2007 Investec Bank (UK) Limited Annual Financial Statements

Investec

Corporate information

Investec Bank (UK) Limited

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Investec in perspective

Overview of the Investec group

Who we are

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.

What we do

We are organised as a network comprising five business divisions: Private Client Activities, Capital Markets, 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

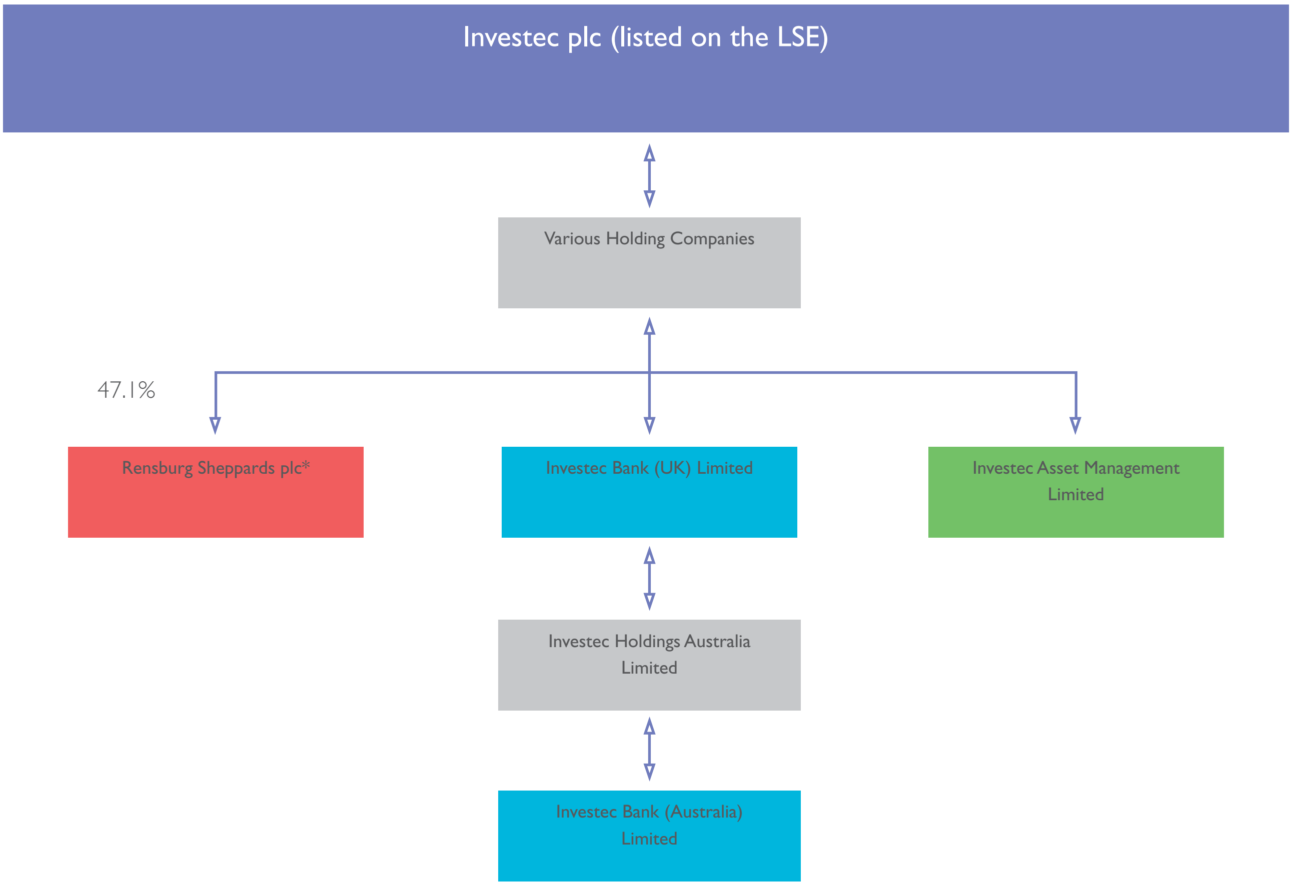
Philosophies

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

Investec Bank (UK) Limited organisational structure

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 2007



Key: activities conducted

- Private Client Portfolio Management and Stockbroking
- Private Banking, Investment Banking, Capital Markets and Other Activities
- Asset Management

Note:

All shareholdings are 100%, unless otherwise stated.

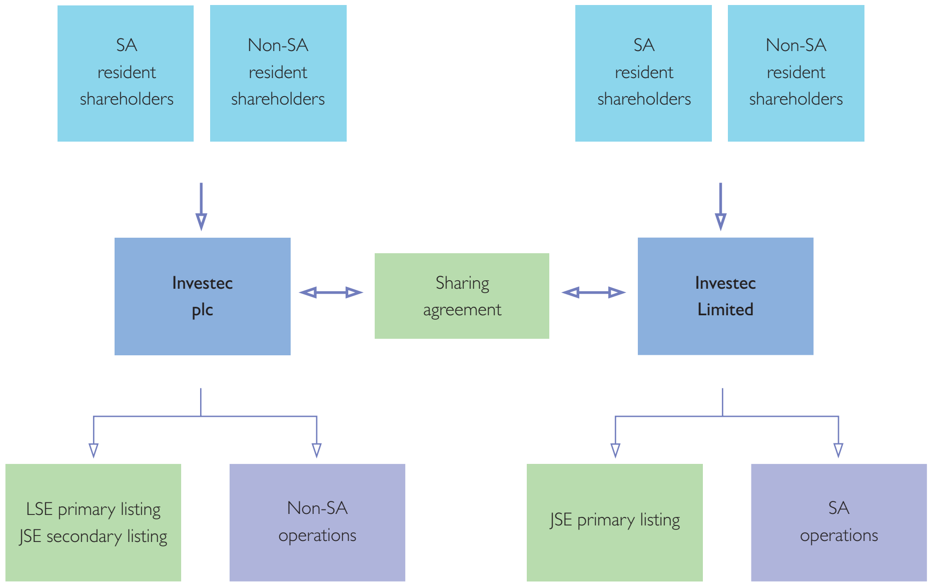
* Carr Sheppards Crosthwaite Limited was sold to Rensburg plc in May 2005. Investec retains a 47.1% interest in the combined entity, Rensburg Sheppards plc.

Overview of Investec's dual listed companies structure

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 seperate 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 the activities of Investec Bank (UK) Limited

Introduction

Investec Bank (UK) Limited's principal business units comprise: Private Banking, Capital Markets, 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 Bank

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
- Banking and Treasury
- 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 buyout/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 solutions to high net worth individuals involved in the residential and commercial property markets across the UK and Europe.

Specialised Lending

We provide structured credit facilities in four niche areas to select private clients. Equity Finance & Investment Lending provides finance to facilitate the acquisition of significant stakes in quoted companies or to facilitate diversification out of concentrated shareholdings; Sports Finance provides finance to owners of football and rugby clubs in the United Kingdom and Europe; Aviation & Marine Finance provides finance for the acquisition of these movable assets for personal use; and Film Finance provides finance in connection with the production of films. 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 tailored to the requirements of each client.

Banking and Treasury 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 coupled with an extensive qualitative and quantitative due diligence process and access to the expertise of some of the world's leading financial institutions, enables 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 asset based lending, 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 £10 million to £ 50 million.

Capital Markets

The Capital Markets 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:

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.

Principal Finance

We are involved in the origination and securitisation of residential mortgages, commercial mortgages, collateralised debt obligations and leveraged loans in the UK, European and US markets.

Structured and Asset Finance

This area focuses on structured and conventional lending, asset leasing and finance, mezzanine debt financing, leveraged buy-out funding and trading of financial assets.

Project Finance

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

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.

Fixed Income

This desk is involved in market making and trading of fixed income options in the Euribor, Libor and Eurodollar markets.

Corporate Treasury

We offer medium to small corporate entities spot, forward exchange, currency swaps and currency options, principally in G7 currencies.

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.

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 91 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 2007 was £272 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 28 equity analysts compiles research coverage on approximately 250 companies in the UK, focusing on 26 sectors. We also act as market maker for approximately 150 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 recommendation accuracy, we were placed 1st across UK brokers for FTSE 250 stocks. 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.

We continue to seek appropriate investment opportunities, to enable us to leverage off the skills and knowledge base of the group.

Property Activities

Our Property Activities in the UK have scaled down over the past couple of years as we have taken advantage of a seller's market by selling stock.

We are making progress in extending our property model in the UK to include property fund management and aligning the strategic focus of the UK business with that of South Africa.

Group Services and Other Activities

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. There are certain costs that are strategic in nature and which have not been allocated to the operating 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.

Investec Bank (Australia) Limited

We entered the Australian investment banking market in March 2001 with the acquisition of Wentworth Associates, 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, money market activities and more recently, growth and acquisition finance and specialised lending.

The Australian banking operations of NM Rothschild & Sons Australia Limited was successfully acquired in July 2006 creating an opportunity to further our market presence in the treasury and specialised finance space, particularly in the natural resources sector.

We have operations in Sydney, Melbourne, Brisbane and Perth.

Financial review

Commentary on the results of Investec Bank (UK) Limited for the year ended 31 March 2007

Unless the context indicates otherwise, all income statement comparatives in the review below, relate to the results for the year ended 31 March 2006.

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

Introduction

Investec Bank (UK) Limited increased operating profit by 50.2% from £116.1 million to £174.5 million. Earnings attributable to ordinary shareholders increased from £82.7 million to £127.0 million.

Financial highlights

	31 March 2007	31 March 2006	% change
Operating profit (£'000)	174 489	116 141	50.2%
Earnings attributable to ordinary shareholders (£'000)	126 968	82 725	53.5%
Cost to income ratio	62.6%	62.1%	
Total capital resources (including subordinated liabilities) (£'000)	1 479 543	813 477	81.9%
Total shareholders' equity (including minority interests) (£'000)	876 499	587 794	49.1%
Total assets (£'000)	11 145 794	7 464 104	49.3%
Capital adequacy ratio	24.2%	19.0%	
Tier 1 ratio	13.2%	14.4%	

Segmental information

For the year to 31 March 2007

£'000	Private Client Activities	Capital Markets	Investment Banking	Property Activities	Group Services & Other Activities	Total group
Net operating income	210 962	143 381	113 745	1 435	9 886	479 409
Operating expenses	(99 999)	(87 181)	(83 122)	(143)	(34 475)	(304 920)
Operating profit	**110 963**	**56 200**	**30 623**	**1 292**	**(24 589)**	**174 489**
Cost to income ratio	46.9%	58.7%	73.1%	10.0%	348.7%	62.6%

For the year to 31 March 2006

£'000	Private Client Activities	Capital Markets	Investment Banking	Property Activities	Group Services & Other Activities	Total group
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	**68 280**	**22 478**	**35 046**	**2 023**	**(11 686)**	**116 141**
Cost to income ratio	53.4%	64.4%	59.2%	18.3%	171.7%	62.1%

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 62.5% to £111.0 million (2006: £68.3 million) driven by strong growth in advances and non-interest income. The division continues to penetrate its core markets and recorded strong performance across its areas of specialisation.

Since 1 April 2006, the Private Bank has shown good growth in all of its key earnings drivers:

- Loans and advances have increased 24.0% to £2.9 billion.
- The deposit book has grown 18.8% to £3.7 billion.
- Funds under advice have increased by 42.5% to £1.3 billion.

Developments

UK and Europe

- The Structured Property Finance team concluded a number of significant client led cross-border transactions in Europe and has continued expanding its distribution capacity in London, Manchester and Ireland.
- The Banking business has significantly expanded its distribution capacity and continues to innovate in the mortgage arena. Deposit raising and general banking activities have commenced in Switzerland and Jersey.
- The Growth and Acquisition Finance business has enhanced its portfolio of transactions with a good pipeline of exits. The product set has been expanded to include asset based lending, with an emphasis on receivables financing in addition to mezzanine and equity.
- The Investment Management business continues to win significant private client portfolio mandates. A material uplift in profitability and the talent pool has also been achieved. We continue to gain scale in our key focus areas, which include the provision of advisory services and specialised opportunities to our clients.
- 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. In addition, good progress in both the Investment Management and Structured Property Finance activities has been achieved.
- The Trust and Fiduciary business has enhanced profitability through efficiencies together with the successful integration of the Quorum Management Limited business. The business is an integral part of the Private Bank offering and continues to meaningfully support the deposit raising and investment activities of the bank.
- We are on track to roll out an online banking functionality by the end of 2008 and a transactional banking product is under review. This is aimed at further bolstering client acquisition and retention in general banking activities.

Australia

- The private client activities resulting from the acquisition of NM Rothschild & Sons (Australia) Limited were successfully integrated into the business.
- Our regional expansion continued into Brisbane and more recently Perth with the introduction of a private client offering.
- Structured Property Finance expanded its distribution capability, enhanced its sectoral focus and increased its focus on equity participations.
- We increased our lending capability with the launch of a new business line, Specialised Lending, which focuses on providing sophisticated gearing solutions for high net worth clients.
- The money market offering was enhanced through product innovation and an improved service capability.
- We exited our first two significant Growth and Acquisition Finance transactions through an initial public offering (IPO) and trade sale respectively and continue to look for opportunities to build a portfolio of investments.
- We successfully distributed A$200 million of specialist opportunities originated by the bank and increased high net worth funds under advice by 26.3%.
- We are developing a platform for third party co-investment opportunities to be offered to target clients.
- There is substantial investment under way to increase brand presence and distribution capability across all regions.

Outlook

- On the assumption that current market conditions prevail, the earnings outlook across all geographies is positive, with good deal pipelines in place.
- There are planned growth strategies in each jurisdiction, which include the expansion of distribution capability together with new strategic initiatives.

Capital Markets

Overview of performance

The Capital Markets division (formerly known as Treasury and Specialised Finance) posted a significant increase in operating profit to £56.2 million (2006: £22.5 million). Growth was underpinned by a solid performance from the division's advisory, structuring, asset creation, trading and distribution activities. The lending book has increased by 45.9% to £1.7 billion since 1 April 2006.

Developments

UK and Europe

- The European Principal Finance business is fully established and closed a number of transactions during the year, with various deals in the pipeline. The strong performance of the US business was negatively affected by the volatility in the US sub-prime market, where a number of fair value adjustments were required.
- The Acquisition Finance business continued to perform well.
- The Project Finance division closed the St Barts and St Helens hospital projects, realising significant fees. The St Barts deal is the largest PFI project to date in the UK.
- Activity continued in the aircraft finance market and we earned strong fee income from this area during the current period, with mandates of more than £0.5 billion completed.
- The Fixed Income Options Trading business commenced operations during May 2006 and volumes increased steadily. The desk is fully resourced and an improved performance is expected going forward.
- There are two fund initiatives under way: a structured credit fund and a resources fund. The resources fund is established with seed capital of $40 million and further capital raising is expected. The credit fund was delayed due to volatility in credit markets.
- A platform for the securitisation of third party originated residential mortgages in Ireland was launched called Nua. The first assets are being underwritten.
- The resources sector continues to be active and we benefited from increased deal flow and good positioning within this market.
- Subsequent to the year end, we bolstered our Equity Derivative Sales and Structuring business with a number of high calibre hires.

Australia

- The division benefited from the integration of the relevant businesses within NM Rothschild & Sons (Australia) Limited and now has an increased presence in Commodities and Resource Finance, Project and Infrastructure Finance and Principal Finance as well as a larger lending book. The acquisition increased the loans and advances book by A$338 million.
- The newly established Commodities Desk contributed significantly to earnings during the year and enabled us to provide clients with a full product suite across a range of interest rates, foreign exchange and precious and base metal products.
- The Rothschild's acquisition has been successful with people, clients and businesses embedded, effectively transforming Capital Markets into a significant banking business within Australia.
- The year ahead will see the strengthening of our origination capability, coupled with the development of new businesses in the areas of Principal Finance, Securitisation and Acquisition Finance.

Outlook

- The strategy has not changed. We continue to remain a focused specialist business targeting markets where we can be distinctive and competitive focusing on our core value drivers.
- In the UK we will continue to strive for depth and greater penetration. In Australia we will look for opportunities to broaden our franchise.
- Securitisation and capital markets are a key focus. In particular we will look to originate assets in higher margin niche areas to be funded through securitisation in the capital markets.
- We will continue to pursue our strategy around specialist funds.
- Momentum in the business is good. Markets remain favourable and we are still targeting growth in excess of the group target, although we are unlikely to achieve the levels of the recent past. We will continue to invest in the business to ensure continued growth in the medium term.

Investment Banking

Overview of performance

The Investment Banking division posted a 12.6% decrease in operating profit to £30.6 million (2006: £35.0 million). The Corporate Finance operations benefited from a strong deal pipeline. This was offset by lower commissions from the Institutional Stockbroking business which were negatively affected by regulatory changes and consequent competitive pressures as well as a weaker performance by the market making activities.

Developments

Corporate Finance

UK and Europe

- We benefited from good levels of merger and acquisition (M&A) activity. The IPO market was subdued at the beginning of the year but activity levels improved significantly during the second half.
- Eight IPOs were concluded during the period, the most significant being Southern Cross Healthcare PLC, Clinphone PLC and Style & Wood PLC.
- We completed 24 M&A transactions with a value of £2.5 billion (2006: 14 transactions with a value of £1.1 billion).
- We completed 21 fundraisings during the year, raising in aggregate £597 million (2006: 21 transactions, raising £634 million).
- We continue to build the quality and size of the corporate client list, gaining 25 new brokerships, with the total number of quoted clients now at 91. The average market capitalisation of these clients is £272 million.

Australia

- There is increasing awareness and recognition of the Investec brand within the Australian market.
- We advised on 15 transactions (2006: 20) valued at approximately A$8.7 billion (2006: A$6.5 billion).
- We focused on building our capabilities in Brisbane and strengthening our presence in Melbourne.
- We continue to expand our sector specialisation and launched our resource advisory capability leveraging off opportunities in Western Australia.
- We experienced strong cross-border activity, particularly in the resources and renewable energy sectors, between Australia and the rest of the group.

Institutional Research, Sales and Trading

UK and Europe

- While volatile markets and unbundling affected the growth of secondary commissions compared to the prior year, trading revenues reflected upward momentum.
- Our sector build out is now complete with the introduction of two new sectors during the year, namely Speciality and Other Financials and Construction and Building.
- The quality of our research was highlighted in the Sunday Times/Starmine Survey published in January 2007, in which we were placed first across all UK brokers for FTSE 250 recommendations in the UK. We also achieved the number one ranking in the Investors Chronicle AIM survey.
- We recently established a sales desk in New York to accelerate our UK offering in that market.
- We continued to make substantial investments in our trading and execution capacity.

Direct Investments and Private Equity

UK, Europe and Hong Kong

- We continued to seek appropriate investment opportunities, to enable us to leverage off the skills and knowledge base of the group and we also increased the resources in this area.

Australia

- We completed the equity raising of A$200 million for Investec Wentworth Private Equity Fund 3. The total size of the Private Equity Funds is A$480 million.
- We successfully completed three new investments.
- The investment portfolio continued to perform strongly.

Outlook

Corporate Finance

- The pipeline looks positive and we continue to build our client base.
- An enhanced team structure together with increased brand awareness and national reach provides a solid platform for future growth opportunities across all areas of the Australian business.

Institutional Research, Sales and Trading

- The UK business has strengthened its positioning in the market, while further growth is expected to come from hedge funds and increased distribution into the US and Europe.

Direct Investments and Private Equity

- We remain active in seeking direct investment and private equity opportunities.

Property Activities

Overview of performance

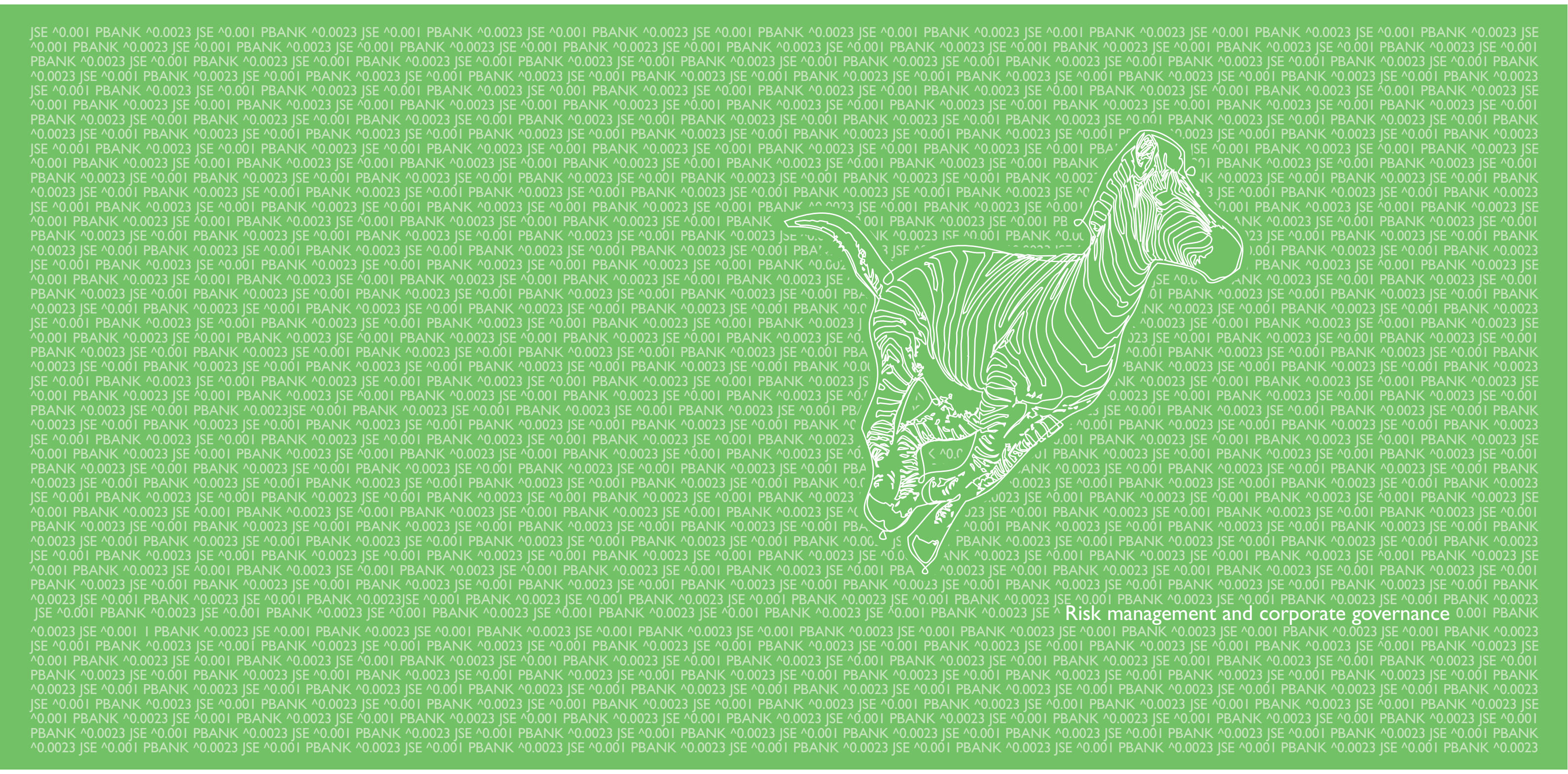
The Property division recorded an operating profit of £1.3 million (2006: £2.0 million), down 35.0% due to lower realisations in the current period.

