Investec

2006 Investec Bank (UK) Limited
Annual Financial Statements

Investec Bank (UK) Limited

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Reg. No. 489604

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Investec in perspective

Investec (comprising Investec plc and Investec Limited) is an international, specialist banking group that provides a diverse range of financial products and services to a select client base.

Founded as a leasing company in Johannesburg in 1974, we acquired a banking licence in 1980 and were listed on the JSE Limited South Africa in 1986.

In July 2002, we implemented a Dual Listed Companies (DLC) structure with linked companies listed in London and Johannesburg. A year later, we concluded a significant empowerment transaction in which our empowerment partners collectively acquired a 25.1% stake in the issued share capital of Investec Limited.

Since inception, we have expanded through a combination of substantial organic growth and a series of strategic acquisitions. Today, we have an efficient integrated international business platform, offering all our core activities in the UK and South Africa and select activities in Australia.

We are organised as a network comprising five business divisions: Private Client Activities, Treasury and Specialised Finance, Investment Banking, Asset Management and Property Activities. Our head office provides certain group-wide integrating functions and is also responsible for our central funding and the Trade Finance business.

Our strategic goals and objectives are based on the aspiration to be recognised as a distinctive specialist banking group. This distinction is embodied in our entrepreneurial culture, which is balanced by a strong risk management discipline, client-centric approach and ability to be nimble, flexible and innovative. We do not seek to be all things to all people and aim to build well-defined, value-added businesses focused on serving the needs of select market niches where we can compete effectively.

Mission statement

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

Values

- Outstanding talent - empowered, enabled and inspired
- Meritocracy
- Passion, energy, stamina, tenacity
- Entrepreneurial spirit

Distinctive Performance

- Respect for others
- Embrace diversity
- Open and honest dialogue
- Unselfish contribution to colleagues, clients and society

Dedicated Partnerships

Client Focus

- Distinctive offering
- Leverage resources
- Break china for the client

Cast-iron Integrity

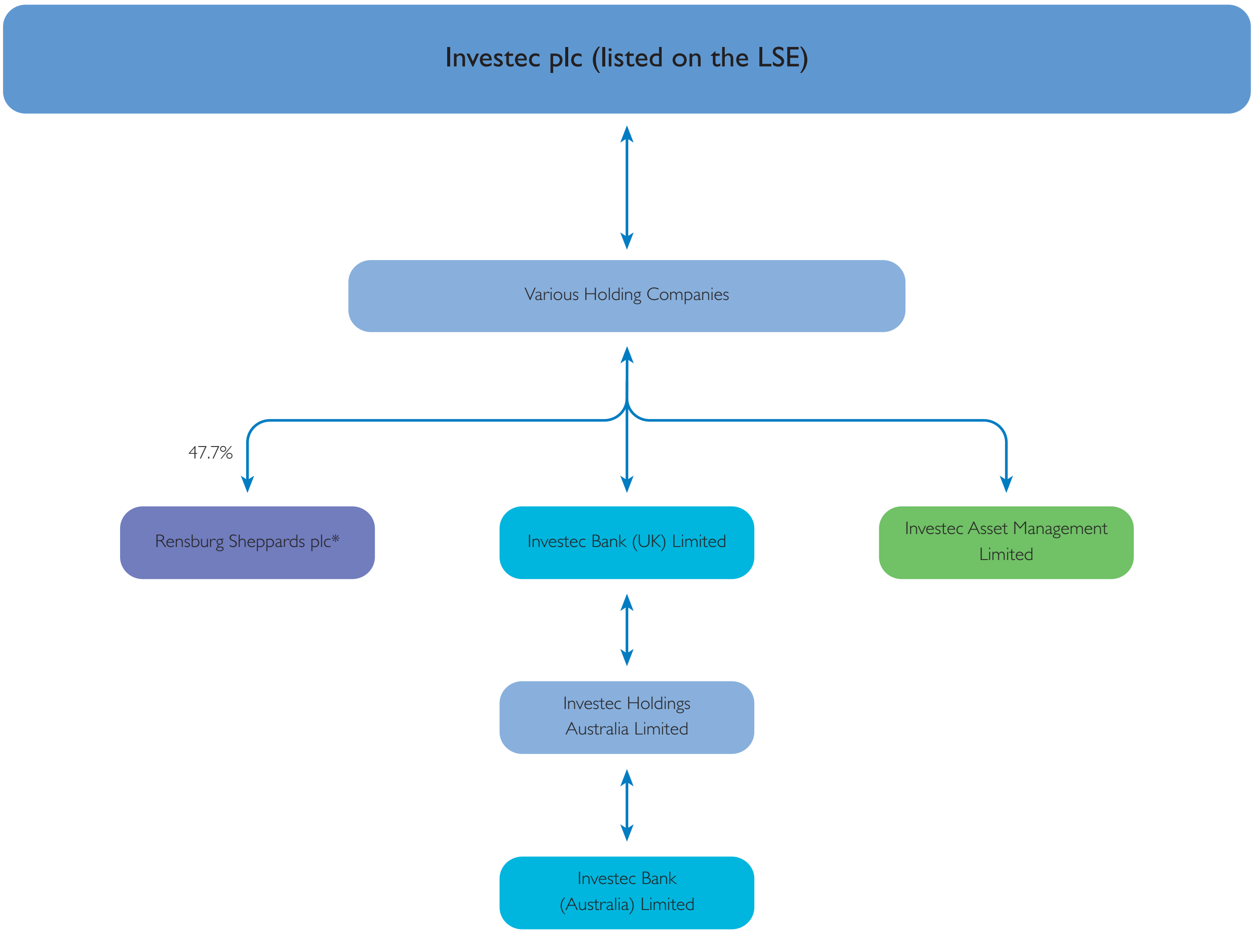
- Moral strength
- Risk consciousness
- Highest ethical standards

Philosophies

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

In terms of the implementation of the DLC structure (refer to page 4), Investec plc is the controlling company of the majority of our non-Southern African operations. Investec plc has a primary listing on the London Stock Exchange and a secondary listing on the JSE Limited South Africa. Investec Bank (UK) Limited is the main banking subsidiary of Investec plc.

As at 31 March 2006



Key: activities conducted

- Private Client Portfolio Management and Stockbroking
- Private Banking, Investment Banking, Treasury and Specialised Finance and Other Activities
- Asset Management

Note:

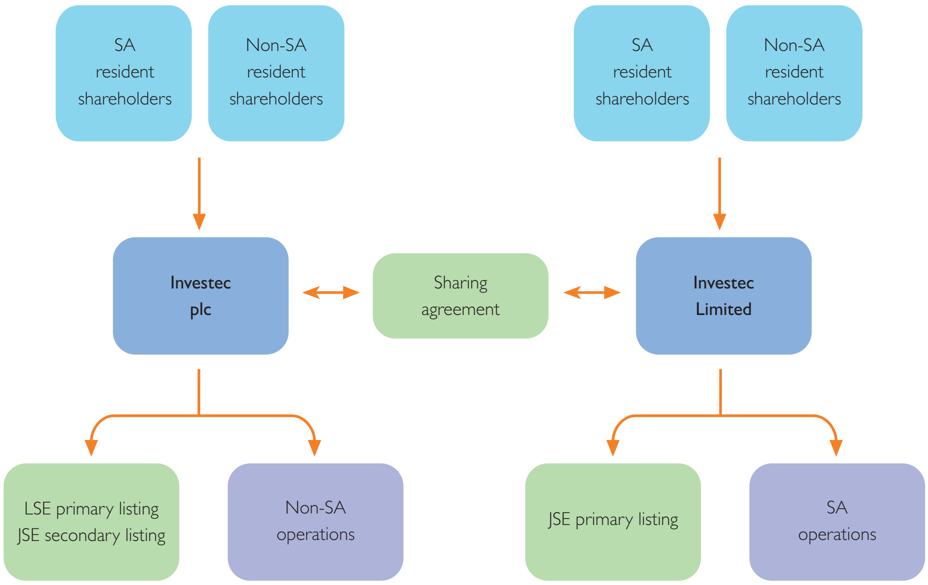
All shareholdings are 100%, unless otherwise stated.

* Carr Sheppards Crosthwaite Limited was sold to Rensburg plc in May 2005. Investec retains a 47.7% interest in the combined entity, Rensburg Sheppards plc.

Introduction

During July 2002 Investec Group Limited (since renamed Investec Limited), implemented a Dual Listed Companies (DLC) structure and listed its offshore business on the London Stock Exchange. A circular on the establishment of our DLC structure was issued on 20 June 2002.

DLC structure



Salient features:

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

Further information on our DLC structure is available in the circular mentioned above, as well as in the preliminary offering circular issued on 8 July 2002. A copy of these circulars can be found on our website.

Overview of Investec Bank (UK) Limited activities

Investec Bank (UK) Limited's principal business units comprise: Private Banking, Treasury and Specialised Finance, Investment Banking and Property Activities. Each division provides specialised products and services to defined target markets. Our head office also provides certain group-wide integrating functions, including Risk Management, Information Technology, Finance, Investor Relations, Marketing, Human Resources and Organisational Development. The head office is also responsible for our central funding.

Investec Bank (Australia) Limited is one of our subsidiaries

Private Banking

Investec Private Bank provides a range of private banking services, targeting select high income and net worth individuals in chosen niche markets. These services include:

- Structured Property Finance
- Specialised Lending
- Trust and Fiduciary
- Treasury and Banking
- Investment Management
- Growth and Acquisition Finance

We position ourselves as "an investment bank for private clients" in the high value advisory market, striving to "out think" not "out muscle" our competitors. One of our key strengths is the ability to originate new business by leveraging off the strong client relationships that we establish through our lending activities. This operating model sets us apart from other private banks that depend on the more traditional asset-gathering model.

We are based in London, with offshore subsidiaries in the Channel Islands, Switzerland and Ireland. Our target market comprises high income and high net worth individuals, including property developers and investors and management buy-out/buy-in candidates of owner managed businesses. Our unique offering has a strong franchise among successful entrepreneurs and self-directed internationally mobile clients, with a specific focus on select niches and community groups.

Structured Property Finance

Structured Property Finance, a key part of our business, provides senior debt, mezzanine and equity to high net worth individuals involved in the residential and commercial property markets across the UK and Europe.

Specialised Lending

We provide credit facilities and hedging solutions to sophisticated clients with bespoke financing requirements. Our core skill is the ability to implement complex transactions, often with an international dimension.

Trust and Fiduciary Services

Critical to our offering is the ability to implement appropriate structures on behalf of clients. Investec Trust operates in a unique space in the fiduciary market, as a bank owned trust company with the independence to operate with partners best suited to client needs. Working alongside these partners, the focus is on the delivery and administration of complex and effective international financial structures.

Treasury and Banking Services

We provide a wide range of onshore and offshore banking services from a range of jurisdictions in multiple currencies. These include currency deposits, money market deposits, transactional accounts, foreign exchange, structured deposits and cash management services. We also provide a specialist and bespoke approach to preserving capital and enhancing yield for pension schemes and trustees, discretionary asset managers, professional intermediaries and private clients.

Investment Management

We offer ultra high net worth private clients an independent wealth management service. Driven by each individual's specific requirements, the offering represents a bespoke strategic asset allocation where a dedicated investment practitioner proactively partners each client on an ongoing basis.

Through an open architecture, this highly disciplined yet personal service encapsulates a wide range of asset types, blending traditional and alternative investments in accordance with the targeted risk profile and agreed objectives.

Our investment methodology, detailed qualitative and quantitative due diligence process and access to the expertise of some of the world's leading financial institutions enable us to offer our clients products and services that are often exclusive and institutional in nature.

Growth and Acquisition Finance

We provide entrepreneurs, management teams and private equity houses with mezzanine or composite debt funding and minority equity investment solutions. Our flexible and purpose-created finance products are aimed at UK-based mid-market companies implementing acquisition and organic growth strategies with an enterprise value of £8 million to £20 million.

Treasury and Specialised Finance

Our Treasury and Specialised Finance division provides a wide range of specialist products, services and solutions to select corporate clients, public sector bodies and institutions. The division undertakes the bulk of our wholesale debt, structuring, proprietary trading, capital markets and derivatives business.

We focus on the following activities:

Corporate treasury and asset and liability management

Treasury provides Sterling, Euro, US Dollar and Rand funding to the group and manages liquidity and interest rate risk for the group. We offer a broad range of treasury products and services to the corporate and public sector markets.

Financial Products

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

Structured and Asset Finance

This area focuses on structured and conventional lending, bond origination, securitisation and advice, asset leasing and finance, preference share finance, mezzanine debt financing, leveraged buy-out funding, executive share schemes and financing solutions for corporate, government and public sector clients.

Project Finance

We provide advisory services, debt arranging and underwriting and equity raising in the infrastructure, power and industrial sectors with a focus on healthcare, defence projects, transport and power.

Commodities and Resource Finance

We are a participant in the precious and base metals markets, and provide hedging and structured trades for clients in the spot and derivatives markets. We also offer advisory services, debt arranging and underwriting, equity raising in the mining resources industry and structured hedging solutions.

Interest Rates

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

Foreign Exchange

We are a participant in the spot, forward exchange, currency swaps and currency derivatives markets, principally in G7 currencies.

Equity Derivatives

Our focus is on major equity index options, certain single stock options, equity structured products, futures index arbitrage and equity warrants. We provide hedging and structuring services to financial intermediaries, institutions and companies.

Investment Banking

In the UK, we operate our Investment Banking division under the name Investec Investment Banking and Securities, which trades as Investec. We focus on two distinct activities: corporate finance and institutional broking, both specialising in mid-market companies. We also provide institutional broking services to large capitalisation companies where we have strong research capabilities and additionally have a small managed private equity portfolio.

Corporate Finance

We provide financial advisory services, particularly for mergers and acquisitions. We also advise on and participate in equity capital market fundraisings for our clients. Our corporate client list currently comprises 84 quoted companies and a number of private company advisory roles and we also continue to expand our client base. The average market capitalisation of these clients at 31 March 2006 was £257 million.

Institutional Broking

Our Institutional broking activities in the UK are carried out under the name of Investec Securities. We provide research, sales, trading and market making services to a full range of UK and international institutional clients. A team of 29 equity analysts compiles research coverage on approximately 244 companies in the UK, focusing on 26 sectors. We also act as market maker for approximately 154 small to mid cap stocks and offer price making in selected large cap stocks. The quality of our research has been confirmed by a number of surveys. In the Sunday Times/Starmine survey, which is based on actual stock picking and earnings forecasting accuracy rather than subjective rankings, we were placed 5th across all UK brokers, including best stock picker in the whole of the UK. In the Investors Chronicle survey of Aim brokers we were rated 1st out of 30 brokers by UK small cap fund managers, based on the quality of the IPO's we have undertaken, the related research and ongoing feedback to clients.

Private Equity

In 1998 we inherited a UK managed private equity portfolio as part of the Guinness Mahon and Hambros acquisitions.

Property Activities

Our Property Activities in the UK have scaled down over the year as we have taken advantage of a seller's market by selling stock. Our direct property portfolio consists of two investment properties with prospects for value enhancement through active management. Our re-investment strategy remains opportunistic and we will wait, as necessary, until value adding opportunities arise.

We have devoted an increasing amount of time to assisting the Private Bank with mezzanine investments in client transactions. These niche investments have attractive risk/reward profiles.

We are intending to expand our property model in the UK to include property fund management and to align the strategic focus of the UK business with that of South Africa in order to build a more holistic global property business.

Group Services and Other Activities

Central Services

Central Services is made up of functional areas that provide services centrally across all our business operations. Consistent with our philosophy of operating as a single organisation, Central Services provides integrating mechanisms between the business operations. While these services do not form part of the operating divisions, we have a policy in place whereby a portion of these costs are allocated to the divisions.

Our principal Central Services, relating to the operations and control of our business, are Group Risk Management, Group Information Technology, Group Finance, Investor Relations, Group Marketing and Organisation Development. Other group support services include: Head Office, Internal Audit and Compliance, Legal, Company Secretarial, Tax, Information Centre, Regulatory and Facilities. There are certain costs that are strategic in nature and which have not been allocated to the operating divisions.

Central Funding

Our business model involves maintaining a central pool of capital, with the aim of obtaining economies of scale for corporate investments, funding and overall management. We use various sources of funding, depending on the specific financial and strategic requirements we face at the time. The funds raised are applied towards making acquisitions, funding central services and debt obligations, and purchasing corporate assets and investments not allocated to our principal operating divisions.

Investec Bank (Australia) Limited

We entered the Australian investment banking market in March 2001, with the acquisition of Wentworth Associates (since renamed Investec Wentworth), one of the leading corporate finance boutiques in Australia. This acquisition provided a platform to expand our activities into the corporate finance and private equity arenas in Australia.

In August 2002, we received a banking licence which opened up many growth opportunities. These included expansion of the Private Client division, specialising in property investment banking, investment management services and more recently, growth and acquisition finance.

Furthermore, we have established a project finance capability which, coupled with a limited range of treasury activities, has led to significant strategic diversification of our Australian operation.

Financial review

Transition to International Financial Reporting Standards

From 1 April 2005 Investec Bank (UK) Limited has been required to prepare its consolidated results in accordance with International Financial Reporting Standards (IFRS). Previously these were prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

Our transition to IFRS has been performed in accordance with IFRS 1 "First-Time Adoption of International Reporting Standards" and other relevant standards applicable at 31 March 2006.

The following dates are applicable for the transition to IFRS:

- 1 April 2004 - date of transition to IFRS, being the start of the earliest period of comparative information.
- 31 March 2005 - twelve month comparative period to 31 March 2006.

In accordance with the provisions of IFRS 1, we have elected not to apply the requirements of IAS 32, "Financial Instruments: Disclosure and Presentation" in these financial statements. Furthermore the requirements of IAS 39, "Financial Instruments: Recognition and Measurement" have not been applied to the 2005 comparative period. The impact of adoption of these standards is reflected as an adjustment to the opening balance sheet at 1 April 2005.

To facilitate comparability, a pro forma income statement is presented which incorporates the impact of the adoption of IAS 39 in the following respects:

- recognising certain fees on an effective yield basis.
- the release of general provisions on loans and advances .
- fair value adjustments for embedded derivatives.

The consolidated income statements and analysis that follows represents Investec Bank (UK) Limited's actual reported results for the year ended 31 March 2006 relative to the pro forma restated results for the year ended 31 March 2005. The pro forma 2005 results enhance comparability against the 2006 results and differ from the 2005 results reflected on pages 45 to 50 for the reasons explained above. All income statement comparatives referred to on pages 11 to 16 relate to the pro forma 2005 results.

Consolidated income statement

£'000	Year to 31 March 2006	Pro forma IFRS restated year to 31 March 2005
Interest receivable	314 158	246 304
Interest payable	(190 480)	(158 132)
Net interest income	**123 678**	**88 172**
Fees and commissions receivable	144 773	131 981
Fees and commissions payable	(5 662)	(6 851)
Principal transactions	60 682	32 632
Operating income from associates	447	61
Other operating income	1 578	255
Other income	**201 818**	**158 078**
Total operating income	**325 496**	**246 250**
Impairment losses on loans and advances	(7 241)	(4 489)
Net operating income	**318 255**	**241 761**
Administrative expenses	(199 395)	(156 601)
Depreciation and impairment of property, equipment and software	(2 719)	(2 985)
Operating profit before goodwill impairment	**116 141**	**82 175**
Recognition of negative goodwill	-	2 455
Operating profit	**116 141**	**84 630**
Non-operating exceptional items	(1 071)	(5 207)
Profit before taxation	**115 070**	**79 423**
Taxation	(32 333)	(22 718)
Profit after taxation	**82 737**	**56 705**
Earnings attributable to minority shareholders	12	808
Earnings attributable to shareholders	82 725	55 897
Earnings attributable to shareholders' equity	**82 737**	**56 705**

Consolidated balance sheet

£'000	31 March 2006	1 April 2005
Assets		
Cash and balances at central banks	10 870	10 308
Loans and advances to banks	661 028	610 626
Cash equivalent advances to customers	54	52
Reverse repurchase agreements and cash collateral on securities borrowed	643 172	2 157 401
Trading securities	160 130	287 524
Derivative financial instruments	254 595	134 109
Investment securities	1 237 069	1 098 386
Loans and advances to customers	3 553 646	2 812 105
Interests in associated undertakings	12 023	11 426
Deferred taxation asset	22 744	17 680
Other assets	855 595	360 621
Property and equipment	15 674	16 804
Goodwill	36 191	30 866
Intangible assets	1 313	1 067
	7 464 104	**7 548 975**
Liabilities		
Deposits by banks	1 059 167	868 615
Derivative financial instruments	48 777	103 782
Other trading liabilities	123 791	1 737 616
Repurchase agreements and cash collateral on securities lent	272 584	337 407
Customer accounts	3 645 604	2 699 475
Debt securities in issue	717 958	639 608
Current taxation liabilities	37 050	11 955
Deferred taxation liabilities	1 513	2 048
Other liabilities	744 183	377 403
	6 650 627	**6 777 909**
Subordinated liabilities (including convertible debt)	225 683	222 196
	6 876 310	**7 000 105**
Equity		
Called up share capital	354 000	354 000
Share premium account	37 365	37 365
Other reserves	6 951	7 452
Profit and loss account	189 245	149 848
Shareholders' equity excluding minority interests	587 561	548 665
Minority interests - equity	233	205
Total shareholders' equity	**587 794**	**548 870**
Total liabilities and shareholders' equity	**7 464 104**	**7 548 975**

Segmental information

For the year to 31 March 2006

£'000	Private Client Activities	Treasury & Specialised Finance	Investment Banking	Property Activities	Group Services and Other	Total
Net operating income	144 535	74 943	85 889	2 477	10 411	318 255
Operating expenses	(76 255)	(52 465)	(50 843)	(454)	(22 097)	(202 114)
Operating profit before goodwill impairment, non-operating items and taxation	**68 280**	**22 478**	**35 046**	**2 023**	**(11 686)**	**116 141**
Cost to income ratio	53.4%	64.4%	59.2%	18.3%	n/a	62.1%

Pro forma for the year to 31 March 2005

£'000	Private Client Activities	Treasury & Specialised Finance	Investment Banking	Property Activities	Group Services and Other	Total
Net operating income	101 735	56 111	63 196	7 157	13 562	241 761
Operating expenses	(60 526)	(41 604)	(40 367)	(2 086)	(15 003)	(159 586)
Operating profit before goodwill impairment, non-operating items and taxation	**41 209**	**14 507**	**22 829**	**5 071**	**(1 441)**	**82 175**
Cost to income ratio	57.9%	74.1%	63.9%	29.2%	n/a	64.8%

Commentary on the results of Investec Bank (UK) Limited for the year ended 31 March 2006

Unless the context indicates otherwise, all income statement comparatives in the review below, relate to the pro forma results for the year ended 31 March 2005.

("Operating profit" in the text below refers to profit before goodwill impairment, non-operating items and taxation.)

Introduction

Investec Bank (UK) Limited increased operating profit by 41.3% from £82.2 million to £116.1 million. Earnings attributable to ordinary shareholders increased by 48.0% from £55.9 million to £82.7 million. We benefited from continued focus on driving profitable growth in our core businesses supported by favourable economic conditions.

Financial highlights

	31 March 2006	31 March 2005	% Change
Operating profit (£'000)	116 141	82 175	41.3%
Earnings attributable to ordinary shareholders (£'000)	82 725	55 897	48.0%
Cost to income ratio	62.1%	64.8%	
	31 March 2006	**1 April 2005**	
Total capital resources (including subordinated liabilities) (£'000)	813 477	771 066	5.5%
Total shareholders' equity (including minority interests) (£'000)	587 794	548 870	7.1%
Total assets (£'000)	7 464 104	7 548 975	(1.1%)
Capital adequacy ratio	19.0%	18.0%	
Tier 1 ratio	14.4%	16.5%	

Business unit review

An analysis of the performance of each business unit is provided below.

Private Banking

Overview of performance

The Private Bank recorded an increase in operating profit of 65.7% to £68.3 million (2005: £41.2 million). Most areas of specialisation within the Private Bank performed strongly.

Since 1 April 2005, the Private Bank has shown good growth in all of its key earnings drivers:

- Loans and advances have increased 29.6% to £2.4 billion.
- The deposit book has grown 40.1% to £3.1 billion.
- Funds under advice have increased by 63.0% to £882 million.

Developments

UK and Europe

- The Structured Property Finance team concluded a number of significant transactions in Europe and expanded its distribution capability in London, Manchester and Ireland.
- The Banking business launched a range of mortgage offerings for private clients with bespoke mortgage requirements. These included an innovative multi-currency offering.
- The Growth and Acquisition Finance business was a key contributor to bottom line and its portfolio of deals was significantly enhanced. It was named "Alternative Debt Provider of the Year" in the Real Deals Private Equity Awards in London (2005 calendar year).
- The Investment Management business is validating the investment made over the last few years and has won a number of significant private client mandates. It was recognised through its nomination for "Best Private Bank Internationally for Innovative Products and Services" in The Private Banker International Awards 2005, alongside Goldman Sachs and Credit Suisse.
- The Guernsey based bank continues to successfully penetrate the Channel Islands market for deposit raising and is a key provider of liquidity for the Private Bank in Europe.
- The Trust and Fiduciary business acquired Quorum Management Limited in Jersey during November 2005 to bolster the scale of its existing operations.
- A boutique property fund administration business was launched successfully in Guernsey.

Australia

- The Growth and Acquisition Finance team was bolstered with new specialist skills.
- The Structured Property Finance team diversified its proposition and partnered with its clients in a number of principle investments.
- The business successfully distributed A$135 million special investment opportunities created by the bank to its high net worth investor base.

Outlook

- The earnings outlook across all geographies is positive, with strong deal pipelines.
- There are planned growth strategies in each jurisdiction which include the expansion of distribution capability together with new strategic initiatives.

Treasury and Specialised Finance

Overview of performance

The Treasury and Specialised Finance division posted an operating profit of £22.5 million (2005: £14.5 million), an increase of 54.9%. Growth was underpinned by a strong performance from the division's advisory, structuring, asset creation and distribution activities. The lending book increased by 47.1% to £1.1 billion since 1 April 2005.

Developments

UK and Europe

- We successfully recruited a Principle Finance team to target the UK and European securitisation markets. This team will seek to create platforms for the securitisation of internal and third party originated banking assets. We placed our first collateralised loan obligation of acquisition finance assets in March 2006.
- Activity continued in the aircraft finance market and we were awarded the Jane's Transport Aircraft Leasing Deal of the Year 2005 - Asia.
- The Acquisition Finance business continued to show good growth. The team recruited from Citigroup (medium ticket leasing) has been operational for nine months and performed well over the period. A small ticket leasing team was acquired from the Bank of Scotland and became operational in March 2006.
- The Project and Infrastructure business earned advisory fees on a number of successfully closed PFI projects. Fees were also earned on renewable energy transactions and investments we made into some of these projects showed significant value uplift during the period.
- The Resource Finance team had a positive year with good fee income and earnings from direct equity investments. The integrated Commodities desk achieved a return to profitability with a renewed mandate better suited to our risk appetite.
- The Equity Finance business in Ireland continued to perform strongly and successfully diversified its product range and client base.
- The Equity Derivatives business was remodelled and much of the year was spent developing sophisticated, cross exchange trading platforms which will be launched in the new year.

Australia

- The Viridis Clean Energy Fund was successfully listed and we continue to source clean energy mandates.

- A structured finance and financial product capability was established.
- A strategic focus on commodity and resource finance was created and appropriately resourced.

Outlook

- The deal pipeline and general momentum are positive.
- Line of sight income remains good.
- Activity levels in the trading businesses should increase as we leverage the underlying infrastructure and increase market activities.
- The establishment of platforms to provide securitisable assets is under way and presents a significant new business opportunity.
- The recently announced acquisition of Rothschilds in Australia provides an annuity base and a level of scale which will allow further business growth.
- Market conditions favour strong growth.

Investment Banking

Overview of performance

The Investment Banking division posted a 53.5% increase in operating profit to £35.0 million (2005: £22.8 million), driven by solid performances from the division's areas of specialisation.

Developments

Corporate Finance

UK and Europe

- We benefited from a high level of merger and acquisition (M&A) activity and an active IPO market.
- Seven IPOs were concluded during the period, the most significant being Land of Leather (a furniture retailer) and Aurora Russia (a vehicle that invests in Russian financial services companies).
- We completed 14 M&A transactions with a value of £1.9 billion (2005: 19 transactions with a value of £1.1 billion).
- We completed 21 fundraisings during the year, raising in aggregate £634 million (2005: 12 transactions raising £376 million). This included a £200 million fundraising for Melrose's acquisition of McKechnie and Dynacast.
- We were involved in two syndicated transactions that raised £151 million.
- We continue to build the quality and size of the corporate client list, gaining 24 new brokerships with the total number of quoted clients now at 84. Average market capitalisation of these clients is £257 million.

