Investec Bank Limited

Out of the Ordinary™

Investec

Specialist Bank and Asset Manager

Reviewed interim condensed consolidated financial results for the six months to 30 September 2013

Consolidated income statement

R'million	Reviewed Six months to 30 September 2013	Reviewed Six months to 30 September 2012	Audited Year to 31 March 2013
Interest income	8 294	8 533	15 809
Interest expense	(5 906)	(6 139)	(10 926)
Net interest income	2 388	2 394	4 883
Fee and commission income	748	485	1 051
Fee and commission expense	(115)	(50)	(109)
Investment income	308	15	459
Trading income arising from			
– customer flow	162	45	119
– balance sheet management and other trading activities	210	175	220
Other operating (loss)/income	(5)	1	(3)
Total operating income before impairment losses on loans and advances	3 696	3 065	6 620
Impairment losses on loans and advances	(299)	(403)	(868)
Operating income	3 397	2 662	5 752
Operating costs	(1 929)	(1 660)	(3 629)
Profit before taxation	1 468	1 002	2 123
Taxation	(146)	(145)	(245)
Profit after taxation	1 322	857	1 878
Headline earnings			
Profit after taxation	1 322	857	1 878
Preference dividends paid	(53)	(52)	(109)
Earnings attributable to ordinary shareholders	1 269	805	1 769
Headline adjustments, net of taxation:			
Gain on realisation of available-for-sale financial assets	–	(26)	(28)
Headline earnings attributable to ordinary shareholders	1 269	779	1 741

Condensed consolidated statement of total comprehensive income

R'million	Reviewed Six months to 30 September 2013	Reviewed Six months to 30 September 2012	Audited Year to 31 March 2013
Profit after taxation	1 322	857	1 878
Other comprehensive income*:			
Fair value movements on cash flow hedges taken directly to other comprehensive income†	(115)	(59)	(194)
Fair value movements on available-for-sale assets taken directly to other comprehensive income†	(330)	65	86
Gain on realisation of available-for-sale assets recycled to the income statement†	(1)	(36)	(39)
Foreign currency adjustments on translating foreign operations	270	170	441
Total comprehensive income	1 146	997	2 172
Total comprehensive income attributable to ordinary shareholders	1 093	945	2 063
Total comprehensive income attributable to perpetual preference shareholders	53	52	109
Total comprehensive income	1 146	997	2 172

All items in other comprehensive income are or may subsequently be reclassified to the income statement.

†Net of taxation of (R13.8) million (six months to 30 September 2012: R11 million; year to 31 March 2013: R13.8 million).

Condensed consolidated statement of changes in equity

R'million	Reviewed Six months to 30 September 2013	Reviewed Six months to 30 September 2012	Audited Year to 31 March 2013
Balance at the beginning of the period	23 509	20 933	20 933
Total comprehensive income	1 146	997	2 172
Issue of ordinary shares	–	500	1 361
Dividends paid to ordinary shareholders	(75)	(649)	(848)
Dividends paid to perpetual preference shareholders	(53)	(52)	(109)
Balance at the end of the period	24 527	21 729	23 509

Condensed consolidated cash flow statement

R'million	Reviewed Six months to 30 September 2013	Reviewed Six months to 30 September 2012	Audited Year to 31 March 2013
Net cash inflow/(outflow) from operating activities	5 194	(8 993)	(14 560)
Net cash outflow from investing activities	(97)	(6)	(58)
Net cash (outflow)/inflow from financing activities	(2 219)	2 401	4 191
Effects of exchange rate changes on cash and cash equivalents	244	129	406
Net increase/(decrease) in cash and cash equivalents	3 122	(6 469)	(10 021)
Cash and cash equivalents at the beginning of the period	14 973	24 994	24 994
Cash and cash equivalents at the end of the period	18 095	18 525	14 973

Cash and cash equivalents are defined as including cash and balances at central banks, on demand loans and advances to banks and non-sovereign and non-bank cash placements (all of which have a maturity profile of less than three months).

