contents

mission statement

We aspire to be one of the world's great specialist banking groups, driven by our commitment to our core philosophies and values.

philosophies and values

Philosophies

- Single organisation
- Meritocracy
- Focused businesses
- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance

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 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 cooperate 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.
- 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.

dual listed companies structure

Introduction

Central to achieving its mission to become one of the world's leading specialist banking groups, Investec sought to obtain a listing on the London Stock Exchange.

In November 2001, Investec received permission from the South African Minister of Finance and the South African Reserve Bank to establish a Dual Listed Companies (DLC) structure with linked companies listed in London and Johannesburg. This structure was implemented in July 2002 and represented a significant milestone in the history of the group.

The listing is a logical step in the group's international expansion strategy. Investec now competes in an increasingly global market where the availability and cost of capital are vital.

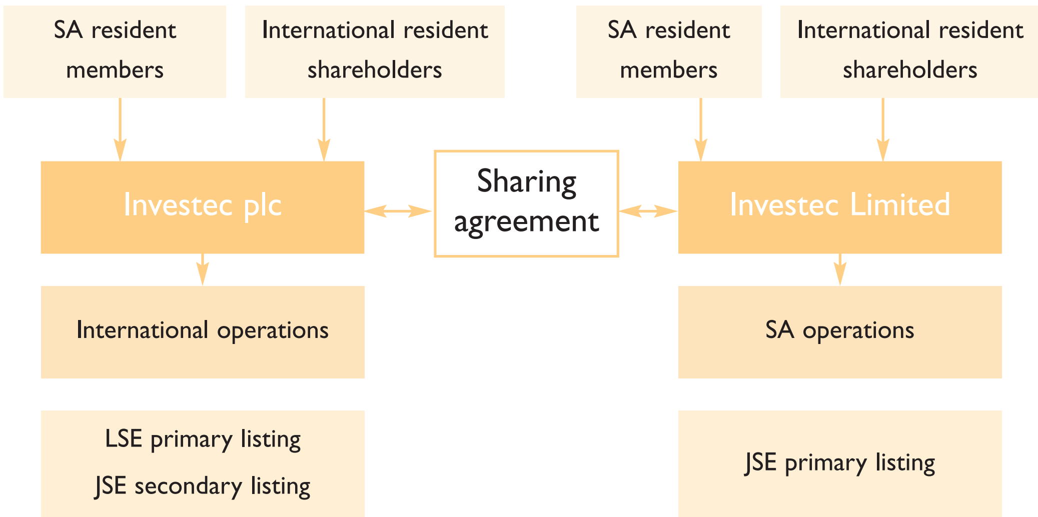
The London listing should therefore benefit the group by increasing its global profile, enhancing its capital raising ability, lowering its cost of capital and improving access to international capital markets.

Implementation

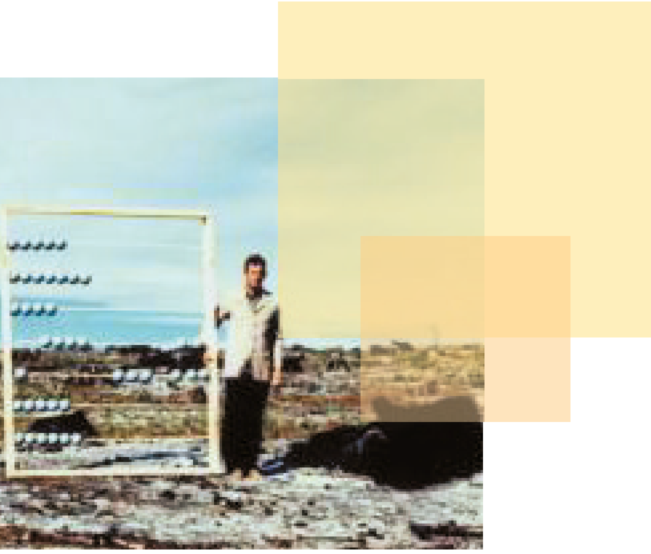
A circular regarding the establishment of a DLC structure was issued on 20 June 2002. In summary, some of the salient features of the DLC structure include:

- The Investec Holdings (Inhold) pyramid structure, which had been in place since Investec Group Limited (IGL) listed on the JSE Securities Exchange South Africa (JSE) in 1988, was not considered appropriate under the changed circumstances, and Inhold unbundled its entire shareholding in IGL to Inhold members. At the record date, Inhold members received 86.04 IGL ordinary shares for every 100 Inhold ordinary shares held. With effect from 19 July 2002, Inhold ordinary shares were suspended on the JSE and the delisting of Inhold from the JSE took place on 26 July 2002.
- In terms of the DLC structure, IGL has retained all its businesses in continental Southern Africa and Mauritius and its primary listing on the JSE.
- IGL has been renamed Investec Limited.
- Most of IGL's other businesses, including Investec Bank (UK) Limited, were placed into a UK company, Investec plc, and were unbundled from IGL after the close of business on 19 July 2002. The mechanics of the IGL unbundling were arranged in such away that for every 100 ordinary shares held by an IGL shareholder, he/she received 37 IGL (Investec Limited) and 63 Investec plc shares i.e. 100 instruments.
- Investec plc was listed on the London Stock Exchange on 22 July 2002 and has a secondary listing on the JSE.

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 issued in July 2002. A copy of these circulars can be found on the group's web site www.investec.com/investorrelations.



financial highlights

	2003	2002	Increase/ decrease
Net interest income (£m)	49	52	(6%)
Operating income (£m)	136	153	(11%)
Profit before tax (£m)	4	40	(90%)
Capital resources at year end (£m)	504	497	2%
Total assets (£m)	5 796	7 874	(26%)
Capital adequacy ratio			
Capital and reserves to risk-weighted assets	22.2%	21.7%	

Ten-year summary

For the years ended 31 March	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Profit before tax (£m)	4	40	60	57	15	5	4	3	3	3
Capital resources (£m)	504	497	456	410	357	162	55	51	38	35
Total assets (£m)	5 796	7 874	7 760	8 180	5 688	4 885	375	324	301	274
Customer loans* (£m)	1 482	1 117	901	684	459	312	199	167	156	118
Customer deposits*(£m)	2 539	1 614	1 380	1 333	622	406	304	245	232	208

* Excludes wholesale customer loans and deposits that reside in the trading book.

directorate and corporate information

Investec Bank (UK) Limited

Directors

Hugh Herman* (Chairman)
John Abell*
George Alford*
Perry Crosthwaite
Richard Forlee
Bradley Fried (Chief Operating Officer)
Michael Jameson-Till
Bernard Kantor*
Ian Kantor*
Sir Chips Keswick*
Stephen Koseff*
Alan Tapnack (Chief Executive Officer)
David van der Walt
Ian Wohlman

* Non-executive

Secretary

Richard Vardy

Auditors

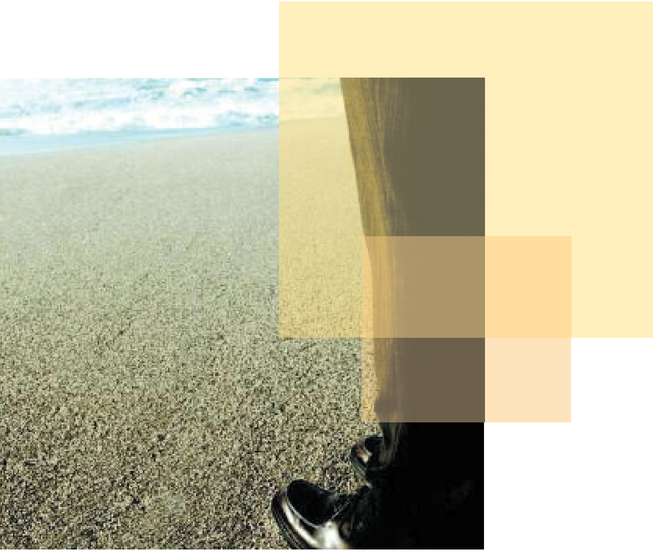
Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

Registered Office

2 Gresham Street
London
EC2V 7QP

Registration Number

489604



chairman's statement

Management action in a difficult trading environment

In my chairman's statement last year, I indicated that there was considerable doubt about the timing of a turnaround in the business environment and a question mark as to whether conditions would deteriorate further before they improved. During the year under review, there were few signs of a recovery in the world economy and, in the second half of the year, concerns over a war with Iraq generated increasing uncertainty. These concerns led to the major central banks cutting interest rates once again but equity markets continued to fall. In these conditions, it will come as no surprise that the operating performance of the bank disappointed and management took decisive action to stem losses in certain businesses and to resize other businesses.

Profit before taxation for the year was £4 million (2002: £40 million). The principal reasons for this deterioration were losses incurred by certain trading desks in the Treasury and Specialised Finance division, combined with very slow conditions in the Investment Banking division's advisory business and, to a lesser extent, its secondary markets trading and sales divisions.

Development of the group structure

The year saw significant changes to the Investec Bank (UK) Limited Group. The dual listing of the Investec group was finally achieved on 22 July 2002. In terms of these arrangements, the bank is now a wholly owned subsidiary of Investec plc, a company listed on the London Stock Exchange. Further, and consequent upon the implementation of the dual listed structure, on 21 August 2002 the bank became the holding company of Investec Bank (Israel) Limited, Investec's 80% held listed bank in Israel.

Subsequent to the year-end, on 13 June 2003, the bank also became the holding company of Investec Bank (Australia) Limited. This relatively young and growing business obtained a banking licence in August 2002. It consists chiefly of private banking and investment banking activities and returned a profit before goodwill amortisation of £6 million for the year ended 31 March 2003, which is not included in the bank's results.

The bank's capital resources grew marginally from £497 million to £504 million during the year under review, after declaring a dividend of £26 million. Of this amount, some £16 million (2002: £0.5 million) is represented by minorities. As a consequence of the purchase of Investec Bank (Australia) Limited after the year-end, equity capital increased by £40 million.

Divisional performance

The operating results of each of the bank's divisions, and the remedial action taken by management in the Treasury and Specialised Finance and the Investment Banking divisions, are detailed in the attached review of operations. Beyond these actions, management devoted significant effort to reduce overhead and back office costs throughout the bank, including moving certain back office and central service functions to lower cost jurisdictions, principally in South Africa.

Of the bank's principal trading divisions, I am pleased to report that the Private Banking division performed well in the UK, returning a profit before taxation, goodwill amortisation and reorganisation costs of £19 million (2002: £15 million). The Treasury and Specialised Finance division's results were adversely impacted by the poor performance of its commodities and foreign exchange desks and it incurred losses of £9 million, compared to profits of £9 million in the previous year. However, satisfactory performances were recorded by its banking businesses, including specifically, the project finance team acquired during the previous year and the structured finance team brought in during the year under review. Steady performance and book growth were made by the financial products team. Lastly, the quiet conditions in secondary trading and the moribund conditions in IPO markets were partially offset by a profit of £9 million on a realisation of an investment in the private equity portfolio. As a result, the Investment Banking division earned a profit before taxation of £4 million (2002: £16 million). Investec Bank (Israel) Limited made a contribution of £1 million for the seven-month period since its acquisition.

Acquisitions

The bank made no corporate acquisitions during the year under review, save for the corporate restructuring of the Investec group to which I have referred. However, a team of structured finance professionals joined the bank in July 2002 from Australia and New Zealand Banking Group Limited and, as indicated above, they have already made a positive contribution to the bank's operating results.

Management and board changes

During the year under review, there were several additions to the leadership of the bank. Richard Forlee, Investec's International Head of Treasury and Specialised Finance, relocated to London from South Africa, joined by David van der Walt, who also relocated from Investec in South Africa to head the Treasury and Specialised Finance division in London. Their experience adds substantially to the management capability of that division and the bank as a whole. We welcomed them both to the board of the bank on 5 February 2003.

The future

The global economic outlook remains uncertain, even following the conclusion of the war in Iraq. The European economies led by Germany are struggling and the US economic outlook remains far from clear. Japan continues to suffer from deflation and there are some fears that this may spread to the US and parts of continental Europe. In the UK, there is continued anxiety over the possibility of a sharp correction in residential property prices.

During a year in which they faced severe tests provided by the listing process as well as the challenges of the tough business environment, I thank management and the board for their dedicated service. As explained in this report, they have taken tough measures on the basis that economic conditions are unlikely to improve significantly in the short term. This, together with the action taken to stem losses in the trading and investment banking activities, allows one to look forward to an improved performance in the forthcoming year.

Hugh Herman
Chairman

chief executive officer's and chief operating officer's review

Rebalancing our portfolio in response to market conditions

This year, the management team's primary focus was on adjusting our business to cope with a significant reduction in business activity – particularly in the UK equity- and debt-capital markets. As a consequence of the diminished market for equity fund raisings and advisory mandates, as well as the losses experienced across certain of our trading desks, profit before taxation for the year was £4 million, down by 90% from the prior year.

There were a number of transformational events of a bank-wide nature over the course of the year. These are described fully in the chairman's report and relate to the impact of the dual listing on Investec Bank (UK)'s ownership structure, as well as the consolidation of Investec Bank (Israel) under Investec Bank (UK). From a UK, Channel Islands, Swiss and Irish perspective, however, the focus of the business was purely on organic activity. There were a number of activities that we materially curtailed or from which we exited in keeping with the theme of the year, "rebalancing our portfolio in response to market conditions". The steps we took to refocus the business and reduce the expense ratio in the key divisions are fully outlined in the following section.