Australia

- There is increasing awareness and recognition of the Investec brand.
- We advised on 20 transactions (2005: 18) valued at approximately A$6.5 billion (2005: A$26.7 billion).
- We continued to take advantage of cross-border opportunities within the broader group.
- Dedicated Property Advisory and Resources teams were added to expand on our capabilities.

Institutional Research, Sales and Trading

UK and Europe

- This was the first year that we ran the South African and UK Securities operations as a fully integrated and unified business. The alignment of the businesses has enabled us to serve our clients far more effectively - as we have integrated our offering, optimised the use of our risk capital, created leverage across sales and research (especially on dual listed stocks) and better facilitated South African and UK product distribution into the US and Europe.
- Strong secondary commissions were recorded during the period as a result of:
  - Increasing market share on the back of an improving research ranking and service delivery.
  - Improved market levels and market volumes.
  - A greater focus on hedge fund clients.
  - An expanded specialist sector offering.
- The recent Starmine awards emphasised the quality of research where, as a specialist house, Investec Securities scored joint fifth place across all UK brokers.

Direct Investments and Private Equity

UK, Europe and Hong Kong

- We benefited from the sale of investments in the underlying funds of the Private Equity portfolio.
- We are developing a Direct Investments business in Hong Kong driven by Richard Forlee.
- Total value of the on-balance sheet portfolio at 31 March 2006 was £28 million (2005: £10 million).

Australia

- The investment portfolio continued to perform strongly, with four new investments made over the past year.
- The strong IPO and takeover markets provided some attractive exit opportunities.
- Direct Investments profits were driven primarily by good performance from underlying investments and an increase in the market value of the portfolio.
- Total value of the on-balance sheet portfolio at 31 March 2006 was £8 million (2005: £1 million).

Outlook

- We continue to build our corporate client base in the UK and have pitched and won a number of brokerships with larger corporates.
- Continuing sound levels of M&A activity within the Australian market together with increased brand awareness provide a solid platform for ongoing growth.

- Investec Securities remains well positioned to capitalise on healthy market conditions. International leverage from revenue stream diversification will add to future franchise strength.
- The UK business continues to strengthen its broking franchise with the introduction of three new sectors (Speciality and Other Financials, Biotech and Building and Construction) and the expansion of product into the US and Europe.
- We remain active in seeking direct investment and private equity opportunities.

Property Activities

Overview of performance

The Property division recorded an operating profit of £2.0 million (2005: £5.1 million), down 60.1% due to several exit fees earned in the prior year.

Developments

- We are intending to expand our property model in the UK to include property fund management and to align the strategic focus of the UK business with that of South Africa in order to build a more holistic global property business.

Group Services and Other Activities

The Group Services and Other Activities division posted an operating loss of £11.7 million compared to a loss of £1.4 million in the previous year principally as a result of an increase in Central Services costs.

The increase in Central Services costs is largely a result of:

- An increase in variable remuneration given increased profitability.
- The introduction of a long-term incentive plan for a group of senior employees.
- Increased headcount in Central Services areas.
- An increase in infrastructural costs relating to certain projects underway to improve efficiency which should result in long-term cost savings.

Risk management and corporate governance

Philosophy and approach

Investec recognises that the effectiveness of the risk management function is fundamental to its business. Taking international best practice into account, we follow a comprehensive risk management process, which involves identifying, understanding and managing the risks associated with each of our businesses.

A culture of risk awareness, control and compliance is embedded in our day-to-day activities.

An independent function, Group Risk Management (part of Group Services) independently monitors, manages and reports on our risk as mandated by the board through the Board Risk Review Committee. Business units are ultimately responsible for managing risks that will arise.

We monitor and control risk exposure through credit, market, liquidity, operational and legal risk reporting teams. This approach is core to assuming a tolerable risk and reward profile, helping us to pursue growth across our business.

Group Risk Management operates within an integrated geographical and divisional structure, in line with our management approach, ensuring that the appropriate processes are used to address all risks across the group. Group Risk Management has specialist divisions in the UK and South Africa and smaller risk divisions in other regions, to promote sound risk management practices.

Group Risk Management divisions with international responsibility are locally responsive yet globally aware. This helps to ensure that all initiatives and businesses operate within our defined risk parameters and objectives.

Group Risk Management continually seeks new ways to enhance its techniques. However, no bank can completely or accurately predict or fully assure the effectiveness of its policies and procedures for managing risk.

In our ordinary course of business, we are exposed to various risks, including credit, market, interest rate and liquidity, operational, legal and reputational risks.

This section provides an overview of these types of risks and related developments that occurred during the period under review. Further detail on our risk management framework, committees and forums as well as our risk management and measurement techniques can be found in the Investec group's 2006 Annual Report.

Credit risk management

Credit risk is the potential loss to the group as a result of a counterparty being unable or unwilling to meet its obligations.

Credit risk arises from two types of transactions:

- Lending transactions and positions in debt instruments (the risk that a counterparty to a transaction will be unable or unwilling to repay capital and interest on advances and loans granted to it as they fall due).
- Derivative transactions giving rise to settlement and replacement risk. Settlement risk is the risk that the settlement of a transaction does not take place as expected, with Investec effecting required settlements as they fall due but not receiving settlements to which they are entitled. As markets evolve, safe settlement mechanisms such as Continuous Linked Settlement and exchange settlement serve to reduce the level of settlement risk in the banking system. Replacement risk is the risk that a derivative instrument needs to be replaced following default by the original counterparty and that such replacement is done at a cost which equates to the mark-to-market of the trade at the date of replacement.

The nature and degree of credit risk vary depending on the type of business transactions entered into.

Credit risk in the UK and Europe

The UK and European group comprises businesses in the UK, including a branch in Ireland and banking businesses in the Channel Islands and Switzerland.

Credit risk arises mainly through our Private Bank and Treasury and Specialised Finance activities. Some settlement risk is assumed in the Investment Banking division, but is to approved market counterparties.

Private Bank

The Private Bank has businesses in the UK, including a branch in Ireland, the Channel Islands, and Switzerland. Credit risk arises from our Structured Property Finance, Specialised Lending, and Growth and Acquisition Finance activities.

The Structured Property Lending area provides senior debt, mezzanine and equity funding for property transactions covering the residential and commercial markets. Our exposure to the property market is well diversified with no individual concentration risk. Our properties are well located residential or good quality commercial assets with recognised tenant covenant. Our property assets are located in the UK, with limited exposure to retail properties in Germany and Switzerland which are anchored by major European retail covenants. Client quality and expertise are at the core of our credit philosophy, ensuring a low probability of default. Furthermore, robust debt service cover ratios and reasonable loan to values ensure a low level of expected loss, which is supported by low historical actual losses. Where a more commercial view is taken on debt structure and leverage, significantly increased returns are expected. All facilities are reviewed at least annually and property values are monitored by our appointed panel of valuation firms. Committees review and monitor our mezzanine and equity property funding exposure on a quarterly basis.

Growth and Acquisition Finance provides successful entrepreneurs, management teams, private equity houses and UK based mid-market companies implementing acquisition and organic growth strategies with mezzanine or composite debt funding. Deal sizes typically range between £8 million and £20 million. Credit risk is assessed against the debt service coverage and robustness of the cash generation for the business both historically and against forecasts. Other factors include the quality of the management team and the amortisation profile of the debt package.

Specialised Lending provides bespoke credit facilities and hedging solutions to high net worth individuals and financially sophisticated clients. This involves securities lending against holders of listed equities and transaction facilitation, where we work with clients, law firms and trust companies to facilitate financial planning and structuring for their clients.

Treasury and Specialised Finance

The bulk of Treasury and Specialised Finance activities are conducted from London.

The Treasury and Specialised Finance division, as part of the daily management of liquidity, places funds with banks and other financial institutions. These banks and financial institutions are highly rated and usually of a systemic nature.

Trading for customers is undertaken in interest rates, foreign exchange, commodities and equities. This may give rise to counterparty failure. Positions are marked to market daily with margin calls where necessary to mitigate credit exposure in the event of default.

The Acquisition Finance business focuses on senior debt facilities in the leveraged market to scale businesses operating in mature markets with leading and defendable market shares.

Credit exposures also arise through project finance, resource finance, asset finance, corporate lending and structured transactions. There are pre-approved limits specifying the maximum exposure for each counterparty, to ensure there is no concentration risk.

Most facilities are secured on the assets of the underlying corporate.

Credit risk in Australia

Investec Bank (Australia) Limited operates within a clearly defined framework for managing credit risk. The policies and procedures for credit risk management are consistent with those of the group and comply with the prudential standards issued by the Australian Prudential Regulatory Authority.

Credit risk is assumed through lending to target private and corporate clients, project and resource finance and the placement of surplus liquidity with highly rated domestic banks and financial institutions.

Asset quality and impairments

£'million	31 March 2006	1 April 2005
Total loans and advances to customers (gross of impairments)*	3 557	2 650
Managed book	(45)	(33)
Net loans and advances to customers	**3 512**	**2 617**
Specific impairments	9	5
Portfolio impairments	1	1
Total impairments	**10**	**6**
Gross non-performing loans	39	22
Less: security	(27)	(17)
Net non-performing loans	**12**	**5**
Adequacy of impairments		
Specific impairments as a % of loans and advances to customers	0.3%	0.2%
Total impairments as a % of loans and advances to customers	0.3%	0.2%
Total impairments as a % of gross non-performing loans	25.6%	27.3%
Total impairments as a % of net non-performing loans	83.3%	120.0%
Specific impairments as a % of gross non-performing loans	23.1%	22.7%
Specific impairments as a % of net non-performing loans	75.0%	100.0%
Gross non-performing loans as a % of loans and advances to customers	1.1%	0.8%

* Excludes intergroup loans.

Asset quality by geography

£'million	Loans and advances*	Portfolio impairments	Specific impairments	Total impairments	Gross NPLs	Security held against NPLs	Net NPLs
31 March 2006							
UK and Europe	3 153	1	8	9	26	19	7
Australia	404	-	1	1	13	8	5
Total	**3 557**	**1**	**9**	**10**	**39**	**27**	**12**
1 April 2005							
UK and Europe	2 327	1	4	5	21	17	4
Australia	323	-	1	1	1	-	1
Total	**2 650**	**1**	**5**	**6**	**22**	**17**	**5**

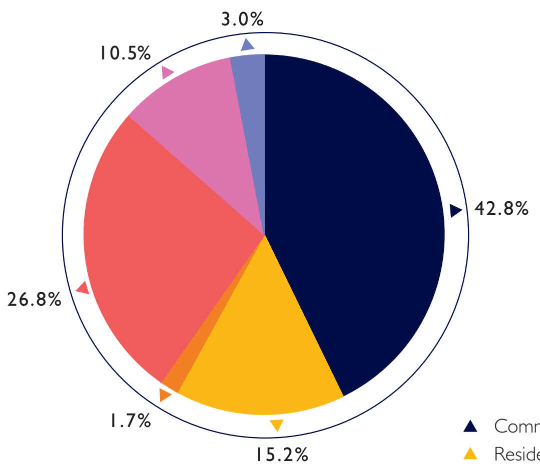
Where: NPLs are gross non-performing loans.

Loans and advances to customers by loan type*

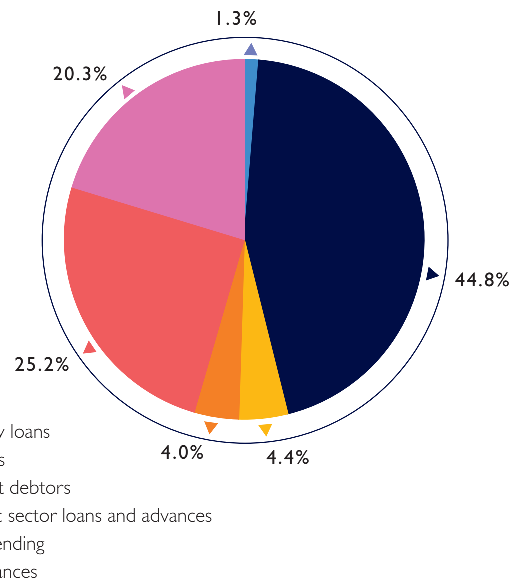
£'million	31 March 2006	1 April 2005
Category analysis		
Commercial property loans	1 524	1 186
Residential mortgages	541	116
Leases and instalment debtors	59	106
Corporate and public sector loans and advances	954	667
Other private bank lending	372	539
Other loans and advances	107	36
	3 557	**2 650**
Specific impairment	(9)	(5)
Portfolio impairment	(1)	(1)
	3 547	**2 644**

* Excludes intergroup loans.

Loans and advances to customers by loan type: 31 March 2006



Loans and advances to customers by loan type: 1 April 2005



Credit risk year in review

Basel II

From a credit risk perspective there has been significant investment in people and technology in order to re-engineer existing credit process in such a way as to meet additional requirements of the jurisdictional regulators which are in the process of being aligned to the International Convergence of Capital Measurement and Capital Standards issued by the Bank of International Settlements. This re-engineering of credit processes is being conducted within the context of Investec's core credit philosophy.

UK and Europe

The loan portfolio increased by 35.4% to £3.1 billion largely driven by solid growth in our Structured Property Lending and Acquisition Finance businesses.

House price growth in the UK slowed to low levels during 2005, consistent with expectations of a soft landing and dampening fears of a property crash. Growth is generally anticipated to be in line with incomes during the next three years, with markets in prime central London showing the healthiest increases in the £1 million plus bracket. Good quality investment property remains strong, with a number of funds underweight in this asset class. Low interest rates helped the market but the threat of interest rate increases contributed to a slow down.

Against this background, the spread of our exposures in our Private Banking division to high net worth and market professional individuals who can afford rate rises and have equity at risk gives comfort.

While leverage in the leveraged buy-out market continues to increase our Acquisition Finance business remains highly selective in terms of the transactions it undertakes. The book is well diversified and credit quality is solid. There is good appetite in the secondary market for these assets which presents us with securitisation opportunities.

The quality of the overall loan portfolio in the UK and Europe remains satisfactory.

Australia

The loan portfolio increased by 25.0% to £403 million driven by growth across all business streams.

Market risk management

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

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

Measurement techniques used to quantify the market risk arising from our trading activities include sensitivity analysis, Value at Risk (VaR) and Expected Tail Loss (ETL). Stress testing and scenario analysis are also used to simulate extreme conditions to supplement these core measures.

VaR is the amount by which a portfolio will change in a certain time frame no more than a certain percentage of the time. For example, a 99% one-day VaR of £50 000 means that 99% of the time we do not expect the loss on a portfolio to exceed £50 000. ETL starts where VaR ends, i.e. where the VaR threshold is exceeded. In the example above, we can ask how much we expect to lose 1% of the time? A 99% ETL of £62 000 means that 1% of the time, the portfolio will lose £62 000 on average.

VaR numbers are monitored at the 95%, 99% and 100% (maximum loss) confidence intervals. ETLs are monitored at the 95% and 99% levels.

Scenario analysis considers the impact of a significant market event on our current trading portfolios. For example, we would analyse the impact of the 11 September 2001 terrorist attack in New York on the market and, consequently, on our portfolios. We consider the impact for the 10 days after the event, not merely the instantaneous shock to the markets.

All VaR models, while forward-looking, are based on past events and depend on the quality of available market data. The accuracy of the VaR model as a predictor of potential loss is continuously monitored through back testing. This involves comparing the actual trading revenues arising from the previous day's closing positions with the one-day VaR calculated for the previous day on these same positions. If the revenue is negative and exceeds the one-day VaR, a "back testing breach" is considered to have occurred.

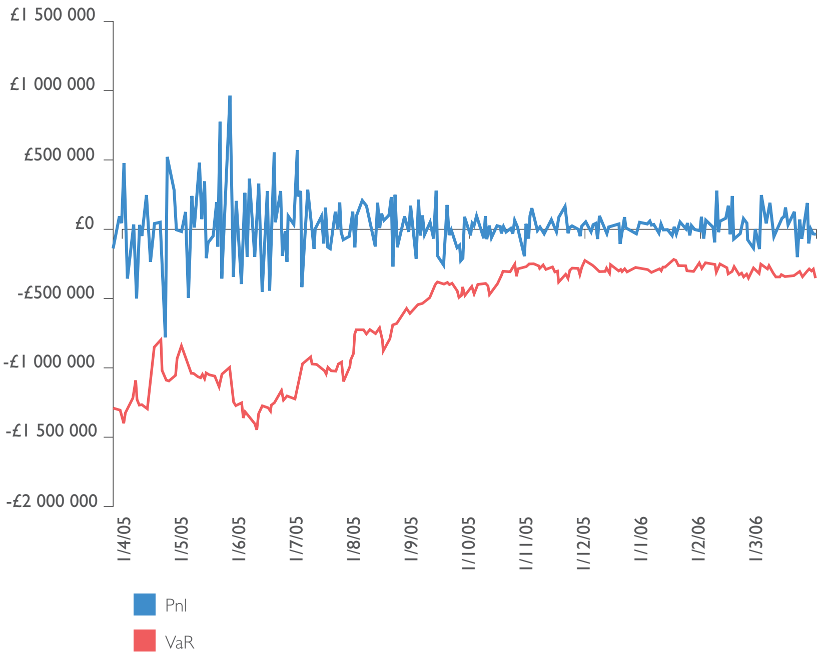
VaR 95% (one-day)

At 31 March £'000	2006	2005
Commodities	36	24
Equity derivatives	212	856
Foreign exchange	8	11
Interest rates	14	10
Consolidated*	**203**	**836**

* The consolidated VaR for each desk and each entity is significantly lower than the sum of the individual VaRs. This arises from the correlation offset between the various asset classes.

The graph below details total daily VaR and profit and loss figures for the trading activities of the bank over the reporting period. The values are for the 99% one-day VaR, i.e.99% of the time, the total trading activities will not lose more than the values depicted below. Based on this graph, we can gauge the accuracy of the VaR figures.

Daily profit and losses (pnl) vs 99% VaR



The above graph shows no exceptions for the past financial year. VaR numbers decreased significantly in the second half of the year as a result of the consolidation and re-focusing of the Equity Derivatives desk in London.

ETL 95% (one-day)

At 31 March £'000	2006	2005
Commodities	46	36
Equity derivatives	268	1 180
Foreign exchange	10	14
Interest rates	23	15
Consolidated*	**219**	**1 160**

* The consolidated ETL for each desk and each entity is significantly lower than the sum of the individual ETLs. This arises from the correlation offset between the various asset classes.

Stress testing

The portfolio stress tested under extreme conditions (15 standard deviations) will result in a loss of £2.1 million in the bank (based on a one-day holding period).

At 31 March £'000	2006	2005
Commodities	277	182
Equity derivatives	1 626	6 551
Foreign exchange	62	84
Interest rates	109	77
Consolidated	**2 074**	**6 894**

Market risk year in review

In the UK, all desks are currently at Capital Adequacy (CAD) I level and are in the process of applying for CAD II.

In the UK, the Equity Derivatives desk went through a consolidation and restructuring phase with the hiring of a total new team. The UK business model is to build a presence in the exchange traded markets and then on the back of the price discovery to offer a suite of products to generate annuity income (similar to the South African model). Phase one is currently operational after extensive testing and implementation of a new trade execution system.

Balance sheet risk management

Balance sheet risk management encompasses the financial risks relating to our asset and liability portfolios, comprising liquidity, funding, concentration and non-trading interest rate risks on balance sheet.

Non-trading interest rate risk

Interest rate risk is the impact on the net interest earnings and sensitivity to economic value, as a result of increases or decreases in interest rates.

Sources of interest rate risk include volatility and changes in interest rate levels, yield curves and spreads. These affect the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive asset and liability portfolios.

The tables on page 24 show our non-trading interest rate mismatch. These exposures affect the interest rate margin realised between lending income and borrowing costs.

Liquidity risk

Liquidity risk is the risk that we do not have sufficient cash to meet our financial obligations, especially in the short term, at acceptable costs.

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

Balance sheet risk year in review

The year in review was again characterised by a low global interest rate environment.

We took advantage of these market conditions and successfully embarked on several term debt funding initiatives. This ensured that we maintain liquidity well above internal and external liquidity targets, while growing our profitable lending portfolios. These initiatives were designed to further diversify sources of funding and maintain surplus medium-term liquidity at low rates to facilitate asset growth.

UK and Europe - interest rate sensitivity gap

At 31 March 2006 £'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < a year	> 1 year but < 5 years	> 5 years	Non-interest bearing	Total non-trading
Assets							
Cash and short-term funds (banks and non-banks)	511	-	-	-	-	7	518
Negotiable securities	932	240	397	111	-	28	1 708
Derivative financial instruments	9	1	1	10	3	-	24
Loans and advances to customers (net of provisions)	2 418	167	185	347	101	10	3 228
All other assets	109	(6)	5	31	(1)	413	551
Total	3 979	402	588	499	103	458	6 029
Funding							
Deposits	(3 752)	(260)	(160)	(134)	(72)	(6)	(4 384)
All other liabilities	(405)	(20)	(14)	(395)	(4)	(807)	(1 645)
Total	(4 157)	(280)	(174)	(529)	(76)	(813)	(6 029)
Economic hedges	(143)	47	69	41	(14)	-	-
Interest rate repricing gap	(321)	169	483	11	13	(355)	-
Cumulative repricing gap	(321)	(152)	331	342	355	-	-

Australia - interest rate sensitivity gap

At 31 March 2006 A$'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < a year	> 1 year but < 5 years	> 5 years	Non-interest bearing	Total non-trading
Assets							
Cash and short-term funds (banks and non-banks)	453	51	-	-	-	-	504
Negotiable securities	-	-	-	-	-	64	64
Loans and advances to customers (net of provisions)	919	5	9	50	4	-	987
All other assets	-	-	-	-	-	22	22
Total	1 372	56	9	50	4	86	1 577
Funding							
Deposits	(1 013)	(116)	(48)	(35)	-	-	(1 212)
All other liabilities	-	-	(1)	(3)	(4)	(357)	(365)
Total	(1 013)	(116)	(49)	(38)	(4)	(357)	(1 577)
Economic hedges	35	(4)	(6)	(25)	-	-	-
Interest rate repricing gap	394	(64)	(46)	(13)	-	(271)	-
Cumulative repricing gap	394	330	284	271	271	-	-

UK and Europe - liquidity view

The table below reflects contractual maturities and management has made no assumptions or adjustments with respect to customer behaviour.

At 31 March 2006 £'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < a year	> 1 year but < 5 years	> 5 years	Total non-trading
Assets						
Cash and short-term funds (banks and non-banks)	523	-	-	4	-	527
Investment and trading securities	741	6	13	8	34	802
Negotiable securities	1 003	32	43	16	10	1 104
Derivative financial instruments	222	1	1	11	3	238
Loans and advances to customers (net of provisions)	508	180	468	1 539	534	3 229
All other assets	866	14	17	58	-	955
Total	**3 863**	**233**	**542**	**1 636**	**581**	**6 855**
Funding						
Private client deposits	(1 888)	(53)	(443)	(88)	(12)	(2 484)
Wholesale deposits	(492)	(78)	(24)	(113)	(18)	(725)
Deposits by banks	(329)	(148)	(97)	(441)	(139)	(1 154)
Debt securities in issue	(198)	(9)	(6)	(298)	-	(511)
All other liabilities	(1 247)	(13)	(63)	(3)	(655)	(1 981)
Total	**(4 154)**	**(301)**	**(633)**	**(943)**	**(824)**	**(6 855)**
Liquidity gap	**(291)**	**(68)**	**(91)**	**693**	**(243)**	**-**
Cumulative liquidity gap	**(291)**	**(359)**	**(450)**	**243**	**-**	**-**

Australia - liquidity view

The table below reflects contractual maturities and management has made no assumptions or adjustments with respect to customer behaviour.

At 31 March 2006 A$'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < a year	> 1 year but < 5 years	> 5 years	Total non-trading
Assets						
Cash and short-term funds (banks and non-banks)	452	-	-	51	-	503
Investment and trading securities	-	-	-	23	-	23
Negotiable securities	-	-	-	-	-	-
Loans and advances to customers (net of provisions)	131	97	300	458	-	986
All other assets	-	-	-	64	-	64
Total	**583**	**97**	**300**	**596**	**-**	**1 576**
Funding						
Private client deposits	(510)	(66)	(21)	(15)	-	(613)
Wholesale deposits	-	-	-	-	-	-
Deposits by banks	-	-	-	-	-	-
NCDs	(151)	(89)	(65)	(294)	-	(599)
All other liabilities	(8)	(12)	(12)	(15)	(318)	(365)
Total	**(669)**	**(167)**	**(98)**	**(324)**	**(318)**	**(1 576)**
Liquidity gap	**(86)**	**(70)**	**202**	**272**	**(318)**	**-**
Cumulative liquidity gap	**(86)**	**(156)**	**46**	**318**	**-**	**-**

Operational risk management

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

Operational risk year in review

We continued to embed our operational risk practices during the year. Awareness and understanding of the business opportunities in sound operational risk management practices continued to be a focus, as was the achievement of the supervisory requirements.

There were no significant operational risk management risk events during the year under review.

Basel II readiness remains a priority. Plans are in place to achieve the implementation of the Standardised Approach to Operational Risk Capital Adequacy requirements.

Developments in sound operational risk management practices including supervisory guidance for jurisdictional application of the Basel II principles are monitored and where appropriate adopted into our framework and practices.

Legal risk management

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

Our objective is to identify, manage, monitor and mitigate legal risks throughout the group. We seek to actively mitigate these risks by identifying them, setting minimum standards for their management and allocating clear responsibility for such management to legal risk managers, as well as ensuring compliance through proactive monitoring.

Reputational risk management

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

We have various policies and practices to mitigate reputational risk, including a strong values statement that is regularly and proactively reinforced. We also subscribe to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles.

We are acutely aware of the impact of practices that may result in a breakdown of trust and confidence in the organisation. We regularly reinforce our policies and practices through transparent communication, accurate reporting, continuous group culture and values assessment, internal audit and regulatory compliance review, and risk management practices.

Capital management

The management of the capital at our disposal is paramount to our success. We are strategically focused on ensuring that we only enter into business activities that are expected to earn appropriate returns on our capital and satisfy the demands of our shareholders. Our objective is to increase shareholder value through a group-wide discipline that links capital allocation and structuring, performance measurement, investment decisions and capital-based incentive compensation into one integrated framework.

The Investec Board of Directors is ultimately responsible for the bank's capital and effective management. At the highest level, the boards have delegated direct responsibility for capital management to the DLC Capital Committee to oversee the components contributing to effective control and use of capital.

Basel II

We intend to implement the Basel II Standardised Approaches for credit, operational and market risk across our divisions and geographies, moving to the Advanced Approaches for credit and market risk in time. This implementation is being executed taking into account our long-term sustainability and strategic view. The evaluation extends to the entire risk and operational environment, including the infrastructure and data framework to ultimately support the advanced approach. Due to complexity and differing national discretion on timing of implementation, the date of transition is currently under review.

Clearly, the adoption of the Basel II framework will have a significant impact on the capital management process, more from a calculation perspective than a principle or philosophical standpoint. The reason is that the acute sensitivity of transactions to capital use is already embedded in our deal/credit approval and performance measurement ethos. However, the basis for quantifying the capital use will become more sophisticated under the revised framework. Hence, although the underlying process for capital adequacy assessment in relation to risk profile and strategy formulation for capital level maintenance will remain essentially the same, refinement will be needed to quantify capital in terms of the more advanced approaches and evaluate the results against our risk appetite.

In terms of the current process, the following features exist:

- Board and senior management oversight in relation to the nature and level of risk taken and how this risk relates to the adequate capital levels. Strategic plans outline our capital needs, anticipated capital expenditure, desirable capital level and external capital sources.

- Sound capital assessment through the establishment of capital adequacy goals supported by a process of internal controls, reviews and audits to ensure the integrity of the overall management process.
- Comprehensive assessment of risks by a number of governance committees guided by methodologies and policies, supported by sophisticated systems which ensure the adequacy and completeness of information on which decisions are based. To this end, detailed reports are prepared regularly on our risk profile and capital needs.

Our key challenge in terms of Pillar II compliance will be twofold:

- Training deal and credit forum members and business unit practitioners on the changes to capital computations and the resultant impact on risk, pricing, profitability and capital levels.
- The capital computations, which would have to be determined at deal initiation so that the resultant amount is presented to the various committees at the appropriate time to ensure effective decision making within a Basel II framework.

Internal Audit

Internal Audit provides objective assurance to the board that management processes are adequate to identify the significant risks to which the business is subject and that the control environment is effective enough to manage these risks. Internal Audit recommends enhancements to risk management, control and governance processes where weaknesses are identified.

Further details on the internal audit function can be found in the Investec group's 2006 Annual Report.

Compliance

Compliance risk is the risk that we fail to comply with the letter and spirit of all statutes, regulations, supervisory requirements and industry codes of conduct which apply to our businesses. We seek to bring the highest standard of compliance best practice to all our jurisdictions. In keeping with our core values, we also endeavour to comply with the highest professional standards of integrity and ethical behaviour.

