Out of the Ordinary®

Investec

Specialist Bank and Asset Manager

Investec Bank (Australia) Limited

ABN 55 071 292 594

Unaudited consolidated financial information for the year ended 31 March 2014

Executive summary

1. Introduction

This financial year resulted in Investec beginning the process of transforming the Australian banking business in to a boutique operation focusing on Corporate Advisory, Property Funds, Aviation, Commodity and Resource Finance, Project Finance and Corporate and Acquisition Finance.

As part of this transformation Investec entered into a Share Sale Agreement with Bank of Queensland in April 2014 to sell Investec Bank (Australia) Limited (IBAL), which is Investec's Australian Authorised Deposit-taking Institution. The businesses that will remain in IBAL, and be part of the sale include the Professional Finance and Asset Finance and Leasing businesses. Also included in the sale is the retail and wholesale deposit books and all HQLA within the IBAL treasury book.

The completion of the sale has two key conditions precedent, namely APRA (Australian Prudential Regulatory Authority) and other regulatory approvals and IBAL being restructured so as to remove from IBAL all assets, liabilities, guarantees and the like which will form the Investec Australia boutique operation mentioned above. Completion is estimated to be between 30 June and 31 October 2014.

The boutique operating model of Investec Australia going forward will leverage off a larger group balance sheet, with Australia acting as a point of origination for transactions. The risk and regulatory framework will reside on an offshore balance sheet. This transition has resulted in $175m of loans being transferred to a group balance sheet during the year. The remaining assets and liabilities on IBAL's balance sheet will be transferred prior to the completion of the sale to Bank of Queensland.

2. Balance sheet and Financial performance

Investec Australia's balance sheet as at 31 March 2014 reflects:

- HQLA ratio of 25.1%;
- A Level 2 capital adequacy ratio of 16.1% (tier 1 of 12.2%) and a Level 1 capital adequacy ratio of 15.2% (tier 1 of 11.2%);
- A gross loan book of $3.1b;
- Private client deposits now comprising 80% of total funding (excluding securitisation);

In order to reflect the results at 31 March 2014 in a meaningful way, the costs related to the restructure and reshaping of the Investec Australia operations have been separately identified as has the property development finance business whose loan assets are substantially sold or being run-off.

For the year ended 31 March 2014, Investec Australia reported a consolidated operating profit pre-impairments, restructure and reshaping costs of $14.9m. The consolidated loss pre-tax (and post $48.2m of restructure and reshaping costs) for the year was $71.8m.

At 31 March 2014, Investec Australia’s loan book was $3.1 billion. During the year circa $175m of loans were transferred to group balance sheets. This process is the start of the new business model for the Corporate & Institutional Banking division.

Total deposits and wholesale funding (excluding securitised liabilities and subordinated liabilities) at 31 March 2014 were $2.9 billion, including $2.4 billion of Private Client deposits which are up 11% since March 2013.

3. Strategy and outlook

As set out above Investec Australia's direction is to be transformed into a boutique operation, leveraging group relationships and larger group balance sheets.

4. Presentation of information

The information contained in this report is presented in Australian dollars and values have been rounded to the nearest million dollars unless otherwise stated.

Overview of results

	31 March 2014	31 March 2013
Total group profit/(loss) before restructure and reshaping costs and non core property development business ($m)	(5.4)	36.6
Total group profit/(loss) before income tax ($m)	(71.9)	5.2
Total operating income	183.2	203.2
Total shareholders' equity ($m)	559.1	607.4
Total assets ($m)	4,586.5	4,753.6
Gross loans and advances to customers including securitised	3,131.6	3,237.2
Customer deposits ($m)	2,755.2	2,465.5
Retail deposits ($m)	2,360.3	2,120.7
Cash and liquid assets ($m)	925.4	1,021.5
Leverage ratio (total assets divided by shareholders equity)	8.2 x	7.8 x
Capital adequacy ratio (Level 2)	16.1%	15.8%
Tier 1 ratio (Level 2)	12.2%	11.8%
Capital adequacy ratio (Level 1)	15.2%	15.4%
Tier 1 ratio (Level 1)	11.2%	11.3%
HQLA ratio	25.1%	25.6%

