



Investec Bank (Channel Islands) Limited
Abridged financial statements for the year ended 31 March
2012

Out of the Ordinary®



Specialist Bank

Directors, Officers and Professional Advisers

Directors

A. Tapnack (Chairman)
D. Fitch
K. Allen
R. Le Roux
S. D. Henry
C. P. Goodwin (Non executive)
R. A. R. Evans (Non executive)
P. Stevens (Non executive)

Secretary

Finistere Secretaries Ltd

Auditors

Ernst & Young LLP
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St Peter Port
Guernsey

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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.

Chairman's statement

I am delighted to be able to report a strong performance for the year ended 31 March 2012. The results are particularly impressive seen against the background of testing market conditions in which they have been achieved. Financial markets continue to suffer from the effects of recession and uncertainty about the future persists, particularly in the Eurozone countries.

Profit after tax for the period was £17.4m, an increase of 31% over the previous year. Indeed this result is the second highest annual profit in the bank's history. Furthermore, loan balances have increased by 15% in the year, reaching £629m at 31 March 2012, whilst deposit balances broke through £1.5bn, ending the year at £1.53bn, a rise of 4%, in the year under review.

The improvement in profitability has been driven by continuing a strategy begun in 2011 to utilise liquidity more efficiently, notably as a result of investing surplus funds in higher yielding Treasury assets. Much of this investment has been in collateralised assets, thereby reducing the credit risk on interbank loans. In addition, the bank has also sub-participated in a number of loans from its parent, Investec Bank plc. As well as improving profitability, these assets have provided the benefit of diversification, reducing the proportion of the loan portfolio secured by property.

Despite the growth of the loan book, the loan to deposit ratio remains a relatively conservative 41%. The level of impairments at 0.4% (2011 0.2%) is satisfactorily low, while liquidity remains strong. In addition the bank remains well capitalised, with a Tier 1 Capital ratio of 14.15% (2011 14.16%).

In August 2012 the bank relocated to new purpose built offices in St Peter Port. These offices allow all staff to be housed on one floor, enabling teams in the business to work together more easily and continue to deliver the high levels of service for clients that has been crucial to the success of the business. The relocation also provides evidence of Investec's commitment to the Channel Islands. The offshore banking business remains a vital part of the Investec Group's operations.

Investment in back-office systems has allowed the bank to launch an online Foreign Exchange function for intermediary clients who prefer to conduct their banking transactions online. Work is on-going to ensure that the bank's systems are compliant with changes required by the Foreign Account Tax Compliance Act (FATCA).

Corporate social responsibility is also important to Investec Bank (Channel Islands) Limited. A partnership with Amherst Primary School in Guernsey has now been in place for over a year, which sees Investec staff assisting with reading, running sporting activities, and working to improve the school's grounds. Similarly, the bank's Jersey Branch works closely with the Le Tournoi, the most diverse sporting charitable organisation in the Channel Islands. Le Tournoi organises a variety of sporting events to raise much needed funds for charitable organisations in Jersey but also to enable people of all ages and abilities to participate in sports who otherwise, would not have the opportunity so to do.

As always, the Board are extremely grateful to the employees of the bank. These results are testament to their enthusiasm, professionalism and dedication.

Finally, on behalf of the Board I would like to thank our clients for their loyal support. I would like to assure them that we will continue to work to deliver the outstanding levels of customer service which differentiates us from our competitors.

Alan Tapnack
Chairman

Independent Auditor's report

To the Directors of Investec Bank (Channel Islands) Limited

We have examined the abridged financial statements on pages 5 to 18 together with the audited financial statements of Investec Bank (Channel Islands) Limited for the year ended 31 March 2012. 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 28 June 2012 we reported, as auditors of Investec Bank (Channel Islands) Limited, to the members on the audited financial statements as follows:

"We have audited the financial statements of Investec Bank (Channel Islands) Limited for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 38. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. 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 explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent mis-statements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012, and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008, The Banking Supervision (Bailiwick of Guernsey) Law, 1994 and the Protection of Investors (Bailiwick of Guernsey) Law, 1987.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008, The Banking Supervision (Bailiwick of Guernsey) Law, 1994 and the Protection of Investors (Bailiwick of Guernsey) Law, 1987 require us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit."

