 208	243 019

Investment securities:

Opening balance

68 318 42 411

Purchases

1 441 803 668 181

Maturities

(1 373 654) (644 331)

Exchange movements

8 314 2 057

Closing balance

144 781 68 318

Treasury bills and other unlisted eligible bills are mainly short term in maturity with a book value not materially different from market value.

13. Loans and advances to banks

Remaining maturity:

Repayable on demand

809 032 685 559

Up to three months excluding on demand

833 481 1 405 991

Three months to one year

52 277 592 171

One year to five years

9 925 70 550

Greater than five years

— 4 526

1 704 715 2 758 797

14. Loans and advances to customers

Remaining maturity:

Repayable on demand or at short notice

1 551 320 677 234

Up to three months excluding on demand or at short notice

655 115 785 646

Three months to one year

702 864 726 877

One year to five years

1 867 477 1 562 579

Greater than five years

1 659 301 1 214 551

Provision for bad and doubtful debts

(90 229) (82 984)

6 345 848 4 883 903

Included in loans and advances to customers are:

Core loans and advances to customers (refer to note on credit risk)

5 149 720 3 991 649

Net investment in finance leases

51 889 71 555

Net investment in HP contracts

139 573 115 809

Non-performing loans

90 347 60 677

Less : Security held against non-performing loans

(64 904) (36 132)

Net non-performing loans

25 443 24 545

All of the net non-performing loans are covered by specific provisions.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

15. Provisions for bad and doubtful debts

Specific provisions

At beginning of year	30 813	27 253
Charged against income	4 547	8 380
- increase in provisions	4 820	8 380
- recoveries	(273)	
Utilised	(6 964)	(10 287)
Transfers	1 128	(505)
Exchange adjustments	345	5 972
At end of year	29 869	30 813

General provisions

At beginning of year	52 171	36 974
Charged against income	16 411	9 928
Acquired or disposed with subsidiaries	(295)	-
Utilised	(8 791)	(4 777)
Transfers	(1 128)	505
Exchange adjustment	1 992	9 541
At end of year	60 360	52 171

Total provisions

At beginning of year	82 984	64 227
Charged against income	20 958	18 308
- increase in provisions	21 231	18 308
- recoveries	(273)	-
Acquired or disposed with subsidiaries	(295)	-
Utilised	(15 755)	(15 064)
Exchange adjustment	2 337	15 513
At end of year	90 229	82 984

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

16. Debt securities

Dealing and market making securities at market value

Government securities	194 849	140 058
Unlisted bank and building society certificates of deposit	9 674	480 515
Other debt securities	366 485	27 830
	<u>571 008</u>	<u>648 403</u>

The cost of dealing and market making securities has not been disclosed, as it cannot be determined without unreasonable expense.

Investment securities at cost

Government securities	103 090	209 690
Unlisted bank and building society certificates of deposit	578 128	916 450
Other debt securities	214 211	156 722
	<u>895 429</u>	<u>1 282 862</u>

Total debt securities

1 466 437 1 931 265

Amounts include:

Unamortised net premiums on investment securities

— 137

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

Remaining maturity

Up to one year	974 856	1 637 806
Greater than one year	491 581	293 459
	<u>1 466 437</u>	<u>1 931 265</u>

Investment securities:

Opening balance	1 282 862	1 129 719
Additions	1 002 175	2 632 187
Sold/matured	(1 378 921)	(2 483 134)
Exchange adjustment	(10 687)	4 090
Closing balance	<u>895 429</u>	<u>1 282 862</u>

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

17. Equity shares

Dealing securities at market value

Listed

284 603

33 189

Unlisted

98 601

60 169

383 204

93 358

Investment securities at book value

Listed

4 388

11 063

Unlisted

30 662

43 217

35 050

54 280

418 254

147 638

Investment securities at market value

Listed

4 229

11 076

The market value of unlisted investment securities is not disclosed as its determination is not practicable. Unlisted investment securities are valued by the directors for impairment at each reporting date. This valuation is based on predicted cash flows. To the extent that the book value has been impaired, an impairment loss has been recognised in the profit and loss account.

The cost of dealing securities has not been disclosed, as its cost cannot be determined without unreasonable expense.

Investment securities at book value

At beginning of year

54 280

56 898

Additions

7 633

48 195

Provisions

9 063

(10 163)

Disposals

(25 598)

(37 501)

Reclassifications

(9 495)

(4 525)

Exchange movements

(833)

1 376

At end of year

35 050

54 280

Provisions on investment securities

Opening balance

(40 710)

(30 547)

Movement

9 063

(10 163)

Closing balance

(31 647)

(40 710)

Profit on reclassification of equities from investment to trading

-

1 915

Notes to the financial statements

For the year ended 31 March

(£'000)	2004	2003
18. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	57 560	48 720
Goodwill	12 446	13 702
Investment in associated undertaking	<u>70 006</u>	<u>62 422</u>
Analysis of the movement in our share of net assets:		
At beginning of year	48 720	31 145
Exchange adjustments	2 460	9 046
Acquisitions	—	685
Repayment of loan capital	—	(1 220)
Operating profits (net of dividends)	7 436	9 064
Reduction in shareholding	(1 056)	—
At end of year	<u>57 560</u>	<u>48 720</u>
Analysis of the movement in goodwill:		
At beginning of year	13 702	13 881
Acquisitions	—	913
Goodwill amortisation	(2 132)	(1 644)
Movement in foreign currency translation reserve	876	552
At end of year	<u>12 446</u>	<u>13 702</u>
Associated undertakings:		
Listed	66 667	58 758
Unlisted	3 339	3 664
	<u>70 006</u>	<u>62 422</u>
Market value of listed investments	<u>50 905</u>	<u>39 273</u>

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

18. Interests in associated undertakings (continued)

The goodwill relates to the acquisition of Capital Alliance Limited ("CAL").

The equity accounting for our share of CAL's profit for the current year does not include the value of the in-force business.

The only significant investment held in associates in the year was CAL. CAL is a listed company on the Johannesburg Stock Exchange and conducts the business of long term life assurance. CAL became an associate on 19 October 2001. Based on audited results for the year ended 31 March 2004 (released on 21 June 2004), CAL's aggregate capital and reserves at 31 March 2004 was £180.3 million. Its earnings attributable to ordinary shareholders for the year ended 31 March 2004 was £40.1 million.

Their issued ordinary share capital at the end of the year is:

89 402	89 676
--------	--------

Holding in CAL ordinary share (%)

29.0	29.2
------	------

The significant transactions between the group and CAL, all of which are on arm's length basis are:

Loan to CAL (included in loans and advances to customers)

17 142	15 984
--------	--------

Interest received on the loan to CAL

1 545	1 757
-------	-------

Re-insurance premiums paid by clients of Investec Employee Benefits and paid over to CAL

92 360	88 114
--------	--------

The Group earned investment management fees of £2.5m (2003: £2.2m) from CAL under arms length agreements.

The group has no holdings of securities issued by significant associated undertakings except as listed above.

19. Other participating interests

Investment in other participating interest at book value

9 135	—
-------	---

Analysis of the movement in investment:

At beginning of year

—	—
---	---

Acquisitions

385	—
-----	---

Transfers from Equities

8 750	—
-------	---

At end of year

9 135	—
-------	---

Other participating interests:

Unlisted

9 135	—
-------	---

9 135	—
-------	---

The only significant interest during the year was a 35% investment in Hargreave Hale Limited. In the prior year accounts this holding was shown within equity shares. The directors do not consider Hargreave Hale Limited to be an associated undertaking because they do not exercise significant influence over the operating and financial policies of Hargreave Hale Limited.

Notes to the financial statements

For the year ended 31 March

2003	Total £'000	Goodwill £'000	Negative Goodwill £'000
20. Intangible fixed assets			
Year ended 31 March 2003			
Goodwill			
At 1 April 2002	537 098	550 131	(13 033)
Additions	594	594	-
Fair value adjustment	16 749	16 749	-
Disposals	(641)	(641)	-
Movement in foreign currency translation reserve	58 697	62 494	(3 797)
Cost at 31 March 2003	612 497	629 327	(16 830)
Accumulated amortisation			
Accumulated amortisation at 1 April 2002	152 198	157 628	(5 430)
Charge/(credit) to the profit and loss account	135 549	144 701	(9 152)
Disposals	(128)	(128)	-
Movement in the foreign currency translation reserve	25 105	27 353	(2 248)
Accumulated amortisation at 31 March 2003	312 724	329 554	(16 830)
Net book value at 31 March 2003	299 773	299 773	-
Year ended 31 March 2004			
Goodwill			
At 1 April 2003	612 497	629 327	(16 830)
Additions	(6 206)	799	(7 005)
Disposals	(18)	(18)	-
Movement in foreign currency translation reserve	15 047	15 047	-
Cost at 31 March 2004	621 320	645 155	(23 835)
Accumulated amortisation			
Accumulated amortisation at 1 April 2003	312 724	329 554	(16 830)
Charge/(credit) to the profit and loss account	50 644	57 649	(7 005)
Disposals	(7)	(7)	-
Movement in the foreign currency translation reserve	6 451	6 451	-
Accumulated amortisation at 31 March 2004	369 812	393 647	(23 835)
Net book value at 31 March 2004	251 508	251 508	-

Additions comprise goodwill arising on the acquisition of subsidiaries which is being amortised over periods of between 3 and 20 years reflecting its expected useful life. For the majority of acquisitions the goodwill is amortised over 5 to 10 years.

Negative goodwill is released to the profit and loss account over a period of 1 to 4 years, reflecting the period of expected benefit.

Included in the goodwill amortisation charges for 31 March 2004 are impairment losses of £8.3 million.

The goodwill attributable to Investec Ireland's Shannon subsidiary was fully impaired in the current year by £0.2 million.

An impairment review was conducted on the goodwill attributable to Fedsure Traded Endowments using a combination of value in use and discounted cash flow valuations. This resulted in an impairment of £8.1 million. A discount rate of 12.5% was applied in discounting cash flows of the income generating units.

Notes to the financial statements

For the year ended 31 March

20. Intangible fixed assets (continued)

Included in the goodwill amortisation charge for 31 March 2003 are impairment losses of £62.8 million.

Following the reinsurance transactions between Investec Employee Benefits (formerly Fedsure Life Insurance) and Capital Alliance Limited, an impairment review was conducted using a combination of value in use and a discounted cash flow valuations. This resulted in an impairment of £45.2 million. A discount rate of 13.4% was applied in discounting cash flows of the income generating units.

With the discontinuance of the USA operations, the remaining goodwill was written off, resulting in an impairment of £19 million.

Securities Investment Bank Limited ceased operating during the year and the remaining negative goodwill of £5.8 million was released to income.

With the downturn of the European economy, an impairment review was conducted on goodwill relating to the Group's Swiss operations. This resulted in an impairment of £4.4 million on the Radcliffes operations.