Highlights and key initiatives

Investment Banking

UK equity markets plunged over the course of the year under review. This caused a major contraction in the level of corporate fundraising and development activity. Global uncertainty, together with the crisis of confidence induced by corporate accounting frauds, further set back equity capital markets. Last year we reported that we had invested in building up the quality of our investment banking and securities business franchise. Furthermore, we stated that "given the parlous state of the equity markets, it is difficult to forecast near term financial benefits from these hires and the steps we have taken." Indeed, the steps we took to build quality were overwhelmed by the reduction in business flow. We responded by curtailing headcount by 35%, implementing a salary reduction programme for high earners and cutting associated overheads. Taken together, the initiatives dropped the cost base in the division by 38%.

We have consistently focused our investment banking business model on the principle that long-term prosperity is based on five factors, namely: our ability to adhere relentlessly to group culture and values, the quality of our corporate and institutional clients, our focus on client service, the division's niche sector focus and our approach to managing the investment bank in a supportive and shared way for the benefit of our clients. While the decisions we took, particularly in regard to losing seasoned, effective practitioners in the face of the industry's contraction, were extremely hard, we believe that we have not lost sight of these principles and specifically our client orientation. We aspire to be a profitable leader in our selected markets and will focus purposefully on that goal. The Investment Banking division generated profits of £4.2 million for the period, driven largely by realisations in our private equity portfolio.

Treasury and Specialised Finance

The Treasury and Specialised Finance division generated a mixed result for the period under review. The overall result was an £8.5 million loss compared to last year's profit of £8.8 million. On the trading side, the negative overall performance of the UK trading operations resulted in significant cuts to the bank's London-based trading businesses. On the interest rate side, we curtailed our money market repo business during the year. The business was unable to generate a satisfactory return on capital. When taken together with the extensive use of counterparty lines in the operation, the bank decided to exit the business. While foreign exchange remains a core part of our trading operations, we narrowed the scope of activity in the business to focus more exclusively on client generated flows. A similar reduction in scope was made in the commodities business. Here, the volatility of the base metals market and scarcity of client related hedging transactions caused us to refocus our commodities desk on building client driven business, as set out in the review of operations. The equities derivatives desk continued to innovate its product offering and generated a satisfactory financial result for the year.

The Treasury and Specialised Finance advisory businesses generated generally strong results and the professionalism of the businesses contributed to positive overall franchise enhancement. As explained in the chairman's statement, we added a structured finance team to the division, which quickly established credibility and generated solid deal flow. The project finance business, Investec European Capital, enjoyed a strong set of results in this, its first full year in the group. The unit concluded the largest hospital PFI project to date in the UK. The asset finance area produced a strong performance, as did the financial products professionals.

Our predominant thrust in this division is to build a balanced portfolio of client-oriented businesses that have the potential for growth and deliver appropriate margins and returns. The initiatives taken during the year under review are aimed at achieving this objective.

Private Client Activities

The bank's strongest profit generator for the year was the Private Banking division, returning a pre-tax profit of £18.5 million compared to £15.3 million last year, representing an increase of 21%. While performance across all the business areas was solid during the year, particularly good growth was generated from structured property finance in the form of mezzanine and senior debt. Of particular note in the division was the introduction of a specialist investment approach and a new division, the Private Client Investment Bank, which caters for the debt and equity needs of private clients in their corporate development activities. A further notable development related to the relocation of the call centre of the division's banking deposit business to South Africa, generating material annual cost savings for the group.

The approach we are adopting in the private bank continues to take us away from the more commoditised, lower value, high volume transactions and reaffirms our emphasis on a highly structured tailored approach to the business. While our activities for the year were entirely organically driven, we have an infrastructure across the UK and Channel Islands capable of being leveraged significantly. As such, we remain open to the prospect of acquisitive growth in this highly fragmented industry.

During the year under review and consequent upon dual listing, we acquired Investec's bank in Israel which is now an 80% held subsidiary of the bank. The Israeli bank, which concentrates principally on private banking and the provision of securities trading to Israeli professionals and institutions, in both the local and US markets, added approximately £1 million of pre-tax profit to the bank since the effective date of acquisition, namely, 21 August 2002.

Technology

All of our businesses are critically dependent on technological developments and we invest at the level required to ensure ongoing competitiveness. Where efficiencies can be achieved, technological resources are centralised but development of individual business units' IT capability is the responsibility of business unit management.

Branding update

As was the case last year, for the year under review we continued our brand building efforts, which were accelerated at the time of the dual listing. Our advertising campaign continued to feature the Investec Zebra, which now, according to our brand tracking research, enjoys increased recognition in the City. For the third year running, we sponsored the Twickenham-based Investec Rugby Challenge test series, which, we believe, had considerable brand impact in the target community.

Business going forward

The group's mission remains "to be one of the world's great specialist banking groups, driven by our commitment to core philosophies and values." The steps we took during the year to rebalance our portfolio and refocus the business to capture opportunities in troubled times, were consistent with our steadfast pursuit of the group mission.

Conclusion

In conclusion, we express our sincere appreciation to:

- Our people on whom we rely to deliver value to our clients and shareholders, driven by the group's values and culture.
- Our clients and counterparties, who place their faith in us.
- Our Chairman and board members for their tireless effort and ongoing support.

Alan Tapnack
Chief Executive Officer

Bradley Fried
Chief Operating Officer

review of operations

Private Client Activities

Private Banking

Private Banking increased its profits to £18.5 million from £15.3 million in the previous financial year, driven largely by robust growth in fee revenues from structured property and specialised lending transactions. Revenues expanded from £45.5 million to £60.6 million.

The past year was marked by a detailed strategic review process intended to accelerate revenue growth, while minimising our cost base through efficient use of resources.

We retained our focus on gaining competitive advantage through the principles of specialisation, distinctive value, partnering and putting more into the relationship with our clients. We have narrowed our target market to high net worth clients with investable assets of £3 million plus or net asset values of £5 million plus. Our unique offering has a strong following among successful entrepreneurs, high earning employees and self-directed internationally mobile clients.

From a revenue perspective, this was another healthy year. We have an expertise in innovative, highly tailored lending – often property or taxation related. In Ireland, for example, we funded the construction of the landmark civic plaza and some 52 apartments at the Ballymun Regeneration Project in Dublin. Another notable source of revenue was increasing flows of business from our Trust Group.

We also experienced a rise in expenses, although some of these were one off. Increases in the cost of regulatory compliance were particularly acute for the trust businesses, where regulatory requirements have tightened. In London, we increased our payroll costs by hiring new front-end bankers and product specialists. There were also one off costs associated with moving the banking deposit business to South Africa.

Major initiatives

A significant result of the review process was the introduction of new product lines suited to the current economic and investment environment. Private Client Investment Banking was one such product. This involves debt and equity funding for the acquisition of business assets, some of which are currently available at relatively low valuations. We marketed alternative investments such as a structured fund of hedge funds and a distressed debt product, alternative investments which have become popular among high net worth individuals.

Other facets of the review included a focus on our talent pool and we have taken further steps to ensure that we hire, develop and retain the best people. To this end, we have recruited more high quality bankers, and established a Private Bank business college. Additionally, with an increased focus on marketing, we have had some early success in penetrating our chosen community groups and segments.

On the operations side, we have built a business and IT architecture that is appropriate to the scale of our operation. As part of this, we relocated the banking deposit unit's end-to-end processing (including the client service side) to South Africa, where costs are lower.

Prospects

Following our strategic review, there are ongoing programmes across our businesses which we expect will increase the division's profitability. We anticipate growing our revenues in a number of areas.

Specialist Lending and Private Client Investment Banking are a strategic priority, and are likely to contribute significantly to next year's profits. Similarly, we believe that property lending should have another good year, assuming there is no significant deterioration in the UK property market.

Investment Management will continue to focus on sourcing strategies that are opportunistic and non-traditional, while our banking and treasury business will launch a number of new products in the year ahead.

Offshore banking in Guernsey and Switzerland will continue to grow assets. Meanwhile the trust businesses will focus on increasing integration with our other businesses and growing "high-end" advisory led services, with a team committed to developing the Middle East and London markets in place.

Treasury and Specialised Finance

Treasury and Specialised Finance incurred a loss of £8.5 million, down from a profit of £8.8 million in the previous year, due to trading losses and the costs of refocusing the division at a time of adverse conditions in financial markets. Operating revenues fell to £21 million from £34 million in the previous financial year.

The division has now moved to focus primarily on client-driven businesses rather than proprietary trading. This should provide a firm base for profitability. In accordance with group philosophy, we are allocating resources to those business areas where our specialist skills offer clear opportunities to add value.

Specialised Finance

Specialised Finance comprises our structured products businesses, where we are involved in advisory, lending and structuring activities. Our strategy is to focus on niches where there are evident opportunities to grow profits, often helped by the international strengths of the wider group.

Taken as a whole these activities increased their profits during the year. Structured Finance and Project Finance both comfortably exceeded budget projections, helped by the expansion of their teams in the last two years. Structured Finance was expanded when we acquired a UK-based team from ANZ Investment Bank in July 2002. European Capital, a leading UK-based project finance advisor, acquired in November 2001, continued to expand as it won further mandates.

The new Structured Finance team brought in significant new business. This was complemented by a solid performance from our existing Asset Finance leasing operations. Following the team's expansion, we have a particular focus on leasing and structured products.

Project and Resource Finance exploited steady growth in the UK infrastructure and Private Finance Initiative/Public Private Partnership markets to grow revenues and profits. In 2002, *Project Finance International* magazine ranked Investec European Capital number two in a league table of UK project finance advisors, calculated according to value of mandates. Notably, we advised Skanska, the construction company, and Innisfree, the investment fund, on the £407 million Walsgrave Coventry Hospital Project. As indicated in the chief executive officer's and chief operating officer's review, this is the UK's largest privately financed hospital project to date.

The Financial Products business completed its first full year of business and performed in line with budget. The team is concentrating on a number of attractive credit structuring opportunities.

Financial Markets

Financial Markets focuses on niche trading and structuring businesses. We trade in international wholesale markets in equities, equity derivatives, commodities, interest rates and foreign exchange. Our strategy is to build client relationships in areas where we can offer preferential trading terms, and to exploit potentially profitable trading opportunities.

This sub-division had a difficult financial year, due to reduced client activity in some areas and the absence of major trading opportunities. Equity Derivatives in London and Equity Finance in Dublin were the only desks that exceeded budget projections. Equity Derivatives benefited from structured warrant trades and convertible bond trading in the second half of the year, while Equity Finance increased its business with US hedge funds.

Following a strategic review, we scaled back trading activities in most areas and shifted the emphasis of this sub-division to building client businesses. In so doing, we are following the model established in South Africa, where strong client flows drive the business.

We completely withdrew from money market and repo, and emerging market foreign exchange trading, while substantially reducing Commodities trading positions. The Foreign Exchange and Commodities desks were refocused on client-driven business. As trading activity was reduced, so we cut costs and decreased the amount of capital allocated to trading. Headcount had fallen to 114 shortly after the March financial year end, down from a peak of 140 in September 2002.

We pursued specific initiatives to increase customer flows within Foreign Exchange and Commodities. Our clients are chiefly middle-sized companies to whom we offer a clear competitive advantage in terms of the trade off between price and deal size. Within Commodities, we are working with other parts of Investec to win financing related hedging transactions. Both desks are pursuing initiatives in Hong Kong and China.

Prospects

Following the past year's reorganisation, the division is profitable at current levels of activity. Our strategy of increasing client-generated fee earning revenues is already progressing. Importantly, both Structured Finance and Project Finance are performing well, with strong market positions and healthy deal pipelines.

In areas where we have robust client businesses, we are happy to invest proprietary capital. For example, in Asset Finance we plan to take more residual risk and in Project Finance, we intend to start selective lending and investing activities. As the Foreign Exchange and Commodities client flows increase, we will grow our trading activities accordingly.

Longer term, our shift in strategy should lead to a greater stability of revenue growth and profit growth. We are now satisfied that we have a sound base for building the division.

Investment Banking

Revenues and profits declined during the year in exceptionally tough market conditions for investment banking. Operating revenues fell from £55 million in the previous financial year to £37 million. Private Equity realisations offset losses in Investment Banking and Securities, allowing the division as a whole to register a profit of £4 million, down from a profit of £16 million in the previous year. We have substantially reorganised the division so that it is profitable at current levels of capital markets activity, while also strengthening its franchise in key business areas.

Our Investment Banking and Securities business focuses on two distinct niches: corporate finance and securities broking across the small and mid cap universe, and securities broking in those large cap sectors where we have strong research capabilities. Our strategy is to concentrate on those sectors in which we have superior research, and to develop close relationships with our institutional and corporate clients.

Falling equity markets created a particularly difficult environment for our businesses. Corporate finance income declined significantly as market conditions inhibited fund raising activity. There was also a reduction in brokerage commissions, but this was minimised by our success in growing market share.

We were able to continue the process of improving our client base. Our corporate client list fell by roughly 20 to 65 corporates as we focused increasingly on the larger clients. Additionally, our share of UK agency commissions increased from 1.3% to 2.0% (source: McLagan Partners), with gains in large cap broking.

Major deals and initiatives

The most important initiative of the year was a fourth quarter restructuring of our cost base. This was carefully implemented, and we have made a substantial reduction in cost without, we believe, any material reduction in the breadth and depth of our coverage.

This restructuring resulted in a significant decrease in number of staff. At the year-end, the business employed 98 people, which compared with a peak of 160 in the first quarter of the financial year. We also reduced spending in other areas such as technology, outsourced some support functions and agreed salary reductions for the more highly paid staff.

As a result, we have reduced our costs to a level where the division is profitable assuming a continuation of current trading levels.

There were a number of significant transactions completed during the year. These included: a £20 million fund-raising for Cluff Mining, Carphone Warehouse's £65 million acquisition of Opal Telecom, JD Sports' £53 million acquisition of Blacks Leisure, the £110 million sale of Dixon Motors and the £135 million sale of Allders.