Independent Auditor's report

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

“Statement of Directors’ Responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey law and generally accepted accounting practices.

Guernsey Company law requires the Directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Company and of the profit or loss of that Company for that period. In preparing those financial statements the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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 confirm that they have complied with the above requirements in preparing the financial statements. They also confirm that so far as they are aware, there is no material relevant audit information of which the Company's auditors are unaware and they have taken all the steps they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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, 2008. 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

2 November 2012

Profit and loss account

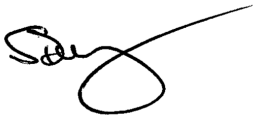
Year ended 31 March (£'000)	2012	2011
Net interest and similar income	27 212	22 085
Net other income	4 888	3 371
Total income	32 100	25 456
Expenses including taxation	14 690	12 128
Profits for the financial year	17 409	13 328
Retained profit brought forward	112 630	101 892
Dividend paid	–	20 000
Retained profit carried forward	112 630	95 220

The notes on pages 7 to 18 form part of these abridged financial statements.


Balance sheet

As at 31 March (£'000)	Notes	2012	2011
Assets			
Loans and advances to banks	3	476 885	495 375
Reverse repurchase agreements		192 066	86 031
Debt securities held to maturity		376 632	477 934
Derivative financial instruments		3 949	20 276
Loans and advances to customers		628 728	545 143
Investment in subsidiary company	5	100	100
Other assets		4 720	1 670
Intangible fixed assets		317	289
Tangible fixed assets		1 838	654
		1 685 235	1 627 472
Liabilities and equity shareholders' funds			
Share capital	6	14 652	14 652
Reserves and share premium account	7	134 442	117 128
Equity shareholders' funds		149 094	131 780
Derivative financial instruments		3 963	20 064
Deposit and current accounts	3	1 529 008	1 473 696
Other liabilities (including taxation)		3 170	1 932
		1 685 235	1 627 472

The abridged financial statements on pages 5 to 18 were approved by the Board of Directors on 2 November 2012 and are signed on its behalf by:



S. D. Henry



R. Le Roux

The notes on pages 7 to 18 form part of these abridged financial statements.

Notes to the abridged financial statements at 31 March 2012

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company:

Basis of preparation

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

Foreign currency transactions

The presentation and functional currency of the Company is sterling.

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 at the balance sheet date are translated at the rates ruling at the date. Foreign exchange gains and losses are included in the profit and loss account.

Forward foreign exchange contracts are valued using appropriate valuation techniques applying a comparison to similar instruments for which market observable prices exist. Gains and losses are recognised in the profit and loss account.

Investment in subsidiary

Subsidiaries are held for the long term and are included at cost, subject to regular impairment review.

Impairment losses are recognised as an expense in the profit and loss account in the period in which they are identified.

Realised gains and losses on the sale of investments are reflected in the profit and loss account.

Property, plant, equipment and intangible assets

Property and equipment is recorded at cost less accumulated depreciation and provision for impairment.

Depreciation and amortisation 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 cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the Company would currently obtain from the disposal of an asset of similar age and condition as expected at the end of the useful life of the asset.

The annual depreciation and amortisation rates for each class of asset is as follows:

	%
Leasehold improvements	Over the Term of the lease
Office equipment – furniture and fittings	20%-33%
Office equipment – general	15%-20%
Office equipment – computer equipment	33%
Intangible assets	33%
Freehold property	Nil (market value is deemed to be greater than cost)

Freehold property – no depreciation is charged on freehold property as the market value is deemed to be greater than the cost.

Impairment of non financial assets

The Company assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Share-based payments

Equity-settled transactions

The Company operates share option and share purchase schemes for employees, on an equity 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 staff to share in the risks and rewards of the Company.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

Notes to the abridged financial statements at 31 March 2012

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest or in the case of an instrument subject to market conditions, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

Revenue recognition

Interest income is recognised in the profit and loss account 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 exclude those fees earned for a separately identifiable significant act, which are recognised upon completion of the act.

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

Commissions and fees include fees earned from foreign exchange, credit related fees, bank charges and custodian services. All such commissions and fees are recognised as revenue when the related services are performed.