Further details on the compliance function can be found in the Investec group's 2006 Annual Report.

UK and Europe year in review

The UK financial services regulator, the FSA, stated in 2005 that 80% of its policy making is now driven by European legislation. Most of this legislation derives from the Financial Services Action Plan, comprising more than 40 directives which will create the EU Common Market in 2007. The largest UK rule changes last year and those on the horizon for 2006-2007 are based on European legislation.

In July 2005, the Market Abuse Directive and the Prospectus Directive came into effect. The Market Abuse Directive aims to create common dealing rules and dealing standards for European firms, while the Prospectus Directive harmonises listing and disclosure rules across Europe. Both the Market Abuse Directive and Prospectus Directive contain requirements relating to UK listing rules. The FSA merged these separate implementation projects with its own efforts to update the UK Listing Rules. On 1 July 2005, the FSA revoked the old code and introduced three new FSA sourcebooks: Listing Rules (new), Prospectus Rules and Disclosure Rules.

During the year, a new and controversial requirement to disclose derivatives positions (as per the existing equity holdings disclosure rules) to the Takeover Panel was also introduced. This is designed to track the influence of hedge funds and other large players on listed issuers.

Our Compliance function proactively monitors developments in law and regulation to identify changes which may affect our businesses. In addition to the above, the FSA continued with a number of ongoing initiatives including:

- Bundled brokerage and soft dollar arrangements: The FSA completed its consultation and published new rules on bundled brokerage and soft commission ("soft dollar") arrangements. The rules limit the use of brokerage fees to execution and research and part of the fee used for research must now be expressly quantified and disclosed to clients.
- Hedge funds: The FSA investigated if more regulation was required to manage hedge fund dealings in UK markets. It concluded that it should not increase regulation on hedge funds, but established a hedge fund supervisory division to monitor significant developments.
- Treating customers fairly/conflicts of interest: More guidance was published in the form of "Dear CEO" letters, speeches and best practice communications. The FSA remains reluctant to deliver prescriptive rules on these topics, but reminds firms that they must have internal systems to actively manage and monitor treating customers fairly and conflicts of interest.
- Simplification of FSA Handbook: The FSA announced that it will remove the Money Laundering Sourcebook and replace this in 2006 with high level standards in the Senior Management Systems and Controls Sourcebook. The FSA is refraining from further simplification measures until the detailed requirements of the Markets in Financial

Instruments Directive and other EU legislation are clear in 2006.

- Joint Money Laundering Steering Group guidance notes: In February 2006, the Joint Money Laundering Steering Group published its long-awaited review of the 2003 Guidance Notes. The new rules require firms covered by the Guidance Notes to identify their money laundering risks and implement mitigation systems which are appropriate to their business.

In the remainder of 2006, the FSA seeks to prepare itself and UK firms for implementation of EU directives which have not yet come into force under the EU Financial Services Action Plan. Key directives which will be implemented during 2007 include the Capital Requirements Directive, which will bring Basel II standards to Europe, and the Markets in Financial Instruments Directive, which will deliver harmonised organisational requirements and conduct of business rules and new exchange trading practices to Europe. During 2006, the detailed Markets in Financial Instruments Directive requirements and FSA plans for UK implementation will be published. In addition to these directives, the Takeover Directive and Transparency Directives will also affect us, but to a lesser extent.

The FSA will continue to move from a prescriptive, code-based regime to a regime based on high level principles.

Australia year in review

During the past year, the Australian regulatory environment underwent further reform. This included new legislation, Australian Securities and Investments Commission policy statements and Australian Prudential Regulation Authority standards, specifically on "Fit and Proper" requirements for responsible persons, conflicts of interest and a draft standard on "corporate governance".

In December 2005, the Commonwealth Government of Australia published its long-awaited exposure draft of the Anti-Money Laundering and Counter-Terrorism Financing Bill. The stated aim of this legislation is to bring Australia in line with international best practice. Our Compliance unit is beginning to plan for the implementation of programmes to comply with our responsibilities under the bill.

Credit ratings

In general, we were assigned strong ratings for credit quality, capacity for timely repayment and financial strength. In terms of our Dual Listed Companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned ratings to the significant banking entities within the group, namely Investec Bank (UK) Limited, Investec Bank Limited and Investec Bank (Australia) Limited. Certain rating agencies have assigned ratings to the holding companies, namely, Investec plc and Investec Limited.

The ratings as at 31 March 2006 are set out as follows:

Ratings for Investec plc

Moody's	
Short-term deposit rating	Prime-3
Long-term deposit rating	Baa3

Ratings for Investec Bank (UK) Limited - a subsidiary of Investec plc

Fitch	
Individual rating	C
Support rating	5
Foreign currency short-term rating	F2
Foreign currency long-term rating	BBB+
Global Credit Rating Co.	
Short-term rating	A2
Long-term rating	A-
Moody's	
Financial strength rating	C-
Short-term deposit rating	Prime-2
Long-term deposit rating	Baa2

Ratings for Investec Bank (Australia) Limited - a subsidiary of Investec Bank (UK) Limited

Moody's	
Financial strength rating	D+
Short-term deposit rating	Prime-2
Long-term deposit rating	Baa2

Corporate governance

This section provides a summary of our corporate governance philosophy and practices. A more detailed review is provided in the Investec group's 2006 Annual Report.

Our values and philosophies form the framework against which we measure behaviour, practices and activities to assess the characteristics of good governance. Our values require directors and employees to conduct themselves with integrity, consistently and uncompromisingly displaying moral strength and behaviour which promotes trust.

Sound corporate governance is implicit in our values, culture, processes, functions and organisational structure and the structures designed to formalise oversight of and to ensure that the values remain embedded in all businesses and processes. We continue to refine both these structures, and a written Statement of Values, which serves as our Code of Ethics has always been a pillar of our culture.

Board statement

The board is of the opinion that Investec complied with the Principles of Good Governance and Code of Best Practice contained in section 1 of the London Combined Code (2003) during the period under review, except as follows:

- The Chairman of the board is not considered to be independent, but continued to enhance his status as a non-executive director.

Financial reporting and going concern

The directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the Investec Bank (UK) Limited financial statements, accounting policies and the information contained in this report.

Our financial statements were prepared on the going concern basis. The board is of the opinion, based on its knowledge of the bank, key processes in operation and specific enquiries, that there are adequate resources to support the bank on a going concern basis over the next year.

Board of directors

The composition of the board of Investec Bank (UK) Limited is set out on page 31.

The majority of the board members are non-executive directors. The board is responsible for reviewing and guiding corporate strategy, approving key policies and objectives, understanding the key risks we face, and determining our risk tolerance and approving and reviewing the processes in operation to mitigate these.

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

In fulfilling its responsibilities, the board is supported by management, who are required to implement the plans and strategies approved by the board. The board monitors management's progress on an ongoing basis.

The board is of the view that the majority of the non-executive directors are independent of management and promote the interests of stakeholders. The balance of executive and non-executive directors is such that no one person or group can dominate board processes. The board believes that it functions effectively and evaluates its performance annually.

The board considers that the skills, knowledge, experience and attributes of the directors are appropriate to their responsibilities and our activities. The directors bring a range of skills to the board.

Board committees

The board is supported by a number of specialist committees. These committees have specific terms of reference, appropriately skilled members, independent non-executive director membership, senior management participation and access to specialist advice when necessary.

Management and succession planning

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

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

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

Internal control

We have adopted the Turnbull guidance ("Internal Control: Guidance for Directors on the Combined Code" issued by the Institute of Chartered Accountants of England and Wales in 1999 and revised in 2005), and continued to embed the principles throughout the group during the year under review.

Risks and controls are reviewed regularly for relevance and effectiveness. Sound risk management practices are promoted by the Group Risk Management function, which is independent of operational management.

The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness.

The overall system of internal control is designed to mitigate, not eliminate, significant risks faced by the bank and was in place for the year under review. It is recognised that such a system provides reasonable but not absolute assurance, against material error, omission, misstatement or loss. This is achieved within the bank through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums and assurance and control functions such as Group Risk Management, Internal Audit and Compliance. These ongoing processes were in place throughout the year under review.

The process which includes risk and control identification is completed and assessed at business unit level. Each business unit is empowered with the responsibility and accountability for the management of its own risk. Each business unit follows a consistent risk assessment process as contained in the risk assessment framework which is facilitated by Group Operational Risk Management. Risks to shareholder value are defined, and the risks to these objectives and controls for each risk are identified and evaluated. The action plans and risk and control issues arising from this process are reviewed regularly at the relevant executive and management committees based at a business unit level.

Internal Audit reports any control recommendations to senior management, Group Risk Management and the relevant Audit Committee. Appropriate processes exist to ensure that timely corrective actions are taken on matters raised by Internal Audit.

Significant risks are reviewed weekly by the Investec plc Executive Risk Review Forum and monthly by the Investec plc Board Risk Review Committee. Material incidents and losses and significant breaches of systems and controls are reported to the Board Risk Review Committee and the Audit Committee. Reports from the Audit Committees and Risk and control functions are reviewed at each board meeting.

External audit

Our external auditors are Ernst & Young LLP. The independence of the external auditors is recognised and reviewed with the auditors by the Audit Committee on an annual basis.

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

Non-audit services are dealt with in terms of an agreed policy.

Regulation and supervision

We are subject to external regulation and supervision by various supervisory authorities, the main ones being the UK Financial Services Authority and the Australian Prudential Regulatory Authority.

Values and code of conduct

We have a strong organisational culture of entrenched values, which forms the cornerstone of our behaviour towards all stakeholders. These values are embodied in a written Statement of Values, which serves as our Code of Ethics and is continually reinforced. Regular values review workshops are conducted across the group, allowing staff members to debate the meaning, importance and relevance of these values to our daily operations.

Communication and stakeholder relations

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

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

Sustainable business practices

In keeping with our entrepreneurial spirit, our sustainability efforts focus on issues that are most relevant to our business. As people are our most important asset, we have comprehensive policies and procedures in place, aimed at providing a stimulating work environment that attracts, nurtures and retains high-calibre individuals. We strive to inspire entrepreneurship through a flat integrated structure that encourages individuality. Material employee ownership is one of our fundamental philosophies. The staff share schemes enable employees to participate in our long-term growth, encouraging motivation, commitment and loyalty. By aligning our employees' interests with those of our shareholders, we aim to stimulate the entrepreneurial spirit, growing a culture dedicated to creating wealth for all stakeholders and employees. New employees across all gender and race groups participate in the staff share schemes, by being allocated options to acquire equity.

This, together with our culture, values and human resources practices, creates a working environment that stimulates extraordinary performance. In this way, employees are able to be positive contributors to the group, clients and their communities.

Increased ethical awareness and greater corporate responsibility continue to be a priority for the group. We are still digesting some of the more significant international sustainability developments, while continually assessing our own sustainability efforts and their relevance to our culture and values. As a result, we made incremental progress in the non-financial aspects of our sustainability journey last year. This included various new initiatives relating to talent management and retention and succession planning. In the year ahead, the results of a greater group-wide focus on sustainability will become evident, when we seek to interact more broadly with employees as the next stage in the stakeholder engagement exercise we began last year.

Finally, stakeholders will note that, from this year, the Investec group are introducing a change to the way they report on our sustainability activities and will no longer publish a stand alone Sustainability Report. Informed by some of the feedback from the early rounds of our 2005 stakeholder engagement exercise, they have decided to incorporate our Sustainability message into the main body of the Investec group annual financial statements. In doing so, we want to reinforce the view that Sustainability within Investec is not simply an arm's length exercise but, rather, is core to who we are and represents a fundamental part of our integrated offering. The Investec groups' former standalone Sustainability Report will now be presented as an electronic document, to be sourced on on a new Sustainability website (www.investec.com/grouplinks/sustainability).

Directorate

Investec Bank (UK) Limited

Hugh S Herman (65)
BA LLB LLD (hc)
Non-Executive Chairman

Bradley Fried (40)
BCom CA(SA) MBA
Chief Executive Officer

George F O Alford (57)
BSc (Econ) FCIS FIPD MSI

Bernard Kantor (56)

Ian R Kantor (59)
BSc(Eng) MBA

Sir Chips Keswick (66)

Stephen Koseff (54)
BCom CA(SA) H Dip BDP MBA

Alan Tapnack (59)
BCom CA(SA)

David M van der Walt (41)
BCom (Hons) CA (SA)

Ian R Wohlman (51)
ACIB

Remuneration report

The remuneration committee of the bank's parent, Investec plc, comprises non-executive directors and is responsible for determining the overall reward packages of the bank's executive directors. The policy on remuneration packages for non-executive directors is agreed and determined by the board.

Details of the directors' emoluments are shown in note 6 of the consolidated financial statements.

Policy on executive directors' and employees' remuneration

Our philosophy is to employ the highest calibre individuals, who are characterised by integrity, intellect and innovation and who adhere and subscribe to our culture, values and philosophies. We strive to inspire entrepreneurship by providing a working environment that stimulates extraordinary performance, so that executive directors and employees may be positive contributors to our clients, their communities and us.

We reward executive directors and employees for their contribution through payment of an industry competitive annual package, a variable performance reward and ownership in the form of share incentive scheme participation. Overall rewards are considered as important as our core values of work content (greater responsibility, variety of work and high level of challenge) and work affiliation (entrepreneurial feel to the company and unique culture) in the attraction, retention and motivation of employees.

We have a strong entrepreneurial, merit and values-based culture, characterised by passion, energy and stamina. The ability to live and perpetuate our values, culture and philosophies in the pursuit of excellence is considered paramount in determining overall reward levels.

Both the type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining our success and long-term progress.

The key principles of our remuneration policy for executive directors and employees, which were consistently applied during the financial year, are as follows:

- Reward programmes are designed and administered to align directors' and employees' interests with those of stakeholders.
- Reward programmes are clear and transparent, in order to retain individual interest in, and identification with, our short and long-term success.
- Total rewards comprise a fixed and variable component.
- Total compensation (base salary, pension, benefits and incentives) is targeted to the relevant competitive market (see below) at upper quartile levels for superior performance.
- A significant proportion of rewards, including annual and long-term incentive components, are explicitly linked to the performance of the business and the individual business units. We recognise the performance of the business and the individual. As indicated above, qualitative and quantitative issues form an integral part of the determination of reward levels.
- Reward levels are targeted to be commercially competitive, on the following basis:
  - The most relevant competitive reference points for reward levels are based on the scope of responsibility and individual contributions made.
  - Appropriate benchmark, industry and comparable organisations' remuneration practices are reviewed regularly.
    - For executive directors, the FTSE 350 General Finance firms provide the most appropriate benchmark.
    - For employees, a combination of firms from the JSE Financial 15 and the FTSE 350 General Finance sector offer the most appropriate benchmark.
    - In order to avoid disproportionate packages across areas of the group and between executives, adjustments are made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of pay components for individuals, in cases where a higher level of investment is needed in order to build or grow either a business unit or our capability in a geography.

Policies on the components of remuneration and employment

The reward package for executive directors and employees comprises:

- Base salary and benefits.
- Annual bonuses.
- Long-term share incentive plans.

The remuneration committee reviews the elements of the reward package relative to appropriate benchmarks and other comparable organisations, the contribution by the individual and the business as a whole, the value of individuals in perpetuating our values and culture, and the possible replacement cost of such individuals.

The elements of the reward package, as listed above, are discussed below and the components for each director are detailed in tables accompanying this report.

Base salary and benefits

Salaries are reviewed annually and reflect the relative skills and experience of, and contribution made by, the individual.

Benefits are targeted at competitive levels and are delivered through flexible and tailored packages. Benefits include pension schemes; life, disability and personal accident insurance; medical cover and other benefits, as dictated by competitive local market practices.

It is the company's policy to seek to set base salaries (including benefits) at median market levels. However, base salaries have in many instances dropped below this level as annual increases in the recent past have largely been in line with prevailing inflation rates and have not been increased to median market levels due to a desire, in current circumstances, to maintain a low level of fixed costs.

Annual bonus

Annual bonuses are closely linked to business performance, based on target business unit performance goals determined in the main by Economic Value Added (EVA) profit performance against pre-determined targets. These targets have been in force, and unchanged, for the past few years and are subject to periodic review, with varying levels of return required for each business unit reflecting the state of market maturity, country of operation, risk, capital invested (capital intensive businesses) or expected expense base (fee based businesses). Individual annual incentive levels are allocated from the EVA pool, based on individual performance, as determined by the remuneration committee. Furthermore, as discussed previously, qualitative issues are integral in the determination of annual bonuses.

In this regard, if business and individual performance goals are achieved or bettered, the variable element of the total reward package is likely to be substantially higher than the relevant target market given that base salaries are currently below median market levels. This is to ensure that overall reward levels are finally positioned at the upper quartile level for superior performance, in line with our overriding remuneration policy.

A review of the executive remuneration structure, assessing the balance between fixed and variable remuneration.

A review of the executive remuneration structure undertaken by the remuneration committee's external advisors during the prior financial year indicated that base salaries (including benefits) were below median levels and consequently, the key principle of targeting an upper quartile level of compensation for superior performance was unlikely to be achievable within the remuneration structure that prevailed during 2005.

The remuneration committee undertook a thorough assessment of the executive remuneration structure during the 2006 financial year. As part of this review, the remuneration committee, with assistance from its advisors, assessed the appropriateness of the quantum of, and balance between, fixed and variable remuneration.

Annual salary increases for executive directors have in the recent past had more regard to salary increases within the company than median external market levels. Basic salary increases (including benefits) for other employees across the group have generally been in the range of 4% to 10%, and the increases awarded to executive directors are consistent with this. Although the base salaries of executive directors have dropped below the median external market levels, the remuneration committee is at this stage reluctant to significantly increase the fixed component of the executives' remuneration package, due to a desire to maintain a low level of fixed costs.

In conjunction with this view, and based on the remuneration committee's belief of delivering a significant proportion of rewards linked to the performance of the business, it was decided that the objective of upper quartile levels of total compensation will be achieved through higher performance linked variable pay. In this regard, the maximum annual bonus limit for executive directors of three times their basic salaries (including benefits) that prevailed during the 2005 financial year was removed by the remuneration committee. The remuneration committee believes that an upper limit on the bonus award is inappropriate given the remuneration practices within the group and in similar financial services businesses.

The remuneration packages of the executive directors for the 2006 financial year have been determined in accordance with this philosophy. The remuneration committee will continue to target an upper quartile level of compensation for superior performance whilst limiting the fixed element of remuneration packages at the median level.

Share option and long-term share incentive plans

We have a number of share option and long-term share incentive plans that are designed to link the interests of directors and employees with those of shareholders and long-term organisational interests, through performance and risk-based equity grants.

Details with respect to the share option and long-term share incentive plans in operation, and in which the directors are eligible to participate are provided on our website.

Share Matching Plan 2005

Following the maturity of one of our leveraged equity plans in December 2004, the remuneration committee established a share matching plan for executive directors of Investec plc and Investec Limited. This plan was approved by shareholders at an extraordinary general meeting held on 14 November 2005. The plan is considered essential in improving our long-term prospects for recruitment and retention of key individuals. The plan also provides further alignment of the interests of shareholders and management as the remuneration committee believes that a significant element of remuneration should be linked to our ability to deliver sustainable results to shareholders, and at the same time enable management to share in these results.

The salient features of the plan are:

- Only matching awards can be granted and they will only be granted to executives provided they first invest (pledge) Investec shares in the incentive plan ("investment shares").
- Matching awards granted (over 'matching' shares) will be on a maximum matching award ratio of 1:1 (free matching shares to investment shares).
- No payment will be required for the grant of a matching award.
- A maximum of 150 000 investment shares may be invested in the plan each time the plan is operated.

- It is the current intention only to operate the plan again once the first matching awards have vested or lapsed.
- Awards (investment and matching shares) will vest in June 2009 (75% of the award) and June 2010 (25% of the award).
- All matching awards will be subject to performance conditions set by the remuneration committee that reflect the Investec group's consolidated performance over three consecutive financial years (the "performance period").
- The performance conditions will be based on the Investec group's consolidated normalised earnings per share growth in excess of UK inflation ("RPI") over the performance period.
- Accordingly matching awards will only vest to the extent that the aggregated EPS figure is in excess of RPI targets.

Leveraged equity plans

A group of senior and executive managers, including certain Investec plc/Investec Limited directors, who have or can have a significant impact on the business, were granted participation (prior to the implementation of the DLC structure) in leveraged equity plans known as Fintique II and Fintique III. The Fintique III scheme matured on 15 December 2004 and further details on Fintique II are provided in the tables below.

Policy on non-executive directors' remuneration

Non-executive directors receive fees for being a member of the Investec Bank (UK) Limited board and fees are also payable for any additional time committed to the group including attendance of certain other meetings. Furthermore, non-executive directors may not participate in our share option plans or our long-term share incentive and pension plans. Prior to the implementation of our Dual Listed Companies (DLC) structure in July 2002, certain non-executive directors did participate in Investec Group Limited's (now Investec Limited's) leveraged equity plans.

Directors' interests

According to the register of directors' interests, no director holding office at 31 March 2006 had any debentures or beneficial interest in the shares of Investec Bank (UK) Limited during the year.

Following the implementation of the Investec group's DLC structure, it is our policy to award the directors and employees with share options in both Investec Limited and Investec plc. Consequently, interests in both companies have been disclosed.

Directors' shareholdings in Investec plc and Investec Limited shares as at 31 March 2006

Name	Beneficial and non-beneficial interest Investec plc		% of shares in issue Investec plc	Beneficial and non-beneficial interest Investec Limited		% of shares in issue Investec Limited
	1 April 2005	31 March 2006	31 March 2006	1 April 2005	31 March 2006	31 March 2006
Executive directors						
S Koseff	1 087 017	1 057 573	1.4%	185 636	185 636	0.4%
B Kantor	100	300	-	1 195 288	1 666 044	3.8%
B Fried	-	-	-	270 653	189 506	0.4%
A Tapnack	-	-	-	48 203	37 021	0.1%
DM van der Walt	-	-	-	244 720	189 848	0.4%
IR Wohlman	-	-	-	56 133	63 168	0.1%
Total number	**1 087 117**	**1 057 873**	**1.4%**	**2 000 633**	**2 331 223**	**5.2%**
Non-executive directors						
HS Herman	380 079	308 301	0.4%	48 905	8 905	-
GFO Alford	-	-	-	-	-	-
IR Kantor	346 155	316 711	0.4%	450	450	-
Sir C Keswick	3 150	3 150	-	1 850	1 850	-
Total number	**729 384**	**628 162**	**0.8%**	**51 205**	**11 205**	**-**
Total number	**1 816 501**	**1 686 035**	**2.2%**	**2 051 838**	**2 342 428**	**5.2%**

Notes:
- The total number of Investec plc and Investec Limited shares in issue as at 31 March 2006 was 74.6 million and 44.0 million respectively.
- The market price of an Investec plc share as at 31 March 2006 was £29.41 (2005: £15.55).
- The market price of an Investec Limited share as at 31 March 2006 was R313.00 (2005: R178.00).

Directors' attributable interest in Investec plc and Investec Limited shares through a leveraged equity plan called Fintique II as at 31 March 2006

Name	Entitlement to Investec plc shares		Entitlement to Investec Limited shares		Settlement period	Total entitlement (i.e. Investec plc and Investec Limited shares) - % interest in scheme
	1 April 2005	31 March 2006	1 April 2005	31 March 2006		31 March 2006
Executive directors						
S Koseff	183 684	183 684	107 879	107 879	1 April 2006 to 31 July 2008	8.2%
B Kantor[1]	-	-	144 921	44 300	1 April 2006 to 31 July 2008	1.2%
B Fried[2]	-	-	66 450	-	1 April 2006 to 31 July 2008	-
A Tapnack	-	-	33 668	33 668	1 April 2006 to 31 July 2008	0.9%
Non-executive directors						
HS Herman	90 209	90 209	52 980	52 980	1 April 2006 to 31 July 2008	4.0%
IR Kantor	50 236	50 236	29 504	29 504	1 April 2006 to 31 July 2008	2.2%
Total number	**324 129**	**324 129**	**435 402**	**268 331**		**16.5%**

Notes:

- Fintique II was constituted on 31 July 1996, via a special purpose vehicle (SPV), initially available to 235 selected executives, senior managers and directors. Participants acquired units in the SPV, where the underlying instruments are compulsory convertible debentures, which convert into 886 Investec shares for every 1 000 units in Fintique II. The scheme was funded through cash contributions from participants and the upfront sale of the income stream on the debentures and the right to the redemption proceeds. A total of 4.0 million units were issued in terms of the scheme, converting into approximately 3.5 million shares.
- All the shares to which the directors are entitled in terms of the Fintique II scheme are fully tradeable and so "fully vested" as the term is understood in the UK, and can be taken up at a price of R52.81 per share, based on the valuation of the scheme as at 31 March 2006. The market price of an Investec plc share and an Investec Limited share as at 31 March 2006 was £29.41 and R313.00, respectively. While the combined Investec plc and Investec Limited share entitlement will remain unchanged, the mix of Investec plc and Investec Limited shares may vary from time to time. The directors are at risk for any shortfall on maturity of the scheme.

1 B Kantor took up his entitlement in respect of 100 621 Investec Limited shares in terms of the Fintique II scheme on 7 December 2005 for a cash amount of R61.68 per share, by settling the appropriate liability in respect of the shares taken up.

2 B Fried conducted a number of transactions during the course of the year:
- Disposed of his entitlement in respect of 13 290 Investec Limited shares on 15 June 2005 at a price of R207.75 per share.
- Acquired an additional entitlement in respect of 8 860 Investec Limited shares on 18 July 2005 at a price of R218.98 per share.
- Disposed of his entitlement in respect of 53 160 Investec Limited shares on 15 December 2005 at a price of R274.42 per share.
- Disposed of his entitlement in respect of 8 860 Investec Limited shares on 15 February 2006 at a price of R290.00 per share.

Directors' interest in the Investec Limited Security Purchase and Option Scheme Trust as at 31 March 2006

Name	Number of shares at 1 April 2005	Number of shares for which liability was settled during the year	Date liability was settled	Average original offer price	Market price at date of repayment of liability	Balance of shares at 31 March 2006
Investec plc shares						
DM van der Walt	949	949	3 Aug 2005	R69.03	R221.82	-
Investec Limited shares						
DM van der Walt	557	557	3 Aug 2005	R69.03	R217.50	-

Notes:
The shares in the table above were held in terms of the Investec Limited share purchase scheme, for which the directors had a liability for any related scheme debt. No shares were granted in terms of this scheme during the year. No options were allocated to directors in terms of this scheme.

DM van der Walt sold 949 Investec plc shares for a consideration of R221.82 per share and 557 Investec Limited shares for a consideration of R217.50 per share on 3 August 2005. The proceeds on sale of the shares was utilised to settle his outstanding liability in terms of the purchase scheme.

Directors' interest in options as at 31 March 2006

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2005	Exercised during the year[1]	Lapsed during the year	Balance at 31 March 2006	Period exercisable
Executive directors							
S Koseff	20 Dec 2002	R111.96	24 750	8 250	-	16 500	20 Dec 2006 to 20 Mar 2008
B Kantor	20 Dec 2002	£7.93	38 446	12 311	-	26 135	20 Dec 2006 to 20 Mar 2012
B Fried	28 Aug 2002	R10.52	44 888	14 962	-	29 926	20 June 2006 to
	20 Dec 2002	£7.93	29 135	9 208	-	19 927	20 Mar 2012
A Tapnack	28 Aug 2002	£10.52	35 438	11 812	-	23 626	20 June 2006 to
	20 Dec 2002	£7.93	38 446	12 311	-	26 135	20 Mar 2012
DM van der Walt	28 Aug 2002	£10.52	47 250	15 750	-	31 500	20 June 2006 to
	20 Dec 2002	£7.93	26 660	8 283	-	18 277	20 Mar 2012
IR Wohlman	28 Aug 2002	£10.52	9 450	3 150	-	6 300	20 June 2006 to
	28 Aug 2002	£15.73	756	-	-	756	20 Mar 2012
	20 Dec 2002	£7.93	6 860	1 783	-	5 077	
	03 Dec 2003	£10.60	5 000	1 250	-	3 750	

Directors' interest in options as at 31 March 2006 (continued)

Investec Limited shares

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2005	Exercised during the year[1]	Lapsed during the year	Balance at 31 March 2006	Period exercisable
Executive directors							
S Koseff	20 Dec 2002	R111.32	12 750	4 250	-	8 500	20 Dec 2006 to 20 Mar 2008
B Fried	28 Aug 2002	R164.50	26 362	8 788	-	17 574	20 June 2006 to
	20 Dec 2002	R111.32	13 060	4 354	-	8 706	20 Mar 2008
A Tapnack	20 June 2002	R164.50	20 812	6 938	-	13 874	20 June 2006 to 20 Sept 2007
DM van der Walt	28 Aug 2002	R164.50	27 750	9 250	-	18 500	20 June 2006 to
	20 Dec 2002	R111.32	11 786	3 928	-	7 858	20 Mar 2008
IR Wohlman	28 Aug 2002	R164.50	5 550	1 850	-	3 700	20 June 2006 to
	28 Aug 2002	R246.00	444	-	-	444	1 Dec 2009
	20 Dec 2002	R111.32	1 586	528	-	1 058	

Notes:

No new grants were made to executive directors during the financial year other than set out below in the Share Matching Plan 2005. The market price of an Investec plc share as at 31 March 2006 was £29.41 (2005: £55.55). A total of 74.6 million Investec plc shares were in issue as at 31 March 2006.The market price of an Investec Limited share as at 31 March 2006 was R313.00 (2005: R178.00). A total of 44.0 million Investec Limited shares were in issue at 31 March 2006.

