Investec Bank Limited

Out of the Ordinary®

Investec

Reviewed preliminary condensed consolidated financial results for the year ended 31 March 2015

Consolidated income statement

For the year to 31 March R'million	Reviewed 2015	Audited 2014
Interest income	19 587	17 063
Interest expense	(14 066)	(12 147)
Net interest income	**5 521**	**4 916**
Fee and commission income	1 661	1 567
Fee and commission expense	(207)	(174)
Investment income	1 420	334
Trading income arising from		
– customer flow	290	343
– balance sheet management and other trading activities	260	235
Other operating income/(loss)	1	(5)
Total operating income before impairment losses on loans and advances	**8 946**	**7 216**
Impairment losses on loans and advances	(455)	(638)
Operating income	**8 491**	**6 578**
Operating costs	(4 818)	(4 113)
Profit before taxation	**3 673**	**2 465**
Taxation	(545)	(315)
Profit after taxation	**3 128**	**2 150**

Calculation of headline earnings

For the year to 31 March R'million	Reviewed 2015	Audited 2014
Profit after taxation	3 128	2 150
Preference dividends paid	(114)	(108)
Earnings attributable to ordinary shareholders	**3 014**	**2 042**
Headline adjustments, net of taxation:	–	44
Revaluation of investment properties^	–	46
Gain on realisation of available-for-sale assets recycled through the income statement^	–	(2)
Headline earnings attributable to ordinary shareholders	**3 014**	**2 086**

^Net of taxation Rnil (2014: R18.2 million).

Consolidated statement of total comprehensive income

For the year to 31 March R'million	Reviewed 2015	Audited 2014
Profit after taxation	3 128	2 150
Other comprehensive income:		
Items that may be reclassified to the income statement:		
Fair value movements on cash flow hedges taken directly to other comprehensive income*	(619)	(75)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	322	(212)
Gain on realisation of available-for-sale assets recycled to the income statement*	–	(2)
Foreign currency adjustments on translating foreign operations	602	414
Total comprehensive income	**3 433**	**2 275**
Total comprehensive income attributable to ordinary shareholders	3 319	2 167
Total comprehensive income attributable to perpetual preference shareholders	114	108
Total comprehensive income	**3 433**	**2 275**

**Net of taxation of R101.6 million (2014: R120.0 million).*

Condensed consolidated statement of changes in equity

For the year to 31 March R'million	Reviewed 2015	Audited 2014
Balance at beginning of the year	25 601	23 509
Total comprehensive income for the year	3 433	2 275
Dividends paid to ordinary shareholders	(21)	(75)
Dividends paid to perpetual preference shareholders	(114)	(108)
Balance at the end of the year	**28 899**	**25 601**

Condensed consolidated cash flow statement

For the year to 31 March R'million	Reviewed 2015	Audited 2014
Net cash inflow from operating activities	3 266	7 417
Net cash outflow from investing activities	(198)	(159)
Net cash outflow from financing activities	(184)	(2 181)
Effects of exchange rate changes on cash and cash equivalents	439	410
Net increase in cash and cash equivalents	**3 323**	**5 487**
Cash and cash equivalents at the beginning of the year	20 460	14 973
Cash and cash equivalents at the end of the year	**23 783**	**20 460**

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

At 31 March R'million	Reviewed 2015	Audited 2014
Assets		
Cash and balances at central banks	6 261	5 927
Loans and advances to banks	33 422	32 672
Non-sovereign and non-bank cash placements	10 540	9 045
Reverse repurchase agreements and cash collateral on securities borrowed	10 095	6 442
Sovereign debt securities	31 378	34 815
Bank debt securities	17 332	21 538
Other debt securities	12 749	11 933
Derivative financial instruments	15 178	12 299
Securities arising from trading activities	1 289	1 316
Investment portfolio	9 972	8 834
Loans and advances to customers	172 993	148 562
Own originated loans and advances to customers securitised	4 535	2 822
Other loans and advances	472	552
Other securitised assets	618	1 503
Interests in associated undertakings	60	52
Deferred taxation assets	88	75
Other assets	1 262	1 771
Property and equipment	192	219
Investment properties	80	84
Intangible assets	190	102
Loans to group companies	3 268	1 924
Non-current assets classified as held for sale	732	731
	332 706	303 218
Liabilities		
Deposits by banks	29 792	22 407
Derivative financial instruments	12 401	9 259
Other trading liabilities	1 623	1 431
Repurchase agreements and cash collateral on securities lent	16 556	17 686
Customer accounts (deposits)	221 377	204 903
Debt securities in issue	5 517	5 366
Liabilities arising on securitisation of own originated loans and advances	1 089	1 369
Liabilities arising on securitisation of other assets	–	156
Current taxation liabilities	1 186	1 288
Deferred taxation liabilities	76	61
Other liabilities	3 741	3 193
	293 358	267 119
Subordinated liabilities	10 449	10 498
	303 807	277 617
Equity		
Ordinary share capital	32	32
Share premium	14 885	14 885
Other reserves	764	364
Retained income	13 218	10 320
	28 899	25 601
Total liabilities and equity	332 706	303 218