Financial instruments

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

Financial instruments designated as held at fair value through profit or loss include all instruments classified as held for trading and those instruments designated as fair value through profit or loss. Financial instruments are classified as trading when they are held with the intention of short term disposal, held with the 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 or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Held-to-maturity assets

Held to maturity assets are non-derivative financial instruments with fixed or determinable payments and maturity dates. Financial instruments that the Company 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, less impairment losses.

Due from banks and loans and advances to customers

'Due from banks' and 'Loans and advances to customers' are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial Investment – available for sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'interest and similar income' in the profit and loss account. Any losses arising from impairment are recognised in the profit and loss account.

Notes to the abridged financial statements at 31 March 2012

Available for sale financial assets

Available for sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity, or loans and receivables. They include strategically held equity instruments that are not associates, joint ventures or subsidiaries of the group. Further, certain loans and receivables that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available for sale financial assets.

Financial assets classified as available for sale are measured at fair value on the balance sheet, with unrealised gains and losses recognised in reserves. When the asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit and loss account. Interest earned whilst holding available for sale financial assets is reported as interest income using the effective interest rate. Dividends earned whilst holding available for sale financial assets are recognised in the profit and loss account when the right of payment has been established.

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

Impairments on available for sale equity instruments are not reversed once recognised in the profit and loss account.

If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reserved, limited to the impairment value previously recognised in the profit and loss account.

Financial liabilities

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

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

Liabilities held for trading or designated as held at fair value through profit or loss are accounted for as indicated above.

Fair value

Financial instruments carrying values in the financial statements closely represents their fair value due to the balances being short-term in nature and thus approximate their fair value.

Derecognition of financial assets and liabilities

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

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

Derivative instruments

Derivatives include forward foreign exchange contracts and embedded derivatives on profit share agreements.

All derivative instruments of the Company are initially recorded and remeasured 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.

Changes in the fair value of derivatives held for trading are included in operating income.

Sale and repurchase agreements

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". The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Hedge accounting

The Company applies fair value hedge accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the Company ensures that all of the following conditions are met:

- At inception of the hedge the Company formally documents the relationship between the hedging instrument and hedged item including the risk management objectives and the strategy in undertaking the hedge transaction
- The hedge is expected to be highly effective in achieving offsetting, that is within a range of 80% to 125%, changes in fair value attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship
- The effectiveness of the hedge can be reliably measured, i.e. the fair value 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.

Notes to the abridged financial statements at 31 March 2012

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

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the profit and loss account. Changes in fair value of the hedged item that are attributable to the risk hedged are recorded as part of the carrying value of the hedged item and are also recognised in the profit and loss account.

Financial guarantees

In the ordinary course of business, the Company gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value in 'Other liabilities' being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

The premium received is recognised in the profit and loss account in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

Impairment of loans and advances

The Company reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the profit and loss account. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Consolidation and cash flow statement

Since the Company is a wholly owned subsidiary, in accordance with FRS2 (Financial Reporting Standard Number 2: Accounting for Subsidiary Undertakings) the financial statements present information about the Company as an individual undertaking and not about its Group. For the same reason, in accordance with FRS1 (Financial Reporting Standard Number 1: Cash Flow statements), the Company is exempt from the requirements to prepare a cash flow statement.

Related party transactions

The Company is exempt from disclosure of certain transactions required by FRS8 (Financial Reporting Standard 8: Related Party Disclosure), 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. Any reference to Holding Company in the financial statements refers to either an immediate or other controlling party in the Investec Group.

Taxation

Current and deferred tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Notes to the abridged financial statements at 31 March 2012

2. Review of the bank's risk profile

Risk management

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls.

The Company is exposed to credit risk, liquidity risk, financing and interest rate risk, foreign currency risk, market risk and operational risk. The Company's Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Risk Management processes throughout the Company are audited by the internal audit function, that examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings to the Audit Committee of the Company's parent company.

Monitoring and controlling risks is primarily performed based on limits established by the Company or allocated to the Company by its parent company. Reports are prepared daily to ensure that all agreed limits are adhered to. A daily summary is circulated to Senior Management, to identify any breaches of Market limits, Foreign Exchange exposures, Interest Rate risk and Liquidity.

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 foreseeable 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 credit exposures. These include information on large credit exposures, asset concentration, levels of bad debt provisioning and country exposure limits.