Developments and outlook

We are making progress in expanding our property model in the UK to include property fund management and aligning the strategic focus of the UK business with that of the Investec group's operations in South Africa.

Group Services and Other Activities

The Group Services and Other Activities division posted an operating loss of £24.6 million compared to a loss of £11.7 million in the previous year largely as a result of increased variable remuneration, given the growth in profitability.



Risk management and corporate governance

Risk management

Philosophy and approach

The group recognises that an effective risk management function is fundamental to its business. Taking international best practice into account, our comprehensive risk management process, involves identifying, understanding and managing the risks associated with each of our businesses.

Risk awareness, control and compliance are embedded in our day-to-day activities.

Group Risk Management (part of Group Services) independently monitors, manages and reports on our risk as mandated by the board of directors through the Investec plc Board Risk Review Committee. Business units are ultimately responsible for managing risks that 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 a specialist division in the UK 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 managment framework, committees and forums as well as our risk management and measurement techniques can be found in the Investec group's 2007 Annual Report

Credit risk management

Credit risk represents the potential loss to the group as a result of:
- A counterparty being unable or unwilling to meet its obligations.
- A deterioration in the credit quality of third parties to whom we are exposed.

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 loans and advances 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 us effecting required settlements as they fall due but not receiving settlements to which we are entitled. Continuous linked settlement and exchange settlement 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.

Credit risk in the UK and Europe

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

Credit risk arises mainly through our Private Banking and Capital Markets activities, which include inter-bank placements and asset 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 (London and Manchester), Ireland, the Channel Islands and Switzerland. Credit risk arises from the following activities which we undertake in the division: structured property finance, private client lending, specialised lending, growth and acquisition finance, and asset based lending on receivables and stock.

The Structured Property Finance 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 property assets 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 valuation firms. Committees review and monitor our mezzanine and equity property funding exposure on a quarterly basis.

Growth and Acquisition Finance provides mezzanine or composite debt funding to successful entrepreneurs, management teams, private equity houses and UK based mid-market companies that are implementing acquisition and organic growth strategies. 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.

Asset Based Lending provides working capital and business loans secured on collateral or assets used in the conduct of the business, for example, account receivables, inventory, plant and machinery, and property. We also provide advances against cash flow or other assets such as committed income or rights. Lending includes variable funding on variable assets and term loans on fixed assets.

Specialised Lending provides bespoke credit facilities and hedging options 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. We also provide funding secured on sports and media related cash flows, including intellectual property rights and sponsorship transactions where certainty of serviceability, client quality and expertise are key considerations.

Private Client Lending provides bespoke mortgages and secured lending to high net worth and high income individuals. Loan sizes range between £0.5 million and £10 million with long-term durations. Credit risk is assessed against robust debt servicing cover ratios. Lending is underpinned by good quality assets, including residential and commercial property, bank guarantees, discretionary investment portfolios and cash deposits. In determining serviceability, we also consider the liquidity of the client, including cash reserves and liquid asset holdings. Funding is characterised by long-term annuity income and a historically low probability of default. Property assets are located predominantly in the UK, with limited exposure to prime residential areas in France and Spain. All facilities are reviewed at least annually and property values are monitored by our appointed panel valuation firms.

Capital Markets

The bulk of Capital Markets activities are conducted from London.

As part of the daily management of liquidity, the treasury function places funds with banks and other financial institutions. These professional counterparties are highly rated with credit risk of a systemic nature.

Our trading book consists of positions in interest rates, foreign exchange, commodities and equities. Credit risk arises from standard trading risks such as settlement, counterparty and replacement risk. We maintain a thorough risk process that reviews and monitors all potential credit risks inherent in customer trading facilities. These positions are marked to market daily with margin calls where necessary to mitigate credit exposure in the event of counterparty default.

Within the Structured Finance business, credit risk can arise from structured finance, project and resource financing, asset finance, acquisition finance and corporate lending activities. There are approved limits specifying the maximum exposure to each individual counterparty, to ensure there is no concentration risk. Facilities are secured on the assets of the underlying corporate. The credit appetite for each counterparty is based on the financial strength of the principal borrower, underlying security and cash flow.

While most of the activities of our Capital Markets division are concentrated in Europe, any exposure to counterparties outside this jurisdiction is mitigated through a stringent country risk approval and monitoring process, and covered by political risk insurance where deemed appropriate.

Our Principal Finance (securitisation) area has a "non-conforming" mortgage origination platform. Assets are gathered from intermediaries and administered externally. These assets are well spread and are warehoused on a short-term basis and securitised periodically. The group also securitises assets that it has originated in its Asset Finance business.

Investment Banking

Credit exposures arise from trading activities with market counterparties. These are all on a delivery versus payment basis, through major share exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any mark to market losses on the underlying security.

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 transacting with 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 2007	31 March 2006
Total loans and advances to customers (gross of impairments)*	4 595	3 557
Specific impairments	16	9
Portfolio impairments	2	1
Total impairments	**18**	**10**
Gross default loans	51	20
Sub-standard	13	1
Doubtful	1	-
Loss	37	19
Less: security	34	11
Net default loans (pre impairments held against these loans)	**17**	**9**
Adequacy of impairments		
Specific impairments as a % of loans and advances to customers	0.35%	0.25%
Portfolio impairments as a % of net loans and advances to customers	0.04%	0.03%
Total impairments as a % of loans and advances to customers	0.39%	0.28%
Total impairments as a % gross default loans	35.29%	50.00%
Total impairments as a % of net default loans	105.88%	111.11%
Specific impairments as a % of gross default loans	31.37%	45.00%
Specific impairments as a % of net default loans	94.12%	100.00%
Gross default loans as a % of loans and advances to customers	1.11%	0.56%

* Excludes intergroup loans.

Asset quality by geography

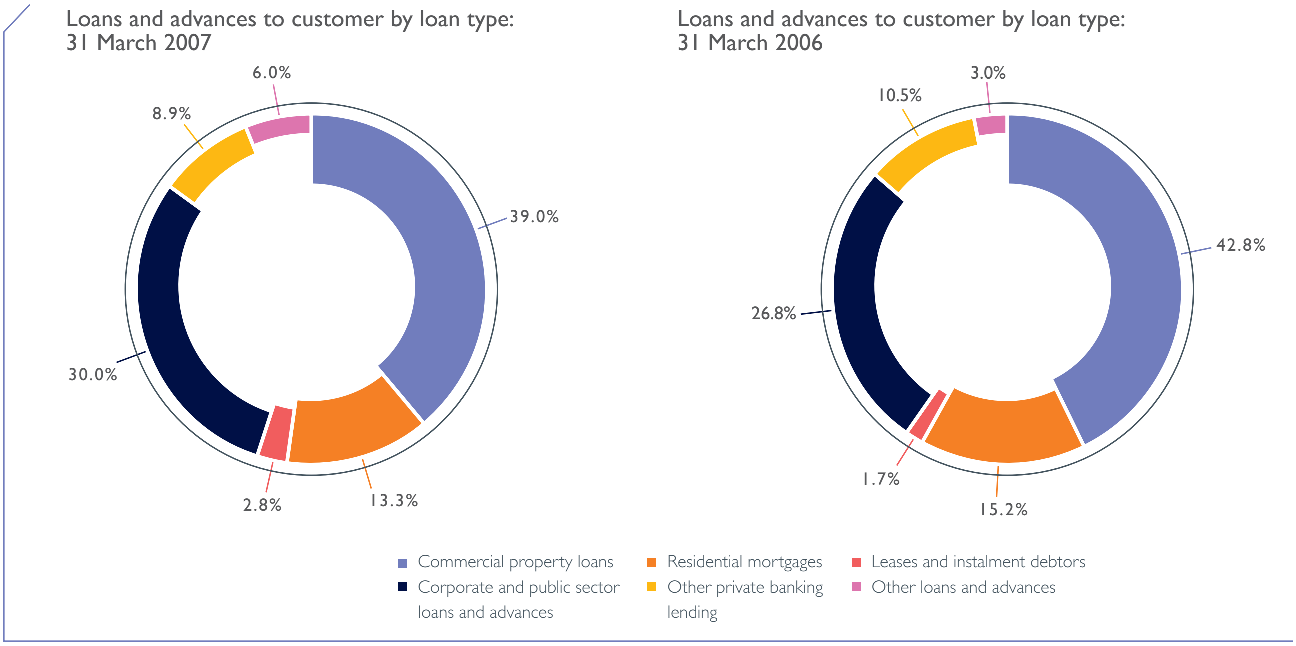
£'million	Loans and advances	Portfolio impair-ments	Specific impair-ments	Total impair-ments	Gross default loans	Security held against default loans	Net default loans
31 March 2007							
UK and Europe	3 922	2	7	9	34	26	8
Australia	673	-	9	9	17	8	9
Total group	**4 595**	**2**	**16**	**18**	**51**	**34**	**17**
31 March 2006							
UK and Europe	3 153	1	8	9	18	11	7
Australia	404	-	1	1	2	-	2
Total group	**3 557**	**1**	**9**	**10**	**20**	**11**	**9**

Note:
As part of our Basel process we have revisited the definitions applied in terms of our asset quality information and refined these across divisions and geographies. There have been some minor changes as a result, and the 2006 information as depicted above has been restated accordingly.

Loans and advances to customers by loan type

At 31 March £'million	2007	2006
Category analysis*		
Commercial property loans	1 791	1 524
Residential mortgages	613	541
Leases and instalment debtors	130	59
Corporate and public sector loans and advances	1 378	954
Other private bank lending	408	372
Other loans and advances	275	107
	4 595	**3 557**
Specific impairment	(16)	(9)
Portfolio impairment	(2)	(1)
	4 577	**3 547**

* Excludes intergroup loans



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 24.4% to £3.9 billion, driven largely by solid growth in our Structured Property Lending and Acquisition Finance businesses.

We have seen sustained growth in the UK housing market, driven by the shortage of housing and net immigration. These trends are expected to be maintained or stabilise in 2007, where growth in the UK property market is estimated at 6%, led by continued price rises in prime southern locations. The marginal increases in UK interest rates, against a backdrop of anticipated house price correction, has had a minimal effect on our core client base of high net worth and market professional individuals who can afford rate rises and have significant equity at risk.

The European residential market has seen moderate growth, driven by solid market fundamentals, further yield compression and ongoing development in Eastern Europe. Growth is expected to continue in 2007, with estimated price increases in some parts of Central Europe of up to 20%.

Continued demand from the emerging markets and strong supply/demand fundamentals from investors and speculators has led to record gains of up to 43% in commodities prices. This has resulted in the increased viability and profitability of marginal producers and demand for resource financing alongside a further focus on price risk hedging for wholesale consumers.

The US sub-prime mortgage market experienced increased volatility and higher defaults as a result of an oversupply of property, higher interest rates and the quality of borrowers. Our exposure is limited to the extent of a small number of equity positions. Substantially, our warehouse risk on these transactions is underwritten predominantly by other financial institutions. Our exposure in this sector remains low.

The quality of the overall loan portfolio in the UK and Europe remains satisfactory with gross default loans as a percentage of total loans of 1.11%.

Australia

The loan portfolio increased by 66.6% to £0.7 billion, driven by growth across all business streams and the acquisition of NM Rothschild & Sons (Australia) Limited.

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 principal with clients or the market. Market risk, therefore, exists where we have taken on principal positions, resulting from proprietary trading, market making, arbitrage, underwriting and investments in the commodity, foreign exchange, equity, capital and money markets. The focus of these businesses is on supporting client activity. Our philosophy is that trading should be conducted largely to facilitate 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 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. We consider the impact for the 10 days after the event, not merely the instantaneous shock to the markets. The following scenarios are analysed: October 1987, Black Monday, 11 September 2001 and the December Rand crisis in 2001.

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.

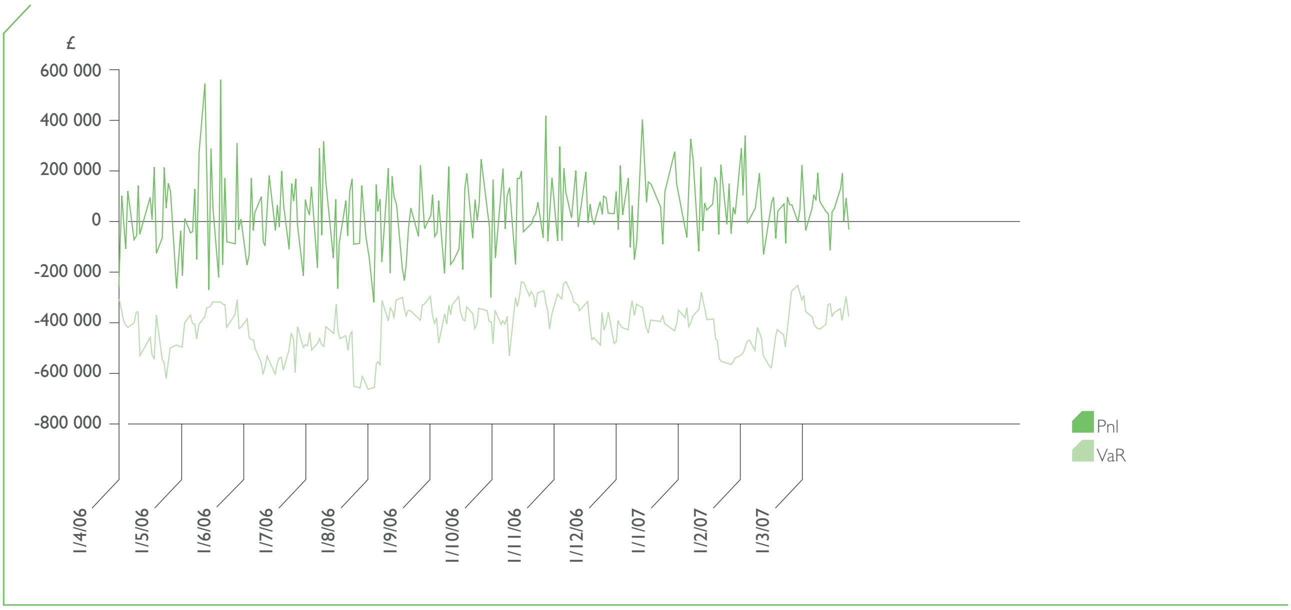
VaR 95% (one-day)

31 March £'000	2007	2006
Commodities	79	36
Equity derivatives	124	212
Foreign exchange	5	8
Interest rates	77	14
Consolidated*	**179**	**203**
High	539	820
Low	130	160
Average	238	373

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

The graph below shows total daily VaR and profit and loss figures for the trading activities of Investec Bank (UK) Limited and shows no exceptions for the past financial year. 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 these graphs, we can gauge the accuracy of the VaR figures.

Investec Bank (UK) Limited daily profit and losses (pnl) vs 99% VaR



ETL 95% (one-day)

31 March £'000	2007	2006
Commodities	126	46
Equity derivatives	158	268
Foreign exchange	6	10
Interest rates	150	23
Consolidated*	**248**	**29**

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

The portfolio stress tested under extreme conditions (15 standard deviations) will result in a loss of £2.2 million in Investec Bank (UK) Limited.

Stress testing

31 March £'000	2007	2006
Commodities	602	277
Equity derivatives	946	1 626
Foreign exchange	37	62
Interest rates	587	109
Consolidated	**2 172**	**2 074**

Market risk year in review

In the UK, all desks are currently at Capital Adequacy (CAD) I level and will be applying for CAD II later in the year.

In the UK, the business plan for the Equity Derivatives desk was re-evaluated. As a result, the quantum of risk on the desk decreased. A new Fixed Income Market Making desk was established and trades options and futures on short Sterling and Euribor. We obtained CAD I model approval for these new options. In Australia, the acquisition of the NM Rothschild & Sons (Australia) Limited business resulted in the introduction of commodity trading and hedging transactions in that jurisdiction. The market risk limits approved are modest and use is low.

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 description

Non-trading interest rate risk is the impact on net interest earnings and sensitivity to economic value, as a result of increases or decreases in interest rates arising from the execution of our core business strategies and the delivery of products and services to our customers.

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. We are also exposed to basis risk, which is the difference in repricing characteristics of two floating-rate indices.

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

UK and Europe - interest rate sensitivity gap

At 31 March 2007 £'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < 1 year	> 1 year but < 5 years	> 5 years	Non-rate	Total non-trading
Assets							
Cash and short-term funds (banks and non-banks)	651	15	-	-	-	4	670
Negotiable securities	1 124	213	444	24	3	10	1 818
Loans and advances to customers	3 198	390	68	194	87	-	3 937
All other assets	(602)	65	333	17	541	404	758
Total	**4 371**	**683**	**845**	**235**	**631**	**418**	**7 183**
Funding							
Deposits	(4 738)	(386)	(348)	(84)	(27)	-	(5 583)
All other liabilities	(82)	(20)	(3)	(223)	(339)	(933)	(1 600)
Total	**(4 820)**	**(406)**	**(351)**	**(307)**	**(366)**	**(933)**	**(7 183)**
Economic hedges	611	(1 048)	149	(75)	363	-	-
Interest rate repricing gap	**162**	**(771)**	**643**	**(147)**	**628**	**(515)**	**-**
Cumulative repricing gap	**162**	**(609)**	**34**	**(113)**	**515**	**-**	**-**

Australia - interest rate sensitivity gap

At 31 March 2007 A$'million	Not > 3 months	> 3 months but < 6 months	> 6 months but < 1 year	> 1 year but < 5 years	> 5 years	Non-rate	Total non-trading
Assets							
Cash and short-term funds (banks and non-banks)	1 033	65	48	15	-	-	1 161
Negotiable securities	-	-	-	39	8	-	47
Loans and advances to customers	1 362	51	26	144	26	3	1 612
All other assets	-	-	-	-	-	318	318
Total	**2 395**	**116**	**74**	**198**	**34**	**321**	**3 138**
Funding							
Deposits	(2 008)	(66)	(28)	(166)	(9)	(1)	(2 278)
All other liabilities	(79)	-	-	-	(22)	(759)	(860)
Total	**(2 087)**	**(66)**	**(28)**	**(166)**	**(31)**	**(760)**	**(3 138)**
Economic hedges	84	(6)	(7)	(55)	(16)	-	-
Interest rate repricing gap	**392**	**44**	**39**	**(23)**	**(13)**	**(439)**	**-**
Cumulative repricing gap	**392**	**436**	**475**	**452**	**439**	**-**	

Liquidity risk description

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.

The tables that follow show our liquidity mismatch, which represents our contractual cash obligations and commercial commitments.