We have continued to make a small number of selective hires, with additions to our research and market making teams.

Private Equity

The Private Equity business successfully continued its strategy of exiting its portfolio of investments. Two direct investments were sold and one of our funds had a highly profitable partial sale of an investment. Gross sales proceeds of £16.7 million were received, generating a profit after funding costs of £14.5 million. Overheads continued to shrink and there is now minimal direct cost associated with managing the remaining portfolio.

Prospects

Following the reorganisation of our business, costs are closely aligned with the current level of revenues. Furthermore, we have started several programmes to increase revenues. These include a more rigorous account management programme for institutions, a drive to win new corporate clients across the sectors on which we focus and an initiative to win hedge fund clients.

As a result, we believe that we are in a position to resume profitable growth, even without any improvement in the underlying equity markets.

Other Activities

Property

Property achieved increases in both profit and return on capital, reflecting successful sales of development properties and a significant improvement in the yield on investment properties. Profits rose to £1.4 million from £1.1 million in the previous year, and the return on notional capital employed increased to 18.6% from 17.2%. Total investment in properties was £29.6 million at the year end.

The business is now in the comfortable position of having reduced its development risk. Following the sale of our one development property, the direct property portfolio consists of a number of investment properties with prospects for value enhancement through active management.

From a strategic perspective, we have taken advantage of buoyant demand for commercial property to reduce our direct investments. Additionally, we are devoting an increasing amount of time to assisting the Private Banking division with mezzanine investments in client transactions. These niche investments have attractive risk/reward profiles and we intend to allocate some of the capital from the Property business to them.

We sold office buildings in Mayfair, Victoria and Maidenhead during the year. There were no purchases, as we are willing to wait for commercial property prices to stabilise before committing further capital. While capital values have been underpinned by the low interest rate environment, we believe they are inconsistent with weakening tenant demand and declining rental values. This is especially the case in the office sector.

Our active management style is increasing the value of our existing portfolio. We have taken the opportunity to increase the value and lift the rental yield of several office properties outside London. Within London, we are focusing on consolidating our position until demand for office space improves.

Prospects

Looking forward, the performance of the business will be determined primarily by our ability to meet business plan targets for a number of key properties. At present, we are reasonably comfortable about our ability to achieve this, although much depends on the health of the UK economy.

Longer term, we believe that our strategic shift to invest in mezzanine opportunities as well as direct property should increase our return on capital employed.

risk management review

The board has the overall responsibility for the bank's system of internal control and for reviewing its effectiveness. An adequate system of internal control is designed to manage, not eliminate, significant risks faced by the bank and has been 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.

The bank has adopted the guidance "Internal Control: Guidance for Directors on the Combined Code" issued by the Institute of Chartered Accountants in England and Wales in 1999. This requires the board, through its appropriate management and agreed control processes, to:

- Assess the control and risk management environment.
- Identify risks and risk information.
- Embed a culture of risk awareness and control consciousness.
- Obtain assurance of implementation of risk management processes.

Within the bank this is achieved via a combination of risk identification, evaluation and monitoring processes; appropriate decision and oversight forums; and various control functions such as Risk Management, Internal Audit and Compliance departments. These ongoing processes, forums and control functions have been in place throughout the year under review.

Through establishment of a network of local risk champions in each strategic business unit, these units have been given the responsibility and accountability for identification and mitigation of its own risk. Each business unit follows a consistent risk assessment process through workshops facilitated by Risk Management. Objectives to bring about 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 on a regular basis at executive and management committees.

The Internal Audit function is independent and reports directly to the Audit Committee operating under an approved charter. On an ongoing basis, any material shortcomings identified in control effectiveness are reported in internal audit reports for each business unit. Effective mechanisms are in place in order to ensure that appropriate corrective action is taken, to remedy control weaknesses highlighted by Internal Audit and Compliance functions.

A detailed description of the bank's approach to risk management is set out on page 70.

contents of the financial statements

Directors' report

The directors present their report and financial statements for the year ended 31 March 2003.

Principal activities
The principal activities of Investec Bank (UK) Limited (the bank) and its subsidiaries are investment banking, private equity, treasury and specialised finance, private client activities and property investments. These activities are also undertaken by the bank's branch in Dublin and its subsidiary in Israel.

Review of the business and future developments
A review of the bank's business for the year and future proposed activities can be found in the chief executive officer's and chief operating officer's review, and the review of operations.

Events since the balance sheet date
On 13 June 2003 the company acquired the entire issued share capital of Investec Holdings (Australia) Limited from a group company for a consideration of £109,550,000, financed by the issue of 40,000,000 ordinary shares of £1 and the payment of £69,550,000 in cash.

Results and dividends
The results for the year are shown on page 30. Movements in reserves are shown in note 26 to the financial statements.

The directors recommend the payment of a dividend of £26,000,000 for the year ended 31 March 2003 (2002 - £12,000,000).

Directors and their interests
The current directors of the bank are listed on page 5. According to the register of directors' interests, no director holding office at 31 March 2003 had any beneficial interest in the shares of the company during the year.

The beneficial interests in shares, debentures and options in the ultimate parent company, Investec plc, of the directors who are also directors of that company, are disclosed in the consolidated financial statements of Investec plc.

Following the implementation of the dual listed companies structure of Investec Limited (a company incorporated in the Republic of South Africa and listed on the JHB Securities Exchange South Africa) and Investec plc, it is the group's policy to award the directors and staff with share options in both Investec Limited and Investec plc. Consequently, interests in both companies have been disclosed. A description of the dual listed structure is set out on page 2.

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

Interests (direct and indirect) in the ordinary share capital of Investec plc and Investec Limited as at 31 March 2003

	Investec plc share	Investec Limited shares
Richard Forlee	–	100 000
Bradley Fried	–	150 000
David van der Walt	3 150	151 850
Ian Wohlman	–	50 000

Certain of the directors acquired shares through an equity purchase vehicle towards the end of the financial year. These amounts have been included in the amounts in the table above.

Directors' report

Investec plc share option plan 2002

	Beneficial holding at 1 April 2002*[1]	Holding in Investec plc at 28 August 2002*[2]	Holding in Investec Limited at 28 August 2002*[3]	Options granted in Investec plc share option 2002	Options granted in Investec Limited share option 2002	Exercised	Lapsed	Holding in Investec plc share option plan 2002 at 31 March 2003	Holding in Investec Limited share option plan 2002 at 31 March 2003
Perry Crosthwaite	11 550	7 276	4 274	26 936	13 064	–	3 450	32 039	16 061
Richard Forlee[4]	161 185	104 333	56 852	–	–	–	–	104 333	56 852
Bradley Fried	–	–	–	97 436	52 564	–	–	97 436	52 564
Michael Jameson-Till	3 975	2 504	1 471	7 380	2 220	–	925	9 301	3 349
David van der Walt[4]	157 227	101 839	55 388	–	–	–	–	101 839	55 388
Ian Wohlman	9 300	5 859	3 441	20 486	9 514	–	2 700	24 644	11 956

* or date of appointment, if later.

(1) Prior to the listing of Investec plc on the London Stock Exchange, the directors were granted options in terms of the Investec Group Limited UK option plan. On 28 August 2002 the board approved the replacement of this plan with a new offer of options in terms of the Investec plc share option plan 2002 on the same terms and conditions as the previous scheme.

(2) In terms of the Investec plc share option plan 2002, the directors were offered 63 Investec plc options for every 100 options granted in terms of their previous entitlement in the Investec Group Limited UK option plan.

(3) In terms of the Investec Group Limited UK share option plan, for every 100 options previously held, the directors are entitled to 37 Investec Limited options.

(4) Mr van der Walt and Mr Forlee were appointed to the board on 5 February 2003.

The above options are exercisable at prices of £7.93, £10.52 and £15.73 between 2004 and 2012.

Directors' interest in the Investec Limited security purchase and option scheme trust

as at 31 March 2003	Investec plc shares	Investec Limited shares	Period exercisable
Michael Jameson-Till	610	358	April 2003 to April 2007
David van der Walt	1 599	939	April 2003 to May 2005
Ian Wohlman	4 293	2 521	April 2003 to April 2007

(1) The shares 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 2003, all the shares were fully vested.

Directors' report

Directors' attributable interest in Investec plc and Investec Limited shares through a leveraged equity plan called Fintique II

as at 31 March 2003	Entitlement to Investec plc shares	Entitlement to Investec Limited shares	Period exercisable
Perry Crosthwaite	4 465	2 623	April 2003 to July 2008
Richard Forlee	55 818	32 782	April 2003 to July 2008
David van der Walt	13 955	8 196	April 2003 to July 2008
Ian Wohlman	2 791	1 639	April 2003 to July 2008

(1) No interests in Fintique II were acquired during the year. The directors' entitlements in the Fintique II scheme are fully vested and can be taken up at a price of R74.63, based on the valuation of the sinking fund as at 31 March 2003. The units were acquired by the directors at the market value at the date of acquisition and the directors are at risk for any shortfall on maturity of the scheme.

Directors' attributable interest in Investec plc and Investec Limited shares through a leveraged equity plan called Fintique III

as at 31 March 2003	Future entitlement to Investec plc shares	Future entitlement to Investec Limited shares
Perry Crosthwaite	20 390	11 975
Richard Forlee	155 905	91 564
Bradley Fried	163 146	95 815
Michael Jameson-Till	5 826	3 421
David van der Walt	75 733	44 478
Ian Wohlman	5 826	3 421

(1) The directors, together with other employees of the group who are investors in Fintique III, have an interest in call options in respect of 1,260,000 Investec plc ordinary shares and 740,000 Investec Limited ordinary shares at a strike price of R170 per share. These options were acquired from third parties.

(2) The directors, together with other employees of the group who are investors in Fintique III, have an interest in call options in respect of 945,000 Investec plc ordinary shares and 555,000 Investec Limited ordinary shares at a strike price of R145 per share. These options were acquired from third parties.

The units were acquired by the directors at the market value at the date of acquisition and the directors are at risk for any shortfall on maturity of the scheme.

Directors' report

Indirect interests in the call options sold as at 31 March 2003

	Investec plc call options maturing in Dec 2004 at a strike price of £7.93	Investec plc call options maturing in Dec 2005 at a strike price of £7.93	Investec plc call options maturing in Dec 2006 at a strike price of £7.93	Investec plc call options maturing in Dec 2007 at a strike price of £7.93	Investec plc call options maturing in Dec 2007 at a strike price of £10.52
Richard Forlee	2 997	11 778	9 603	9 596	11 026
Bradley Fried	4 496	17 666	14 405	14 394	16 539
David van der Walt	4 496	17 666	14 405	14 394	16 539
Ian Wohlman	1 499	5 889	4 802	4 798	5 513

Creditor payment policy

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

Employees

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

Donations

During the year, the group made donations for charitable purposes in the UK, totalling £66,037.

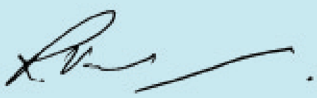
Environment

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 communities in which it operates.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors. A resolution to re-appoint Ernst & Young LLP as the bank's auditors will be put to the forthcoming Annual General Meeting.

By order of the board



Richard Vardy
Secretary
27 June 2003

Statement of directors' responsibilities

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 bank and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

Independent auditors' report

We have audited the group's financial statements for the year ended 31 March 2003, which comprise primary financial statements such as the consolidated profit and loss account, consolidated balance sheet, company balance sheet, consolidated statement of total recognised gains and losses, and the related notes 1 to 40. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable UK law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and UK auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Independent auditors' report

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2003 and of the profit of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
27 June 2003

Consolidated profit and loss account

For the year ended 31 March 2003

	Notes	2003 £000	2002 £000 As restated
Interest receivable:			
- interest receivable and similar income arising from debt securities		119 638	184 652
- other interest receivable and similar income		279 809	274 484
Less: interest payable		(350 172)	(406 851)
Net interest income		49 275	52 285
Fees and commissions receivable		62 975	73 157
Fees and commissions payable		(2 468)	(2 042)
Dealing profits	2	10 102	20 779
Other operating income	3	16 048	8 464
Operating income		135 932	152 643
Administrative expenses	4	(108 402)	(107 085)
Depreciation and amortisation:		(14 207)	(8 535)
- tangible fixed assets	17	(4 606)	(4 113)
- goodwill	16	(9 601)	(4 422)
Provision for bad and doubtful debts	11	(3 779)	1 978
Operating profit		9 544	39 001
Share of associated companies earnings	14	13	–
Fundamental reorganisation and restructuring costs	5	(5 354)	–
Gains on disposal of subsidiary undertaking		279	1 396
Group profit on ordinary activities before taxation		4 482	40 397
Tax on group profit on ordinary activities	7	12 154	(8 679)
Group profit on ordinary activities after tax		16 636	31 718
Minority interest - equity		(1 010)	(568)
Group profit attributable to the shareholders		15 626	31 150
Dividends		(26 000)	(12 000)
Retained (loss)/profit for the year		(10 374)	19 150
Operating profit in respect of acquired operations, excluding the related goodwill amortisation		756	714

Consolidated statement of recognised gains and losses

For the year ended 31 March 2003	2003 £000	2002 £000
Retained (loss)/profit for the year	(10 374)	19 150
Currency translation differences on foreign currency net investments	1 717	170
Total recognised (losses)/gains relating to the year	(8 657)	19 320