Total Credit Exposures are summarised below:

As at 31 March (£m)	2012	2011
Loans and advances to banks	477	495
Reverse repurchase agreements	192	86
Loans and advances to customers	629	545
Debt securities held to maturity	377	478
Derivative financial instruments	4	20
Other Assets	6	3
Total on Balance Sheet Credit Exposures	1 685	1 627
Guarantees	3	4
Undrawn Loans	57	47
Total Credit Exposures	1 745	1 678

Of the total 'Loans and advances to banks', £358.0m (75%) was due from Investec Bank plc (2011: £358.0m).

Of the total 'Loans and advances to customers', 99% (£629m) was fully secured by collateral (2011: £544.0m). The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral are residential property, commercial property, cash and investment portfolios.

£38 million of loans are considered as watchlist and nil considered as past due as at 31 March 2012 (2011: £9.0m and nil). These loans are aged in the 90 to 180 days range.

In addition to placing funds with the Company's parent, funds are also placed with other banks. The Company has limits on the maximum value of funds it can place with any counterparty. These limits are approved by Group Credit and allocated to the Company. These limits are monitored daily and any breaches of limits are reviewed by the Company's Board of Directors.

Notes to the abridged financial statements at 31 March 2012

An analysis of the counterparty risk on loans and advances to banks is shown below:

Fitch Rating	As at 31 March 2012				As at 31 March 2011			
	Limit £m	%	Exposure £m	%	Limit £m	%	Exposure £m	%
AAA	–	0.0%	–	0.0%	–	0.0%	–	0.0%
AA+	–	0.0%	–	0.0%	50	1.3%	–	0.0%
AA	170	7.2%	11	2.3%	231	5.8%	23	4.6%
AA-	442	18.8%	18	3.8%	1 218	30.8%	20	4.0%
A+	365	15.5%	–	0.0%	885	22.4%	–	0.0%
A	785	33.4%	53	11.1%	810	20.5%	2	0.4%
A-	55	2.3%	–	0.0%	181	4.6%	50	10.1%
BBB+	10	0.4%	–	0.0%	55	1.4%	–	0.0%
BBB	525	22.4%	395	82.8%	525	13.3%	400	80.8%
Unrated	–	0.0%	–	0.0%	–	0.0%	–	0.0%
	2 352	100.0%	477	100.0%	3 955	100.0%	495	100.0%

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.

Page 15 shows management's estimate of the interest rate sensitivity gap as at 31 March 2012. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

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.

The Company monitors interest rate risk using MPM (Million Pound Months) analysis. Using this analysis, exposures are expressed on the basis of residual term to earliest interest re-pricing date (in months) x nominal value of the exposure. Limits are set for each currency and are monitored daily.

Summary of MPM Position:

Currency	As at 31 March 2012			As at 31 March 2011		
	MPM Position £m	MPM Limit £m	% Utilisation	MPM Position £m	MPM Limit £m	% Utilisation
GBP	373	1 300	29%	74	1 300	6%
USD	(32)	500	6%	(36)	500	7%
JPY	(1)	85	1%	(1)	85	1%
EURO	(162)	500	32%	(254)	500	51%
Others	22	50	44%	21	50	43%
Overall	590	2 000	30%	386	2 000	19%

The Overall MPM limit represents the maximum exposure permitted. It does not equate to the sum of the individual currency limits.

Notes to the abridged financial statements at 31 March 2012

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 eight days and sight to one 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 comprise Certificates of Deposit, Treasury bills, Floating Rate Notes and Fixed Rate Bonds. The Company does not enter into commodity contracts.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cashflows indicated by the Company's deposit retention history.