UK and Europe - liquidity view

At 31 March 2007 £'000	Demand	Up to 1 month	1 - 3 months	3 - 6 months	6 months to 1 year	1 to 5 years	>5 years	Total
Assets								
Cash and balances at central banks	30 856	-	-	-	-	-	-	30 856
Loans and advances to banks	135 243	493 322	7 789	15 058	-	54 547	10 780	716 739
Cash equivalent advances to customers	55	23 155	-	-	-	-	-	23 210
Reverse repurchase agreements and cash collateral on securities borrowed	1 979 936	-	-	-	-	-	-	1 979 936
Trading securities	179 910	35 679	166 332	17 285	983	18 437	58 300	476 926
Derivative financial instruments	180 645	48 409	2 808	4 380	11 871	16 672	1 229	266 014
Investment securities	606	166 809	225 033	214 320	495 374	281 153	7 505	1 390 800
Loans and advances to customers	465 780	264 335	335 691	316 317	391 540	1 982 551	200 114	3 956 328
Interests in associated undertakings	-	-	-	-	-	-	10 394	10 394
Deferred taxation assets	-	-	-	-	2 498	14 288	2 869	19 655
Other assets	461 282	257 732	68 517	20 038	1 361	11 522	2 028	822 480
Property and equipment	-	-	-	-	-	-	118 756	118 756
Goodwill	-	-	-	-	-	-	47 924	47 924
Intangible assets	-	-	-	-	-	-	17 519	17 519
	3 434 313	**1 289 441**	**806 170**	**587 398**	**903 627**	**2 379 170**	**477 418**	**9 877 537**
Liabilities								
Deposits by banks	57 095	356 326	1 684	56 631	99 857	775 060	25 126	1 371 779
Derivative financial instruments	-	37 563	15 714	3 944	1 636	16 144	515	75 516
Other trading liabilities	-	41 646	54 606	-	-	-	-	96 252
Repurchase agreements and cash collateral on securities lent	1 598 128	-	-	-	-	-	-	1 598 128
Customer accounts	1 027 623	766 717	1 679 545	143 064	96 347	257 518	26 839	3 997 653
Debt securities in issue	-	43 952	105 212	90 231	347 580	12 853	-	599 828
Current taxation liabilities	991	-	-	38 398	3 616	4 089	-	47 094
Deferred taxation liabilities	-	-	-	-	396	1 033	7 111	8 540
Other liabilities	499 065	285 586	47 723	39 052	1 759	2 875	201	876 261
	3 182 902	1 531 790	1 904 484	371 320	551 191	1 069 572	59 792	8 671 051
Subordinated liabilities (including convertible debt)	-	-	-	-	-	257 386	304 192	561 578
	3 182 902	**1 531 790**	**1 904 484**	**371 320**	**551 191**	**1 326 958**	**363 984**	**9 232 629**
Liquidity gap	**251 411**	**(242 349)**	**(1 098 314)**	**216 078**	**352 436**	**1 052 212**	**113 434**	**644 908**
Cumulative liquidity gap	**251 411**	**9 062**	**(1 089 252)**	**(873 174)**	**(520 738)**	**531 474**	**644 908**	**-**

Australia - liquidity view

At 31 March 2007 A$'000	Demand	Up to 1 month	1 - 3 months	3 - 6 months	6 months to 1 year	1 to 5 years	>5 years	Total
Assets								
Cash and balances at central banks	-	29 017	-	-	-	-	-	29 017
Loans and advances to banks	-	91 510	46 301	28 862	-	12 581	-	179 254
Trading securities	6 192	-	-	23 113	82 353	52 481	-	164 139
Derivative financial instruments	-	13 446	14 385	12 869	42 131	79 210	-	162 041
Investment securities	140 436	179 490	375 504	65 193	37 470	65 445	-	863 538
Loans and advances to customers	120 006	45 884	238 491	143 598	284 003	629 742	146 454	1 608 178
Deferred taxation assets	-	-	-	-	-	-	13 286	13 286
Other assets	-	-	-	18 034	-	-	-	18 034
Interests in associated undertakings	-	-	-	-	-	-	41 586	41 586
Property and equipment	-	-	-	-	-	-	5 221	5 221
Goodwill	-	-	-	-	-	-	49 133	49 133
Intangible assets	-	-	-	-	-	-	538	538
Investment in subsidiary companies							1	1
Total	266 634	359 347	674 681	291 669	445 957	839 459	256 218	3 133 965
Funding								
Derivative financial instruments	-	7 818	8 364	7 483	24 497	46 056	-	94 218
Customer accounts	493 369	350 353	98 684	16 300	17 826	116 695	-	1 093 227
Debt securities in issue	5 235	149 165	53 827	156 338	477 478	315 673	-	1 157 716
Current taxation liabilities	-	-	-	11 552	-	-	-	11 552
Other liabilities	39	-	-	55 602	-	-	-	55 641
	498 643	507 336	160 875	247 275	519 801	478 424	-	2 412 354
Subordinated liabilities (including convertible debt)	-	-	-	-	-	-	100 512	100 512
Total	498 643	507 336	160 875	247 275	519 801	478 424	100 512	2 512 866
Liquidity gap	(232 009)	(147 989)	513 806	44 394	(73 844)	361 035	155 706	621 099
Cumulative liquidity gap	(232 009)	(379 998)	133 808	178 202	104 358	465 393	621 099	-

Balance sheet risk year in review

Investec Bank (UK) Limited successfully embarked on several term debt funding initiatives. This allowed us to 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. Key initiatives included the following:

- Investec Bank (UK) Limited launched three Schuldschein transactions in November 2006, raising €370 million three-year money at a spread of 25 basis points over three-month Euribor. The 280 million transaction was a record in terms of size for the Schuldschein market. The deal attracted 16 banks, most of which had not previously participated in any of our other funding transactions. The proceeds of the issues will be used to fund longer dated assets on Investec Bank (UK) Limited's balance sheet, freeing up inter-bank capacity to fund shorter dated assets.
- Investec Bank (UK) Limited implemented a successful Upper Tier II capital raising exercise in January 2007, raising £350 million 10-year capital at swaps plus121 basis points all-in. The order book reached £1.9 billion and we had 12 orders of £50 million or more.
- Investec Bank (UK) Limited's Central Treasury implemented tri-party repo agreements which enabled us to liquify our FRN holdings as required and thereby facilitate our ability to fund the Dublin branch up to €1.5 billion over short periods.
- Investec Bank Australia Limited acquired and integrated the banking business of NM Rothschild & Sons (Australia) Limited (Rothschild's) in July 2006. This acquisition included gaining access to more than A$1.6 billion of funding and over A$1 billion of liquid and treasury trading assets. We also integrated the former Rothschild's Debt Issuance Programme infrastructure and confirmed relationships with a wide range of new funding counterparties. In addition to our Moody's rating, we undertook and gained an investment grade rating from Fitch Ratings. Going forward, we expect to refresh our Debt Issuance Programme and undertake an inaugural domestic bond issue to raise medium-term funding and continue to develop Investec Bank (Australia) Limited's profile in the domestic and regional debt markets, while building new and deepening existent wholesale funding relationships.

Operational risk management

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

We recognise operational risk as a significant risk category, and strive to manage this within acceptable levels through the promotion of sound operational risk management practices.

Operational risk year in review

Operational risk exposure continued to be addressed and reported.

During the year, we continued to embed our operational risk practices across the group. Our strategy provides for continuous development to ensure that our framework and practices are appropriate and adequate for our business, and in line with regulatory requirements. In addition, we continue to develop and enhance our policies, practices and processes in line with leading practice. Industry developments are monitored through active participation in industry forums.

A number of engagements with regulators took place during the year as part of our Basel II programme. The Standardised Approach application requirements in the jurisdictions are being met. An internal assessment of our operational risk practices has been undertaken to evaluate compliance with Basel II requirements, and we are of the view that we are substantially meeting these requirements.

During the year, the processes around the gathering of internal data were refined. Risks above our threshold were reported to the Investec plc Board Risk Review Committee and are being appropriately treated.

Certain key risk indicators are tracked and continue to be an area of focus.

Business continuity risk was a focus for regulators during the year. Participation in regulatory initiatives confirmed that our business continuity practices are appropriate and adequate. Certain minor incidents were effectively responded to without disruption to the business, but highlighted the need for ongoing attention to operations resilience and partial disruption recoverability. The management of this risk remains a focus.

Information security training was rolled out to all staff to increase the awareness of information security risk.

Financial crime remains a concern. During the year, various internal and external incidents were identified and responded to, in order to minimise losses and recover assets or to report suspicious transactions to the authorities.

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.

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. Strategically, we focus on ensuring that we only enter 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, risk management and capital-based incentive compensation into one integrated framework.

The board of directors are ultimately responsible for capital management. At the highest level, the board has delegated direct responsibility for capital management to the DLC Capital Committee to oversee the components contributing to effective control and use of capital.

Capital adequacy

Investec Bank (UK) Limited (IBUK) is the main banking subsidiary of Investec plc. Investec Bank (Australia) Limited (IBAL) is a subsidiary of IBUK.

Investec plc is well capitalised and capital adequacy ratios exceed the minimum regulatory requirements.

The group aims to maintain a capital adequacy ratio on a consolidated basis for Investec plc of 13-16%, and targets a Tier 1 ratio of 10%.

	IBAL A$'million	IBUK £'million	Investec plc £'million
31 March 2007			
Net qualifying capital	568	1 284	1 357
Risk-weighted assets	2 383	5 314	5 485
Capital adequacy ratio	23.8%	24.2%	24.7%
Tier 1 ratio	19.0%	13.2%	14.8%
31 March 2006			
Net qualifying capital	269	725	762
Risk-weighted assets	1422	3 815	4 312
Capital adequacy ratio	18.9%	19.0%	17.7%
Tier 1 ratio	18.0%	14.4%	11.6%

The above ratios are determined under Financial Services Authority requirements in respect of IBUK (consolidated) and Investec plc (consolidated).

Basel II

We intend to implement the Basel II Standardised approaches for credit and operational risk across our divisions and geographies from January 2008, moving to the Advanced approaches over time. For market risk in the trading book, we currently adopt a combination of the EU CAD I model approach and internal value-at-risk models and we intend to move to the latter across all jurisdictions in the near future. The Basel II implementation is taking account of 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.

While the adoption of the Basel II framework may have a significant impact on the capital management process, the process will allow greater flexibility for us to manage our capital requirements through a better understanding of risk and reward. From a philosophical standpoint however, the use of risk to manage the business will not change. The reason is that the acute sensitivity of transactions to capital use is already embedded in our deal/credit approval and performance measurement ethos (as detailed above).

The underlying process for determining capital adequacy relative to our chosen risk profile will remain essentially the same. However, under Basel II, the basis for quantification of required capital will become more sophisticated.

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 capital adequacy. Strategic plans outline our capital needs, anticipated capital expenditure, target capital level and structure 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.

The adoption of Pillar II through our internal capital model allows us to manage risk more effectively and to target performance accurately on the basis of risk. This will enable an extension to the current internal capital model by allowing for a greater understanding of the sources of all risk capital at a transactional level.

Internal Audit

Internal Audit provides objective and independent assurance to the board that management processes are adequate for identifying the significant risks to which we are exposed 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 2007 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 behaviour, which builds trust.

Further details on the compliance function can be found in the Investec group's 2007 Annual Report.

UK and Europe - year in review

Regulatory activity in the UK and Europe during the year focused on the implementation of various European directives and initiatives of the UK's Financial Services Authority (FSA). These included:

- More principles based regulation.
- Markets in Financial Instruments Directive (MiFID).
- Treating Customers Fairly (TCF).
- Capital Requirements Directive.

More principles based regulation

We have been monitoring the FSA's Better Regulation Action Plan, which aims to improve future regulation in the UK. This plan is underpinned by the FSA's objective to become a more principles based regulator by moving the balance of financial services regulation towards high-level principles rather than detailed rules and guidance. Our Compliance function is closely involved with the development of more principles based regulation. The business has dealt effectively with practical issues arising out of the principles based initiatives to date. These include TCF, the deletion of the money laundering sourcebook in favour of high level principles, and proposals to delete the training and competence sourcebook.

MiFID

During 2006, we began implementing MiFID. We engaged external consultants to conduct an impact analysis of the implementation of MiFID on our businesses. The impact analysis formed the basis for scoping our implementation project. As part of the project governance, we established an implementation steering committee, comprising senior executives and a working group. Implementation is progressing in line with expectations ahead of the 1 November 2007 UK implementation date. MiFID includes more detailed requirements on the effective identification and management of conflicts of interest than the current regime. We are finalising work on a wide-ranging conflicts of interest project to address MiFID requirements and ensure we remain at the forefront of good practice.

TCF

In line with the FSA's expectations for 2006, we continued to embed TCF throughout the life cycle of transactions and into our business. The TCF agenda is closely aligned to our core values to treat people fairly and act with integrity. We have benchmarked our progress on TCF and we continue to meet good practice standards.

We also continue to develop the capabilities of the London based control room and transaction monitoring functions. This area is particularly dependent on effective use of information technology. It has focused on systems developments to enhance our ability to identify conflicts of interest and aggregate and disclose holdings and dealings information for regulatory purposes and monitoring of trading behaviour. The Compliance monitoring function developed and enhanced its approach to risk based monitoring. A significant number of business specific and thematic reviews were completed.

The Irish branch applied significant resources to implementing a new Consumer Protection Code. This introduced a broader definition of "consumer" and significantly changed the regulatory landscape for the provision of financial services to consumers in Ireland.

Australia - year in review

During the past year, the Australian regulatory environment underwent continued 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 and a new standard on governance for banks.

Anti-money laundering

With the enactment of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 in December 2006 and the publication of various anti-money laundering rules, businesses affected by the new laws (including ourselves) can start planning for compliance. The Act will be implemented in stages with commencement dates of obligations ranging from immediately to 24 months. These obligations include customer identification and verification, record keeping, establishing and maintaining an Anti-Money Laundering and Counter-Terrorism Financing programme, and ongoing customer due diligence and reporting (suspicious matters, threshold transactions and international funds transfer instructions).

Australian Prudential Regulatory Authority (APRA)

The APRA has finalised certain standards requiring us to implement and update various internal processes. For instance, the APRA Fit and Proper standard, which was finalised in 2006, seeks to ensure that responsible persons have the appropriate skills, experience and knowledge for their role and act with honesty and integrity. This strengthens the protection given to depositors and stakeholders. We conducted fit and proper assessments of each "responsible person" and have notified APRA of the details of each nominated "responsible person".

Financial services reform

Reforms of the Australian regulatory environment have been aimed at streamlining the regulatory process, while maintaining the highest standards of market integrity and consumer protection. Reforms introduced in the Financial Services Reform Act (FSRA) in March 2002 (which became effective 11 March 2004) were intended to reduce compliance costs, while facilitating the entry of new market participants and the introduction of new services and products. However, in March 2007, the Australian government, recognising that there was still room for improvement, published the Corporate and Financial Services Regulation Review: Draft Corporations Amendment Regulations and Commentary (Draft Regulations). The Draft Regulations are part of the government's progress towards a simpler regulatory system arising out of the Corporate and Financial Services Regulation Review, which started in April 2006. The Draft Regulations are a significant step towards reducing the regulatory burden on business and helping to make the system more user-friendly for consumers. However, there are still a number of issues in relation to these proposed regulations which require fine-tuning and, in a few instances, reassessment of whether some of the underlying objectives of the review process are being achieved.

Licensing

Various Investec Australian Financial Services Licences have been amended to reflect recent changes in our activities as well as the addition of the acquired NM Rothschild & Sons (Australia) Limited businesses.

Group processes implemented to address conflicts of interest

It has become increasingly important to ensure that actual or potential conflicts of interest are managed appropriately. A project has been initiated across the group to identify areas where conflicts of interest may arise and to ensure that appropriate processes are implemented to either avoid or manage these. To facilitate this process, a conflicts of interest control room is being established to manage conflicts of interest within the group.

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 and Investec Bank (Australia) Limited. Certain rating agencies have assigned ratings to the bank's holding company, namely, Investec plc.

Ratings for Investec plc

Moody's

Short-term deposit rating	Prime-2
Long-term deposit rating	Baa1

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

Fitch

Individual rating	B/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	A3

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

Moody's

Financial strength rating	C-
Short-term deposit rating	Prime-1
Long-term deposit rating	A3

Fitch

Individual rating	C
Support rating	2
Foreign currency short-term rating	F3
Foreign currency long-term rating	BBB

Corporate governance

Introduction

This section provides a summary of our corporate governance philosophy and practices. A more detailed review is provided in the Investec group's 2007 Annual Report.

Our values and philosophies are the framework against which we measure behaviour, practices and activities, to assess the characteristics of good governance. Our values require directors and employees to behave with integrity, consistently and uncompromisingly displaying moral strength and conduct 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 these structures, and a written Statement of Values, which serves as our Code of Ethics.

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

Board statement

The board of Investec plc is of the opinion that Investec plc complied with the Principles of Good Governance and Code of Best Practice contained in section 1 of the London Combined Code (2006), during the period under review, except as outlined below.

London Combined Code A.3.1. - Independence of the Chairman
Since 2005, the Chairman of the board is not considered to be independent but continues to enhance his status as a non-executive director.

This opinion of the board is based on the practices below, which were in operation during the period under review.

Financial reporting and going concern

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

Our financial statements were prepared on the going concern basis.

The board is of the opinion, based on its knowledge of the group, key processes in operation and specific enquiries, that there are adequate resources to support the group 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 34.

The board is accountable for the performance and affairs of Investec Bank (UK) Limited, it is responsible for the adoption of strategic plans, monitoring of operational performance and management, ensuring an effective risk management strategy and our compliance with applicable legislation.

The board meets its objectives by 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 them.

The board has defined the limits of delegated authority. It is 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, which is required to implement the plans and strategies approved by the board. The board monitors management's progress on an ongoing basis.

Board committees

The board is supported by a number of 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 the 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.

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 and monitored regularly for relevance and effectiveness. The Investec plc Board Risk Review Committee and Audit Committee assist the board in this regard. 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 we face 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 group 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 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 identified, and controls and mitigants 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, including review by the Audit and Compliance Implementation Forums, ensure that timely corrective actions are taken on matters raised by Internal Audit. Significant risks are reviewed weekly by the Executive Risk Review Forum and monthly by the 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 Committee, Board Risk Review Committee and Risk and Control functions are reviewed at each board meeting.

Internal financial controls

Internal financial controls are based on established policies and procedures. Management is responsible for implementing internal financial controls, ensuring that personnel are suitably qualified and that an appropriate segregation exists between duties and independent review. These areas are monitored by the board through the Audit Committee, reviewed by Group Risk Management and independently assessed by Internal Audit and Compliance.

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 each year.

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

The external auditors attend Audit Committee meetings and have access to the Chairman of each Audit Committee. Recommendations on the rotation of auditors, as laid out in the UK Auditing Practices Board Ethical Standard 3, were adhered to during the period under review.

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 (FSA) and the Australian Prudential Regulatory Authority (APRA).

Communication, public disclosure obligations 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, which are defined below. 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.

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.

We view all employees as the custodians of ethical behaviour, which is reinforced through internal processes, policies and procedures. As such, all new employees are invited and strongly encouraged to attend an induction process at which our philosophies, values, culture, risk management and compliance procedures are explained and discussed.

Our Organisation Development team plays an important role in facilitating the understanding and ongoing practice of our values, philosophies and culture. In addition to our values, acceptable business practices are communicated through the Human Resources practices manual, which is available on our intranet.

We continually strive to conduct our business with uncompromising integrity and fairness, so as to promote trust and confidence in the banking industry.

Sustainable business practices

We have an acute awareness of the need for longevity and durability, across all our businesses, and an ingrained understanding of the practices that underpin sustainability. Further detail can be found on our website at www.investec.com/grouplinks/obr

Directorate

Hugh S Herman (66)
BA LLB LLD (hc)
Non-Executive Chairman

Bradley Fried (41)
BCom CA(SA) MBA
Chief Executive Officer

George F O Alford (58)
BSc (Econ) FCIS FIPD MSI

Bernard Kantor (57)
CTA

Ian R Kantor (60)
BSc(Eng) MBA

Sir Chips Keswick (67)

Stephen Koseff (55)
BCom CA(SA) H Dip BDP MBA

Alan Tapnack (60)
BCom CA(SA)

David M van der Walt (42)
BCom (Hons) CA (SA)

Ian R Wohlman (52)
ACIB

Remuneration report

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' remuneration 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.
    - The committee also reviews on an individual basis data on other international banks with whom we compete.
    - The committee recognises that we operate an international business and compete with both local and international competitors in each of our markets.
    - 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. Only salaries are pensionable, the annual bonuses paid are not pensionable.

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 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 positioned at the upper quartile level for superior performance, in line with our overriding remuneration policy.

Executive remuneration structure – assessing the balance between fixed and variable remuneration
As explained in the prior year's report, the committee undertook a thorough assessment of the executive remuneration structure, which resulted in the removal of the annual bonus limit. This practice was maintained during the 2007 financial year.

The following points are worth noting in this regard:
- The committee remains reluctant to significantly increase the fixed component of the executives' remuneration package, due to a desire to maintain a low level of fixed costs and to ensure that fixed cost increases for executives remain in line with other employees across the group.
- In conjunction with this view, and based on the committee's belief of delivering a significant proportion of rewards linked to the performance of the business, the objective of upper quartile levels of total compensation for superior performance will still be achieved through higher performance linked variable pay.
- The committee thus still 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 2007 financial year have been determined in accordance with this philosophy. Our policy remains to target at median salaries and upper quartile for total compensation in order to limit the increase in fixed costs.

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.

Leveraged equity plans

A group of senior and executive managers, including certain Investec plc directors, who have or can have a significant impact on the business, were granted participation (prior to the implementation of the DLC structure) in a leveraged equity plan, known as Fintique II, which was established in 1996. Further details on Fintique II are provided in tables accompanying this report and on our website.

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 at certain 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' interest

According to the register of directors' interests, no director holding office at 31 March 2007 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

Name	Beneficial and non-beneficial interest Investec plc[2]		% of shares in issue[1] Investec plc	Beneficial and non-beneficial interest Investec Limited[3]		% of shares in issue[1] Investec Limited
	1 April[4] 2006	31 March 2007	31 March 2007	1 April[4] 2006	31 March 2007	31 March 2007
Executive directors						
S Koseff	5 287 865	4 845 383	1.3%	928 180	420 265	0.2%
B Kantor[5]	1 500	1 500	-	8 330 220	6 336 200	2.8%
B Fried	-	-	-	947 530	500 000	0.2%
A Tapnack	-	-	-	185 105	185 105	0.1%
DM van der Walt	-	-	-	949 240	690 140	0.3%
IR Wohlman	-	-	-	315 840	164 045	0.1%
Total number	**5 289 365**	**4 846 883**	**1.3%**	**11 656 115**	**8 295 755**	**3.7%**
Non-executive directors						
HS Herman	1 541 505	1 369 915	0.4%	44 525	44 525	-
GFO Alford	-	-	-	-	- -	
IR Kantor	1 583 555	1 380 066	0.4%	2 250	2 126 536	0.9%
Sir C Keswick	15 750	15 750	-	9 250	9 250	-
Total number	**3 140 810**	**2 765 731**	**0.8%**	**56 025**	**2 180 311**	**0.9%**
Total number	**8 430 175**	**7 612 614**	**2.1%**	**11 712 140**	**10 476 066**	**4.6%**

Notes:

1. The total number of Investec plc and Investec Limited shares in issue as at 31 March 2007 was 381.6 million and 227.7 million, respectively.
2. The market price of an Investec plc share as at 31 March 2007 was £6.58 (2006: £5.88), ranging from a low of £4.95 to a high of £6.76 during the financial year.
3. The market price of an Investec Limited share as at 31 March 2007 was R93.30 (2006: R62.60), ranging from a low of R59.06 to a high of R94.60 during the financial year.
4. On 4 September 2006 the group implemented a 5:1 share split of Investec plc and Investec Limited shares. The information as at 1 April 2006 has been restated accordingly.
5. B Kantor sold 1 250 000 call options at strike price of R84.00 per option expiring on 21 August 2007.
   B Kantor purchased 500 000 put options at a strike price of R84.00 per option expiring on 21 August 2007.
   B Kantor sold 500 000 call options at strike price of R94.00 per option expiring on 21 August 2007.
   B Kantor purchased 750 000 put options at a strike price of R82.00 per option expiring on 15 August 2007.