Income statement

$m	Year to 31 March 2014	Year to 31 March 2013
Interest income	**305.3**	**329.4**
Interest expense	(182.9)	(223.4)
Net interest income	**122.4**	**106.0**
Fee and commission income (net)	47.0	83.9
Investment income	(1.0)	1.0
Client flow trading income	18.8	10.5
Trading income arising from balance sheet management activities	(4.5)	(0.9)
Other income	0.5	2.7
Non-interest income	**60.8**	**97.2**
Total operating income	**183.2**	**203.2**
Operating costs	(168.4)	(170.9)
Net income before impairments	**14.8**	**32.3**
Impairment losses on loans	(38.5)	(27.1)
Profit/(loss) before restructure and reshaping costs	**(23.7)**	**5.2**
Restructure and reshaping costs	(48.2)	0.0
Profit/(loss) before tax	**(71.9)**	**5.2**
Income tax benefit	1.8	1.1
Profit/(loss) attributable to members	**(70.1)**	**6.3**

Segmental information - business analysis

Profit/(loss) before income tax ($m)	Year to 31 March 2014	Year to 31 March 2013
Corporate & Institutional Banking activities	13.2	24.5
Private Banking activities *	(13.1)	7.7
Investment Banking	(11.2)	9.6
Property Investments	6.7	3.5
Group services and other activities	(1.0)	(8.7)
Ongoing Core business	**(5.4)**	**36.6**
Non core property development finance business	(18.3)	(31.4)
Restructure and reshaping costs	(48.2)	0.0
Total	**(71.9)**	**5.2**

* March 2014 includes $18.2 million from Professional Finance (March 2013: $17.9 million).

Consolidated balance sheet

$m	31 March 2014	31 March 2013
Assets		
Cash and balances at central banks	65.1	214.5
Loans and advances to banks	291.0	128.1
Derivative financial instruments	91.0	108.7
Sovereign debt securities	515.1	429.5
Bank debt securities	245.4	262.2
Other debt securities	14.7	32.8
Investment portfolio	11.6	16.8
Trading book securities	0.0	12.0
Loans and advances to customers	2,306.3	2,496.1
Loans and advance to customers securitised	805.1	715.4
Investments accounted for using the equity method	6.1	5.6
Other financial assets	54.7	54.7
Property, plant and equipment	11.8	14.3
Deferred tax assets	15.7	15.7
Other assets	71.8	137.8
Goodwill	73.5	94.1
Assets held for sale	0.0	3.9
Intangible assets	7.6	11.4
Total assets	**4,586.5**	**4,753.6**
Liabilities		
Customer accounts	2,755.2	2,465.5
Derivative financial instruments	79.7	84.3
Debt issued and other borrowed funds	190.0	685.5
Liabilities arising on securitisation of other assets	807.7	696.0
Other liabilities	63.6	94.6
Subordinated debt	131.2	120.3
Total liabilities	**4,027.4**	**4,146.2**
Total equity	**559.1**	**607.4**
Equity		
Share capital	311.7	291.7
Retained earnings	232.7	304.6
Other reserves	14.7	11.1
Total equity	**559.1**	**607.4**