	Up to one month	More than one month but 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	Over one year	Total
At 31 March 2012						
Liabilities						
Deposits by banks	9 568 603	–	–	–	–	9 568 603
Customer accounts	708 093 069	620 684 388	23 997 231	121 697 729	60 717 000	1 535 189 417
Derivative financial instruments	2 838 613	417 148	71 762	471 627	260 266	4 059 416
Loan commitments	56 779 881	–	–	–	–	56 779 881
Guarantees	550 000	–	–	2 239 553	598 061	3 387 613
At 31 March 2011						
Liabilities						
Deposits by banks	16 327 449	–	–	–	–	16 327 449
Customer accounts	647 867 185	662 464 622	31 503 936	72 039 388	58 554 635	1 472 429 766
Derivative financial instruments	11 965 280	587 547	328 992	7 177 109	4 917	20 063 845
Loan Commitments	47 440 748	–	–	–	–	47 440 748
Guarantees	500 000	–	2 181 773	500 000	787 755	3 969 528

Notes to the abridged financial statements at 31 March 2012

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's foreign exposure arises from providing services to customers. The Company's policy is to hedge against foreign exchange risk by matching currency liabilities with currency assets. The Company's Board of Directors receive regular reports on foreign currency exposures.

Fluctuations in exchange rates can have an effect on profit and equity. The table below summarises the effect on profit of a 5% increase of exchange rates against sterling, assuming the net positions in each currency remain unchanged. The table shows the main exposures of the Company. A negative value indicates a decrease in profit. Due to the policy of matching currency liabilities with currency assets, the effect of exchange rate movements on profit is minimal.

	Increase in FX rate against GBP	31 March 2012 Effect on profit £	31 March 2011 Effect on profit £
USD	5%	13 341	10 158
NZD	5%	(450)	(668)
SEK	5%	(871)	801
CHF	5%	753	1 911
EUR	5%	16 891	18 458
CAD	5%	(459)	753
JPY	5%	677	(1 808)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company does not expect to eliminate all operational risks, but through effective control procedures and by monitoring and responding to potential risks, the Company is able to manage the risks. All anticipated risks are identified and monitored, using Enterprise Risk Assessor software. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training, and assessment processes, including the use of internal audit.

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 2012. 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.

Notes to the abridged financial statements at 31 March 2012

Interest rate sensitivity gap analysis (£'000)

	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							
Fixed rate – up to 3%	933 389	(1 239)	(234)	(36)	–	–	931 880
Fixed rate – above 3%	299 110	34 328	16 561	10 096	–	–	360 095
Floating rate – up to 3%	136 582	–	–	–	–	–	136 582
Floating rate – above 3%	245 754	–	–	–	–	–	245 754
Non-interest bearing	–	–	–	–	–	10 924	10 924
Total Assets	1 614 835	33 089	16 327	10 060	–	10 924	1 685 235
Liabilities							
Fixed rate – up to 3%	234 607	18 140	88 081	2 219	–	–	343 047
Fixed rate – above 3%	80 307	3 397	25 482	7 412	–	–	116 598
Floating rate – up to 3%	1 060 795	–	–	–	–	–	1 060 795
Floating rate – above 3%	8 567	–	–	–	–	–	8 567
Non-interest bearing	–	–	–	–	–	7 133	7 133
Total Liabilities	1 384 276	21 537	113 563	9 631	–	7 133	1 536 140
Equity	–	–	–	–	–	149 095	149 095
Interest rate sensitivity gap before Interest Rate Swaps	230 559	11 552	(97 236)	429	–	(145 304)	–
Interest Rate Swaps	(2 229)	–	12 488	(10 259)	–	–	–
Interest rate sensitivity gap after Interest Rate Swaps	228 330	11 552	(84 748)	(9 830)	–	(145 304)	–
Cumulative interest rate sensitivity gap as at 31 March 2012	228 330	239 882	155 134	145 304	145 304	–	–
Cumulative interest rate sensitivity gap as at 31 March 2011	187 304	173 159	106 582	130 787	130 787	–	–

Notes to the abridged financial statements at 31 March 2012

3. Maturities of certain assets and liabilities

Loans and advances to banks

(£'000)	2012	2011
Repayable:		
Up to one month	233 488	2 499
From one month to three months	125 516	34 619
From three months to one year	110 131	138 843
From one year to five years	7 750	319 414
	476 885	495 375

Deposit and current accounts

(£'000)	2012	2011
Repayable:		
Up to one month	716 556	662 172
From one month to three months	620 595	672 907
From three months to one year	142 512	91 580
From one year to five years	37 233	34 947
Five years and over	12 112	12 110
	1 529 008	1 473 696

4. Provision for loan losses

Reconciliation of movements in specific impairments for bad and doubtful debts

(£'000)	2012	2011
Balance at beginning of year	1 069	2 082
Charge for year	2 246	1 836
Written off during year	(515)	2 849
Balance at end of year	2 800	1 069
Movement for the year	1 730	(1 013)

The specific impairment in each year relates to two commercial property loans.