[1]**Details with respect to options exercised:**

- S Koseff exercised his options and sold 8 250 Investec plc shares and 4 250 Investec Limited shares on 16 March 2006, when the share price was R315.00 and R310.18 per Investec plc and Investec Limited share, respectively.The performance conditions with respect to these options were met.
- B Kantor exercised his options and sold 12 311 Investec plc shares on 20 December 2005, when the share price was £24.47 per Investec plc share.The performance conditions with respect to these options were met.
- B Fried exercised his options and sold 8 788 Investec Limited shares and 14 962 Investec plc shares on 20 June 2005 and 23 June 2005 respectively, when the share price was R217.00 per Investec Limited share and £18.00 per Investec plc share. Furthermore, B Fried exercised his options and sold 4 354 Investec Limited shares and 9 208 Investec plc shares on 4 January 2006 when the share price was R278.44 and £25.70, respectively.The performance conditions with respect to these options were met.
- A Tapnack exercised his options and sold 11 812 Investec plc shares and 6 938 Investec Limited shares on 20 June 2005, when the share price was £18.00 and R217.00 per Investec plc share and Investec Limited share respectively. The performance conditions with respect to these options were met. Furthermore, A Tapnack exercised his options and sold 12 311 Investec pl c shares on 2 March 2006, when the share price was £29.15 per Investec plc share.The performance conditions with respect to these options were met.
- DM van der Walt exercised his options and sold 9 250 Investec Limited shares and 15 750 Investec plc shares on 1 August 2005, when the share price was R213.50 and £18.68, respectively. Furthermore, D van der Walt exercised his options and sold 3 928 Investec Limited shares and 8 383 Investec plc shares on 31 January 2006 when the share price was R301.11 and £28.07, respectively. The performance conditions with respect to these options were met.
- IR Wohlman exercised his options and sold 3 150 Investec plc shares and 1 850 Investec Limited shares on 22 June 2006 when the share price was £17.77 and R214.98, respectively. Furthermore, IR Wohlman exercised his options and sold 1 250 plc shares on 5 December 2005 when the share price was £23.98. He also exercised his options and sold 528 Investec Limited shares and 1 783 Investec plc shares on 20 December 2005 when the share price was R273.78 and £24.33, respectively.The performance conditions with respect to these options were met.

Directors' interest in the Share Matching Plan 2005 as at 31 March 2006

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2005	Balance at 31 March 2006	Vesting period
Executive directors					
S Koseff	21 Nov 2005	nil cost	-	150 000	75% of the matching award will vest on 30 June 2009 and 25% on 30 June 2010
B Kantor	21 Nov 2005	nil cost	-	150 000	75% of the matching award will vest on 30 June 2009 and 25% on 30 June 2010
A Tapnack	21 Nov 2005	nil cost	-	40 000	75% of the matching award will vest on 30 June 2009 and 25% on 30 June 2010

Note:
Details with respect to this plan are provided above.

Directors' interest in long-term share incentive plans as at 31 March 2006

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2005	Balance at 31 March 2006	Period exercisable
Executive directors					
B Fried	16 Mar 2005	nil cost	100 000	100 000	75% on 30 June 2009 and 25% on 30 June 2010
DM van der Walt	16 Mar 2005	nil cost	85 000	85 000	75% on 30 June 2009 and 25% on 30 June 2010
IR Wohlman	16 Mar 2005	nil cost	30 000	30 000	75% on 30 June 2009 and 25% on 30 June 2010

Note:
The bank made foreitable awards in respect of nil cost options in the capital of Investec plc for nil consideration pursuant to the Long-Term Incentive Plan ("LTIP") on 16 March 2005. In terms of the LTIP rules, 75% of the options are exercisable on 30 June 2009 and the remaining 25% of the options are excercisable on 30 June 2010, on condition that the participant is still employed by the Investec group. The awards are in accordance with the determination of the Remuneration Committee and with the rules of the LTIP.

Financial statements

Directors' report

The directors present their report and financial statements for the year ended 31 March 2006.

Business and principal activities

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

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 Financial Review on pages 9 to 16.

The directors aim to maintain the management policies that have resulted in the bank's performance to date; whilst accepting that market conditions may be challenging in the coming year they anticipate that the financial position at the end of financial year will be satisfactory.

Accounting policies and disclosures

Accounting policies are set having regard to commercial practice and comply with applicable United Kingdom law. This year, to align with the accounting policies applied in the consolidated financial statements of the bank's listed parent, Investec plc, the directors have chosen to produce the consolidated financial statements of the bank under International Financial Reporting Standards. These policies are set out on pages 51 to 57.

The accounts of the bank itself continue to be drawn up under UK Generally Accepted Accounting Practice. However, in order to provide the fullest disclosure possible, the directors have from 1 April 2005 adopted FRS 25: Financial Instruments Disclosure and Presentation and FRS 26: Financial Instruments Recognition and Measurement in the preparation of these accounts. The accounting policies for the bank's own accounts are set out on pages 106 to 111.

Authorised and issued share capital

Details of the share capital as at 31 March 2006 are set out in note 31 of the bank's consolidated financial statements.

On 28 June 2006 the bank issued 60 million new ordinary shares of £1 each at par. Further details are reported in note 36 of the consolidated financial statements.

Results and dividends

The results for the year are shown on page 45. Movements in reserves are shown in Statement of Changes in Equity on pages 48 and 49 of the financial statements.

An interim dividend of £ 27 500 000 was paid on 16 November 2005.

Directors and their interests

The directors of the bank for the year ended 31 March 2006 are shown on page 31. There have been no changes during the year.

The interests of the directors are set out in the Remuneration Report on pages 35 to 39.

Except as disclosed in this report no other director held any beneficial interest in the shares of the company or the group.

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.

Corporate social responsibility

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.

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.

Further information can be found in the Investec group's 2006 Sustainability Report.

Political donations and expenditure

The group has a long-standing policy of not making contributions to any political party and has not incurred any political expenditure within the year.

Donations

During the year, the group made donations for charitable purposes in the UK, totalling £143 266.

Auditors

The bank has passed an elective resolution pursuant to Section 379A of the Companies Act 1985 dispensing with the holding of annual general meetings, and the laying of annual reports and financial statements before shareholders in general meeting. In accordance with Section 386 of the Companies Act 1985, the bank has elected to dispense with the obligation to appoint auditors annually; accordingly Ernst & Young LLP remain in office.

By order of the board

Richard Vardy
Secretary
29 June 2006

Directors' responsibility statement

The following statement, which should be read in conjunction with the Auditors' reports set out on page 44 and page 103, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that financial year.

The directors consider that in preparing the financial statements and the additional information, the company has used appropriate accounting policies which have been consistently applied and have been supported by reasonable and prudent judgements and estimates, and that all accounting standards which the directors consider to be applicable have been followed.

The financial statements of the company have been prepared on the going concern basis. The directors are of the opinion, based on their knowledge of the company, key processes in operation and specific enquiries, that adequate resources exist to support the company on a going concern basis over the next year.

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

In so far as the directors are aware, there is no relevant audit information of which the bank's auditors are unaware; and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the bank's auditors are aware of that information.

Signed on behalf of the board

Bradley Fried
Chief Executive Officer
29 June 2006

Independent auditors' report to the members of Investec Bank (UK) Limited

We have audited the group financial statements of Investec Bank (UK) Ltd for the year ended 31 March 2006 which comprise Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Change in Shareholders' Equity and the related notes 1 to 42. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Investec Bank (UK) Ltd for the year ended 31 March 2006.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, 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 other transactions is not disclosed.

We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Remuneration Report, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group 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 group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the group financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor

London
29 June 2006

For the year to 31 March £'000	Notes	2006	2005
Interest receivable		314 158	229 255
Interest payable		(190 480)	(154 000)
Net interest income		**123 678**	**75 255**
Fees and commissions receivable		144 773	147 809
Fees and commissions payable		(5 662)	(6 851)
Principal transactions	3	60 682	32 632
Operating income from associates		447	61
Other operating income		1 578	255
Other income		**201 818**	**173 906**
Total operating income		**325 496**	**249 161**
Impairment losses on loans and advances		(7 241)	(5 221)
Net operating income		**318 255**	**243 940**
Administrative expenses	5	(199 395)	(155 566)
Depreciation and impairment of property, equipment and software	23,25	(2 719)	(2 985)
Operating profit before goodwill impairment		**116 141**	**85 389**
Recognition of negative goodwill		-	2 455
Operating profit		**116 141**	**87 844**
Non-operating exceptional items	19	(1 071)	(5 207)
Profit before taxation		**115 070**	**82 637**
Taxation	8	(32 333)	(23 652)
Profit after taxation		**82 737**	**58 985**
Earnings attributable to minority shareholders		12	808
Earnings attributable to shareholders		82 725	58 177
Earnings attributable to shareholders' equity		**82 737**	**58 985**

Consolidated statement of recognised income and expenses

For the year to 31 March £'000	2006	2005
Earnings attributable to shareholders	82 737	58 985
Fair value movements on available for sale assets	(2 835)	
Foreign currency movements	(70)	(4 071)
Total recognised income and expenses	**79 832**	**54 914**
Earnings attributable to minority shareholders	12	808
Earnings attributable to shareholders	79 820	54 106
	79 832	**54 914**

The impact of the adoption of IAS 32 and IAS 39 on each component of equity is appropriately disclosed in the reconciliation of equity on pages 48 and 49.

At 31 March £'000	Notes	2006	2005
Assets			
Cash and balances at central banks		10 870	10 308
Treasury bills and other eligible bills	11		142 182
Loans and advances to banks		661 028	1 799 034
Cash equivalent advances to customers		54	
Reverse repurchase agreements and cash collateral on securities borrowed		643 172	
Trading securities	12	160 130	
Derivative financial instruments	14	254 595	
Investment securities	15	1 237 069	
Loans and advances to customers	16	3 553 646	3 380 095
Debt securities	17		1 135 948
Equity shares	18		275 191
Interests in associated undertakings	19	12 023	11 426
Deferred taxation assets	21	22 744	20 861
Other assets	22	855 595	505 242
Property and equipment	23	15 674	16 804
Goodwill	24	36 191	30 866
Intangible assets	25	1 313	1 067
		7 464 104	**7 329 024**
Liabilities			
Deposits by banks		1 059 167	775 694
Derivative financial instruments	14	48 777	
Other trading liabilities	27	123 791	
Repurchase agreements and cash collateral on securities lent		272 584	
Customer accounts		3 645 604	2 981 168
Debt securities in issue	28	717 958	637 843
Current taxation liabilities		37 050	14 387
Deferred taxation liabilities	21	1 513	210
Other liabilities	29	744 183	2 083 146
Accruals and deferred Income			86 319
		6 650 627	6 578 767
Subordinated liabilities (including convertible debt)	30	225 683	219 516
		6 876 310	**6 798 283**
Equity			
Called up share capital	31	354 000	354 000
Share premium account		37 365	37 365
Other reserves		6 951	(4 071)
Profit and loss account		189 245	142 048
Shareholders' equity excluding minority interests		587 561	529 342
Minority interests		233	1 399
Total shareholders' equity		**587 794**	**530 741**
Total liabilities and shareholders' equity		**7 464 104**	**7 329 024**

The directors approved the financial statements on 29 June 2006

Bradley Fried
Chief Executive Officer

£'000	Share capital	Share premium account	Available for sale reserve	Regulatory general risk reserve *
At 31 March 2004 - restated	**354 000**	**37 365**	**-**	**-**
At 31 March 2004 - as previously reported	354 000	37 365	-	-
Reclassifications				
Minority interests included within reconciliation of reserves	-	-	-	-
Remeasurements				
IFRS 3 - business combinations	-	-	-	-
IAS 10 - events after balance sheet date	-	-	-	-
IAS 17 - leases	-	-	-	-
IAS 27/28/31 - consolidations, associates and joint ventures	-	-	-	-
Foreign currency adjustments	-	-	-	-
Retained profit for the year	-	-	-	-
Total recognised gains and losses for the year	-	-	-	-
Dividends accrued to ordinary shareholders	-	-	-	-
Movement on minorities on disposals and acquisitions	-	-	-	-
Restated at 31 March 2005	**354 000**	**37 365**	**-**	**-**
IAS 32/39 - financial instruments	-	-	8 645	2 505
Restated at 1 April 2005	**354 000**	**37 365**	**8 645**	**2 505**
Fair value movements on available for sale assets	-	-	(2 835)	-
Foreign currency adjustments	-	-	-	-
Net gains and losses recognised directly in equity	-	-	(2 835)	-
Retained profit for the year	-	-	-	-
Total recognised gains and losses for the year	-	-	(2 835)	-
Share based payments adjustments	-	-	-	-
Dividends paid to ordinary shareholders	-	-	-	-
Transfer to regulatory general risk reserve *	-	-	-	828
At 31 March 2006	**354 000**	**37 365**	**5 810**	**3 333**

* One of the bank's subsidiaries is required to maintain an additional regulatory risk reserve to meet minimum regulatory provision requirements.

Foreign currency reserves	Share based payment reserve	Profit and loss account	Shareholders' equity excluding minority interests	Minority interests	Total shareholders' equity
-	**-**	**115 371**	**506 736**	**13 616**	**520 352**
-	-	94 402	485 767	-	485 767
-	-	-	-	13 616	13 616
-	-	3 697	3 697	-	3 697
-	-	16 500	16 500	-	16 500
-	-	(96)	(96)	-	(96)
-	-	868	868	-	868
(4 071)	-	-	(4 071)	-	(4 071)
-	-	58 177	58 177	808	58 985
(4 071)	-	58 177	54 106	808	54 914
-	-	(31 500)	(31 500)	-	(31 500)
-	-	-	-	(13 025)	(13 025)
(4 071)	**-**	**142 048**	**529 342**	**1 399**	**530 741**
373	-	7 800	19 323	(1 194)	18 129
(3 698)	**-**	**149 848**	**548 665**	**205**	**548 870**
-	-	-	(2 835)	-	(2 835)
(70)	-	-	(70)	16	(54)
(70)	-	-	(2 905)	16	(2 889)
-	-	82 725	82 725	12	82 737
(70)	-	82 725	79 820	28	79 848
-	1 576	-	1 576	-	1 576
-	-	(42 500)	(42 500)	-	(42 500)
-	-	(828)	-	-	-
(3 768)	**1 576**	**189 245**	**587 561**	**233**	**587 794**

For the year to 31 March £'000	Notes	2006	2005
Cash flows from operations	39	126 159	93 534
Taxation paid	39	(12 837)	(13 465)
Decrease/(increase) in operating assets	39	21 174	(2 374 253)
Increase in operating liabilities	39	57 940	2 085 342
Net cash inflow/(outflow) from operating activities		192 436	(208 842)
Cash flow on acquisition of subsidiaries	26	(95 874)	(3 382)
Cash flow on disposal of subsidiaries		-	(59 075)
Cash flow on acquisition & disposal of associated undertakings		-	(699)
Cash flow on acquisition and disposal of property and equipment		(729)	3 503
Cash flow on acquisition and disposal of intangible assets		(1 144)	(616)
Net cash outflow from investing activities		(97 747)	(60 269)
Dividends paid to ordinary shareholders	9	(42 500)	(31 500)
Net cash inflow/(outflow) from financing activities		(42 500)	(31 500)
Effects of exchange rates on cash and cash equivalents		(1 700)	(1 449)
Net increase/(decrease) in cash and cash equivalents		50 489	(302 060)
Cash and cash equivalents at the beginning of the year		123 272	425 332
Cash and cash equivalents at the end of the year		**173 761**	**123 272**
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		10 870	10 308
On demand loans and advances to banks		162 837	112 964
Cash equivalent advances to customers		54	
Cash and cash equivalents at the end of the year		**173 761**	**123 272**

1. Accounting policies

Basis of presentation

The group financial statements are prepared in accordance with International Financial Reporting Standards and International Accounting Standards (collectively, "IFRS"), as endorsed by the European Union ("EU"). IFRSs as endorsed by the EU are identical to current IFRSs except for the EU's amendment to IAS 39, under which the application of hedge accounting requirements have been simplified. The group has elected not to apply the amendments as adopted by the EU, thus applying the more restrictive requirements under IAS 39.

Where comparative information is prepared on previous accounting policies applied by Investec, note 42 details the differences in those policies from the policies applied from 1 April 2005.

First time adoption of IFRS

In accordance with the transitional provisions contained in IFRS 1, the group has retrospectively adopted IFRS for the financial year ended 31 March 2006, except for certain elections made in accordance with IFRS 1 - First-time adoption of International Financial Reporting Standards ("IFRS 1") - as noted below.

Elections made under IFRS 1

The group has applied the following transition provisions as contained in IFRS in arriving at the opening balances:

Business combinations

The group has elected not to apply IFRS 3, "Business Combinations" retrospectively to business combinations prior to the date of transition (1 April 2004). The carrying value of goodwill under UK GAAP at 31 March 2004 has therefore been brought forward, except for identified intangible assets which have been separately identified and tested for impairment.

Property, plant and equipment

The group has brought forward the carrying values of property, plant and equipment at date of transition as previously determined as the carrying values are materially aligned with the carrying values as determined by IAS 16.

Employee benefits

The group has elected to recognise all cumulative actuarial gains and losses at the date of transition to IFRS as an adjustment to opening retained earnings.

Cumulative foreign currency translation reserve

The group has elected to deem the cumulative foreign currency translation differences for foreign operations to be nil at the date of transition.

Share based payment transactions

The group has applied the provisions of IFRS 2, "Share based payments", retrospectively to all share-based payment transactions granted prior to the date of transition but that vest after the date of transition.

Derecognition of financial assets and liabilities

The group has elected not to apply the derecognition rules of IAS 39 to financial assets and liabilities derecognised before 1 January 2004.

Exemption from the requirement to restate comparative periods (31 March 2005) for financial instruments and insurance contracts

The group has elected not to apply the requirements of IAS 32, "Financial Instruments: Disclosure and Recognition" and IAS 39, "Financial Instruments: Recognition and Measurement" to the 2005 comparative period. The impact of adoption of these standards is reflected as an adjustment to the opening balance sheet at 1 April 2005.

Compound financial instruments

The group has elected not to separate the liability and equity components of compound financial instruments for which the liability component is no longer outstanding at 1 April 2005.

Designation of previously recognised financial instruments

The group has elected to designate certain financial instruments within the scope of IAS 39 as "at fair value through profit or loss" or as "available for sale" at 1 April 2005.

Basis of consolidation

All subsidiaries in which the group holds more than one half of the voting rights or over which it has the ability to exercises control are consolidated from the effective dates of acquisition (that is from when control exists) and up to the effective dates of loss of control except entities which are classified as non-current assets held for sale. Subsidiaries classified as non-current assets held for sale are consolidated as discontinued operations.

The consolidated financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the consolidated balance sheet at the group's share of net assets of the associate plus goodwill arising on acquisition, less any impairment recognised on the investment.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies, are treated as associates. In the group accounts, associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases, except as noted below.

1. Accounting policies (continued)

In circumstances where associates or joint venture holdings arise in which the group has no strategic intention, these investments are classified as "venture capital" holdings and are designated as held at fair value through profit and loss.

All intergroup balances and unrealised gains and losses within the group are eliminated to the extent that they do not reflect an impairment in the asset.

Segmental reporting

A segment is a distinguishable component of the group engaged in providing products or services within a particular economic environment which is subject to risks and rewards that are distinguishable from those of other segments.

The group's primary segmental reporting is presented in the form of a business analysis (primary segment).

The business analysis is presented in terms of the group's five principal business divisions and Group Services and Other Activities.

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

Goodwill

Goodwill represents the net excess of the purchase consideration over the fair value of the net identifiable assets of entities acquired. Goodwill is capitalised and tested for impairment at balance sheet dates or when there is an indication of impairment. Goodwill is allocated to cash generating units for the purposes of testing impairment based on the synergies expected in the business combination, with any impairments arising being recognised immediately in the income statement. Impairments recognised are not reversed in subsequent periods.

In circumstances where the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is greater than the purchase consideration, the group will reassess the identification and measurement of all assets and liabilities (including contingent liabilities) following which any remaining excess is recognised immediately in profit and loss.

Goodwill arising is denominated in the functional currency of the foreign operation and is translated to the presentational currency of the group (pound sterling) at the applicable closing rate.

Share based payments to employees

The group engages in equity settled share-based payments and in certain limited circumstances cash-settled share-based payments in respect of services received from employees.

The fair value of the services received in respect of equity settled share-based payments is determined by reference to the fair value of the shares or share options on the date of grant to the employee. The cost of the share based payment is recognised over the vesting period of the grant in the income statement on a straight-line basis, based on an estimate of the amount of instruments that will eventually vest.

A liability and expense in respect of cash settled share based payments is recognised over the vesting period of the grant in the income statement on a straight-line basis, based on the fair value of the liability that will eventually vest. The liability is recognised at the current fair value as at each balance sheet date, based on an estimate of the number of instruments that will eventually vest. Subsequent to vesting the liability is measured at fair value, with gains and losses recognised in the profit and loss account until such time as the liability is settled.

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Foreign currency transactions

The presentation currency of the group is sterling, being the functional currency of Investec Bank (UK) Limited.

Foreign operations are subsidiaries, associates, joint ventures or branches of the group, the activities of which are based in a functional currency other than that of reporting entity. The functional currency of group entities is determined based on the primary economic environment in which the entity operates.

On consolidation, the results and financial position of foreign operations are translated into the presentation currency of the group as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- income and expense items are translated at exchange rates ruling at the date of the transaction;
- all resulting exchange differences are recognised in equity (foreign currency translation reserve) which is recognised in profit and loss on disposal of the foreign operation;
- cash flow items are translated at the exchange rates ruling at the date of the transaction.

Foreign currency transactions are translated into the functional currency of the entity in which the transaction arises based on rates of exchange ruling at the date of the transaction. At each balance sheet date foreign currency items are translated as follows:

- foreign currency monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains and losses recognised in profit and loss;
- exchange differences arising on monetary items that form part of the net investment in a foreign operation are

translated using closing rates are recognised as a separate component of equity (foreign currency translation reserve) upon consolidation, and is recognised in the income statement upon disposal of the net investment;
- non-monetary items that are measured at historical costs are translated using the exchange rates ruling at the date of the transaction.

Revenue recognition

Interest income is recognised in the income statement using the effective interest method. Fees charged on lending transactions are included in the effective yield calculation to the extent that they form an integral part of the effective interest yield, but excludes those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged in lieu of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest yield calculation is based on the estimated life of the underlying instrument, and, where this estimate is not readily available, the contractual life.

Commissions and fees include fees earned from providing advisory services as well as portfolio management. All such commissions and fees are recognised as revenue when the related services are performed. Fees and commission income are only recognised when they can be estimated reliably.

Principal transaction income includes trading profits, gains and losses on financial assets and liabilities designated as held at fair value and fair value gains and losses on investment properties.

Trading profits are shown net of the funding cost of the underlying positions and includes the unrealized profits on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in trading securities and valued accordingly. Trading profits gross of funding costs is disclosed in note 3.

Financial instruments

Financial instruments are initially recognised at their fair value, plus in the case of financial assets or financial liabilities not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liabilities.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the time frame established by market convention are recorded at trade date.

Financial assets and liabilities held at fair value through profit and loss

Financial instruments held at fair value through profit and loss include all instruments classified as held as trading and those instruments designated as held at fair value through profit and loss.

Financial instruments classified as held for trading or designated as held at fair value through profit and loss are recorded at fair value on the balance sheet with changes in fair value recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit and loss are designated as such on initial recognition of the instrument (or on initial adoption of IFRS) and remain in this classification until derecognition.

Financial assets and liabilities are designated as held at fair value through profit and loss only if:
- it eliminates or significantly reduces an inconsistent measurement or recognition that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that bases to the group's key management personnel; and
- if a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial liability at fair value through profit and loss.

Held-to-maturity assets

Held to maturity assets are non-derivative financial instruments with fixed or determinable payments and maturity dates. Financial assets that the group has the positive intent and ability to hold to maturity are classified as held-to-maturity and are measured at amortised cost using the effective interest rate method, less impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:
- those that the group intends to trade in, which are classified as held for trading, and those that the group designates as at fair value through profit and loss;
- those that the group designates as available for sale; and
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

1. Accounting policies (continued)

Loans and receivables are measured at amortised cost less impairment losses subsequent to initial recognition.

Available for sale assets

Financial assets classified as available for sale are measured at fair value on the balance sheet, with unrealised gains and losses recognised in equity. Realised gains and losses are recognised in income in the period in which the asset is realised.

If an available for sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in equity are included in the income statement in the period in which the impairment is identified.

Impairments on available for sale equity instruments are not reversed once recognised in the income statement.

Financial liabilities

Financial liabilities are classified as non-trading, held for trading or designated as held at fair value through profit and loss.

Non-trading liabilities are recorded at amortised cost applying the effective interest method.

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Held for trading or liabilities designated as held at fair value through profit and loss, are accounted for as indicated above.

Valuation of financial instruments

The following financial instruments are held at fair value:

- Fixed maturity securities classified as trading, held at fair value through profit or loss and available for sale,
- Equity securities,
- Private equity investments,
- Derivative positions,
- Loans and advances designated as held at fair value through profit and loss or available for sale, and
- Financial liabilities classified as trading or designated as held at fair value through profit and loss

Where available, market prices provide the best basis of fair value. Where market prices are not available, the fair value is determined by discounting the expected cash flows, using market interest rates taking into account the credit quality and duration of the investment. In certain instances model pricing may be used to determine fair values. For private equity investments that are not publicly traded, management uses comparisons to similar companies, relevant third party arm's length transactions and other information specific to the investment.

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the group would not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at least at each balance sheet reporting date. The test for impairment is based either on specific financial assets or on a portfolio of similar, homogeneous loans. An impairment is credited against the carrying value of financial assets. The impairment is calculated as the difference between the carrying value of the asset and the expected cash flows discounted at the original effective rate. An allowance for impairment is only reversed when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement. Assets specifically identified as impaired are removed from the portfolio assessment.

To cater for any shortfall between regulatory provision requirements (in the respective jurisdictions) and impairments based on the principles above, a transfer is made from distributable to non distributable reserves, being the regulatory general risk reserve. The non distributable regulatory provision reserve ensures that minimum regulatory provisioning requirements are maintained.

Derecognition of financial assets and liabilities

A financial asset or a portion thereof, is derecognised when the group's rights to cash flows has expired; or when he group has transferred its rights to cash flows relating to the financial assets, including the transfer of substantially all the risk and rewards associated with the financial assets or when control over the financial assets has passed.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Derivative instruments and hedge accounting

All derivative instruments of the group are recorded on balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits and losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed below).

The group applies either fair value or cash flow hedge accounting when the transactions meet the specified hedge accounting criteria. To meet hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge effectiveness is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedge accounting is discontinued when it is determined that the derivative ceases to be highly effective as a hedge; the derivative expires, or is sold, terminated or exercised; when the hedge item matures or is sold or repaid; or when a forecasted transaction is no longer deemed highly probable.

For qualifying fair value hedges, the change in fair value of the hedging derivative is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging derivative is initially recognised in equity and is released to the initial cost of any asset/liability recognised or in all other cases, to the income statement when the hedged firm commitment or forecasted transaction affects net profit.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value, which represents an effective hedge, of the hedging derivative is initially recognised in equity and is released to the income statement in the same periods during which the relevant financial asset or liability affects profit or loss. Any ineffective portion of the hedge is immediately recognised in profit and loss.

Derivative instruments transacted as economic hedges but which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held for trading.

To the extent that a derivative may be embedded in a host contract and the host contract is not carried at fair value with changes in fair value recorded in the income statement , the embedded derivative is separated from the host contract and accounted for as a standalone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Offsetting of assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the group are classified as liabilities if they contain an obligation to transfer economic benefits. Financial instruments issued by the group are classified as equity where they confer on the holder a residual interest in the group. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments issued by subsidiaries of Investec Bank (UK) Limited are recorded as minority interests on balance sheet.

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

Dividends on ordinary shares are recognised as a deduction from equity in the period in which they are declared and paid.

