Investec Bank Limited

2017

Reviewed preliminary condensed consolidated financial results for the year ended 31 March 2017

Out of the Ordinary®

Investec

Consolidated income statement

For the year to 31 March R'million	Reviewed 2017	Audited 2016
Interest income	29 716	23 515
Interest expense	(22 297)	(16 803)
Net interest income	**7 419**	**6 712**
Fee and commission income	2 235	1 945
Fee and commission expense	(236)	(207)
Investment income	472	1 356
Share of post taxation operating profit/(loss) of associates	306	(11)*
Trading income arising from		
– customer flow	486	293
– balance sheet management and other trading activities	70	298
Other operating income	2	2*
Total operating income before impairment losses on loans and advances	**10 754**	**10 388**
Impairment losses on loans and advances	(657)	(517)
Operating income	**10 097**	**9 871**
Operating costs	(5 887)	(5 537)
Operating profit before acquired intangibles	**4 210**	**4 334**
Amortisation of acquired intangibles	(51)	(39)
Profit before taxation	**4 159**	**4 295**
Taxation on operating profit before acquired intangibles	(944)	(831)
Taxation on acquired intangibles	14	11
Profit after taxation	**3 229**	**3 475**

* *Share of post taxation operating profit/(loss) of associates has been disclosed separately from other operating income in the prior year.*

Calculation of headline earnings

For the year to 31 March R'million	Reviewed 2017	Audited 2016
Profit after taxation	3 229	3 475
Preference dividends paid	(131)	(120)
Earnings attributable to ordinary shareholders	**3 098**	**3 355**
Headline adjustments, net of taxation*	(29)	94
Gain on realisation of available-for-sale assets recycled through the income statement	(61)	(13)
Loss on non-current assets held for sale	32	107
Headline earnings attributable to ordinary shareholders	**3 069**	**3 449**

* *These amounts are net of taxation of R14.6 million [2016: (R19.3 million)].*

Consolidated statement of comprehensive income

For the year to 31 March R'million	Reviewed 2017	Audited 2016
Profit after taxation	3 229	3 475
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**	943	(699)
Fair value movements on available-for-sale assets taken directly to other comprehensive income**	701	(717)
Gain on realisation of available-for-sale assets recycled through the income statement**	(61)	(13)
Foreign currency adjustments on translating foreign operations	(479)	1 040
Total comprehensive income	**4 333**	**3 086**
Total comprehensive income attributable to ordinary shareholders	4 202	2 966
Total comprehensive income attributable to perpetual preference shareholders	131	120
Total comprehensive income	**4 333**	**3 086**

** *These amounts are net of taxation of (R381.8 million) (2016: R515.3 million).*

Condensed consolidated statement of changes in equity

For the year to 31 March R'million	Reviewed 2017	Audited 2016
Balance at the beginning of the year	**31 865**	**28 899**
Total comprehensive income	4 333	3 086
Dividends paid to ordinary shareholders	(900)	–
Dividends paid to perpetual preference shareholders	(131)	(120)
Other equity movements	(2)	–
Balance at the end of the year	**35 165**	**31 865**

Condensed consolidated cash flow statement

For the year to 31 March R'million	Reviewed 2017	Audited 2016
Cash inflows from operations	4 210	3 190
Increase in operating assets	(10 324)	(66 888)
Increase in operating liabilities	9 335	66 167
Net cash inflow from operating activities	3 221	2 469
Net cash outflow from investing activities	(244)	(499)
Net cash inflow/(outflow) from financing activities***	1 320	(43)
Effects of exchange rate changes on cash and cash equivalents	(756)	773
Net increase in cash and cash equivalents	**3 541**	**2 700**
Cash and cash equivalents at the beginning of the year	26 483	23 783
Cash and cash equivalents at the end of the year	**30 024**	**26 483**

*** *The net cash inflow from financing activities of R1.3 billion was as a result of a net inflow of subdebt of R2.3 billion and dividends paid of R1.0 billion.*

