Investec Bank (Channel Islands) Limited

Abridged financial statements for the year ended 31 March 2006

Investec
Private Bank

Directors

H. Herman (Chairman)
M. Mirghavameddin
C. P. Goodwin
S. D. Henry
R. A. R. Evans (Non executive)
L. Blitz (Non executive)
S. Heilbron (Non executive)

Secretary

Finistere Secretaries Ltd

Auditors

Ernst & Young LLP
14 New Street
St Peter Port
Guernsey

Registered Office

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Investec Bank (Channel Islands) Limited is a wholly owned subsidiary of Investec Overseas Investments Limited which is incorporated in Great Britain, and registered in England and Wales. The ultimate holding company is Investec plc.

Copies of the full financial statements of Investec Bank (Channel Islands) Limited are available on request.

This past year was excellent for the Bank here in the Channel Islands, as it was for the group as a whole. We have reported a fourth consecutive year of profit growth and a balance sheet now worth over £1 billion, securing our position as one of the fastest growing banks in the Islands. Client deposits continue to grow at an impressive rate when compared to four years ago, while the loan book has been driven by increased locally-generated business.

This year's strong performance is attributable partly to our continued relationship with the Investec Trust Company, in addition to closer links with external trust companies and corporate clients in the Channel Islands and in other financial centres. We continue to focus on attracting high quality staff and have made a number of important appointments, which we anticipate will help to drive our business over the next 12 months.

These results vindicate our strategy of concentrating our efforts and resources on both high net worth private clients and the fiduciary sector. Investment and development in our back office systems has allowed our clients to benefit from online and real-time information on their finances.

Work continues to ensure that the Bank is prepared to meet the requirements of the Basel II Regulations expected in 2007 via our Operational Risk Review. The implementation of the EU Savings Directive on 1 July 2005 went smoothly.

This year's results are a credit to the quality of our employees who deliver consistently high levels of service to our clients. We believe that they thrive on the distinctive Investec culture, which fosters an entrepreneurial attitude and top performance. I would also like to thank our valued clients for their contribution and we will do all that we can to retain and grow this loyal client base in the coming years.

Hugh Herman
Chairman
July 2006

To the Directors of Investec Bank (Channel Islands) Limited

We have examined the abridged financial statements on pages 5 to 13 together with the audited financial statements of Investec Bank (Channel Islands) Limited for the year ended 31 March 2006. The scope of our work for the purpose of this report was limited to confirming whether the abridged financial statements have been properly prepared from the audited financial statements and have been drawn up in a manner authorised by the Guernsey Financial Services Commission.

In our opinion the abridged financial statements have been extracted from the audited financial statements and have been drawn up in accordance with the provisions of The Banking Supervision (Bailiwick of Guernsey) Law, 1994 in a manner authorised by the Guernsey Financial Services Commission.

On 30 June 2006 we reported, as auditors of Investec Bank (Channel Islands) Limited, to the shareholders on the audited financial statements as follows:

"We have audited the company's financial statements for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 26. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable Guernsey law.

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 and are properly prepared in accordance with The Companies (Guernsey) Law, 1994, The Banking Supervision (Bailiwick of Guernsey) Law, 1994 and The Protection of Investors (Bailiwick of Guernsey) Law, 1987. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Accounting Standards, of the state of the company's affairs as at 31 March 2006 and have been properly prepared in accordance with The Companies (Guernsey) Law, 1994, The Banking Supervision (Bailiwick of Guernsey) Law, 1994 and The Protection of Investors (Bailiwick of Guernsey) Law, 1987.

Furthermore, we have examined the Statement of Financial Resources set out on page 20 and in our opinion the financial resources requirement specified in Rule 4.02 of The Collective Investments Schemes (Designated Persons) Rules 1988 has been satisfied."

The statement of directors' responsibilities referred to in our audit report on the full financial statements, reproduced above, was as follows:

"The Directors are responsible for preparing 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 period and are in accordance with applicable laws. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with The Banking Supervision (Bailiwick of Guernsey) Law, 1994 and The Companies (Guernsey) Law, 1994. The Directors also have additional responsibilities as the company is a Designated Person under The Protection of Investors (Bailiwick of Guernsey) Law, 1987 and The Collective Investment Schemes (Designated Persons) Rules, 1988. 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."

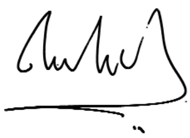
Ernst & Young LLP
Guernsey, Channel Islands
30 June 2006

Year ended 31 March (£'000)	Notes	2006	2005 Restated
Net interest income		11 234	9 421
Other income		6 393	3 639
		17 627	13 060
Expenses including taxation	4	7 906	5 101
Operating profit for the financial year		9 721	7 959
Retained profit brought forward		30 657	22 698
Retained profit carried forward		40 378	30 657

The notes on pages 7 to 13 form part of these abridged financial statements.