Sale and repurchase agreements (including stock borrowing and lending)

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

Stock lending and borrowing transactions that are not cash collateralised are not included in the balance sheet. Stock lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

1. Accounting policies (continued)

Instalment credit, leases and rental agreements

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the entity is the lessor and included in liabilities where the entity is the lessee. Finance charges on finance leases and installment credit transactions are credited or debited to income in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable under operating leases are charged/credited in the profit and loss account on a straight line basis over the lease term. Contingent rentals (if any) are accrued to profit and loss account when incurred.

Property, plant and equipment

Property and equipment is recorded at cost less accumulated depreciation and impairments.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life of the asset.

The annual depreciation rates for each class of property and equipment is as follows:

• Computer and related equipment	20-33%
• Motor vehicles	20-25%
• Furniture and fittings	10-20%
• Freehold buildings	2%
• Leasehold improvements*	

* Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease.

No depreciation is provided on freehold land, however, similar to other property related assets, it is subject to impairment testing when deemed necessary.

Routine servicing and maintenance of assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Dealing properties

Dealing properties are included in the balance sheet under other assets and are considered to be inventories which are stated at the lower of cost and net realisable value.

Impairment of non-financial assets

At each balance sheet date the group reviews the carrying value of non-financial assets for indication of impairment. The recoverable amount, being the higher of selling price and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses is recognised in income in the period in which the reversal is identified, to the extent that the asset is not revalued to a carrying value that would have been calculated without impairment.

Trust and fiduciary activities

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the group, they are not reflected on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current tax payable is provided on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period .

Deferred taxation is provided using the balance sheet method on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill.
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on profit or loss.

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

Employee benefits

The group operates various defined contribution schemes and two closed defined benefit schemes.

In respect of the defined contribution scheme all employer contributions are charged to income, as incurred in accordance with the rules of the scheme, and included under staff costs. The assets of the defined benefit schemes are measured at their market value at the balance sheet date and the liabilities of the schemes are measured using the projected unit method. The discount rate used to measure the schemes' liabilities is the current rate of return on an AA corporate bond at the balance sheet date of equivalent term and currency to the liabilities. The extent to which the schemes' assets exceed or fall short of the schemes' liabilities is shown as a surplus or deficit in the balance sheet (to the extent that it is considered recoverable). Actuarial gains and losses related to the defined benefit asset or liability are recognised directly in equity.

The group has no liabilities for other post retirement benefits.

Intangible assets

Intangible assets are recorded at cost less accumulated depreciation and impairments.

For intangible assets with a finite life, depreciation is provided on the depreciable amount of each intangible assets on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, which the group would currently obtain from the disposal of an intangible asset in similar age and condition as expected at the end of its useful life.

Intangible assets with an infinite life are not depreciated, however they are tested for impairment on an annual basis.

Assets held for sale

Assets are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale and affected by the measurement requirement of IFRS5 (non-current assets held for sale and discontinued operations) are measured at the lower of its carrying amount and fair value less costs to sell.

Borrowing costs

Borrowing costs in respect of property developments that take a substantial period of time to get ready for sale are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount, and are recognised as soon as the group has created a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event. Contingent assets and contingent liabilities are not recognised.

Standards and interpretations not yet effective

The following standards and interpretations have been issued which are applicable to the group but have not yet been adopted. The group intends to comply with these standards from the effective dates.

IFRS 7 - Financial Instruments: Disclosures (effective for the financial year beginning 1 April 2007)

The standard is related to disclosure requirements for financial instruments and replaces IAS 30 and elements of IAS 32. Adoption of the standard will change the format of disclosure presented but will not affect recognition or measurement criteria as currently applied.

IAS 39 Financial Instruments: Recognition and Measurement - Cash flow hedge accounting of forecast intragroup transactions (effective for the financial year beginning 1 April 2006)

This amendment is not anticipated to be utilised by the group.

IAS 39 - Financial Instruments: Recognition and Measurement - Financial guarantee contracts (effective for the financial year beginning 1 April 2006)

The amendment clarifies that the issuer of financial guarantee contracts initially records the contract at fair value and subsequently measures in accordance with IAS 37, adjusted for accumulated amortisation of the amount initially recorded.

This amendment is not expected to result in a material adjustment to current recognition and measurement criteria applied by the group.

Other standards or interpretations have been issued, none of which are expected to result in a change to current group accounting practices.

Key management assumptions

In preparation of the financial statements the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

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

For the year to 31 March £'000	Private Client Activities	Treasury & Specialised Finance	Investment Banking	Property Activities	Group Services and Other Activities	Total group
2. Segmental analysis						
Business analysis 2006						
Net interest income	**83 258**	**30 516**	**63**	**(679)**	**10 520**	**123 678**
Fees and commissions receivable	52 423	28 670	62 993	107	580	144 773
Fees and commissions payable	(3 150)	(463)	(2 037)	-	(12)	(5 662)
Principal transactions	10 085	22 762	24 584	3 049	202	60 682
Operating income from associates	215	(75)	307	-	-	447
Other operating income	-	-	-	-	1 578	1 578
Other income	**59 573**	**50 894**	**85 847**	**3 156**	**2 348**	**201 818**
Impairment losses on loans and advances	1 704	(6 467)	(21)	-	(2 457)	(7 241)
Net operating income	**144 535**	**74 943**	**85 889**	**2 477**	**10 411**	**318 255**
Administrative expenses	(75 036)	(52 364)	(50 749)	(454)	(20 792)	(199 395)
Depreciation and impairment of property, equipment and software	(1 219)	(101)	(94)	-	(1 305)	(2 719)
Operating profit	**68 280**	**22 478**	**35 046**	**2 023**	**(11 686)**	**116 141**
Non-operating exceptional items	-	-	(1 071)	-	-	(1 071)
Profit before taxation	**68 280**	**22 478**	**33 975**	**2 023**	**(11 686)**	**115 070**
Net intersegment revenue	21 663	(35 656)	(591)	(525)	22 088	6 979
Cost to income ratio	53.4%	64.4%	59.2%	18.3%	171.7%	62.1%
Number of employees	479	227	167	3	251	1 127
Total assets (£'million)	2 878	3 869	269	7	441	7 464

For the year to 31 March £'000	Private Client Activities	Treasury & Specialised Finance	Investment Banking	Property Activities	Group Services and Other Activities	Total group
2. Segmental analysis (continued)						
Business analysis 2005						
Net interest income	**47 815**	**13 145**	**1 099**	**(788)**	**13 984**	**75 255**
Fees and commissions receivable	59 947	32 101	48 693	6 229	839	147 809
Fees and commissions payable	(2 481)	(1 186)	(3 122)	-	(62)	(6 851)
Principal transactions	641	13 355	16 683	1 713	240	32 632
Operating income from associates	223	(304)	-	-	142	61
Other operating income	36	-	-	-	219	255
Other income	**58 366**	**43 966**	**62 254**	**7 942**	**1 378**	**173 906**
Impairment losses on loans and advances	(3 440)	(43)	-	3	(1 741)	(5 221)
Net operating income	**102 741**	**57 068**	**63 353**	**7 157**	**13 621**	**243 940**
Administrative expenses	(58 450)	(40 959)	(39 067)	(2 086)	(15 004)	(155 566)
Depreciation and impairment of property, equipment and software	(1 486)	(134)	(234)	-	(1 131)	(2 985)
Operating profit before goodwill impairment	**42 805**	**15 975**	**24 052**	**5 071**	**(2 514)**	**85 389**
Recognition of negative goodwill	(2 569)	5 024	-	-	-	2 455
Operating profit	**40 236**	**20 999**	**24 052**	**5 071**	**(2 514)**	**87 844**
Non-operating exceptional items	-	-	-	-	(5 207)	(5 207)
Profit before taxation	**40 236**	**20 999**	**24 052**	**5 071**	**(7 721)**	**82 637**
Net intersegment revenue	(2 138)	(20 154)	(630)	(797)	29 779	6 060
Cost to income ratio	56.4%	72.0%	62.0%	29.2%	105.0%	63.6%
Number of employees	427	169	137	5	226	964
Total assets (£'million)	1 804	4 743	289	25	468	7 329

For the year to 31 March £'000	UK & Europe	Australia	Other geographies	Total group
2. Segmental analysis (continued)				
Geographical analysis 2006				
Net interest income	**100 134**	**23 544**	**-**	**123 678**
Fees and commissions receivable	128 451	16 322	-	144 773
Fees and commissions payable	(4 982)	(680)	-	(5 662)
Principal transactions	57 018	3 664	-	60 682
Operating income from associates	654	(207)	-	447
Other operating income	1 578	-	-	1 578
Other income	**182 719**	**19 099**	**-**	**201 818**
Impairment losses on loans and advances	(6 291)	(950)	-	(7 241)
Net operating income	**276 562**	**41 693**	**-**	**318 255**
Administrative expenses	(174 019)	(25 376)	-	(199 395)
Depreciation and impairment of property, equipment and software	(2 145)	(574)	-	(2 719)
Operating profit	**100 398**	**15 743**	**-**	**116 141**
Non-operating exceptional items	(1 071)	-	-	(1 071)
Profit before taxation	**99 327**	**15 743**	**-**	**115 070**
Taxation	(27 482)	(4 851)	-	(32 333)
Profit after taxation	**71 845**	**10 892**	**-**	**82 737**
Earnings attributable to minority shareholders	12	-	-	12
Earnings attributable to shareholders	71 833	10 892	-	82 725
Earnings attributable to shareholders' equity	**71 845**	**10 892**	**-**	**82 737**
Net intersegment revenue	6 601	378	-	6 979
Cost to income ratio	62.3%	60.9%	-	62.1%
Effective tax rate	27.7%	30.8%	-	28.1%
Number of employees	959	168	-	1 127

As at 31 March £'million	UK & Europe	Australia	Other geographies	Total group
2. Segmental analysis (continued)				
Geographical analysis 2006				
Assets				
Cash and balances at central banks	8	2	-	10
Loans and advances to banks	580	81	-	661
Reverse repurchase agreements and cash collateral on securities borrowed	643	-	-	643
Trading securities	159	1	-	160
Derivative financial instruments	253	2	-	255
Cash equivalent advances to customers	-	-	-	-
Investment securities	1 101	136	-	1 237
Loans and advances to customers	3 151	403	-	3 554
Interests in associated undertakings	11	1	-	12
Deferred taxation assets	20	3	-	23
Other assets	853	3	-	856
Property and equipment	14	2	-	16
Goodwill	24	12	-	36
Intangible assets	1	-	-	1
	6 818	**646**	**-**	**7 464**
Liabilities				
Deposits by banks	1 059	-	-	1 059
Derivative financial instruments	48	1	-	49
Other trading liabilities	124	-	-	124
Repurchase agreements and cash collateral on securities lent	272	-	-	272
Customer accounts	3 393	253	-	3 646
Debt securities in issue	471	247	-	718
Current taxation liabilities	36	1	-	37
Deferred taxation liabilities	-	1	-	1
Other liabilities	733	11	-	744
	6 136	**514**	**-**	**6 650**
Subordinated liabilities	226	-	-	226
	6 362	**514**	**-**	**6 876**

As at 31 March £'million	UK & Europe	Australia	Other geographies	Total group
Segmental analysis (continued)				
Geographical analysis 2005				
Net interest income	**54 425**	**13 776**	**7 054**	**75 255**
Fees and commissions receivable	125 366	16 078	6 365	147 809
Fees and commissions payable	(5 352)	(1 499)	-	(6 851)
Principal transactions	31 333	1 122	177	32,632
Operating income from associates	70	(81)	72	61
Other operating income	16	-	239	255
Other income	**151 433**	**15 620**	**6 853**	**173 906**
Impairment losses on loans and advances	(4 704)	(82)	(435)	(5 221)
Net operating income	**201 154**	**29 314**	**13 472**	**243 940**
Administrative expenses	(128 809)	(17 876)	(8 881)	(155 566)
Depreciation and impairment of property, equipment and software	(2 003)	(449)	(533)	(2 985)
Operating profit before goodwill impairment	**70 342**	**10 989**	**4 058**	**85 389**
Recognition of negative goodwill	2 455	-	-	2 455
Operating profit	**72 797**	**10 989**	**4 058**	**87 844**
Profit/(loss) on termination of group operations	-	-	(5 207)	(5 207)
Profit before taxation	**72 797**	**10 989**	**(1 149)**	**82 637**
Taxation	(19 074)	(3 118)	(1 460)	(23 652)
Profit after taxation	**53 723**	**7 871**	**(2 609)**	**58 985**
Earnings attributable to minority shareholders	252	-	556	808
Earnings attributable to shareholders	53 471	7 871	(3 165)	58 177
Earnings attributable to shareholders' equity	**53 723**	**7 871**	**(2 609)**	**58 985**
Net intersegment revenue	5 644	374	42	6 060
Cost to income ratio	63.5%	62.3%	67.7%	63.6%
Effective tax rate	26.2%	28.4%	n/a	28.6%
Number of employees	826	138	-	964

As at 31 March £'million	UK & Europe	Australia	Other geographies	Total group
2. Segmental analysis (continued)				
Geographical analysis 2005				
Assets				
Cash and balances at central banks	9	1	-	10
Treasury bills and other eligible bills	7	135	-	142
Loans and advances to banks	1 777	22	-	1 799
Loans and advances to customers	3 060	320	-	3 380
Debt securities	1 089	47	-	1 136
Equity shares	272	3	-	275
Interests in associated undertakings	12	-	-	12
Deferred taxation assets	19	2	-	21
Other assets	500	5	-	505
Property and equipment	15	2	-	17
Goodwill	19	12	-	31
Intangible assets	1	-	-	1
	6 780	**549**	**-**	**7 329**
Liabilities				
Deposits by banks	776	-	-	776
Customer accounts	2 768	213	-	2 981
Debt securities in issue	433	205	-	638
Current taxation liabilities	14	-	-	14
Deferred taxation liabilities	-	-	-	-
Accruals and deferred income	86	-	-	86
Other liabilities	2 073	10	-	2 083
	6 150	**428**	**-**	**6 578**
Subordinated liabilities	220	-	-	220
	6 370	**428**	**-**	**6 798**

A geographical breakdown of business operating profit before goodwill impairment, non-operating items and taxation is shown below:

For the year to 31 March £'000	UK & Europe	Australia	Other geographies	Total group
2006				
Private Client Activities	60 271	8 009	-	68 280
Treasury and Specialised Finance	21 629	849	-	22 478
Investment Banking	29 634	5 412	-	35 046
Property Activities	2 023	-	-	2 023
Group Services and Other Activities	(13 159)	1 473	-	(11 686)
Total group	**100 398**	**15 743**	**-**	**116 141**
2005				
Private Client Activities	36 412	4 342	2 051	42 805
Treasury and Specialised Finance	14 992	1 193	(210)	15 975
Investment Banking	18 300	3 515	2 237	24 052
Property Activities	5 071	-	-	5 071
Group Services and Other Activities	(4 433)	1 939	(20)	(2 514)
Total group	**70 342**	**10 989**	**4 058**	**85 389**

For the year to 31 March £'000	2006	2005
A further breakdown of business line operating profit before goodwill impairment, non-operating items and taxation is shown below:		
Private Client Activities	**68 280**	**42 805**
Treasury and Specialised Finance	**22 478**	**15 975**
Investment Banking		
Corporate Finance	8 255	8 132
Institutional Research and Sales and Trading	10 066	2 165
Private Equity	9 607	12 224
Direct Investments	7 118	1 531
	35 046	**24 052**
Property Activities	**2 023**	**5 071**
Group Services and Other Activities		
Central Funding	11 707	13 084
Central Costs	(23 393)	(15 598)
	(11 686)	**(2 514)**
Total group	**116 141**	**85 389**

3. Principal transactions

	2006	2005
Principal transaction income includes:		
Gross trading income	38 322	10 463
Funding cost against trading income	(5 633)	5 365
Net trading income	32 689	15 828
Net income from financial instruments designated as held at fair value	28 898	
Realised income on disposal of available for sale instruments	(1 282)	
Dividend income	377	389
Gains on disposal/reclassification of investment securities		16 415
	60 682	**32 632**
Net income from financial instruments designated as held at fair value includes:		
Fair value movement of designated equity positions	13 402	
Fair value movement of designated loans and receivables	251	
Fair value movement of designated securities	15 245	
	28 898	

For the year to 31 March £'000	2006	2005
4. Pension commitments		
Defined benefit obligations	-	-
Defined contributions	5 053	4 829
Pension and provident fund contributions	**5 053**	**4 829**

Pension costs relate to defined contribution schemes. The group has adopted IAS 19 in respect of defined benefit schemes. Employees of the bank participate in the Guinness Mahon Pension scheme ("the scheme") which is a non-contributory defined benefit scheme and its assets are held in separate trustee administered funds. Employees from other Investec plc undertakings also participate in this scheme and the bank is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Therefore the bank has accounted for this scheme on a defined contribution basis. The scheme is closed to new entrants and accrual of service ceased on 31 March 2002. The bank made no contributions to the scheme in the year ended 31 March 2006 (31 March 2005: £128 000).

The accounts of Investec plc, the bank's ultimate parent company, disclose the actuarial valuation of the scheme under IAS 19 at 31 March 2006. This was performed by a qualified, independent actuary. The valuation showed a surplus in the scheme of £3 248 000 (31 March 2005: deficit of £8 424 000). This surplus has been recognised in the financial statements of Investec plc.

The major assumptions used were:

31 March	2006	2005
Discount rate	5.00%	5.50%
Rate of increase in salaries	3.00%	3.50%
Rate of increase in pensions in payment	2.70%	2.70%
Inflation	2.90%	2.90%

The assets held in the schemes and the expected rates of return were:

31 March	Value at 2006 £'000	Long-term rate of return expected	Value at 2005 £'000	Long-term rate of return expected
Equities	41 931	7.70%	25 357	7.70%
Gilts	47 462	4.70%	43 484	4.70%
Cash	3 782	4.75%	5 606	4.75%
Total market value of assets	**93 175**		**74 447**	

At 31 March £'000	2006	2005
4. Pension commitments (continued)		

The following amounts have been recognised in the financial statements of the bank's ultimate parent company, Investec plc, in accordance with IAS 19:

	2006	2005
Recognised in the balance sheet		
Fair value of fund assets	93 175	74 447
Present value of obligations	(89 927)	(82 871)
Net assets/(liability)	**3 248**	**(8 424)**
Amounts in balance sheet		
Assets	3 248	-
Liability	-	(8 424)
Net assets/(liability)	**3 248**	**(8 424)**
Recognised in the income statement		
Past service cost	-	-
Expected return on pension scheme assets	4 452	3 920
Interest on pension obligations	(4 471)	(4 571)
Net return	**(19)**	**(651)**
Recognised in the statement of recognised income and expense		
Actuarial gains on plan assets	8 125	1 905
Actuarial (losses)/gains	(5 765)	1 731
Actuarial gain/(loss)	2 360	3 636
Deferred tax	(708)	(1 091)
Actuarial gain/(loss) in statement of recognised income and expense	**1 652**	**2 545**

The cumulative amount of net actuarial losses recognised in the consolidated statement of recognised income and expense of Investec plc in respect of the scheme is £8.193 million (£5.735 million net of deferred tax).

Changes in the fair value of defined benefit obligations	
Defined benefit obligation at 31 March 2004	83 186
Interest cost	4 571
Actuarial (gains)	(1 731)
Benefits paid	(3 155)
Defined benefit obligation at 31 March 2005	82 871
Interest cost	4 471
Actuarial losses	5 765
Benefits paid	(3 180)
Defined benefit obligation at 31 March 2006	**89 927**
Changes in the fair value of plan assets	
Assets at 31 March 2004	68 165
Expected return	3 920
Actuarial gains	1 905
Contributions by the employer	3 612
Benefits paid	(3 155)
Assets at 31 March 2005	74 447
Expected return	4 452
Actuarial gains	8 125
Contributions by the employer	9 331
Benefits paid	(3 180)
Assets at 31 March 2006	**93 175**

The group expects to make £3.5 million of contributions to the scheme in 2007.

For the year to 31 March £'000	2006	2005
5. Administrative expenses		
Staff costs	140 267	104 346
Salaries and wages (including directors' remuneration)	122 742	89 927
Social security costs	12 472	9 590
Pensions and provident fund contributions	5 053	4 829
Premises (excluding depreciation)	4 642	4 141
Operating rental expenses	2 428	2 396
Premises rental recharge from fellow group undertaking	7 493	7 493
Equipment (excluding depreciation and operating rental expenses)	1 344	845
Business expenses	36 662	31 568
Marketing expenses	6 559	4 777
	199 395	**155 566**
The following amounts were paid to the auditors:		
Audit fees	1 168	
Audit related fees	65	
Other services	326	
	1 559	
6. Directors' emoluments		
Aggregate emoluments (excluding pension contributions)	5 741	3 405
Contributions to defined contributions scheme	92	72
	5 833	**3 477**
Number of directors in defined contributions scheme	4	5
Number of directors in closed defined benefits scheme	-	-

Emoluments of the highest paid director were £2 168 024 (2005: £1 119 716) excluding £30 000 pension contribution to the defined contributions scheme (2005: £ nil).

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.

For the year to 31 March £'000	2006	2005
7. Share based payments		

The group operates share option and share purchase schemes for employees, the majority of which is on an equity settled basis. The purpose of the staff share schemes is to promote an 'esprit de corps' within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group. Further information on the group share options and long-term incentive plans are provided in the Investec group's 2006 remuneration report.

	2006	2005
Expense charged to profit and loss:		
Equity settled	1 104	1 495
Cash settled	533	533
Total profit and loss charge	**1 637**	**2 028**
Liabilities on cash settled options		
Total liability included in other liabilities	349	287
Total intrinsic value for vested appreciation rights	1 453	966
Weighted average fair value of options granted in the year	**12 242**	**31 007**

At 31 March	2006 Number of share options	2006 Weighted average exercise price	2005 Number of share options	2005 Weighted average exercise price
Details of options outstanding during the year				
Outstanding at the beginning of the year	4 772 091	£7.26	5 026 874	£11.75
Granted during the year	1 012 677	£3.92	1 988 022	£1.63
Exercised during the year*	(840 910)	£11.65	(676 226)	£10.21
Expired during the year	(331 200)	£11.71	(1 566 579)	£13.44
Outstanding at the end of the year	**4 612 658**	**£5.41**	**4 772 091**	**£7.26**
Exercisable at the end of the year	**164 939**	**£17.74**		

* Weighted average share price during the year

The fair values of options granted where calculated on a Black-Scholes option pricing model. For options granted during the period, the inputs into the model were as follow:

	2006	2005
- Share price at date of grant	£17.06 - £24.96	£10.26 - £15.90
- Exercise price	£7.76 - £21.52	£7.76 - £15.73
- Expected volatility	28% -30%	30%
- Option life	5 years	5 - 9 years
- Expected dividend yields	3.15% - 4.27%	4.21% - 4.27%
- Risk-free rate	4.23% - 4.69%	5.60%

Expected volatility was determined based on historical volatility of the respective share price over 6 months. The expected attrition rates used were determined based on historical group data, with an adjustment to actual attrition on final vesting.

For the year to 31 March £'000	2006	2005
8. Taxation		
Corporation tax		
UK	**27 627**	**7 066**
- current tax on income for the year	27 829	8 436
- adjustments in respect of prior years	2 608	-
- double tax relief	(2 810)	(1 370)
Overseas current tax charge		
Current tax on income for the year	**8 836**	**6 505**
Europe	1 606	1 615
Australia	5 804	3 427
Israel	-	1 463
Other	1 426	-
Total corporation tax	**36 463**	**13 571**
Deferred tax		
UK		
- current income	(2 931)	12 333
- prior year	(287)	(2 222)
Europe	41	(30)
Australia	(953)	-
Total deferred tax	**(4 130)**	**10 081**
Total tax charge for the year	**32 333**	**23 652**
Deferred tax comprises:		
Origination and reversal of temporary differences	(3 843)	12 303
Adjustment in respect of prior years	(287)	(2 222)
	(4 130)	**10 081**

For the year to 31 March £'000	2006	2005
8. Taxation (continued)		
The rates of corporation tax for the relevant years are:		
UK	30%	30%
Europe (average)	20%	20%
Australia	30%	30%
Profit on ordinary activities before taxation	**115 070**	**82 637**
Tax on profit on ordinary activities	**32 333**	**23 652**
Effective tax rate	**28%**	**29%**
The tax charge on activities for the year is different to the standard rate as detailed below:		
Tax on profit on ordinary activities before taxation,at UK rate of 30%	34 521	24 791
Tax adjustments relating to foreign earnings	53	(736)
Taxation relating to prior years	2 321	(2 222)
Goodwill and non-operating items	-	(844)
Permanently disallowed items for corporation tax purposes	3 345	2 014
Losses carried forward	-	339
Non-taxable income	(111)	-
Share options accounting expense	1 882	118
Share options exercised during the year	(1 950)	-
Unexpired share options future tax deduction	(4 918)	-
Loss on disposal of subsidiary undertakings	-	1 562
Double tax relief	(2 810)	(1 370)
Current tax charge	**32 333**	**23 652**

In addition to the amount of tax charged to the income statement, the aggregate amount of current and deferred tax charge/(credit) relating to items that are taken directly to equity was (£1 358 000) (2005: £nil).

9. Dividends		
Final dividend in previous year	15 000	16 500
Interim dividend for current year	27 500	15 000
Total dividend attributable to ordinary shareholder recognised in current financial year	**42 500**	**31 500**
10. Miscellaneous income statement items		
Total foreign currency gains and (losses) recognised in income except financial instruments measured at fair value through income	**24**	**(103)**
Operating lease income recognised in income split as follows:		
Minimum lease payments	1 170	1 516
Sublease payments	101	84
	1 271	**1 600**

At 31 March £'000	2005
11. Treasury bills and other eligible bills	
Investment securities held at cost	
Other eligible bills - banks	135 369
Other eligible bills - other	6 813
	142 182
Investment securities:	
Opening balance	144 781
Purchases	1 013 937
Maturities	(1 014 935)
Exchange adjustments	(1 601)
Closing balance	**142 182**

Treasury bills and other eligible bills are unlisted, mainly short term in maturity and have a book value not materially different from market value.

	2006	
At 31 March £'000	Fair value	Cumulative unrealised gains
12. Trading securities		
Listed equities	95 552	10 561
Unlisted equities	1 700	-
Debt securities	62 878	415
	160 130	**10 976**

At 31 March 2006 £'000	At fair value through profit and loss		
	Trading	Designated at inception	Held-to-maturity
13. Analysis of assets and liabilities by measurement basis			
Assets			
Cash and balances at central banks	-	-	-
Loans and advances to banks	8 371	-	-
Reverse repurchase agreements and cash collateral on securities borrowed	643 172	-	-
Trading securities	93 730	66 400	-
Derivative financial instruments	254 595	-	-
Cash equivalent advances to customers	54	-	-
Investment securities	-	-	123 615
Loans and advances to customers	-	190 861	-
Interests in associated undertakings			
Deferred taxation assets			
Other assets	493 040	-	-
Property and equipment			
Goodwill			
Intangible assets			
	1 492 962	**257 261**	**123 615**
Liabilities			
Deposits by banks	-	-	
Derivative financial instruments	48 777	-	
Other trading liabilities	123 791	-	
Repurchase agreements and cash collateral on securities lent	272 584	-	
Customer accounts	88 737	4 929	
Debt securities in issue	-	-	
Current taxation liabilities			
Deferred taxation liabilities			
Other liabilities	468 462	-	
Subordinated liabilities	-	-	
	1 002 351	**4 929**	

Loans and receivables	Available for sale	Financial liabilities at amortised cost	Non-financial instruments	Total
10 870	-		-	10 870
571 395	81 262		-	661 028
-	-		-	643 172
-	-		-	160 130
-	-		-	254 595
-	-		-	54
-	1 113 454		-	1 237 069
2 962 156	400 629		-	3 553 646
			12 023	12 023
			22 744	22 744
348 645	-		13 910	855 595
			15 674	15 674
			36 191	36 191
			1 313	1 313
3 893 066	**1 595 345**	**-**	**101 855**	**7 464 104**
		1 059 167	-	1 059 167
		-	-	48 777
		-	-	123 791
		-	-	272 584
		3 551 938	-	3 645 604
		717 958	-	717 958
		-	37 050	37,050
		-	1 513	1 513
		265 862	9 859	744 183
		225 683	-	225 683
		5 820 608	**48 422**	**6 876 310**

14. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as a customer for hedging foreign exchange and interest rate exposures. These derivatives include financial futures, options, swaps and forward rate agreements.