Cash and cash equivalents is 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 2017	Audited 2016
Assets		
Cash and balances at central banks	8 353	7 801
Loans and advances to banks	31 937	26 779
Non-sovereign and non-bank cash placements	8 993	9 858
Reverse repurchase agreements and cash collateral on securities borrowed	26 627	38 912
Sovereign debt securities	47 822	41 325
Bank debt securities	7 758	13 968
Other debt securities	11 945	12 761
Derivative financial instruments	9 856	15 843
Securities arising from trading activities	653	992
Investment portfolio	7 204	6 360
Loans and advances to customers	225 669	207 272
Own originated loans and advances to customers securitised	7 776	7 967
Other loans and advances	310	367
Other securitised assets	100	115
Interests in associated undertakings	5 514	5 145
Deferred taxation assets	388	116
Other assets	5 266	3 656
Property and equipment	274	236
Investment properties	1	1
Goodwill	171	171
Intangible assets	508	524
Loans to group companies	18 106	11 811^
Non-current assets held for sale	456	–
	425 687	**411 980**
Liabilities		
Deposits by banks	32 378	37 242
Derivative financial instruments	12 556	13 424
Other trading liabilities	1 667	1 405
Repurchase agreements and cash collateral on securities lent	7 825	16 916
Customer accounts (deposits)	303 397	279 736
Debt securities in issue	5 823	7 665
Liabilities arising on securitisation of own originated loans and advances	673	809
Current taxation liabilities	977	671
Deferred taxation liabilities	109	122
Other liabilities	5 995	5 042
Loans from group companies	5 942	6 351^
	377 342	**369 383**
Subordinated liabilities	13 180	10 732
	390 522	**380 115**
Equity		
Ordinary share capital	32	32
Share premium	14 885	14 885
Other reserves	1 662	566
Retained income	18 586	16 382
Total equity	**35 165**	**31 865**
Total liabilities and equity	**425 687**	**411 980**

^ *Restated, refer to 'Restatements' in the commentary below.*

Liquidity coverage ratio disclosure

The objective of the liquidity coverage ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days. The LCR was phased in at 60% on 1 January 2015, and will increase by 10% each year to 100% on 1 January 2019.

In accordance with the provisions of section 6(6) of the Banks Act 1990 (Act No. 94 of 1990), banks are directed to comply with the relevant LCR disclosure requirements, as set out in Directive 6/2014 and Directive 11/2014. This disclosure is in accordance with Pillar 3 of the Basel III liquidity accord.

The following table sets out the LCR for the group and bank:

R'millions	Investec Bank Limited Solo – Total weighted value	Investec Bank Limited Consolidated Group – Total weighted value
High quality liquid assets (HQLA)	70 015	70 083
Net cash outflows	54 481	49 128
Actual LCR (%)	130.0	144.0
Required LCR (%)	**80.0**	**80.0**

The values in the table are calculated as the simple average of daily observations over the period 01 January 2017 to 31 March 2017 for Investec Bank Limited (IBL) bank solo. 63 business day observations were used. Investec Bank Limited consolidated group use daily values for IBL bank solo, while those for other group entities use the average of January, February, March 2017 month-end values.

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 a decrease in headline earnings attributable to ordinary shareholders of 11.0% to R3,069 million (2016: R3,449 million). Operating fundamentals were supported by sound levels of corporate and private client activity. Results were impacted by the change in accounting treatment from fair value to equity accounting for the assets transferred to Investec Equity Partners in the prior year (refer to additional information). Excluding the impact of this transaction operating profit was considerably ahead of the prior period. The balance sheet remains sound with a capital adequacy ratio of 15.4% (31 March 2016: 14.6%). 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 2016.

Salient operational features for the year under review include:

Total operating income before impairment losses on loans and advances increased by 3.5% to R10,754 million (2016: R10,388 million). The components of operating income are analysed further below:

- Net interest income increased 10.5% to R7,419 million (2016: R6,712 million) driven by sound levels of lending activity.
- Net fee and commission income increased 15.0% to R1,999 million (2016: R1,738 million) as a result of a sound performance from the private banking, corporate lending, corporate treasury and import solutions businesses.
- Investment income decreased significantly to R472 million (2016: R1,356 million) impacted by the change in accounting treatment from fair value to equity accounting for the assets transferred to Investec Equity Partners.
- Share of post-taxation operating profit of associates of R306 million in the current period largely reflects earnings in relation to the group's investment in Investec Equity Partners.
- Total trading income decreased 5.9% to R556 million (2016: R591 million) largely due to foreign currency translation impacts, while corporate customer flow trading income increased supported by client activity levels and market volatility.