Year ended 31 March (£'000)	Notes	2006	2005 Restated
Assets			
Cash, current accounts with banks, money at call		25 064	8 921
Short-term deposits with banks, local authorities and others	3	830 198	513 569
Debt securities		122 413	57 946
Loans and advances to customers	4	366 260	275 754
Investments	5	100	210
Accrued income and other debtors		8 917	5 396
Fixed assets		1 263	1 359
		1 354 215	863 155
Liabilities and equity shareholders' funds			
Share capital	6	14 652	8 652
Reserves and share premium account	4, 7	60 726	37 005
Equity shareholders' funds		75 378	45 657
Deposit and current accounts	3	1 271 242	811 764
Accruals and other creditors (including taxation)		7 595	5 734
		1 354 215	863 155

The abridged financial statements on pages 5 to 13 were approved by the Board of Directors on 27 July 2006 and are signed on its behalf by:

M. Mirghavameddin 

S. D. Henry 

The notes on pages 7 to 13 form part of these abridged financial statements.

at 31 March 2006

1. Principal accounting policies

The following accounting policies are applied consistently in dealing with items which are considered material in relation to the Financial Statements of the Company:

(a) Basis of preparation

The abridged financial statements are prepared under the historical cost convention, as modified for the revaluation of certain investments and in accordance with applicable Guernsey law and United Kingdom accounting standards.

(b) Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies and associated forward foreign exchange contracts at the Balance Sheet date are translated at the rates ruling at that date. Foreign exchange gains and losses are included in the Profit & Loss Account.

(c) Debt securities

Debt securities, comprising certificates of deposit, are generally held to maturity and are included in the Balance Sheet at cost. Gains and losses on sale are recognised upon realisation.

(d) Investments

Investments comprise subsidiary investments.

Subsidiaries are held for the long term and included at cost.

The difference between cost and valuation is reflected in the Profit and Loss Account.

Realised gains and losses on the sale of investments are reflected in the Profit and Loss Account.

(e) Loans

Loans are included at the principal amount outstanding, net of unearned income and less specific provisions. This represents a change in accounting policy. Previously the company's provisioning policy required that the company have a general provision for bad debts to satisfy the requirements of the South African Reserve Bank. This resulted in a general provision that was higher than would be acceptable under United Kingdom accounting standards. The effect of this change in accounting policy is shown in note 4.

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation.

(g) Depreciation

Depreciation is calculated so as to write off the cost of fixed assets over their anticipated useful lives using the straight line method.

(h) Income and expenditure

Income and expenditure are accrued on a daily basis.

(i) Forward foreign exchange contracts

Forward contracts are carried at their fair values. Fair values are based on quoted market prices when available.

(j) Consolidation and cashflow statement

Since the company is a wholly owned subsidiary, in accordance with Financial Reporting Standard Number 2: Accounting for Subsidiary undertakings, the abridged financial statements present information about the company as an individual undertaking and not about its group. For the same reason, in accordance with Financial Reporting Standard Number 1: Cash Flow Statements, the company is exempt from the requirement to prepare a cashflow statement.

(k) Related party transactions

The company is exempt from disclosure of certain transactions required by Financial Reporting Standard Number 8: Related Party Disclosures, as it is a wholly owned subsidiary company and the consolidated financial statements of the group in which the company is included are publicly available.

at 31 March 2006

2. Review of the bank's risk profile

Risk management
The company's financial instruments comprise customer deposits and other market borrowings, some cash and liquid resources, and other assets and liabilities arising directly from the company's operations.

The main risks arising from the company's financial instruments are credit risk, liquidity risk, financing and interest rate risk, foreign currency risk and market price risk. The company's Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since 1 April 2005.

Treasury policies
The company's liquidity risk, and exposure to interest rate and foreign exchange risks are managed by the company's treasury department. Treasury seeks to reduce or eliminate financial risk, to ensure sufficient liquidity is available to meet forseeable needs and to invest cash assets safely and profitably. It operates within policies and procedures agreed by the company's Board of Directors and the ultimate parent company, which include strict controls on the use of financial instruments in managing the company's risk.

Although the company does not actively trade, it is authorised to take small positions in currency within the overall limits imposed by the company's Board of Directors.

Credit risk
Credit risk is the risk that a customer or counterparty will be unwilling or unable to meet a commitment that it has entered into with the company. The company continuously reviews the credit quality of counter-parties and limits individual aggregate exposures accordingly. The company's Board of Directors receive regular reports on the credit exposures. These include information on large credit exposures, asset concentration, levels of bad debt provisioning and country exposure limits.

