Investec Bank Limited

Reviewed condensed consolidated SA GAAP financial results in Rands for the year ended 31 March 2004

Consolidated income statement for the year ended 31 March

(R millions)	2004 Reviewed	2003* Audited
Interest received	6,551	7,226
Interest paid	(5,242)	(5,966)
Net interest income	1,309	1,260
Impairment of advances	(173)	(281)
Impairment of non-trading loans	–	(263)
	1,136	716
Other income	962	989
Total income	2,098	1,705
Operating expenses	(1,076)	(1,247)
Operating profit before goodwill amortisation	1,022	458
Goodwill amortisation	–	(10)
Operating profit before taxation	1,022	448
Taxation	(131)	(42)
Operating profit after taxation	891	406
Earnings attributable to minority shareholders	(1)	(2)
Earnings attributable to shareholders	890	404
Calculation of headline earnings		
Earnings attributable to shareholders	890	404
Headline adjustments	(3)	256
Goodwill amortised	–	10
Profit on disposal of subsidiaries and fixed assets	(3)	(17)
Losses on the impairment of non-trading loans	–	263
Headline earnings attributable to shareholders	887	660
Compulsorily convertible debenture interest	(268)	(267)
Preference dividends declared	(22)	–
Headline earnings attributable to ordinary shareholders	597	393

Statement of changes in shareholders' funds for the year ended 31 March

(R millions)	2004 Reviewed	2003* Audited
Balance at the beginning of the year	7,974	8,649
Adjustments to opening reserves as a result of the adoption of AC133	160	–
Restated balance at the beginning of the year	8,134	8,649
Net issue of perpetual preference shares	1,491	–
Earnings attributable to shareholders	890	404
Compulsorily convertible debenture interest	(268)	(267)
Preference dividends declared	(22)	–
Dividends paid	(500)	(800)
Movement in foreign currency translation reserves	(59)	(53)
Increase in cashflow hedge fair value adjustments	10	–
Net movement in investment revaluation reserves	(5)	41
Balance at the end of the year	9,671	7,974

Abridged cash flow statement for the year ended 31 March

(R millions)	2004 Reviewed	2003* Audited
Cash inflow/(outflow) from operating activities	331	(72)
Cash (outflow)/inflow from banking operations	(5,130)	3,828
Cash inflow from investing activities	161	18
Cash inflow from financing activities	1,979	1,533
Net (decrease)/increase in cash and short-term funds	(2,659)	5,307
Cash and short-term funds at the beginning of the year	14,423	9,116
Cash and short-term funds at the end of the year	11,764	14,423

Consolidated balance sheet at 31 March

(R millions)	2004 Reviewed	2003* Audited
Assets		
Cash and short-term funds	11,764	14,423
Short-term negotiable securities	6,336	8,199
Investment and trading securities	16,710	9,531
Other assets	1,409	1,681
Advances	35,726	28,158
Intergroup	9,768	10,274
Property and equipment	686	816
Intangible assets	–	1
	82,399	73,083
Equity and liabilities		
Capital and reserves		
Ordinary share capital	16	16
Perpetual preference shares	1,491	–
Compulsorily convertible debentures	1,938	1,938
Reserves	6,226	6,020
	9,671	7,974
Interest of minority shareholder's in subsidiaries	29	33
Total shareholders' funds	9,700	8,007
Subordinated debt	2,961	2,801
	12,661	10,808
Liabilities		
Redeemable preference shares	1,740	1,820
Deposits and other accounts	67,866	60,398
Taxation	132	57
	82,399	73,083

Segmental information

For the year ended 31 March 2004

(R millions)	Private Client Activities	Treasury & Specialised Finance	Investment Banking	Other	Total
Total income	628	669	372	426	2,095
Operating expenses	(415)	(353)	(92)	(216)	(1,076)
Operating profits before taxation and headline adjustments	213	316	280	210	1,019
Cost to income ratio (%)	58.4	51.6	24.7	43.2	47.5

For the year ended 31 March 2003*

(R millions)	Private Client Activities	Treasury & Specialised Finance	Investment Banking	Other	Total
Total income	545	812	138	456	1,951
Operating expenses	(380)	(426)	(71)	(370)	(1,247)
Operating profits before taxation and headline adjustments	165	386	67	86	704
Cost to income ratio (%)	58.4	48.8	51.7	55.5	55.8

These consolidated financial results are published to provide information to holders of Investec Bank Limited's listed non-cumulative, non-redeemable and non-participating preference shares.

Commentary

Investec Bank Limited, a wholly owned subsidiary of Investec Limited, is pleased to announce that headline earnings attributable to ordinary shareholders increased by 51.9% from R393 million to R597 million. Excluding the impact of AC133, headline earnings would have increased by 42.0%.

Operating profit before taxation and headline adjustments increased by 45% to R1,019 million, with solid performances from the Investment Banking, Private Banking and Group Services and Other Activities divisions.

The banking capital adequacy ratio for Investec Bank Limited at year end was 19.9%.

Accounting policies

Basis of preparation

The financial information has been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the South African Companies Act of 1973.

Changes to accounting policies

Accounting policies applied are consistent with those adopted in the 31 March 2003 annual report, except for the changes as a result of the adoption of the accounting statement on recognition and measurement of financial instruments (AC133).

