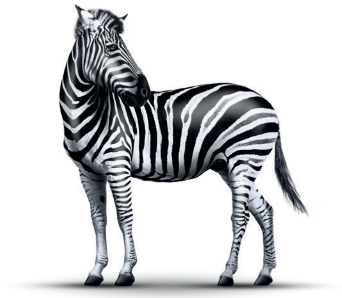
2016

INVESTEC BANK (CHANNEL ISLANDS) LIMITED

Abridged financial statements for the year ended 31 March 2016



Out of the Ordinary®

Investec

Directors, Officers and Professional Advisers

Directors

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

Auditors

Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey
GY1 4AF

Registered Office

Glategny Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 3LP
Channel Islands
Telephone: 01481 723506

Investec Bank (Channel Islands) Limited is a wholly owned subsidiary of Investec Bank plc which is incorporated in the United Kingdom and registered in England and Wales.

The company's ultimate parent undertaking and controlling party is Investec Bank plc ("the Group"), a company incorporated in the United Kingdom, registered in England and Wales and listed on the London Stock Exchange. The controlling company of Investec Bank plc is Investec plc.

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

Chairman's statement

I am pleased to present the results for Investec Bank (Channel Islands) Limited for the year ended 31 March 2016.

Our overall client lead strategy, focusing on long term relationships, has resulted in the bank reporting another strong set of results with a post tax profit for the year ended 31 March 2016 of £18.5m (2015 - £16.6m). These improved results have been achieved while still maintaining the efficient operational structure which the bank has established.

The continued strategy to grow our customer loan balances with particular focus on the chosen target markets of Private Clients and Trust and Fiduciaries within the Channel Islands has been a success in this financial year with £249m of new loans being drawn (2015: £213m). This success was enhanced by lower redemptions than in the prior year, ultimately resulting in overall loan balances growing by £94m. Continued investment by the bank in staff for Guernsey and Jersey has been an essential element in supporting this growth.

The additional recruitment in Jersey has allowed the bank to strengthen its Channel Island wide Private Client offering while at the same time supporting the continued growth in the Trust and Fiduciaries segment, both areas making an important contribution to the overall performance of the bank during the year while also providing exciting opportunities for the future.

The bank continues to be extremely liquid; Customer deposit balances have increased by £54m during the year (2015: £25m) to close at £1,759m (2015: £1,705m). In addition, under new Basel III reporting it continues to have a significant surplus capital as at 31 March 2016, with a Tier 1 capital ratio of 18.72% (2015: 21.33%) or a surplus of £49m when including the new Pillar 2 requirements. This liquidity and capital will enable the bank to achieve its growth plans.

Client experience remains a central focus of the bank and a significant investment is currently being made to secure this ongoing experience for the future. The improved online banking offering launched to Private Clients in the prior period is now embedded and increased usage has proven that the enhancements have been well received.

Much effort continues to be directed in ensuring the bank remains compliant with changes in its regulatory environment. Work undertaken to comply with both UK and US FATCA has ultimately resulted in submissions being successfully completed in advance of the regulatory deadlines, while work is ongoing in relation to the OECD Common Reporting Standard.

On behalf of the Board I would like to thank the employees, without whose unending dedication towards delivering first class client service the above performance would not have been achieved.

Finally, on behalf of the Board, I would like to thank the clients for their continued loyalty and assure them that they will always be central to the strategies of the bank, ensuring outstanding levels of client service continue in the future.

Alan Tapnack
Chairman
Date: 7 July 2016

Independent Auditor's report

To the Directors of Investec Bank (Channel Islands) Limited

We have examined the abridged financial statements on pages 5 to 19 together with the audited financial statements of Investec Bank (Channel Islands) Limited for the year ended 31 March 2016. 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 24 June 2016 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 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity 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, including FRS 101 "Reduced Disclosure Framework".

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 auditor's 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 Directors' Responsibilities Statement 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 the 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 the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework"; 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 requires 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:

"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 the 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 that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with The Banking Supervision (Bailiwick of Guemsey) Law, 1994 and The Companies (Guemsey) 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 Licences (Conduct of Business) Rules 2014. 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

Ernst & Young LLP
Guernsey, Channel Islands
Date: 7 July 2016

Statement of Comprehensive Income

Year ended 31 March (£'000)	2016	2015
Net interest and similar income	27 244	25 856
Net other income	5 130	3 656
Total income	**32 374**	**29 512**
Expenses including taxation	(13 886)	(12 889)
Profits for the financial year	**18 488**	**16 623**
Retained profit brought forward	111 853	112 817
Dividend paid	(12 000)	(17 587)
Retained profit carried forward	**118 341**	**111 853**

The notes on pages 7 to 19 form part of these abridged financial statements.