Consolidated balance sheet

For the year ended 31 March	Notes	2003 £000	2002 £000 As restated
Assets			
Cash and balances at central banks		255 969	12 050
Loans and advances to banks	9	1 818 689	1 880 411
Loans and advances to customers	10	2 056 755	1 901 888
Debt securities	12	1 217 810	3 684 656
Equity shares	13	65 377	79 608
Interests in associated undertakings	14	1 961	–
Intangible fixed assets	16	25 530	27 803
Tangible fixed assets	17	33 128	18 753
Other assets	18	252 942	227 921
Prepayments and accrued income		67 875	40 634
		5 796 036	7 873 724
Liabilities			
Deposits by banks	19	1 509 753	3 202 299
Customer accounts	20	3 308 183	3 436 677
Debt securities in issue	21	61 327	75 000
Other liabilities	22	312 259	556 399
Accruals and deferred income		100 353	105 875
		5 291 875	7 376 250
Capital resources			
Subordinated debt	24	39 300	39 300
Minority interests – equity		15 877	533
Equity shareholders' funds	27	448 984	457 641
Called up share capital	25	314 000	314000
Share premium account	26	37 365	37 365
Profit and loss account	26	97 619	106 276
		504 161	497 474
		5 796 036	7 873 724
Memorandum items			
Contingent liabilities	30	134 673	120 573
Commitments	33	350 568	661 537
		485 241	782 110

The financial statements on pages 30 to 82 were approved by the Board of Directors on 27 June 2003 and signed on its behalf by:

Alan Tapnack
Director

Balance sheet

For the year ended 31 March

	Notes	2003 £000	2002 £000
Assets			
Cash and balances at central banks		12 999	11 929
Loans and advances to banks	9	1 534 874	1 836 219
Loans and advances to customers	10	1 683 472	1 801 725
Debt securities	12	1 031 082	3 585 192
Equity shares	13	44 823	69 036
Interests in associated undertakings	14	1 597	–
Shares in group undertakings	15	146 590	85 489
Intangible fixed assets	16	8 970	11 839
Tangible fixed assets	17	14 750	17 301
Other assets	18	218 759	217 260
Prepayments and accrued income		63 617	39 012
		4 761 533	7 675 002
Liabilities			
Deposits by banks	19	1 770 220	3 418 825
Customer accounts	20	2 126 884	3 087 708
Debt securities in issue	21	61 327	75 000
Other liabilities	22	274 245	544 355
Accruals and deferred income		95 191	100 080
		4 327 867	7 225 968
Capital resources			
Subordinated debt	24	39 300	39 300
Equity shareholders' funds	27	394 366	409 734
Called up share capital	25	314 000	314 000
Share premium account	26	37 365	37 365
Profit and loss account	26	43 001	58 369
		433 666	449 034
		4 761 533	7 675 002
Memorandum items			
Contingent liabilities	30	122 506	100 417
Commitments	33	284 872	618 818
		407 378	719 235

The financial statements on pages 30 to 82 were approved by the Board of Directors on 27 June 2003 and signed on its behalf by:

Alan Tapnack
Director

Notes to the financial statements

1. Accounting policies

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

Basis of preparation

The group comprises Investec Bank (UK) Limited and its 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 the Statements of Recommended Practice issued by the British Bankers' Association, except where noted in the financial statements below.

Prior year figures have been restated to be comparable with current year figures. Dealing profits are now shown net of the funding cost of the underlying positions. Dealing profits now also include interest, dividends or fees received as a result of trading transactions. The result of this restatement is to reduce net interest income by £1,372,000, reduce fees receivable by £31,000 and increase dealing profits by £1,403,000. In addition, operating lease assets are now included in loans and advances to customers with all other lease contracts. Previously these were included in tangible fixed assets. As at 31 March 2002, these amounted to £6,341,000.

Basis of consolidation

The group financial statements incorporate the financial results of the bank 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. 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 to prepare the group financial statements at 31 March 2003.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over their operating and financial policies, are treated as associates. In the group accounts, associates are accounted for using the equity method.

The consolidated financial statements include the attributable share of the results and reserves of associated undertakings, based on financial statements made up to dates not earlier than three months prior to 31 March. The group's interests in associated undertakings are included in the consolidated balance sheet as the group's share of net assets plus unamortised goodwill.

Notes to the financial statements

1. Accounting policies (continued)

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.

Foreign entities

The net assets of the group undertakings and associates which do not have sterling as a functional currency 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 subsidiaries that do not have sterling as a functional currency, are also taken to reserves.

Goodwill arising on the acquisition of entities that do not have sterling as a functional currency is translated at the closing exchange rate.

Foreign currencies

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 an ongoing 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 assets or 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.

Notes to the financial statements

1. Accounting policies (continued)

Securities sold subject to repurchase agreements are recorded as assets. Obligations for the repurchase of these securities are included under deposits by banks and customer accounts. Securities that are purchased under an agreement to resell the securities at a future date are included under loans and advances.

Stock borrowing and lending transactions that are not cash collateralised are not included in the balance sheet.

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, forward rate agreements, futures, options and combinations of these instruments. In addition, the use of derivatives 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.
- Adequate evidence of the intention to link with the underlying risk inherent in the asset, liability or cashflow.
- 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.

Notes to the financial statements

1. Accounting policies (continued)

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 balance outstanding.

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 bad and doubtful debts in the income statement includes the unserviced interest which has been transferred to specific provisions. Doubtful debts are written off against the balance sheet asset 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 that 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 views of the extent of existing risks in the loan portfolio and of 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.

The periods over which assets are depreciated are as follows:

Leasehold property	-	the remaining period of the lease
Leasehold improvements	-	the shorter of 20 years and the remainder of the lease term
Computer hardware and software	-	two to five years
Furniture and fittings	-	five years
Motor vehicles	-	four years
Freehold properties	-	50 years

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.

Notes to the financial statements

1. Accounting policies (continued)

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

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 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.

Income recognition

Interest income is recognised in the profit and loss account as it accrues other than interest, the collectibility 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 are shown net of the funding cost of the underlying positions and include the unrealised profits on trading portfolios, which are marked to market daily.

Notes to the financial statements

1. Accounting policies (continued)

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, property rental income and dividends received.

Retirement benefits

The group operates one defined contribution scheme and one closed defined benefit scheme.

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 closed defined benefit scheme is closed to new membership and to accrual of pensionable service for existing members. The pension cost relating to the closed defined benefit scheme is assessed in accordance with the advice of qualified actuaries so as to recognise the cost of pensions on a systematic basis over employees' service lives. Variations from the regular cost are spread over the expected remaining service lives of current employees in the scheme.

Bank's own profit and loss account

The bank has taken advantage of the exemption in section 230 of the Companies Act 1985 not to present its own profit and loss account.

2. Dealing profits

	Group	
	2003 £000	**2002 £000 As restated**
Interest rate instruments	2 076	5 196
Foreign exchange contracts	1 225	2 536
Dealing properties	1 582	1 082
Bullion and base metals	(2 220)	6 561
Equities and other	7 439	5 404
	10 102	20 779

Notes to the financial statements

3. Other operating income

	Group	
	2003 £000	2002 £000 As restated
Property rental income	1 667	1 053
Dividend income	290	1 080
Gain on disposal of investment securities	14 088	6 329
Other	3	2
	16 048	8 464

4. Administrative expenses

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Staff costs				
Wages and salaries	57 837	45 422	64 076	55 414
Social security costs	4 819	4 254	5 849	5 289
Other pension costs	4 142	3 780	4 121	3 549
Auditors' remuneration				
Audit services	739	302	580	365
Other services	373	279	459	412
Premises and equipment (excluding depreciation)	12 739	8 055	9 574	7 679
Other administrative expenses	27 753	21 821	22 426	19 902
	108 402	83 913	107 085	92 610

Notes to the financial statements

4. Administrative expenses (continued)

Other pension costs include £ nil (2002 – £1,010,000) in respect of defined benefit schemes. The scheme is a non-contributory defined benefit scheme and its assets are held in separate trustee administered funds. Employees from a number of group undertakings participate in the scheme and the underlying scheme assets and liabilities cannot be separated by legal entity. The scheme is subject to a formal valuation triennially. The details of the most recent valuation, which was carried out as at 31 March 2002, by a qualified actuary, are disclosed in the accounts of Investec plc, the bank's ultimate parent company in the UK.

The accounts of Investec plc also disclose an actuarial valuation of the scheme at 31 March 2003. This was performed by a qualified, independent actuary to take account of the requirements of FRS17 in order to assess the liabilities of the scheme at 31 March 2003. This valuation showed a deficit in the scheme of £11,647,000 (31 March 2002 – irrecoverable surplus of £2,429,000). If FRS 17 was adopted in full at 31 March 2003, a net pension liability of £8,153,000 (31 March 2002 - £ nil), after recognition of the related deferred tax asset, would be recognised in the financial statements of Investec plc.

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

	2003 No	2002 No
Private Client Activities	365	324
Treasury and Specialised Finance	184	136
Investment Banking	185	171
Group Services and Other Activities	294	196
	1 028	827

5. Fundamental reorganisation and restructuring costs

Reorganisation and restructuring costs incurred in the group's continuing operations, as a result of actions taken by the board during the year to reduce operating costs and to exit from and streamline unprofitable activities, amounted to £5.4 million. No tax credit is attributable to these costs in the year, as the group has not recognised deferred tax assets for all of its loss in the period, due to the level of total deferred tax assets compared to forecast profits. These unrecognised losses have been treated as attributable to the reorganisation and restructuring costs.

In addition, there were no minority interests in relation to the above items.

Notes to the financial statements

6. Emoluments of directors

	2003 £000	2002 £000
Aggregate emoluments (excluding pension contributions)	1 987	2 659
Contributions to money purchase pension scheme	128	97
	2 115	2 756
Number of directors in money purchase pension scheme	6	4
Number of directors in closed defined benefits scheme	1	1

Emoluments of the highest paid director were £651,625 (2002 - £919,486), excluding £4,583 pension contribution to the money purchase scheme (2002 - £31,624 contribution to the defined benefits scheme).

The highest paid director in 2003 was not a member of the defined benefits scheme (2002 – the highest paid director's annual pension entitlement was £33,990).

The directors' emoluments of Messrs Herman, Koseff, B Kantor and I Kantor have been borne by Investec plc. These directors were employed and remunerated as directors, or executives, of Investec plc and its subsidiaries in respect of their services to that group as a whole. It is considered that there is no appropriate basis on which they can apportion part of their remuneration for services to the company.

The 2002 comparatives include estimates of distributions that may be made to the directors from the Investec Bank (UK) Employee Benefit Trust. The bank has made contributions, from time to time, to the trust for the benefit of employees. The directors are discretionary beneficiaries of appointed funds of the trust.

7. Tax on profit on ordinary activities

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Corporation tax				
- current year	–	–	4 514	3 045
- prior year	(5 000)	(5 000)	–	–
Overseas taxes	1 709	430	2 876	417
Current tax	(3 291)	(4 570)	7 390	3 462
Deferred taxation	(8 863)	(10 186)	1 289	1 960
	(12 154)	(14 756)	8 679	5 422

Notes to the financial statements

7. Tax on profit on ordinary activities (continued)

The effective tax rate for the year is negative (2002 - 22%). The current tax can be reconciled to the standard rate of UK corporation tax with the following items:

	Group 2003 £000	Group 2002 £000
Tax on group profit on ordinary activities at UK rate of 30%	1.3	12.0
Utilisation of capital and trading losses	(2.9)	(3.7)
Adjustment in respect of prior year	(5.0)	–
Expenses not deductible for tax purposes	0.3	1.1
Allowable deductions	–	(2.6)
Goodwill amortised	2.9	1.3
Capital allowances in excess of depreciation	0.3	(5.1)
Other timing differences	3.1	3.0
Group relief surrendered	(1.4)	–
Overseas profits	(3.3)	(0.1)
Other	1.4	1.5
	(3.3)	7.4

As at 31 March 2003 the group had estimated trading losses of £20,000,000 (2002 - £14,755,000) available for utilisation against future taxable income, subject to some restrictions. £10,621,000 (2002 - £6,000,000) of these losses have been recognised as a deferred tax asset (see note 23).

Notes to the financial statements

8. Segmental and currency analysis

For the year ended 31 March 2003

By business segment	Private Client Activities £000	Treasury and Specialised Finance £000	Investment Banking £000	Group Services and Other Activities £000	Total £000
Net interest income	31 630	5 302	1 529	10 814	49 275
Net fees and commissions receivable	28 745	9 557	17 988	4 217	60 507
Dealing profits	315	6 231	1 917	1 639	10 102
Other operating income	(54)	(4)	15 931	175	16 048
Operating income	60 636	21 086	37 365	16 845	135 932
Continuing operations:					
- ongoing	56 528	20 401	32 377	16 845	126 151
- acquisition – Investec Bank (Israel) Limited	4 108	685	4 988	–	9 781
Administrative expenses	(36 550)	(27 685)	(29 193)	(14 974)	(108 402)
Depreciation of tangible fixed assets	(1 282)	(87)	(749)	(2 488)	(4 606)
Provisions for bad and doubtful debts	(4 289)	(228)	(27)	765	(3 779)
Operating profit before amortisation of goodwill	18 515	(6 914)	7 396	148	19 145
Continuing operations:					
- ongoing	18 191	(6 967)	7 017	148	18 389
- acquisition – Investec Bank (Israel) Limited	324	53	379	–	756
Share of associated earnings	–	–	–	13	13
Amortisation of goodwill	(9 280)	(157)	(163)	(1)	(9 601)
Fundamental reorganisation and restructuring costs	(595)	(1 445)	(3 066)	(248)	(5 354)
Gain on disposal of subsidiary undertaking	279	–	–	–	279
Group profit on ordinary activities before taxation	8 919	(8 516)	4 167	(88)	4 482
Continuing operations:					
- ongoing	8 730	(8 547)	3 938	(101)	4 033
- acquisition – Investec Bank (Israel) Limited	189	31	229	13	449
Tax on group profit on ordinary activities	(729)	921	(517)	12 479	12 154
Group profit on ordinary activities after tax	8 190	(7 595)	3 650	12 391	16 636
Total assets	1 962 071	3 557 519	133 418	143 028	5 796 036

Notes to the financial statements

8. Segmental and currency analysis (continued)

The group geographical analysis is based on the location of the office at which the transaction was recorded.