Liquidity coverage ratio disclosure

National and supranational regulators have set standards designed to promote resiliency and harmonize liquidity risk supervision, to ensure a strong financial sector within the global economy.

Two key liquidity measures were defined:

Liquidity coverage ratio (LCR)
This ratio is designed to promote short-term resilience of the 1 month liquidity profile, by ensuring that banks have sufficient high quality liquid assets to meet potential outflows in a stressed environment.

Net stable funding ratio (NSFR)
This ratio is designed to capture structural issues over a longer time horizon by requiring banks to have a sustainable maturity structure of assets and liabilities.

In terms of South African Reserve Bank Regulations, banks are expected to commence reporting on the LCR in 2015 and the NSFR in 2018.

R'million	Investec Bank Limited Solo – Total weighted value	Investec Bank Limited Consolidated Group – Total weighted value
High quality liquid assets (HQLA)	41 206	41 318
Net cash outflows	41 402	42 507
Actual LCR (%)	100.3	98.7
Required LCR (%)	60.0	60.0

The values in the table are calculated as the simple average of daily observations over the period 1 January 2015 to 31 March 2015. 60 business day observations were used.

Commentary

These reviewed year-end 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.

Overview of results

Investec Bank Limited, a subsidiary of Investec Limited, posted an increase in headline earnings attributable to ordinary shareholders of 44.5% to R3,014 million (2014: R2,086 million). The balance sheet remains strong with a capital adequacy ratio of 15.4% (2014: 15.3%). 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 year ended 31 March 2014.

Salient operational features for the year under review include:

Total operating income before impairment losses on loans and advances increased by 24.0% to R8,946 million (2014: R7,216 million). The components of operating income are analysed further below:

- Net interest income increased by 12.3% to R5,521 million (2014: R4,916 million) with the bank benefiting from an increase in its loan portfolio and a positive endowment impact.
- Net fee and commission income increased 4.4% to R1,454 million (2014: R1,393 million) as a result of a good performance from the private banking professional finance business, with corporate fees remaining largely in line with the prior year.
- Investment income increased to R1,420 million (2014: R334 million) with the bank's unlisted investments portfolio continuing to perform well.
- Trading income arising from customer flow and other trading activities decreased to R550 million (2014: R578 million) largely reflecting less activity in respect of balance sheet management.

Impairments on loans and advances decreased from R638 million to R455 million. The credit loss charge as a percentage of average gross core loans and advances has improved from 0.44% at 31 March 2014 to 0.29%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 1.46% (2014: 1.50%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.44 times (2014: 1.55 times).

The ratio of total operating costs to total operating income amounts to 53.9% (2014: 57.0%). Total operating expenses at R4,818 million were 17.1% higher than the prior year (2014: R4,113 million) largely as a result of increased variable remuneration given improved profitability.

As a result of the foregoing factors profit before taxation increased by 49.0% to R3,673 million (2014: R2,465 million).

Accounting policies and disclosures

These 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 year ended 31 March 2015 are consistent with those adopted in the financial statements for the year ended 31 March 2014.

The financial results have been prepared under the supervision of Glynn Burger, the Group Risk and Finance Director. The annual financial statements for the year ended 31 March 2015 will be posted to stakeholders on 30 June 2015. These annual financial statements will be available on the group's website on the same date.

On behalf of the Board of Investec Bank Limited

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

20 May 2015

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
Incorporated in the Republic of South Africa
Registration number: 1969/004763/06
Share code: INLP
ISIN: ZAE000048393

Preference share dividend announcement

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

Declaration of dividend number 24

Notice is hereby given that preference dividend number 24 has been declared by the Board from income reserves for the period 01 October 2014 to 31 March 2015 amounting to a gross preference dividend of 384.34536 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, 12 June 2015.