Balance sheet

As at 31 March (£'000)	Notes	2016	2015
Assets			
Loans and advances to banks	5	538 011	366 664
Reverse repurchase agreements		–	194 270
Loans and advances to customers		701 657	607 740
Debt securities		675 377	687 429
Derivative financial instruments		4 075	3 697
Investment in subsidiary company	7	100	100
Intangible fixed assets		692	732
Tangible fixed assets		1 059	1 051
Prepayments and accrued income		4 211	3 619
Other assets		2 112	673
		1 927 294	**1 865 975**
Liabilities and equity shareholders' funds			
Share capital	8	14 652	14 652
Reserves and share premium account	9	138 867	134 060
Equity shareholders' funds		153 519	148 712
Derivative financial instruments		4 187	3 674
Deposits by banks and Customer accounts	5	1 766 021	1 710 257
Other liabilities (including taxation)		3 567	3 332
		1 927 294	**1 865 975**

The abridged financial statements on pages 5 to 19 were approved by the Board of Directors on 7 July 2016 and are signed on its behalf by:

S. D. Henry

R. Le Roux

The notes on pages 7 to 19 form part of these abridged financial statements.

Notes to the abridged financial statements at 31 March 2016

1. Corporate information

Investec Bank (Channel Islands) Limited (the "Company") is a company incorporated and domiciled in Guernsey, Channel Islands.

2. Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable Guernsey law.

The Company is a wholly owned subsidiary company and the consolidated financial statements of the Group in which the Company is included are publicly available.

3. Summary of significant accounting policies

The following accounting policies have been applied consistently for all periods presented in dealing with items which are considered material in relation to the financial statements:

Basis of preparation

The Company transitioned from previously extant UK Accounting Standards to FRS 101 for all periods presented. There were no adjustments required as a result of this transition. The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IAS 7 Statement of Cash Flows;
(b) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose the nature and impact of IFRSs that have been issued but are not yet effective;
(c) the requirements of paragraph 17 of IAS 24 Related Party Disclosures to disclose key management personnel compensation;
(d) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
(e) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  (i) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  (ii) paragraph 118(e) of IAS 38 Intangible Assets;
(f) the requirements of paragraphs 10(d) and 10(f) of IAS 1 Presentation of Financial Statements.

These separate financial statements of the Company are prepared under the historical cost basis, except for debt securities and derivatives which are measured at fair value and present information about the Company as an individual undertaking.

Foreign currency transactions

The presentation and functional currency of the Company is Sterling.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income.

Investment in subsidiary

Subsidiaries are held for the long term and are held at cost less any applicable provision for impairment. Impairment losses are recognised as an expense in the statement of comprehensive income in the period in which they are identified.

Realised gains and losses on the sale of investments are reflected in statement of comprehensive income.

Tangible fixed and intangible assets

Property, plant, equipment and intangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Notes to the abridged financial statements at 31 March 2016

Depreciation is provided on all property, plant and equipment, and amortisation on intangible assets, on a straight-line basis over its expected useful life as follows:

	Useful life years	Useful life %
Leasehold improvements	10	10%
Office equipment - furniture and fittings	3-5	20% - 33%
Office equipment - general	5-6	15% - 20%
Office equipment - computer equipment	3	33%
Intangible assets	3	33%

The carrying values of property, plant and equipment and intangible assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment or intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the statement of comprehensive income in the period of derecognition.

Impairment of non-financial assets

The Company assesses the impairment of non-financial assets 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.

Impairment losses are recognised as an expense in the statement of comprehensive income in the period in which they are identified.

Share-based payments

Equity settled transactions

The Company operates share option and share purchase schemes for employees, on an equity settled basis. The purpose of the staff share schemes is to promote an 'esprit de corps' within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing 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).

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 profit and loss account, 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.

Notes to the abridged financial statements at 31 March 2016

Revenue recognition

Interest income

Interest income is recognised in the statement of comprehensive income as interest accrues using the effective interest method.

Fee and commission income

Fee and commission income includes 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.

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 cash flows of the underlying instrument. Where this is not readily available, the contractual cash flows is used.

Rental income

Rental income arising from operating leases on properties with other group entities is recognised on a straight line basis over the term of the lease.

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.

Income tax is recognised in the statement of comprehensive income.