21. Acquisitions & disposals

Acquisitions

The group made the following acquisitions of subsidiary undertakings or net assets and operations in the year ended 31 March 2004 which were accounted for on an acquisition basis:

- i In October 2003 Guinness Mahon & Co, a wholly owned subsidiary of the group, acquired a 100% interest in Investec Investments (UK) Limited (Nationale-Nederlanden (UK) Limited). The company was acquired for a consideration of £3.955 million and fair value of its net assets at acquisition was £10.954 million. The negative goodwill arising from this transaction was £6.999 million.
- ii In March 2004, there was an adjustment to the goodwill related to Wentworth Associates (Pty) Ltd of £456 thousand which represents the remaining consideration payable to Investec Corporate Finance Ltd. The deferred consideration still payable is 200,000 Investec plc shares which increases the provision for deferred consideration to £2.178 million based on the value of 200,000 Investec plc shares at the 31 March 2004 price of £10.89.
- iii In March 2004 Investec Asset Management Holding (Pty) Limited increased its holding of Investec Asset Management Solutions (Pty) Ltd which resulted in an addition to goodwill of £343 thousand.
- iv In August 2003 Investec Property (Business Centres) Limited (formerly Enterprise Business Centres Limited) was acquired at a purchase price of £18 thousand.
- v Other immaterial acquisitions generated negative goodwill of £6 thousand. The value of the net assets acquired was £6 thousand.

The acquisitions were satisfied by the payment of cash. Assets and liabilities at the date of acquisition and total consideration paid are disclosed in the table on the following page.

Notes to the financial statements

For the year ended 31 March

	Book value at date of acquisition	Fair value adjustment	Fair values at date of acquisition
21. Acquisitions and disposals (continued)			
Year ended 31 March 2004			
Goodwill			
Loans and advances to banks	40 000	—	40 000
Debt securities, equity shares and investments in associates	981	—	981
Tangible fixed assets	155	—	155
Other assets - deferred tax	—	10 950	10 950
Other assets	196	—	196
Total assets	41 332	10 950	52 282
Deposits from banks	(40 000)	—	(40 000)
Other liabilities	(304)	(1 000)	(1 304)
	(40 304)	(1 000)	(41 304)
Net assets / fair value of net assets	1 028	9 950	10 978
Net negative goodwill			(6 206)
Fair value of consideration			1 772

The fair value adjustments relate mainly to deferred tax assets available to the acquirer but not recognised by the company acquired.

Disposals

The Group disposed of its interest in Cossec (Pty) Ltd (part of the Intelligence at Work (Pty) Ltd Group) during the year which resulted in a reduction in goodwill of £111 thousand.

Notes to the financial statements

For the year ended 31 March

(£'000)	Freehold properties	Leasehold Improvement	Furniture & Vehicles	Equipment	Investment Property	Total
22. Tangible fixed assets						
Cost or valuation						
At 31 March 2003	54 294	25 898	18 901	49 311	116 725	265 129
Exchange adjustments	(514)	(997)	(20)	(312)	6 242	4 399
Revaluation of investment properties	—	—	—	—	9 655	9 655
Acquisition of a subsidiary undertaking	—	—	155	—	—	155
Disposal of a subsidiary undertaking	(38 579)	—	(3)	(1)	—	(38 583)
Reclassifications	—	—	8 702	(8 702)	(33 824)	(33 824)
Additions	89	1 539	2 708	4 794	2 115	11 245
Disposals	(420)	(4)	(3 477)	(6 072)	(672)	(10 645)
At 31 March 2004	14 870	26 436	26 966	39 018	100 231	207 521
Accumulated depreciation and amortisation						
At 31 March 2003	3 122	10 688	11 196	34 141	—	59 147
Exchange adjustments	(952)	(924)	(177)	(498)	—	(2 551)
Disposal of a subsidiary undertaking	(1 590)	—	—	(1)	—	(1 591)
Reclassifications	—	—	6 572	(6 572)	—	—
Additions	—	197	467	763	—	1 427
Disposals	(1 280)	(3)	(753)	(5 649)	—	(7 685)
Charge for the year	700	1 555	2 673	7 520	—	12 448
At 31 March 2004	—	11 513	19 978	29 704	—	61 195
Net book value						
At 31 March 2003	51 172	15 210	7 705	15 170	116 725	205 982
At 31 March 2004	14 870	14 923	6 988	9 314	100 231	146 326

The group values its investment properties twice annually. The properties were valued by directors of the company concerned. The valuation is performed by capitalising the budgeted annual net income of a property at the market related yield applicable at the time.

No depreciation is provided on investment properties.

	2004 £000	2003 £000
Cost of investment properties	57 089	115 241
Carrying value of properties occupied by group entities	29 793	66 382

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

23. Own shares

Investec plc ordinary shares

36 067

43 631

Investec Limited ordinary shares

7 713

8 592

43 780

52 223

The group has set up a number of trusts as part of its employee remuneration and share ownership arrangement and the assets, liabilities and transactions of those trusts are brought into the consolidated financial statements as if they were part of the group, except for those assets that have vested unconditionally with employees. The arrangements vary from scheme to scheme but principally comprise conditional awards of share options and share purchase schemes whereby group companies provide loans to employees to enable them to acquire shares. The conditions attaching to the granting of rights to shares principally involve the employees remaining employed by the group for specified periods of time. Where equity instruments of the group that have been recorded as assets are sold to third parties, the difference between the net proceeds received and the carrying amount is charged or credited to the profit and loss account. Equity instruments that are recorded as assets are written down through the profit and loss account if, in the opinion of the directors, they have suffered a permanent diminution in value. Capital instruments of the group that are issued by or through the trusts, including certain advance payments for shares made by employees, are credited to shares to be issued at the net proceeds received where there is no associated obligation on the group to transfer economic benefit to the holder. Otherwise they are recorded as liabilities.

Number of Investec plc ordinary shares held in employee share trusts

4 954 269

7 030 503

Number of Investec Limited ordinary shares held in employee share trusts

1 582 142

2 059 035

Included in the above

Number of Investec plc ordinary shares conditionally allocated to employees

—

5 635

Number of Investec Limited ordinary shares conditionally allocated to employees

—

3 309

Market value of own shares:

£'000

£'000

Investec plc

53 952

42 238

Investec Limited

17 230

12 663

71 182

54 901

Dividends on own shares have not been included in the profit and loss account.

24. Other assets

Settlement debtors

385 900

518 022

Deferred tax asset (refer to note on deferred taxation)

33 745

28 086

Derivative instruments positive fair values

522 960

477 183

Dealing properties

46 236

29 600

Other investments

14 689

27 807

Traded endowments

11 380

18 274

Other debtors

66 221

112 469

1 081 131

1 211 441

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

25. Long-term assurance business attributable to the shareholder Investec Employee Benefits Limited

The embedded value comprises:

Net tangible assets of life company including surplus	343 590	273 072
Reallocated to investments in associated undertakings	(58 832)	(50 824)
Elimination of Intercompany balances	(27 842)	(120 833)
Value of in-force business	8 399	7 113
	<u>265 315</u>	<u>108 528</u>

Movements in embedded value

At beginning of year	108 528	67 116
Profit per profit and loss account	5 082	27 779
Return on shareholders' funds	24 122	15 551
Exchange adjustments	12 244	(1 316)
Gain on revaluation of investment properties	4 327	14 949
Reclassification of shareholder assets	111 012	(15 551)
At end of year	<u>265 315</u>	<u>108 528</u>

Income from long-term assurance business comprises:

Premium Income	264 423	306 110
Investment Income	<u>157 717</u>	<u>13 920</u>
Total income	422 140	320 030
Operating expenses	(19 029)	(21 003)
Policyholder's benefits paid	(416 556)	(419 310)
Decrease in technical provisions	139 280	457 680
Re-insurance premium expense	<u>(115 972)</u>	<u>(277 387)</u>
Operating profit	9 863	60 010
Tax charged to technical account	<u>(5 564)</u>	<u>(8 296)</u>
Surplus attributable to shareholders	4 299	51 714
Value of in-force business	<u>783</u>	<u>(23 935)</u>
Income from long-term assurance business	<u>5 082</u>	<u>27 779</u>

No current taxation has been provided on the surplus attributable to shareholders due to the availability of brought forward taxation losses. A deferred tax charge of £5.25 million has been raised representing a reduction to deferred tax asset attributable to shareholders in respect of the amount of taxation losses utilised during the current year.

Assumptions

The economic assumptions are based upon a long-term view of economic activity in South Africa and are therefore not adjusted for market movements which are considered to be short term. This approach is considered to be the most appropriate given the long-term nature of the portfolio of products and that the business is located in South Africa. The economic assumptions are derived by adding appropriate long term risk/equity margins to the benchmark gilt (i.e. R153 South African government bond). The principal economic assumptions which have been used are as follows:

	%	%
Risk-adjusted discount rate	12.8	13.4
Return on equities (gross of tax)	11.8	12.4
Return on fixed interest securities (gross of tax)	9.8	10.4
Return on property investments (gross of tax)	10.8	11.1
Return on cash held (gross of tax)	7.8	7.4
Inflation rate	6.8	6.4

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

25. Long-term assurance business attributable to the shareholder (continued)

Balance sheet

The assets of the long-term assurance fund attributable to the shareholder are detailed below:

Investments	326 264	176 858
Intercompany loans due	27 842	120 833
Other assets	61 207	64 176

Assets of long-term assurance fund attributable to the shareholder

415 313 361 867

Current liabilities

(71 723) (88 795)

343 590 273 072

Investments shown above comprise:-

Interest bearing securities	40 118	14 034
Stocks, shares and unit trusts	94 448	14 259
Investment properties	76 484	51 468
Associate	58 832	50 824
Deposits	56 382	46 273
	326 264	176 858

An increase in the investment properties' value of £4.3 million in the year ended 31 March 2004 (2003 - £18.2 million) has been recorded as a movement on the revaluation reserve.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

26. Long-term assurance business attributable to policyholders

Investec Employee Benefits Limited

1 257 948 1 334 775

Investec Assurance Limited

1 523 387 1 201 544

2 781 335 2 536 319

Investec Employee Benefits Limited

The assets of the long-term assurance fund attributable to policyholders are detailed below:

Investments

1 257 948 1 334 775

Investments shown above comprise:-

Interest bearing securities

264 270 168 368

Stocks, shares and unit trusts

622 271 680 959

Investment properties

— 23 195

Deposits

371 407 462 253

1 257 948 1 334 775

Investec Assurance Limited

The assets of the long-term assurance fund attributable to policyholders are detailed below:

Investments

1 501 377 1 155 383

Debtors and prepayments

18 300 45 175

Other assets

3 710 986

Assets of long-term assurance fund attributable to policyholders

1 523 387 1 201 544

Investments shown above comprise:-

Interest bearing securities

369 076 294 276

Stocks, shares and unit trusts

604 489 454 377

Investment properties

1 500 1 399

Deposits

526 312 405 331

1 501 377 1 155 383

The business of Investec Assurance Limited is that of linked business with retirement funds. The retirement funds hold units in a pooled portfolio of assets via a linked policy issued by the company. The assets are beneficially held by Investec Assurance Limited. Due to the nature of a linked policy Investec Assurance Limited's liability to the policyholders is equal to the market value of the assets underlying the policies.