Impairments on loans and advances increased from R517 million to R657 million, with the credit loss ratio on average core loans and advances amounting to 0.29% (31 March 2016: 0.26%), remaining at the lower end of its long-term average trend. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 1.03% (2016: 1.06%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.81 times (2016: 1.61 times).

The ratio of total operating costs to total operating income amounts to 54.7% (2016: 53.3%). Total operating expenses at R5,887 million were 6.3% higher than the prior year (2016: R5,537 million) reflecting higher headcount and IT infrastructure costs across the business to support increased activity and growth initiatives; partially offset by costs incurred with respect to the Investec Equity Partners transaction not repeated in the current year.

As a result of the foregoing factors operating profit before acquired intangibles decreased by 2.9% to R4,210 million (2016: R4,334 million).

Additional information – Investec Equity Partners

In South Africa an investment vehicle, Investec Equity Partners, was created on 11 January 2016 in which Investec holds a 45% stake alongside other strategic investors who hold the remaining 55%. Investec Principal Investments transferred certain portfolio investments to the value of R5.8 billion to Investec Equity Partners. In exchange Investec received R0.7 billion in cash and 45% of the shares in Investec Equity Partners (R5.1 billion), reflected as an associate on the balance sheet. Since the date of the transaction Investec has applied the equity accounting method to account for its investment in the new vehicle as opposed to the fair value accounting method previously applied to the underlying investments held.

Accounting policies and disclosures

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard, IAS 34, Interim Financial Reporting, the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee, Financial Pronouncements as issued by Financial Reporting Standards Council, the Companies Act and JSE Listing Requirements.

The accounting policies applied in the preparation of the results for the year ended 31 March 2017 are consistent with those adopted in the financial statements for the year ended 31 March 2016.

The financial results have been prepared under the supervision of Nishlan Samujh, the Group Chief Financial Officer. The annual financial statements for the year ended 31 March 2017 will be posted to stakeholders on 30 June 2017. These annual financial statements will be available on the group's website at the same date.

Restatements

The group had erroneously offset an amount of loans payable to group companies against loans receivable from group companies in the line item "Loans to group companies" included in assets. The presentation has been amended in the current reporting period. To assist comparability, comparative financial information has been restated. In the prior years' annual financial statements, disclosure of loans to and from group companies was provided in the "Loans to group companies" note of the annual financial statements.

The restatement to balance sheet line items are noted below:

At 31 March R'millions	2016	2015
Restated		
Loans to group companies	11 811	10 754
Loans from group companies	6 351	7 486
Total assets	411 980	340 192
Total liabilities	380 115	311 293
As previously reported		
Loans to group companies	5 460	3 268
Loans from group companies	n/a	n/a
Total assets	405 629	332 706
Total liabilities	373 764	303 807
Change to previously reported		
Loans to group companies	6 351	7 486
Loans from group companies	6 351	7 486
Total assets	6 351	7 486
Total liabilities	6 351	7 486

The above changes had no impact on the income statement, net assets or the net cash flows.

On behalf of the Board of Investec Bank Limited

Fani Titi
Chairman

Richard Wainwright
Chief Executive Officer

17 May 2017

Review conclusion

These preliminary condensed consolidated financial statements for the year ended 31 March 2017 have been reviewed by KPMG Inc. and Ernst & Young Inc., who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the company's registered office.