All interest rate contracts are transacted with other financial institutions. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

At 31 March £'000	2006 Notional principal amounts	2006 Positive fair value	2006 Negative fair value	2005 Notional principal amounts	2005 Positive fair value	2005 Negative fair value
Foreign exchange derivatives						
Forward foreign exchange	1 171 619	6 673	(5 766)	2 641 989	12 196	(10 391)
Currency swaps	1 515 827	3 267	(3 271)	98 280	-	-
OTC options bought and sold	40 238	104	(24)	35 676	773	(1 893)
Other foreign exchange contracts	550 037	425	(388)	154	-	-
OTC derivatives	3 277 721	10 469	(9 449)	2 776 099	12 969	(12 284)
Exchange traded futures	142 200	2	-	-	-	-
Exchange traded options	-	-	-	1 199	-	(1)
	3 419 921	**10 471**	**(9 449)**	**2 777 298**	**12 969**	**(12 285)**
Interest rate derivatives						
Caps and floors	140 620	107	(122)	91 305	-	-
Swaps	3 081 078	18 858	(17 148)	1 558 776	7 994	(7 713)
Other interest rate contracts	830	3	(3)	-	-	-
OTC derivatives	3 222 528	18 968	(17 273)	1 650 081	7 994	(7 713)
Exchange traded futures	43 540	48	(115)	524 377	1	-
Exchange traded options	-	-	-	-	-	-
	3 266 068	**19 016**	**(17 388)**	**2 174 458**	**7 995**	**(7 713)**
Equity and stock index derivatives						
OTC options bought and sold	31 600	13 077	(28)	861 866	13 357	(2 204)
Equity swaps and forwards	4 053	183	(2 538)	331 435	3 593	(17 701)
OTC derivatives	35 653	13 260	(2 566)	1 193 301	16 950	(19 905)
Exchange traded futures	15 930	21	13	20 743	-	-
Exchange traded options	50 726	672	(331)	588 020	4 634	(80)
Warrants	45 987	32 944	-	43 933	28 492	-
	148 296	**46 897**	**(2 884)**	**1 845 997**	**50 076**	**(19 985)**
Commodity derivatives						
Options bought and sold	209 154	64 684	(3 777)	359 002	21 722	(2 065)
Commodity swaps and forwards	602 307	109 424	(30 300)	534 883	23 362	(4 266)
OTC derivatives	811 461	174 108	(34 077)	893 885	45 084	(6 331)
Exchange traded futures	695 327	169 735	(167 946)	1 392 504	3 157	(4 130)
Exchange traded options	1 321 184	41 095	(39 260)	1 177 101	1 244	(1 550)
	2 827 972	**384 938**	**(241 283)**	**3 463 490**	**49 485**	**(12 011)**
Credit derivatives						
Credit linked notes bought and sold	6 043	-	(121)	-	-	-
Credit swaps bought and sold	5 756	-	(3)	43 350	51	(344)
	11 799	**-**	**(124)**	**43 350**	**51**	**(344)**
Embedded derivatives	**128 832**	**15 624**	**-**	**-**	**-**	**-**
Gross fair values	9 802 888	476 946	(271 128)	10 304 593	120 576	(52 338)
Effect of on balance sheet netting	-	(222 351)	222 351	-	(11 482)	11 482
Derivatives per balance sheet	**9 802 888**	**254 595**	**(48 777)**	**10 304 593**	**109 094**	**(40 856)**

The replacement values of these contracts are their positive fair values. The notional principal amounts represent the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk. Fair values of derivative financial instruments at 31 March 2005 are disclosed in other assets and other liabilities (refer to notes 22 and 29).

At 31 March £'000	2006 Available for sale instruments	 Held to maturity instruments
15. Investment securities		
Listed equities	12 976	-
Unlisted equities	16 051	-
Certificates of deposit	782 573	123 615
Floating rate notes	32 385	-
Other investments	269 469	-
	1 113 454	**123 615**

At 31 March £'000	2006	2005
16. Loans and advances to customers		
Total loans and advances to customers	3 553 646	3 380 095
Less: Trading book loans and cash equivalent debtors		(956 735)
	3 553 646	**2 423 360**
Category analysis		
Commercial property loans	1 524 372	1 186 306
Residential mortgages	540 755	116 182
Leases and instalment debtors	58 401	105 822
Corporate and public sector loans and advances	953 439	301 146
Other private bank lending	372 356	538 730
Other loans and advances	114 371	204 168
	3 563 694	2 452 354
Specific impairments/specific provisions	(8 679)	(4 994)
Portfolio impairments/general provisions	(1 369)	(24 000)
	3 553 646	**2 423 360**

Specific and portfolio impairments

2006

Reconciliation of movements in group specific and portfolio impairments for bad and doubtful debts.

Specific impairments	
Balance at beginning of year	5 219
Charge to the income statement	6 811
Bad debts written off	(3 318)
Exchange adjustment	(33)
Balance at end of year	**8 679**
Portfolio impairments	
Balance at beginning of year	929
Charge to the income statement	430
Exchange adjustment	10
Balance at end of year	**1 369**

At 31 March £'000	2006	2005
16. Loans and advances to customers (continued)		
2005		
Reconciliation of movements in group specific and general provisions for bad and doubtful debts.		
Specific provisions		
At beginning of year		10 752
Charged against income - increase in provisions		1 216
Utilised		(767)
Disposal of a subsidiary undertaking		(6 190)
Exchange adjustments		(17)
At end of year		**4 994**
General provisions		
At beginning of year		21 004
Charged against income		4 005
Disposal of a subsidiary undertaking		(1 047)
Exchange adjustment		38
At end of year		**24 000**
Analysis of past due accounts but not impaired per ageing category		
30 - 90 days	17 071	
90 - 180 days	15 688	
180 days - 1 year	4 110	
Longer than 1 year	769	
Total	**37 638**	

At 31 March £'000	2005
17. Debt securities	
Trading securities at market value	
Other debt securities	23 639
Investment securities at cost	
Government securities	1 930
Unlisted bank and building society certificates of deposit	705 460
Other unlisted debt securities	404 919
	1 112 309
Total debt securities	**1 135 948**
Amounts include:	
Unamortised net premiums on investment securities	68
The fair value of investment securities	1 116 586

No active or liquid market exists for the majority of the other unlisted debt securities held as available for sale. In the view of the directors the fair value of these securities is not materially different to their cost.

Remaining maturity	
Up to one year	852 736
Greater than one year	283 212
	1 135 948

The cost of trading securities has not been disclosed, as it cannot be determined without unreasonable expense.

Investment securities:	
At beginning of year	676 934
(Disposed)/acquired with subsidiary undertakings	(73 233)
Additions	1 414 138
Sold/matured	(905 053)
Exchange adjustments	(477)
At end of year	**1 112 309**

At 31 March £'000	2005
18. Equity shares	
Trading securities at market value	
Listed	263 884
Unlisted	-
	263 884
Investment securities at cost less impairment	
Listed	2 701
Unlisted	8 606
	11 307
Total equity shares	**275 191**
Investment securities at fair value	
Listed	2 701
Unlisted	17 343
	20 044

Unlisted investment securities are assessed by the directors for impairment at each reporting date. To the extent that the book value has been been impaired, a provision has been made through the profit and loss account. As market prices are not available the fair values have been estimated by management.

The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.

Investment securities at cost	
At beginning of year	45 242
Additions	6 892
Disposals	(31 787)
Reclassification	(1 733)
Exchange adjustments	(181)
At end of year	**18 433**
Provisions on investment securities	
At beginning of year	(20 604)
Provisions released during the year	13 447
Exchange adjustments	31
At end of year	**(7 126)**
Book value at the end of year	**11 307**

At 31 March £'000	2006	2005
19. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	4 420	2 790
Goodwill	7 603	8 636
Investment in associated undertaking	**12 023**	**11 426**
Analysis of the movement in our share of net assets:		
At beginning of year	2 790	2 691
Exchange adjustments	61	(32)
Acquisitions	1 198	229
Disposed with subsidiary undertakings	-	(258)
Capital reduction	-	(350)
Operating profits (net of dividends)	371	510
At end of year	**4 420**	**2 790**
Analysis of the movement in goodwill:		
At beginning of year	8 636	8 011
Acquisitions	-	1 123
Disposed with subsidiary undertakings	-	(17)
Impairment of carrying value	(1 071)	(343)
Exchange adjustments	38	(138)
At end of year	**7 603**	**8 636**
Associated undertakings:		
Listed	-	215
Unlisted	12 023	11 211
	12 023	**11 426**
Market value of listed investments	**-**	**287**

The only significant investment held in associates in the year is a 35% investment in Hargreave Hale Limited.

At 31 March 2006 £'000	Carrying value	Fair value adjustment	
		Life to date	Year to date
20. Financial assets and liabilities designated at fair value through profit and loss			
Trading securities	66 400	13 945	16 344
Loans and advances to customers	190 861	56	104
	257 261	**14 001**	**16 448**
Customer accounts	4 929	49	49
	4 929	**49**	**49**

At 31 March £'000	2006	2005
21. Deferred tax		
Deferred tax asset		
Deferred capital allowances	12 339	13 992
General provisions		4 500
Other timing differences	10 405	2 369
	22 744	**20 861**
Deferred tax liability		
Other timing differences	(1 513)	(210)
Deferred tax liability	**(1 513)**	**(210)**
Net deferred tax asset	**21 231**	**20 651**
Reconciliation of net deferred tax asset		
At beginning of year	20 651	22 080
Adjustment arising on adoption of IFRS	(4 962)	
Charge to profit and loss (note 8)	4130	(10 081)
Charge directly in equity	1 412	-
Arising on acquisitions	-	8 880
Arising on disposal	-	(205)
Exchange adjustment	-	(23)
At end of year	**21 231**	**20 651**
Deferred tax on available for sale instruments recognised directly in equity	(163)	-
Deferred tax on unexpired share options recognised directly in equity	**1 576**	**-**
22. Other assets		
Settlement debtors	730 622	272 434
Dealing properties	7 739	21 588
Other debtors	117 234	45 275
Derivative instruments positive fair value		109 094
Prepayments and accrued income		56 851
	855 595	**505 242**

At 31 March £'000	Freehold properties	Leasehold improvements	Furniture & vehicles	Equipment	Total
23. Property and equipment					
2006					
Cost					
At beginning of year	615	18 885	6 741	6 415	32 656
Exchange adjustments	-	(3)	(4)	(1)	(8)
Reclassifications	(17)	-	(687)	704	-
Additions	-	376	469	134	979
Disposals	-	(7)	(531)	(232)	(770)
At end of year	**598**	**19 251**	**5 988**	**7 020**	**32 857**
Accumulated depreciation					
At beginning of year	(45)	(5 172)	(5 829)	(4 806)	(15 852)
Exchange adjustments	-	-	3	1	4
Reclassifications	-	(114)	717	(603)	-
Disposals	-	-	452	29	481
Depreciation	(8)	(1 078)	(348)	(382)	(1 816)
At end of year	**(53)**	**(6 364)**	**(5 005)**	**(5 761)**	**(17 183)**
Net book value	**545**	**12 887**	**983**	**1 259**	**15 674**
2005					
Cost					
At beginning of year	18 308	18 117	14 711	6 400	57 536
Exchange adjustments	160	(2)	90	15	263
Disposal of a subsidiary undertaking	(17 963)	-	(8,487)	-	(26 450)
Reclassifications	-	-	(113)	-	(113)
Additions	110	912	705	285	2 012
Disposals	-	(142)	(165)	(285)	(592)
At end of year	**615**	**18 885**	**6 741**	**6 415**	**32 656**
Accumulated depreciation					
At beginning of year	(6 810)	(4 088)	(11 896)	(4 738)	(27 532)
Exchange adjustments	(62)	(1)	(73)	(19)	(155)
Disposal of a subsidiary undertaking	7 029	-	6 693	-	13 722
Reclassifications	-	-	23	-	23
Disposals	-	29	18	256	303
Depreciation	(202)	(1 112)	(594)	(305)	(2 213)
At end of year	**(45)**	**(5 172)**	**(5 829)**	**(4 806)**	**(15 852)**
Net book value	**570**	**13 713**	**912**	**1 609**	**16 804**

At 31 March £'000	2006	2005
24. Goodwill		
Cost		
At beginning of the year	33 507	33 519
Additions (see note 26)	5 334	-
Exchange adjustments	(23)	(12)
At end of the year	**38 818**	**33 507**
Accumulated impairments		
At beginning of the year	(2 641)	-
Impairment losses	-	(2 569)
Exchange adjustments	14	(72)
At end of the year	**(2 627)**	**(2 641)**
Net book value	**36 191**	**30 866**
Analysis of goodwill by line of business and geography		
UK and Europe	**21 612**	**16 320**
Private Banking	13 060	10 133
Treasury and Specialised Finance	8 552	6 187
Australia	**14 579**	**14 546**
Investment Banking	14 579	14 546
Total group	**36 191**	**30 866**

The income statement for the year ended 31 March 2005 includes the recognition of £5 024 000 of negative goodwill in addition to the impairment losses of £2 569 000 shown above.

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired.

The recoverable amount of goodwill is determined based on expected profitability within the cash generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure.

Discount rates are arrived at based on pre-tax rates that reflect current market conditions, adjusted for the specific risks associated to the cash generating unit. Growth rates are based on industry growth forecasts. Cash flow forecasts are based on most recent financial budgets for the next financial year and are extrapolated for a period of 3 years, adjusted for expected future events.

In the prior year the carrying amount of the group's Swiss Trust and Fiduciary business was impaired and the appropriate provision made.

At 31 March 2006 £'000	Acquired software
25. Intangible fixed assets	
2006	
Cost	
At beginning of year	4 118
Exchange adjustments	1
Additions	1 148
Disposals	(20)
At end of year	**5 247**
Accumulated amortisation and impairments	
At beginning of year	(3 051)
Disposals	20
Amortisation	(903)
At end of year	**(3 934)**
Net book value	**1 313**
2005	
Cost	
At beginning of year	3 483
Exchange adjustments	(5)
Reclassifications	113
Additions	527
At end of year	**4 118**
Accumulated amortisation and impairments	
At beginning of year	(2 258)
Exchange adjustments	2
Reclassifications	(23)
Amortisation	(772)
At end of year	**(3 051)**
Net book value	**1 067**

26. Acquisitions and disposals

Acquisitions

For the year ended 31 March 2006

The group made the following acquisitions of subsidiary undertakings or net assets and operations in the year ended 31 March 2006 which were accounted for on an acquisition basis:

i. On 2 June 2005 the bank acquired 100% of the issued share capital of Investec Asia Limited (formerly Investec Asset Management Pacific Limited) from a fellow group company.
ii. £2.4 million of goodwill arose on the acquisition of a leasing book in June 2005.
iii. In October 2005 a Jersey based trust group, Quorum Holdings Limited, was acquired by a subsidiary of the bank resulting in £2.9m of goodwill.

The acquisitions were satisfied by the payment of cash. Assets and liabilities at the date of acquisition and total consideration paid are disclosed in the table below.

£'000	Book value at date of acquisition	Fair value adjustment	Fair values at date of acquisition
Loans and advances to banks	853		853
Loans and advances to customers	89 254		89 254
Other assets	629	93	722
Total assets	90 736	93	90 829
Other liabilities	(271)		(271)
Accruals and deferred income	(18)		(18)
	(289)	-	(289)
Net assets / fair value of net assets	**90 447**	**93**	90 540
Goodwill arising on acquisition			5 334
Fair value of consideration			**95 874**

The post acquisition profits of the subsidiaries acquired were £268 000 after tax.

At 31 March £'000	2006	2005
27. Other trading liabilities		
Short positions		
- equities	123 791	
	123 791	

In the prior year these positions are shown as other liabilities (refer to note 29).

28. Debt securities in issue		
Bonds and medium term notes repayable		
Over one year but not more than two years	298 489	-
Over two years but not more than five years	-	295 211
Over five years	-	-
	298 489	**295 211**
Other unlisted debt securities in issue repayable		
Not more than three months	367 910	186 758
Over three months but not more than one year	43 365	117 668
Over one year but not more than two years	-	38 206
Over two years but not more than five years	8 194	-
Over five years	-	-
	419 469	**342 632**
	717 958	**637 843**
29. Other liabilities		
Settlement liabilities	638 309	267 157
Other creditors and expense accruals (see note below)	105 874	37 517
Derivatives negative fair value		40 856
Short positions in securities - equities		1 737 616
	744 183	**2 083 146**

In the prior year expense accruals are included within accruals and deferred income on the face of the group's balance sheet.

At 31 March £'000	2006	2005
30. Subordinated debt		
Dated subordinated debt		
Issued by Investec Finance plc - a wholly owned subsidiary of Investec Bank (UK) Limited		
Guaranteed subordinated step-up notes	200 306	196 254
Issued by investec Bank (UK) Limited		
Zero coupon bonds	25 377	23 262
	225 683	**219 516**
Remaining maturity		
In one year or less, or on demand	9 585	-
In more than one year, but not more than two years	-	8 494
In more than two years, but not more than five years	15 792	14 768
In more than five years	200 306	196 254
	225 683	**219 516**

Guaranteed subordinated step-up notes

On 1 March 2004 Investec Finance plc issued £200 000 000 of 7.75% guaranteed subordinated step-up notes due 2016 at a discount. Interest is paid annually. The notes are guaranteed by Investec Bank (UK) Limited and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 1 March 2011, subject to the prior consent of the Financial Services Authority. On 1 March 2011 the interest rate will be reset to become the aggregate of 3.5% and the gross redemption yield of the relevant benchmark gilt.

Zero coupon bonds

On 29 March 2004 the bank issued 9 253 zero coupon bonds of £1 000 each at an effective yield of 6.89094%. The bonds mature on 25 March 2009.

On 29 July 2004 the bank issued 17 000 zero coupon bonds of US$1 000 each at an effective yield of 4.57%. The bonds mature on 31July 2006.

On 16 November 2004 the bank issued 10 434 zero coupon bonds of £1 000 each at an effective yield of 6.948%. The bonds mature on 16 November 2009.

At 31 March £'000	2006	2005
31. Called up share capital		
Authorised		
The authorised share capital is £1 000 million (2005: £1 000 million) comprising 1 000 million ordinary shares of £1 each (2005: 1 000 million shares of £1 each).		
Issued, allotted and fully paid		
Nominal value of ordinary shares - GBP		
At beginning and end of year	**354 000**	**354 000**

At 31 March £'000	2006 Total future minimum payments	2006 Present value	2005 Total future minimum payments	2005 Present value
32. Miscellaneous balance sheet items				
Finance lease receivables included in loans and advances to customers				
Lease receivables in:				
Less than 1 year	18 144	15 191	78 198	75 944
1-5 years	28 566	23 939	19 359	17 049
Later than 5 years	12 054	10 837	5 220	4 039
	58 764	**49 967**	**102 777**	**97 032**
Unearned finance income	**11 154**		**6 290**	

At 31 March 2006, unguaranteed residual values of £2 117 000 (2005: £348 000) had been accrued.

At 31 March £'000	2006	2005
33. Commitments		
Undrawn facilities	690 838	362 002
Other commitments	400	4 696
	691 238	**366 698**

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

Operating lease commitments		
Future minimum lease payments under non-cancellable operating leases:		
Less than 1 year	2 427	2 020
1-5 years	7 135	9 201
Later than 5 years	4 027	4 568
	13 589	**15 789**

At 31 March 2006, future minimum sublease payments of £310 000 (2005: £411 000) were expected to be received under non-cancellable subleases at the balance sheet date.

Operating lease receivables		
Future minimum lease payments under non-cancellable operating leases:		
Less than 1 year	946	1 498
1-5 years	1 730	3 678
Later than 5 years	122	762
	2 798	**5 938**

34. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
- guarantees and irrevocable letters of credit	77 293	58 956
- assets pledged as collateral security	403	-
Other contingent liabilities	1 948	72
	79 644	**59 028**

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

Guarantees are issued by Investec Bank (UK) Limited and its subsidiaries on behalf of third parties. The guarantees are issued as part of the banking business.

Legal proceedings

Investec is party to various legal proceedings, the ultimate resolution of of which is not expected to have a material adverse effect on the financial position of the group.

For the year to 31 March £'000	2006 Highest balance during the year*	2006 Balance at year end*	2005 Highest balance during the year*	2005 Balance at year end*
35. Related party transactions				
Transactions, arrangements and agreements involving directors and others:				
Particulars of transactions, arrangements and agreements entered into by the Group with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:				
Directors, key management and connected persons and companies controlled by them				
Loans	8 478	8 478	7 660	7 156

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment.

Transactions with other related parties				
Amounts due from associates		4 562		18 371

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

* The disclosure of the year-end balance and highest balance during the year is considered the most meaningful information to represent transactions during the year.

36. Post balance sheet events

Acquisition of N.M. Rothschild & Sons (Australia) Limited

The bank has agreed to acquire N. M. Rothschild Australia Holdings Pty Limited for a consideration of approximately A$150 million. In order to finance this acquisition the bank issued 60 million new ordinary shares of £1 at par on 28 June 2006.

The agreement, which is subject to final regulatory approval, will add critical mass and scale to the group's existing Australian subsidiary, Investec Bank (Australia) Limited and at the same time add to its capability to originate new business.

N.M. Rothschild & Sons (Australia) Limited has total assets of approximately A$2.1 billion (£890 million) and is principally involved in Property, Resources, Infrastructure, Commercial and Acquisition Finance and Treasury activities operating in Sydney, Melbourne and Perth.

At 31 March 2006 £'000	Carrying value of asset pledged	Fair value or value of collateral held	Value of liabilities secured by assets
37. Analysis of collateral			
Assets			
Reverse repurchase agreements and cash collateral on securities borrowed	643 172	640 983	
Investment securities	291 776	-	
	934 948	**640 983**	
Liabilities			
Repurchase agreements and cash collateral on securities lent			258 993
			258 993

Assets are pledged in the ordinary course of business.

38. Hedges

The group uses derivatives for managing the financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the central Treasury. Once aggregated and netted, Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependant on the classification between fair value hedges, cash flow hedges and in particular, accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group:

Fair value hedges

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed rate financial instruments attributable to interest rates.

At 31 March 2006 £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Gains or losses on hedging instrument	Gains or losses on hedged item
Assets	Interest rate swap	9 434	6 455	(7 097)
Liabilities	Interest rate swap	2 220	(1 851)	2 220
	Cross currency swap	451	451	(451)
	FX swap	(297)	(297)	297
		11 808	**4 758**	**(5 031)**

38. Hedges (continued)

Cash flow hedges

The group is exposed to variability in cash flows on future liabilities arising from changes in base interest rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in equity and transferred to the income statement when the cash flow occurs. The expected future cash flows that are subject to cash flow hedges are:

At 31 March 2006 £'000	Description of financial instrument designated as hedging instruments	Fair value of hedging instrument	Period cash flows are expected to occur	Ineffective portion recognised in principal transactions
Assets	FX contract	30	monthly until July 2006	-
Liabilities	Cross currency swap	134	quarterly until Jan 2008	-
		164		-

The cash flow hedges have been entered into to hedge a portion of the anticipated future dividend payments on perpetual preference shares from 2014 to 2032.

The fair value hedges have been entered into to hedge a portion of the fixed rate subordinated debt to minimise the interest rate gap.

Reconciliation of cash flow hedge reserve

At 31 March 2006 £'000	
Opening balance	-
Changes in fair value recognised directly in equity	164
Amounts removed from equity and recognised in income	-
Closing balance	164

Hedges of net investments in foreign operations

The bank has entered into foreign exchange contracts to hedge the exposure of the group balance sheet to the majority of its net investment, in Australian Dollars ("A$"), in the Australian operations of the group.

At 31 March 2006 £'000	Fair value of hedging instrument	Ineffective portion recognised in principal transactions
A$ 240 million cross currency swaps	(2 411)	-

At 31 March £'000	2006	2005
39. Notes to the cash flow statement		
Cash flows from operations is derived as follows:		
Net income before taxation	116 141	87 844
Adjustments for:		
Equity accounted income of associates	(447)	(61)
Impairment of goodwill - associates	(1 071)	-
Depreciation and impairment of property, plant and equipment	1 816	2 214
Amortisation of intangible assets	903	771
Impairment of goodwill	-	(2 455)
Impairment of loans and advances	7 241	5 221
Share based payment charges	1 576	-
Cash flow from operations	**126 159**	**93 534**
Taxation paid		
Opening balance on net taxation liability	3 677	8 800
Current year normal taxation charge	(32 333)	(23 652)
Net tax assets per disposals	-	5 064
Closing balance on net taxation liability	15 819	(3 677)
Taxation paid	**(12 837)**	**(13 465)**
Increase/(decrease) in operating assets		
Loans and advances to banks	(3 982)	(286 660)
Reverse repurchase agreements and cash collateral on securities borrowed	1 520 935	(1 170 852)
Trading securities	193 893	12 878
Derivative financial instruments	(120 459)	10 738
Other financial instruments at fair value through P&L	(65 983)	(417)
Loans and advances to customers	(878 917)	(272 610)
Investment securities	(139 983)	(531 265)
Other assets	(484 330)	(136 065)
	21 174	**(2 374 253)**
Increase/(decrease) in operating liabilities		
Deposits by banks	190 355	242 488
Repurchase agreements and cash collateral on securities lent	(64 823)	(48 905)
Derivative financial instruments	(55 049)	(989)
Other trading liabilities	(1 612 100)	1 266 696
Customer accounts	1 159 748	109 187
Debt securities in issue	79 522	412 163
Other liabilities	356 800	87 557
Subordinated liabilities	3 487	17 145
	57 940	**2 085 342**

40. Principal subsidiary and associated undertakings

	Principal activity	Country of incorporation	Interest 2006	Interest 2005
Direct subsidiary undertakings of Investec Bank (UK) Limited				
European Capital Company Limited	Project finance	England & Wales	100%	100%
Guinness Mahon & Co Limited	Investment holding company	England & Wales	100%	100%
Investec Asset Finance PLC	Leasing	England & Wales	100%	100%
Investec Finance plc	Debt issuer	England & Wales	100%	100%
Investec Group Investments (UK) Limited	Investment holding company	England & Wales	100%	100%
Investec Property Services Limited (trading as Taylor Rose)	Commercial property agency	England & Wales	100%	100%
Indirect subsidiary undertakings of Investec Bank (UK) Limited				
Investec Bank (Australia) Limited	Banking Institution	Australia	100%	100%
Investec Bank (Channel Islands) Limited	Banking Institution	Guernsey	100%	100%
Investec Bank (Switzerland) AG	Banking Institution	Switzerland	100%	100%
Investec Investment Holdings AG	Investment holding company	Switzerland	100%	100%
Investec Trust (Guernsey) Limited	Trust company	Guernsey	100%	100%
Investec Trust (Jersey) Limited	Trust company	Jersey	100%	100%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100%	100%

All of the above subsidiary undertakings are included in the consolidated accounts.

	Principal activity	Country of incorporation	Interest 2006	Interest 2005
Principal associated undertaking of Investec Bank (UK) Limited				
Hargreave Hale Limited	Stockbroker	England & Wales	35%	35%

At 31 March 2006 £'000	Demand	Up to one month	One month to three months	Three months to six months
41. Maturity analysis				
Assets				
Cash and balances at central banks	10 870	-	-	-
Loans and advances to banks	162 837	402 989	2 482	-
Reverse repurchase agreements and cash collateral on securities borrowed	634 613	707	7 852	-
Trading securities	56 595	32 265	9 902	5 916
Derivative financial instruments	210 338	17 385	10 188	819
Cash equivalent advances to customers	54	-	-	-
Investment securities	6 306	232 750	234 217	208 835
Loans and advances to customers	153 492	228 573	166 004	217 549
Other assets	512 605	262 477	11 697	4 039
Interests in associated undertakings	-	-	-	-
Deferred taxation assets	-	-	-	-
Property, plant and equipment	-	-	-	-
Goodwill	-	-	-	-
Intangible assets	-	-	-	-
	1 747 710	**1 177 146**	**442 342**	**437 158**
Liabilities				
Deposits by banks	41 970	186 344	105 621	147 405
Derivative financial instruments	34 477	2 472	2 197	522
Other trading liabilities	102 335	21 456	-	-
Repurchase agreements and cash collateral on securities lent	272 584	-	-	-
Customer accounts	940 924	713 808	1 467 010	158 283
Debt securities in issue	-	84 556	135 292	44 637
Other liabilities	506 403	191 624	33 405	342
Current taxation liabilities	1 750	2 349	567	4 396
Deferred taxation liabilities	-	-	-	-
	1 900 443	1 202 609	1 744 092	355 585
Subordinated liabilities	-	-	-	9 646
Equity	-	-	-	-
	1 900 443	**1 202 609**	**1 744 092**	**365 231**
Liquidity gap	**(152 733)**	**(25 463)**	**(1 301 750)**	**71 927**
Cumulative liquidity gap	**(152 733)**	**(178 196)**	**(1 479 946)**	**(1 408 019)**

Six months to one year	One year to five years	Greater than five years	Total
-	-	-	10 870
-	65 741	26 979	661 028
-	-	-	643 172
12 708	8 118	34 626	160 130
1 146	11 833	2 886	254 595
-	-	-	54
395 849	147 666	11 446	1 237 069
573 016	1 738 581	476 431	3 553 646
14 699	50 078	-	855 595
-	-	12 023	12 023
-	-	22 744	22 744
-	-	15 674	15 674
-	-	36 191	36 191
-	-	1 313	1 313
997 418	**2 022 017**	**640 313**	**7 464 104**
47 642	503 864	26 321	1 059 167
393	5 224	3 492	48 777
-	-	-	123 791
-	-	-	272 584
128 927	206 799	29,853	3 645 604
33 283	420 190	-	717 958
11 170	869	370	744 183
26 433	1 555	-	37 050
-	1 513	-	1 513
247 848	1 140 014	60 036	6 650 627
-	15 731	200 306	225 683
-	-	587 794	587 794
247 848	**1 155 745**	**848 136**	**7 464 104**
749 570	**866 272**	**(207 823)**	**-**
(658 449)	**207 823**	**-**	**-**

42. Transition to International Financial Reporting Standards

Overview

From 1 April 2005 Investec plc is required to prepare its consolidated results in accordance with International Financial Reporting Standards (IFRS). Previously these were prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). The first set of IFRS compliant financial statements prepared by Investec plc are for the year ending 31 March 2006. The consolidated accounts of Investec Bank (UK) Limited have also been produced on an IFRS basis.