The liabilities to policyholders comprise:

Technical provisions

342 803 472 563

Funds for future appropriations

915 145 862 212

Technical provisions for linked liabilities

1 523 387 1 201 544

2 781 335 2 536 319

Liabilities relating to Investec Employee Benefits of £1 395 million have been reinsured with CAL (£1 073 million) and Liberty Group Limited (£322 million). Until such time as a formal s37 (of the South African Long-Term Assurance Act) transfer is concluded, there remains a potential contingent liability.

Notes to the financial statements

For the year ended 31 March

(£'000)	2004	2003
27. Deposits by banks		
With agreed maturity date or periods of notice, by remaining maturity:		
Repayable on demand	259 940	145 979
Up to three months excluding on demand	700 358	1 394 028
Three months to one year	247 383	557 406
One year to five years	18 217	24 808
Greater than five years	7 711	7 071
	<u>1 233 609</u>	<u>2 129 292</u>
28. Customer accounts		
With agreed maturity date or periods of notice, by remaining maturity:		
Repayable on demand	2 217 332	1 817 593
Up to three months excluding on demand	3 757 976	3 159 799
Three months to one year	877 639	925 232
One year to five years	179 399	227 186
Greater than five years	178 946	225 057
	<u>7 211 292</u>	<u>6 354 867</u>
Redeemable preference shares issued by subsidiary undertakings of Investec Limited, which have been guaranteed by Investec Bank Limited are included in customer accounts.	<u>149 123</u>	<u>159 422</u>
29. Debt securities in issue		
Bonds and medium term notes repayable:		
Over five years	<u>190 701</u>	<u>73 765</u>
	190 701	73 765
Other unlisted debt securities in issue repayable:		
Not more than three months	213 496	435 830
Over three months but not more than one year	155 257	545 033
Over one year but not more than two years	35 663	104
Over two years but not more than five years	26 740	–
Over five years	–	35 024
	<u>431 156</u>	<u>1 015 991</u>
	<u>621 857</u>	<u>1 089 756</u>

The bonds are listed on the Bond Exchange of South Africa. The maturity dates of the bonds are as noted below.

£79.1 million • final legal maturity of 15 December 2025.
 • the group, subject to certain conditions being met, may at its discretion redeem these bonds at an earlier date, but not before 15 December 2006.

£111.6 million • final legal maturity of 15 November 2029.
 • the group, subject to certain conditions being met, may at its discretion redeem these bonds at an earlier date, but not before 15 November 2007.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

30. Other liabilities

Settlement creditors	989 128	760 920
Short positions in securities	519 792	226 087
Provision for deferred tax (refer to note on deferred taxation)	3 767	6 111
Current corporation tax	50 218	45 789
Shareholders ordinary dividend	32 740	25 468
Derivatives negative fair values	194 934	362 370
Other creditors and accruals	179 276	154 136
	<u>1 969 855</u>	<u>1 580 881</u>

Short positions in securities comprise:

Commodities - gold	4 974	-
Debt securities - government bonds	47 415	147 550
Equities - listed securities	467 403	78 537
	<u>519 792</u>	<u>226 087</u>

Included above is:

Provision for losses on termination and disposal of group operations - discontinued

At beginning of year	18 784	7 089
Additions to provisions during year	4 510	9 437
Utilisation of the provision during year	(14 851)	-
Forex difference	(1 986)	2 258
At end of year	<u>6 457</u>	<u>18 784</u>

Notes to the financial statements

For the year ended 31 March

(£'000)	2004	2003
31. Deferred taxation		
Deferred tax asset		
Deferred capital allowances	16 347	10 927
Tax relief in respect of the utilisation of tax losses brought forward against future taxable income	2 586	3 585
Income and expenditure accruals	14 755	9 951
Other timing differences	57	3 623
	<u>33 745</u>	<u>28 086</u>
Deferred tax liability		
Income and expenditure accruals	199	93
Equipment allowances	—	116
Property allowances	—	2 991
Unrealised gains on investments	3 546	2 797
Other timing differences	22	114
	<u>3 767</u>	<u>6 111</u>
Net deferred tax asset	29 978	21 975
Reconciliation of net deferred tax asset		
Opening balance	21 975	12 002
Charge to profit and loss	(6 031)	9 660
Included within pension fund deficit liability	270	20
Charge to profit and loss relating to long term assurance assets attributable to the shareholder	5 250	—
Arising on acquisitions	10 950	—
Exchange adjustments	(2 436)	293
Closing balance	<u>29 978</u>	<u>21 975</u>

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

32. Subordinated liabilities

Dated subordinated debt

Issued by Investec Finance plc

- a wholly owned subsidiary of Investec Bank (UK) Limited which is a wholly owned subsidiary of Investec plc

Guaranteed subordinated step-up notes

195 775

-

Issued by investec Bank (UK) Limited

Zero Coupon Bonds

6 596

-

Issued by Investec Limited

Class "A" Series I Unsecured subordinated compulsorily convertible debentures ("CCD's")

1 293

1 742

Class "A" Series II Unsecured subordinated CCDs

2 332

2 447

Issued by Investec Bank Limited - a wholly owned subsidiary of Investec Limited

Unsecured subordinated CCDs

21 743

20 300

Class "A" Unsecured subordinated CCDs

4 866

12 611

Class "A" Series II Unsecured subordinated CCDs

1 008

2 609

Class "B" Unsecured subordinated CCDs

1 989

5 030

Class "C" Unsecured subordinated CCDs

8 474

11 085

16% subordinated bonds 2012 issued in South African Rands

168 074

156 720

Class "E" 15% unsecured redeemable debentures - 2014

-

22 697

IVQ2 12.55% Subordinated unsecured callable bonds

85 708

44 461

497 858

279 702

All subordinated debt issued by Investec Limited and its subsidiaries is denominated in South African Rand

Remaining maturity:

In one year or less or on demand

7 863

-

In more than one year; but not more than two years

-

23 055

In more than two years; but not more than five years

40 438

-

In more than five years

449 557

256 647

497 858

279 702

Notes to the financial statements

32. Subordinated liabilities (continued)

The compulsorily convertible debentures issued by Investec Bank Limited were split at issue into their debt and equity components. The equity components were sold to employee share trusts. The debt components were sold to third parties, represented by the amounts above.

Guaranteed subordinated step-up notes

On 1 March 2004 Investec Finance plc issued £200,000,000 of 7.75% guaranteed subordinated step-up Notes due 2016 at a discount. Interest is paid annually. The notes are guaranteed by Investec Bank (UK) Limited 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 Financial Services Authority. On 1 March 2011 the interest rate will be reset to become the aggregate of 3.5% and the gross redemption yield of the relevant benchmark gilt.

Zero coupon bonds

On 29 March 2004 the bank issued 9,253 zero coupon bonds of £1,000 each at an effective yield of 6.89094%. The bonds mature on 29 March 2009.

Series I & II Class "A" debentures:

Interest is payable six monthly in arrears, on 1 May and 1 November of each year at a variable rate of 3% below the official rate as defined in the 7th schedule of the South African Income Tax Act of 1962.

The debentures convert into ordinary shares, on a one for one basis, at the election of the holders. If not converted by election, the Series I debentures will automatically convert on 1 October 2008. The Series II debentures will automatically convert on 4 December 2010.

The unissued debentures are under control of the directors until the next annual general meeting.

Unsecured subordinated CCDs

The compulsorily convertible debentures will convert into Investec Bank Limited ordinary shares, on a one for one basis, on 31 July 2008. The company at its discretion, may at the request of the holder convert at an earlier date.

The Investec Bank Limited shares arising out of the conversion have been sold forward by the holder thereof to Investec Limited in exchange for 3,573,994 Investec Limited ordinary shares.

Class A unsecured, Class A Series II, Class B and Class C unsecured CCDs:

The 5,000,000 Class A unsecured, 1,000,000 Class A Series II, 1,500,000 Class B and 2,000,000 Class C unsecured subordinated compulsorily convertible debentures were acquired by Investec Limited on 18 June 2002 in exchange for the issue of 9,500,000 Investec Group Limited shares. Pursuant to the implementation of the Dual Listed Company structure, the 9,500,000 Investec Group Limited shares were exchanged for 5,985,000 Investec plc shares and 3,515,000 Investec Limited shares.

16% subordinated bonds 2012 issued in South African Rands

R1,961 million (2003 - R1,961 million) Investec Bank Limited 16% local registered unsecured subordinated bonds are due in 2012. Interest is paid six monthly in arrears on 31 March and 30 September at a rate of 16% per annum. The settlement date of the bonds is 31 March 2012.

Class "E" 15% unsecured redeemable debentures - 2014

R nil (2003 - R284 million) Investec Bank Limited Class E 15% unsecured redeemable debentures were early redeemed during the current financial year. The debentures yielded interest at a rate of 15% (nominal annual compounded).

IV02 12.55% Subordinated unsecured callable bonds

R1,000 million (2003 - R556 million) Investec Bank Limited IV02 subordinated 12.55% unsecured callable bonds. The bonds redemption date is 31 March 2013 but the company has the option to call the bond on 31 March 2008. If not called, the bonds will switch to a floating rate of 3 month JIBAR plus 300 basis points payable quarterly in arrears until maturity.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

33. Called up share capital

Investec plc

Authorised

The authorised share capital of Investec plc is £167,500 (2003: £167,500) comprising:
112,000,000 ordinary shares of £0.001 each (2003: 112,000,000 shares of £0.001 each)
55,500,000 Special Converting Shares of £0.001 each (2003: 55,500,000)
1 Special Voting share of £0.001 each (2003: 1)
1 UK DAN Share of £0.001 (2003: 1) and 1 UK DAS Share of £0.001 (2003: 1)

Issued, allotted and fully paid

Number of ordinary shares

At beginning of year
Subscription for shares
Subdivision on 100 for 1 basis
Cancellation of shares
Issued for acquisition of subsidiaries from Investec Limited
Share issued in the Global Offer
At end of year

Number	Number
74 633 746	500 000
—	3 300
—	49 826 700
—	(50 000 000)
—	70 303 746
—	4 000 000
<u>74 633 746</u>	<u>74 633 746</u>

Nominal value of ordinary shares - GBP

At beginning of year
Subscription for shares
Subdivision on 100 for 1 basis
Cancellation of shares
Issued for acquisition of subsidiaries from Investec Group Limited
Share issued in the Global Offer
At end of year

£'000	£'000
74	50
—*	—*
—	—
—	(50)
—	70
—	4
<u>74</u>	<u>74</u>

Number of special converting shares

At beginning of year
Issued during the year
At end of year

Number	Number
38 399 527	—
<u>5 600 000</u>	<u>38 399 527</u>
<u>43 999 527</u>	<u>38 399 527</u>