Consolidated balance sheet

R'million	Reviewed 30 September 2013	Audited 31 March 2013	Reviewed 30 September 2012
Assets			
Cash and balances at central banks	7 270	5 677	4 007
Loans and advances to banks	20 336	23 278	17 840
Non-sovereign and non-bank cash placements	7 722	5 875	9 859
Reverse repurchase agreements and cash collateral on securities borrowed	6 067	7 668	8 970
Sovereign debt securities	31 811	33 730	35 164
Bank debt securities	22 247	20 969	24 095
Other debt securities	10 673	6 258	6 099
Derivative financial instruments	11 622	12 161	12 691
Securities arising from trading activities	2 398	1 357	848
Investment portfolio	9 386	9 102	6 140
Loans and advances to customers	144 276	135 726	127 477
Own originated loans and advances to customers securitised	2 347	2 379	2 337
Other loans and advances	638	672	675
Other securitised assets	1 629	1 168	1 071
Interest in associated undertakings	49	45	41
Deferred taxation assets	60	55	55
Other assets	1 328	1 166	1 159
Property and equipment	236	224	250
Investment properties	1	1	1
Intangible assets	95	90	89
Loans to group companies	4 612	11 673	8 099
Total assets	284 803	279 274	266 967
Liabilities			
Deposits by banks	11 591	17 861	16 244
Derivative financial instruments	8 919	9 232	10 710
Other trading liabilities	705	1 063	484
Repurchase agreements and cash collateral on securities lent	15 581	18 188	18 954
Customer accounts (deposits)	200 512	185 311	178 979
Debt securities in issue	5 079	4 091	1 484
Liabilities arising on securitisation of own originated loans and advances	2 659	2 933	2 934
Liabilities arising on securitisation of other assets	572	588	492
Current taxation liabilities	1 143	1 142	1 151
Deferred taxation liabilities	246	61	49
Other liabilities	2 865	2 799	2 446
	249 872	243 269	233 927
Subordinated liabilities	10 404	12 496	11 311
Total liabilities	260 276	255 765	245 238
Equity			
Ordinary share capital	32	32	30
Share premium	14 885	14 885	14 026
Other reserves	44	175	21
Retained income	9 566	8 417	7 652
Total equity	24 527	23 509	21 729
Total liabilities and equity	284 803	279 274	266 967

These reviewed interim condensed consolidated financial results are published to provide information to holders of Investec Bank Limited's listed non-redeemable, non-cumulative, non-participating preference shares.

Commentary

Overview of results

Investec Bank Limited, a subsidiary of Investec Limited, posted an increase in headline earnings attributable to ordinary shareholders of 62.9% to R1,269 million (2012: R779 million). The balance sheet remains strong with a capital adequacy ratio of 15.2% as calculated in terms of Basel III (31 March 2013: 16.2%). For full information on the Investec Group results, refer to the combined results of Investec plc and Investec Limited or the group's website http://www.investec.com.

Financial review

Unless the context indicates otherwise, all comparatives referred to in the financial review relate to the six months ended 30 September 2012.

Salient operational features for the six months under review include:

Total operating income before impairment losses on loans and advances increased by 20.6% to R3,696 million (2012: R3,065 million). The components of operating income are analysed further below:

- Net interest income was in line with the prior year at R2,388 million (2012: R2,394 million) with the bank benefiting from an increase in its loan portfolio, offset by less interest earned on surplus cash portfolios given the decline in interest rates.
- Net fee and commission income increased 45.5% to R633 million (2012: R435 million) largely as a result of a good performance from the corporate business with strong growth in project finance renewable energy and structured finance fees. The professional finance business continued to perform well.
- Investment income increased significantly to R308 million (2012: R15 million) largely due to a solid performance from the bank's unlisted principal investments portfolio.
- Trading income arising from customer flow increased to R162 million (2012: R45 million) due to increased client activity, notably in forex transactions.
- Trading income arising from other trading activities increased 20.0% to R210 million (2012: R175 million) reflecting improved activity on the balance sheet.

Impairments on loans and advances decreased from R403 million to R299 million. The credit loss charge as a percentage of average gross core loans and advances has improved from 0.65% at 31 March 2013 to 0.42%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 2.12% (31 March 2013: 1.93%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.36 times (31 March 2013: 1.44 times).

Total operating expenses at R1,929 million were 16.2% higher than the prior year (2012: R1,660 million) largely as a result of increased personnel costs and variable remuneration given improved profitability. The ratio of total operating costs to total operating income amounts to 52.2% (2012: 54.2%).

As a result of the foregoing factors, profit before taxation increased by 46.5% to R1,468 million (2012: R1,002 million).

Accounting policies and disclosures

These interim condensed consolidated financial results have been prepared in terms of the recognition and measurement criteria of International Financial Reporting Standards, the presentation and disclosure requirements of IAS 34, Interim Financial Reporting, the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and the Companies Act 71, of 2008.

The accounting policies applied in the preparation of the results for the six months ended 30 September 2013 are consistent with those adopted in the financial statements for the year ended 31 March 2013 except as noted below.

The group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 13 Fair Value Measurement, Presentation of other comprehensive income (Amendments to IAS 1), IAS19 Employee Benefits. Adoption of IFRS 10, IFRS 11 and IAS 19 has had no material impact on the group. IFRS 13 has been applied prospectively from 1 April 2013. The standard defines fair value as being a market-based measurement and sets out in a single IFRS a framework for the measurement of fair value. Application of the standard has not had a material impact on the recognition and measurement of assets and liabilities of the group.