The charge for the year figure comprises the actual charge for the year of £2,815,000 and the reversal of a provision of £569,525 which was applied to the prior year.

Notes to the abridged financial statements at 31 March 2012

5. Investments

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

6. Share capital

(£'000)	2012	2011
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	14 652

7. Reserves and share premium account

(£'000)	Share premium	Share based payment reserve	Available for sale reserve	Retained earnings	Total
Balance at 31 March 2011	20 348	784	775	95 221	117 128
Profit for year	–	–	–	17 409	17 409
Fair value movements available for sale assets	–	–	(695)	–	(695)
Share based payments adjustments	–	600	–	–	600
Balance at 31 March 2012	20 348	1 384	80	112 630	134 442

Notes to the abridged financial statements at 31 March 2012

8. Commitments and contingent liabilities

In the normal course of business there are various outstanding commitments and contingent liabilities.

(£'000)	2012	2011
Forward foreign exchange contracts – nominal values	1 003 869	1 716 438
Guarantees	3 388	3 969
Undrawn loans	56 780	47 441

9. Currency exposure

The currency exposure as at 31 March 2012 is stated in the Sterling equivalent.

(£'000)	£	US\$	Euro	Other	Total
Assets	897 207	493 733	163 668	130 627	1 685 235
Liabilities including shareholders' funds	(897 207)	(493 733)	(163 668)	(130 627)	(1 685 235)
Net assets/(liabilities)	–	–	–	–	–
Off balance sheet	407 567	375 288	81 527	139 495	1 003 877
Assets	(407 867)	(375 019)	(81 349)	(139 633)	(1 003 869)
Liabilities					
Net off balance sheet assets/(liabilities)	(300)	269	178	(138)	8

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.

11. Related party transactions

Administrative expenses include payments totalling £24,434 (2011: £6,574) to Mourant Ozannes (previously Ozannes Advocates and Notaries Public), for legal advice. Until 31 December 2003, R. A. R. Evans, a Non-Executive Director of Investec Bank (Channel Islands) Limited, was a Partner in Ozannes. He continues to work for Ozannes as a consultant. There were no payments outstanding to Ozannes as at 31 March 2012.

During the year there were no material transactions with key management personnel.

Other group private banking companies

Investec Bank plc, London and Manchester

Investec Bank plc, Dublin Branch

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

Our products and services

Banking services

The Company 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 a range of other currencies and offers highly competitive interest rates.

Direct Reserve Account

This account is a multi-currency, 32 day notice, 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 Company 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 Company offers a fully-integrated execution only securities dealing and custody service for those who wish to manage their own investments.

Investment management

Through Investec Wealth and Investments, clients have access to a variety of traditional and alternative investments through bespoke managed portfolios and specialist one-off investments.

Lending

The Company 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 Company is able to provide specialist trust advice and expertise necessary for the planning and management of family wealth for future generations.

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All local and non-local individual private client deposit accounts are held in Guernsey. Investec Bank (Channel Islands) Limited is a participant in both the Guernsey and Jersey Banking Deposit Compensation Schemes. These Schemes offer protection for "qualifying deposits/eligible deposits" up to £50,000, subject to certain limitations. The maximum total amount of compensation is capped at £100,000,000 in any 5 year period. Full details are available on request or alternatively on the Guernsey Scheme's website www.dcs.gg or on the Jersey States website which will also highlight the banking groups covered. Deposits made with the Bank, whether in Guernsey or Jersey, are not covered by the Financial Services Compensation Scheme under the Financial Services & Markets Act 2000 of the UK.

Interest is paid gross, without the deduction of tax. Automatic exchange of information applies where individuals are resident in the European Union. Telephone calls are recorded.

For further information on Investec Bank (Channel Islands) Limited and its products and services, visit www.investec.com or call +44 1481 723 506.

This document has also been approved by Investec Bank plc (Reg No. 489604) which is authorised and regulated by the Financial Services Authority. Registered address: 2 Gresham Street, London, EC2V 7QP.