Nominal value of special converting shares - GBP

At beginning of year
Issued during the year
At end of year

£'000	£'000
38	—
<u>6</u>	<u>38</u>
<u>44</u>	<u>38</u>

Number of UK DAN shares

At beginning of year
Issued during the year
At end of year

Number	Number
1	—
<u>—</u>	<u>—</u>
<u>1</u>	<u>—</u>

Nominal value of UK DAN share - GBP

At beginning of year
Issued during the year
At end of year

£'000	£'000
—*	—
<u>—</u>	<u>—*</u>
<u>—*</u>	<u>—*</u>

Number of UK DAS shares

At beginning of year
Issued during the year
At end of year

Number	Number
1	—
<u>—</u>	<u>1</u>
<u>1</u>	<u>—</u>

Nominal value of UK DAS share - GBP

At beginning of year
Issued during the year
At end of year

£'000	£'000
—*	—
<u>—</u>	<u>—*</u>
<u>—*</u>	<u>—*</u>

* Less than £1 000

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

33. Called up share capital (continued)

Investec Limited

Authorised

The authorised share capital of Investec Limited is South African Rand 205 502 (2003: R205 502), comprising 55 500 000 ordinary shares of South African Rand 0.001 each (2003: 55 500 000), 8 000 000 (2003: 8 000 000) convertible non-cumulative preference shares of South African Rand 0.001 each, 50 000 (2003: 50 000) variable rate cumulative redeemable preference shares of South African Rand 0.60 cents each, 1 SA DAS redeemable preference share of 1 South African Rand (2003: 1) 1 SA DAN redeemable preference share of 1 South African Rand (2003: 1), 112 000 000 (2003: 112 000 000) convertible redeemable preference shares of South African Rand 0.001 each (special converting shares)

Issued, allotted and fully paid

Number of ordinary shares

At beginning of year
Issued during the year
Conversion of preference shares
Issued for acquisition of compulsorily convertible debentures
Subdivision on 600 for 1 basis
Cancellation of shares
At end of year

Number	Number
38 399 527	92 228 309
5 600 000	—
—	2 000 000
—	9 500 000
—	62 164 913 642
—	(62 230 242 424)
43 999 527	38 399 527

Nominal value of ordinary shares - GBP

At beginning of year
Conversion of preference shares
Issued for acquisition of compulsorily convertible debentures
Subdivision on 600 for 1 basis
Issued during the year
Conversion of compulsorily convertible debentures
Cancellation of shares
At end of year

£'000	£'000
45	7 418
—	112
—	374
—	—
1	—
—	—
—	(7 859)
46	45

Number of convertible preference shares

At beginning of year
Issued during the year
At end of year

Number	Number
—	2 000 000
—	(2 000 000)
—	—

Nominal value of convertible preference shares - GBP

At beginning of year
Converted during the year
At end of year

£'000	£'000
—	112
—	(112)
—	—

Number of redeemable preference shares

At beginning of year
Issued during the year
At end of year

Number	Number
1 750	—
—	1 750
1 750	1 750

Nominal value of redeemable preference shares - GBP

At beginning of year
Issued during the year
At end of year

£'000	£'000
—*	—
—	—*
—*	—*

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

33. Called up share capital (continued) Investec Limited

Number of special converting shares

At beginning of year
Issued during the year
At end of year

Number	Number
74 633 746	—
—	74 633 746
74 633 746	74 633 746

Nominal value of special converting shares - GBP

At beginning of year
Issued during the year
At end of year

£'000	£'000
5	—
—	5
5	5

Number of SA DAN shares

At beginning of year
Issued during the year
At end of year

Number	Number
1	—
—	1
1	1

Nominal value of SA DAN share - GBP

At beginning of year
Issued during the year
At end of year

£'000	£'000
—*	—
—	—*
—*	—*

Number of SA DAS shares

At beginning of year
Issued during the year
At end of year

Number	Number
1	—
—	1
1	1

Nominal value of SA DAS share - GBP

At beginning of year
Issued during the year
At end of year

£'000	£'000
—*	—
—	—*
—*	—*

* Less than £1 000

Nominal value of issued, allotted and fully paid called up share capital of Investec plc and Investec Limited

Total called up share capital
Less: Held by Investec Limited
Less: Held by Investec plc
Total called up share capital

169	162
—	—
(4)	(4)
165	158

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

33. Called up share capital (continued)

The Investec Limited shares were issued in South African Rands. The amounts recorded above were calculated by reference to historic Sterling/Rand exchange rates.

The redeemable preference shares are variable rate, cumulative and redeemable. The shares were issued at a premium of R99 999.40 per share. The dividend rate on these shares is 10.83% of the subscription price (R175 million), and are payable annually in advance on 28 November each year. These shares are redeemable on 29 November 2005 at a premium of R99,999.40 per share.

The holder of 2,775,000 Investec Limited and 4,725,000 Investec plc shares has agreed to waive its right to dividends until 15 December 2004. The holder of 740,000 Investec Limited and 1,260,000 Investec plc shares has agreed to waive its right to dividends until 31 March 2008.

In terms of the Dual Listed Companies Structure, shareholders have common economic and voting rights as if Investec Limited and Investec plc were a single company. These include equivalent dividends on a per share basis, joint electorate and class right voting, and equivalent position on the termination of either company.

The UK DAS shares, UK DAN share, SA DAS share, the SA DAN share and the special converting shares have been issued to achieve this.

The unissued shares are under the control of the directors until the next annual general meeting.

* Less than £1,000.

Staff Share Scheme

The Bank operates a share option and a share purchase scheme for employees. The number of ordinary shares conditionally allocated to employees are disclosed in note 23.

Movements in the number of share options issued for 1 share each, held by employees are as follows:

Each option is in respect of one share.

	Number	Number
Outstanding at 1 April	15 156 463	5 657 874
Issued during the year	2 062 413	10 667 827
Exercised	(31 477)	(5 940)
Lapsed	(1 625 407)	(1 163 298)
Outstanding at 31 March	15 561 992	15 156 463

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 shares or debentures 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 and stock market conditions.

At present, the practice of the group is to give all permanent staff members a share allocation approximately equal to their annual package after completing six months of employment. In line with the objective of providing a long-term incentive for staff, participants may not deal in any shares acquired in terms of the Scheme within two years of accepting them. Thereafter they may acquire them over a minimum period of a further three years or maximum period of a further eight 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.

In addition to the Staff Share Scheme, other incentive schemes are operated by the group. Whilst the objectives of such schemes are identical to the Staff Share Scheme, membership of them is not extended to all staff members but to key members of the group whom executive management believe are in a position to add significant value to the group. Whilst housed in different structures from the Staff Share Scheme the underlying assets in them are group instruments. Any benefit derived by the members from such schemes is thus totally dependent on the performance of the group.

The extent of the directors' interest in the incentive schemes is detailed on pages 129 to 133.

Notes to the financial statements

For the year ended 31 March

	2004	2003
34. Treasury shares		
Treasury shares held by subsidiaries of Investec limited and Investec plc	£'000	£'000
Investec plc ordinary shares	17 138	26 120
Investec Limited ordinary shares	34 964	14 867
	<u>52 102</u>	<u>40 987</u>
	Number	Number
Number of Investec plc ordinary shares held by subsidiaries	1 633 413	2 715 673
Number of Investec Limited ordinary shares held by subsidiaries	4 126 257	1 589 788
	<u>5 759 670</u>	<u>4 305 461</u>
Reconciliation of treasury shares		
Opening balance	4 305 461	100 000
Purchase of own shares by subsidiary companies	3 208 197	4 205 461
Shares disposed of by subsidiaries	(1 753 988)	-
Closing balance	<u>5 759 670</u>	<u>4 305 461</u>
Market Value of treasury shares:	£'000	£'000
Investec plc	17 788	16 701
Investec Limited	44 935	9 777
	<u>62 723</u>	<u>26 478</u>

Dividends on treasury shares have not been included in the profit and loss account.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

35. Shares to be issued

Number of ordinary shares

At beginning of year

Number	Number
2 969 818	13 073 994

Conversion

– (9 500 000)

Sold/(acquired) by staff share scheme

250 651 (604 176)

At end of year

3 220 469 2 969 818

Nominal value of ordinary shares

At beginning of year

£'000	£'000
2 428	41 148

Conversion

– (38 148)

Sold/(acquired) by staff share scheme

238 (572)

At end of year

2 666 2 428

The amounts included in the above figures represent contributions received by the group in respect of employee share schemes. All of the 3 220 469 shares to be issued at 31 March 2004 are due to be issued on 31 July 2008. However, the company may on the election of the holder issue shares to the holders of these shares at an earlier date.

During the year the staff share scheme sold the rights in respect of 250 651 (2003: acquired 604 176) shares to be issued.

36. Perpetual preference shares

15 000 000 (2003 - Nil) authorised and issued non-redeemable, non-cumulative, non-participating preference shares.

126 698

Preference shareholders will be entitled to receive dividends at a rate of 75% of the South African prime interest rate, of the face value of the preference shares held. Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or pari passu with the preference shares. Preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Bank Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.

Notes to the financial statements

Details of share options

Instrument	Expiry date	Exercise price	Number of options issued/ exercised
37. Share options			
Details of share options:			
Granted during the year 2004			
Investec Limited	17 Sep 2008	R 101.39	9 827
Investec plc	17 Sep 2008	£7.76	636 943
Investec plc	03 Mar 2009	£10.60	322 641
Investec Limited	17 Jun 2009	R 101.39	53 677
Investec plc	17 Sep 2009	R 101.76	91 423
Investec plc	03 Mar 2010	R 115.95	483 517
Investec Limited	03 Dec 2010	R 115.43	283 933
Investec plc	17 Sep 2012	£7.76	41 982
Investec plc	03 Mar 2013	£10.60	138 470
Exercised during the year 2004			
Investec Limited		R 110.00	68
Investec Limited		R 130.00	70
Investec Limited		R 111.32	1 020
Investec plc		R 110.00	116
Investec plc		R 130.00	119
Investec plc		R 111.96	1 980
Investec plc		£10.86	23 380
Investec plc		£9.18	4 724
Granted during the year 2003			
Investec Group Ltd	13 Sep 2007	R 164.50	6 736 260
Investec Group Ltd	13 Sep 2007	R 170.00	770 612
Investec plc	19 Mar 2007	R 111.96	1 117 845
Investec Limited	19 Mar 2007	R 111.32	833 586
Investec plc	19 Mar 2007	£ 7.93	775 401
Investec plc	19 Mar 2012	£ 7.93	434 123
Exercised during the year 2003			
Investec Group Ltd		R 78.93	5 940
Investec Holdings Limited		R 67.43	6 893