Directors' interest in preference shares

Name	Investec Bank Limited 1 April 2006	Investec Bank Limited 31 March 2007	Investec plc 1 April 2006	Investec plc 31 March 2007
Executive directors				
S Koseff [1]			-	21 379
Non-executive directors				
HS Herman	1 135	1 135		

Notes:

- The market price of an Investec plc preference share as at 31 March 2007 was R124.99 (2006: n/a, only issued in August 2006).
- The market price of an Investec Bank Limited preference share as at 31 March 2007 was R103.10 (2006: R123.01).

1 S Koseff acquired an interest in the preference shares of Investec Bank Limited on 13 August 2003 at a price of R100.00.

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

Name	Entitlement to Investec plc shares 1 April 2006[2]	Entitlement to Investec plc shares 31 March 2007	Entitlement to Investec Limited shares 1 April 2006[2]	Entitlement to Investec Limited shares 31 March 2007	Settlement period	Total entitlement (i.e. Investec plc and Investec Limited shares) -% interest in scheme 31 March 2007
Executive directors						
S Koseff	918 420	918 420	539 395	539 395	1 April 2007 to 31 July 2008	8.2%
B Kantor	-	-	221 500	221 500	1 April 2007 to 31 July 2008	1.2%
A Tapnack	-	-	168 340	168 340	1 April 2007 to 31 July 2008	0.9%
Non-executive directors						
HS Herman	451 045	451 045	264 900	264 900	1 April 2007 to 31 July 2008	4.0%
IR Kantor [1]	251 180	-	147 520	-	1 April 2007 to 31 July 2008	-
Total number	**1 620 645**	**1 369 465**	**1 341 655**	**1 194 135**		**14.3%**

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 4 430 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 17.8 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 R8.33 per share, based on the valuation of the scheme as at 31 March 2007 .The market price of an Investec plc share and an Investec Limited share as at 31 March 2007 was £6.58 and R93.30, 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. In terms of the scheme I Kantor disposed of his entitlements in respect of 25 684 Investec plc shares at a market price of R87.30, and 15 085 Investec Limited shares at market price of R86.01, on 15 March 2007. The remaining entitlements in respect of 225 496 Investec plc shares and 132 435 Investec Limited shares are now disclosed as part of his shareholdings as reflected on page 38.
2. On 4 September 2006 the group implemented a 5:1 share split of Investec plc and Investec Limited shares. The information as at 1 April 2006 has been restated accordingly.

Directors' interest in options as at 31 March 2007

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2006[2]	Exercised during the year[1]	Lapsed during the year	Balance at 31 March 2007	Market price at date of exercise[1]	Gross gains made on date of exercise[1]	Period exercisable
Executive directors									
S Koseff	20 Dec 2002	R22.39	82 500	41 250	-	41 250	R89.80	R2 780 663	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2008
B Kantor	20 Dec 2002	£1.59	130 675	57 770	-	72 905	£6.24	£268 631	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2012
B Fried	20 June 2002	£2.10	149 630	74 810	-	74 820	£5.44	£249 865	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2012
	20 Dec 2002	£1.59	99 635	42 255	-	57 380	£6.46	£2 205 782	
A Tapnack	20 June 2002	£2.10	118 130	59 060	-	59 070	£5.03	£173 046	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2012
	20 Dec 2002	£1.59	130 675	57 770	-	72 905	£6.68	£294 049	
DM van der Walt	20 June 2002	£2.10	157 500	78 750	-	78 750	£5.05	£232 313	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2012
	20 Dec 2002	£1.59	91 385	38 130	-	53 255	£6.57	£189 887	
IR Wohlman	20 June 2002	£2.10	31 500	15 750	-	15 750	£5.27	£49 928	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2012
	1 Dec 1999	£3.15	3 780	-	-	3 780	-	-	
	20 Dec 2000	£1.59	25 385	5 130	-	20 255	£6.26	£23 957	
	3 Dec 2003	£2.12	18 750	6 250	-	12 500	£6.25	£25 813	

Directors' interest in options as at 31 March 2007 (continued)

Investec Limited shares

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2006[2]	Exercised during the year[1]	Options granted/ lapsed during the year	Balance at 31 March 2007	Market price at date of exercise[1]	Gross gains made on date of exercise[1]	Period exercisable
Executive directors									
S Koseff	20 Dec 2002	R22.26	42 500	21 250	-	21 250	R87.75	R1 391 663	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2008
B Fried	20 June 2002	R32.90	87 870	43 940	-	43 930	R71.60	R1 700 478	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2008
	20 Dec 2002	R22.26	43 530	21 770	-	21 760	R86.25	R1 393 062	
A Tapnack	20 June 2002	R32.90	69 370	34 690	-	34 680	R66.00	R1 148 239	Vesting scale in terms of the scheme rules. Vesting ends 20 Sept 2007
DM van der Walt	20 June 2002	R32.90	92 500	46 250	-	46 250	R65.20	R1 493 875	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2008
	20 Dec 2002	R22.26	39 290	19 640	-	19 650	R92.00	R1 369 694	
IR Wohlman	20 June 2002	R32.90	18 500	9 250	-	9 250	R64.60	R293 225	Vesting scale in terms of the scheme rules. Vesting ends 20 Mar 2008
	1 Dec 1999	R49.20	2 220	-	-	2 220	-	-	
	20 Dec 2000	R22.26	5 290	2 640	-	2 650	R83.09	R160 591	

Notes:

No new grants were made to executive directors during the financial year. The market price of an Investec plc share as at 31 March 2007 was £6.58 (2006: £5.88), ranging from a low of £4.95 to a high of £6.76 during the financial year. A total of 381.6 million Investec plc shares were in issue as at 31 March 2007. The market price of an Investec Limited share as at 31 March 2007 was R93.30 (2006: R62.60), ranging from a low of R59.06 to a high of R94.60 during the financial year. A total of 227.7 million Investec Limited shares were in issue as at 31 March 2007.

1. Details with respect to options exercised:

- S Koseff exercised his options and sold 41 250 Investec plc shares and 21 250 Investec Limited shares on 27 December 2006, when the share price was R89.80 and R87.75 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 57 770 Investec plc shares on 20 December 2006, when the share price was £6.24 per Investec plc share. The performance conditions with respect to these options were met.
- B Fried exercised his options and sold 43 940 Investec Limited shares and 74 810 Investec plc shares on 4 September 2006 when the share price was R71.60 and £5.44 per share, respectively. Furthermore, B Fried exercised his options and sold 21 770 Investec Limited shares and 42 255 Investec plc shares on 20 December 2006 when the share price was R86.25 and £6.46 per share, respectively. The performance conditions with respect to these options were met.
- A Tapnack exercised his options and sold 34 690 Investec Limited shares on 14 September 2006, when the share price was R66.00 per Investec Limited share. The performance conditions with respect to these options were met. On 18 September 2006 A Tapnack exercised his options and sold 59 060 Investec plc shares when the share price was £5.03 per Investec plc share. The performance conditions with respect to these options were met. Furthermore, A Tapnack exercised his options and sold 57 770 Investec plc shares on 3 January 2007, when the share price was £6.68 per Investec plc share. The performance conditions with respect to these options were met.

- DM van der Walt exercised his options and sold 46 250 Investec Limited shares and 78 750 Investec plc shares on 15 September 2006 when the share price was R65.20 and £5.05 per share, respectively. Furthermore, DM van der Walt exercised his options and sold 19 640 Investec Limited shares and 38 130 Investec plc shares on 18 January 2007 when the share price was R92.00 and £6.57 per share, respectively. The performance conditions in respect to these options were met.
- IR Wohlman exercised his options and sold 15 750 Investec plc shares and 9 250 Investec Limited shares on 10 August 2006 when the share price was £5.27 and R64.60 per share, respectively. Furthermore, IR Wohlman exercised his options and sold 5 130 Investec plc shares, 2 640 Investec Limited shares and 6 250 Investec plc shares on 20 December 2006 when the share price was £6.26, R83.09 and £6.25 per share, respectively. The performance conditions in respect to these options were met.

2. On 4 September 2006 the group implemented a 5:1 share split of Investec plc and Investec Limited shares. The information as at 1 April 2006 has been restated accordingly.

Directors' interest in the Share Matching Plan 2005 as at 31 March 2007

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2006[1]	Balance at 31 March 2007	Period exercisable
Executive directors					
S Koseff	21 Nov 05	£0.00	750 000	750 000	75% of the matching award will vest on 30 June 2009 and 25% on 30 June 2010
B Kantor	21 Nov 05	£0.00	750 000	750 000	75% of the matching award will vest on 30 June 2009 and 25% on 30 June 2010
A Tapnack	21 Nov 05	£0.00	200 000	200 000	75% of the matching award will vest on 30 June 2009 and 25% on 30 June 2010

Notes:

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 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. Further details on the plan are available on our website.

1. On 4 September 2006 the group implemented a 5:1 share split of Investec plc and Investec Limited shares. The information as at 1 April 2006 has been restated accordingly.

Directors' interest in long term incentive plans

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2006[1]	Balance at 31 March 2007	Period exercisable
Executive directors					
B Fried	16 Mar 05	£0.00	500 000	500 000	75% on 30 June 2009 and 25% on 30 June 2010
DM van der Walt	16 Mar 05	£0.00	425 000	425 000	75% on 30 June 2009 and 25% on 30 June 2010
IR Wohlman	16 Mar 05	£0.00	150 000	150 000	75% on 30 June 2009 and 25% on 30 June 2010

Notes:

The bank made forfeitable 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 exercisable 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.

1. On 4 September 2006 the group implemented a 5:1 share split of Investec plc and Investec Limited shares. The information as at 1 April 2006 has been restated accordingly.

Financial statements

Directors' report

The directors present their report and financial statements for the year ended 31 March 2007.

Business and principal activities

The principal activities of Investec Bank (UK) Limited (the "bank") and its subsidiaries are private banking, investment banking, capital markets 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 14.

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. To align with the accounting policies applied in the consolidated financial statements of the bank's listed parent, Investec plc, the consolidated financial statements of the bank are prepared under International Financial Reporting Standards. These policies are set out on pages 54 to 61.

The accounts of the bank itself continue to be drawn up under UK Generally Accepted Accounting Practice. The accounting policies for the bank's own accounts are set out on pages 104 to 111.

Authorised and issued share capital

Details of the share capital as at 31 March 2007 are set out in note 29 of the bank's consolidated financial statements.

On 28 June 2006 the bank issued 60 million ordinary shares of £1 each at par; on 31 August 2006 50 million ordinary shares of £1 each were issued at par and on 25 September 2006 a further 41 million ordinary shares of £1 were issued at par.

Results and dividends

The results for the year are shown on page 50. Movements in reserves are shown in the reconciliation of equity on pages 62 and 63 of the financial statements.

An interim dividend of £ 35 000 000 was paid on 10 November 2006.

Directors and their interests

The directors of the bank for the year ended 31 March 2007 are shown on page 34. There have been no changes during the year. On 2 May 2007 Mr Richard Vardy resigned as Company Secretary and Mr David Miller was appointed as Company Secretary for the bank.

The interests of the directors are set out in the Remuneration Report on pages 35 to 43.

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.

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 2007 Our Business Responsibility Report.

Donations

During the year, the group made donations for charitable purposes in the UK, totalling £170 688. During the year the group made donations of £4 048 to political parties outside the European Union.

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

David Miller
Secretary

28 June 2007

Investec Bank (UK) Limited group financial statements

Directors' responsibility statement

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

As far as the directors are aware, there is no relevant audit information of which the companies' auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the companies' auditors are aware of that information.

Signed on behalf of the board

Bradley Fried
Chief Executive Officer

28 June 2007

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 2007 which comprise consolidated income statement, consolidated statement of total recognised income and expenses, the consolidated balance sheet, the consolidated cash flow statement, and the related notes 1 to 38. 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 2007.

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 2007 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

28 June 2007

Consolidated income statement

For the year to 31 March £'000	Notes	2007	2006
Interest receivable		491 700	314 158
Interest payable		(323 800)	(190 480)
Net interest income		**167 900**	**123 678**
Fees and commissions receivable		197 058	144 773
Fees and commissions payable		(7 678)	(5 662)
Principal transactions	3	81 990	60 682
Operating income from associates	17	864	447
Other operating income	4	46 765	1 578
Other income		**318 999**	**201 818**
Total operating income		**486 899**	**325 496**
Impairment losses on loans and advances	15	(7 490)	(7 241
Operating income		**479 409**	**318 255**
Administrative expenses	5	(296 825)	(199 395)
Depreciation and impairment of property, equipment and intangibles	20/22	(8 095)	(2 719)
Operating profit before goodwill impairment		**174 489**	**116 141**
Goodwill	21	10 680	-
Operating profit		**185 169**	**116 141**
Non-operating exceptional items		-	(1 071)
Profit before taxation		**185 169**	**115 070**
Taxation	8	(48 977)	(32 333)
Profit after taxation		**136 192**	**82 737**
Earnings attributable to minority shareholders		9 224	12
Earnings attributable to shareholders		126 968	82 725
		136 192	82 737

Consolidated statement of total recognised income and expenses

For the year to 31 March £'000	Notes	2007	2006
Earnings attributable to shareholders		136 192	82 737
Total gains and losses recognised directly in equity		5 889	(2 905)
Fair value movements on available for sale assets		5 223	(2 835)
Foreign currency movements		666	(70)
Total recognised recognised income and expenses		**142 081**	**79 832**
Total recognised income and expenses attributable to minority shareholders		9 224	12
Total recognised income and expenses attributable to ordinary shareholders		132 857	79 820
		142 081	**79 832**

Consolidated balance sheet

At 31 March £'000	Notes	2007	2006
Assets			
Cash and balances at central banks		42 827	10 870
Loans and advances to banks		781 167	661 028
Cash equivalent advances to customers		23 210	54
Reverse repurchase agreements and cash collateral on securities borrowed		1 979 936	643 172
Trading securities	12	544 641	160 130
Derivative financial instruments	13	332 862	254 595
Investment securities	14	1 747 047	1 237 069
Loans and advances to customers	15	4 619 771	3 553 646
Interests in associated undertakings	17	12 433	12 023
Deferred taxation assets	18	25 136	22 744
Other assets	19	829 920	855 595
Property and equipment	20	120 910	15 674
Goodwill	21	68 193	36 191
Intangible assets	22	17 741	1 313
		11 145 794	**7 464 104**
Liabilities			
Deposits by banks		1 371 779	1 059 167
Derivative financial instruments	13	114 384	48 777
Other trading liabilities	24	96 252	123 791
Repurchase agreements and cash collateral on securities lent		1 598 128	272 584
Customer accounts		4 448 656	3 645 604
Debt securities in issue	25	1 077 436	717 958
Current taxation liabilities		51 860	37 050
Deferred taxation liabilities	18	8 540	1 513
Other liabilities		899 216	744 183
		9 666 251	6 650 627
Subordinated liabilities	28	603 044	225 683
		10 269 295	**6 876 310**
Equity			
Called up share capital	1/29	505 000	354 000
Share premium account	1	37 365	37 365
Other reserves	1	30 791	17 711
Profit and loss account	1	236 865	178 485
Shareholders' equity excluding minority interests		810 021	587 561
Minority interests	1/30	66 478	233
Total equity		**876 499**	**587 794**
Total liabilities and shareholders' equity		**11 145 794**	**7 464 104**

The directors approved the financial statements on 28 June 2007.

Bradley Fried
Chief Executive Officer

Consolidated cash flow statement

For the year to 31 March £'000	Notes	2007	2006
Operating profit adjusted for non cash items	32	189 633	124 659
Taxation paid		(26 394)	(11 261)
Increase in operating assets		(2 638 508)	21 174
Increase in operating liabilities		2 287 257	57 864
Net cash (outflow)/inflow from operating activities		**(188 012)**	**192 436**
Cash flow on acquisition of subsidiaries	23	(140 954)	(95 874)
Cash flow on acquisition and disposal of property, equipment and intangibles		(22 059)	(1 873)
Net cash outflow from investing activities		**(163 013)**	**(97 747)**
Dividends paid to ordinary shareholders		(65 000)	(42 500)
Dividends paid to other equity holders		(6 410)	-
Proceeds on issue of other equity instruments*		188 983	-
Net proceeds on subordinated debt raised		341 802	-
Net cash inflow/(outflow) from financing activities		**459 375**	**(42 500)**
Effects of exchange rates on cash and cash equivalents		336	(1 700)
Net increase in cash and cash equivalents		108 686	50 489
Cash and cash equivalents at the beginning of the year		173 761	123 272
Cash and cash equivalents at the end of the year		**282 447**	**173 761**
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		42 827	10 870
On demand loans and advances to banks		216 410	162 837
Cash equivalent advances to customers		23 210	54
Cash and cash equivalents at the end of the year		**282 447**	**173 761**

* Includes equity instruments issued by subsidiaries.

Investec Bank (UK) - significant accounting policies

Basis of presentation

The group financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted for use 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 IAS39.

Accounting policies applied are consistent with those of the prior year.

Basis of consolidation

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.

All subsidiaries in which the group holds more than one half of the voting rights or over which it has the ability to 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.

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.

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, transactions and unrealised gains and losses within the group are eliminated to the extent that they do not reflect an impairment to 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 four 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 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 group acquires an interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, the group 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 presentation currency of the group (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 instrument 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 and foreign operations

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 Investec Bank (UK) Limited.

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 determined using closing rates and 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 method 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.

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. Trading profits gross of funding costs is disclosed in note 3.

Investec Bank (UK) - significant accounting policies (continued)

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. In certain instances debt instruments which contain equity features are designated as held at fair value through profit and loss.

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 basis 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 instrument 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 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 held at fair value through profit and loss.
- Those that the group designates as available for sale.
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are accounted for at fair value through profit and loss.

Loans and receivables are measured at amortised cost, using the effective interest method, 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 liabilities 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/available for sale.
- 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 collectively on a portfolio of similar, homogeneous assets. Impairments are 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 the group has transferred its rights to cash flows relating to the financial assets, including the transfer of substantially all the risks 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 has expired.

Derivative instruments

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 on the next page).

Investec Bank (UK) - significant accounting policies (continued)

Hedge accounting

The group applies either fair value or cash flow hedge accounting when the transactions meet the specified hedge accounting criteria. To qualify for 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 actually 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 hedging instrument ceases to be highly effective as a hedge; the hedging instrument expires, or is sold, terminated or exercised; when the hedged 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 instrument 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 instrument 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 of the hedging instrument, which represents an effective hedge, is initially recognised in equity and is released to the income statement in the same period 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 the 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 paid to the Investec Bank (UK) Limited shareholder.

Sale and repurchase agreements (including securities 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".

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

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 group is the lessor and included in liabilities where the group is the lessee. Finance charges on finance leases and instalment 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 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 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 current 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.

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 lower of fair value less cost to sell 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.

Investec Bank (UK) - significant accounting policies (continued)

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 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.
- from 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.
- in respect of taxable temporary differences associated with the investments in subsidiaries and associates, where the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of taxable temporary difference associated with the investments in subsidiaries and associates where the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 group has no liabilities for other post retirement benefits.

Intangible assets

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

For intangible assets with a finite life, amortisation is provided on the depreciable amount of each intangible asset on a straight-line basis over the anticipated useful life of the asset (currently 3 to 8 years). 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 indefinite life are not amortised, however they are tested for impairment on an annual basis.

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 on balance sheet.

Standards and interpretations not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these financial statements. 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 relates to disclosure requirements for financial instruments and replaces IAS 30 (Disclosures in the Financial Statements of Bank and Similar Financial Institutions) and elements of IAS 32 (Financial Instruments: Disclosure and Presentation). Adoption of the standard will change the format of disclosure presented but will not affect recognition or measurement criteria as currently applied.

IFRS 8 – Operating segments (effective for the financial year beginning 1 April 2009)

The standard relates to disclosure requirements for segmental information and replaces IAS 14 Segmental Reporting. The group believes that segmental information disclosure is closely aligned with the requirements of IFRS 8 and therefore implementation of the standard would result in minimal changes to disclosure.

Key management assumptions

In preparation of the financial statements the group makes estimations and applies judgment that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgment 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 recognise market volatility.

