



**Investec Bank (Channel Islands) Limited**  
Abridged financial statements for the year ended 31 March  
2013



*Out of the Ordinary®*

 **Investec**

# 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)  
S. Platts (Non executive - joined 12 June 2012)

## Secretary

Finistere Secretaries Ltd (Resigned 12 September 2012)

## Auditors

Ernst & Young LLP  
Royal Chambers  
St Julian's Avenue  
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.

## Chairman's statement

Although there were early signs of economic recovery in the latter part of the year under review, the operating environment for the year ended 31 March 2013 continued to be challenging for the banking sector and for Investec Bank (Channel Islands) Limited.

Notwithstanding, Investec Bank (Channel Islands) Limited continued to perform strongly and reported a profit for the period of £16.1m. Profitability was adversely impacted by a decline in returns earned on funds invested in the interbank market and the result for the year under review which was £1.3m below the previous year is, nevertheless, a creditable performance.

Deposit balances grew strongly during the year, reaching £1.64bn at 31 March 2013, an increase of £114m during the period, further improving an already strong liquidity position.

The capital position of the bank further strengthened during the year under review. As at 31 March 2013 the bank reported a Tier 1 capital ratio of 15.91% (31 March 2012 - 14.15%). The strength of the bank's capital position also enabled a dividend of £17.4m to be paid during 2013.

The strong liquidity and capital base provide the foundation for the bank to grow its customer loan book. The bank continues to focus on lending to Channel Islands based Trust Companies. In addition a Channel Islands Private Client Mortgage offering which has been successfully launched in Guernsey will be expanded into the Jersey market during 2013/14. The bank is also seeking to add additional staff to its Lending Teams in both Jersey and Guernsey in order to fully exploit available lending opportunities.

Changes in the regulatory environment continue to impact on the business. Significant efforts are being made to ensure that systems and processes are in place to ensure that the business will be compliant with the requirements of the Foreign Account Tax Compliance Act (FATCA).

The business also continues to improve the level of service it offers to its clients. A project is underway to improve the online banking system for Private Clients, allowing payments and foreign exchange transactions to be processed online.

The bank also continues to be highly active in its local community. In Jersey the bank now has a partnership with Brighter Futures, a charity which provides help to children, young people and families in the island. In Guernsey our partnership with Amherst Primary School has been extended for a further 3 years. The benefits of this partnership were specifically mentioned in a recent Government review of Primary Education in Guernsey.

Such activities could not take place without the efforts of a dedicated team of employees and I thank them on behalf of the Board for their loyal service.

Finally, as ever, my thanks go to our clients. On behalf of the Board I would like to express my appreciation for their loyalty and ensure them that the bank will continue to focus on providing outstanding levels of customer service and innovative solutions to their financial requirements.

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 2013. 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 27 June 2013 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 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 39. 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

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As explained more fully in the Statement of Directors' Responsibilities set out on pages 2 and 3, 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

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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

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In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013, 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

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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

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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 these 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  
Date: 3 October 2013

## Profit and loss account

Year ended 31 March (£'000)	2013	2012
Net interest and similar income	25 112	27 212
Net other income	3 781	4 888
<b>Total income</b>	<b>28 893</b>	<b>32 100</b>
Expenses including taxation	12 817	14 690
<b>Profits for the financial year</b>	<b>16 076</b>	<b>17 409</b>
Retained profit brought forward	112 630	112 630
Dividend paid	17 400	–
<b>Retained profit carried forward</b>	<b>111 306</b>	<b>112 630</b>

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

## Balance sheet

As at 31 March (£'000)	Notes	2013	2012
<b>Assets</b>			
Loans and advances to banks	3	448 879	476 885
Reverse repurchase agreements		256 974	192 066
Debt securities held to maturity		463 856	376 632
Derivative financial instruments		7 002	3 949
Loans and advances to customers		618 090	628 728
Investment in subsidiary company	5	100	100
Other assets		4 595	4 720
Intangible fixed assets		242	317
Tangible fixed assets		1 140	1 838
		<b>1 800 878</b>	<b>1 685 235</b>
<b>Liabilities and equity shareholders' funds</b>			
Share capital	6	14 652	14 652
Reserves and share premium account	7	132 483	134 442
Equity shareholders' funds		147 135	149 094
Derivative financial instruments		7 215	3 963
Deposit and current accounts	3	1 642 948	1 529 008
Other liabilities (including taxation)		3 580	3 170
		<b>1 800 878</b>	<b>1 685 235</b>

The abridged financial statements on pages 5 to 18 were approved by the Board of Directors on 3 October 2013 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 2013

## 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, plant, equipment and intangible assets are 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	10 years
Office equipment – furniture and fittings	20%-33%
Office equipment – general	15%-20%
Office equipment – computer equipment	33%
Intangible assets	33%

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 2013

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

#### (i) 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.

#### (ii) 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.

#### (iii) 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.

#### (iv) 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.

# Notes to the abridged financial statements at 31 March 2013

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.