By geography	UK and Europe £000	Israel £000	Total £000
Net interest income	44 765	4 510	49 275
Net fees and commissions receivable	57 051	3 456	60 507
Dealing profits	8 307	1 795	10 102
Other operating income	16 028	20	16 048
Operating income	126 151	9 781	135 932
Administrative expenses	(100 734)	(7 668)	(108 402)
Depreciation of tangible fixed assets	(3 480)	(1 126)	(4 606)
Provisions for bad and doubtful debts	(3 548)	(231)	(3 779)
Operating profit before amortisation of goodwill	18 389	756	19 145
Share of associated earnings	–	13	13
Amortisation of goodwill	(9 281)	(320)	(9 601)
Fundamental reorganisation and restructuring costs	(5 354)	–	(5 354)
Gain on disposal of subsidiary undertaking	279	–	279
Group profit on ordinary activities before taxation	4 033	449	4 482
Tax on group profit on ordinary activities	12 253	(99)	12 154
Group profit on ordinary activities after tax	16 286	350	16 636
Total assets	4 983 465	812 571	5 796 036

The Statement of Recommended Practice on Segmental Reporting by Banks recommends, among other things, that net assets 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 recommends the disclosure by business segment and 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 a further split would not provide meaningful disclosure. Consequently, gross income is not separately disclosed.

Notes to the financial statements

8. Segmental and currency analysis (continued)

For the year ended 31 March 2002

By business segment	Private Client Activities £000	Treasury and Specialised Finance £000	Investment Banking £000	Group Services and Other Activities £000	Total £000
Operating income	45 465	34 374	55 444	17 360	152 643
Continuing operations:					
- ongoing	45 465	33 509	55 444	17 360	151 778
- acquisition – European Capital Company Limited	–	865	–	–	865
Operating profit before goodwill amortisation	15 304	9 473	16 387	2 259	43 423
Continuing operations:					
- ongoing	15 304	8 628	16 387	2 259	42 578
- acquisition – European Capital Company Limited	–	845	–	–	845
Group profit on ordinary activities before taxation	11 568	8 787	16 387	3 655	40 397
Continuing operations:					
- ongoing	11 568	8 073	16 387	3 655	39 683
- acquisition – European Capital Company Limited	–	714	–	–	714
Total assets	1 530 685	6 106 123	147 257	89 659	7 873 724

By geography

In 2002 substantially all of the business of the group was transacted within the UK and Europe.

Currency analysis	Group 2003 £000	Group 2002 £000
Total assets currency analysis		
Denominated in sterling	2 780 737	6 716 882
Denominated in foreign currencies	3 015 299	1 156 842
	5 796 036	7 873 724
Total liabilities currency analysis *		
Denominated in sterling	2 457 581	6 236 155
Denominated in foreign currencies	2 873 594	1 179 395
	5 331 175	7 415 550

* includes subordinated liabilities

Notes to the financial statements

9. Loans and advances to banks

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Remaining maturity:				
Repayable on demand	207 614	133 520	31 690	22 362
Demand to three months	1 190 806	987 138	1 512 640	1 473 390
Three months to one year	388 817	386 232	324 893	324 279
One year to five years	17 663	9 669	3 549	3 549
Over five years	13 789	18 315	7 639	12 639
	1 818 689	1 534 874	1 880 411	1 836 219
Balances with group companies	13 775	13 775	–	6 171

Trading book loans and advances to banks of £1,102,986,000 (2002 - £1,251,933,000) are secured with government securities under sale and repurchase agreements.

10. Loans and advances to customers

	Group 2003 £000	Bank 2003 £000	Group 2002 £000 As restated	Bank 2002 £000
Remaining maturity:				
Demand to three months	805 671	635 344	850 177	874 855
Three months to one year	455 792	392 281	264 019	239 523
One year to five years	663 576	530 517	355 497	268 682
Over five years	159 983	144 362	448 912	434 738
Provision for bad and doubtful debts	(28 267)	(19 032)	(16 717)	(16 073)
	2 056 755	1 683 472	1 901 888	1 801 725
Balances with group companies	166	36 946	56 962	93 792

Trading book loans and advances to customers of £237,016,000 (2002 - £550,351,000) are secured with government securities under sale and repurchase agreements.

Notes to the financial statements

11. Provision for bad and doubtful debts

Group	Specific 2003 £000	General 2003 £000	Total 2003 £000	Specific 2002 £000	General 2002 £000	Total 2002 £000
At beginning of year	2 978	13 739	16 717	6 902	11 131	18 033
Exchange movements	(702)	85	(617)	(16)	6	(10)
Charged/(released) against income	1 582	2 197	3 779	(1 489)	2 602	1 113
Acquired	7 229	1 776	9 005	–	–	–
Utilised	(617)	–	(617)	(2 419)	–	(2 419)
At end of year	10 470	17 797	28 267	2 978	13 739	16 717

Bank	Specific 2003 £000	General 2003 £000	Total 2003 £000	Specific 2002 £000	General 2002 £000	Total 2002 £000
At beginning of year	2 978	13 095	16 073	6 187	10 620	16 807
Exchange movements	(97)	233	136	(16)	(26)	(42)
Charged/(released) against income	1 303	2 032	3 335	(1 489)	2 406	917
Purchased from subsidiary undertaking	–	–	–	700	95	795
Utilised	(512)	–	(512)	(2 404)	–	(2 404)
At end of year	3 672	15 360	19 032	2 978	13 095	16 073

Included within the year-end specific provision balance for both group and bank is an amount of £1,080,000 (2002 - £553,000) of interest in suspense.

Group	2003 £000	2002 £000
The charge for bad and doubtful debts in the consolidated profit and loss account comprises:		
- Charged against income, as above	3 779	1 113
- Recovery of a debt previously written off	–	(3 091)
	3 779	(1 978)

Notes to the financial statements

12. Debt securities

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Dealing and market making securities at market value				
Issued by public bodies				
- government securities	33 785	27 925	–	–
Issued by other issuers				
- unlisted bank and building society certificates of deposit	–	–	2 779 938	2 779 938
- other unlisted debt securities	34 733	34 545	–	–
	68 518	62 470	2 779 938	2 779 938
Investment securities at cost less impairment				
Issued by public bodies				
- government securities	130 803	4 315	6 619	6 127
Issued by other issuers				
- unlisted bank and building society certificates of deposit	915 597	863 236	831 417	732 796
- other unlisted debt securities	102 892	101 061	66 682	66 331
	1 149 292	968 612	904 718	805 254
Total debt securities	1 217 810	1 031 082	3 684 656	3 585 192
Investment securities				
At beginning of year	904 718	805 254	375 342	344 830
By acquisition	141 323	–	–	–
Exchange movements	(19 955)	(8 412)	(81)	(79)
Additions	2 616 030	2 225 247	3 248 342	2 676 085
Matured or sold	(2 492 824)	(2 053 477)	(2 718 885)	(2 215 582)
At end of year	1 149 292	968 612	904 718	805 254
Maturity of debt securities				
Due within one year	1 057 959	926 225	3 618 325	3 518 861
Due one year and over	159 851	104 857	66 331	66 331
	1 217 810	1 031 082	3 684 656	3 585 192
Unamortised net premium on investment securities	137	137	–	–

The cost of dealing and market making securities has not been disclosed as it cannot be determined without unreasonable expense.

Notes to the financial statements

13. Equity shares

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Dealing securities at market value				
Listed on a recognised UK exchange	11 741	11 741	21 935	19 934
Listed elsewhere	21 557	21 557	17 736	17 736
Unlisted	–	–	3 954	–
	33 298	33 298	43 625	37 670
Investment securities at cost less impairment				
Listed on a recognised UK exchange	833	825	4 191	4 064
Listed elsewhere	149	83	392	185
Unlisted	31 097	10 617	31 400	27 117
	32 079	11 525	35 983	31 366
	65 377	44 823	79 608	69 036

Investment securities	Cost £000	Provisions £000	Book value £000
Group			
At beginning of year	57 775	(21 792)	35 983
Exchange movements	(859)	141	(718)
Additions	8 832	–	8 832
Disposals	(11 359)	–	(11 359)
Provision utilised	–	673	673
Provision made during the year	–	(1 332)	(1 332)
At end of year	54 389	(22 310)	32 079
Bank			
At beginning of year	44 789	(13 423)	31 366
Exchange movements	(742)	133	(609)
Additions	397	–	397
Transfer out	(15 656)	–	(15 656)
Disposals	(3 483)	–	(3 483)
Provision utilised	–	211	211
Provision made during the year	–	(701)	(701)
At end of year	25 305	(13 780)	11 525

The cost of dealing securities does not differ materially from the fair value.

Notes to the financial statements

14. Interests in associated undertakings

	Group £000	Bank £000
Interests in associated undertakings consist of:		
Net asset value	899	684
Goodwill	1 062	913
	1 961	1 597
Analysis of the movement in our share of net assets:		
At beginning of year	–	–
Acquisition	889	684
Exchange adjustments	(3)	–
Retained profits	13	–
At end of year	899	684

The principal associated undertakings are:

Name	Issued share capital	Nature of business	Country of incorporation	Interest
Innorate Profits Limited	$750	Financial markets	British Virgin Islands	25%
Epsilon Investment House Limited *	NIS 3,500,000	Asset management	Israel	20%

Investments in these undertakings are unlisted and held directly by the bank except where marked *.

Notes to the financial statements

15. Shares in group undertakings

	Group £000	Bank £000
At beginning of year	85 489	99 044
Additions	61 401	3 131
Dividend declared by subsidiaries out of pre-acquisition reserves	(300)	(16 686)
At end of year	146 590	85 489

All subsidiary undertakings are unlisted.

Principal subsidiary undertakings of Investec Bank (UK) Limited	Nature of business	Country of incorporation	Interest
European Capital Company Limited	Project finance	England	100%
Investec Trust Guernsey Limited*	Trust company	Guernsey	100%
Guinness Mahon & Co Limited	Holding company (previously banking)	England	100%
Investec Asset Finance plc	Leasing	England	100%
Investec Bank (Channel Islands) Limited *	Banking	Guernsey	100%
Investec Bank (Israel) Limited *	Banking	Israel	80.3%
Investec Bank (Switzerland) AG *	Banking	Switzerland	100%
Investec Group Investments (UK) Limited	Investment holding company	England	100%
Investec Investment Holdings AG *	Investment holding company	Switzerland	100%
Investec Property Services Limited (trading as Taylor Rose)	Commercial property agency	England	100%
Radcliffes Trustee Company S.A.*	Trust company	Switzerland	100%
Theodores Trust & Law Group Limited*	Trust company	Jersey	100%

Investments in these undertakings are held directly by the bank except where marked *.

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

Notes to the financial statements

16. Intangible fixed assets

Group	Positive goodwill £000	Negative goodwill £000	Total £000
Cost			
At beginning of year	43 280	(8 700)	34 580
Additions (note 29)	5 481	–	5 481
Exchange movements	1 770	–	1 770
At end of year	50 531	(8 700)	41 831
Accumulated amortisation			
At beginning of year	(9 605)	2 828	(6 777)
Charge to profit and loss account	(10 906)	1 305	(9 601)
Exchange movements	77	–	77
At end of year	(20 434)	4 133	(16 301)
Net book value			
At end of year	30 097	(4 567)	25 530
At beginning of year	33 675	(5 872)	27 803

Additions represent goodwill arising on current year acquisitions, as outlined in note 29. Goodwill is being amortised over periods of between 5 and 10 years.

Negative goodwill is released to the profit and loss account over a period of 10 years.

Bank	Positive goodwill £000
Cost	
At beginning and end of year	19 442
Accumulated amortisation	
At beginning of year	(7 603)
Charge to profit and loss account	(2 869)
At end of year	(10 472)
Net book value	
At end of year	8 970
At beginning of year	11 839

Notes to the financial statements

17. Tangible fixed assets

Group	Freehold property £000	Leasehold improvements £000	Furniture, fittings and motor vehicles £000	Computer equipment £000	Total £000 As restated*
Cost					
At beginning of year	617	16 772	5 321	7 819	30 529
Exchange movements	(268)	–	–	(115)	(383)
By transfer or acquisition	20 094	–	–	8 611	28 705
Additions	526	1 246	629	1 807	4 208
Disposals	(32)	–	(240)	(479)	(751)
Written off	–	(1 377)	–	–	(1 377)
Reclassification	–	–	(1 128)	1 128	–
At end of year	20 937	16 641	4 582	18 771	60 931
Depreciation or amortisation					
At beginning of year	(24)	(3 561)	(3 335)	(4 856)	(11 776)
Exchange movements	95	–	–	80	175
By transfer or acquisition	(7 289)	–	–	(6 013)	(13 302)
Charge for year	(180)	(843)	(954)	(2 629)	(4 606)
Disposals	24	–	238	147	409
Written off	–	1 297	–	–	1 297
Reclassification	–	–	713	(713)	–
At end of year	(7 374)	(3 107)	(3 338)	(13 984)	(27 803)
Net book value					
At end of year	13 563	13 534	1 244	4 787	33 128
At beginning of year	593	13 211	1 986	2 963	18 753

	2003 £000	2002 £000
Carrying value of properties occupied by group entities	12 977	–

* Operating lease assets were shown as a separate class of tangible fixed asset last year, but they are now included in loans and advances to customers.