Notes to the financial statements

For the year to 31 March £'000	Share capital	Share premium account
1. Reconciliation of equity		
At 1 April 2005	354 000	37 365
Movement in reserves 1 April 2005 - 31 March 2006		
Foreign currency adjustments	-	-
Retained profit for the year	-	-
Fair value movements on available for sale assets	-	-
Total recognised gains and losses for the year	-	-
Share based payments adjustments	-	-
Dividends paid to ordinary shareholders	-	-
Transfer to regulatory general risk reserve	-	-
At 31 March 2006	354 000	37 365
Movement in reserves 1 April 2006 - 31 March 2007		
Foreign currency adjustments	-	-
Retained profit for the year	-	-
Fair value movements on available for sale assets	-	-
Total recognised gains and losses for the year	-	-
Share based payments adjustments	-	-
Dividends paid to ordinary shareholders	-	-
Dividends paid to minority shareholders	-	-
Issue of ordinary shares	151 000	-
Issue of equity instruments by subsidiaries	-	-
Minority interests in subsidiaries acquired	-	-
Transfer to regulatory general risk reserve	-	-
At 31 March 2007	505 000	37 365

Other Reserves Available for sale reserve	Regulatory general risk reserve	Foreign currency reserves	Share based payment reserve	Profit and loss account	Shareholder's equity excluding minority interests	Minority interests	Total equity
8 645	**2 505**	**(3 698)**	**10 760**	**139 088**	**548 665**	**205**	**548 870**
-	-	(70)	-	-	(70)	16	(54)
-	-	-	-	82 725	82 725	12	82 737
(2 835)	-	-	-	-	(2 835)	-	(2 835)
(2 835)	-	(70)	-	82 725	79 820	28	79 848
-	-	-	1 576	-	1 576	-	1 576
-	-	-	-	(42 500)	(42 500)	-	(42 500)
-	828	-	-	(828)	-	-	-
5 810	**3 333**	**(3 768)**	**12 336**	**178 485**	**587 561**	**233**	**587 794**
-	70	666	-	-	736	3 357	4 093
-	-	-	-	126 968	126 968	9 224	136 192
5 223	-	-	-	-	5 223	-	5 223
5 223	70	666	-	126 968	132 927	12 581	145 508
-	-	-	3 533	-	3 533	-	3 533
-	-	-	-	(65 000)	(65 000)	-	(65 000)
-	-	-	-	-	-	(6 410)	(6 410)
-	-	-	-	-	151 000	-	151 000
-	-	-	-	-	-	36 885	36 885
-	-	-	-	-	-	23 189	23 189
-	3 588	-	-	(3 588)	-	-	-
11 033	**6 991**	**(3 102)**	**15 869**	**236 865**	**810 021**	**66 478**	**876 499**

Notes to the financial statements (continued)

For the year to 31 March £'000	Private Client Activities	Capital Markets	Investment Banking	Property Activities	Group Services & Other Activities	Total group
2. Segmental analysis						
Business analysis 2007						
Net interest income	**118 520**	**43 006**	**(3 727)**	**(185)**	**10 286**	**167 900**
Fees and commissions receivable	91 115	45 840	61 587	52	(1 536)	197 058
Fees and commissions payable	(4 946)	(1 178)	(1 551)	-	(3)	(7 678)
Principal transactions	7 795	60 965	11 808	1 568	(146)	81 990
Operating income from associates	727	(11)	147	-	1	864
Other operating income	-	-	45 481	-	1 284	46 765
Other income	**94 691**	**105 616**	**117 472**	**1 620**	**(400)**	**318 999**
Total operating income	**213 211**	**148 622**	**113 745**	**1 435**	**9 886**	**486 899**
Impairment losses on loans and advances	(2 249)	(5 241)	-	-	-	(7 490)
Net operating income	**210 962**	**143 381**	**113 745**	**1 435**	**9 886**	**479 409**
Administrative expenses	(98 786)	(86 809)	(78 678)	(143)	(32 409)	(296 825)
Depreciation and impairment of property, equipment and intangibles	(1 213)	(372)	(4 444)	-	(2 066)	(8 095)
Operating profit before goodwill	**110 963**	**56 200**	**30 623**	**1 292**	**(24 589)**	**174 489**
Goodwill	3 560	3 560	-	-	3 560	10 680
Operating profit	**114 523**	**59 760**	**30 623**	**1 292**	**(21 029)**	**185 169**
Non-operating exceptional items	-	-	-	-	-	-
Profit before taxation	**114 523**	**59 760**	**30 623**	**1 292**	**(21 029)**	**185 169**
Net intersegment revenue	(2 091)	(30 700)	(4 244)	(189)	32 517	(4 707)
Cost to income ratio	46.9%	58.7%	73.1%	10.0%	348.7%	62.6%
Number of employees	528	338	178	3	319	1 366
Total assets (£'million)	3 458	6 713	502	2	471	11 146

For the year to 31 March £'000	Private Client Activities	Capital Markets	Investment Banking	Property Activities	Group Services & Other Activities	Total group
2. Segmental analysis (continued)						
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**
Total operating income	**142 831**	**81 410**	**85 910**	**2 477**	**12 868**	**325 496**
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 intangibles	(1 219)	(101)	(94)	-	(1 305)	(2 719)
Operating profit before goodwill	**68 280**	**22 478**	**35 046**	**2 023**	**(11 686)**	**116 141**
Goodwill	-	-	-	-	-	-
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

Notes to the financial statements (continued)

For the year to 31 March £'000	UK & Europe	Australia	Total group
2. Segmental analysis (continued)			
Geographical analysis 2007			
Net interest income	**128 876**	**39 024**	**167 900**
Fees and commissions receivable	172 385	24 673	197 058
Fees and commissions payable	(7 535)	(143)	(7 678)
Principal transactions	74 237	7 753	81 900
Operating income from associates	702	162	864
Other operating income	44 236	2 529	46 765
Other income	**284 025**	**34 974**	**318 999**
Total operating income	**412 901**	**73 998**	**486 899**
Impairment losses on loans and advances	(6 312)	(1 178)	(7 490)
Net operating income	**406 589**	**72 820**	**479 409**
Administrative expenses	(254 776)	(42 049)	(296 825)
Depreciation and impairment of property, equipment and intangibles	(7 473)	(622)	(8 095)
Operating profit before goodwill	**144 340**	**30 149**	**174 489**
Goodwill	-	10 680	10 680
Operating profit	**144 340**	**40 829**	**185 169**
Non-operating exceptional items	-	-	-
Profit before taxation	**144 340**	**40 829**	**185 169**
Taxation	(39 504)	(9 473)	(48 977)
Profit after taxation	**104 836**	**31 356**	**136 192**
Earnings attributable to minority shareholders	7 222	2 002	9 224
Earnings attributable to shareholders	97 614	29 354	126 968
	104 836	**31 356**	**136 192**
Net intersegment revenue	(4 180)	(527)	(4 707)
Cost to income ratio	63.5%	57.7%	62.6%
Effective tax rate	27.5%	1.6%	28.2%
Number of employees	1 131	235	1 366

At 31 March £'million	UK & Europe	Australia	Total group
2. Segmental analysis (continued)			
Geographical analysis 2007			
Assets			
Cash and balances at central banks	31	12	43
Loans and advances to banks	706	75	781
Cash equivalent advances to customers	23	-	23
Reverse repurchase agreements and cash collateral on securities borrowed	1 980	-	1 980
Trading securities	477	68	545
Derivative financial instruments	266	67	333
Investment securities	1 391	356	1 747
Loans and advances to customer	3 957	663	4 620
Interests in associated undertaking	(5)	17	12
Deferred taxation assets	20	5	25
Other assets	823	7	830
Property and equipment	119	2	121
Goodwill	52	16	68
Intangible assets	18	-	18
	9 858	**1 288**	**11 146**
Liabilities			
Deposits by banks	1 372	-	1 372
Derivative financial instruments	75	39	114
Other trading liabilities	96	-	96
Repurchase agreements and cash collateral on securities lent	1 598	-	1 598
Customer accounts	3 998	451	4 449
Debt securities in issue	599	478	1 077
Current taxation liabilities	47	5	52
Deferred taxation liabilities	8	1	9
Other liabilities	877	22	899
	8 670	996	9 666
Subordinated liabilities	562	41	603
	9 232	**1 037**	**10 269**

Notes to the financial statements (continued)

For the year to 31 March £'000	UK & Europe	Australia	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**
Total operating income	**282 853**	**42 643**	**325 496**
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 intangibles	(2 145)	(574)	(2 719)
Operating profit before goodwill	**100 398**	**15 743**	**116 141**
Goodwill	-	-	-
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
	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

At 31 March £'million	UK & Europe	Australia	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
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**

Notes to the financial statements (continued)

For the year to 31 March £'000	UK & Europe	Australia	Total group
2. Segmental analysis (continued)			
A geographical breakdown of business operating profit before goodwill, non-operating items and taxation is shown below:			
2007			
Private Client Activities	94 719	16 244	110 963
Capital Markets	46 463	9 737	56 200
Investment Banking	23 314	7 309	30 623
Property Activities	1 292	-	1 292
Group Services and Other Activities	(21 448)	(3 141)	(24 589)
Total group	**144 340**	**30 149**	**174 489**
2006			
Private Client Activities	60 271	8 009	68 280
Capital Markets	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**

Further breakdowns of business line operating profit before goodwill, non-operating items and taxation are shown below:

For the year to 31 March £'000	2007	2006
Private Client Activities		
Private Banking	110 424	67 933
Private Client Portfolio Management and Stockbroking	539	347
	110 963	**68 280**
Capital Markets	**56 200**	**22 478**
Investment Banking		
Investment Banking	13 238	18 321
Direct Investments	5 309	7 118
Private Equity	12 076	9 607
	30 623	**35 046**
Property Activities	**1 292**	**2 023**
Group Services and Other Activities		
Central Funding	9 383	11 707
Central Costs	(33 972)	(23 393)
	(24 589)	**(11 686)**
	174 489	**116 141**

For the year to 31 March £'000	2007	2006
3. Principal transactions		
Principal transaction income includes:		
Gross trading income	40 644	38 322
Funding cost against trading income	(9 151)	(5 633)
Net trading income	31 493	32 689
Net income from financial instruments designated as held at fair value	46 837	28 898
Realised income on disposal of available for sale instruments	4 545	(1 282)
Net impairments on available for sale instruments	(1 529)	-
Dividend income	644	377
	81 990	**60 682**
Net income from financial instruments designated as held at fair value includes:		
Fair value of designated equity positions	13 772	13 402
Fair value of designated loans and receivables	19 647	251
Fair value of designated securities	13 418	15 245
	46 837	**28 898**
4. Other operating income		
Rental income from properties	1 284	1 578
Operating profit of non core businesses*	45 481	-
	46 765	**1 578**
* Includes income of certain private equity investments that have been consolidated, with their respective operating costs included in administrative costs.		
5. Administrative expenses		
Staff costs	221 640	148 746
Salaries and wages (including directors' remuneration)	197 741	131 220
Social security costs	17 240	12 473
Pensions and provident fund contributions	6 659	5 053
Premises (excluding depreciation)	12 084	11 668
Equipment (excluding depreciation)	8 843	7 375
Business expenses	44 099	25 047
Marketing expenses	10 159	6 559
	296 825	**199 395**
The following amounts were paid to the auditors:		
Audit fees	1 707	1 168
Audit related fees	115	65
Other services	166	326
	1 988	**1 559**

Notes to the financial statements (continued)

For the year to 31 March £'000	2007	2006
6. Directors' remuneration		
Aggregate emoluments (excluding pension contributions)	9 222	5 741
Contributions to defined contributions scheme	284	92
	9 506	**5 833**
Number of directors in defined contributions scheme	4	4

Emoluments of the highest paid director were £3 507 171 (2006: £2 168 024) excluding £212 083 (2006: £30 000) of pension contributions to 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.

7. Share based payments

The group operates share option and share purchase schemes for employees, the majoriy 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 DLC group's 2007 remuneration report.

For the year to 31 March £'000	2007	2006
Expense charged to profit and loss:		
Equity settled	9 627	4 843
Cash settled	379	533
Total profit and loss charge	**10 006**	**5 376**
Liabilities on cash settled options		
Total liability included in other liabilities	94	349
Total intrinsic value for vested appreciation rights	301	1 453
Weighted average fair value of options granted in the year		
UK Schemes	33 737	12 242

7. Share based payments (continued)

At 31 March	UK Schemes			
	2007		2006^	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Details of options outstanding during the year		£		£
Outstanding at the beginning of the year	23 063 290	1.10	23 860 455	1.45
Granted during the year	6 014 235	0.22	5 063 385	0.78
Exercised during the year*	(3 596 802)	2.15	(4 204 550)	2.33
Expired during the year	(1 035 399)	3.56	(1 656 000)	2.34
Outstanding at the end of the year	**24 445 324**	**0.66**	**23 063 290**	**1.10**
Exercisable at the end of the year	**635 943**	**3.00**	**824 695**	**3.55**

* Weighted average share price during the year was £5.81.

The exercise price range and weighted average remaining contractual life for the options are as follows:

	UK Schemes	
	2007	2006^
Exercise price range	£0 - £3.47	£1.55 - £4.99
Weighted average remaining contractual life	3.13 years	7.4 years
The fair values of options granted were calculated on a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
- Share price at date of grant	£4.98 - £6.11	£3.41 - £4.99
- Exercise price	£0, £4.98,£6.11	£1.55 - £4.30
- Expected volatility	39%	28% - 30%
- Option life	5 - 5.25 years	5 years
- Expected dividend yields	3.52% - 4.03%	3.15% - 4.27%
- Risk-free rate	3.98% - 5.10%	4.23% - 4.69%

Expected volatility was determined based on histroical 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.

^ Restated for the share subdivision of 5 shares for 1 that took place on 4 September 2006.

Notes to the financial statements (continued)

For the year to 31 March £'000	2007	2006
8. Taxation		
Current tax		
UK		
- current tax on income for the year	24 907	27 829
- adjustments in respect of prior years	(2 034)	2 608
- corporation tax before double tax relief	22 873	30 437
- double tax relief	(1 397)	(2 810)
	21 476	27 627
Europe	3 838	1 606
Australia	9 328	5 804
Other	5 703	1 426
	18 869	8 836
Total current tax	**40 345**	**36 463**
Deferred tax		
United Kingdom	8 596	(3 218)
Europe	(109)	41
Australia	145	(953)
Total deferred tax	**8 632**	**(4 130)**
Total tax charge for the year	**48 977**	**32 333**
Deferred tax comprises:		
Origination and reversal of temporary differences	7 620	(3 843)
Adjustment in respect of prior years	1 012	(287)
	8 632	**(4 130)**
Items which affect the tax rate going forward are:		
Estimated tax losses, arising from trading activities, available for relief against future taxable income		
United Kingdom	-	-
Europe	-	-
The rates of corporation tax for the relevant years are:		
United Kingdom	30%	30%
Europe (average)	20%	20%
Australia	30%	30%
Profit on ordinary activities before taxation	**185 169**	**115 070**
Tax on profit on ordinary activities	**48 977**	**32 333**
Effective tax rate	**26%**	**28%**

For the year to 31 March £'000	2007	2006
8. Taxation (continued)		
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%	55 551	34 521
Tax adjustments relating to foreign earnings	1 377	(2 757)
Taxation relating to prior years	(1 022)	2 321
Goodwill and non operating items	(3 204)	-
Share options accounting expense	2 011	1 882
Share options exercised during the year	(2 987)	(1 950)
Unexpired share options future tax deduction	(1 489)	(4 918)
Utilisation of brought forward capital losses	(4 479)	(2 968)
Net other permanent differences	3 219	6 202
Total tax charge	**48 977**	**32 333**
9. Dividends		
Ordinary dividend		
Final dividend for prior year	30 000	15 000
Interim dividend for current year	35 000	27 500
Total dividend attributable to ordinary shareholder recognised in current financial year	**65 000**	**42 500**
10. Miscellaneous income statement items		
Total foreign currency losses recognised in income except financial instruments measured at fair value through income	**541**	**24**
Operating lease expenses recognised in administrative expenses:		
Minimum lease payments	**11 543**	**9 837**
Operating lease income recognised in income split as follows:		
Minimum lease payments	2 032	1 170
Sublease payments	985	991
	3 017	**2 161**

Notes to the financial statements (continued)

At 31 March 2007 £'000	At fair value through profit and loss Trading	 Designated at inception	Held-to-maturity	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Non-financial instru-ments	Total
11. Analysis of assets and liabilities financial instruments classification								
Assets								
Cash and balances at central banks	-	-	-	42 827	-	-	-	42 827
Loans and advances to banks	6 399	-	-	774 767	-	-	-	781 167
Cash equivalent advances to customers	55	-	-	23 155	-	-	-	23 210
Reverse repurchase agreements and cash collateral on securities borrowed	1 979 936	-	-	-	-	-	-	1 979 936
Trading securities	278 371	266 271	-	-	-	-	-	544 641
Derivative financial instruments	332 862	-	-	-	-	-	-	332 862
Investment securities	-	-	145 234	-	1 601 813	-	-	1 747 047
Loans and advances to customers	-	257 417	-	3 894 947	467 407	-	-	4 619 771
Interests in associated undertakings	-	-	-	-	-	-	12 433	12 433
Deferred taxation assets	-	-	-	-	-	-	25 136	25 136
Other assets	448 211	4 915	-	343 299	-	-	33 495	829 920
Property and equipment	-	-	-	-	-	-	120 910	120 920
Goodwill	-	-	-	-	-	-	68 193	68 193
Intangible assets	-	-	-	-	-	-	17 741	17 741
	3 045 834	**528 603**	**145 234**	**5 078 994**	**2 069 221**	**-**	**277 908**	**11 145 794**
Liabilities								
Deposits by banks	3 517	-	-	-	-	1 368 263	-	1 371 779
Derivative financial instruments	114 384	-	-	-	-	-	-	114 384
Other trading liabilities	96 252	-	-	-	-	-	-	96 252
Repurchase agreements and cash collateral on securities lent	1 598 128	-	-	-	-	-	-	1 598 128
Customer accounts	83 608	-	-	-	-	4 365 048	-	4 448 656
Debt securities in issue	-	-	-	-	-	1 077 436	-	1 077 436
Current taxation liabilities	-	-	-	-	-	-	51 860	51 860
Deferred taxation liabilities	-	-	-	-	-	-	8 539	8 539
Other liabilities	506 931	-	-	-	-	267 316	124 969	899 216
	2 402 820	-	-	-	-	7 078 062	185 368	9 666 251
Subordinated liabilities	-	-	-	-	-	603 044	-	603 044
	2 402 820	**-**	**-**	**-**	**-**	**7 681 106**	**185 368**	**10 269 295**

At 31 March 2006 £'000	At fair value through profit and loss Trading	 Designated at inception	Held-to-maturity	Loans and receivables	Available for sale	Financial liabilities at amortised cost	Non-financial instru-ments	Total
11. Analysis of assets and liabilities by financial instruments classification								
Assets								
Cash and balances at central banks	-	-	-	10 870	-	-	-	10 870
Loans and advances to banks	8 371	-	-	571 395	81 262	-	-	661 028
Cash equivalent advances to customers	54	-	-	-	-	-	-	54
Reverse repurchase agreements and cash collateral on securities borrowed	643 172	-	-	-	-	-	-	643 172
Trading securities	93 730	66 400	-	-	-	-	-	160 130
Derivative financial instruments	254 595	-	-	-	-	-	-	254 595
Investment securities	-	-	123 615	-	1 113 454	-	-	1 237 069
Loans and advances to customers	-	190 861	-	2 962 156	400 629	-	-	3 553 646
Interests in associated undertakings	-	-	-	-	-	-	12 023	12 023
Deferred taxation assets	-	-	-	-	-	-	22 744	22 744
Other assets	493 040	-	-	348 645	-	-	13 910	855 595
Property and equipment	-	-	-	-	-	-	15 674	15 674
Goodwill	-	-	-	-	-	-	36 191	36 191
Intangible assets	-	-	-	-	-	-	1 313	1 313
	1 492 962	**257 261**	**123 615**	**3 893 066**	**1 595 345**	**-**	**101 855**	**7 464 104**
Liabilities								
Deposits by banks	-	-	-	-	-	1 059 167	-	1 059 167
Derivative financial instruments	48 777	-	-	-	-	-	-	48 777
Other trading liabilities	123 791	-	-	-	-	-	-	123 791
Repurchase agreements and cash collateral on securities lent	272 584	-	-	-	-	-	-	272 584
Customer accounts	88 737	4 929	-	-	-	3 551 938	-	3 645 604
Debt securities in issue	-	-	-	-	-	717 958	-	717 958
Current taxation liabilities	-	-	-	-	-	-	37 500	37 050
Deferred taxation liabilities	-	-	-	-	-	-	1 513	1 513
Other liabilities	468 462	-	-	-	-	265 862	9 859	744 183
	1 002 351	4 929	-	-	-	5 594 925	48 422	6 650 627
Subordinated liabilities	-	-	-	-	-	225 683	-	225 683
	1 002 351	**4 929**	**-**	**-**	**-**	**5 820 608**	**48 422**	**6 876 310**

Notes to the financial statements (continued)

At 31 March £'000	2007 Carrying value	2007 Cumulative gains/ losses	2006 Fair value	2006 Unrealised gains/ losses
12. Trading securities				
Listed equities	213 125	7 449	95 552	10 561
Unlisted equities	5 836	-	1 700	-
Bonds	325 681	994	62 878	415
	544 642	**8 443**	**160 130**	**10 976**