The group's transition to IFRS has been performed in accordance with IFRS 1 "First-Time Adoption of International Reporting Standards" and other relevant standards applicable at 31 March 2006.

The following dates are applicable for the transition to IFRS:
1 April 2004 - date of transition to IFRS, being the start of the earliest period of comparative information.
31 March 2005 - twelve month comparative period to 31 March 2006.

Transitional elections

IFRS 1 provides for certain exemptions in respect to the first time adoption of IFRS to comparative periods. The group has applied the following exemptions:

a) **Business combinations**
The group has elected not to apply IFRS 3, "Business Combinations" retrospectively to business combinations prior to the date of transition (1 April 2004). The carrying value of goodwill at 31 March 2004 has therefore been brought forward, except for identified intangible assets which have been separately identified and tested for impairment.

b) **Employee benefits**
The group has elected to recognise all cumulative actuarial gains and losses at the date of transition to IFRS as an adjustment to opening retained earnings.

c) **Cumulative foreign currency translation reserve**
The group has elected to deem the cumulative foreign currency translation differences for foreign operations to be nil at the date of transition.

d) **Share based payment transactions**
The group has applied the provisions of IFRS 2, "Share Based Payments" retrospectively to all share-based payment transactions granted prior to the date of transition that vest after the date of transition.

e) **Derecognition of financial assets and liabilities**
The group has elected not to apply the derecognition requirements of IAS 39 to financial assets and liabilities derecognised before 1 January 2004.

Exemption from the requirement to restate comparative periods (31 March 2005) for financial instruments

The group has elected not to apply the requirements of IAS 32, "Financial Instruments: Disclosure and Recognition" and IAS 39, "Financial Instruments: Recognition and Measurement" to the 2005 comparative period. The impact of adoption of these standards is reflected as an adjustment to the opening balance sheet at 1 April 2005.

To facilitate comparability, a pro-forma income statement is presented (refer to page 11) which incorporates the impact of the adoption of IAS39 in the following respects:
- recognising certain fees on an effective yield basis,
- the release of general provisions on loans and advances and
- fair value adjustments for embedded derivatives.

The tables that follow present a reconciliation between IFRS restated results and previously presented UK GAAP results for the:
• Balance sheet at 1 April 2005.
• Balance sheet at 31 March 2005.
• Income statement for the year ended 31 March 2005.

42. Transition to International Financial Reporting Standards (continued)

Consolidated balance sheet

At 1 April 2005 £'000	IFRS restated at 31 March 2005	Reclassifications on adoption of IAS 32/39	IAS 18/32/39 effective yield and designation	Restated at 1 April 2005
Assets				
Cash and balances at central banks	10 308	-	-	10 308
Treasury bills and other eligible bills	142 182	(142 182)	-	-
Loans and advances to banks	1 799 034	(1 356 618)	168 210	610 626
Cash equivalent advances to customers	-	-	52	52
Reverse repurchase agreements and cash collateral on securities borrowed	-	2 157 401	-	2,157 401
Trading securities	-	287 524	-	287 524
Derivative financial instruments	-	109 094	25 015	134 109
Investment securities	-	1 268 509	(170 123)	1 098 386
Loans and advances to customers	3 380 095	(781 705)	213 715	2 812 105
Debt securities	1 135 948	(1 135 948)	-	-
Equity shares	275 191	(275 191)	-	-
Interests in associated undertakings	11 426	-	-	11 426
Deferred taxation asset	20 861	-	(3 181)	17 680
Other assets	505 242	(130 884)	(13 737)	360 621
Property, plant and equipment	16 804	-	-	16 804
Goodwill	30 866	-	-	30 866
Intangible assets	1 067	-	-	1 067
	7 329 024	**-**	**219 951**	**7 548 975**
Liabilities				
Deposits by banks	775 694	(45 420)	138 341	868 615
Derivative financial instruments	-	40 856	62 926	103 782
Other trading liabilities	-	1 737 616	-	1 737 616
Repurchase agreements and cash collateral on securities lent	-	337 407	-	337 407
Customer accounts	2 981 168	(291 987)	10 294	2 699 475
Debt securities in issue	637 843	-	1 765	639 608
Current taxation liabilities	14 387	-	(2 432)	11 955
Deferred taxation liabilities	210	-	1 838	2 048
Other liabilities	2 083 146	(1 692 153)	(13 590)	37 403
Accruals and deferred Income	86 319	(86 319)	-	-
	6 578 767	**-**	**199 142**	**6 777 909**
Capital resources				
Subordinated liabilities (including convertible debt)	219 516	-	2 680	222 196
Minority interests-equity	1 399	-	(1 194)	205
Called up share capital	354 000	-	-	354 000
Share premium account	37 365	-	-	37 365
Other reserves	(4 071)	-	11 523	7 452
Profit and loss account	142 048	-	7 800	149 848
Shareholders' funds - equity	529 342	-	19 323	548 665
	750 257	**-**	**20 809**	**771 066**
	7 329 024	**-**	**219 951**	**7 548 975**

42. Transition to International Financial Reporting Standards (continued)

Consolidated balance sheet

At 31 March 2005 £'000	As previously reported	Reclassifications Prepayments and accrued income	Acquired and developed software to intangible assets	Foreign currency reserve	Participating interest	Taxation
Assets						
Cash and balances at central banks	10 308	-	-	-	-	-
Treasury bills and other eligible bills	142 182	-	-	-	-	-
Loans and advances to banks	1 797 238	-	-	-	-	-
Loans and advances to customers	3 380 095	-	-	-	-	-
Debt securities	1 135 948	-	-	-	-	-
Equity shares	276 924	-	-	-	-	-
Interests in associated undertakings	1 767	-	-	-	9 124	-
Other participating interests	9 124	-	-	-	(9 124)	-
Deferred taxation asset	-	-	-	-	-	20 861
Other assets	466 612	56 851	-	-	-	(20 861)
Property, plant and equipment	15 973	-	(1 067)	-	-	-
Goodwill	17 440	-	-	-	-	-
Intangible assets	-	-	1 067	-	-	-
Prepayments and accrued income	56 851	(56 851)	-	-	-	-
	7 310 462	**-**	**-**	**-**	**-**	**-**
Liabilities						
Deposits by banks	775 488	-	-	-	-	-
Customer accounts	2 981 168	-	-	-	-	-
Debt securities in issue	637 843	-	-	-	-	-
Current taxation liabilities	-	-	-	-	-	13 977
Deferred taxation liabilities	-	-	-	-	-	210
Other liabilities	2 109 543	-	-	-	-	(14 187)
Accruals and deferred Income	86 319	-	-	-	-	-
	6 590 361	**-**	**-**	**-**	**-**	**-**
Capital resources						
Subordinated liabilities (including convertible debt)	219 516	-	-	-	-	-
Minority interests - equity	1 399	-	-	-	-	-
Called up share capital	354 000	-	-	-	-	-
Share premium account	37 365	-	-	-	-	-
Other reserves	-	-	-	(2 994)	-	-
Profit and loss account	107 821	-	-	2 994	-	-
Shareholders' funds - equity	499 186	-	-	-	-	-
	720 101	**-**	**-**	**-**	**-**	**-**
	7 310 462	**-**	**-**	**-**	**-**	**-**

IAS 27/28/31 & SIC 12 associates, jv's & subsidiaries	IFRS 3 business combinations	IFRS adjustments remeasurements IFRS 2 share based payments	IAS 10 events after balance sheet date - ordinary dividends	IAS 17 leases	IAS 21 foreign currency	IFRS restated at 31 March 2005
-	-	-	-	-	-	10 308
-	-	-	-	-	-	142 182
1 796	-	-	-	-	-	1 799 034
-	-	-	-	-	-	3 380 095
-	-	-	-	-	-	1 135 948
(1 733)	-	-	-	-	-	275 191
175	360	-	-	-	-	11 426
-	-	-	-	-	-	-
-	-	-	-	-	-	20 861
2 640	-	-	-	-	-	505 242
1 101	-	-	-	797	-	16 804
-	13 426	-	-	-	-	30 866
-	-	-	-	-	-	1 067
-	-	-	-	-	-	-
3 979	**13 786**	**-**	**-**	**797**	**-**	**7 329 024**
206	-	-	-	-	-	775 694
-	-	-	-	-	-	2 981 168
-	-	-	-	-	-	637 843
410	-	-	-	-	-	14 387
-	-	-	-	-	-	210
1 362	-	392	(15 000)	1 036	-	2 083 146
-	-	-	-	-	-	86 319
1 978	**-**	**392**	**(15 000)**	**1 036**	**-**	**6 578 767**
-	-	-	-	-	-	219 516
-	-	-	-	-	-	1 399
-	-	-	-	-	-	354 000
-	-	-	-	-	-	37 365
(3)	68	-	-	-	(1 142)	(4 071)
2 004	13 718	(392)	15 000	(239)	1 142	142 048
2 001	13 786	(392)	15 000	(239)	-	529 342
2 001	**13 786**	**(392)**	**15 000**	**(239)**	**-**	**750 257**
3 979	**13 786**	**-**	**-**	**797**	**-**	**7 329 024**

42. Transition to International Financial Reporting Standards (continued)

Consolidated income statement

For the year to 31 March 2005

£'000	As previously reported	Reclassifications	Restated	IFRS 2 share based payments
Interest receivable	229 223	-	229 223	8
Interest payable	(153 981)	-	(153 981)	-
Net interest income	**75 242**	**-**	**75 242**	**8**
Dividend income	460	(460)	-	-
Fees and commissions receivable	144 026	(2)	144 024	-
Fees and commission payable	(6 098)	2	(6 096)	-
Principal transactions	14 991	17 712	32 703	-
Income from operating associates	(368)		(368)	-
Other operating income	17 507	(17 252)	255	-
Other income	**170 518**	**-**	**170 518**	**-**
Impairment losses on loans and advances	(5 221)	-	(5 221)	-
Net operating income	**240 539**	**-**	**240 539**	**8**
Administrative expenses	(153 527)	-	(153 527)	(400)
Depreciation and impairment of property, plant and equipment	(2 889)	-	(2 889)	-
Operating profit before goodwill impairment	**84 123**	**-**	**84 123**	**(392)**
Impairment of goodwill / recognition of negative goodwill	(7 206)	-	(7 206)	-
Operating profit	**76 917**	**-**	**76 917**	**(392)**
Non operating exceptional items	(6 350)	-	(6 350)	-
Net income before taxation	**70 567**	**-**	**70 567**	**(392)**
Taxation	(23 346)	-	(23 346)	-
Profit on ordinary activities after taxation	**47 221**	**-**	**47 221**	**(392)**
Profit attributable to minority interest	808	-	808	-
Profit attributable to shareholders	46 413	-	46 413	(392)
	47 221	**-**	**47 221**	**(392)**

Goodwill	IAS 21 foreign currency translation reserve	IAS27/28/31 & SIC 12 associates, jv's & subsidiaries	IAS 17 Leases	Actual IFRS restated
-	-	24	-	229 255
-	-	(19)	-	(154 000)
-	**-**	**5**	**-**	**75 255**
-	-	-	-	-
-	-	3 785	-	147 809
-	-	(755)	-	(6 851)
-	-	(71)	-	32 632
360	-	69	-	61
-	-	-	-	255
360	**-**	**3 028**	**-**	**173 906**
-	-	-	-	(5 221)
360	**-**	**3 033**	**-**	**243 940**
-	-	(1 482)	(157)	(155 566)
-	-	-	(96)	(2 985)
360	**-**	**1 551**	**(253)**	**85 389**
9 661	-	-	-	2 455
10 021	**-**	**1 551**	**(253)**	**87 844**
-	1 143	-	-	(5 207)
10 021	**1 143**	**1 551**	**(253)**	**82 637**
-	-	(416)	110	(23 652)
10 021	**1 143**	**1 135**	**(143)**	**58 985**
-	-	-	-	808
10 021	1 143	1 135	(143)	58 177
10 021	**1 143**	**1 135**	**(143)**	**58 985**

42. Transition to International Financial Reporting Standards (continued)

Commentary on key adjustments

IFRS 2 - share based payments
The group engages in equity settled share based payments and in certain limited circumstances cash settled share based payments in respect of services received from employees.

Under UK GAAP, where options were granted, the charge made to profit and loss was determined as the difference between the fair value at the time the award was made and any contribution made by the employee. Under IFRS, for equity settled options, the group recognises a charge to profit and loss by reference to the fair value of the option on the date of grant to the employee over the relevant vesting periods, based on an estimation of the amount of instruments that will eventually vest.

IFRS 3 - business combinations
In accordance with the transitional provisions of IFRS1, the group has elected to apply IFRS 3 prospectively from 1 April 2004. The carrying value of goodwill under UK GAAP at 31 March 2004 has therefore been brought forward, except for identified intangible assets which have been separately identified and tested for impairment.

IAS 10 - events after balance sheet date
Under IAS10 an entity is not permitted to adjust assets and liabilities at balance sheet date for events that are indicative of conditions that arose subsequent to the balance sheet date. The impact of adoption of IAS10 is that dividends declared by the group are no longer recognised in the period in which the earnings relate but rather are only recognised when approved by the group's shareholders.

IAS 17 - leases
Under the provisions of IAS 17, lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefits. The group has previously recognised fixed rental escalations in the period in which they contractually applied. Under IFRS these increments have been taken into consideration in determining a straight line cost over the term of the lease. The net effect has been to create a payable in the earlier period of the affected leases which will release as the cash flows are settled. This has resulted in a net reduction to reserves which will reverse over the period of the lease.

A similar adjustment has been processed for lessors within the group. In this case a receivable is raised in the earlier period of the affected lease which will release as cash flows are received. However, the net effect on reserves has been minimal as IAS 40 "Investment Properties" provides that the fair value adjustment against investment properties must be reduced by debtor balances raised relating to operating leases on the property as to prevent double counting of cash flows.

IAS 18 - revenue recognition
Principles for revenue recognition are affected by the adoption of IAS39 "Financial Instruments: Recognition and Measurement" in that IAS18 incorporates the requirement to recognise fee income on lending transactions that are closely related to the effective interest yield on the transaction. Interpretation of the standard lends itself to the conclusion that there is a presumption that a fee is closely related to the effective yield unless the performance of a significant act can be identified in which case the related fee is recognised on completion of the act.

IAS 27/28/31 - consolidations/associates/joint ventures
Under UK GAAP certain special purpose vehicles were treated as jointly controlled entities. However, under IFRS these special purpose vehicles do not meet the control or jointly controlled definitions to require consolidation or joint venture accounting. To this end, the partial consolidation under UK GAAP has been reversed on adoption of IFRS. IFRS requires special purpose vehicles to be consolidated where they are in substance controlled by the entity this has resulted in the consolidation of certain investment vehicles in the group that were previously recorded as external investments.

Independent auditors' report to the members of Investec Bank (UK) Limited

We have audited the company's financial statements for the year ended 31 March 2006 which comprise the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 32. These financial statements have been prepared under 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

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and that the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, 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 other transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 company's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:
the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its loss for the year then ended; the financial statements have been properly prepared in accordance with the Companies Act 1985; and the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor

London
29 June 2006

At 31 March £'000	Notes	2006	2005
Assets			
Cash and balances at central banks		8 766	8 833
Treasury bills and other eligible bills	7	7 003	6 813
Loans and advances to banks	6	492 251	1 468 402
Loans and advances to customers	6,8	3 091 892	2 872 767
Debt securities	9	1 016 019	868 120
Equity shares	11	97 233	269 000
Interests in associated undertakings	12	1 337	1 997
Other participating interests	13	8 750	9 124
Shares in group undertakings	14	355 606	361 822
Intangible fixed assets	15	3 204	4 213
Tangible fixed assets	17	11 433	11 559
Derivative assets	26	248 107	
Other assets	18	784 154	427 487
Prepayments and accrued income		1 599	47 416
		6 127 354	**6 357 553**
Liabilities			
Deposits by banks	6	1 657 629	1 101 914
Customer accounts	6	2 822 943	2 373 854
Debt securities in issue	6	61 756	91 491
Derivative liabilities	26	45 237	
Trading liabilities - short positions in equities		123 791	
Other liabilities	19	676 505	2,072,682
Accruals and deferred Income		57 391	70 869
		5 445 252	**5 710 810**
Subordinated liabilities	6,21	224 690	218 998
		5 669 942	**5 929 808**
Equity			
Called up share capital	22	354 000	354 000
Share premium account		37 365	37 365
Other reserves		2 093	411
Profit and loss account		63 954	35 969
Total shareholders' equity	23	**457 412**	**427 745**
Total liabilities and shareholders' equity		**6 127 354**	**6 357 553**
Memorandum items			
Commitments	24	444 997	263 074
Contingent liabilities	25	79 851	85 495
		524 848	**348 569**

The directors approved the financial statements on 29 June 2006

Bradley Fried
Chief Executive Officer

Statement of total recognised gains and losses

For the year to 31 March £'000	2006	2005
Profit for the year attributable to shareholders	60 810	36 304
Fair value movements on available for sale assets	(1 189)	-
Currency translation differences on foreign currency reserves of branches	199	98
Total recognised gains relating to the year	**59 820**	**36 402**
Effect of adoption of FRS 25/26 - Financial instruments	12 347	-
Total gains recognised since the last annual report	**72 167**	**36 402**

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis. Accordingly, no note of historical cost profits and losses has been included.

1. Accounting policies

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

Basis of presentation

The bank's financial statements for the year ended 31 March 2006 were authorised by the board of directors on 29 June 2006 and the balance sheet was signed on the board's behalf by Bradley Fried.

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.

First time adoption of FRS

The bank has adopted FRS 21 ("Events after the balance sheet date") for the financial year ended 31 March 2006.

The bank has chosen to adopt FRS 23 ("The Effects of changes in foreign exchange rates"), FRS 24 ("Financial Reporting in hyperinflationary economies"), FRS 25 ("Financial Instruments: Disclosure and Presentation") and FRS 26 ("Financial Instruments: Measurement") for the financial year ended 31 March 2006.

As allowed by the Standards the bank has elected not to apply the requirements of FRS 25 to the 2005 comparative period. The impact of adoption of these standards is reflected as an adjustment to the opening balance sheet at 1 April 2005.

On adoption of FRS 25 compliance with the four financial instrument SORPs is no longer required.

Designation of previously recognised financial instruments

The Bank has elected to redesignate certain financial instruments within the scope of FRS 25 as "at fair value through profit or loss" or as "available for sale" at the date of transition.

Goodwill

Goodwill represents the net excess of the purchase consideration over the fair value of net assets of entities acquired. Positive goodwill is amortised against income over its useful economic life, for a period not exceeding 20 years.

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.

Share based payments to employees

The bank engages in equity settled share-based payments and in certain limited circumstances cash-settled share-based payments in respect of services received from employees.

The fair value of the services received in respect of equity settled share-based payments is determined by reference to the fair value of the shares or share options on the date of grant to the employee. The cost of the share based payment is recognised over the vesting period of the grant in the income statement on a straight-line basis, based on an estimate of the amount of instruments that will eventually vest.

A liability and expense in respect of cash settled share based payments is recognised over the vesting period of the grant in the income statement on a straight-line basis, based on the fair value of the liability that will eventually vest. The liability is recognised at the current fair value as at each balance sheet date, based on an estimate of the number of instruments that will eventually vest. Subsequent to vesting the liability is measured at fair value, with gains and losses recognised in the profit and loss account until such time as the liability is settled.

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Foreign currency transactions

The presentation currency of the bank is sterling, being the functional currency of Investec Bank (UK) Limited.

The bank has a foreign branch whose functional currency is other than that of the bank. The functional currency of the bank is determined based on the primary economic environment in which the bank operates.

The results and financial position of the foreign branch are translated into the presentation currency of the bank as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- income and expense items are translated at exchange rates ruling at the date of the transaction;
- all resulting exchange differences are recognised in equity (foreign currency translation reserve) which is recognised in profit and loss on disposal of the foreign operation;
- cash flow items are translated at the exchange rates ruling at the date of the transaction.

Foreign currency transactions are translated into the functional currency of the bank based on rates of exchange ruling at the date of the transaction. At each balance sheet date foreign currency items are translated as follows:

- foreign currency monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains and losses recognised in profit and loss;
- exchange differences arising on monetary items that form part of the net investment in a foreign operation are translated using closing rates are recognised as a separate component of equity (foreign currency translation reserve);
- non-monetary items that are measured at historical costs are translated using the exchange rates ruling at the date of the transaction.

Revenue recognition

Interest income is recognised in the income statement using the effective interest method. Fees charged on lending transactions are included in the effective yield calculation to the extent that they form an integral part of the effective interest yield, but excludes those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged in lieu of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest yield calculation is based on the estimated life of the underlying instrument, and, where this estimate is not readily available, the contractual life.

Commissions and fees include fees earned from providing advisory services as well as portfolio management. All such commissions and fees are recognised as revenue when the related services are performed. Fees and commission income are only recognised when they can be estimated reliably.

Principal transaction income includes trading profits, gains and losses on financial assets and liabilities designated as held at fair value and fair value gains and losses on investment properties.

Trading profits are shown net of the funding cost of the underlying positions and includes the unrealised profits on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in trading securities and valued accordingly.

Financial instruments

Financial instruments are initially recognised at their fair value, plus in the case of financial assets or financial liabilities not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liabilities.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the time frame established by market convention are recorded at trade date.

Financial assets and liabilities held at fair value through profit and loss

Financial instruments held at fair value through profit and loss include all instruments classified as held as trading and those instruments designated as held at fair value through profit and loss.

Financial instruments classified as held for trading or designated as held at fair value through profit and loss are recorded at fair value on the balance sheet with changes in fair value recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit and loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Financial assets and liabilities are designated as held at fair value through profit and loss only if:

- it eliminates or significantly reduces an inconsistent measurement or recognition that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that bases to the group's key management personnel; and
- if a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the bank has designated the entire hybrid contract as a financial liability at fair value through profit and loss.

Held-to-maturity assets

Held to maturity assets are non-derivative financial instruments with fixed or determinable payments and maturity dates. Financial assets that the bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are measured at amortised cost using the effective interest rate method, less impairment losses.

1. Accounting policies (continued)

Loans and receivables

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

- those that the bank intends to trade in, which are classified as held for trading, and those that the bank designates as at fair value through profit and loss;
- those that the bank designates as available for sale; and
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are measured at amortised cost less impairment losses subsequent to initial recognition.

Available for sale assets

Financial assets classified as available for sale are measured at fair value on the balance sheet, with unrealised gains and losses recognised in equity. Realised gains and losses are recognised in income in the period in which the asset is realised.

If an available for sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in equity are included in the income statement in the period in which the impairment is identified.

Impairments on available for sale equity instruments are not reversed once recognised in the income statement.

Financial liabilities

Financial liabilities are classified as non-trading, held for trading or designated as held at fair value through profit and loss.

Non-trading liabilities are recorded at amortised cost applying the effective interest method.

Held for trading or liabilities designated as held at fair value through profit and loss, are accounted for as indicated above.

Valuation of financial instruments

The following financial instruments are held at fair value:

- Fixed maturity securities classified as trading, held at fair value through profit or loss and available for sale,
- Equity securities,
- Private equity investments,
- Derivative positions,
- Loans and advances designated as held at fair value through profit and loss or available for sale, and
- Financial liabilities classified as trading or designated as held at fair value through profit and loss

Where available, market prices provide the best basis of fair value. Where market prices are not available, the fair value is determined by discounting the expected cash flows, using market interest rates taking into account the credit quality and duration of the investment. In certain instances model pricing may be used to determine fair values. For private equity investments that are not publicly traded, management uses comparisons to similar companies, relevant third party arm's length transactions and other information specific to the investment.

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the bank would not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at least at each balance sheet reporting date. The test for impairment is based either on specific financial assets or on a portfolio of similar, homogeneous loans. An impairment is credited against the carrying value of financial assets. The impairment is calculated as the difference between the carrying value of the asset and the expected cash flows discounted at the original effective rate. An allowance for impairment is only reversed when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement. Assets specifically identified as impaired are removed from the portfolio assessment.

Derecognition of financial assets and liabilities

A financial asset or a portion thereof, is derecognised when the bank's rights to cash flows has expired; or when the bank has transferred its rights to cash flows relating to the financial assets, including the transfer of substantially all the risk and rewards associated with the financial assets or when control over the financial assets has passed.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Derivative instruments and hedge accounting

All derivative instruments of the bank are recorded on balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

Derivative positions are entered into either for trading purposes or as part of the bank's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits and losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed below).

The bank applies either fair value or cash flow hedge accounting when the transactions meet the specified hedge accounting criteria. To meet hedge accounting treatment, the bank ensures that all of the following conditions are met:

- At inception of the hedge the bank formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge effectiveness is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedge accounting is discontinued when it is determined that the derivative ceases to be highly effective as a hedge; the derivative expires, or is sold, terminated or exercised; when the hedge item matures or is sold or repaid; or when a forecasted transaction is no longer deemed highly probable.

For qualifying fair value hedges, the change in fair value of the hedging derivative is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging derivative is initially recognised in equity and is released to the initial cost of any asset/liability recognised or in all other cases, to the income statement when the hedged firm commitment or forecasted transaction affects net profit.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value, which represents an effective hedge, of the hedging derivative is initially recognised in equity and is released to the income statement in the same periods during which the relevant financial asset or liability affects profit or loss. Any ineffective portion of the hedge is immediately recognised in profit and loss.

Derivative instruments transacted as economic hedges but which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held for trading.

To the extent that a derivative may be embedded in a host contract and the host contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a standalone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Offsetting of assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the bank are classified as liabilities if they contain an obligation to transfer economic benefits. Financial instruments issued by the bank are classified as equity where they confer on the holder a residual interest in the bank. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

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

Dividends on ordinary shares are recognised as a deduction from equity in the period in which they are declared.

Sale and repurchase agreements (including stock borrowing and lending)

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

Stock lending and borrowing transactions that are not cash collateralised are not included in the balance sheet. Stock lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

1. Accounting policies (continued)

Instalment credit, leases and rental agreements

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the bank is the lessor and included in liabilities where the bank is the lessee. Finance charges on finance leases and installment credit transactions are credited or debited to income in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable under operating leases are charged/credited in the profit and loss account on a straight line basis over the lease term. Contingent rentals (if any) are accrued to profit and loss account when incurred.

Property, plant and equipment

Property and equipment is recorded at cost less accumulated depreciation and impairments.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the bank would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life of the asset.

The annual depreciation rates for each class of property and equipment is as follows:

• Computer and related equipment	20-33%
• Motor vehicles	20-25%
• Furniture and fittings	10-20%
• Freehold buildings	2%
• Leasehold improvements*	

* Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease.

No depreciation is provided on freehold land, however, similar to other property related assets, it is subject to impairment testing when deemed necessary.

Routine servicing and maintenance of assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the bank.

Dealing properties

Dealing properties are included in the balance sheet under other assets and are considered to be inventories which are stated at the lower of cost and net realisable value.

Impairment of non-financial assets

At each balance sheet date the bank reviews the carrying value of non-financial assets for indication of impairment. The recoverable amount, being the lower of selling price and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses is recognised in income in the period in which the reversal is identified, to the extent that the asset is not revalued to a carrying value that would have been calculated without impairment.

Trust and fiduciary activities

The bank acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the bank, they are not reflected on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current tax payable is provided on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided using the balance sheet method on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on profit or loss.

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

Employee benefits

The Investec group operates various defined contribution schemes and two closed defined benefit schemes.

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

The closed defined benefit schemes are closed to new membership and to accrual of pensionable service for existing members. The assets are held in separate trustee administered funds. Employees from other Investec plc undertakings also participate in this scheme and the bank has accounted for this scheme on a defined contribution basis.