Notes to the financial statements

17. Tangible fixed assets (continued)

Bank	Leasehold improvements £000	Furniture, fittings and motor vehicles £000	Computer equipment £000	Total £000 As restated*
Cost				
At beginning of year	15 126	3 471	6 429	25 026
Additions	–	59	350	409
Disposals	–	(10)	–	(10)
Reclassification	–	(48)	48	–
At end of year	15 126	3 472	6 827	25 425
Depreciation or amortisation				
At beginning of year	(2 139)	(1 852)	(3 734)	(7 725)
Charge for year	(777)	(776)	(1 407)	(2 960)
Disposals	–	10	–	10
Reclassification	–	54	(54)	–
At end of year	(2 916)	(2 564)	(5 195)	(10 675)
Net book value				
At end of year	12 210	908	1 632	14 750
At beginning of year	12 987	1 619	2 695	17 301

18. Other assets

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Settlement debtors	109 670	109 652	87 636	87 636
Deferred tax asset (see note 23)	15 858	11 808	6 995	1 622
Assets, including gains, resulting from off-balance sheet interest rate, exchange rate, equities and commodities contracts which are marked to market	63 928	47 597	66 225	66 279
Other debtors	33 886	20 102	30 253	24 911
Dealing properties	29 600	29 600	34 702	34 702
Properties awaiting disposal	–	–	2 110	2 110
	252 942	218 759	227 921	217 260

The asset, shown above, resulting from off-balance instruments is stated after deducting £18,911,000 (2002 - £nil) of cash collateral meeting the offset criteria of FRS5.

Notes to the financial statements

19. Deposits by banks

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
With agreed maturity date or periods of notice, by remaining maturity:				
Demand to three months	1 231 614	1 484 591	1 908 958	2 126 097
Three months to one year	274 164	281 654	1 290 134	1 289 521
One year to five years	683	683	3 207	3 207
Over five years	3 292	3 292	–	–
	1 509 753	1 770 220	3 202 299	3 418 825
Balances with group companies	9 330	273 729	7 743	226 811

Trading book deposits by banks of £984,819,000 (2002 - £2,361,807,000) are secured with government securities under sale and repurchase agreements. In addition, £nil (2002 - £440,968,000) of dealing and market making securities are used to secure deposits by banks.

20. Customer accounts

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
With agreed maturity date or periods of notice, by remaining maturity:				
Repayable on demand	940 187	483 203	555 868	436 598
Demand to three months	1 797 172	1 099 814	2 119 265	1 867 532
Three months to one year	453 075	388 200	642 751	623 194
One year to five years	100 982	87 166	53 854	52 983
Over five years	16 767	68 501	64 939	107 401
	3 308 183	2 126 884	3 436 677	3 087 708
Balances with group companies	52 512	103 986	64 916	127 152

Trading book deposits by customers of £333,505,000 (2002 - £1,172,654,000) are secured with government securities under sale and repurchase agreements. In addition, £nil (2002 - £4,695,000) of dealing and market making securities are used to secure deposits by customers.

Notes to the financial statements

21. Debt securities in issue

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Unlisted certificates of deposit in issue, by remaining maturity:				
- three months or less	35 000	35 000	75 000	75 000
- one year or less but over three months	26 327	26 327	–	–
	61 327	61 327	75 000	75 000

22. Other liabilities

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Settlement creditors	111 072	105 432	92 017	92 017
Short positions:				
- debt securities: government securities	–	–	356 660	356 660
- commodities	–	–	2 548	2 548
- equities	78 536	78 536	31 278	31 278
Liabilities, including losses, resulting from off-balance sheet interest rate, exchange rate, equities and commodities contracts which are marked to market	45 984	28 597	32 959	32 965
Other creditors	44 768	33 467	22 646	14 925
Current corporation tax	5 899	2 213	6 291	1 962
Dividends payable	26 000	26 000	12 000	12 000
	312 259	274 245	556 399	544 355

The liability, shown above, resulting from off-balance instruments is stated after deducting £30,653,000 (2002 - £31,686,000) of cash collateral meeting the offset criteria of FRS5.

Notes to the financial statements

23. Deferred taxation

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Deferred tax asset				
At beginning of year	6 995	1 622	8 284	3 582
Movement in the year	8 863	10 186	(1 289)	(1 960)
At end of year	15 858	11 808	6 995	1 622
Represented by:				
Excess of depreciation of assets over capital allowances	8 565	4 325	6 007	349
Tax relief in respect of the utilisation of tax losses brought forward against future taxable income	3 186	3 186	1 800	1 800
General provisions	4 297	4 297	–	–
Other timing differences	(190)	–	(812)	(527)
	15 858	11 808	6 995	1 622

Deferred tax assets are recognised to the extent it is more likely than not that profits will arise in future periods. The assessment of the likelihood of future profits is based on past performance and current projections. Deferred tax assets are not recognised in respect of capital losses as crystallisation of capital gains and the eligibility of potential capital losses is uncertain.

24. Subordinated debt

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Variable rate notes:				
At beginning and end of year	39 300	39 300	39 300	39 300

All subordinated debt is issued to Investec Holdings (UK) Limited. Interest is payable at Sterling LIBOR plus 2.125% and the loans can be terminated by the lender giving five years and two days' notice. At the date of signature of the financial statements, no such notice has been received. The final maturity date of the loan note is 31 March 2050.

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

Notes to the financial statements

25. Called up share capital

	2003 £000	2002 £000
Authorised		
Ordinary shares of £1 each – 1,000,000,000 (2002 – 1,000,000,000)	1 000 000	1 000 000
Issued, allotted and fully paid – 314,000,000 (2002 – 314,000,000)		
At beginning of year	314 000	292 000
Issued during year at par	–	22 000
At end of year	314 000	314 000

26. Reserves

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Share premium account				
At beginning and end of year	37 365	37 365	37 365	37 365
Profit and loss account				
At beginning of year	106 276	58 369	86 956	48 564
Retained (loss)/profit for the year	(10 374)	(15 547)	19 150	9 805
Currency translation differences on foreign currency net investments	1 717	179	170	–
At end of year	97 619	43 001	106 276	58 369

Notes to the financial statements

27. Reconciliation of shareholders' equity

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Retained profit for the year	(10 374)	(15 547)	19 150	9 805
New share capital subscribed	–	–	22 000	22 000
Currency translation differences on foreign currency net investments	1 717	179	170	–
Net (reduction from)/addition to shareholders' equity	(8 657)	(15 368)	41 320	31 805
Opening shareholders' equity	457 641	409 734	416 321	377 929
Closing shareholders' equity	448 984	394 366	457 641	409 734

28. Stock borrowing and lending

	2003 £000	2002 £000
Stock borrowed against non-cash collateral	977 917	5 115 830
Stock lent against non-cash collateral	130 899	726 706

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

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

29. Acquisition

On 21 August 2002, the group acquired a subsidiary undertaking, Investec (Israel) BV, from another group company as part of the restructure. The sole asset of Investec (Israel) BV was an 80% shareholding in Investec Bank (Israel) Limited. The acquisition was satisfied by the payment of cash and the transfer of assets and was accounted for on an acquisition basis. Assets and liabilities at the date of acquisition and total consideration paid are disclosed in the table below.

Notes to the financial statements

29. Acquisition (continued)

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

	Book value at date of acquisition £000	Fair value adjustments for consistent accounting £000	Fair value at date of acquisition £000
Cash and balances at central banks	333 069	–	333 069
Loans and advances to banks	125 020	–	125 020
Loans and advances to customers	237 068	–	237 068
Debt securities, equity shares and investments in associates	133 410	(3 115)	130 295
Tangible fixed assets	15 403	–	15 403
Other assets	27 416	–	27 416
Total assets	871 386	(3 115)	868 271
Other liabilities	(798 020)	–	(798 020)
Net assets/fair value of net assets	73 366	(3 115)	70 251
Minority interest			(14 331)
Goodwill			5 481
Fair value of consideration			61 401

The start of Investec Bank (Israel) Limited's financial year is 1 January. The summarised profit and loss accounts of Investec Bank (Israel) Limited for the period from the beginning of its financial year to the date of acquisition, and for the company's prior financial year, are as follows:

	Period to date acquired £000	Previous financial year £000
Net interest income	11 189	16 899
Net fees and commissions receivable	7 862	12 002
Dealing profits	(144)	(183)
Operating income	18 907	28 718
Administrative expenses	(11 445)	(21 348)
Provision for bad and doubtful debts	(2 247)	(4 050)
Operating profit	5 215	3 320
Share of associated company earnings	(54)	–
Profit before tax	5 161	3 320
Tax on profit on ordinary activities	(587)	(1 627)
Profit for the period	4 574	1 693

Notes to the financial statements

30. Contingent liabilities

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Guarantees and irrevocable letters of credit	133 165	122 506	115 700	100 417
Other contingent liabilities	1 508	–	4 873	–
	134 673	122 506	120 573	100 417

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

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

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.

31. Directors' and officers' loans

As permitted by the Companies Act 1985, loans to four directors (2002 – two) existed during the year. The amount at the end of the year was £2,723,457 (2002 - £1,202,678).

32. Related party transactions

As the bank is a 100% subsidiary undertaking, and consolidated financial statements for its ultimate parent, Investec plc, are publicly available, group transactions have not been disclosed pursuant to the exemptions permitted in Financial Reporting Standard No 8.

Transactions, arrangements and agreements involving loans to directors are disclosed in note 31 above.

Boutique Finance II Limited is an investment company owned by certain members of senior management. The bank has provided a loan of £2,730,000 (2002 - £4,187,000) to Boutique Finance II Limited and has Boutique Finance II Limited's investment in shares as security for the loan. The terms of the loan are such that 200% cover is required at all times and, if the cover drops below 175%, a margin call back to 200% must be made. Mr I Kantor, who is a director of Investec Bank (UK) Limited, has guaranteed 34% of the loan provided.

Notes to the financial statements

33. Commitments

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Forward repurchase agreements	129 091	129 091	449 987	449 987
Undrawn facilities	217 572	155 781	202 507	166 051
Uncalled capital on investments and irrevocable subscription undertakings	3 905	–	9 043	2 780
	350 568	284 872	661 537	618 818

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

34. Operating lease commitments

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Annual commitment under non-cancellable operating leases which expire:				
Leasehold properties				
- within one year	–	–	–	–
- one to five years	320	–	138	–
- more than five years	692	–	747	–
	1 012	–	885	–

35. Financial instruments

Fair values

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

Notes to the financial statements

35. Financial instruments (continued)

Financial instruments held for non-trading book purposes and for which a liquid and active market exists:

	2003 Carrying value £00	2003 Mark-to-market value £000	2002 Carrying value £000	2002 Mark-to-market value £000
Assets				
Debt securities (note 12)	1 149 292	1 170 160	904 718	903 707
Equity shares (note 13)	32 079	36 550	35 983	46 208
	1 181 371	1 206 710	940 701	949 915
Liabilities				
Debt securities in issue (note 21)	61 327	61 267	75 000	75 003

Where possible, mark-to-market values have been estimated using market prices for these financial instruments. For unlisted equity investments, where market prices are not available, the fair values have been estimated by management.

36. Derivatives (off-balance sheet financial instruments)

The group enters into derivative contracts for both trading and non-trading purposes. Trading transactions include transactions undertaken for market making, to service customers' needs and for proprietary purposes. Non-trading transactions are those which are used by the group for hedging purposes. Transactions are negotiated directly with customers, including other financial institutions, or can be dealt through exchanges. All futures contracts are exchange traded.

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 cashflows 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 the balance sheet date. The replacement cost, which is considered to be the fair value, represents the cost of replacing contracts with positive values calculated at market rates current at the balance sheet date. The credit risk weighted amount, which is calculated according to rules set by the Financial Services Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future credit exposure and the nature of the counterparty.