Notes to the financial statements

Terms of share options	SA Schemes			UK Schemes			
	Average exercise price	Number of Investec Limited shares	Number of Investec plc shares	Average exercise price	Number of Investec Limited shares	Average exercise price	Number of Investec plc shares
Instrument							
31 March 04	R 170.00	374	639	R 246.00	117 076	£15.73	199 346
31 March 05	R 169.49	66 046	113 796	R 235.37	69 048	£15.05	117 567
31 March 06	R 154.44	5 781	9 847	R 169.80	98 574	£10.86	167 841
31 March 07	R 101.80	1 006	1 709	R 151.06	1 413 680	£9.86	2 743 647
31 March 08	R 172.92	22 379	38 138	R 161.31	243 093	£11.47	1 356 768
31 March 09	R 148.22	1 746 596	3 101 247	R 236.03	44 300	£15.09	75 430
31 March 10	R 147.58	452 680	771 145	R 130.28	77 071	£8.88	565 352
31 March 11	R 241.08	129 899	221 191	R 114.87	—	£9.94	180 452
31 March 12	R 174.11	519 592	884 683				
31 March 13	R 168.00	2 220	3 780				

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

38. Cash flow reconciliations

Reconciliation of operating profit to net operating cash flows

Operating profit/(loss)	81 495	(36 540)
Decrease/(increase) in prepayments and accrued income	42 879	(26 492)
(Decrease)/increase in accruals and deferred income	(73 916)	37 119
Interest expense on subordinated liabilities (including convertible debt)	45 110	25 090
Depreciation	12 448	14 417
Provision for bad and doubtful debts	20 958	18 308
Amortisation of goodwill	50 644	122 302
Gains on disposal/reclassifications of investment securities	(12 828)	(25 269)
Fundamental reorganisation and restructuring costs	–	(6 073)
Long term assurance business attributable to the shareholder	(157 815)	(47 275)

Net cash inflow from trading activities

8 975 75 617

Net increase in treasury bills and other eligible bills	(31 708)	(21 402)
Net decrease/(increase) in loans and advances to banks	1 217 555	(197 986)
Net increase in loans and advances to customers	(1 507 029)	(73 947)
Net (increase)/decrease in non-investment debt and equity securities	(220 236)	2 613 665
Net (decrease)/increase in debt securities in issue	(467 899)	483 510
Net decrease/(increase) in other assets	172 477	(21 136)
Net decrease in deposits by banks	(932 716)	(1 516 016)
Net increase/(decrease) in customer accounts	892 144	(713 353)
Net increase/(decrease) in other liabilities	378 945	(514 173)

Net cash (outflow)/inflow from operating activities

(489 492) 114 779

Subordinated liabilities

At beginning of the year	279 702	191 651
Foreign currency adjustments	16 039	51 382
Issues during the year	216 056	48 650
Repayments	(13 939)	(11 980)
Conversions during the year	–	(1)
At end of year	497 858	279 702

Called up share capital

At beginning of year	158	7 530
Net issues during the year	7	5
Conversions during the year	–	374
Buy-back of shares	–	(148)
Unbundling and restructuring	–	(7 603)
Acquisition of subsidiary undertakings	–	–
At end of year	165	158

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

38. Cash flow reconciliations (continued)

Share premium

At beginning of year	980 321	816 533
Net issues during the year	45 750	64 527
Conversions during the year	–	86 402
Buy-back of shares	(3 936)	(4 931)
Unbundling and restructuring	–	66 234
Share issue expenses	(1 245)	(32 213)
Movement in treasury shares	–	(16 231)
Acquisition of subsidiary undertakings	–	–
At end of year	<u>1 020 890</u>	<u>980 321</u>

Treasury shares

At beginning of year	(40 987)	(2 444)
Purchase of treasury shares during the year	(25 241)	(38 543)
Reissue of treasury shares during the year	14 126	–
At end of year	<u>(52 102)</u>	<u>(40 987)</u>

Shares to be issued

At beginning of year	2 428	41 148
Net issues/(conversions) during the year	238	(38 720)
At end of year	<u>2 666</u>	<u>2 428</u>

Total financing

At beginning of year	<u>1 221 622</u>	<u>1 054 418</u>
At end of year	<u>1 469 477</u>	<u>1 221 622</u>

The group is required to make deposits with central banks as a result of government regulations in the territories in which it operates, amounting to:

405 708	327 957
---------	---------

Purchase of interests in subsidiary undertakings

Net assets acquired	10 978	78
Goodwill	(6 206)	594
	<u>4 772</u>	<u>672</u>

Satisfied by

Cash and acquisition cost	<u>4 772</u>	<u>672</u>
---------------------------	--------------	------------

Analysis of the net cash (outflow)/inflow from the purchase of subsidiary undertakings

Cash consideration	(4 772)	(672)
--------------------	---------	-------

Net cash outflow	<u>(4 772)</u>	<u>(672)</u>
------------------	----------------	--------------

Due to the integration of acquisitions into our continuing operations it is not practical to analyse the post-acquisition cash flows of the acquired units.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

38. Cash flow reconciliations (continued)

Disposal of group undertakings

Goodwill written off	11	19 047
Fixed assets and other accounts	103 285	5 327
Other liabilities	(31 930)	(4 469)
Net assets disposed of	71 366	19 905
Profit/(loss) on disposal	13 632	(28 484)
Net proceeds from disposal of group undertakings	84 998	(8 579)

Satisfied by

Cash	44 999	30 722
Deferred payments	16 243	--
Equity shares	23 756	--
Costs incurred in termination and disposal of business undertakings	--	(39 301)
	84 998	(8 579)

39. Annual commitments in respect of non-cancellable operating leases

Leasehold properties

Within one year	1 680	777
Between one and five years	8 449	1 069
Over five years	15 567	14 782
	25 696	16 628

40. Commitments

Forward repurchase agreements	195	129 155
Undrawn facilities	514 955	360 850
Other commitments	7 729	6 633
	522 879	496 638

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

41. Contingent liabilities

Guarantees and assets pledged as collateral security:

- guarantees and irrevocable letters of credit	265 758	264 824
Other contingent liabilities	1 683	84 082
	267 441	348 906

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

Legal proceedings

Investec is party to various legal proceedings, the ultimate resolution of which is not expected to have a material adverse effect on the financial position of the group.

Notes to the financial statements

42. Risk management

Financial Instruments, including Derivatives and Risk Disclosure

The group's risk management objectives and policies, including market risk, credit risk and the management of risks that arise in connection with the use of financial instruments, is detailed on pages 83 to 95. In the notes below, short-term debtors and creditors are included in the interest rate repricing analysis, non trading currency risk tables and the table detailing assets and liabilities denominated in sterling and foreign currencies. All other disclosures exclude these short-term balances.

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.

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 interest rate contracts are transacted with other financial institutions. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations. In the tables below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date. Detailed below is the derivative exposure for both trading and non trading portfolios.

For the year ended 31 March (£'000)	Notional principal amounts 2004	Positive fair value 2004	Negative fair value 2004	Notional principal amounts 2003	Positive fair value 2003	Negative fair value 2003
Trading derivatives						
Foreign exchange derivatives						
Forward foreign exchange	5 599 108	268 483	273 996	5 803 110	292 649	301 276
Currency swaps	975 185	133 946	9 614	977 879	75 610	47 944
OTC options bought and sold	1 320 680	78 244	31 561	683 897	68 045	28 802
Other foreign exchange contracts	28 455	—	—	—	—	—
OTC derivatives	7 923 428	480 673	315 171	7 464 886	436 304	378 022
Exchange traded futures	131 972	299	28	—	—	—
Exchange traded options	—	—	—	—	—	—
	8 055 400	480 972	315 199	7 464 886	436 304	378 022
Interest rate derivatives						
Caps and floors	611 606	2 342	3 393	1 329 411	3 758	4 749
Swaps	24 884 365	403 228	327 102	32 732 965	484 417	437 275
Forward rate agreements	62 362 574	63 714	58 948	107 788 182	59 385	60 828
OTC options bought and sold	631 813	2 003	3 230	1 658 469	7 767	8 401
Other interest rate contracts	—	—	—	47 532	—	230
OTC derivatives	88 490 358	471 287	392 673	143 556 559	555 327	511 483
Exchange traded futures	10 298 932	1 842	1 310	18 441 355	2 343	588
Exchange traded options	—	—	—	640 467	7	414
	98 789 290	473 129	393 983	162 638 381	557 677	512 485
Equity and stock index derivatives						
OTC options bought and sold	12 932 626	151 748	177 583	638 124	63 270	45 230
Equity swaps and forwards	60 708	4 026	4 193	358 802	27 100	62 754
OTC derivatives	12 993 334	155 774	181 776	996 926	90 370	107 984
Exchange traded futures	472 714	380	216	4 496	472	846
Exchange traded options	1 197 962	10 963	6 773	265 716	3 048	1 833
Warrants	40 540	41 603	—	912	212	27
	14 704 550	208 720	188 765	1 268 050	94 102	110 690

Notes to the financial statements

For the year ended 31 March (£'000)	Notional principal amounts 2004	Positive fair value 2004	Negative fair value 2004	Notional principal amounts 2003	Positive fair value 2003	Negative fair value 2003
42. Risk management						
Trading derivatives (continued)						
Commodity derivatives						
OTC options bought and sold	943 376	71 354	8 423	1 361 272	78 620	52 044
Commodity swaps and forwards	471 346	25 579	21 234	206 780	6 542	5 330
OTC derivatives	1 414 722	96 933	29 657	1 568 052	85 162	57 374
Exchange traded futures	3 312 844	135 665	162 191	1 513 923	—	—
Exchange traded options	1 601 844	62 867	40 678	319 374	—	—
	<u>6 329 410</u>	<u>295 465</u>	<u>232 526</u>	<u>3 401 349</u>	<u>85 162</u>	<u>57 374</u>
Credit derivatives						
Credit linked notes bought and sold	—	—	—	—	—	—
Credit swaps bought and sold	58 573	233	20	124 678	291	152
	<u>58 573</u>	<u>233</u>	<u>20</u>	<u>124 678</u>	<u>291</u>	<u>152</u>
Gross fair values		1 458 519	1 130 493		1 173 536	1 058 723
Effect of netting		(935 559)	(935 559)		(696 353)	(696 353)
Amounts includes in other assets/liabilities		<u>522 960</u>	<u>194 934</u>		<u>477 183</u>	<u>362 370</u>
The replacement values of these contracts are their positive fair values. The notional principal amounts represent the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk.						
Non trading derivatives						
Foreign exchange derivatives						
Forward foreign exchange	17 188	476	86	59 307	977	412
Currency swaps	8 378	141	—	23 316	1 366	2 597
OTC derivatives	25 566	617	86	82 623	2 343	3 009
Exchange traded futures	—	—	—	—	—	—
Exchange traded options	—	—	—	—	—	—
	<u>25 566</u>	<u>617</u>	<u>86</u>	<u>82 623</u>	<u>2 343</u>	<u>3 009</u>
Interest rate derivatives						
Caps and floors	—	—	—	765	—	—
Swaps	1 401 600	3 886	18 101	2 763 913	37 121	94 067
Forward rate agreements	3 000	—	84	—	—	—
OTC options bought and sold	4 200	—	—	—	—	—
OTC derivatives	1 408 800	3 886	18 185	2 764 678	37 121	94 067
Exchange traded futures	17 626	535	—	338 600	1 617	105
	<u>1 426 426</u>	<u>4 421</u>	<u>18 185</u>	<u>3 103 278</u>	<u>38 738</u>	<u>94 172</u>
Equity and stock index derivatives						
OTC options bought and sold	—	—	—	35 917	2 527	163
	<u>—</u>	<u>—</u>	<u>—</u>	<u>35 917</u>	<u>2 527</u>	<u>163</u>
Credit derivatives						
Credit link notes bought and sold	8 378	—	—	39 959	—	—
Credit swaps bought and sold	—	—	—	76 170	528	11
	<u>8 378</u>	<u>—</u>	<u>—</u>	<u>116 129</u>	<u>528</u>	<u>11</u>
Total		<u>5 038</u>	<u>18 271</u>		<u>44 136</u>	<u>97 355</u>

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

42. Risk management (continued)

Non-trading derivatives (continued)

Book carrying values

Foreign exchange contracts

Forward foreign exchange

Currency swaps

OTC derivatives

– 294

– (786)

– (492)

Interest rate derivatives

Swaps

Forward rate agreements

OTC derivatives

Exchange traded futures

(6 609) (55 501)

(81) –

(6 693) (55 501)

816 541

(5 877) (54 960)

Equity and stock index derivatives

OTC options bought and sold

– 2 352

Credit derivatives

Credit swaps bought and sold

Credit linked notes bought and sold

– 532

– (11)

– 521

Total book carrying values

(5 877) (52 579)

Hedging instruments

Gains and losses on derivatives used for hedging are recognised in line with the underlying items that are being hedged. These values have been calculated by reference to the ultimate maturity date of the derivatives.