Financial instruments

Initial recognition and measurement

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial instruments depends on their classification as follows:

i) Financial assets and financial liabilities held for trading

Financial instruments are classified as held for 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 assets or financial liabilities held for trading are recorded in the balance sheet at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to the payment has been established.

a) Financial assets

ii) Loans and receivables

Loans and receivables are non-derivative 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, loans and receivables are subsequently measured at amortised cost using the effective interest method, less 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 'Net Interest and similar income' in the statement of comprehensive income. Any losses arising from impairment are recognised in the statement of comprehensive income.

iii) Held-to-maturity assets

Held to maturity assets are non-derivative financial instruments with fixed or determinable payments and maturity dates that are not designated as at fair value through profit or loss or available for sale and are not loans and receivables. 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. The amortisation is included in 'Net Interest and similar income' in the statement of comprehensive income. Any losses arising from impairment are recognised in the statement of comprehensive income.

Notes to the abridged financial statements at 31 March 2016

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 subsequently measured at fair value on the balance sheet, with unrealised gains and losses recognised as other comprehensive income directly in equity to the available for sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in investment income. 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 as investment income in the statement of comprehensive income when the right of payment has been established.

The losses arising from impairment of such investments are recognised in the statement of comprehensive income in 'Expenses including taxation' and removed from the Available-for-sale reserve.

b) Financial liabilities

Financial liabilities classified as non-trading include Deposits by banks and Customer accounts while held for trading include derivative financial instruments.

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.

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.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of financial liabilities are recognised in investment income.

Fair value

Financial instruments such as debt securities and derivatives are reported at fair value at each balance sheet date. The value of assets held at amortised cost, loans and advances to banks and loans and advances to customers, is considered to be in line with their fair value.

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Derivative instruments

Derivatives include forward foreign exchange contracts and interest rate swaps.

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.

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.

Changes in the fair value of derivatives held for trading are included in 'Net other 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" reflecting the transaction's economic substance as a loan by the Company.

The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest rate method.

Notes to the abridged financial statements at 31 March 2016

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.

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 including taxation' being the premium received adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any present financial obligation arising as a result of the guarantee at reporting date.

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

Impairment of financial assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments), the Company assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Net Interest and similar income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'Credit loss expense'.

Notes to the abridged financial statements at 31 March 2016

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Company has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

Trade and other debtors

Trade debtors, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Impairments of financial assets

The Company reviews 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, judgment 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.

4. 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 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.

Notes to the abridged financial statements at 31 March 2016

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)	2016	2015
Loans and advances to banks	538	367
Reverse repurchase agreements	–	194
Loans and advances to customers	702	608
Debt securities held to maturity	675	687
Derivative financial instruments	4	4
Other Assets	8	6
Total on Balance Sheet Credit Exposures	**1 927**	**1 866**
Guarantees	6	6
Undrawn Loans	106	77
Total Credit Exposures	**2 039**	**1 949**

Of the total 'Loans and advances to banks', £290m (54%) was due from Investec Bank plc (2015 - £177m).

Of the total 'Loans and advances to customers', 99.27% (£697m) was secured by collateral (2015 - £608m). 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.

As at 31 March 2016 the net exposure to impaired loans is £3.9million of which £2.6million is also considered past due (2015 - £2.1m and £Nil). In addition £34.2 million of loans are considered watchlist (2015 - £28.5m) and there are £Nil considered past due without also being impaired (2015 - £5.8m).

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.

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

	As at 31 March 2016		As at 31 March 2015	
Fitch Rating	**Limit £m**	**Exposure £m**	Limit £m	Exposure £m
AAA	–	–	–	–
AA+	–	–	–	–
AA	20	–	20	–
AA-	286	121	188	21
A+	115	–	435	94
A	433	22	418	30
A-	255	86	155	–
BBB+	130	15	–	–
*BBB	525	293	40	–
BBB-	65	1	500	222
Unrated	–	–	–	–
	1 829	**538**	**1 756**	**367**

*The total BBB rated exposure of £293m relates to the Company's parent, Investec Bank plc. Of this exposure £250m is secured. (2015 - BBB-).

Notes to the abridged financial statements at 31 March 2016

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.

Management's estimate of the interest rate sensitivity gap as at 31 March 2016 is shown on page 16. 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 bank 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) nominal value of the exposure. Limits are set for each currency and are monitored daily.