Financing and interest rate risk
Exposure to interest rate risk is the risk that arises when there is an imbalance between rate and non rate-sensitive assets, liabilities and off balance sheet items. The company's policy is to maintain the interest rate risk at a minimal level except that management may invest the shareholders' funds in fixed or floating rate instruments in response to market conditions.

Company policy dictates that interest rates should not be fixed for any period greater than one year. If circumstances arise which require rates to be fixed for greater than one year, the company enters into interest rate swaps to manage that risk. At 31 March 2006 no significant contracts were entered into.

Liquidity risk
Liquidity risk is the risk that the company will encounter difficulty in realising assets or otherwise raising funds to meet commitments. The company's policy throughout the year has been to set limits for sight to 8 days and sight to 1 month liquidity.

Surplus funds are invested in high quality liquid marketable instruments including money market instruments and bank deposits. Debt securities held during the year include Certificates of Deposit. The company does not enter into commodity contracts.

Foreign currency risk
Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in the foreign exchange rates. The company's foreign exposure arises from providing services to customers. The company's policy is to hedge against foreign exchange risks by matching currency liabilities with currency assets. The company's Board of Directors receive regular reports on foreign currency exposures. The table in note 9 shows the company's exposure to major currencies as at 31 March 2006.

Market price risk
Liquidity and trading values are an issue with unquoted investments and opportunities for the accumulation and disposal of holdings may be limited.

Interest rate sensitivity gap analysis
Part of the company's return on financial instruments is obtained from controlled mismatching of the date on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The following table summarises these repricing mismatches on the company's non-trading book as at 31 March 2006. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date, taking into account the effects of derivatives whose effect is to alter the interest base of an asset or liability.

at 31 March 2006

Interest rate sensitivity gap analysis

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
Assets							
Cash, current accounts with banks, money at call	25 064	–	–	–	–	–	25 064
Short term deposits with banks, local authorities and others	805 196	10 834	14 168	–	–	–	830 198
Debt securities	47 880	31 511	43 022	–	–	–	122 413
Loans and advances to customers	336 490	23 722	6 570	–	–	(522)	366 260
Investments	–	–	–	–	–	100	100
Accrued income and other debtors	–	–	–	–	–	8 917	8 917
Fixed assets	–	–	–	–	–	1 263	1 263
Total assets	1 214 630	66 067	63 760	–	–	9 758	1 354 215

at 31 March 2006

Interest rate sensitivity gap analysis (continued)

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
Liabilities							
Share capital	–	–	–	–	–	14 652	14 652
Reserves and share premium account	–	–	–	–	–	60 726	60 726
Deposit and current accounts	1 040 646	159 237	71 051	308	–	–	1 271 242
Accruals and other creditors (including taxation)	–	–	–	–	–	7 595	7 595
Total liabilities	1 040 646	159 237	71 051	308	–	82 973	1 354 215
Interest rate sensitivity gap	173 984	(93 170)	(7 291)	(308)	–	(73 215)	–
Cumulative interest rate sensitivity gap as at 31 March 2006	173 984	80 814	73 523	73 215	73 215	–	–
Cumulative interest rate sensitivity gap as at 31 March 2005	(183 970)	(128 769)	(78 865)	29 698	44 426	–	–

at 31 March 2006

3. Maturities of certain assets and liabilities

Short-term deposits with banks, local authorities and others

(£'000)	2006	2005
Repayable:		
Up to one month	486 399	256 010
From one month to three months	318 789	234 251
From three months to one year	25 010	23 308
	830 198	513 569

Deposit and current accounts

(£'000)	2006	2005
Repayable:		
Up to one month	644 264	320 281
From one month to three months	493 165	396 457
From three months to one year	77 351	27 224
From one year to five years	36 655	57 163
Five years and over	19 807	10 639
	1 271 242	811 764

4. Provision for loan losses

The company's provisioning policy requires that the company has a general provision for bad debts to satisfy the requirements of the South African Reserve Bank. In previous years the movement in the general provision has been charged to the profit and loss account. The provision is now an allocation of distributable reserves to a non-distributable reserve (see note 7). As a result of this change in accounting policy the prior year figures have been restated. The effect of this has been to increase prior years' operating profit by £858,714 for 2005 and £1,039,949 for previous years, and for a reallocation of the same amount to a non-distributable reserve.

A specific provision of £522,018 has been recognised in the year ended 31 March 2006.

at 31 March 2006

5. Investments

Name of subsidiary	Nature of business	Issued Capital	% held	Country of incorporation
Investec Bank (Channel Islands) Nominees Limited	Nominee company	100 000	100%	Guernsey

Investec Investment Management (Channel Islands) Limited was liquidated during 2005/2006. A gain of £118,781 is recognised in the 2005/2006 results of Investec Bank (Channel Islands) Limited as a result of this liquidation.