The financial results have been prepared under the supervision of Glynn Burger, the Group Risk and Finance Director. The summary financial statements for the six months ended 30 September 2013 will be posted to stakeholders on 29 November 2013. These summary financial statements will be available on the group's website at the same date.

Analysis of assets and liabilities at fair value and amortised cost

at 30 September 2013 R'million	Financial instruments at fair value	Financial instruments at amortised cost	Non-financial instruments	Total
Assets				
Cash and balances at central banks	–	7 270	–	**7 270**
Loans and advances to banks	755	19 581	–	**20 336**
Non-sovereign and non-bank cash placements	15	7 707	–	**7 722**
Reverse repurchase agreements and cash collateral on securities borrowed	5 459	608	–	**6 067**
Sovereign debt securities	28 484	3 327	–	**31 811**
Bank debt securities	9 272	12 975	–	**22 247**
Other debt securities	4 231	6 442	–	**10 673**
Derivative financial instruments	11 622	–	–	**11 622**
Securities arising from trading activities	2 398	–	–	**2 398**
Investment portfolio	9 386	–	–	**9 386**
Loans and advances to customers	14 102	130 174	–	**144 276**
Own originated loans and advances to customers securitised	–	2 347	–	**2 347**
Other loans and advances	–	638	–	**638**
Other securitised assets	1 107	522	–	**1 629**
Interest in associated undertakings	–	–	49	**49**
Deferred taxation assets	–	–	60	**60**
Other assets	90	676	562	**1 328**
Property and equipment	–	–	236	**236**
Investment properties	–	–	1	**1**
Intangible assets	–	–	95	**95**
Loans to group companies	(66)	4 678	–	**4 612**
	86 855	196 945	1 003	**284 803**
Liabilities				
Deposits by banks	3	11 588	–	**11 591**
Derivative financial instruments	8 919	–	–	**8 919**
Other trading liabilities	705	–	–	**705**
Repurchase agreements and cash collateral on securities lent	2 615	12 966	–	**15 581**
Customer accounts (deposits)	11 740	188 772	–	**200 512**
Debt securities in issue	2 875	2 204	–	**5 079**
Liabilities arising on securitisation of own originated loans and advances	–	2 659	–	**2 659**
Liabilities arising on securitisation of other assets	572	–	–	**572**
Current taxation liabilities	–	–	1 143	**1 143**
Deferred taxation liabilities	–	–	246	**246**
Other liabilities	670	781	1 414	**2 865**
Subordinated liabilities	–	10 404	–	**10 404**
	28 099	229 374	2 803	**260 276**

Financial instruments carried at fair value

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used. The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

at 30 September 2013 R'million	Total instruments at fair value	Fair value measurement Level 1	Level 2	Level 3
Assets				
Loans and advances to banks	**755**	–	755	–
Non-sovereign and non-bank cash placements	**15**	–	15	–
Reverse repurchase agreements and cash collateral on securities borrowed	**5 459**	–	5 459	–
Sovereign debt securities	**28 484**	28 484	–	–
Bank debt securities	**9 272**	1 572	7 700	–
Other debt securities	**4 231**	3 572	555	104
Derivative financial instruments	**11 622**	584	11 280	(242)
Securities arising from trading activities	**2 398**	2 398	–	–
Investment portfolio	**9 386**	2 503	264	6 619
Loans and advances to customers	**14 102**	–	14 102	–
Other securitised assets	**1 107**	–	1 107	–
Other assets	**90**	90	–	–
Intergroup	**(66)**	–	(66)	–
	86 855	39 203	41 171	6 481
Liabilities				
Deposits by banks	**3**	–	3	–
Derivative financial instruments	**8 919**	557	8 362	–
Other trading liabilities	**705**	705	–	–
Repurchase agreements and cash collateral on securities lent	**2 615**	–	2 615	–
Customer accounts (deposits)	**11 740**	–	11 740	–
Debt securities in issue	**2 875**	–	2 875	–
Liabilities arising on securitisation of other assets	**572**	572	–	–
Other liabilities	**670**	2	668	–
	28 099	1 836	26 263	–

The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

R'million	
Balance at 1 April 2013	**84**
Transfers due to application of IFRS 13*	**6 230**
Restated balance at 1 April 2013	**6 314**
Total gains or losses included in the income statement	**465**
Purchases	**62**
Sales	**(113)**
Issues	**(158)**
Settlements	**(105)**
Foreign exchange adjustments	**16**
Balance as at 30 September 2013	**6 481**

**All reclassifications into Level 3 at 1 April 2013 occurred as a result of inputs to the valuation model being regarded as unobservable as a result of applying the principles in IFRS 13.*

Observable inputs are defined as inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. All other inputs have been considered to be unobservable.