## (v) 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 re-measured 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.

## Reverse 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".

## 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.

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.

## Notes to the abridged financial statements at 31 March 2013

### 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 2013

## 2. Review of the Company'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. Internal audit reviews occur on an 18 month rolling basis.

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)	2013	2012
Loans and advances to banks	449	477
Reverse repurchase agreements	257	192
Loans and advances to customers	618	629
Debt securities held to maturity	464	377
Derivative financial instruments	7	4
Other Assets	6	6
<b>Total on Balance Sheet Credit Exposures</b>	<b>1 801</b>	<b>1 685</b>
Guarantees	5	3
Undrawn Loans	54	57
<b>Total Credit Exposures</b>	<b>1 860</b>	<b>1 745</b>

Of the total 'Loans and advances to banks', £406.0m (90%) was due from Investec Bank plc (2012: £358.0m).

Of the total 'Loans and advances to customers', 99% (£616m) was fully secured by collateral (2012: £629.0m). 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.

£30 million of loans are considered as watchlist and nil considered as past due as at 31 March 2012 (2012: £38.0m and nil).

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 2013

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

Fitch Rating	As at 31 March 2013		As at 31 March 2012	
	Limit £m	Exposure £m	Limit £m	Exposure £m
AAA	-	-	-	-
AA+	-	-	-	-
AA	70	-	170	11
AA-	406	7	442	18
A+	520	4	365	-
A	867	24	785	53
A-	55	-	55	-
BBB+	25	-	10	-
BBB	35	-	525	395
*BBB-	500	409	-	-
Unrated	-	5	-	-
	<b>2 478</b>	<b>449</b>	<b>2 352</b>	<b>477</b>

\* The sole BBB- rated counterparty is the Company's Parent Investec Bank plc and the bulk of this exposure is secured.

### 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 2013. 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 2013			As at 31 March 2012		
	MPM Position £m	MPM Limit £m	% Utilisation	MPM Position £m	MPM Limit £m	% Utilisation
GBP	305	1 300	23%	373	1 300	29%
USD	(145)	500	29%	(32)	500	6%
JPY	(1)	85	1%	(1)	85	1%
EURO	(96)	500	19%	(162)	500	32%
Others	31	50	62%	22	50	44%
<b>Overall</b>	<b>578</b>	<b>2 000</b>	<b>29%</b>	<b>590</b>	<b>2 000</b>	<b>30%</b>

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 2013

### 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 Treasury bills, Floating Rate Notes, Fixed Rate Bonds and Asset Backed Securities. 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 2013	£	£	£	£	£	£
<b>Liabilities</b>						
Deposits by banks	5 830 982	2 009 373	759 921	–	–	8 600 276
Customer accounts	722 913 938	666 147 434	59 985 762	147 160 491	53 232 899	1 649 440 524
Derivative financial instruments	4 001 227	1 746 655	960 125	302 922	245 077	7 256 006
Loan commitments	53 707 637	–	–	–	–	53 707 637
Guarantees	–	–	–	350 494	4 657 727	5 008 221
<b>At 31 March 2012</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Liabilities</b>						
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	3 387 614

## Notes to the abridged financial statements at 31 March 2013

### 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.

	<b>Increase in FX rate against GBP</b>	<b>31 March 2013 Effect on profit £</b>	<b>31 March 2012 Effect on profit £</b>
USD	5%	13 221	13 341
NZD	5%	(70)	(450)
SEK	5%	850	(871)
CHF	5%	484	753
EUR	5%	12 093	16 891
CAD	5%	71	(459)
JPY	5%	519	677

### 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 2013. 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 2013