Notes to the financial statements

36. Derivatives (off-balance sheet financial instruments) (continued)

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

Group	2003 Up to one year £000	2003 One to five years £000	2003 Greater than five years £000	2003 Total £000	2002 Up to one year £000	2002 One to five years £000	2002 Greater than five years £000	2002 Total £000
Interest rate contracts								
Caps and floors	–	91 514	–	91 514	–	17 051	–	17 051
Swaps	969 138	796 727	237 607	2 003 472	308 267	333 349	174 605	816 221
Forward rate agreements	932 896	108 382	–	1 041 278	1 834 257	22 667	–	1 856 924
Futures	490 996	198 183	–	689 179	235 319	223 377	–	458 696
	2 393 030	1 194 806	237 607	3 825 443	2 377 843	596 444	174 605	3 148 892
Foreign exchange derivatives								
Forward contracts	1 615 994	13 883	–	1 629 877	836 144	33 748	–	869 892
Currency swaps	412 810		–	412 810	–	59 424	–	59 424
Options	92 206		–	92 206	3 316	–	–	3 316
	2 121 010	13 883	–	2 134 893	839 460	93 172	–	932 632
Equity and stock index derivatives								
Equity swaps and forward contracts	40 245	–	–	40 245	67	–	–	67
Options and warrants	454 222	2 781	105	457 108	9 351	54 283	–	63 634
	494 467	2 781	105	497 353	9 418	54 283	–	63 701
Commodity derivatives								
Options	350 926	242 721	359 390	953 037	470 120	375 126	622 490	1 467 736
Commodity swaps and forward contracts	88 150	20 507	–	108 657	297 359	1 850	–	299 209
Futures	1 304 732	209 191	–	1 513 923	2 668 267	241 504	–	2 909 771
	1 743 808	472 419	359 390	2 575 617	3 435 746	618 480	622 490	4 676 716
Credit derivatives								
Credit swaps	61 976	62 702	–	124 678	–	1 633	7 639	9 272

Notes to the financial statements

36. Derivatives (off-balance sheet financial instruments) (continued)

Bank	2003 Up to one year £000	2003 One to five years £000	2003 Greater than five years £000	2003 Total £000	2002 Up to one year £000	2002 One to five years £000	2002 Greater than five years £000	2002 Total £000
Interest rate contracts								
Caps and floors	–	91 514	–	91 514	–	17 051	–	17 051
Swaps	947 490	786 672	235 079	1 969 241	308 267	333 349	174 605	816 221
Forward rate agreements	932 544	108 382	–	1 040 926	1 834 157	22 667	–	1 856 824
Futures	490 994	198 183	–	689 177	235 319	223 377	–	458 696
	2 371 028	1 184 751	235 079	3 790 858	2 377 743	596 444	174 605	3 148 792
Foreign exchange derivatives								
Forward contracts	1 573 256	14 036	–	1 587 292	842 081	33 748	–	875 829
Currency swaps	–	–	–	–	578	59 424	453	60 455
Options	92 206	–	–	92 206	3 316	–	–	3 316
	1 665 462	14 036	–	1 679 498	845 975	93 172	453	939 600
Equity and stock index derivatives								
Equity swaps and forward contracts	39 904	–	–	39 904	–	–	–	–
Options and warrants	30 920	2 781	105	33 806	9 351	54 283	–	63 634
	70 824	2 781	105	73 710	9 351	54 283	–	63 634
Commodity derivatives								
Options	350 927	242 720	359 390	953 037	470 120	375 126	622 490	1 467 736
Commodity swaps and forward contracts	88 031	20 507	–	108 538	297 359	1 850	–	299 209
Futures	1 304 732	209 191	–	1 513 923	2 668 267	241 504	–	2 909 771
	1 743 690	472 418	359 390	2 575 498	3 435 746	618 480	622 490	4 676 716
Credit derivatives								
Credit swaps	61 976	62 702	–	124 678	–	1 633	7 639	9 272

Notes to the financial statements

36. Derivatives (off-balance sheet financial instruments) (continued)

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

Group	2003 Credit risk weighted amount £000	2003 Replacement cost £000	2002 Credit risk weighted amount £000	2002 Replacement cost £000
For trading purposes				
Interest rate contracts	4 756	29 929	1 188	4 389
Foreign exchange derivatives	11 359	25 481	15 956	22 161
Equity and stock index derivatives	18 883	14 239	2 098	1 609
Commodity derivatives	11 251	20 018	25 683	116 314
Credit derivatives	138	291	–	–
	46 387	89 958	44 925	144 473
Effect of netting		(26 030)		(78 248)
		63 928		66 225
For non-trading purposes				
Interest rate contracts	1 554	5 560	1 314	5 620
Credit derivatives	–	–	1 633	3
	1 554	5 560	2 947	5 623

Bank	2003 Credit risk weighted amount £000	2003 Replacement cost £000	2002 Credit risk weighted amount £000	2002 Replacement cost £000
For trading purposes				
Interest rate contracts	4 325	29 473	1 188	4 389
Foreign exchange derivatives	10 465	21 255	16 253	22 215
Equity and stock index derivatives	364	2 593	2 098	1 609
Commodity derivatives	11 243	20 015	25 683	116 314
Credit derivatives	138	291	–	–
	26 535	73 627	45 222	144 527
Effect of netting		(26 030)		(78 248)
		47 597		66 279

Notes to the financial statements

36. Derivatives (off-balance sheet financial instruments) (continued)

Bank	2003 Credit risk weighted amount £000	2003 Replacement cost £000	2002 Credit risk weighted amount £000	2002 Replacement cost £000
For non-trading purposes				
Interest rate contracts	1 554	2 935	1 314	5 620
Credit derivatives	–	–	1 633	3
	1 554	2 935	2 947	5 623

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
Net replacement cost by counterparty:				
Banks and other financial institutions	46 761	43 117	52 706	52 760
Other corporate and public bodies	22 727	7 415	19 142	19 142
	69 488	50 532	71 848	71 902

	Group 2003 £000	Bank 2003 £000
Net replacement cost by residual maturity:		
Less than one year	53 738	37 109
One to five years	29 573	27 809
More than five years	12 207	11 644
Netting	(26 030)	(26 030)
	69 488	50 532

Notes to the financial statements

36. Derivatives (off-balance sheet financial instruments) (continued)

The negative fair values of these contracts are as follows:

	Group 2003 £000	Bank 2003 £000	Group 2002 £000	Bank 2002 £000
For trading purposes				
Interest rate contracts	(19 573)	(19 062)	(4 016)	(4 016)
Foreign exchange derivatives	(22 723)	(17 496)	(18 749)	(18 756)
Equity and stock index derivatives	(19 449)	(7 803)	(1 359)	(1 359)
Commodity derivatives	(10 117)	(10 114)	(87 083)	(87 082)
Credit derivatives	(152)	(152)	–	–
	(72 014)	(54 627)	(111 207)	(111 213)
Effect of netting	26 030	26 030	78 248	78 248
	(45 984)	(28 597)	(32 959)	(32 965)
For non-trading purposes				
Interest rate contracts	(2 840)	(1 253)	–	–

37. Hedging instruments

Gains and losses on derivatives used for hedging are recognised in line with the underlying items which are being hedged. At 31 March 2003, the unrecognised gains on derivatives used for hedging were £1,683,000 (2002 - £638,000) and unrecognised losses were £991,000 (2002 - £290,000).

Of the £1,683,000 of unrecognised gains, £114,000 is expected to be recognised in the year ending 31 March 2004 and £1,569,000 in subsequent years. Of the £991,000 of unrecognised losses, £25,000 is expected to be recognised in the year ending 31 March 2004 and £966,000 in subsequent years. These values have been calculated by reference to the ultimate maturity date of the derivatives.

Of the gains and losses included in the profit and loss account in 2003, gains of £4,212,000 and losses of £4,584,000 were unrecognised at 31 March 2002.

There were no reclassifications of hedging instruments during the year.

Notes to the financial statements

38. Risk management

Detailed risk management commentary

Significant risks faced by the bank as a whole and changing risks faced by the businesses are reviewed weekly by the Executive Risk Review Forum, which comprises senior management and executive directors of the bank. Additionally, there is a monthly review by the Board Risk Review Committee comprising executive and non-executive directors of the bank. The key duties of the board committee are:

- To review the appropriateness of risk measurement policies and practices.
- To review and comment on the adequacy of the bank's controls to measure, monitor and manage risk based on information provided or obtained.
- To review regular reports provided by Group Risk Management on the effectiveness of the control framework.
- To review adherence to regulatory requirements specifically affecting governance of risk.

Significant and material breaches of prescribed controls are reported to the Board Risk Review Committee.

Reports from the control functions, the Audit Committee and the Board Risk Review Committee are reviewed at each board meeting.

The bank recognises that it is key to its future success as a financial institution to conduct its affairs with prudence and integrity and to safeguard the interests of the stakeholders.

All of the Bank's activities involve analysis, management and mitigation of some degree of risk or combination of risks.

The predominate types of risk that the bank faces are credit risk (including country risk), liquidity risk, market risk and operational risk. Additional significant risks are legal risk, regulatory risk and reputational risk.

The Board of Directors sets risk management policy and approves policy statements defining credit risk, market risk, trading limits and liquidity. These policy statements establish the bank's appetite for risk and set out the parameters within which it operates.

Implementation of these policies is the responsibility of the Director of Risk Management, who reports to the Chief Executive Officer. An independent Risk Management function, appropriately resourced with specialised people and systems, assists the Director of Risk Management.

Additionally, there are a number of Risk Management committees, with board approved terms of reference and membership, which have the necessary skill and experience to consider, evaluate and mitigate the risks they question.

Notes to the financial statements

38. Risk management (continued)

The main committees are:

Audit Committee

An independent non-executive director chairs this committee. It reviews and sets the internal audit programme and examines completed internal and external audit reports. It considers the major findings and ensures, via the Audit and Compliance Implementation Committee, that recommendations are implemented where necessary. It reviews the annual financial statements and reports on them to the Board of Directors. The Audit Committee also ensures that management establishes adequate arrangements to comply with regulatory and financial reporting requirements. It receives regular reports from Risk Management, outlining the enterprise-wide risk for the bank, and from the Compliance Department on regulatory issues.

Credit Committee

This forum sanctions all counterparty and country limits. It regularly reviews loan performance, large exposures and adequacy of provisions. Its role is to ensure that credit policy is prudent, taking into account changing market trends.

Market Risk Committee

This committee approves trading and market risk limits. It reviews daily changes in the level or volatility of market prices to ensure that all positions fall within the bank's agreed policies and limits.

Asset and Liability Committee

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

Operational Risk Committee

The role of this committee is to ensure that the bank's business units identify, assess, regularly monitor and prioritise all substantive risks that may arise through failed processes or systems, or through human error.

Engagement and Underwriting Committees

These committees relate predominantly to investment banking and project finance. The Engagement Committee ensures that proper client due diligence is carried out prior to any new broking or advisory relationship. The Underwriting Committee ensures that any proposed share underwriting is consistent with internal policy and meets regulatory requirements before a commitment is made.

Risk Committee

The Risk Committee regularly reviews the broader risks that the bank faces across its various business units. It ensures that risks are evaluated correctly and properly managed, and that they receive sufficient resources.

New Product Forum

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

Notes to the financial statements

38. Risk management (continued)

The committees are composed of executive directors and senior management, independent of the business units. The business units are represented on each committee but decisions, which must be unanimous, are independent of the business units, to ensure proper segregation of duties.

The responsibility for day to day control and monitoring of policies, procedures and limits is the responsibility of the Risk Management function.

Regular reports and information are given to the executive, general managers and the Board, to ensure they fully understand the risk and to demonstrate proper and prudent measurement, monitoring and management of risk.

It is very important that all enterprise-wide risks are regularly considered. Any change to business objectives can cause a change to the risk profile of the business. Consequently, under the guidance of Risk Management, all business units regularly review their objectives, assess the risks to prevent these objectives being achieved, and ensure there is defined ownership of the risks and defined ownership of the corresponding controls.

The likelihood and impact of any risk is assessed and appropriate controls are designed to be effective, taking into account the severity of the risk faced. The output from these processes is provided to Internal Audit, to enable them to give assurance as part of the audit work plan that controls are working properly and all risks have been properly identified.

This is to ensure that enterprise-wide risk management is embedded in the various business units.

The major risks associated with the bank's business are:

- Credit risk
- Liquidity risk
- Market risk
- Legal risk
- Regulatory risk
- Operational risk
- Reputational risk

Credit risk

This is the risk that counterparties will be unable or unwilling to meet their obligations to the bank as they fall due. It arises from lending and other transactions involving on- and off-balance sheet instruments.

Risk Management has the responsibility for developing and implementing policies to ensure that all exposures are properly measured, controlled and mitigated. These include geographical, product, market, and individual counterparty concentrations. All exposures are checked daily against approved limits, independently of each business unit. Excesses are reported to the general management of the bank and escalated to the executive where necessary.

Notes to the financial statements

38. Risk management (continued)

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

Credit limits on all lending, including treasury and interbank lines, are reviewed at least annually. Arrears policy is strictly controlled and regular reviews are held to evaluate the necessity and adequacy of specific provisions and whether the suspension of interest charged to the customer is required. An Arrears Committee regularly reviews delinquent facilities. It ensures that agreed strategy for remedial action is implemented and that specific provisions are made where relevant. Additionally, a general provision is held to cover unforeseen events, which are inherent in taking counterparty exposures.

The bank has a focused business strategy and has considerable expertise in its chosen sectors. The majority of the bank's lending, excluding interbank placements, which are predominantly with systemic European and US banks, is secured on assets and is amortising. On a geographical basis, over 95% of the credit exposure of the bank, including contingent liabilities and commitments, is to the UK domestic market, Continental Europe and the United States. Risk limits permit only modest exposure to South Africa and minimal exposure to other emerging markets.

The group has exposure to the State of Israel and Israeli counterparties through the operations of Investec Bank (Israel) Limited within that jurisdiction. Investec Bank (Israel) Limited became a subsidiary of Investec Bank (UK) Limited during the year under review.

All counterparty exposures are measured and monitored using a dedicated counterparty system. Treasury and trading exposures are marked to market daily from live data feeds, to ensure positions are correct.

Group	2003 £000	2002 £000
Core loans and advances to customers (excluding those in trading book)	1 510 307	1 133 490
Managed book	46 085	25 639
Net loans and advances to customers	1 464 222	1 107 851
Average net loans and advances to customers	1 422 741	1 019 758
Consolidated profit and loss provision charge	3 779	1 113
Specific provision	10 470	2 978
General provision	17 797	13 739
Total provisions	28 267	16 717
Gross non-performing loans	27 452	19 794
Security	(22 633)	(17 199)
Net non-performing loans	4 819	2 595

All of the net non-performing loans are covered by specific provisions.

Notes to the financial statements

38. Risk management (continued)

Group	2003	2002
Adequacy of provisions		
Consolidated profit and loss provision charge as a % of average loans and advances to customers	0.3%	0.1%
Specific provision as a % of core loans and advances to customers	0.7%	0.3%
General provision as a % of net loans and advances to customers	1.2%	1.2%
Total provisions as a % of core loans and advances to customers	1.9%	1.5%
Total provisions as a % of gross non-performing loans	103.0%	84.5%
Total provisions as a % of net non-performing loans	586.6%	644.2%

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

Category analysis	2003 £000	2002 £000
Commercial property	619 346	463 423
Residential mortgages	135 333	170 411
Lease and instalment debtors	37 862	45 718
Corporate and public sector	89 970	55 352
Other secured private bank lending	596 726	387 789
Other loans and advances	31 070	10 797
	1 510 307	1 133 490

Liquidity risk

This risk arises from the inability of the bank to meet its obligations as they fall due. It can arise from the withdrawal of customer deposits or interbank lines, the drawdown of existing customer facilities and asset growth.