6. Share capital

(£'000)	2006	2005
Authorised: 23,250,000 ordinary shares of £1 each	23 250	23 250
Allotted, called up and fully paid: ordinary shares of £1 each	14 652	8 652

Share capital issued during year (£'000):	Share capital	Share premium	Total
3 million ordinary shares of £1 (issued 11 November 2005)	3 000	7 000	10 000
3 million ordinary shares of £1 (issued 21 March 2006)	3 000	7 000	10 000
	6 000	14 000	20 000

at 31 March 2006

7. Reserves and share premium account

(£'000)	Share premium	Money Market provision	SARB provision	Profit & loss	Total
Balance at 31 March 2005	6 348	614	–	28 144	35 106
Effect of prior year adjustment	–	–	–	1 899	1 899
Transfer to SARB provision (restated)	–	–	1 899	(1 899)	–
Restated balance at 31 March 2005	6 348	614	1 899	28 144	37 005
Shares issued in year (see note 6)	14 000	–	–	–	14 000
Profit for year	–	–	–	9 721	9 721
Transfer to SARB provision	–	(614)	1 614	(1 000)	–
Balance at 31 March 2006	20 348	–	3 513	36 865	60 726

The Money Market Provision is a non distributable reserve calculated as 0.25% of the value of money market loans as at 31 March 2005. This has been consolidated with the SARB provision in the year ended 31 March 2006. The SARB provision is a non-distributable reserve. This reserve is required by the South African Reserve Bank.

8. Commitments and contingent liabilities

In the normal course of business there are various outstanding commitments and contingent liabilities that are not reflected in the financial statements.

(£'000)	2006	2005
Forward foreign exchange contracts – nominal values	476 377	874 674
Guarantees	11 436	14 037
Undrawn loans	103 086	54 260

9. Currency exposure

The currency exposure is stated in the Sterling equivalent

(£'000)	£	US$	Euro	Other	Total
Assets	864 057	309 543	138 293	42 322	1 354 215
Liabilities	(864 237)	(308 987)	(138 350)	(42 641)	(1 354 215)
Off balance sheet assets/(liabilities)	149	(1 693)	(193)	1 724	(13)
Net position at 31 March 2006	(31)	(1 137)	(250)	1 405	(13)
Net position at 31 March 2005	(2 031)	8 345	(3 837)	(2 415)	62

10. Pension costs

The company operates a money purchase pension scheme. Contributions of the company were 10%, 13%, 15%, 20% or 27% of staff salaries, depending on age and length of service.

Other group private banking companies

Investec Bank (UK) Limited, London and Manchester

Investec Bank (UK) Limited, Dublin Branch

Investec Administration Services Limited

Investec Trust (Guernsey) Limited

Investec Trust (Jersey) Limited

Investec Bank (Switzerland) Limited, Zurich

Investec Trust (Switzerland) S.A.

Investec Trust (Mauritius) Limited

Investec Australia Limited, Sydney

Investec Bank Limited
- Johannesburg
- Cape Town
- Durban
- Port Elizabeth
- Pretoria

Banking services

The Bank offers competitive savings products across multiple currencies, ranging from easy access to notice and fixed term deposit accounts.

Investec Horizon Account

This 90 day notice account is available in Sterling, US dollar and Euro and offers highly competitive interest rates which will never fall below the UK Base, US Federal Reserve Bank or the European Central Bank rates.

Direct Reserve Account

For those clients wishing to invest larger sums, this account is a multi-currency, high interest savings account offering consistently competitive rates of interest.

Private Interest Current Account

This account is an easy access account available in eight currencies giving clients flexibility to manage their finances more effectively.

Foreign exchange and treasury services

The Bank actively manages its own foreign exchange and treasury book enabling clients to gain access to competitive prices for spot and forward foreign exchanges, as well as fixed term deposits.

Custody

The Bank offers a fully-integrated execution only securities dealing and custody service for those who wish to manage their own investments.

Investment management

Clients have access to a variety of traditional and alternative investments through bespoke managed portfolios and specialist one-off investments.

Lending

The Bank lends across a wide range of asset classes to meet clients' liquidity, funding/financing and asset securitisation needs.

Trust and corporate services

Through Investec Trust, the Bank is able to provide specialist trust advice and expertise necessary for the planning and management of family wealth for future generations.

Terms and conditions apply to all products and services. Investec Bank (Channel Islands) Limited is registered in accordance with the Banking Supervision (Bailiwick of Guernsey) Law 1994, as amended and is regulated by the Guernsey Financial Services Commission to carry on banking and investment business.