Unrecognised gains to be recognised within one year

Unrecognised gains to be recognised in more than one year

Total unrecognised gains

6 137 1 167

36 767 34 374

42 904 35 541

Unrecognised losses to be recognised within one year

Unrecognised losses to be recognised in more than one year

Total unrecognised losses

5 483 1 685

103 634 89 394

109 117 91 079

Total recognised gain/(loss) in current year

Portion of recognised (loss)/gain which was unrecognised in prior year

Net recognised gain/(loss) arising in the current year

8 489 (5 611)

(2 288) 2 453

10 777 (8 064)

Notes to the financial statements

For the year ended 31 March (£'000)	Up to one year 2004	One to five years 2004	More than five years 2004	Up to one year 2003	One to five years 2003	More than five years 2003
42. Risk management (continued)						
Maturities of derivative instruments						
Notional principal						
Foreign exchange derivatives						
Forward foreign exchange	5 063 494	431 363	149 894	4 852 646	738 963	270 788
Currency swaps	204 287	403 992	375 284	428 044	218 716	354 435
Futures	131 972	—	—	—	—	—
Options	1 174 788	145 892	—	358 059	325 838	—
	<u>6 574 541</u>	<u>981 247</u>	<u>525 178</u>	<u>5 638 749</u>	<u>1 283 517</u>	<u>625 223</u>
Interest rate derivatives						
Caps and floors	611 606	—	—	707 784	622 392	—
Swaps	23 713 974	1 563 960	1 008 032	17 952 075	12 468 925	5 075 878
Futures	9 502 969	813 589	—	15 209 961	3 554 538	15 456
Options	636 013	—	—	2 278 717	20 219	—
Forward rate agreements	62 365 573	—	—	80 005 221	27 782 961	—
Other interest rate contracts	—	—	—	47 352	—	—
	<u>96 830 135</u>	<u>2 377 549</u>	<u>1 008 032</u>	<u>116 201 110</u>	<u>44 449 035</u>	<u>5 091 334</u>
Equity and stock index derivatives						
Swaps and forwards	60 708	—	—	196 809	161 993	—
Futures	472 714	—	—	4 481	15	—
Options	14 024 123	106 465	—	869 527	70 230	—
Warrants	—	30 022	10 518	743	64	105
	<u>14 557 545</u>	<u>136 487</u>	<u>10 518</u>	<u>1 071 560</u>	<u>232 302</u>	<u>105</u>
Commodity derivatives						
Options	1 397 370	799 206	348 644	478 266	482 974	719 406
Futures	2 854 340	458 504	—	1 304 732	209 191	—
Commodity swaps and forwards	324 327	142 076	4 943	136 590	70 190	—
	<u>4 576 037</u>	<u>1 399 786</u>	<u>353 587</u>	<u>1 919 588</u>	<u>762 355</u>	<u>719 406</u>
Credit derivatives						
Credit linked notes bought and sold	8 378	—	—	39 959	—	—
Credit swaps bought and sold	29 681	28 892	—	129 907	70 941	—
	<u>38 059</u>	<u>28 892</u>	<u>—</u>	<u>169 866</u>	<u>70 941</u>	<u>—</u>

Notes to the financial statements

For the year ended 31 March (£'000)	Up to one year 2004	One to five years 2004	More than five years 2004	Up to one year 2003	One to five years 2003	More than five years 2003
42. Risk management (continued)						
Maturities of derivative instruments (continued)						
Positive fair values						
Foreign exchange derivatives						
Forward foreign exchange	209 930	45 805	13 224	189 668	90 130	13 828
Currency swaps	12 763	59 812	61 512	5 748	40 216	31 012
Futures	299	—	—	—	—	—
Options	65 471	12 773	—	7 453	60 592	—
	<u>288 463</u>	<u>118 390</u>	<u>74 736</u>	<u>202 869</u>	<u>190 938</u>	<u>44 840</u>
Interest rate derivatives						
Caps and floors	2 342	—	—	710	3 048	—
Swaps	373 793	21 486	11 835	64 368	173 958	283 212
Futures	2 262	115	—	2 333	1 627	—
Options	2 003	—	—	6 840	934	—
Forward rate agreements	63 714	—	—	39 675	19 710	—
	<u>444 114</u>	<u>21 601</u>	<u>11 835</u>	<u>113 926</u>	<u>199 277</u>	<u>283 212</u>
Equity and stock index derivatives						
Swaps and forwards	4 026	—	—	18 040	9 060	—
Futures	380	—	—	472	—	—
Options	148 432	14 279	—	36 998	31 847	—
Warrants	—	41 083	520	137	44	31
	<u>152 838</u>	<u>55 362</u>	<u>520</u>	<u>55 647</u>	<u>40 951</u>	<u>31</u>
Commodity derivatives						
Options	65 319	38 844	30 058	6 288	25 444	46 888
Futures	126 581	9 084	—	—	—	—
Commodity swaps and forwards	18 562	6 664	353	3 018	3 524	—
	<u>210 462</u>	<u>54 592</u>	<u>30 411</u>	<u>9 306</u>	<u>28 968</u>	<u>46 888</u>
Credit derivatives						
Credit linked notes bought and sold	—	—	—	—	—	—
Credit swaps bought and sold	124	109	—	129	690	—
	<u>124</u>	<u>109</u>	<u>—</u>	<u>129</u>	<u>690</u>	<u>—</u>
Total	<u>1 096 001</u>	<u>250 054</u>	<u>117 502</u>	<u>381 877</u>	<u>460 824</u>	<u>374 971</u>

Notes to the financial statements

For the year ended 31 March (£'000)	Up to one year 2004	One to five years 2004	More than five years 2004	Up to one year 2003	One to five years 2003	More than five years 2003
42. Risk management (continued)						
Maturities of derivative instruments (continued)						
Negative fair values						
Foreign exchange derivatives						
Forward foreign exchange	211 508	52 496	10 078	243 565	43 525	14 518
Currency swaps	1 613	5 119	2 882	5 244	8 371	36 926
Futures	28	—	—	—	—	—
Options	22 184	9 377	—	15 611	13 191	—
	<u>235 333</u>	<u>66 992</u>	<u>12 960</u>	<u>264 420</u>	<u>65 087</u>	<u>51 444</u>
Interest rate derivatives						
Caps and floors	3 393	—	—	1 253	3 496	—
Swaps	311 277	18 026	15 900	48 311	178 501	304 530
Futures	1 112	198	—	630	61	2
Options	3 230	—	—	8 775	40	—
Forward rate agreements	59 032	—	—	43 310	17 518	—
Other interest rate contracts	—	—	—	230	—	—
	<u>378 044</u>	<u>18 224</u>	<u>15 900</u>	<u>102 509</u>	<u>199 616</u>	<u>304 532</u>
Equity and stock index derivatives						
Swaps and forwards	4 193	—	—	20 472	42 282	—
Futures	216	—	—	836	10	—
Options	177 370	6 986	—	35 613	11 613	—
Warrants	—	—	—	27	—	—
	<u>181 779</u>	<u>6 986</u>	<u>—</u>	<u>56 948</u>	<u>53 905</u>	<u>—</u>
Commodity derivatives						
Options	29 889	15 363	3 849	4 997	16 767	30 280
Futures	146 274	15 917	—	—	—	—
Commodity swaps and forwards	16 520	4 714	—	3 129	2 201	—
	<u>192 683</u>	<u>35 994</u>	<u>3 849</u>	<u>8 126</u>	<u>18 968</u>	<u>30 280</u>
Credit derivatives						
Credit swaps bought and sold	20	—	—	162	1	—
	<u>20</u>	<u>—</u>	<u>—</u>	<u>162</u>	<u>1</u>	<u>—</u>
Total	987 859	128 196	32 709	432 165	337 577	386 256

Notes to the financial statements

For the year ended 31 March

(£'000)	2004	2003
42. Risk management (continued)		
Currency disclosure		
Assets and liabilities denominated in sterling and foreign currencies		
Denominated in sterling	2 801 233	3 433 422
Denominated in currencies other than sterling	12 560 138	11 480 621
Total assets	15 361 371	14 914 043
Denominated in sterling	2 500 214	3 042 432
Denominated in currencies other than sterling	12 013 159	11 192 839
Total liabilities(*)	14 513 373	14 235 271

(*) Includes subordinated liabilities.

Non-trading currency risk - structural currency exposures

Non-trading currency risk exposure arises principally from the group's net investments in overseas subsidiaries and associated undertakings, principally in South Africa, Israel and the United States of America.

The group's structural currency exposures at each reporting period were as follows:

Currency of structural exposure	Net investments in overseas operations(*) £'000
31 March 2004	
South African Rand	130 563
Israeli Shekel	47 992
Australian Dollar	122 881
European Euro	33 458
US Dollar	1 410
	336 304
31 March 2003	
South African Rand	60 076
Israeli Shekel	55 617
Australian Dollar	107 185
European Euro	27 494
US Dollar	2 227
	252 599

(*) There were no borrowings or derivatives taken out in the functional currencies of the overseas operations in order to hedge foreign net investments.

Goodwill is not considered to form part of the net investment in overseas operations in the above table.