The bank's liquidity policy covers sterling and currency activities. It ensures prudent management of liquidity and adherence to regulatory guidelines. This policy is developed and implemented by the Asset and Liability Committee. The bank's Centralised Treasury function has responsibility for day-to-day liquidity management. It is a policy of the bank that any subsidiaries operating in the geographical locations are correctly funded with appropriate liquidity in that jurisdiction. Local Asset and Liability Committees ensure adherence to policy with regular reviews by the Group Asset and Liability Committee.

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

Generally, interbank or wholesale deposits are not used to fund risk assets in the Private Bank. Retail and private client deposits remain the principal source of stable and well diversified funding for Private Banking assets.

Notes to the financial statements

38. Risk management (continued)

Market risk

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

Trading activities are controlled by a board approved limit structure. Additionally, each member of staff who engages in trading on behalf of the bank signs an appropriate mandate clearly defining their remit.

The bank uses an independent, comprehensive price risk system to measure market risk accurately and to ensure compliance with approved limits. All positions are marked to market daily using recognised live data feeds. These positions feed automatically into individual counterparty lines to provide accurate exposure information.

Investec measures market risk using a combination of historically simulated value at risk (VaR) and stress testing. VaR is a summary measure of potential losses, based on experience in the relevant markets over a given time horizon with a specified confidence level. A series of stress tests are applied to determine the market risk for parallel shifts and twists in the underlying yield curves, for basis risk between yield curves and for extreme market conditions. Daily reports are produced containing this VaR and stress test information. Daily profitability is also analysed to ensure that sources of revenue are understood.

The tables below represent the bank's VaR for its trading book at the year ended 31 March 2003 and 31 March 2002, for a 95% confidence level and a one-day holding period, assuming no mitigating action is taken. This means that there is a 1 in 20 chance that daily losses will be at least as large as the reported VaR amount. The consolidated VaR is calculated using exponentially weighted historical simulations. VaR, however, does not indicate how much the bank can expect to lose in these cases. Expected Tail Loss (ETL) quantifies the amount the bank can expect to lose when the VaR threshold is exceeded.

VaR (one-day)	2003 £000	2002 £000
Total trading activities	299	538
Commodities	57	194
Interest rates	9	562
Foreign exchange	36	141
Equities	265	440
Highest	870	910
Lowest	240	498
Average	450	679

Notes to the financial statements

38. Risk management (continued)

ETL (one-day)	2003 £000
Total trading activities	346
Commodities	69
Interest rates	14
Foreign exchange	41
Equities	330

Stress testing

The portfolio as at the year-end was stress tested under extreme market conditions and resulted in a notional loss of £2.8 million (2002 - £4.0 million), based on a one day holding period, as can be seen from the table below:

Stress exposure	2003 £000
Total trading activities	2 753
Commodities	428
Interest rates	68
Foreign exchange	270
Equities	1 987

Investec Bank (Israel) Limited's market risk is very small and has therefore been excluded from the above tables.

Notes to the financial statements

38. Risk management (continued)

Interest rate risk

The interest rate mismatch on banking book assets and liabilities is stated, as at year-end, in the table below. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

Interest rate mismatch

Year-end 31 March 2003	0-3 months £000	3-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000	Non-rate items £000	Total non-trading £000	Total trading £000	Total £000
Assets									
Cash and balances at central banks	254 769	–	–	–	–	3	254 772	1 197	255 969
Loans and advances to banks	603 484	2 822	–	–	–	–	606 306	1 212 383	1 818 689
Loans and advances to customers	1 128 189	45 532	26 224	210 238	85 904	(14 047)	1 482 040	574 715	2 056 755
Debt securities, equity shares and investments in associates	776 372	267 722	67 496	32 032	4 436	35 274	1 183 332	101 816	1 285 148
Other assets, including tangible and intangible fixed assets	20 229	2 047	1 378	8 039	6 173	129 244	167 110	212 365	379 475
	2 783 043	318 123	95 098	250 309	96 513	150 474	3 693 560	2 102 476	5 796 036
Liabilities									
Deposits by banks	444 181	43 728	30 000	682	3 293	–	521 884	987 869	1 509 753
Customer accounts	2 378 029	83 746	34 614	40 110	2 664	–	2 539 163	769 020	3 308 183
Debt securities in issue	35 000	26 327	–	–	–	–	61 327	–	61 327
Other liabilities	29 753	4 563	2 235	6 868	1 949	91 560	136 928	275 684	412 612
Subordinated debt	39 300	–	–	–	–	–	39 300	–	39 300
Minorities interest and shareholders' funds	–	–	–	–	–	464 861	464 861	–	464 861
	2 926 263	158 364	66 849	47 660	7 906	556 421	3 763 463	2 032 573	5 796 036
Net on balance sheet items	(143 220)	159 759	28 249	202 649	88 607	(405 947)	(69 903)	69 903	–
Off balance sheet items	155 030	597	2 346	(51 002)	(106 971)	–	–	–	–
Mismatch	11 810	160 356	30 595	151 647	(18 364)	(405 947)	(69 903)	69 903	–
Cumulative mismatch	11 810	172 166	202 761	354 408	336 044	(69 903)			

Notes to the financial statements

38. Risk management (continued)

Interest rate mismatch

Year-end 31 March 2002	0-3 months £000	3-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000	Non-rate items £000	Total non-trading £000	Total trading £000	Total £000
Assets									
Cash and balances at central banks	10 980	–	–	–	–	119	11 099	951	12,050
Loans and advances to banks	396 524	–	4 273	3 549	–	–	404 346	1 476 065	1 880 411
Loans and advances to customers	943 783	17 573	26 106	75 545	51 503	2 263	1 116 773	785 115	1 901 888
Debt securities, equity shares and investments in associates	377 928	243 701	216 758	66 331	–	35 983	940 701	2 823 563	3 764 264
Other assets, including tangible and intangible fixed assets	–	–	–	–	–	136 517	136 517	178 594	315 111
	1 729 215	261 274	247 137	145 425	51 503	174 882	2 609 436	5 264 288	7 873 724
Liabilities									
Deposits by banks	309 847	35 329	613	–	–	–	345 789	2 856 510	3 202 299
Customer accounts	1 599 633	63 734	30 546	50 286	30 680	–	1 774 879	1 661 798	3 436 677
Debt securities in issue	75 000	–	–	–	–	–	75 000	–	75 000
Other liabilities	–	–	–	–	–	76 812	76 812	585 462	662 274
Subordinated debt	39 300	–	–	–	–	–	39 300	–	39 300
Minorities interest and shareholders' funds	–	–	–	–	–	458 174	458 174	–	458 174
	2 023 780	99 063	31 159	50 286	30 680	534 986	2 769 954	5 103 770	7 873 724
Net on balance sheet items	(294 565)	162 211	215 978	95 139	20 823	(360 104)	(160 518)	160 518	–
Off balance sheet items	127 256	–	(2 163)	(125 093)	–	–	–	–	–
Mismatch	(167 309)	162 211	213 815	(29 954)	20 823	(360 104)	(160 518)	160 518	–
Cumulative mismatch	(167 309)	(5 098)	208 717	178 763	199 586	(160 518)			

Notes to the financial statements

38. Risk management (continued)

Currency risk

Any currency risk arising from the bank's commercial banking and lending activities is transferred to the trading book and managed within the board approved VaR limit structure.

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 Israel and Switzerland.

The group's structural currency exposures at each reporting period were as follows:

Currency of structural exposure 31 March 2003	Net investment in overseas operations* £000
Israeli Shekel (net of minority)	57 138
Swiss Franc	10 592
US Dollar	388
Euro	3 676
	71 794
31 March 2002	
Swiss Franc	9 311
US Dollar	5 484
Euro	1 439
	16 234

(*) There were no borrowings 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

38. Risk management (continued)

Non-structural currency exposures
The table below shows the group's currency exposures. These non-structural exposures give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and the monetary liabilities of the group that are not determined in the functional currency of the operating unit involved.

31 March 2003 **Net foreign currency monetary assets (liabilities) in £000**

Functional currency of Group operations	Sterling	South African Rand	US Dollar	Israeli Shekel	Euro	Other	Total
Sterling	–	(101)	11 069	3	717	(2 975)	8 713
US Dollar	(1 995)	–	–	5 021	16	–	3 042
Israeli Shekel	–	–	9 931	–	–	–	9 931
Other	8 258	–	–	–	–	–	8 258
	6 263	(101)	21 000	5 024	733	(2 975)	29 944

31 March 2002 **Net foreign currency monetary assets (liabilities) in £000**

Functional currency of Group operations	Sterling	South African Rand	US Dollar	Israeli Shekel	Euro	Other	Total
Sterling	–	11	17 200	4	(10 899)	8 523	14 839
Other	9 245	–	5	–	–	–	9 250
	9 245	11	17 205	4	(10 899)	8 523	24 089

The amounts shown do not take into account the effect of any currency swaps, forward trades and other derivatives entered into to manage these currency exposures.

Legal risk
Legal and documentation risk is defined as the risk that contracts entered into by the group with its clients will not be enforceable, especially with respect to events of default by a client. This could lead to a situation where the documentation will not give the rights and remedies anticipated when the transaction was entered into, particularly when security arrangements have been agreed.

To mitigate legal risk, there are independent dedicated qualified teams to ensure documentation gives the appropriate rights and remedies. These teams are supported by external legal advisors where necessary.

Notes to the financial statements

38. Risk management (continued)

Regulatory risk
This is the risk that any part of the bank fails to meet the requirements or expectations of the regulatory authorities. It can also arise where changes to regulations are not anticipated or managed properly. A centralised Group Compliance function, reporting to the chief executive officer, ensures regulatory compliance.

Compliance reports are reviewed regularly by the Board and Audit Committee. They are also considered by the Audit and Compliance Implementation Committee to ensure that any necessary points are actioned.

Operational risk
This is the exposure to financial or other damage arising through system or process failure, human error, and fraud or through inadequate controls and procedures. An Operational Risk Committee considers these risks and ensures that all operational risks are evaluated and appropriately controlled. A loss event database is in place. With further developments, this will assist in highlighting possible future operational risk stresses.

Contingency plans are in place to ensure continuity in the event of any unforeseen serious disruption to business operations. These plans are regularly reviewed and tested, to ensure they can be implemented in a timely manner should events dictate. To ensure the integrity of information technology systems, there is a resource headed by the Information Technology Security Officer that ensures systems are secure and accessible only by those with proper authorisation. Any changes to systems are authorised by a Change Control Forum, to ensure system stability and appropriate interface with other inter-dependent systems and the business continuity plans.

Segregation of duties between the front office and the control functions is crucial to ensure independent checks and balances to any process. Processes that could incur risk to the bank have duality of responsibility and authorisation between the front office and back office personnel.

To give further assurance, the Internal Audit function regularly reviews operational areas to ensure that risks and controls are appropriate and effective.

Basel accord
The banking sector is facing substantial changes in the way it will measure capital usage for both credit and operational risk. Proposals have been made by the Bank for International Settlements and are collectively known as Basel II. Guideline policy covering capital adequacy requirements is under development by regulators.

Within the bank there are specialised teams and project plans in place to deliver the necessary capability to meet regulatory guidelines, and, as importantly, the bank's specific risk appetite and requirements.

Notes to the financial statements

38. Risk management (continued)

Reputational risk

Reputational risk is the risk caused by damage to an organisation's reputation, name or brand. Such damage may be a breakdown of trust, confidence or business relationships. Reputational risk may arise as a result of other risks manifesting and not being mitigated.

Various policies and practices are in operation to mitigate reputational risk. These include a strong group values statement that is regularly and proactively reinforced. In addition, the group subscribes to sound corporate governance practices, which require that activities, processes and decisions are based on secure and carefully considered principles. As an international banking group, regulatory best practices are a desired outcome. This is particularly relevant in client acceptance rules, anti-money laundering policies and processes, and risk management practices.

Investec is acutely aware of the impact of practices that may result in a breakdown of trust and confidence in the organisation. The group's policies and practices are regularly reinforced through transparent communication, accurate reporting, continuous group culture and values assessment, internal audit and regulatory compliance reviews, as well as the Group Risk Management process.

39. Post balance sheet events

On 13 June 2003, Investec Bank (UK) Limited acquired 100% of the share capital of Investec Holdings (Australia) Limited from Investec Holdings Company Limited for a total consideration of £109,550,000, comprising £40,000,000 of shares in the company and the balance in cash.

40. Ultimate parent undertaking

The company's immediate parent undertaking is Investec 1 Limited.

As at 31 March 2002, the company's ultimate parent undertaking and controlling party was Investec Holdings Limited, a company incorporated in the Republic of South Africa and quoted on the JSE Securities Exchange South Africa. During the year, the group was restructured. As at 31 March 2003, the company's ultimate parent undertaking and controlling party is Investec plc, a company incorporated in the UK and registered in England and Wales. The consolidated financial statements of Investec plc are available to the public and may be obtained from Investec plc at 2 Gresham Street, London, EC2V 7QP.

The bank has taken advantage of the exemption in Financial Reporting Standard 1 not to present its own cash flow statement. The bank's ultimate parent undertaking, Investec plc, includes a cash flow statement in its published financial statements.

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