13. Derivative financial instruments

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

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

At 31 March £'000	Notional principal amounts 2007	Positive fair value 2007	Negative fair value 2007	Notional principal amounts 2006	Positive fair value 2006	Negative fair value 2006
Foreign exchange derivatives						
Forward foreign exchange	3 008 846	12 611	(6 294)	1 171 619	6 673	(5 766)
Currency swaps	2 116 881	4 495	(9 192)	1 515 827	3 267	(3 271)
OTC options bought and sold	21 501	104	-	40 238	104	(24)
Other foreign exchange contracts	766	-	-	550 037	425	(388)
OTC derivatives	5 147 994	17 210	(15 486)	3 277 721	10 469	(9 449)
Exchange traded futures	-	-	-	142 200	2	-
	5 147 994	**17 210**	**(15 486)**	**3 419 921**	**10 471**	**(9 449)**
Interest rate derivatives						
Caps and floors	113 399	161	(37)	140 620	107	(122)
Swaps	1 140 250	31 468	(33 953)	3 081 078	18 858	(17 148)
OTC options bought and sold	82 533	18	-	-	-	-
Other interest rate contracts	3 445	13	(13)	830	3	(3)
OTC derivatives	1 339 627	31 660	(34 003)	3 222 528	18 968	(17 273)
Exchange traded futures	7 669 681	113	(64)	43 540	48	(115)
Exchange traded options	118 533 157	-	(156)	-	-	-
	127 542 465	**31 773**	**(34 223)**	**3 266 068**	**19 016**	**(17 388)**
Equity and stock index derivatives						
OTC options bought and sold	424 470	7 037	(707)	31 600	13 077	(28)
Equity swaps and forwards	456 771	5 885	(9 215)	4 053	183	(2 538)
OTC derivatives	881 241	12 922	(9 922)	35 653	13 260	(2 566)
Exchange traded futures	735 632	1 926	(49)	15 930	21	13
Exchange traded options	15 116	1 062	(1 023)	50 726	672	(331)
Warrants	264 391	29 111	45 987	32 944	-	-
	1 896 380	**45 021**	**(10 994)**	**148 296**	**46 897**	**(2 884)**

At 31 March £'000	Notional principal amounts 2007	Positive fair value 2007	Negative fair value 2007	Notional principal amounts 2006	Positive fair value 2006	Negative fair value 2006
13. Derivative financial instruments (continued)						
Commodity derivatives						
OTC options bought and sold	595 353	42 447	(16 337)	209 154	64 684	(3 777)
Commodity swaps and forwards	1 564 390	191 011	(75 187)	602 307	109 424	(30 300)
OTC derivatives	2 159 743	233 458	(91 524)	811 461	174 108	(34 077)
Exchange traded futures	565 752	185 801	(143 278)	695 327	169 735	(167 946)
Exchange traded options	467 991	57 282	(78 060)	1 321 184	41 095	(39 260)
	3 193 486	**476 541**	**(312 862)**	**2 827 972**	**384 938**	**(241 283)**
Credit derivatives						
Credit linked notes bought and sold	-	-	-	6 043	-	(121)
Credit swaps bought and sold	55 505	494	(897)	5 756	-	(3)
	55 505	**494**	**(897)**	**11 799**	**-**	**(124)**
Embedded derivatives	**443 888**	**21 901**	**-**	**128 832**	**15 624**	**-**
Gross fair values		592 940	(374 462)		476 946	(271 128)
Effect of on balance sheet netting		(260 078)	260 078		(222 351)	222 351
Trading derivatives per balance sheet		**332 862**	**(114 384)**		**254 595**	**(48 777)**

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

At 31 March £'000	2007	2006
14. Investment securities		
Listed equities	24 875	12 976
Unlisted equities	12 340	16 051
Certificates of deposit, bank bills and other commercial paper	1 277 444	1 011 761
Bonds	389 648	163 840
Floating rate notes	42 585	32 385
Other investments	155	56
	1 747 047	**1 237 069**

Notes to the financial statements (continued)

At 31 March £'000	2007	2006
15. Loans and advances to customers		
Category analysis		
Commercial property loans	1 790 709	1 524 372
Residential mortgages	612 816	540 755
Leases and instalment debtors	129 980	58 401
Corporate and public sector loans and advances	1 377 675	953 439
Other private bank lending	407 658	372 356
Other loans and advances	318 702	114 371
	4 637 540	**3 563 694**
Specific impairment	(16 229)	(8 679)
Portfolio impairment	(1 540)	(1 369)
	4 619 771	**3 553 646**
Specific and portfolio impairments		
Reconciliation of movements in group specific and portfolio impairments		
Specific impairment		
Balance at beginning of year	8 679	5 219
Charge to the income statement	7 315	6 811
Bad debts written off	(7 833)	(3 318)
Exchange adjustment	152	(33)
Acquisition of subsidary undertakings	7 916	-
Balance at end of year	**16 229**	**8 679**
Portfolio impairment		
Balance at beginning of year	1 369	929
Charge to the income statement	175	430
Exchange adjustment	(4)	10
Balance at end of year	**1 540**	**1 369**

16. Financial assets and liabilities designated at fair value through profit and loss

At 31 March	Carrying value	Fair value gain/(loss)	
£'000		Life to date	Year to date
2007			
Trading securities	266 271	12 948	2 777
Loans and advances to customers	257 417	66	66
Other assets	4 915	500	500
	528 603	**13 514**	**3 343**
2006			
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	2007	2006
17. Interests in associated undertakings		
Net asset value	4 830	4 420
Goodwill	7 603	7 603
Investment in associated undertakings	**12 433**	**12 023**
Analysis of the movement in our share of net assets:		
At beginning of year	4 420	2 790
Exchange adjustments	9	61
Acquisitions	266	1 198
Disposal of shareholding in associate company	(306)	-
Operating income from associates	864	447
Dividends received	(423)	(176)
At end of year	**4 830**	**4 420**
Analysis of the movement in goodwill:		
At beginning of year	7 603	8 636
Exchange adjustments	-	38
Goodwill impairment	-	(1 071)
At end of year	**7 603**	**7 603**
Associated undertakings:		
Unlisted	12 433	12 023
	12 433	**12 023**
18. Deferred taxation		
Deferred taxation asset		
Deferred capital allowances	5 738	12 338
Income and expenditure accruals	4 983	2 102
Arising from unexpired share options	11 954	6 932
Other temporary differences	2 461	1 372
	25 136	**22 744**
Deferred taxation liability		
Accelerated capital allowances	(2 058)	-
Arising on anticipated foreign dividends	(3 111)	-
Other temporary differences	(3 371)	(1 513)
	(8 540)	**(1 513)**
Net deferred taxation asset	16 596	21 231
Reconciliation of net deferred taxation asset		
At beginning of year	21 231	20 651
Adoption of IAS 32/39	-	(4 962)
(Charge)/credit to profit and loss	(8 632)	4 130
Credit directly in equity	5 094	1 412
Arising on acquisition of subsidiary undertaking	595	-
Exchange adjustments	464	-
Transfer to corporation tax	(2 156)	-
At end of year	**16 596**	**21 231**
Deferred tax on available for sale instruments recognised directly in equity	1 344	(163)
Deferred tax on unexpired share options recognised directly in equity	5 109	1 576

Notes to the financial statements (continued)

At 31 March £'000	2007	2006
19. Other assets		
Settlement debtors	670 492	730 622
Operating leased assets in stock	53 237	37 793
Dealing properties	2 509	7 739
Other debtors	103 682	79 441
	829 920	**855 595**

At 31 March £'000	Freehold properties	Leasehold improvements	Furniture & vehicles	Plant and equipment	Total
20. Property and equipment					
2007					
Cost					
At beginning of year	598	19 251	5 988	7 020	32 857
Exchange adjustments	(156)	(25)	(42)	(3 535)	(3 758)
Acquisition of subsidary undertaking	3 893	196	29	89 310	93 428
Reclassifications	(53)	-	-	-	(53)
Additions	1 270	523	758	19 919	22 470
Disposals	-	-	(558)	(820)	(1 378)
At end of year	**5 552**	**19 945**	**6 175**	**111 894**	**143 566**
Accumulated depreciation					
At beginnning of year	(53)	(6 364)	(5 005)	(5 761)	(17 183)
Exchange adjustments	-	4	27	6	37
Reclassifications	53	-	-	-	53
Disposals	-	-	211	796	1 007
Depreciation	(13)	(1 233)	(422)	(4 579)	(6 247)
Impairment losses	-	(204)	(119)	-	(323)
At end of year	**(13)**	**(7 797)**	**(5 308)**	**(9 538)**	**(22 656)**
Net book value	**5 539**	**12 148**	**867**	**102 356**	**120 910**
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 beginnning 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**

At 31 March £'000	2007	2006
21. Goodwill		
Cost		
At beginning of year	38 818	33 507
Additions	33 355	5 334
Exchange adjustments	(1 489)	(23)
At end of year	**70 684**	**38 818**
Accumulated impairments		
At beginning of year	(2 627)	(2 641)
Exchange adjustments	136	14
At end of year	**(2 491)**	**(2 627)**
Net book value	**68 193**	**36 191**
Analysis of goodwill by line of business and geography		
UK and Europe		
Private Banking	12 933	13 060
Capital Markets	8 552	8 552
Investment Banking	32 022	-
	53 507	**21 612**
Australia		
Investment Banking	**14 686**	**14 579**
Total group	**68 193**	**36 191**

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 cashflows 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 with 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.

Goodwill arising on acquisition of £33.3 million related to the acquisition of Midwest Grain Processors LLC by Global Ethanol Holdings and the acquisition of Idatech LLC. See note 23.

On 7 July 2006 Investec Bank (UK) Limited ("IBUK") acquired the entire share capital of NM Rothschild Australia Holdings Pty Limited and its subsidiary, NM Rothschild and Sons (Australia) Limited ("Rothschild") resulting in negative goodwill of £10,680,000 which has been released to the income statement. At acquisition, Rothschild changed its name to Investec Australia Limited ("IAL") and on 29 September 2006 all the assets and liabilities of IAL were transferred to IBUK's subsidiary, Investec Bank (Australia) Limited.

Notes to the financial statements (continued)

At 31 March £'000	Intellectual property	Core technology	Acquired software	Total
22. Intangible fixed assets				
2007				
Cost				
At beginning of year	-	-	5 247	5 247
Exchange adjustments	(263)	(245)	(16)	(524)
Acquisition of a subsidiary undertaking	5 743	5 354	4	11 101
Additions	208	-	7 136	7 344
Disposals	-	-	(56)	(56)
At end of year	**5 688**	**5 109**	**12 315**	**23 112**
Accumulated amortisation and impairments				
At beginning of year	-	-	(3 934)	(3 934)
Exchange adjustments	-	-	33	33
Disposals	-	-	55	55
Amortisation	(238)	(222)	(1 065)	(1 525)
At end of year	**(238)**	**(222)**	**(4 911)**	**(5 371)**
Net book value	**5 450**	**4 887**	**7 404**	**17 741**
2006				
Cost				
At beginning of year			4 118	4 118
Exchange adjustments			1	1
Additions			1 148	1 148
Disposals			(20)	(20)
At end of year			**5 247**	**5 247**
Accumulated amortisation and impairments				
At beginning of year			(3 051)	(3 051)
Disposals			20	20
Amortisation			(903)	(903)
At end of year			**(3 934)**	**(3 934)**
Net book value			**1 313**	**1 313**

Charge to the profit and loss account in 2007 of £1 525 000 comprises the following:

- Amortisation of computer software of £1 065 000.
- Amortisation of intellectual property and core technology which arose from acquisitions made in the current year of £238 000 and £222 000 respectively.

Charge to the profit and loss account in 2006 of £903 000 comprises amortisation of acquired contracts and computer software.

23. Acquisitions and disposals

2007

The group made the following acquisitions of subsidiary undertakings in the year ended 31 March 2007 which were accounted for on an acquisition basis:

i. On 7 July 2006 the bank acquired the entire share capital of NM Rothschild Australia Holdings Pty Limited and its subsidiary, NM Rothschild and Sons (Australia) Limited ("Rothschild") resulting in negative goodwill of £10 680 000 which has been released to the income statement. At acquisition, Rothschild changed its name to Investec Australia Limited ("IAL") and on 29 September 2006 all the assets and liabilities of IAL were transferred to IBUK's subsidiary, Investec Bank (Australia) Limited. In the period between acquisition and the transfer of all assets and liabilities, the profit made by the acquired company was £12 000.

The acquisition was 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 value at date of acquisition
Cash and balances at central banks	10 582	-	10 582
Loans and advances to banks	31 950	-	31 950
Trading securities	434 309	-	434 309
Derivative financial instruments	101 047	-	101 047
Loans and advances to customers	207 341	(7 725)	199 616
Deferred taxation assets	1 187	1 725	2 912
Other assets	3 063	-	3 063
Property and equipment	555	(140)	415
	790 034	**(6 140)**	**783 894**
Deposits by banks	77 050	-	77 050
Derivative financial instruments	73 191	-	73 191
Customer accounts	497 024	-	497 024
Other liabilities	6 113	1 953	8 066
Subordinated liabilities	40 634	-	40 634
	694 012	**1 953**	**695 965**
Fair value of net assets	96 022	(8 093)	87 929
Negative goodwill arising on acquisition			(10 680)
Fair value of consideration			**77 249**

ii. In May 2006, Global Ethanol Holdings Limited ("GEHL"), acquired a 60% holding in Midwest Grain Processors LLC, a company engaged in the production and marketing of ethanol in the USA. The acquisition was financed by the issue of equity and shareholder loans which resulted in the group having a 46.4% holding in GEHL. During the year GEHL has also completed a small number of smaller acquisitions. For the period since acquisition the profit after tax and minority interests included within the group results is £1 646 000.

iii. On 19 July 2006, a subsidiary of IBUK acquired a 99.73% holding in IdaTech LLC, a company engaged in the deveopment of Fuel processors and fuel call systems in the USA. The acquisition was satisfied by the payment of cash. For the period since acquisition the loss after tax included within the group results is £2 329 000.

Notes to the financial statements (continued)

23. Acquisitions and disposals (continued)

Assets and liabilities of GHEL and IdaTech LLC at the date of acquisition and total consideration paid are set out in the table below:

£'000	Book value at date of acquisition	Fair value adjustment	Fair value at date of acquisition
Other acquisitions			
Loans and advances to banks	2 862	-	2 862
Other assets	14 777	-	14 777
Property and equipment	83 002	10 011	93 013
Intangible assets	1 464	9 637	11 101
	102 105	**19 648**	**121 753**
Deposits by banks	38 432	-	38 432
Other liabilities	10 522	6 469	16 991
Deferred tax liabilities	-	3 307	3 307
Minority interests	22 091	-	22 091
	71 045	**9 776**	**80 821**
Fair value of net assets	31 060	9 872	40 932
Goodwill			33 355
Fair value of consideration			**74 287**
Total fair value of consideration less cash arising in acquisition			140 954

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. In June 2005 the bank acquired 100% of the issued share capital of Investec Asia Limited from a fellow group company.
ii. In June 2005 £2.4 million of goodwill arose on the acquisition of a leasing book.
iii. In October 2005 the Group acquired 100% of Jersey based trust group, Quorum Holdings Limited, resulting in £2.9 million 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 value at date of acquisition
Loans and advances to banks	853	-	853
Loans and advances to customer	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)**
Fair value of net assets	90 447	93	90 540
Goodwill arising on acquisition			5 334
Fair value of consideration			**95 874**

At 31 March £'000	2007	2006
24. Other trading liabilities		
Short positions		
- equities	96 252	123 791
25. Debt securities in issue		
Bonds and medium term notes repayable		
Up to one year	295 996	-
Greater than one year but less than five years	12 832	298 489
Greater than five years	-	-
	308 828	298 489
Other unlisted debt securities in issue repayable		
Not more than three months	235 067	367 910
Over three months but not more than one year	403 291	43 365
Over one year but not more than five years	130 250	8 194
	768 608	419 469
	1 077 436	717 958
26. Other liabilities		
Settlement liabilities	729 610	638 309
Other creditors and accruals	136 590	80 203
Other non interest bearing liabilities	33 016	25 671
	899 216	744 183
27. Pension commitments		
Pension and provident fund contributions	6 659	5 053

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 2007 (31 March 2006: £Nil).

The accounts of Investec plc, the bank's ultimate parent company, disclose the actuarial valuation of the scheme under IAS 19 at 31 March 2007. This was performed by a qualified, independent actuary. The valuation showed a surplus in the scheme of £4 178 000 (31 March 2006: surplus of £3 248 000). This surplus has been recognised in the financial statements of Investec plc.

For the year to 31 March	2007	2006
The major assumptions used were:		
Discount rate	5.40%	5.00%
Rate of increase in salaries	3.00%	3.00%
Rate of increase in pensions in payment	2.90%	2.70%
Inflation	3.10%	2.90%

Notes to the financial statements (continued)

27. Pension commitments (continued)

Demographic assumptions

One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the PMA92 and PFA92 base tables, although the rate of future increases in life expectancies has been increased for the 2007 valuations. The life expectancies underlying the valuation are as follows:

For the year to 31 March £'000	2007	2006
Male aged 65	87	85
Female aged 65	90	88
Male aged 45	88	87
Female aged 45	91	90

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

At 31 March	Value at 2007 £'000	Long-term rate of return expected	Value at 2006 £'000	Long-term rate of return expected
GM Scheme				
Equities	40 122	7.60%	41 931	7.70%
Gilts	53 873	4.60%	47 462	4.70%
Cash	1 361	5.25%	3 782	4.75%
Total market value of assets	**95 356**		**93 175**	

The following amounts have been recognised in the financial statements in accordance with IAS 19:

£'000	2007	2006
Recognised in the balance sheet		
Fair value of fund assets	95 356	93 175
Present value of obligations	(91 178)	(89 927)
Net assets	**4 178**	**3 248**
Amounts in balance sheet		
Assets	4 178	3 248
Net assets	**4 178**	**3 248**
Recognised in the income statement		
Expected return on pension scheme assets	5 272	4 452
Interest on pension obligations	(4 414)	(4 471)
Net return	**858**	**(19)**
Recognised in the statement of recognised income and expense		
Actuarial (losses)/gains on plan assets	(3 315)	8 125
Actuarial (losses)	(165)	(5 765)
Actuarial (loss)/gain	(3 480)	2 360
Deferred tax	1 044	(708)
Actuarial (loss)/gain in statement of recognised income and expense	**(2 436)**	**1 652**

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 £11.7 million (£8.2 million net of deferred tax). 2006 £8.2 million (£5.7 million net of deferred tax).

At 31 March £'000	Total
27. Pension commitments (continued)	
Changes in the fair value of defined benefit obligation	
Defined benefit obligation at 31 March 2005	82 871
Interest cost	4 471
Actuarial losses	5 765
Past service cost	-
Benefits paid	(3 180)
Defined benefit obligation at 31 March 2006	89 927
Interest cost	4 414
Actuarial losses	165
Past service cost	-
Benefits paid	(3 328)
Closing defined benefit obligation at 31 March 2007	**91 178**
Changes in the fair value of plan assets	
Assets at 31 March 2005	74 447
Expected return	4 452
Actuarial losses/(gains)	8 125
Contributions by the employer	9 331
Benefits paid	(3 180)
Assets at 31 March 2006	93 175
Expected return	5 272
Actuarial losses/(gains)	(3 315)
Contributions by the employer	3 552
Benefits paid	(3 328)
Closing value of plan assets at 31 March 2007	**95 356**

The group expects to make £3.55 million of contributions to the defined benefit scheme in 2008.

History of experiences gains and losses £'000	2007	2006	2005
GM Scheme			
Defined benefit obligation	(91 178)	(89 927)	(82 871)
Plan assets	95 356	93 175	74 447
Surplus/(deficit)	4 178	3 248	8 424
Experience adjustments on plan liabilities	(165)	(5 765)	1 731
Experience adjustments on plan assets	(3 135)	8 125	1 905

Notes to the financial statements (continued)

At 31 March £'000	2007	2006
28. Subordinated liabilities		
Issued by Investec Finance plc		
- a wholly owned subsidiary of Investec Bank (UK) Limited:		
Guaranteed Subordinated Step-up notes	195 055	200 306
Guaranteed Undated Subordinated Callable Step-up notes	345 658	-
Issued by Investec Australia Limited		
- a wholly owned subsidiary of Investec Bank (UK) Limited:		
Guaranteed subordinated medium term notes	41 077	-
Issued by Investec Bank (UK) Limited		
Zero Coupon Bonds	21 254	25 377
	603 044	**225 683**
Remaining maturity:		
In one year or less, or on demand	-	9 585
In more than one year, but not more than two years	7 890	-
In more than two years, but not more than five years	249 496	15 792
In more than five years	345 658	200 306
	603 044	**225 683**

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.

Guaranteed undated subordinated callable step-up notes

On 23 January 2007 Investec Finance plc issued £350 000 000 of 6.25% guaranteed undated subordinated step-up Notes callable 2017 at a discount. Interest is paid semi-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 23 January 2017, subject to the prior consent of the Financial Services Authority. On 23 January 2017 the interest rate will be reset to become three month LIBOR plus 2.11% payable quarterly in arrears

As a result on the acquisition of NM Rothschild & Sons (Australia) Limited, as shown in note 22, Investec Australia Limited now has the following subordinated debt instruments in issue:

Guaranteed subordinated medium-term notes

A$53 500 000 of floating rate medium-term notes (MTN) issued on 3 December 2004 at 3 month Bank Bills Swap Rate (BBSW) plus 1.05%. The maturity date is 3 December 2014. Interest is payable quarterly up to and excluding the early redemption date 3 December 2009. After this date, if the issuers call is not exercised, the interest will be the aggregate of 3 month BBSW plus 1.55% payable quarterly in arrears.

A$21 500 000 of fixed rate MTN at 6.75% issued on 3 December 2004. The maturity date is 3 December 2014. Interest is payable semi-annually up to and excluding the early redemption date 3 December 2009. After this date, if the issuers call is not exercised, the MTN will convert to floating rate and the interest will be the aggregate of 3 month BBSW plus 1.55% payable quarterly in arrears.

A$25 000 000 of floating rate MTN issued on 10 August 2005 at 3 month BBSW plus 0.90 per cent. The maturity date is 10 August 2015. Interest is payable quarterly up to and excluding the early redemption date 10 August 2010. After this date, if the issuers call is not exercised, the interest will be the aggregate of 3 month BBSW plus 1.40% payable quarterly in arrears.

28. Subordinated liabilities (continued)

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 16 November 2004 Investec Bank (UK) Limited issued 10 434 zero coupon bonds of £1 000 each at an effective yield of 6.948%. The bonds mature on 16 November 2009.

On 31July 2006 Investec Bank (UK) Limited issued 10 000 zero coupon bonds of US$1 000 each at an effective yield of 4.48%. The bonds mature on 31 July 2009.