Asset quality

$m	31 March 2014	31 March 2013
Gross core loans and advances to customers	**3,131.6**	**3,237.2**
Total balance sheet impairments	**(20.2)**	**(25.7)**
Portfolio impairments	(2.5)	(2.5)
Specific impairments	(17.7)	(23.2)
Net core loans and advances to customers	**3,111.4**	**3,211.5**
Average gross loans	**3,184.4**	**3,130.7**
Current loans to customers	3,043.1	3,115.8
Total gross non current loans to customers	88.5	121.3
Past due loans to customers (1-60 days and management not concerned)	31.7	25.7
Special mention loans to customers	1.7	1.4
Default loans to customers	55.2	94.2
Gross core loans and advances to customers	**3,131.6**	**3,237.2**
Current loans and advances to customers	3,043.1	3,115.8
Gross loans to customers that are past due but not impaired	46.4	46.5
Gross loans to customers that are impaired	42.1	74.9
Gross core loans and advances to customers	**3,131.6**	**3,237.2**
Total income statement charge for core loans and advances	**(38.5)**	**(27.1)**
Gross impaired loans and advances to customers	42.1	74.9
Portfolio impairments	(2.5)	(2.5)
Specific impairments	(17.7)	(23.2)
Net of impairments	**21.9**	**49.2**
Collateral and other credit enhancements	24.4	51.9
Net default loans to customers (limited to zero)	-	-
Total balance sheet impairments as a % of gross loans to customers	0.65%	0.79%
Total balance sheet impairments as a % of gross default loans	36.64%	27.25%
Gross defaults as a % of gross core loans and advances to customers	1.76%	2.91%
Defaults (net of total impairments) as a % of net core loans and advances to customers	1.12%	2.13%
Credit loss ratio (i.e. income statement impairment charge as a % of average loans and advances)	1.21%	0.85%

Capital adequacy (Level 2)

$m	31 March 2014	31 March 2013*
Tier 1 capital		
Shareholder's equity	**539.0**	**596.1**
Shareholder's equity per balance sheet	539.0	596.1
Regulatory adjustments to the accounting basis	**0.0**	**2.0**
Unrealised gains on available-for-sale equities	0.0	2.0
Deductions	**(152.0)**	**(193.6)**
Goodwill and intangible assets	(73.0)	(105.4)
Unconsolidated investments	(18.0)	(22.9)
Securitisation positions	(42.0)	(55.2)
Other deductions	(19.0)	(10.0)
Common equity Tier 1 capital	**387.0**	**404.5**
Total tier 1 capital	**387.0**	**404.5**
Tier 2 capital	**125.0**	**135.2**
Collective impairment allowances	27.0	24.8
Phase out of non-qualifying tier 2 instruments	98.0	110.4
Tier 2 capital	**125.0**	**135.2**
Total regulatory capital	**512.0**	**539.7**

Capital adequacy (Level 2) continued

$m	31 March 2014	31 March 2013*
Risk weighted assets	**3,185.0**	**3,422.4**
Credit risk - prescribed standardised exposure classes	**2,726.0**	**2,978.8**
Corporates	729.0	1,095.1
Secured on real estate property	94.0	121.6
Counterparty risk on trading positions	70.0	68.3
Short term claims on institutions and corporates	25.0	19.5
Retail	1,496.0	1,181.6
Institutions	118.0	69.2
Other exposure classes	194.0	423.5
Securitised exposures	3.0	4.4
Equity risk - standardised approach	-	-
Listed equities	-	-
Unlisted equities	-	-
Market risk - portfolios subject to internal models approach	**54.0**	**46.7**
Interest rate	52.0	43.1
Foreign exchange	2.0	3.4
Commodities	0.0	0.2
Equities	-	-
Operational risk - standardised approach	**402.0**	**392.5**
Total Capital ratio (Level 2)	16.1%	15.8%
Tier 1 ratio (Level 2)	12.2%	11.8%
Core tier 1 ratio/common equity tier 1 ratio	12.2%	11.8%
Total Capital adequacy ratio - pre operational risk (Level 2)	18.4%	17.8%
Tier 1 ratio - pre operational risk (Level 2)	13.9%	13.3%
Common equity Tier 1 ratio - pre operational risk (Level 2)	13.9%	13.3%
Total Capital adequacy ratio (Level 1)	15.2%	15.3%
Tier 1 ratio (Level 1)	11.2%	11.3%
Common equity Tier 1 ratio (Level 1)	11.2%	11.3%
Total Capital adequacy ratio - pre operational risk (Level 1)	17.1%	17.2%
Tier 1 ratio - pre operational risk (Level 1)	12.7%	12.7%
Common equity Tier 1 ratio - pre operational risk (Level 1)	12.7%	12.7%

***Restated**

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The full set of annual financial statements will be available on 30 June 2014