The relevant dates for the payment of dividend number 24 are as follows:

Last day to trade cum-dividend	Friday, 05 June 2015
Shares commence trading ex-dividend	Monday, 08 June 2015
Record date	Friday, 12 June 2015
Payment date	Monday, 22 June 2015

Share certificates may not be dematerialised or rematerialised between Monday, 08 June 2015 and Friday, 12 June 2015, both dates inclusive.

Additional information to take note of:

- 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 net dividend amounts to 326.69356 cents per preference share for shareholders liable to pay the Dividend Tax and 384.34536 cents per preference share for preference shareholders exempt from paying the dividend tax.

By order of the board

N van Wyk
Company secretary

20 May 2015

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, Z B M Bassa
G R Burger^, D Friedland,
K L Shuenyane, K X T Socikwa
B Tapnack^, P R S Thomas

^ Executive

Company secretary
N van Wyk

Analysis of assets and liabilities at fair value and amortised cost

At 31 March 2015 R'million	Financial instruments at fair value	Financial instruments at amortised cost	Non-financial instruments	Total
Assets				
Cash and balances at central banks	–	6 261	–	6 261
Loans and advances to banks	–	33 422	–	33 422
Non-sovereign and non-bank cash placements	3	10 537	–	10 540
Reverse repurchase agreements and cash collateral on securities borrowed	10 095	–	–	10 095
Sovereign debt securities	27 824	3 554	–	31 378
Bank debt securities	7 617	9 715	–	17 332
Other debt securities	6 823	5 926	–	12 749
Derivative financial instruments	15 178	–	–	15 178
Securities arising from trading activities	1 289	–	–	1 289
Investment portfolio	9 972	–	–	9 972
Loans and advances to customers	12 034	160 959	–	172 993
Own originated loans and advances to customers securitised	–	4 535	–	4 535
Other loans and advances	–	472	–	472
Other securitised assets	–	618	–	618
Interests in associated undertakings	–	–	60	60
Deferred taxation assets	–	–	88	88
Other assets	2	875	385	1 262
Property and equipment	–	–	192	192
Investment properties	–	–	80	80
Intangible assets	–	–	190	190
Loans to group companies	–	3 268	–	3 268
Non-current assets classified as held for sale	–	–	732	732
	90 837	240 142	1 727	332 706
Liabilities				
Deposits by banks	–	29 792	–	29 792
Derivative financial instruments	12 401	–	–	12 401
Other trading liabilities	1 623	–	–	1 623
Repurchase agreements and cash collateral on securities lent	1 148	15 408	–	16 556
Customer accounts (deposits)	16 609	204 768	–	221 377
Debt securities in issue	3 366	2 151	–	5 517
Liabilities arising on securitisation of own originated loans and advances	–	1 089	–	1 089
Current taxation liabilities	–	–	1 186	1 186
Deferred taxation liabilities	–	–	76	76
Other liabilities	690	835	2 216	3 741
Subordinated liabilities	–	10 449	–	10 449
	35 837	264 492	3 478	303 807

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 that the entity can access at the measurement date

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 31 March 2015 R'million	Financial instruments at fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
Financial assets				
Non-sovereign and non-bank cash placements	3	–	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	10 095	–	10 095	–
Sovereign debt securities	27 824	27 804	20	–
Bank debt securities	7 617	3 233	4 384	–
Other debt securities	6 823	6 787	–	36
Derivative financial instruments	15 178	–	15 423	(245)
Securities arising from trading activities	1 289	1 289	–	–
Investment portfolio	9 972	2 640	614	6 718
Loans and advances to customers	12 034	–	12 034	–
Other assets	2	2	–	–
	90 837	41 755	42 573	6 509
Financial liabilities				
Derivative financial instruments	12 401	–	12 401	–
Other trading liabilities	1 623	826	797	–
Repurchase agreements and cash collateral on securities lent	1 148	–	1 148	–
Customer accounts (deposits)	16 609	–	16 609	–
Debt securities in issue	3 366	–	3 366	–
Other liabilities	690	–	690	–
	35 837	826	35 011	–
Net assets	55 000	40 929	7 562	6 509

The following table shows a reconciliation of the opening balances to the closing balances for the net level 3 instruments measured at fair value through the income statement:

For the year to 31 March R'million	2015
Balance as at 1 April 2014	5 928
Total gains or losses included in the income statement	693
Purchases	677
Sales	(532)
Issues	(110)
Settlements	(161)
Transfers into level 3	15
Transfers out of level 3	(32)
Foreign exchange adjustments	31
Balance as at 31 March 2015	6 509

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

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

For the year ended 31 March 2015 R'million	Total	Realised	Unrealised
Investment income	614	267	347
Trading income arising from customer flow	97	–	97
Trading loss arising from balance sheet management and other trading activities	(18)	–	(18)
Total gains included in the income statement	693	267	426

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 31 March 2015	Balance sheet value R'million	Valuation method	Significant unobservable input changed	Range over which unobservable input has been stressed	Reflected in the income statement Favourable changes R'million	Reflected in the income statement Unfavourable changes R'million
Assets						
Other debt securities	36				5	(4)
		Discounted cash flows	Discount rates	(3%)/3%	5	(4)
Derivative financial instruments	(245)				195	(118)
		Black Scholes	Volatilities	(25%)/40%	58	(25)
		Discounted cash flows	Credit spreads	(50bps)/50bps	23	(12)
		Price earnings	Change in PE multiple	*	69	(73)
		Other	Various	**	45	(8)
Investment portfolio	6 718				1 639	(1 111)
		Price earnings	Change in PE multiple	*	1 357	(893)
		Other	Various	**	282	(218)
Total	6 509				1 839	(1 233)

**The price-earnings multiple has been stressed on an investment by investment basis in order to obtain aggressive and conservative valuations.*

***These valuation sensitivities have been stressed individually using varying scenario based techniques to obtain the aggressive and conservative valuations.*

In determining the value of level 3 financial instruments, the following are the principal inputs that can require judgement:

Credit spreads

Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk a counter party. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general a significant increase in a credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a financial instrument.

Discount rates

Discount rates are the interest rates used to discount future cash flows in the discounted cash flow valuation method. The discount rate takes into account time value of money and uncertainty of cash flows.

Volatilities

Volatility is a key input in the valuation of derivative products containing optionality. Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time.

Price-earnings multiple

The price-to-earnings ratio is an equity valuation multiple. It is a key driver in the valuation of unlisted investments.

Measurement of financial assets and liabilities at level 2
The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments categorised as level 2 in the fair value hierarchy:

	Valuation basis/techniques	Main inputs
Assets		
Non-sovereign and non-bank cash placements	Discounted cash flows	Discount rates
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flows Black-Scholes	Yield curve Volatilities
Sovereign debt securities	Discounted cash flows	Discount rates
Bank debt securities	Discounted cash flows	Swap curves and NCD curves
Other debt securities	Discounted cash flows	Swap curves and NCD curves
Derivative financial instruments	Discounted cash flows Black-Scholes	Yield curve Volatilities
Investment portfolio	Comparable quoted inputs	Net assets
Loans and advances to customers	Discounted cash flows	Swap curves and discount rates
Liabilities		
Derivative financial instruments	Discounted cash flows Black-Scholes	Yield curve Volatilities
Other trading liabilities	Discounted cash flows	Discount rates
Repurchase agreements and cash collateral on securities lent	Discounted cash flows	Discount rates
Customer accounts (deposits)	Discounted cash flows	Swap curves
Debt securities in issue	Discounted cash flows	Swap curves
Other liabilities	Discounted cash flows	Discount rates

Fair value of financial assets and liabilities at amortised cost

At 31 March 2015 R'million	Carrying value	Fair value
Financial assets		
Cash and balances at central banks	6 261	6 261
Loans and advances to banks	33 422	33 422
Non-sovereign and non-bank cash placements	10 537	10 543
Sovereign debt securities	3 554	3 648
Bank debt securities	9 715	9 993
Other debt securities	5 926	6 020
Loans and advances to customers	160 959	161 072
Own originated loans and advances to customers securitised	4 535	4 535
Other loans and advances	472	472
Other securitised assets	618	618
Other assets	875	875
Loans to group companies	3 268	3 268
	240 142	240 727
Financial liabilities		
Deposits by banks	29 792	30 005
Repurchase agreements and cash collateral on securities lent	15 408	15 395
Customer accounts (deposits)	204 768	206 029
Debt securities in issue	2 151	2 166
Liabilities arising on securitisation of own originated loans and advances	1 089	1 089
Other liabilities	835	835
Subordinated liabilities	10 449	10 593
	264 492	266 112