Analysis of assets and liabilities by measurement basis

At 31 March 2017 R'million	Total instruments at fair value	Total instruments at amortised cost	Non-financial instruments	Total
Group				
2017				
Assets				
Cash and balances at central banks	–	8 353	–	8 353
Loans and advances to banks	–	31 937	–	31 937
Non-sovereign and non-bank cash placements	–	8 993	–	8 993
Reverse repurchase agreements and cash collateral on securities borrowed	15 429	11 198	–	26 627
Sovereign debt securities	44 491	3 331	–	47 822
Bank debt securities	5 498	2 260	–	7 758
Other debt securities	9 901	2 044	–	11 945
Derivative financial instruments	9 856	–	–	9 856
Securities arising from trading activities	653	–	–	653
Investment portfolio	7 204	–	–	7 204
Loans and advances to customers	14 011	211 658	–	225 669
Own originated loans and advances to customers securitised	–	7 776	–	7 776
Other loans and advances	–	310	–	310
Other securitised assets	–	100	–	100
Interests in associated undertakings	–	–	5 514	5 514
Deferred taxation assets	–	–	388	388
Other assets	730	2 793	1 743	5 266
Property and equipment	–	–	274	274
Investment properties	–	–	1	1
Goodwill	–	–	171	171
Intangible assets	–	–	508	508
Loans to group companies	78	18 028	–	18 106
Non-current assets held for sale	456	–	–	456
	108 307	**308 781**	**8 599**	**425 687**
Liabilities				
Deposits by banks	–	32 378	–	32 378
Derivative financial instruments	12 556	–	–	12 556
Other trading liabilities	1 667	–	–	1 667
Repurchase agreements and cash collateral on securities lent	1 018	6 807	–	7 825
Customer accounts (deposits)	34 316	269 081	–	303 397
Debt securities in issue	3 707	2 116	–	5 823
Liabilities arising on securitisation of own originated loans and advances	–	673	–	673
Current taxation liabilities	–	–	977	977
Deferred taxation liabilities	–	–	109	109
Other liabilities	735	1 998	3 262	5 995
Loans from group companies	–	5 942	–	5 942
	53 999	**318 995**	**4 348**	**377 342**
Subordinated liabilities	–	13 180	–	13 180
	53 999	**332 175**	**4 348**	**390 522**

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 (i.e. as prices) or indirectly (i.e. derived from prices)

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

		Fair value category		
At 31 March 2017 **R'million**	**Total instruments at fair value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Reverse repurchase agreements and cash collateral on securities borrowed	15 429	–	15 429	–
Sovereign debt securities	44 491	44 491	–	–
Bank debt securities	5 498	4 108	1 390	–
Other debt securities	9 901	6 436	3 465	–
Derivative financial instruments	9 856	–	9 846	10
Securities arising from trading activities	653	578	75	–
Investment portfolio	7 204	3 876	499	2 829
Loans and advances to customers	14 011	–	14 011	–
Loans to group companies	78	–	78	–
Other assets	730	730	–	–
Non-current assets held for sale	456	–	–	456
	108 307	**60 219**	**44 793**	**3 295**
Liabilities				
Derivative financial instruments	12 556	–	12 556	–
Other trading liabilities	1 667	350	1 317	–
Repurchase agreements and cash collateral on securities lent	1 018	–	1 018	–
Customer accounts (deposits)	34 316	–	34 316	–
Debt securities in issue	3 707	–	3 707	–
Other liabilities	735	–	735	–
	53 999	**350**	**53 649**	**–**
Net financial assets/(liabilities) at fair value	**54 308**	**59 869**	**(8 856)**	**3 295**

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 in the current year.

Level 3 instruments

The following table shows a reconciliation of the opening balances to the closing balances for level 3 financial instruments. All instruments are at fair value through profit or loss.

R'million	**2017**
Balance at 1 April 2016	2 580
Total losses recognised in the income statement	(65)
Purchases	1 226
Sales	(144)
Transfers into level 3	4
Transfers out of level 3	(298)
Foreign exchange adjustments	(8)
Balance at 31 March 2017	**3 295**

During the year a level 3 investment of R298 million has been transferred to level 2 due to the nature of the asset changing, resulting in a change in valuation method.