Notes to the financial statements

For the year ended

(£'000)	Not more than 3 months	More than 3 months less than 6 months	More than 6 months less than 1 year
42. Risk management (continued)			
Interest rate sensitivity for the non-trading book			
31 March 2004			
Assets			
Treasury bills and other eligible bills	144 781	—	—
Loans and advances to banks	980 806	10 903	—
Loans and advances to customers	3 593 070	200 136	165 822
Debt securities & equity shares	336 688	219 796	136 782
Other assets	450 009	—	—
Total assets	5 505 354	430 835	302 604
Liabilities			
Deposits by banks	694 358	126 179	121 126
Customer accounts	5 800 550	369 161	667 311
Debt securities in issue	596 177	3 625	22 055
Other liabilities	—	—	—
Subordinated liabilities	5 874	—	—
Minorities interest and shareholders' funds	—	—	—
Total liabilities	7 096 959	498 965	810 492
Off-balance sheet items	1 138 284	(212 514)	24 558
Interest rate repricing gap	(453 321)	(280 644)	(483 330)
Cumulative repricing gap	(453 321)	(733 965)	(1 217 295)
31 March 2003			
Assets			
Treasury bills and other eligible bills	68 318	—	—
Loans and advances to banks	1 083 861	2 822	—
Loans and advances to customers	2 581 263	102 491	148 390
Debt securities & equity shares	779 887	75 040	70 526
Other assets	553 574	3 090	3 537
Total assets	5 066 903	183 443	222 453
Liabilities			
Deposits by banks	660 122	313 191	37 831
Customer accounts	4 615 570	330 145	178 560
Debt securities in issue	513 539	313 228	231 805
Other liabilities	167 913	15 095	59 094
Subordinated liabilities	4 189	—	—
Minorities interest and shareholders' funds	—	—	—
Total liabilities	5 961 333	971 659	507 290
Off-balance sheet items	235 692	111 884	460 752
Interest rate repricing gap	(658 738)	(676 332)	175 915
Cumulative repricing gap	(658 738)	(1 335 070)	(1 159 155)

Notes to the financial statements

More than 1 year but less than 5 years	More than 5 years	Non interest bearing	Total Non Trading	Trading	Total
---	---	---	144 781	187 427	332 208
6 505	---	---	998 214	706 501	1 704 715
785 151	634 362	5 605	5 384 146	961 702	6 345 848
174 433	27 729	35 050	930 479	954 212	1 884 691
---	---	903 350	1 353 358	959 216	2 312 574
966 089	662 091	944 005	8 810 978	3 769 058	12 580 036
18 208	4 634	2 437	966 942	266 667	1 233 609
79 918	69 773	---	6 986 713	224 579	7 211 292
---	---	---	621 857	---	621 857
---	---	463 568	463 568	1 703 854	2 167 422
128 135	363 849	---	497 858	---	497 858
---	---	847 998	847 998	---	847 998
226 261	438 256	1 314 003	10 384 936	2 195 100	12 580 036
(736 829)	(213 499)	---	---	---	---
2 999	10 336	(375 159)	(1 579 119)	1 579 119	---
(1 214 296)	(1 203 960)	(1 579 119)	(1 579 119)	---	---
---	---	---	68 318	174 701	243 019
---	27 763	3 583	1 118 029	1 640 768	2 758 797
687 814	618 977	5 410	4 144 345	739 558	4 883 903
124 669	127 547	159 473	1 337 142	741 761	2 078 903
18 073	9 351	824 969	1 412 594	1 000 508	2 413 102
830 556	783 638	993 435	8 080 428	4 297 296	12 377 724
24 808	7 072	13 352	1 056 376	1 072 916	2 129 292
191 818	51 219	26 849	5 394 161	960 706	6 354 867
31 184	---	---	1 089 756	---	1 089 756
128 981	5 096	187 453	563 632	1 281 703	1 845 335
20 250	255 263	---	279 702	---	279 702
---	---	678 772	678 772	---	678 772
397 041	318 650	906 426	9 062 399	3 315 325	12 377 724
(701 357)	(106 971)	---	---	---	---
(267 842)	358 017	87 009	(981 971)	981 971	---
(1 426 997)	(1 068 980)	(981 971)	(981 971)	---	---

Notes to the financial statements

For the year ended 31 March

42. Risk management (continued)

Non-trading currency risk: non-structural currency exposure

The table below shows the group's currency exposures. These non-structural exposures give rise to the net currency gains and losses recognised on the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not determined in the functional currency of the operating unit involved.

Net foreign currency monetary assets/(liabilities) in £'000

Functional currency of group operations	Sterling	SA Rand	US Dollar	Israeli Shekel	Euro	Other	Total
31 March 2004							
Sterling	–	(231 988)	(46 514)	(60 434)	18 333	(97 148)	(417 751)
SA Rand	(419 213)	–	(93 193)	(7 693)	(24 562)	(65 045)	(609 706)
US Dollar	(166)	(14 337)	–	–	–	–	(14 503)
Israeli Shekel	–	(21 699)	4 743	–	–	–	(16 956)
Euro	1 035 430	(7 482)	16 446	–	–	38	1 044 432
Other	3 706	(18 572)	–	–	–	–	(14 866)
	619 757	(294 078)	(118 518)	(68 127)	(6 229)	(162 155)	(29 350)
31 March 2003							
Sterling	–	564	(2 884)	5	2 879	21 400	21 964
SA Rand	90 775	–	(128 418)	2	3 692	5 376	(28 573)
US Dollar	(17 896)	–	–	–	654	398	(16 844)
Israeli Shekel	(1 995)	–	10 022	–	16	–	8 043
Euro	7 320	(10)	1 733	–	–	(572)	8 471
Other	(3 306)	(299)	83	–	5	–	(3 517)
	74 898	255	(119 464)	7	7 246	26 602	(10 456)

The amounts shown do not take into account the effect of any currency swaps, forward contracts and other derivatives entered into to manage these currency exposures.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004 2003

43. 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:

(a) At the respective year-end dates 6 directors had outstanding loans from Investec Bank Limited.

For loans to related parties, normal credit parameters are applied

Loans - Investec Bank Limited

6 987 8 996

(b) H. Herman has a 13.25% holding in Taaibos Square (Pty) Ltd.

Loans were provided to these entities by Investec Bank Limited on an arms length, fully secured basis as follows:

Taaibos Square (Pty) Ltd

6 007 6 170

(c) Investec Bank (UK) Limited provided a loan to Boutique Finance II Ltd and uses Boutique Finance II Ltd's investment in shares as security therefor.

Loan provided by Investec Bank (UK) Limited

1 480 2 730

The terms of the loan in (c) above are such that 200% cover is required at all times. If the cover drops below 175% a margin call back to 200% must be made. I Kantor, who is a director of Investec Limited, has guaranteed 34% of the above loan provided.

S Koseff, G Burger, B Kantor, I Kantor, H Herman, P Thomas and D Jowell have an interest in Spurwing P Investments Limited and Spurwing L Investments Limited, which jointly amount to a holding of 32.3% and 12.02% respectively. Loans were provided to these entities by Investec Bank (Mauritius) Ltd on an arms length, fully secured basis as follows:

Spurwing P Investments Limited

6 087 7 678

Spurwing L Investments Limited

1 730 2 182

All of the above loans are included in loans and advances to customers.

(d) The group's personal account trading policy requires all employees who participate in securities transactions to deal on an arm's length basis through Investec Securities Limited. This has no material effect on either Investec Securities Limited or the Group.

(e) Directors portfolios are subject to management fees on an arms length basis.

(f) Particulars of directors' dealings in Investec shares are recorded in a register held at the Registered Office of the Company which is available for inspection.

Other loans

Included in loans and advances to customers is the following funding provided to the participants in the black economic empowerment transactions (as discussed on page 7):

Peu Investment Group

4 805 -

Tiso Group

1 906 -

The loans are at market related interest rates.

6 711 -

Transactions with other related parties of the group

In the year ended 31 March 2004 the group concluded an agreement to dispose a subsidiary, Westrust (Pty) Ltd. to PEU (of which MP Malungani is a director) for £4.3m resulting in a profit on disposal of £1.4m.

Any dealings with regards to investments in unit trusts or the asset management division occur at arms length.

Notes to the financial statements

For the year ended 31 March

(£'000)

2004

2003

44. Miscellaneous

Assets subject to sale and repurchase transactions maturity:

Government securities, included within debt securities

13 039

9 457

Value of liabilities secured by assets:

Deposits by banks

68 085

984 819

Deposits by customers

60 040

333 505

128 125

1 318 324

Aggregate amounts receivable, including capital repayments under finance leases, hire purchase and conditional sale contracts

38 258

35 456

Costs of assets acquired for the purpose of letting under financial leases

37 999

31 428

The group has investment management and stock broking businesses.

Investec plc parent company accounts - balance sheet

For the year ended 31 March

(£'000)	Notes	2004	2003
Fixed Assets			
Investments	a	421 446	421 503
Current Assets			
Cash at bank		67	0
Other debtors	b	26 114	35 203
		<u>26 181</u>	<u>35 203</u>
Creditors falling due within one year	c	(53 216)	(61 475)
Net current liabilities		<u>(27 035)</u>	<u>(26 272)</u>
Total assets less current liabilities		<u>394 411</u>	<u>395 231</u>
Capital and reserves			
Called up equity share capital	d	119	113
Share premium account	e	393 823	393 823
Capital redemption reserve	e	50	50
Profit and loss account	e	419	1 245
		<u>394 411</u>	<u>395 231</u>

The directors' approved the accounts on 28 June 2004.

S. Koseff
Chief Executive Officer



Notes to Investec plc parent company accounts

For the year ended 31 March

(£'000)	Subsidiaries	Other	Total
a. Investments			
At 1 April 2003	421 498	5	421 503
Disposals	(52)	(5)	(57)
At 31 March 2004	421 446	—	421 446

The principal subsidiary undertakings of the group are detailed in note 1 of the group accounts on page 164.

For the year ended 31 March
(£000)

	2004	2003
b. Other debtors		
Amounts owed by group undertakings	26 103	35 194
Other debtors	11	9
	<u>26 114</u>	<u>35 203</u>

The amounts owed by group undertakings are payable on demand

c. Creditors falling due within one year		
Amount due to group undertakings	30 876	31 917
Accruals and deferred income	1 899	569
Other creditors	267	—
Proposed dividends	20 174	28 989
	<u>53 216</u>	<u>61 475</u>

d. The company's called up share capital (including ordinary shares, special converting shares, UK DAN shares and UK DAS shares) is detailed in note 33 of the group accounts on page 203 to 205.

e. Reserves

	Share Premium	Capital Redemption Reserves	Profit and loss account	Total reserves
At 1 April 2003	393 823	50	1 245	395 118
Loss for the year	—	—	(826)	(826)
At 31 March 2004	<u>393 823</u>	<u>50</u>	<u>419</u>	<u>394 292</u>

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 profit of own profit and loss account. The Company's loss for the year determined in accordance with the Act was £326 508 (2003 - profit of £1 295 237).

f. Reconciliation of shareholders' equity	2004	2003
Issue of shares	6	421 358
Share issue expenses	—	(27 472)
Retained (loss)/profit for the year	(826)	1 295
Opening shareholders' equity	395 231	50
Closing shareholders' equity	<u>394 411</u>	<u>395 231</u>

Reconciliation of principal differences between UK GAAP and SA GAAP

The results as presented on pages 150 to 226 have been prepared in accordance with accounting principles generally accepted in the United Kingdom. Such principles vary in significant respects from those generally accepted in South Africa. Preparing the financial statements requires management to make estimates and assumptions that affect the reported results and disclosures. Actual results could be different from those estimates. The significant differences between SA GAAP and UK GAAP, applicable to Investec's accounts during the year under review are summarised below.