In terms of AC133, all financial assets and financial liabilities are required to be classified into prescribed categories which determine their recognition and measurement criteria. Further, the statement has introduced principles in relation to impairments of financial instruments carried at amortised cost which replaces previous methodologies of determining specific and general provisions.

The major changes to Investec Bank Limited Group (Bank) as a result of adopting the standard are detailed below:

Fair value adjustments

- The statement requires all derivatives to be recorded on balance sheet at fair value, with changes in fair value being recognised in the income statement (except for fair value adjustments relating to the successful application of cash flow hedging principles, which result in fair value adjustments being recognised directly in equity until the occurrence of the cash flow being hedged). In prior years, non trading derivatives within the banking book were accounted for on the same basis as the underlying asset, liability or cash flow being hedged. On adoption of AC133, all of these derivatives have been recognised on balance sheet at fair value. Except for the application of cash flow hedging, all changes in fair value are recognised in income. To the extent that fair value hedge accounting principles have been successfully applied, changes in fair value relating to the hedged risk of the underlying hedged item have also been recognised in income.
- In certain instances where hedge accounting is impractical to apply, and the Bank deems it appropriate, related financial assets and financial liabilities have been designated as held at fair value. This designation is made at inception of the financial asset or financial liability (or on adoption of AC133) and cannot be changed.
- To the extent that derivatives have been identified as embedded in a host contract that is not carried at fair value and the economic characteristics of the embedded derivative are not closely related to that of the host contract, the embedded derivative has been separated from the host contract and accounted for as a stand alone derivative.

Impairments

- Specific impairments are determined for non performing loans and advances based on a discounted cash flow methodology. This has resulted in specific impairments greater than the previous specific provisions due to the introduction of a discount factor in determining the present value of the expected cash flows.
- In prior years, the Bank's general provision had been determined taking into account the structure and risk characteristics of the Bank's loan portfolio and ensuring that the minimum requirements of the banking regulations in the jurisdictions in which the Bank operated were maintained. As a result of the adoption of AC133, portfolio impairments are determined for loans that are not specifically identified as impaired or non performing based on a discounted cash flow methodology, taking into account historical loss given defaults, probabilities of default and changes in the credit quality of loans and advances since inception. This has resulted in significantly lower portfolio impairments when compared to general provisions raised previously. The difference between portfolio impairments and regulatory minimum provisions per regulatory asset category has been met by transferring sufficient distributable reserves to a non-distributable regulatory reserve.

Opening transitional adjustments

AC133 provides that changes resulting from the adoption of the standard be applied prospectively and therefore adjustments at 1 April 2003 have been accounted for as an adjustment to opening retained income. The impact of adopting AC133 on the opening shareholders' funds is detailed in the table below:

At 1 April 2003

R million	Retained income	Equity revaluation reserve	Non distributable regulatory reserve	Total shareholders' funds
Adjustments:				
– Fair value adjustments to derivatives and other financial instruments	(123)	–	–	(123)
– Reclassification of equity revaluations	20	(20)	–	–
– Present value adjustments to specific impairments	(36)	–	–	(36)
– Reversal of general bad debt provision	354	–	–	354
– Creation of portfolio impairment	(35)	–	–	(35)
	180	(20)	–	160
– Transfer to non distributable regulatory reserve	(333)	–	333	–
Change in total shareholders' funds	(153)	(20)	333	160

The impact of AC133 was to increase earnings for the year ended 31 March 2004 as follows:

	R million
Net interest income before impairments	64
Impairments	38
Non interest income	(35)
Income before taxation	67
Taxation	(28)
Income after taxation	39

At 31 March 2004 a further transfer of R122 million was made from retained income to the non distributable regulatory reserve.

Interpretations relating to accounting, regulatory and taxation effects on adoption of AC133 are currently subject to debate within the South African context. The Bank's financial reporting will be affected by further amendments to the International Financial Reporting Standard (IAS39) when incorporated into AC133.

* Restatements to comparative figures:

- In the prior year, adjustments to headline earnings of R256m were separately identified in the income statement. In the current year headline adjustments have been reflected within the respective income and expenditure categories with a corresponding adjustment to the comparative year. This resulted in two new line items on the income statement being "Impairment of non trading loans" (R263m) and "Goodwill amortisation" (R10m). The remaining R17m of income has been included within other income.
- Interest on compulsorily convertible debentures, which are classified as equity instruments, has been reflected in the statement of changes in equity.
- Cash and short-term fund assets amounting to R3,994m were classified under other assets in the prior year. The comparatives have been adjusted to reflect these assets as cash and short-term funds.

These results have been reviewed by our auditors, Ernst & Young and KPMG Inc. and their review opinion is available for inspection at the company's registered office.

On behalf of the board of Investec Bank Limited

Hugh Herman	**Stephen Koseff**	**Bernard Kantor**
Chairman	*Chief Executive Officer*	*Managing Director*

Investec Bank Limited
(Registration number 1969/004763/06)

JSE Code: INLP **ISIN:** ZAE000048393

Directors: H S Herman (Chairman), D M Lawrence* (Deputy Chairman). S Koseff* (Chief Executive).
B Kantor* (Managing). S E Abrahams. G R Burger*. D E Jowell. M P Malungani. D R Motsepe. Dr M Z Nkosi.
B Tapnack*. P R S Thomas. F Titi. R A P Upton. *Executive

Company secretary: S Noik

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