### 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
	£000	£000	£000	£000	£000	£000	£000
<b>Assets</b>							
Fixed rate – up to 3%	1 093 163	39 295	(15 230)	(9)	–	–	1 117 219
Fixed rate – above 3%	325 515	3 171	18 897	6 297	–	–	353 880
Floating rate – up to 3%	79 102	–	–	–	–	–	79 102
Floating rate – above 3%	237 597	–	–	–	–	–	237 597
Non-interest bearing	–	–	–	–	–	13 080	13 080
<b>Total Assets</b>	<b>1 735 377</b>	<b>42 466</b>	<b>3 667</b>	<b>6 288</b>	<b>–</b>	<b>13 080</b>	<b>1 800 878</b>
<b>Liabilities</b>							
Fixed rate – up to 3%	207 481	37 523	110 406	3 173	–	–	358 583
Fixed rate – above 3%	69 639	4 981	19 671	8 100	–	–	102 391
Floating rate – up to 3%	1 165 536	–	–	–	–	–	1 165 536
Floating rate – above 3%	16 438	–	–	–	–	–	16 438
Non-interest bearing	–	–	–	–	–	10 795	10 795
<b>Total Liabilities</b>	<b>1 459 094</b>	<b>42 504</b>	<b>130 077</b>	<b>11 273</b>	<b>–</b>	<b>10 795</b>	<b>1 653 743</b>
Equity	–	–	–	–	–	147 135	147 135
Interest rate sensitivity gap before Interest Rate Swaps	276 283	(38)	(126 410)	(4 985)	–	(144 850)	–
Interest Rate Swaps	(31 683)	–	32 705	(1 022)	–	–	–
Interest rate sensitivity gap after Interest Rate Swaps	244 600	(38)	(93 705)	(6 007)	–	(144 850)	–
Cumulative interest rate sensitivity gap as at 31 March 2013	244 600	244 562	150 857	144 850	144 850	–	–



# Notes to the abridged financial statements at 31 March 2013

## 3. Maturities of certain assets and liabilities

### Loans and advances to banks

(£'000)	2013	2012
Repayable:		
Up to one month	43 179	233 488
From one month to three months	105 597	125 516
From three months to one year	165 611	110 131
From one year to five years	134 492	7 750
	448 879	476 885

### Deposit and current accounts

(£'000)	2013	2012
Repayable:		
Up to one month	728 652	716 556
From one month to three months	666 724	620 595
From three months to one year	204 654	142 512
From one year to five years	30 808	37 233
Five years and over	12 110	12 112
	1 642 948	1 529 008

## 4. Provision for loan losses

### Reconciliation of movements in specific impairments for bad and doubtful debts

(£'000)	2013	2012
Balance at beginning of year	2 800	1 069
Charge for year	1 463	2 246
Written off during year	(479)	(515)
Balance at end of year	3 784	2 800
Movement for the year	984	1 730

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

## Notes to the abridged financial statements at 31 March 2013

### 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)	2013	2012
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 2012	20 348	1 384	80	112 630	134 442
Profit for year	–	–	–	16 076	16 076
Fair value movements available for sale assets	–	–	(881)	–	(881)
Dividends	–	–	–	(17 400)	(17 400)
Share based payments adjustments	–	246	–	–	246
<b>Balance at 31 March 2013</b>	<b>20 348</b>	<b>1 630</b>	<b>(801)</b>	<b>111 306</b>	<b>132 483</b>

## Notes to the abridged financial statements at 31 March 2013

### 8. Commitments and contingent liabilities

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

(£'000)	2013	2012
Forward foreign exchange contracts – nominal values	986 633	1 003 869
Guarantees	5 008	3 388
Undrawn loans	53 708	56 780

### 9. Currency exposure

The currency exposure as at 31 March 2013 is stated in the Sterling equivalent.

(£'000)	£	US\$	Euro	Other	Total
Assets	990 917	511 765	128 329	169 867	1 800 878
Liabilities including shareholders' funds	(990 917)	(511 765)	(128 329)	(169 867)	(1 800 878)
Net assets/(liabilities)	–	–	–	–	–
Off balance sheet					
Assets	375 619	275 152	115 345	220 543	986 659
Liabilities	(374 815)	(275 965)	(115 239)	(220 614)	(986 633)
Net off balance sheet assets/(liabilities)	804	(813)	106	(71)	26

### 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 £15,906 (2012: £24,434) to Mourant Ozannes, 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 2013.

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.

## Investec Current Account

This account is an easy access account available in a variety of 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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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](http://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](http://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 by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. Registered address: 2 Gresham Street, London, EC2V 7QP.