The bank has no liabilities for other post retirement benefits.

Intangible assets

Intangible assets are recorded at cost less accumulated depreciation and impairments.

For intangible assets with a finite life, depreciation is provided on the depreciable amount of each intangible asset on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, which the bank would currently obtain from the disposal of an intangible asset in similar age and condition as expected at the end of its useful life.

Intangible assets with an infinite life are not depreciated, however they are tested for impairment on an annual basis.

Borrowing costs

Borrowing costs in respect of property developments that take a substantial period of time to get ready for sale are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount, and are recognised as soon as the bank has created a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event. Contingent assets and contingent liabilities are not recognised.

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.

Cash flow statement

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

For the year to 31 March £'000	2006	2005
2. Taxation		
Corporation tax		
UK		
- current tax on income for the year	21 617	6 148
- adjustments in respect of prior years	2 577	-
Total corporation tax	**24 194**	**6 148**
Deferred tax		
UK	**(3 791)**	**(1 193)**
Total tax charge for the year	**20 403**	**4 955**
Deferred tax comprises:		
Origination and reversal of temporary differences	(3 435)	667
Adjustment in respect of prior years	(356)	(1 860)
	(3 791)	**(1 193)**
The rates of corporation tax for the relevant years are:		
UK	30%	30%
Profit on ordinary activities before taxation	**81 223**	**39 874**
Tax on profit on ordinary activities	**20 403**	**4 955**
Effective tax rate	**25%**	**12%**
The tax charge on activities for the year is different to the standard rate as detailed below:		
Tax on profit on ordinary activities before taxation,at UK rate of 30%	24 367	11 962
Taxation relating to prior years	2 577	-
Capital allowance in excess of depreciation	(1 483)	112
Goodwill and non-operating items	303	-
Permanently disallowed items for corporation tax purposes	2 933	3 991
Losses utilised during the year	-	(917)
Non-taxable income	(2 756)	-
Other timing differences	-	(551)
Capital losses utilised	(2 298)	-
Share options accounting expense	1 882	-
Share options exercised during the year	(1 950)	-
Overseas profits	619	-
Free group relief	-	(8 449)
Current corporation tax charge	**24 194**	**6 148**

For the year to 31 March £'000	2006	2005
3. Dividends		
Final dividend in previous year	15 000	16 500
Interim dividend for current year	27 500	15 000
Total dividend attributable to ordinary shareholder recognised in current financial year	**42 500**	**31 500**
4. Directors' emoluments		
Aggregate emoluments (excluding pension contributions)	5 741	3 405
Contributions to defined contributions scheme	92	72
	5 833	**3 477**
Number of directors in defined contributions scheme	4	5
Number of directors in closed defined benefits scheme	-	-

Emoluments of the highest paid director were £2 168 024 (2005: £1 119 716) excluding £30 000 pension contribution to the defined contributions scheme (2005: £ nil) contribution to the defined contributions scheme.

The highest paid director was a member of the defined benefits scheme or the defined contributions scheme.

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.

At 31 March 2006 £'000	At fair value through profit and loss Trading	 Designated at inception	Loans and receivables

5. Classification of financial assets and financial liabilities

	Trading	Designated at inception	Loans and receivables
Assets			
Cash and balances at central banks	-	-	-
Treasury bills and other eligible bills	-	-	-
Loans and advances to banks	213 135	-	279 116
Loans and advances to customers	430 037	186 910	2 474 945
Debt securities	18 750	44 129	-
Equity shares	73 770	16 268	-
Interests in associated undertakings	-	-	-
Other participating interests	-	-	-
Shares in group undertakings	-	-	-
Intangible fixed assets	-	-	-
Tangible fixed assets	-	-	-
Derivative assets	248 107	-	-
Other assets	730 621	-	-
Prepayments and accrued income	-	-	-
	1 714 420	**247 307**	**2 754 061**
Liabilities			
Deposits by banks	-	-	-
Customer accounts	-	-	-
Debt securities in issue	-	-	-
Derivative liabilities	45 237	-	-
Trading liabilities - short positions in equities	123 791	-	-
Other liabilities	638 310	-	-
Accruals and deferred Income	-	-	-
Subordinated liabilities	-	-	-
	807 338	**-**	**-**

Available for sale	Financial assets or financial liabilities at amortised cost	Non-financial instruments	Total
-	8 766	-	8 766
7 003	-	-	7 003
-	-	-	492 251
-	-	-	3 091 892
953 140	-	-	1 016 019
7 195	-	-	97 233
-	-	1 337	1 337
-	-	8 750	8 750
-	-	355 606	355 606
-	-	3 204	3 204
-	-	11 433	11 433
-	-	-	248 107
-	53 533	-	784 154
-	1 599	-	1 599
967 338	**63 898**	**380 330**	**6 127 354**
-	1 657 629	-	1 657 629
-	2 822 943	-	2 822 943
-	61 756	-	61 756
-	-	-	45 237
-	-	-	123 791
-	38 195	-	676 505
-	57 391	-	57 391
-	224 690	-	224 690
-	**4 862 604**	**-**	**5 669 942**

At 31 March £'000	Demand	Up to one month	One month to three months
6. Maturity of loans and deposits held at amortised cost			
2006			
Assets			
Loans and advances to banks	253 590	141 347	1 782
Loans and advances to customers	477 925	319 723	131 358
Liabilities			
Deposits by banks	310 720	185 167	415 069
Customer accounts	990 235	175 608	998 152
Debt securities in issue	-	30 372	25 310
Subordinated liabilities	-	-	-
2005			
Assets			
Loans and advances to banks	1 385 692	56 231	21 166
Loans and advances to customers	1 095 687	117 561	195 166
Liabilities			
Deposits by banks	392 351	382 226	63 741
Customer accounts	841 867	293 555	624 385
Debt securities in issue	-	-	77 491
Subordinated liabilities	-	-	-

Three months to six months	Six months to one year	One year to five years	Greater than five years	Total	Balances with group companies
-	-	65 741	29 791	492 251	97 574
155 536	376 473	1 194 545	436 332	3 091 892	146 804
154 899	60 568	504 883	26 323	1 657 629	720 524
97 383	80 045	463 675	17 845	2 822 943	622 636
-	6 074	-	-	61 756	-
-	9 645	15 732	199 313	224 690	199 313
-	-	1 628	3 685	1 468 402	9 049
158 705	201 604	561 281	542 763	2 872 767	383 098
83 816	18 688	141 668	19 424	1 101 914	392 037
38 066	27 060	417 683	131 238	2 373 854	460 089
14 000	-	-	-	91 491	-
-	-	23 262	195 736	218 998	19 736

At 31 March £'000	2006	2005
7. Treasury bills and other eligible bills		
Investment securities held at cost		
Other eligible bills - banks	-	
Other eligible bills - other	7 003	6 813
	7 003	**6 813**
Investment securities:		
Opening balance	6 813	6 663
Purchases	27 377	27 422
Maturities	(27 321)	(27 478)
Movement in fair value during the year	32	-
Exchange adjustments	102	206
Closing balance	**7 003**	**6 813**

Treasury bills and other eligible bills are unlisted, mainly short term in maturity and have a book value not materially different from market value.

At 31 March £'000	2006	2005
8. Customer accounts		
Total loans and advances to customers	3 091 892	2 872 767
Less: Trading book loans and cash equivalent debtors	(430 037)	(956 735)
	2 661 855	**1 916 032**
Category analysis		
Commercial property loans	1 043 182	768 769
Residential mortgages	451 228	59 540
Leases and instalment debtors	491	-
Corporate and public sector loans and advances	706 965	296 385
Other private bank lending	254 666	372 041
Other loans and advances	205 323	419 297
	2 661 855	1 916 032
Specific impairment / specific provision	(1 772)	(4 416)
Portfolio impairment / general provision	(1 368)	(19 473)
	2 658 715	**1 892 143**

Specific and portfolio impairments

2006

Reconciliation of movements in group specific and portfolio impairments for bad and doubtful debts.

£'000	2006
Specific impairments	
Balance at beginning of year	4 641
Charge to the income statement	323
Utilised	(3 194)
Exchange adjustments	2
Balance at end of year	**1 772**
Portfolio impairments	
Balance at beginning of year	934
Charge to the income statement	431
Exchange adjustments	3
Balance at end of year	**1 368**

At 31 March £'000	2006	2005
8. Customer accounts (continued)		
2005		
Reconciliation of movements in group specific and general provisions for bad and doubtful debts.		
Specific provisions		
At beginning of year		4 289
Charged against income - increase in provisions		682
Utilised		(565)
Exchange adjustments		10
At end of year		**4 416**
General provisions		
At beginning of year		15 838
Charged against income		3 591
Exchange adjustment		44
At end of year		**19 473**
Analysis of past due accounts but not impaired per ageing category		
30-90 days	3 183	
90-180 days	86	
180 days-1 year	4 111	
Longer than 1 year	769	
Total	**8 149**	
9. Debt securities		
Trading securities and securities designated as at fair value through profit and loss		
Government securities	-	-
Other debt securities	62 879	23 639
	62 879	23 639
Securities designated as available-for-sale		
Government securities	-	-
Unlisted bank and building society certificates of deposit	740 036	635 274
Other unlisted debt securities	213 104	209 207
	953 140	844 481
Total debt securities	**1 016 019**	**868 120**
Amounts include:		
Unamortised net premiums on investment securities		68

The cost of trading securities has not been disclosed, as it cannot be determined without unreasonable expense.

At 31 March £'000	2006	2005
9. Debt securities (continued)		
Available-for-sale securities		
At beginning of year	844 481	493 449
Re-designation on adoption of FRS 25	(19 534)	
Movement to fair value on adoption of FRS 25	2 672	
Additions	903 778	774 843
Sold/matured	(777 087)	(422 765)
Exchange adjustments	994	(1 046)
Movement in fair value during the year	(2 164)	
At end of year	**953 140**	**844 481**

10. Securitisation

Investec Bank (UK) Limited has entered into a transaction, in the normal course of its business, in which it has transferred a portfolio of financial assets directly to a special purpose entity. This transfer has transferred the majority of the risks to these third parties however the bank has retained a portion of the risks of the assets by way of an investment in a note. The financial asset retained is held at fair value and shown within other debt securities above.

	Collateralised debt obligations
Carrying amount of transferred assets	209 103
Carrying amount of associated liabilities	(197 017)
	12 086

11. Equity shares

	2006	2005
Trading securities and securities designated as at fair value through profit and loss		
Listed	90 038	263 884
Unlisted	-	-
	90 038	263 884
Securities designated as available-for-sale		
Listed	6 303	1 438
Unlisted	892	3 678
	7 195	5 116
Total equity shares	**97 233**	**269 000**

The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.

	2006	2005
Available-for-sale securities		
At beginning of year, net of provisions	5 116	2 477
Re-designation on adoption of FRS 25	(409)	
Additions	5 364	1 600
Disposals	(3 841)	(7 050)
Provisions released during the year		8 138
Exchange adjustments	(11)	(49)
Movement to fair value	976	
Fair value/book value at end of year	**7 195**	**5 116**

At 31 March £'000	2006	2005
12. Interests in associated undertakings		
Analysis of the movement in investment:		
At beginning of year	1 997	1 297
Addition	-	700
At end of year	**1 997**	**1 997**
Provision for impairment in value		
At beginning of year	-	-
Provision made	(660)	-
At end of the year	**(660)**	**-**
Net book value at the end of the year	**1 337**	**1 997**
The associated undertakings are unlisted.		
13. Other participating interests		
Investment in other participating interests at cost, less provision	**8 750**	**9 124**
Analysis of the movement in investment		
At beginning of year	9 124	9 135
Exchange adjustments	37	(11)
At end of year	**9 161**	**9 124**
Provision for impairment in value		
At beginning of year	-	-
Provision made	(411)	-
At end of the year	**(411)**	**-**
Net book value at the end of the year	**8 750**	**9 124**
Other participating interests		
Listed	-	374
Unlisted	8 750	8 750
	8 750	**9 124**
Market value of listed securities	**-**	**287**

The only significant interest is a 35% investment in Hargreave Hale Limited. The directors do not consider Hargreave Hale Limited to be an associated undertaking because they do not exercise significant influence over the operating and financial policies of Hargreave Hale Limited.

At 31 March £'000	2006	2005
14. Shares in group undertakings		
Cost		
At beginning of year	362 193	256 689
Transfer of shares in subsidiaries	(33 050)	250
Additions	579	-
Liquidation of subsidiary	(170)	(60 051)
Recapitalisation of subsidiaries	26 380	163 079
Exchange adjustments	45	2 226
At end of the year	**355 977**	**362 193**
Provision for impairment in value		
At beginning of year	(371)	(12,185)
Provision made	-	(371)
Liquidation of subsidiary	-	12 185
At end of the year	**(371)**	**(371)**
Net book value at the end of the year	**355 606**	**361 822**

On 2 June 2005 the bank acquired 100% of the issued share capital of Investec Asia Limited (formerly Investec Asset Management Pacific Limited) from a fellow group company.

During the year the shares in two dormant subsidiaries were transferred at net asset value to the bank's parent.

All subsidiary undertakings are unlisted.

At 31 March £'000	2006
15. Intangible fixed assets	
Bank	
Goodwill	
At beginning and end of year	**19 533**
Accumulated amortisation	
At beginning of year	(15 320)
Charge to the profit and loss account	(1 009)
At end of year	**(16 329)**
Net book value at 31 March 2006	**3 204**
Net book value at 31 March 2005	**4 213**

16. Acquisitions

On 2 June 2005 the bank acquired 100% of the issued share capital of Investec Asia Limited (formerly Investec Asset Management Pacific Limited) from a fellow group company.

Assets at the date of acquisition and total consideration paid are as follows:

£'000	Book value and fair value at date of acquisition
Loans and advances to banks	573
Other assets	6
Fair value of net assets and fair value of consideration	**579**

The post acquisition profits after tax were £242 000.

At 31 March 2006 £'000	Leasehold improvements	Furniture & vehicles	Computer equipment	Total
17. Tangible fixed assets				
Cost or valuation				
At beginning of year	15 396	3 911	5 756	25 063
Additions	-	80	1 078	1 158
At end of year	**15 396**	**3 991**	**6 834**	**26 221**
Accumulated depreciation and amortisation				
At beginning of year	(4 507)	(3 632)	(5 365)	(13 504)
Charge for the year	(831)	(31)	(422)	(1 284)
At end of year	**(5 338)**	**(3 663)**	**(5 787)**	**(14 788)**
Net book value at 31 March 2006	**10 058**	**328**	**1 047**	**11 433**
Net book value at 31 March 2005	**10 889**	**279**	**391**	**11 559**

At 31 March £'000	2006	2005
18. Other assets		
Settlement debtors	730 622	272 434
Deferred tax asset (note 20)	8 332	8 239
Derivative instruments positive fair values (note 26)		109 251
Dealing properties	6 625	21 588
Other debtors	38 575	15 975
	784 154	**427 487**

Dealing properties are recorded at the lower of cost or selling price less cost to sell.

19. Other liabilities		
Settlement creditors	638 308	267 157
Short positions - equity		1 737 616
Corporation & other taxes	24 260	6 626
Derivative instruments negative fair values (note 26)		41 013
Deferred tax liabilities (note 20)	217	-
Other creditors and accruals	13 720	20 270
	676 505	**2 072 682**

As at 31 March 2006, short positions in equities are disclosed as trading liabilities directly on the face of the balance sheet.

20. Deferred tax		
Deferred tax asset		
Deferred capital allowances	2 174	3 300
General provisions	-	4 500
Other timing differences	6 158	439
	8 332	**8 239**
Deferred tax liability		
Other timing differences	(217)	-
Deferred tax liability	**(217)**	**-**
Net deferred tax asset	**8 115**	**8 239**
Reconciliation of net deferred tax asset		
At beginning of year	8 239	7 046
Adjustment on adoption of FRS 25 & 26	(4 843)	
Credit directly in equity	928	
Credit to profit and loss	3 791	1 193
At end of year	**8 115**	**8 239**

Deferred tax assets are recognised to the extent it is likely 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.

At 31 March £'000	2006	2005
21. Subordinated liabilities		
Dated subordinated debt		
Zero coupon bonds	25 377	23 262
Subordinated loan	199 313	195 736
	224 690	**218 998**

Zero coupon bonds

On 29 March 2004 the bank issued 9 253 zero coupon bonds of £1 000 each at an effective yield of 6.89094%. The bonds mature on 25 March 2009.

On 29 July 2004 the bank issued 17 000 zero coupon bonds of US$1 000 each at an effective yield of 4.57%. The bonds mature on 31 July 2006.

On 16 November 2004 the bank issued 10 434 zero coupon bonds of £1 000 each at an effective yield of 6.948%. The bonds mature on 16 November 2009.

Subordinated loan

The net proceeds of an issue of step-up notes by a subsidiary of the bank, Investec Finance plc, have been onlent to the bank on a subordinated basis. The term of the loan is 2016 but it may be redeemed at any time after 1 March 2011. The interest rate on the loan is fixed at 8.1618% until 1 March 2011 and interest is paid annually. After 1 March 2011 the interest rate will be reset in line with the interest rate on the step-up Notes. The terms of the step-up notes, which are guaranteed by the bank, are detailed in note 30 of the consolidated financial statements of the bank.

22. Called up share capital

Bank

Authorised

The authorised share capital is £1 000 million (2005: £1 000 million) comprising 1 000 million ordinary shares of £1 each (2005: 1 000 million shares of £1 each).

Issued, allotted and fully paid

	2006	2005
Nominal value of ordinary shares - GBP		
At beginning and end of year	**354 000**	**354 000**

£'000	Share capital	Share premium account	Available for sale reserves	Foreign currency reserves	Profit and loss account	Total
23. Reconciliation of shareholders' funds and movements in reserves						
At 31 March 2004 - restated for prior year adjustments	**354 000**	**37 365**	**-**	**313**	**23 665**	**415 343**
At 31 March 2004 - as previously reported	354 000	37 365	-	-	23 978	415 343
Reclassifications						
FRS 23 - foreign exchange rates (note 1)	-	-	-	313	(313)	-
Year ended 31 March 2005						
Foreign currency adjustments	-	-	-	98	-	98
FRS 21 - events after balance sheet date (note 2)	-	-	-	-	6 000	6 000
Retained profit for the year	-	-	-	-	6 304	6 304
Restated at 31 March 2005	**354 000**	**37 365**	**-**	**411**	**35 969**	**427 745**
Remeasurements						
FRS 25 & 26 - financial instruments	-	-	2 672	-	9 675	12 347
At 1 April 2005	**354 000**	**37 365**	**2 672**	**411**	**45 644**	**440 092**
Foreign currency adjustments	-	-	-	199	-	199
Fair value movements on available for sale assets	-	-	(1 189)	-	-	(1 189)
Retained profit for the year	-	-	-	-	60 810	60 810
Dividends paid to ordinary shareholders	-	-	-	-	(42 500)	(42 500)
At 31 March 2006	**354 000**	**37 365**	**1 483**	**610**	**63 954**	**457 412**

Notes:
1. As a result of implementing FRS 23 the bank now separately discloses a foreign currency reserve arising from revaluation of reserves held by its Irish branch. As these reserves were previously disclosed within the profit and loss reserve the prior year figures have been restated.
2. The impact of implementing FRS 21 is that dividends declared are no longer recognised in the period in which the earnings relate but rather are only recognised when approved by the bank's shareholders. As a result of this change of accounting policy the prior year figures have been restated to exclude a £9 million dividend from a subsidiary undertaking and a final dividend to shareholders not paid until after 31 March 2005. Both dividends have been included in the financial statements for current year.

At 31 March £'000	2006	2005
24. Commitments		
Forward repurchase agreements	-	-
Undrawn facilities	444 997	263 074
Other commitments	-	-
	444 997	**263 074**

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

25. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
- guarantees and irrevocable letters of credit	79 410	85 457
- assets pledged as collateral security	403	-
Other contingent liabilities	38	38
	79 851	**85 495**

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

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

A subsidiary of the bank, Investec Finance plc, has issued both medium term notes and other debt securities. The proceeds of these issues have been placed on deposit with the bank. The bank has issued a guarantee to the holders of these notes and securities. The amount of these guarantees is supported by, and limited to, the amount of the cash deposits.

Legal proceedings

The bank 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 bank.

26. Derivatives(off-balance sheet financial instruments)

Foreign exchange derivatives

The bank enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements. All interest rate contracts are transacted with other financial institutions. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the bank in an orderly market transaction at balance sheet date. Detailed below is the derivative exposure for the trading portfolios.

At 31 March	2006			2005		
£'000	Notional principal amounts	Positive fair value	Negative fair value	Notional principal amounts	Positive fair value	Negative fair value
Forward foreign exchange	626 865	2 850	(2 037)	2 608 572	12 057	(10 257)
Currency swaps	1 557 984	3 531	(3 575)	133 502	773	(1 893)
OTC options bought and sold	40 238	104	(24)	-	-	-
Other foreign exchange contracts	550 037	425	(388)	-	-	-
OTC derivatives	2 775 124	6 910	(6 024)	2 742 074	12 830	(12 150)
Exchange traded futures	142 200	2	-	1 199	6	(1)
	2 917 324	**6 912**	**(6 024)**	**2 743 273**	**12 836**	**(12 151)**
Interest rate derivatives						
Caps and floors	135 347	107	(100)	86 033	-	-
Swaps	3 027 859	18 384	(17 064)	1 514 537	7 994	(7 713)
Other interest rate contracts	-	-	-	-	-	-
OTC derivatives	3 163 206	18 491	(17 164)	1 600 570	7 994	(7 713)
Exchange traded futures	43 540	47	(115)	524 377	1	-
	3 206 746	**18 538**	**(17 279)**	**2 124 947**	**7 995**	**(7 713)**
Equity and stock index derivatives						
OTC options bought and sold	31 600	13 077	(28)	861 689	13 355	(2 201)
Equity swaps and forwards	2 543	177	(2 532)	331 326	3 590	(17 699)
OTC derivatives	34 143	13 254	(2 560)	1 193 015	16 945	(19 900)
Exchange traded futures	15 930	21	-	20 743	-	-
Exchange traded options	50 726	671	(318)	588 020	4 634	(81)
Warrants	45 987	32 947	-	43 933	28 492	-
	146 786	**46 893**	**(2 878)**	**1 845 711**	**50 071**	**(19 981)**

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

At 31 March £'000	2006 Notional principal amounts	2006 Positive fair value	2006 Negative fair value	2005 Notional principal amounts	2005 Positive fair value	2005 Negative fair value
Commodity derivatives						
OTC options bought and sold	209 155	64 685	(3 777)	359 002	22 017	(2 360)
Commodity swaps and forwards	602 307	109 424	(30 300)	534 883	23 362	(4 266)
OTC derivatives	811 462	174 109	(34 077)	893 885	45 379	(6 626)
Exchange traded futures	695 327	169 734	(167 946)	1 392 504	3 157	(4 130)
Exchange traded options	1 321 183	41 095	(39 260)	1 177 101	1 244	(1 550)
	2 827 972	**384 938**	**(241 283)**	**3 463 490**	**49 780**	**(12 306)**
Credit derivatives						
Credit linked notes bought and sold	6 043	-	(121)	-	-	-
Credit swaps bought and sold	5 755	-	(3)	43 350	51	(344)
	11 798	**-**	**(124)**	**43 350**	**51**	**(344)**
Embedded Derivatives	**105 177**	**13 177**	**-**	**-**	**-**	**-**
Gross fair values		**470 458**	**(267 588)**		**120 733**	**(52 495)**
Effect of on balance sheet netting		(222 351)	222 351		(11 482)	11 482
Trading derivatives per balance sheet	**9 215 803**	**248 107**	**(45 237)**	**10 220 771**	**109 251**	**(41 013)**

The replacement values of these contracts are their positive fair values.

The notional principal amounts represent the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk. As at the 31 March 2005 the positive and negative fair value of derivatives are reported in other assets and other liabilities (refer to notes 18 and 19).

27. Hedges

The bank uses derivatives for management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the central Treasury. Once aggregated and netted, Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependant on the classification between fair value hedges, cash flow hedges and in particular, accounting hedges require the identification of a direct relationship between a hedged item and a hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group:

Fair value hedges

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed rate financial instruments attributable to interest rates.

At 31 March 2006 £'000	Description of financial instrument designated as hedging	Fair value of hedging instrument	Gains or losses on hedging instrument	Gains or losses on hedged item
Assets	Interest rate swap	9 241	6 262	(6 908)
Liabilities	Interest rate swap	2 220	(1 851)	2 220
	Fx currency swap	451	451	(451)
	Fx swap	(297)	(297)	297
		11 615	**4 565**	**(4 842)**

Hedges of net investments in foreign operations

The group has entered into foreign exchange contracts to hedge the exposure of the balance sheet to the majority of its net investment, in Australian Dollars ("A$"), in the Australian operations of the group.

At 31 March 2006 £'000	Fair value of hedging instrument	Ineffective portion recognised in principal transactions
A$ 240 million cross currency swaps	**(2 411)**	-

28. Post balance sheet events

Acquisition of N.M. Rothschild & Sons (Australia) Limited

The bank has agreed to acquire N. M. Rothschild Australia Holdings Pty Limited for a consideration of approximately A$150 million. In order to finance this acquisition the bank issued 60 million new ordinary shares of £1 at par on 28 June 2006.

The agreement, which is subject to final regulatory approval, will add critical mass and scale to the group's existing Australian subsidiary, Investec Bank (Australia) Limited and at the same time add to its capability to originate new business.

N.M. Rothschild & Sons (Australia) Limited has total assets of approximately A$2.1 billion (GBP890 million) and is principally involved in Property, Resources, Infrastructure, Commercial and Acquisition Finance and Treasury activities operating in Sydney, Melbourne and Perth.

For the year to 31 March £'000	2006	2005
29. Related party transactions		
Transactions, arrangements and agreements involving directors and officers:		
Particulars of transactions, arrangements and agreements entered into by the group with directors and connected persons and companies controlled by them, and with officers of the company.		
For loans to related parties, normal credit parameters are applied.		
(a) As permitted by the Companies Act 1985, loans to 4 directors (2005: 4) and 2 officers (2005: 3) existed during the year. The amounts outstanding at the end of the year were as follows:		
Directors	2 145	503
Officers	400	2 971
	2 545	**3 474**
(b) Investec Bank (UK) Limited has provided a loan to an investment company, Boutique Finance II Ltd, and has that company's investment in shares as security for the loan. Mr I Kantor, who is a director of Investec Bank (UK) Limited, has guaranteed 34% of the loan.		
Loan provided by Investec Bank (UK) Limited	-	565

Transactions with other related parties of the group

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.

At 31 March £'000	2006	2005
30. Miscellaneous		
Assets subject to sale and repurchase transactions, including stock borrowed against cash collateral:		
Loans and advances to banks	212 428	1 356 618
Loans and advances to customers	430 037	779 121
	642 465	**2 135 739**
All the above are trading book loans and advances and are secured with debt securities or equities.		
Value of liabilities secured by assets, including stock lent against cash collateral:		
Deposits by banks	-	45 420
Deposits by customers	272 584	291 987
	272 584	**337 407**
Stock borrowing and lending		
Stock borrowed against non-cash collateral	239 977	3 200 678
Stock lent against non-cash collateral	72 102	1 402 730

31. Ultimate parent undertaking

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

The company's ultimate parent undertaking and controlling party is Investec plc, a company incorporated in the UK and registered in England and Wales, which is the smallest and largest company into which the bank is consolidated.

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.

32. Principal subsidiary and associated undertakings

	Principal activity	Country of incorporation	Interest 2006	2005
Direct subsidiary undertakings of Investec Bank (UK) Limited				
European Capital Company Limited	Project finance	England & Wales	100%	100%
Guinness Mahon & Co Limited	Investment holding company	England & Wales	100%	100%
Investec Asset Finance PLC	Leasing	England & Wales	100%	100%
Investec Finance plc	Debt issuer	England & Wales	100%	100%
Investec Group Investments (UK) Limited	Investment holding company	England & Wales	100%	100%
Investec Property Services Limited (trading as Taylor Rose)	Commercial property agency	England & Wales	100%	100%
Indirect subsidiary undertakings of Investec Bank (UK) Limited				
Investec Bank (Australia) Limited	Banking Institution	Australia	100%	100%
Investec Bank (Channel Islands) Limited	Banking Institution	Guernsey	100%	100%
Investec Bank (Switzerland) AG	Banking Institution	Switzerland	100%	100%
Investec Investment Holdings AG	Investment holding company	Switzerland	100%	100%
Investec Trust (Guernsey) Limited	Trust company	Guernsey	100%	100%
Investec Trust (Jersey) Limited	Trust company	Jersey	100%	100%
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100%	100%

All of the above subsidiary undertakings are included in the consolidated accounts.

Principal associated undertaking of Investec Bank (UK) Limited				
iMarkets Holdings Limited	Supplier of trading platforms	British Virgin Islands	34%	34%

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