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

For the year to 31 March 2017

R'million	Total	Realised	Unrealised
Total gains/(losses) recognised in the income statement for the year			
Investment (loss)/income	(65)	9	(74)
	(65)	**9**	**(74)**

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:

					Reflected in the income statement	
At 31 March 2017	Level 3 balance sheet value	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Favourable changes R'million	Unfavourable changes R'million
Assets						
Derivative financial instruments	10	Comparable sales	Property value	(10)%/10%	1	(1)
Investment portfolio	2 829				623	(608)
		Price earnings	EBITDA	*	335	(279)
		Discounted cash flow	Precious and industrial metals prices	(10)%/10%	231	(264)
		Other	Various	**	57	(65)
Non-current assets held for sale	456	Price earnings	Price earnings multiple	(10)%/10%	65	(58)
Total	**3 295**				**689**	**(667)**

* *The EBITDA has been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.*

** *The valuation sensitivity for certain equity investments has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purpose of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

In determining the value of level 3 financial instruments, the following is a principal input that can require judgement:

Price-earnings multiple

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

EBITDA

The company's earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

Precious and industrial metals

The price of precious and industrial metals is a key driver of future cash flows on these 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 year in measuring financial instruments categorised as level 2 in the fair value hierarchy:

	Valuation basis/techniques	Main assumptions
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Securities arising from trading activities	Adjusted quoted price	Liquidity adjustment
Investment portfolio	Adjusted quoted price	Liquidity adjustment
Loans and advances to customers	Discounted cash flow model	Yield curve
Loans to group companies	Discounted cash flow model	Yield curve
Liabilities		
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Other trading liabilities	Discounted cash flow model	Yield curve
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model	Yield curve
Customer accounts (deposits)	Discounted cash flow model	Yield curve
Debt securities in issue	Discounted cash flow model	Yield curve
Other liabilities	Discounted cash flow model	Yield curve

Fair value of financial assets and liabilities at amortised cost

At 31 March 2017 R'million	Carrying amount	Fair value
2017		
Assets		
Cash and balances at central banks	8 353	8 353
Loans and advances to banks	31 937	31 937
Non-sovereign and non-bank cash placements	8 993	8 993
Reverse repurchase agreements and cash collateral on securities borrowed	11 198	11 199
Sovereign debt securities	3 331	3 248
Bank debt securities	2 260	2 301
Other debt securities	2 044	2 054
Loans and advances to customers	211 658	211 777
Own originated loans and advances to customers securitised	7 776	7 776
Other loans and advances	310	310
Other securitised assets	100	100
Other assets	2 793	2 793
Loans to group companies	18 028	18 028
	308 781	**308 869**
Liabilities		
Deposits by banks	32 378	32 736
Repurchase agreements and cash collateral on securities lent	6 807	6 843
Customer accounts (deposits)	269 081	269 901
Debt securities in issue	2 116	2 119
Liabilities arising on securitisation of own originated loans and advances	673	673
Other liabilities	1 998	2 001
Loans from group companies	5 942	5 942
Subordinated liabilities	13 180	13 917
	332 175	**334 132**

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 28

Notice is hereby given that preference dividend number 28 has been declared by the Board from income reserves for the period 01 October 2016 to 31 March 2017 amounting to a gross preference dividend of 436.28392 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, 09 June 2017.

The relevant dates for the payment of dividend number 28 are as follows:

Last day to trade cum-dividend	Tuesday, 06 June 2017
Shares commence trading *ex*-dividend	Wednesday, 07 June 2017
Record date	Friday, 09 June 2017
Payment date	Monday, 19 June 2017

Share certificates may not be dematerialised or rematerialised between Wednesday, 07 June 2017 and Friday, 09 June 2017, both dates inclusive.

Additional information to take note of:

- Investec Bank Limited 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 20% (subject to any available exemptions as legislated)
- The net dividend amounts to 349.02714 cents per preference share for shareholders liable to pay the Dividend Tax and 436.28392 cents per preference share for preference shareholders exempt from paying the Dividend Tax.

By order of the board

N van Wyk
Company Secretary

17 May 2017

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

Registered office
100 Grayston Drive
Sandown, Sandton, 2196

Transfer secretaries
Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue,
Rosebank, 2196

Company Secretary:
N van Wyk

Sponsor: Investec Bank Limited

Directors:
F Titi (Chairman)
DM Lawrence (Deputy Chairman)
S Koseff^ (Group Chief Executive)
B Kantor^ (Group Managing Director)
RJ Wainwright^ (Chief Executive Officer)
GR Burger^, NA Samujh^*
SE Abrahams, ZBM Bassa
D Friedland, KL Shuenyane
B Tapnack^, PRS Thomas

^ Executive
** Appointed on 10 August 2016*