For the year ended 31 March
(£'000)

	Notes	2004	2003
Earnings before goodwill amortisation and exceptional items under UK GAAP		106 082	89 668
SA GAAP adjustments			
Acquisition accounting	1	3 036	4 300
Employee share option plans	2	(7 640)	7 143
AC 133 adjustments	3	9 230	–
Debenture interest reflected directly in equity	4	8 471	6 505
Interest rate swaps	5	(3 224)	(2 581)
Embedded value earnings	6	(783)	23 935
Revaluation of investment properties	7	13 982	18 265
Treasury shares	8	1 427	–
Perpetual preference shares	9	7 553	–
Other		482	–
Earnings before goodwill amortisation and exceptional items under SA GAAP	10	<u>138 616</u>	<u>147 235</u>

Reconciliation of principal differences between UK GAAP and SA GAAP

Notes:

- 1 Under SA GAAP, certain acquisitions incorporated a sign-on guarantee to select members of staff which were treated as goodwill and amortised over the period over which these guarantees remained in force. For UK GAAP, they are treated as prepayments and expensed to personnel costs (within administrative expenses) over a similar period.
- 2 Investec has established a number of employee share incentive schemes, some of which place greater residual risk in the hands of the participants. During the current year, a change in accounting policy in respect of staff share schemes for SA GAAP purposes was implemented with the result that the general staff share schemes are now consolidated, rendering the treatment of these particular schemes consistent with UK GAAP convention. However, on certain of the executive schemes where participants have assumed substantially all the risks and rewards of the scheme, the accounting treatment for SA GAAP continues to recognise these schemes as external to the group such that the loans advanced to the schemes remain under "advances" and interest income generated therefrom recognised in the income statement. Conversely, UK GAAP requires Investec, as a sponsoring company of such schemes, to consolidate their financial position with the result that the balance sheet and the profit and loss effects representing the component of the scheme which has not fully vested with the participants are added to those of the Group and the respective intercompany items eliminated. These adjustments unwind as a greater percentage of the scheme vests with the participants with the result that a greater proportion of interest is recognised under UK GAAP towards the end of the scheme, effectively giving rise to timing differences between the two conventions. During 2004, a net reversal of interest arises as these schemes approach termination in December 2004.
- 3 AC133 is a South African accounting statement on recognition and measurement of financial instruments and is based on the international accounting standard IAS 39. The adoption of AC133 under SA GAAP has resulted in a further difference between SA and UK GAAP.
- 4 Investec has issued Compulsory Convertible Debentures, which under SA GAAP have been classified as shareholders' equity. UK GAAP requires capital instruments (other than shares) to be classified as liabilities if they contain an obligation or contingent obligation to transfer an economic benefit. At the time that they were issued, certain of these instruments were split into their debt and equity components. Under UK GAAP, the debt component has been recorded as a liability in the balance sheet and the equity component accounted for as "share to be issued" and shares capital within shareholders' funds. Accordingly, the interest payable on the debt portion has been split between interest and repayments of the principal. This has the effect of reducing the interest charge on convertible debt under UK GAAP compared to SA GAAP.
- 5 Differences arising on the accrual of certain income items eg. Income on certain trading related interest swaps which was recognised upfront under SA GAAP but phased in over a period of time under UK GAAP.
- 6 Under UK GAAP the shareholders' interest in the in-force life assurance and fund pensions policies of the long-term assurance fund are valued at the net present value of the profits inherent in such policies (embedded value). Under SA GAAP the value of these profits is not recognised.
- 7 The revaluation on investment properties is recognised in earnings pre goodwill and exceptional items under SA GAAP whereas UK GAAP requires the net movements to be taken to the statement of recognised gains and losses and hence excluded from operational earnings.
- 8 To the extent that no new assets are created by the group on the issue of shares, such shares are treated as treasury shares under UK GAAP with any income derived from such capital excluded from earnings.
- 9 Under UK GAAP, the dividends payable to holders of the perpetual preferences shares issued by Investec Bank Limited during the year are deducted from earnings whereas under SA GAAP all payments to equity holders are taken into account in the statement of changes in shareholders' funds and not on the face of the income statement. Further, the dividends under SA GAAP are only recognised on actual declaration date.
- 10 The exchange rates used in the above reconciliation was based on the actual rates ruling on the date of the transactions.

Definitions

Term	Definition
Annuity income as a percentage of operating income	Net interest income, return on shareholders' funds in the long-term assurance business and annuity commissions receivable (net of commissions payable) expressed as a percentage of operating income.
Assets under administration	Includes third party assets under administration and on-balance sheet assets.
Core loans and advances	Loans and advances to customers less cash and short-term funds included therein.
Cost to income ratio	Administrative expenses and depreciation divided by operating income.
Dividend cover	Earnings per ordinary share before exceptional items and amortisation of goodwill divided by dividends per ordinary share.
Earnings attributable to ordinary shareholders before exceptional items and amortisation of goodwill	As per note 11 on page 181 and 182.
Earnings per ordinary share before exceptional items and amortisation of goodwill	As per note 11 on page 182.
Effective tax rate	Tax on profit on ordinary activities divided by operating profit.
Equity shareholders' funds	Total shareholders' funds excluding preference shares.
Headline earnings	As per note 11 on page 182.
Headline earnings per share	As per note 11 on page 182.
Market capitalisation	Total number of shares in issue (including Investec Limited and Investec plc) multiplied by the closing share price of Investec plc on the London Stock Exchange.

Definitions

Term	Definition
Net interest income	Interest receivable less interest payable.
Operating income	All income less interest payable and fees and commission payable.
Operating profit	Operating income less administrative expenses, provisions for bad and doubtful debts and depreciation of tangible fixed assets. This amount is before exceptional items and amortisation of goodwill.
Operating profit: South Africa and Other	Operating profit earned in South Africa, Mauritius and Botswana.
Operating profit: Non-South Africa and Other	Operating profit earned in UK and Europe, USA, Israel and Australia.
Net tangible asset value per share	As per calculation on page 23.
Return on average equity shareholders' funds	Earnings attributable to ordinary shareholders before exceptional items and amortisation of goodwill expressed as a percentage of average equity shareholders' funds.
Return on average tangible net asset value	Earnings attributable to ordinary shareholders before exceptional items and amortisation of goodwill expressed as a percentage of average tangible shareholders' funds i.e. excluding goodwill.
Staff compensation to operating income ratio	All employee related costs expressed as a percentage of operating income.
Tangible net asset value	Equity shareholders' funds less intangible assets.
Total capital resources	Includes shareholders' funds, subordinated liabilities and minority interests.
Weighted number of ordinary shares in issue	The number of ordinary shares in issue at the beginning of the year, increased by shares issued during the year, weighted on a time basis for the period during which they have participated in the income of the group less treasury shares. As per note 11 on page 181.

Contact details

Investec

Australia, Brisbane

Suite 6 Level 4 320 Adelaide Street
Brisbane QLD 4000 Australia
Telephone (61) 7 3229 5566
Facsimile (61) 7 3229 5533

Australia, Melbourne

Level 20 101 Collins Street
Melbourne VIC 3000 Australia
Telephone (61) 3 8660 1000
Facsimile (61) 3 8660 1011

Australia, Sydney

Level 31 The Chifley Tower
2 Chifley Square
Sydney NSW 2000 Australia
Telephone (61) 2 9236 000
Facsimile (61) 2 9236 0001

Channel Islands, St Helier

PO Box 344
5 Castle Street St Helier
Jersey JE4 8UZ
Telephone (44) 1534 512 512
Facsimile (44) 1534 512 513

Channel Islands, St Peter Port

PO Box 188 La Vieille Cour
St Peter Port Guernsey GY1 3LP
Telephone (44) 1481 723 506
Facsimile (44) 1481 741 147

Hong Kong

2106 - 2108 Jardine House
1 Connaught Place
Central Hong Kong
Telephone (852) 2861 6888
Facsimile (852) 2861 6861

Ireland, Dublin

The Harcourt Building
Harcourt Street Dublin 2
Telephone (353) 1 421 0000
Facsimile (353) 1 421 0500

Israel, Tel Aviv

PO Box 677
Tel Aviv 61006 Israel
Telephone (972) 3 564 5215
Facsimile (972) 3 564 5210

Mauritius, Port Louis

7th Floor Harbour Front Building
John Kennedy Street
Port Louis Mauritius
Telephone 00 230 207 4000
Facsimile 00 230 208 6444

South Africa, Cape Town

36 Hans Strijdom Avenue Foreshore
Cape Town 8001
PO Box 1826 Cape Town 8000
Telephone (27 21) 416 1000
Facsimile (27 21) 416 1001

South Africa, Durban

325 Smith Street Durban 4001
PO Box 3912 Durban 4000
Telephone (27 31) 365 4700
Facsimile (27 31) 304 2698

South Africa, East London

Pilot Mill House 1st Floor The Quarry
Selbourne East London 5201
PO Box 19484 Tecoma 5214
Telephone (27 43) 721 0660
Facsimile (27 43) 721 0664

Contact details

Investec

South Africa, Johannesburg

100 Grayston Drive Sandown Sandton 2196
PO Box 785700 Sandton 2146
Telephone (27 11) 286 7000
Facsimile (27 11) 286 7777

South Africa, Port Elizabeth

Ascot Office Park
Conyngham Road Greenacres
Port Elizabeth 6045
PO Box 27536 Greenacres 6057
Telephone (27 41) 391 9400
Facsimile (27 41) 374 8346

South Africa, Pretoria

300 Middel Street Brooklyn 0181
PO Box 1882 Brooklyn Square 0075
Telephone (27 12) 427 8300
Facsimile (27 12) 427 8310

Switzerland, Geneva

12 Rue de l'Arquebuse
1204 Geneva Switzerland
Telephone (41) 22 807 2000
Facsimile (41) 22 807 2005

Switzerland, Zurich

Talacker 41
CH-8001 Zurich Switzerland
Telephone (41) 1 226 1000
Facsimile (41) 1 226 1010

United Kingdom, Guernsey

Guinness Flight House
PO Box 290 Guernsey GY1 3RP
Telephone (44) 1481 711 500
Facsimile (44) 1481 728 848

United Kingdom, London

2 Gresham Street
London EC2V 7QP
Telephone (44) 20 7597 4000
Facsimile (44) 20 7597 4070

United States, New York

One Battery Park Plaza
New York NY 10004-1478
United States
Telephone (1) 212 898 6200
Facsimile (1) 212 898 6255