Summary of MPM Position:

	As at 31 March 2016			As at 31 March 2015		
Currency	**MPM Position £m**	**MPM Limit £m**	**% Utilisation**	MPM Position £m	MPM Limit £m	% Utilisation
GBP	(722)	1 300	56%	(904)	1 300	70%
USD	(31)	500	6%	22	500	4%
JPY	–	50	0%	–	50	0%
EURO	(86)	500	17%	(101)	500	20%
AUD	6	50	12%	15	50	30%
CHF	–	50	0%	–	50	0%
Others	9	50	18%	(13)	50	26%
Overall	**(854)**	**2 000**	**(43%)**	**(1 055)**	**2 000**	**(53%)**

The overall MPM Position represents the absolute exposure rather than the sum of individual currency positions. The overall MPM limit represents the maximum exposure permitted. It does not equate to the sum of the individual currency limits.

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.

Notes to the abridged financial statements at 31 March 2016

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.

At 31 March 2016	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 £
Liabilities						
Deposits by banks	6 826 448	44 386	401 836	–	–	7 272 670
Customer accounts	1 044 930 827	584 694 838	58 389 349	46 642 578	27 673 000	1 762 330 592
Derivative financial instruments	2 975 985	15 333	830 914	224 284	140 118	4 186 634
Loan commitments	105 737 300	–	–	–	–	105 737 300
Guarantees	–	–	–	3 475 601	2 702 186	6 177 787

At 31 March 2015	£	£	£	£	£	£
Liabilities						
Deposits by banks	5 076 774	39 867	–	–	–	5 116 641
Customer accounts	818 603 910	749 718 726	55 763 192	46 739 385	38 872 686	1 709 697 899
Derivative financial instruments	1 250 421	50 890	2 386 825	45	–	3 688 181
Loan Commitments	76 783 988	–	–	–	–	76 783 988
Guarantees	–	–	–	3 365 870	2 640 883	6 006 753

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 and equity 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 and equity is minimal.

	Increase in FX rate against GBP	**31 March 2016 Effect on profit £**	31 March 2015 Effect on profit £
USD	5%	9 630	(9 484)
NZD	5%	569	252
SEK	5%	(1 575)	(44)
CHF	5%	(106)	1 147
EUR	5%	5 598	8 786
CAD	5%	(544)	(201)
JPY	5%	488	(79)

Notes to the abridged financial statements at 31 March 2016

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 dates 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 table below summarises these repricing mismatches on the Company's non-trading book as at 31 March 2016. 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 effect of derivatives whose effect is to alter the interest basis of an asset or liability.

Interest rate sensitivity gap analysis

(£'000)	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Fixed rate – up to 3%	759 529	85 695	187	–	–	–	845 410
Fixed rate – above 3%	11 289	–	–	15 503	–	–	26 792
Floating rate – up to 3%	494 874	7 143	–	–	–	–	502 017
Floating rate – above 3%	513 770	27 063	–	–	–	–	540 834
Non-interest bearing	–	–	–	–	–	12 250	12 250
Total Assets	**1 779 462**	**119 901**	**187**	**15 503**	**–**	**12 250**	**1 927 303**
Liabilities							
Fixed rate – up to 3%	203 392	38 808	41 522	595	–	–	284 317
Fixed rate – above 3%	17 365	178	650	–	–	–	18 193
Floating rate – up to 3%	1 457 439	–	–	–	–	–	1 457 439
Floating rate – above 3%	6 072	–	–	–	–	–	6 072
Non-interest bearing	–	–	–	–	–	7 754	7 754
Total Liabilities	**1 684 268**	**38 986**	**42 172**	**595**	**–**	**7 754**	**1 773 775**
Equity	–	–	–	–	–	153 519	153 519
Interest rate sensitivity gap before Interest Rate Swaps	**95 194**	**80 915**	**(41 984)**	**14 908**	**–**	**(149 024)**	**8**
Interest Rate Swaps	**15 298**	**–**	**–**	**(15 306)**	**–**	**–**	**(8)**
Interest rate sensitivity gap after Interest Rate Swaps	**110 492**	**80 915**	**(41 984)**	**(399)**	**–**	**(149 024)**	**–**
Cumulative interest rate sensitivity gap as at 31 March 2016	**110 492**	**191 406**	**149 422**	**149 024**	**149 024**	**–**	**–**
Cumulative interest rate sensitivity gap as at 31 March 2015	**57 550**	**192 017**	**145 797**	**145 846**	**145 846**	**–**	**–**

Notes to the abridged financial statements at 31 March 2016

5. Maturities of certain assets and liabilities

Loans and advances to banks

(£'000)	2016	2015
Repayable:		
Up to one month	246 893	163 656
From one month to three months	–	(1)
From three months to one year	291 126	203 013
From one year to five years	(8)	(4)
	538 011	**366 664**