On 29 July 2004 Investec Bank (UK) Limited issued 17 000 zero coupon bonds of US$1 000 each at an effective yield of 4.57%. The bonds matured on 31 July 2006.

At 31 March £'000	2007	2006
29. Called up share capital		
Authorised		
The authorised share capital is £1 000 million (2006:£1 000 million) comprising:		
1 000 million ordinary shares of £1 each (2006: 1 000 million ordinary shares of £1 each)		
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At beginning of year	354 000	354 000
Issued during the year	151 000	-
At end of year	505 000	354 000
Nominal value of ordinary shares	**£'000**	**£'000**
At beginning of year	354 000	354 000
Issued during the year	151 000	-
At end of year	505 000	354 000
The unissued shares are under the control of the directors until the next annual general meeting.		
30. Minority interests		
Minority interests attributable to holders of ordinary shares in subsidiaries	66 478	233
	66 478	**233**

Notes to the financial statements (continued)

At 31 March £'000	2007 Total future minimum payments	2007 Present value	2006 Total future minimum payments	2006 Present value
31. Miscellaneous balance sheet items				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than 1 year	34 497	26 020	18 144	14 626
1 - 5 years	69 966	58 386	28 566	22 655
Later than 5 years	10 577	8 981	12 054	10 329
	115 040	**93 387**	**58 764**	**47 610**
Unearned finance income	**21 653**		**11 154**	

At 31 March 2007, unguaranteed residual values of £2 220 000 (2006: £2 117 000) have been accrued.

32. Cash flow reconciliations

For the year to 31 March £'000	2007	2006
Reconciliation of operating profit to net operating cash flows		
Operating profit	**185 169**	**116 141**
Adjustment for non cash items included in operating profit:		
Goodwill income statement amount	(10 680)	(1 071)
Depreciation and impairment of property, equipment and intangibles	8 095	2 719
Impairment of loans and advances	7 490	7 241
Operating income from associates	(864)	(447)
Dividends received from associates	423	76
Reconciliation of operating profit to net operating cash flows	**189 633**	**124 659**

At 31 March £'000	2007	2006

33. Commitments

Undrawn facilities	974 501	690 838
Other commitments	-	400
	974 501	**691 238**

The group has entered into 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	12 534	9 920
1-5 years	45 594	37 107
Later than 5 years	42 996	50 859
	101 124	**97 886**

At 31 March 2007, future minimum sublease payments of £10 595 000 (2006: £1 230 000) 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	34 497	946
1-5 years	69 966	1 730
Later than 5 years	10 577	122
	115 040	**2 798**

Investec leases assets to third parties under operating and finance lease arrangements including transport assets, machinery and property. The term of the leases range between 3 and 5 years with no annual escalation clauses. The majority of the leases have renewal options.

34. Contingent liabilities

Guarantees and assets pledged as collateral security:		
- guarantees and irrevocable letters of credit	101 691	77 293
- assets pledged as collateral security	365	403
Other contingent liabilities	-	1 948
	102 056	**79 644**

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 its banking business.

Legal proceedings

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

Notes to the financial statements (continued)

For the year to 31 March £'000	2007 Highest balance during the year*	2007 Balance at year end*	2006 Highest balance during the year*	2006 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:				
Loans	19 262	17 012	13 338	10 917
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.				
Amounts due from associates	8 538	8 118	19 056	4 562

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. Hedges

The group uses derivatives for management of financial risks relating to its asset and liabilitiy 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 in the Capital Markets business. 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 paramenters.

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 2007 £'000	Description of financial instrument as hedging instrument	Fair value of hedging instrument	Cumulative gains or losses on hedging	Year to date gains and losses on hedging instrument	Cumulative gains or losses on hedged	Year to date gains or losses on hedged item
Assets	Interest rate swap	3 956	2 741	2 710	(2 478)	(2 650)
Liabilities	Interest rate swap	(5 641)	5 365	3 623	(5 285)	(3 851)
	Fx currency swap	(102)	(348)	102	348	(102)
		(1 787)	**7 758**	**6 435**	**(7 415)**	**(6 603)**

2006	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains or losses on hedging instrument	Cumulative 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
	Fx currency swap	451	451	(451)
	Fx swap	(297)	(297)	297
		11 808	**4 758**	**(5 031)**

Group financial statements

Notes to the financial statements (continued)

36. 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 in terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in equity and transferred to the income statment when the cash flow occurs. The normal expected future cash flows that are subject to cash flow hedges are:

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Period cash flows are expected to occur	Ineffective portion recognised in principal transactions
2006				
Assets	Fx contract	30	monthly until Jul'06	-
Liabilities	Cross currency swap	134	quarterly until Jan'08	-
		164		

At 31 March £'000	2007	2006
Reconciliation of cash flow hedge reserve		
At beginning of year	164	-
Changes in fair value recognised directly in equity	79	164
Amounts removed from equity and recognised in income	(243)	-
At end of year	**-**	**164**

Hedges of net investments in foreign operations

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

At 31 March £'000	Fair value of hedging instrument recognised	Ineffective portion recognised in principal transaction
2007	(2 982)	-
2006	(2 411)	-

At 31 March 2007 £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
37. Maturity analysis								
Assets								
Cash and balances at central banks	30 856	11 971	-	-	-	-	-	42 827
Loans and advances to banks	135 243	531 074	26 890	26 965	-	50 215	10 780	781 167
Cash equivalent advances to customers	55	23 155	-	-	-	-	-	23 210
Reverse repurchase agreements and cash collateral on securities borrowed	1 979 936	-	-	-	-	-	-	1 979 936
Trading securities	182 465	35 679	166 332	26 820	34 957	40 088	58 300	544 641
Derivative financial instruments	180 645	53 956	8 742	9 689	29 252	49 349	1 229	332 862
Investment securities	58 542	240 856	379 945	241 215	510 832	308 152	7 505	1 747 047
Loans and advances to customers	515 288	283 264	434 079	375 557	508 703	2 242 347	260 533	4 619 771
Interests in associated undertakings	-	-	-	-	-	-	12 433	12 433
Deferred taxation assets	-	-	-	-	2 498	19 769	2 869	25 136
Other assets	461 282	257 732	68 517	27 478	1 361	11 522	208 872	1 036 764
	3 544 312	**1 437 687**	**1 084 505**	**707 724**	**1 087 603**	**2 721 442**	**562 521**	**11 145 794**
Liabilities								
Deposits by banks	57 095	356 326	1 684	56 631	99 857	775 060	25 126	1 371 779
Derivative financial instruments	-	40 788	19 164	7 031	11 742	16 144	19 515	114 384
Other trading liabilities	-	41 646	54 606	-	-	-	-	96 252
Repurchase agreements and cash collateral on securities lent	-	1 598 128	-	-	-	-	-	1 598 128
Customer accounts	1 231 159	911 253	1 720 256	149 788	103 701	305 660	26 839	4 448 656
Debt securities in issue	-	107 649	127 418	154 727	544 560	143 082	-	1 077 436
Current taxation liabilities	991	-	-	43 164	3 616	4 089	-	51 860
Deferred taxation liabilities	-	-	-	-	396	1 033	7 111	8 540
Other liabilities	499 081	285 586	47 723	61 991	1 759	2 875	201	899 216
	1 788 326	3 341 376	1 970 851	473 332	765 631	1 247 943	78 792	9 666 251
Subordinated liabilities	-	-	-	-	-	257 386	345 658	603 044
Equity	-	-	-	-	-	-	876 499	876 499
	1 788 326	**3 341 376**	**1 970 851**	**473 332**	**765 631**	**1 505 329**	**1 300 949**	**11 145 794**
Liquidity gap	**1 755 986**	**(1 903 689)**	**(886 346)**	**234 392**	**321 972**	**1 216 113**	**(738 428)**	**-**
Cumulative liquidity gap	**1 755 986**	**(147 703)**	**(1 034 049)**	**(799 657)**	**(477 685)**	**738 428**	**-**	**-**

Notes to the financial statements (continued)

At 31 March 2006 £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
37. Maturity analysis (continued)								
Assets								
Cash and balances at central banks	10 870	-	-	-	-	-	-	10 870
Loans and advances to banks	162 837	402 989	2 482	-	-	65 741	26 979	661 028
Cash equivalent advances to customers	54	-	-	-	-	-	-	54
Reverse repurchase agreements and cash collateral on securities borrowed	634 613	707	7 852	-	-	-	-	643 172
Trading securities	56 595	32 265	9 902	5 916	12 708	8 118	34 526	160 130
Derivative financial instruments	210 338	17 385	10 188	819	1 146	11 833	2 886	254 595
Investment securities	6 306	232 750	234 217	208 835	395 835	147 666	11 446	1 237 069
Loans and advances to customers	153 492	228 573	166 004	217 549	573 016	1 736 581	476 431	3 553 646
Other assets	512 605	262 477	11 697	4 039	14 699	50 078	87 945	943 540
	1 747 710	**1 177 146**	**442 342**	**437 158**	**997 418**	**2 002 017**	**640 313**	**7 464 104**
Liabilities								
Deposits by banks	41 970	186 344	105 621	147 405	47 642	503 864	26 321	1 059 167
Derivative financial instruments	34 477	2 472	2 197	522	393	5 224	3 492	48 777
Other trading liabilities	102 335	21 456	-	-	-	-	-	123 791
Repurchase agreements and cash collateral on securities lent	272 584	-	-	-	-	-	-	272 584
Customer accounts	940 924	713 808	1 467 010	158 283	128 927	206 799	29 853	3 645 604
Debt securities in issue	-	84 556	135 292	44 537	33 283	420 190	-	717 958
Other liabilities	508 153	193 973	33 972	4 738	37 603	3 937	370	782 746
	1 900 443	1 202 609	1 744 092	355 585	247 848	1 140 014	60 036	6 650 627
Subordinated liabilities	-	-	-	9 646	-	15 731	200 306	225 683
Equity	-	-	-	-	-	-	587 794	587 794
	1 900 443	**1 202 609**	**1 744 092**	**365 231**	**247 848**	**1 155 745**	**848 136**	**7 464 104**
Liquidity gap	**(152 733)**	**(25 463)**	**(1 301 750)**	**71 927**	**749 570**	**866 272**	**(207 823)**	**-**
Cumulative liquidity gap	**(152 733)**	**(178 196)**	**(1 479 946)**	**(1 408 019)**	**(658 449)**	**207 823**	**-**	**-**

	Principal activity	Country of incorporation	Interest % 2007	% 2006
38. Principal subsidiary companies				
Direct subsidiaries of Investec Bank (UK) Limited				
Investec Asset Finance PLC	Leasing company	England and Wales	100	100
Investec Finance plc	Debt issuer	England and Wales	100	100
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100	100
Guinness Mahon & Co Limited	Investment holding	England and Wales	100	100
European Capital Company Limited	Project finance	England and Wales	100	100
Investec Property Services Limited (trading as Taylor Rose)	Commercial property agency	England and Wales	100	100
Indirect subsidiaries of Investec Bank (UK) Limited				
Investec Bank (Australia) Limited	Banking institution	Australia	100	100
Investec Australia Limited (formerly NM Rothschild Australia Holdings Pty Limited)	Holding company	Australia	100	-
Investec Investment Holdings AG	Investment holding	Switzerland	100	100
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100	100
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100	100
Investec Trust (Guernsey) Limited	Trust company	Guernsey	100	100
Investec Trust (Switzerland) S.A.	Trust company	Switzerland	100	100
Investec Trust (Jersey) Limited	Trust company	Jersey	100	100
Global Ethanol Holdings Limited	Holding company	Australia	46.4	100
GEH LLC (formerly Midwest Grain Processors LLC)	Production and marketing of ethanol	USA	27.8	-
IdaTech LLC	Development of fuel cell technology	USA	86.7	-
All of the above subsidiary undertakings are included in the consolidated accounts				
Principal associated companies				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35	35

Investec Bank (UK) Limited Company Financial Statements

Directors' responsibility statement

In respect of the parent company financial statements.

The directors are responsible for preparing the annual report and parent company financial statements in accordance with applicable law and regulation.

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 company's financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standard and applicable law).

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
Cheif Executive Officer

28 June 2007

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 2007 which comprise the balance sheet, the statement of total recognised gains and losses and the related notes 1 to 30. 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 judgments 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 2007 and of its profit 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

28 June 2007

Balance sheet

At 31 March £'000	Notes	2007	2006
Assets			
Cash and balances at central banks		30 655	8 766
Treasury bills and other eligible bills	6	6 851	7 003
Loans and advances to banks	5	1 066 791	492 251
Loans and advances to customers	5/7	4 679 831	3 091 892
Debt securities	8	1 472 184	1 016 019
Equity shares	10	229 216	97 233
Interests in associated undertakings	11	1 342	1 337
Other participating interests	12	8 750	8 750
Shares in group undertakings	13	433 187	355 606
Intangible fixed assets	14	2 195	3 204
Tangible fixed assets	16	15 871	11 433
Derivative assets	25	251 836	248 107
Other assets	17	728 965	784 154
Prepayments and accrued income		2 458	1 599
		8 930 132	**6 127 354**
Liabilities			
Deposits by banks	5	1 938 573	1 657 629
Customer accounts	5	4 671 708	2 822 943
Debt securities in issue	5	92 519	61 756
Derivative liabilities	25	64 938	45 237
Trading liabilities - short positions in equities		96 252	123 791
Other liabilities	18	777 649	676 505
Accruals and deferred income		101 473	57 391
		7 743 112	5 445 252
Subordinated liabilities	5/20	560 390	224 690
		8 303 502	**5 669 942**
Equity			
Called up share capital	21	505 000	354 000
Share premium account		37 365	37 365
Other reserves		6 504	2 093
Profit and loss account		77 761	63 954
Total shareholder's equity	22	**626 630**	**457 412**
Total liabilities and shareholder's equity		**8 930 132**	**6 127 354**
Memorandum items			
Commitments	23	596 433	444 997
Contingent liabilities	24	83 025	79 851
		679 458	**524 848**

The directors approved the accounts on 28 June 2007

Bradley Fried
Chief Executive Officer

Statement of total recognised gains and losses

For the year to 31 March £'000	2007	2006
Profit for the year attributable to shareholder	78 807	60 810
Fair value movements on available for sale assets	4 553	(1 189)
Currency translation movements on foreign currency reserves of branches	(142)	199
Total recognised gains relating to the year	**83 218**	**59 820**
Effect of adoption of FRS 25/26 - Financial Instruments	-	12 347
Total gains recognised since the last annual report	**83 218**	**72 167**

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.

Investec Bank (UK) - significant accounting policies

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

Basis of presentation

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.

Goodwill

Goodwill represents the net excess of the purchase consideration over the fair value of 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.

Positive goodwill is amortised against income over its useful economic life, for a period not exceeding 20 years.

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

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 instrument 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 positions 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 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 determined using closing rates and 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 method 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.

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. In certain instances debt instruments which contain equity features are designated as held at fair value through profit and loss.

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 basis 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 instrument at fair value through profit and loss.

Investec Bank (UK) - significant accounting policies (continued)

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.

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.
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for at fair value through profit and loss.

Loans and receivables are measured at amortised cost, using the effective interest method, 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/ available for sale.
- 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 collectively on a portfolio of similar, homogeneous loans. 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 has expired.

Derivative instruments

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).

Hedge accounting

The bank applies either fair value or cash flow hedge accounting when the transactions meet the specified hedge accounting criteria. To qualify for 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.

Investec Bank (UK) - significant accounting policies (continued)

Hedge accounting is discontinued when it is determined that the hedging instrument ceases to be highly effective as a hedge; the hedging instrument expires, or is sold, terminated or exercised; when the hedged 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 instrument 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 instrument 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 of the hedging instrument, which represents an effective hedge, is initially recognised in equity and is released to the income statement in the same period 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 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".

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

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 instalment 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 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 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, which 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 0-33%
- 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.

Investec Bank (UK) - significant accounting policies (continued)

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 fair value less cost to sell 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.
- From 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.
- In respect of the taxable temporary differences associated with the investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences as will not reverse in the foreseeable future.

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 bank has no liabilities for other post retirement benefits.

Intangible assets

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

For intangible assets with a finite life, amortisation is provided on the depreciable amount of each intangible asset on a straight-line basis over the anticipated useful life of the asset (currently 3 to 8 years). 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 amortised, however they are tested for impairment on an annual basis.

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 on balance sheet.

Bank's own profit and loss account

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

Cash flow statement

The bank has taken advantage of the exemption in Financial Reporting Standard 1 to not 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.

Notes to the financial statements

For the year to 31 March £'000	2007	2006
1. Taxation		
Corporation tax		
United Kingdom		
- current tax on income for the year	25 009	21 617
- adjustments in respect of prior years	79	2 577
Total corporation tax	**25 088**	**24 194**
Deferred tax		
United Kingdom	**970**	**(3 791)**
Total tax charge for the year	**26 058**	**20 403**
Deferred tax comprises:		
Origination and reversal of temporary differences	(203)	(3 435)
Adjustment in respect of prior years	1 173	(356)
	970	**(3 791)**
The rates of corporation tax for the relevant years are:		
United Kingdom	30%	30%
Profit on ordinary activities before taxation	**104 865**	**81 233**
Tax on profit on ordinary activities	**26 058**	**20 403**
Effective tax rate	**25%**	**25%**
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%	31 460	24 367
Taxation relating to prior years	79	2 577
Capital allowance in excess of depreciation	(721)	(1 483)
Goodwill and non operating items	97	303
Permanently disallowed items for corporation tax purposes	2 250	2 933
Non-taxable income	(4 576)	(2 756)
Capital losses utlilised	-	(2 298)
Share options accounting expense	1 894	1 882
Share options exercised during the year	(2 987)	(1 950)
Overseas profits	176	619
UK - UK transfer pricing	220	-
Losses surrendered by fellow group companies without charge	(2 804)	-
Current corporation tax charge	**25 088**	**24 194**

For the year to 31 March £'000	2007	2006
2. Dividends		
Final dividend in previous year	30 000	15 000
Interim dividend for current year	35 000	27 500
Total dividend attributable to ordinary shareholder recognised in current financial year	**65 000**	**42 500**
3. Directors' emoluments		
Aggregate emoluments (excluding pension contributions)	9 222	5 741
Contributions to defined contributions scheme	284	92
	9 506	**5 833**
Number of directors in defined contributions scheme	4	4

Emoluments of the highest paid director were £3 507 171 (2006: £2 168 024) excluding £212 083 (2006: £30 000) of pension contributions to 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.

Notes to the financial statements (continued)

At 31 March £'000	At fair value through profit and loss Trading	Designated at inception	Loans and receivables	Available for sale	Financial assets or financial liabilities at amortised cost	Non-financial instruments	Total
4. Classification of financial assets and financial liabilities							
2007							
Assets							
Cash and balances at central banks	-	-	30 655	-	-	-	30 655
Treasury bills and other eligible bills	-	-	6 851	-	-	-	6 851
Loans and advances to banks	6 399	-	1 060 392	-	-	-	1 066 791
Loans and advances to customers	250 355	-	3 962 068	467 408	-	-	4 679 831
Debt securities	4 167	258 009	-	1 210 008	-	-	1 472 184
Equity shares	199 711	7 049	-	22 456	-	-	229 216
Interests in associated undertakings	-	-	-	-	-	1 342	1 342
Other participating interests	-	-	-	-	-	8 750	8 750
Shares in group undertakings	-	-	-	-	-	433 187	433 187
Intangible fixed assets	-	-	-	-	-	2 195	2 195
Tangible fixed assets	-	-	-	-	-	15 871	15 871
Derivative assets	251 836	-	-	-	-	-	251 836
Other assets	448 116	-	253 467	-	-	27 382	728 965
Prepayments and accrued income	-	-	-	-	2 458	-	2 458
	1 160 584	**265 058**	**5 313 433**	**1 699 872**	**2 458**	**488 727**	**8 930 132**
Liabilities							
Deposits by banks	3 517	-	-	-	1 935 056	-	1 938 573
Customer accounts	1 681 736	-	-	-	2 989 972	-	4 671 708
Debt securities in issue	-	-	-	-	92 519	-	92 519
Derivative liabilities	64 938	-	-	-	-	-	64 938
Trading liabilities - short positions in equities	96 252	-	-	-	-	-	96 252
Other liabilities	506 931	-	-	-	253 830	16 888	777 649
Accruals and deferred Income	-	-	-	-	101 473	-	101 473
Subordinated liabilities	-	-	-	-	560 390	-	560 390
	2 353 374	**-**	**-**	**-**	**5 933 240**	**16 888**	**8 303 502**

At 31 March £'000	At fair value through profit and loss Trading	Designated at inception	Loans and receivables	Available for sale	Financial assets or financial liabilities at amortised cost	Non-financial instruments	Total
4. Classification of financial assets and financial liabilities (continued)							
2006							
Assets							
Cash and balances at central banks	-	-	-	-	8 766	-	8 766
Treasury bills and other eligible bills	-	-	-	7 003	-	-	7 003
Loans and advances to banks	213 135	-	279 116	-	-	-	492 251
Loans and advances to customers	430 037	1 86 910	2 474 945	-	-	-	3 091 892
Debt securities	18 750	44 129	-	953 140	-	-	1 016 019
Equity shares	73 770	16 268	-	7 195	-	-	97 233
Interests in associated undertakings	-	-	-	-	-	1 337	1 337
Other participating interests	-	-	-	-	-	8 750	8 750
Shares in group undertakings	-	-	-	-	-	355 606	355 606
Intangible fixed assets	-	-	-	-	-	3 204	3 204
Tangible fixed assets	-	-	-	-	-	11 433	11 433
Derivative assets	248 107	-	-	-	-	-	248 107
Other assets	730 621	-	-	-	53 533	-	784 154
Prepayments and accrued income	-	-	-	-	1 599	-	1 599
	1 714 420	**247 307**	**2 754 061**	**967 338**	**63 898**	**380 330**	**6 127 354**
Liabilities							
Deposits by banks	-	-	-	-	1 657 629	-	1 657 629
Customer accounts	-	-	-	-	2 822 943	-	2 822 943
Debt securities in issue	-	-	-	-	61 756	-	61 756
Derivative liabilities	45 237	-	-	-	-	-	45 237
Trading liabilities - short positions in equities	123 791	-	-	-	-	-	123 791
Other liabilities	638 310	-	-	-	38 195	-	676 505
Accruals and deferred Income	-	-	-	-	57 391	-	57 391
Subordinated liabilities	-	-	-	-	224 690	-	224 690
	807 338	**-**	**-**	**-**	**4 862 604**	**-**	**5 669 942**