The following table quantifies the gains or losses included in the income statement recognised on level 3 financial instruments:

Six months to 30 September 2013 R'million	
Total gains or losses included in the income statement for the period	
Net interest income	**(2)**
Fee and commission expense	**(77)**
Investment income	**528**
Trading income arising from customer flow	**16**
	465

Sensitivity of fair values to reasonably possible alternative assumptions by Level 3 instrument type

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

At 30 September 2013	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in the income statement R'million Favourable changes	Unfavourable changes
Assets				
Other debt securities	Discount rates	(24%)-24%	1	(1)
Derivative financial instruments	Credit spreads, volatilities, cash flows EBITDA	(20%)-25%	310	(47)
Investment portfolio	Price earnings multiple, net asset value, WACC, EBITDA	(25%)-10%	1 160	(1 036)
			1 471	**(1 084)**

Fair value of financial instruments at amortised cost

at 30 September 2013 R'million	Carrying value	Fair value
Assets		
Cash and balances at central banks	7 270	7 270
Loans and advances to banks	19 581	19 581
Non-sovereign and non-bank cash placements	7 707	7 707
Reverse repurchase agreements and cash collateral on securities borrowed	608	608
Sovereign debt securities	3 327	3 434
Bank debt securities	12 975	13 511
Other debt securities	6 442	6 528
Loans and advances to customers	130 174	130 181
Own originated loans and advances to customers securitised	2 347	2 347
Other loans and advances	638	638
Other securitised assets	522	522
Other assets	676	676
Loans to group companies	4 678	4 678
	196 945	**197 681**
Liabilities		
Deposits by banks	11 588	11 749
Repurchase agreements and cash collateral on securities lent	12 966	13 033
Customer accounts (deposits)	188 772	189 088
Debt securities in issue	2 204	2 204
Liabilities arising on securitisation of own originated loans and advances	2 659	2 659
Other liabilities	781	781
Subordinated liabilities	10 404	10 530
	229 374	**230 044**

On behalf of the Board of Investec Bank Limited

Fani Titi	**Stephen Koseff**	**Bernard Kantor**
Chairman	*Chief Executive Officer*	*Managing Director*

20 November 2013

Review conclusion

KPMG Inc. and Ernst & Young Inc., the Group's independent auditors, have reviewed the preliminary condensed consolidated financial results and have expressed an unmodified review conclusion on the preliminary condensed consolidated financial results, which is available for inspection at the company's registered office.

Investec Bank Limited

Preference share dividend announcement

Registration number: 1969/004763/06
Share code: INLP
ISIN: ZAE000048393

Non-redeemable non-cumulative non-participating preference shares ("preference shares")

Declaration of dividend number 21

Notice is hereby given that preference dividend number 21 has been declared for the period 01 April 2013 to 30 September 2013 amounting to 355.12278 cents per share payable to holders of the non-redeemable non-cumulative non-participating preference shares as recorded in the books of the company at the close of business on Friday, 06 December 2013.

The relevant dates for the payment of dividend number 21 are as follows:

Last day to trade cum-dividend	Friday, 29 November 2013
Shares commence trading ex-dividend	Monday, 02 December 2013
Record date	Friday, 06 December 2013
Payment date	Tuesday, 17 December 2013

Share certificates may not be dematerialised or rematerialised between Monday, 02 December 2013 and Friday, 06 December 2013, both dates inclusive.

Additional information to take note of:

- The Investec Bank Limited company tax reference number: 9675/053/71/5
- The issued preference share capital of Investec Bank Limited is 15 447 630 preference shares in this specific class.
- The dividend paid by Investec Bank Limited is subject to South African Dividend Tax (Dividend Tax) of 15% (subject to any available exemptions as legislated).
- The total Secondary Tax on Companies ("STC") credits utilised as part of this dividend declaration amount to R17 622 569 (114.07943 cents per preference share) and consequently the STC credits utilised are sufficient to cover a portion of any Dividend Tax and the remaining 241.04335 cents dividend per preference share will be subject to Dividends Tax (subject to any available exemptions as legislated).
- Shareholders subject to Dividends Tax will receive a net dividend of 318.96628 cents per preference share and shareholders exempt from paying the Dividend Tax will receive a net dividend of 355.12278 cents per preference share.

By order of the board

B Coetsee
Company Secretary

20 November 2013

Registered office
100 Grayston Drive
Sandown, Sandton, 2196

Transfer secretaries
Computershare Investor Services (Pty) Ltd
70 Marshall Street, Johannesburg, 2001

Investec Bank Limited
(Registration number 1969/004763/06)
Share code: INLP
ISIN: ZAE000048393

Directors
F Titi (Chairman), D M Lawrence ^ (Deputy Chairman),
S Koseff ^ (Chief Executive), B Kantor ^ (Managing Director),
S E Abrahams, G R Burger ^, D Friedland, M P Malungani,
Sir David J Prosser †, K X T Socikwa, B Tapnack ^,
P R S Thomas, C B Tshili
^ Executive † British

Company Secretary
B Coetsee