Deposits by banks and Customer accounts

(£'000)	2016	2015
Repayable:		
Up to one month	1 051 715	823 640
From one month to three months	583 847	748 255
From three months to one year	104 770	101 771
From one year to five years	15 686	26 588
Five years and over	10 003	10 003
	1 766 021	**1 710 257**

6. Provision for loan losses

Reconciliation of movements in specific impairments for bad and doubtful debts

(£'000)	2016	2015
Balance at beginning of year	4 195	4 231
Charge for year	516	588
Written off during year	(1 035)	(624)
Balance at end of year	3 675	4 195
Movement for the year	**(519)**	**(36)**

This specific impairment at 31 March 2016 relates to two residential and one commercial property loans (2015 - two residential and one commercial property loans).

Interest receivable recognised in the Statement of Comprehensive Income on the loans and advances to customers which have specific impairments against them totalled £205k during the year (2015 - £159k).

Notes to the abridged financial statements at 31 March 2016

7. Investments

(£'000) Nature of subsidiary	Nature of business	Issued Capital	% held	Country of incorp-oration
Investec Bank (Channel Islands) Nominees Limited 100,000 ordinary shares of £1 each	Nominee company	100,000	100%	Guernsey

8. Share capital

(£'000)	2016	2015
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

9. Statement of changes in equity

(£'000)	Share capital	Share premium	Share based payment reserve	Available for sale reserve	Retained earnings	Total
Balance at 1 April 2014	14 652	20 348	1 847	473	112 817	150 136
Profit for year	–	–	–	–	16 623	16 623
Other comprehensive income	–	–	–	(685)	–	(685)
Total comprehensive income for the year	–	–	–	(685)	16 623	(685)
Dividend paid	–	–	–	–	(17 587)	(17 587)
Share based payments adjustment	–	–	226	–	–	226
Balance at 31 March 2015	**14 652**	**20 348**	**2 073**	**(213)**	**111 852**	**148 713**
Profit for year	–	–	–	–	18 488	18 488
Other comprehensive income	–	–	–	(1 951)	–	(1 951)
Total comprehensive income for the year	–	–	–	(1 951)	18 488	16 537
Dividend paid	–	–	–	–	(12 000)	(12 000)
Share based payments adjustment	–	–	270	–	–	270
Balance at 31 March 2016	**14 652**	**20 348**	**2 343**	**(2 164)**	**118 341**	**153 519**

Notes to the abridged financial statements at 31 March 2016

10. Commitments and contingent liabilities

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

(£'000)	2016	2015
Forward foreign exchange contracts – nominal values	822 657	822 424
Guarantees	6 178	6 007
Undrawn loans	105 737	76 784

11. Currency exposure

The currency exposure as at 31 March 2016 is stated in the Sterling equivalent.

(£'000)	£	%	US$	%	Euro	%	Other	%	Total
Assets	1 147 091	53%	539 271	28%	144 402	7%	96 531	5%	1 927 294
Liabilities including shareholders' funds	(1 147 091)	53%	(539 271)	28%	(144 402)	7%	(96 531)	5%	(1 927 294)
Net assets/(liabilities)	–		–		–		–		–
Off balance sheet									
Assets	411 354	50%	219 566	27%	64 618	7.9%	127 119	15%	822 657
Liabilities	(404 243)	49%	(221 103)	27%	(69 952)	9%	(127 321)	15%	(822 619)
Net off balance sheet assets/(liabilities)	7 111		(1 538)		(5 334)		(201)		38

The currency exposure as at 31 March 2015 is stated in the Sterling equivalent.

(£'000)	£	%	US$	%	Euro	%	Other	%	Total
Assets	1 112 572	59%	518 483	28%	108 192	6%	126 727	7%	1 865 974
Liabilities including shareholders' funds	(1 112 572)	59%	(518 483)	28%	(108 192)	6%	(126 727)	7%	(1 865 974)
Net assets/(liabilities)	–		–		–		–		–
Off balance sheet									
Assets	370 938	45%	229 248	28%	69 754	8%	152 483	19%	822 423
Liabilities	(369 632)	45%	(230 409)	28%	(69 756)	8%	(152 606)	19%	(822 403)
Net off balance sheet assets/(liabilities)	1 306		(1 161)		(2)		(123)		20

12. 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.

13. Related party transactions

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 Bank (Switzerland) AG, Zurich

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.

Lending

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

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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.

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