Notes to the financial statements (continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three month to six months	Six months to one year	One year to five years	Greater than five years	Total	Balances with group companies
5. Maturity of loans and deposits held at amortised cost									
2007									
Assets									
Loans and advances to banks	790 882	208 271	7 788	2 234	-	46 837	10 779	1 066 791	63 130
Loans and advances to customers	1 705 395	261 848	319 259	276 253	301 907	1 639 490	175 679	4 679 831	252 421
Liabilities									
Deposits by banks	70 391	546 243	412 980	55 205	96 948	746 027	10 779	1 938 573	697 959
Customer accounts	2 364 938	355 484	1 145 856	143 724	402 870	245 988	12 848	4 671 708	730 143
Debt securities in issue	-	-	51 099	25 888	15 532	-	-	92 519	-
Subordinated liabilities	-	-	-	-	-	19 073	541 317	560 390	546 831
2006									
Assets									
Loans and advances to banks	253 590	141 347	1 782	-	-	65 741	29 791	492 251	97 574
Loans and advances to customers	477 925	319 723	131 358	155 536	376 473	1 194 545	436 332	3 091 892	146 804
Liabilities									
Deposits by banks	310 720	185 167	415 069	154 899	60 568	504 883	26 323	1 657 629	720 524
Customer accounts	990 235	175 608	998 152	97 383	80 045	463 675	17 845	2 822 943	622 636
Debt securities in issue	-	30 372	25 310	-	6 074	-	-	61 756	-
Subordinated liabilities	-	-	-	-	9 645	15 732	199 313	224 690	199 313

At 31 March £'000	2007	2006
6. Treasury bills and other eligible bills		
Investment securities held at cost		
Other eligible bills - banks	-	-
Other eligible bills - other	6 851	7 003
	6 851	**7 003**
Investment securities:		
At beginning of year	7 003	6 813
Purchases	27 291	27 377
Maturities	(27 291)	(27 321)
Movement in fair value during the year	15	32
Exchange adjustments	(167)	102
At end of year	**6 851**	**7 003**

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

Notes to the financial statements (continued)

At 31 March £'000	2007	2006
7. Customer accounts		
Total loans and advances to customers	4 687 340	3 091 892
Less: trading book loans and cash equivalent debtors	(1 298 475)	(430 037)
	3 388 865	**2 661 855**
Category analysis		
Commercial property loans	1 202 787	1 043 182
Residential mortgages	477 457	451 228
Leases and instalment debtors	401	491
Corporate and public sector loans and advances	1 046 424	706 965
Other private bank lending	407 650	254 666
Other loans and advances	254 146	205 323
	3 388 865	2 661 855
Specific impairment	(5 970)	(1 772)
Portfolio impairment	(1 539)	(1 368)
	3 381 356	**2 658 715**
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments for bad and doubtful debts.		
Specific impairment		
At beginning of year	1 772	4 641
Charge to the income statement	6 010	323
Utilised	(1 802)	(3 194)
Exchange adjustments	(10)	2
At end of year	**5 970**	**1 772**
Portfolio impairment		
At beginning of year	1 368	934
Charge to the income statement	172	431
Exchange adjustments	(1)	3
At end of year	**1 539**	**1 368**

At 31 March £'000	2007	2006
8. Debt securities		
Trading securities and securities designated as at fair value through profit and loss:		
Unlisted debt securities	262 176	62 879
	262 176	62 879
Securities designated as available-for-sale:		
Unlisted bank and building society certificates of deposit	814 680	740 036
Other unlisted debt securities	395 328	213 104
	1 210 008	953 140
Total debt securities	**1 472 184**	**1 016 019**
Amounts include:		
Unamortised net premiums on investment securities	571	-

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

	2007	2006
Available-for-sale securities:		
At beginning of year	953 140	844 481
Re-designation on adoption of FRS 26	-	(19 534)
Movement to fair value on adoption of FRS 26	-	2 672
Additions	1 112 469	903 778
Sold/matured	(826 338)	(777 087)
Exchange adjustments	(20 954)	994
Movement in fair value during the year	(8 309)	(2 164)
At end of year	**1 210 008**	**953 140**

9. Securitisation

Investec Bank (UK) Limited has entered into several transactions, in the normal course of its business, in which it has transferred portfolios of financial assets directly to special purpose entities.
This 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 investments in notes issued by the SPV's.
The financial assets retained are held at fair value and shown within other debt securities above.

	2007	2006
Carrying amount of transferred assets	832 928	209 103
Carrying amount of associated liabilities	(791 001)	(197 017)
	41 927	**12 086**

Notes to the financial statements (continued)

At to 31 March £'000	2007	2006
10. Equity shares		
Trading securities and securities designated as at fair value through profit and loss:		
Listed	206 760	90 038
Unlisted	-	-
	206 760	90 038
Securities designated as available-for-sale:		
Listed	19 604	6 303
Unlisted	2 852	892
	22 456	7 195
Total equity shares	**229 216**	**97 233**
The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.		
Available-for-sale securities:		
At beginning of year, net of provisions	7 195	5 116
Re-designation on adoption of FRS 26	-	(409)
Additions	12 975	5 364
Disposals	(594)	(3 841)
Exchange adjustments	(1 981)	(11)
Movement to fair value	4 861	976
Fair value at end of year	**22 456**	**7 195**
11. Interests in associated undertakings		
Analysis of the movement in investment:		
At beginning of year	1 997	1 997
Addition	5	-
At end of year	**2 002**	**1 997**
Provision for impairment in value:		
At beginning of year	(660)	-
Provision made	-	(660)
At end of year	**(660)**	**(660)**
Net book value at the end of the year	1 342	1 337

The associated undertakings are unlisted.

For the year to 31 March £'000	2007	2006
12. Other participating interests		
Investment in other participating interests at cost, less provision	**8 750**	**8 750**
Analysis of the movement in investment:		
At beginning of year	9 161	9 124
Exchange adjustments	-	37
At end of year	**9 161**	**9 161**
Provision for impairment in value		
At beginning of year	(411)	-
Provision made	-	(411)
At end of the year	**(411)**	**(411)**
Net book value at the end of the year	8 750	8 750
Other participating interests:		
Listed	-	-
Unlisted	8 750	8 750
	8 750	**8 750**
Market value of listed securities	-	-

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.

Notes to the financial statements (continued)

For the year to 31 March £'000	2007	2006
13. Shares in group undertakings		
Cost		
At beginning of year	355 977	362 193
Transfer of shares in subsidiaries	-	(33 050)
Additions	76 391	579
Liquidation of subsidiary	-	(170)
Recapitalisation of subsidiaries	500	26 380
Exchange adjustments	690	45
At end of the year	**433 558**	**355 977**
Provision for impairment in value		
At beginning and end of year	**(371)**	**(371)**
Net book value at the end of the year	**433 187**	**355 606**

All subsidiary undertakings are unlisted.

For the year ended 31 March 2007:
On 7 July 2006 the bank acquired the entire share capital of NM Rothschild Australia Holdings Pty Limited and its subsidiary, NM Rothschild and Sons (Australia) Limited.

For the year ended 31 March 2006:
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.

At 31 March 2007 £'000	Total
14. Intangible fixed assets	
Bank	
Goodwill	
At beginning and end of year	19 553
Accumulated amortisation	
At beginning of year	(16 329)
Charge to the profit and loss account	(1 009)
At end of year	(17 338)
Net book value at 31 March 2007	**2 195**
Net book value at 31 March 2006	**3 204**

15. Acquisitions

On 7 July 2006 the bank acquired the entire share capital of NM Rothschild Australia Holdings Pty Limited and its subsidiary, NM Rothschild and Sons (Australia) Limited ("Rothschild"). At acquisition, Rothschild changed its name to Investec Australia Limited ("IAL") and on 29 September 2006 all the assets and liabilities of IAL were transferred to the bank's existing subsidiary, Investec Bank (Australia) Limited.

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

	Book value at date of acquisition	Fair value adjustment	Fair values at date of acquisition
Cash and balances at central banks	10 582	-	10 582
Loans and advances to banks	31 950	-	31 950
Trading securities	434 309	-	434 309
Derivative financial instruments	101 047	-	101 047
Loans and advances to customers	207 341	(5 999)	201 342
Deferred taxation assets	1 187	-	1 187
Other assets	3 063	-	3 063
Property and equipment	555	(140)	415
Total assets	**790 034**	**(6 139)**	**783 895**
Deposits by banks	77 050	-	77 050
Derivative financial instruments	73 191	-	73 191
Customer accounts	497 024	-	497 024
Other liabilities	6 113	1 953	8 066
Subordinated liabilities	40 634	-	40 634
Total liabilities	**694 012**	**1 953**	**695 965**
Fair value of net assets	**96 022**	**(8 092)**	**87 930**
Negative goodwill			(10 680)
Fair value of consideration			**77 250**

Notes to the financial statements (continued)

At 31 March 2007 £'000	Leasehold improvements	Furniture & vehicles	Computer equipment	Total
16. Tangible fixed assets				
Cost or valuation				
At beginning of year	15 396	3 991	6 834	26 221
Additions	55	96	6 015	6 266
At end of year	**15 551**	**4 087**	**12 849**	**32 487**
Accumulated depreciation and amortisation				
At beginning of year	(5 338)	(3 663)	(5 787)	(14 788)
Charge for the year	(859)	(58)	(588)	(1 505)
Impairment losses	(204)	(119)	-	(323)
At end of year	**(6 401)**	**(3 840)**	**(6 375)**	**(16 616)**
Net book value at 31 March 2007	**9 150**	**247**	**6 474**	**15 871**
Net book value at 31 March 2006	**10 058**	**328**	**1 047**	**11 433**

At 31 March £'000	2007	2006
17. Other assets		
Settlement debtors	670 492	730 622
Deferred tax asset (note 19)	8 707	8 332
Dealing properties	2 413	6 625
Other debtors	47 353	38 575
	728 965	**784 154**

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

18. Other liabilities		
Settlement creditors	729 610	638 308
Corporation and other taxes	36 234	24 260
Deferred tax liabilities (note 19)	-	217
Other creditors and accruals	11 805	13 720
	777 649	**676 505**

At 31 March £'000	2007	2006
19. Deferred tax		
Deferred tax asset		
Deferred capital allowances	392	2 174
Arising from unexpired share options	6 846	-
Other timing differences	1 469	6 158
	8 707	**8 332**
Deferred tax liability		
Other timing difference	-	(217)
	-	**(217)**
Net deferred tax asset	8 707	8 115
Reconciliation of net deferred tax asset		
At beginning of year	8 115	8 239
Adjustment on adoption of FRS 25 and 26	-	(4 843)
Credit directly in equity	1 562	928
Credit to profit and loss	(970)	3 791
At end of year	**8 707**	**8 115**

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.

Notes to the financial statements (continued)

For the year to 31 March £'000	2007	2006
20. Subordinated liabilities		
Dated subordinated debt		
Zero coupon bonds	21 254	25 377
Subordinated loans	539 136	199 313
	560 390	**224 690**
Remaining maturity:		
In one year or less, or on demand	-	9 585
In more than one year, but not more than two years	7 890	-
In more than two years, but not more than five years	206 870	15 792
In more than five years	345 630	199 313
	560 390	**224 690**

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 16 November 2004 Investec Bank (UK) Limited issued 10 434 zero coupon bonds of £1 000 each at an effective yield of 6.948%. The bonds mature on 16 November 2009.

On 31July 2006 Investec Bank (UK) Limited issued 10 000 zero coupon bonds of US$1 000 each at an effective yield of 4.48%. The bonds mature on 31July 2009.

On 29 July 2004 Investec Bank (UK) Limited issued 17 000 zero coupon bonds of US$1 000 each at an effective yield of 4.57%. The bonds matured on 31July 2006.

Subordinated loans

The net proceeds of two issues of step-up notes by a subsidiary of the bank, Investec Finance plc, have been onlent to the bank on a subordinated basis.

1. The term of the first 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.

2. The second loan is undated but it may be redeemed at any time after 23 January 2017. The interest rate on the loan is fixed at 6.4578% until 23 January 2017 and the interest is paid semi-annually. After 23 January 2017 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 28 of the consolidated financial statements of the bank.

For the year to 31 March	2007	2006

21. Called up share capital

Authorised

The authorised share capital is £1 000 million (2006: £1 000 million) comprising 1 000 million ordinary shares of £1 each (2006: 1 000 million shares of £1 each).

Issued, allotted and fully paid

	2007	2006
Number of ordinary shares	**Number**	**Number**
At beginning of year	354 000	354 000
Issued during the year	151 000	-
At end of year	**505 000**	**354 000**
Nominal value of ordinary shares	**£'000**	**£'000**
At beginning of year	354 000	354 000
Issued during the year	151 000	-
At end of year	**505 000**	**354 000**

The unissued shares are under the control of the directors until the next annual general meeting.

22. Reconciliation of shareholder's funds and movements in reserves

For the year to 31 March £'000	Share capital	Share premium account	Available for sale reserves	Foreign currency reserves	Profit and loss account	Total
At 1 April 2005	354 000	37 365	2 672	411	45 644	440 092
Foreign currency adjustments	-	-	-	199	-	199
Retained profit for the year	-	-	-	-	60 810	60 810
Fair value movements on available for sale assets	-	-	(1 189)	-	-	(1 189)
Dividends paid to ordinary shareholder	-	-	-	-	(42 500)	(42 500)
At 31 March 2006	**354 000**	**37 365**	**1 483**	**610**	**63 954**	**457 412**
Foreign currency adjustments	-	-	-	(142)	-	(142)
Retained profit for the year	-	-	-	-	78 807	78 807
Issue of ordinary shares	151 000	-	-	-	-	151 000
Fair value movements on available for sale assets	-	-	4 553	-	-	4 553
Dividends paid to ordinary shareholder	-	-	-	-	(65 000)	(65 000)
At 31 March 2007	**505 000**	**37 365**	**6 036**	**468**	**77 761**	**626 630**

Notes to the financial statements (continued)

For the year to 31 March £'000	2007	2006
23. Commitments		
Undrawn facilities	596 433	444 997
Other commitments	-	-
	596 433	**444 997**

The bank has entered into loan commitments in the normal course of its banking business.

24. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
- guarantees and irrevocable letters of credit	83 025	79 410
- assets pledged as collateral security	-	403
Other contingent liabilities	-	38
	83 025	**79 851**

The amounts shown above are only intended 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.

£'000

25. 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 the balance sheet date.

	Notional principal amounts 2007	Positive fair value 2007	Negative fair value 2007	Notional principal amounts 2006	Positive fair value 2006	Negative fair value 2006
Foreign exchange derivatives						
Forward foreign exchange	2 650 658	10 993	(3 365)	626 865	2 850	(2 037)
Currency swaps	2 234 642	4 591	(9 375)	1 557 984	3 531	(3 575)
OTC options bought and sold	21 501	105	-	40 238	104	(24)
Other foreign exchange contracts	-	-	-	550 037	425	(388)
OTC derivatives	4 906 801	15 689	(12 740)	2 775 124	6 910	(6 024)
Exchange traded futures	-	-	-	142 200	2	-
Exchange traded options	-	-	-	-	-	-
	4 906 801	**15 689**	**(12 740)**	**2 917 324**	**6 912**	**(6 024)**
Interest rate derivatives						
Caps and floors	113 399	161	(37)	135 347	107	(100)
Swaps	477 522	28 699	(31 619)	3 027 859	18 384	(17 064)
Forward rate agreements	-	-	-	-	-	-
OTC options bought and sold	80 000	13	-	-	-	-
Other interest rate contracts	-	-	-	- -	-	-
OTC derivatives	670 921	28 873	(31 656)	3 163 206	18 491	(17 164)
Exchange traded futures	7 542 438	58	(6)	43 540	47	(115)
Exchange traded options	118 533 158	-	(156)	-	-	-
	126 746 517	**28 931**	**(31 818)**	**3 206 746**	**18 538**	**(17 279)**
Equity and stock index derivatives						
OTC options bought and sold	424 470	7 037	(707)	31 600	13 077	(28)
Equity swaps and forwards	455 582	5 881	(9 212)	2 543	177	(2 532)
OTC derivatives	880 052	12 918	(9 919)	34 143	13 254	(2 560)
Exchange traded futures	735 632	1 931	(54)	15 930	21	-
Exchange traded options	15 116	1 062	(1 022)	50 726	671	(318)
Warrants	264 390	29 110	-	45 987	32 947	-
	1 895 190	**45 021**	**(10 995)**	**146 786**	**46 893**	**(2 878)**
Commodity derivatives						
OTC options bought and sold	9 344	37 830	(12 062)	209 155	64 685	(3 777)
Commodity swaps and forwards	843 641	132 496	(43 837)	602 307	109 424	(30 300)
OTC derivatives	852 985	170 326	(55 899)	811 462	174 109	(34 077)
Exchange traded futures	556 649	176 301	(141 801)	695 327	169 734	(167 946)
Exchange traded options	463 094	55 677	(70 866)	1 321 183	41 095	(39 260)
	1 872 728	**402 304**	**(268 566)**	**2 827 972**	**384 938**	**(241 283)**

Notes to the financial statements (continued)

For the year to 31 March £'000	Notional principal amounts 2007	Positive fair value 2007	Negative fair value 2007	Notional principal amounts 2006	Positive fair value 2006	Negative fair value 2006
25. Derivatives (continued)						
Credit derivatives						
Credit linked notes bought and sold	-	-	-	6 043	-	(121)
Credit swaps bought and sold	55 505	494	(897)	5 755	-	(3)
	55 505	**494**	**(897)**	**11 798**	**-**	**(124)**
Embedded derivatives	**430 028**	**19 475**	**-**	**105 177**	**13 177**	**-**
Gross fair values		511 914	(325 016)		470 458	(267 588)
Effect of on balance sheet netting		(260 078)	260 078		(222 351)	222 351
Trading derivatives per balance sheet		**251 836**	**(64 938)**		**248 107**	**(45 237)**

26. 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 bank.

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.

	Description of financial instrument designated as hedging	Fair value of hedging instrument	Cumulative gains or losses on hedging instrument	Year to date gains and losses on hedging instrument	Cumulative gains or losses on hedged item	Year to date gains or losses on hedged item
Assets	Interest rate swap	3 690	2 102	2 029	(1 832)	(1 976)
Liabilities	Interest rate swap	(5 268)	5 738	3 996	(5 662)	(4 228)
	Fx currency swap	(102)	(348)	102	348	(102)
		(1 680)	7 492	6 127	(7 146)	(6 306)

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 £'000	2007 Fair value of hedging instruments	2006 Fair value of hedging instruments
A$ 240 million - Cross currency swaps	(2 982)	(2 411)

Notes to the financial statements (continued)

£'000	2007 Highest balance during the year	2007 Balance at year end	2006 Highest balance during the year	2006 Balance at year end
27. Related party transactions				
Transactions, arrangements and agreements involving directors, key management and connected persons and companies controlled by them:				
Loans	5 350	3 341	3 303	2 545

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 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 exemptions permitted in Financial Reporting Standard No 8.

For the year to 31 March £'000	2007	2006
28. Miscellaneous		
Assets subject to sale and repurchase transactions, including stock borrowed against cash collateral:		
Loans and advances to banks	-	212 428
Loans and advances to customers	1 979 936	430 037
Investment securities	255 571	-
	2 235 507	642 465
The loans and advances above reside within the trading book and are secured with debt securities or equities.		
Value of liabilities secured by assets, including stock lent against cash collateral:		
Deposits by banks	-	-
Deposits by customers	1 598 127	272 584
	1 598 127	272 584
Stock borrowing and lending		
Stock borrowed against non-cash collateral	313 526	239 977
Stock lent against non-cash collateral	60 419	72 102

29. 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.

As at 31 March	Principal activity	Country of incorporation	Interest % 2007	Interest % 2006
30. Principal subsidiary and associated undertakings				
Direct subsidiary undertakings of Investec Bank (UK) Limited				
European Capital Company Limited	Project finance	England and Wales	100	100
Guinness Mahon & Co Limited	Investment holding company	England and Wales	100	100
Investec Asset Finance PLC	Leasing	England and Wales	100	100
Investec Finance plc	Debt issuer	England and Wales	100	100
Investec Group Investments (UK) Limited	Investment holding company	England and Wales	100	100
Investec Property Services Limited (trading as Taylor Rose)	Commercial property agency	England and Wales	100	100
Indirect subsidiary undertakings of Investec Bank (UK) Limited				
Investec Bank (Australia) Limited	Banking institution	Australia	100	100
Investec Australia Limited (formerly NM Rothschild Australia Holdings (Pty) Limited)	Holding company	Australia	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
Global Ethanol Holdings Limited	Holding company	Australia	71.4	100
GEH LLC (formerly Midwest Grain Processes LLC)	Production and marketing of ethanol	USA	42.8	-
Ida Tech LLC	Development of fuel cell technology	USA	86.7	-
All of the above subsidiary undertakings are included in the consolidated accounts.				
Principal associated undertaking of Investec Bank (UK) Limited				
Markets Holdings Limited	Supplier of trading platforms	British Virgin Islands	34	34

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