

2016



Out of the Ordinary®



INVESTEC BANK LIMITED

Reviewed preliminary condensed consolidated financial results for the year ended 31 March 2016

Consolidated income statement

For the year to 31 March

R'million	Reviewed 2016	Audited 2015
Interest income	23 515	19 587
Interest expense	(16 803)	(14 066)
Net interest income	6 712	5 521
Fee and commission income	1 945	1 661
Fee and commission expense	(207)	(207)
Investment income	1 356	1 420
Trading income arising from		
– customer flow	293	290
– balance sheet management and other trading activities	298	260
Other operating (loss)/income	(9)	1
Total operating income before impairment losses on loans and advances	10 388	8 946
Impairment losses on loans and advances	(517)	(455)
Operating income	9 871	8 491
Operating costs	(5 537)	(4 818)
Operating profit before acquired intangibles	4 334	3 673
Amortisation of acquired intangibles	(39)	–
Profit before taxation	4 295	3 673
Taxation on operating profit before acquired intangibles	(831)	(545)
Taxation on acquired intangibles	11	–
Profit after taxation	3 475	3 128

Calculation of headline earnings

For the year to 31 March

R'million	Reviewed 2016	Audited 2015
Profit after taxation	3 475	3 128
Preference dividends paid	(120)	(114)
Earnings attributable to ordinary shareholders	3 355	3 014
Headline adjustments, net of taxation*	94	–
Gain on available-for-sale assets recycled to the income statement	(13)	–
Write down of non-current assets classified as held for sale	107	–
Headline earnings attributable to ordinary shareholders	3 449	3 014

* These amounts are net of taxation of R19.3 million (2015: Rnil).

Consolidated statement of total comprehensive income

For the year to 31 March R'million	Reviewed 2016	Audited 2015
Profit after taxation	3 475	3 128
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**	(699)	(619)
Fair value movements on available-for-sale assets taken directly to other comprehensive income**	(717)	322
Gain on realisation of available-for-sale assets recycled through the income statement**	(13)	–
Foreign currency adjustments on translating foreign operations	1 040	602
Total comprehensive income	3 086	3 433
Total comprehensive income attributable to ordinary shareholders	2 966	3 319
Total comprehensive income attributable to perpetual preference shareholders	120	114
Total comprehensive income	3 086	3 433

** These amounts are net of taxation of R515.3 million (2015: R101.6 million).

Condensed consolidated statement of changes in equity

For the year to 31 March R'million	Reviewed 2016	Audited 2015
Balance at the beginning of the year	28 899	25 601
Total comprehensive income	3 086	3 433
Dividends paid to ordinary shareholders	–	(21)
Dividends paid to perpetual preference shareholders	(120)	(114)
Balance at the end of the year	31 865	28 899

Condensed consolidated cash flow statement

For the year to 31 March R'million	Reviewed 2016	Audited 2015
Net cash inflow from operating activities	2 469	3 467
Net cash outflow from investing activities	(499)	(198)
Net cash outflow from financing activities	(43)	(385)
Effects of exchange rate changes on cash and cash equivalents	773	439
Net increase in cash and cash equivalents	2 700	3 323
Cash and cash equivalents at the beginning of the year	23 783	20 460
Cash and cash equivalents at the end of the year	26 483	23 783

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 2016	Audited 2015
Assets		
Cash and balances at central banks	7 801	6 261
Loans and advances to banks	26 779	33 422
Non-sovereign and non-bank cash placements	9 858	10 540
Reverse repurchase agreements and cash collateral on securities borrowed	38 912	10 095
Sovereign debt securities	41 325	31 378
Bank debt securities	13 968	17 332
Other debt securities	12 761	12 749
Derivative financial instruments	15 843	15 178
Securities arising from trading activities	992	1 289
Investment portfolio	6 360	9 972
Loans and advances to customers	207 272	172 993
Own originated loans and advances to customers securitised	7 967	4 535
Other loans and advances	367	472
Other securitised assets	115	618
Interests in associated undertakings	5 145	60
Deferred taxation assets	116	88
Other assets	3 656	1 262
Property and equipment	236	192
Investment properties	1	80
Goodwill	171	–
Intangible assets	524	190
Loans to group companies	5 460	3 268
Non-current assets classified as held for sale	–	732
	405 629	332 706
Liabilities		
Deposits by banks	37 242	29 792
Derivative financial instruments	13 424	12 401
Other trading liabilities	1 405	1 623
Repurchase agreements and cash collateral on securities lent	16 916	16 556
Customer accounts (deposits)	279 736	221 377
Debt securities in issue	7 665	5 517
Liabilities arising on securitisation of own originated loans and advances	809	1 089
Current taxation liabilities	671	1 186
Deferred taxation liabilities	122	76
Other liabilities	5 042	3 741
	363 032	293 358
Subordinated liabilities	10 732	10 449
	373 764	303 807
Equity		
Ordinary share capital	32	32
Share premium	14 885	14 885
Other reserves	566	764
Retained income	16 382	13 218
Total equity	31 865	28 899
Total liabilities and equity	405 629	332 706

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	Investec Bank Limited
	Solo – Total weighted value	Consolidated Group – Total weighted value
High quality liquid assets (HQLA)	62 049	62 095
Net cash outflows	53 594	48 682
Actual LCR (%)	117.3	130.1
Required LCR (%)	70.0	70.0

The values in the table are calculated as the simple average of daily observations over the period 1 January 2016 to 31 March 2016 for Investec Bank Limited (IBL) bank solo. 60 business day observations were used. Investec Bank Limited consolidated group values use daily values for IBL bank solo, while those for other group entities use the average of January, February, March 2016 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 an increase in headline earnings attributable to ordinary shareholders of 14.4% to R3,449 million (2015: R3,014 million). Notwithstanding strong growth in credit risk-weighted assets, the balance sheet remains sound with a capital adequacy ratio of 14.6% (2015: 15.4%). For full information on the Investec Group results, refer to the combined results of Investec plc and Investec Limited on 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 2015.

Salient operational features for the year under review include:

Total operating income before impairment losses on loans and advances increased by 16.1% to R10,388 million (2015: R8,946 million). The components of operating income are analysed further below:

- Net interest income increased 21.6% to R6,712 million (2015: R5,521 million) with the bank benefiting from a solid increase in its loan portfolio.
- Net fee and commission income increased 19.5% to R1,738 million (2015: R1,454 million) as a result of a good performance from the private banking, corporate lending and corporate treasury businesses. In addition, the acquisition of the Blue Strata group (refer to note under additional information) had a positive impact on net fee and commission income.
- Investment income decreased 4.5% to R1,356 million (2015: R1,420 million). The bank's unlisted investments portfolio continued to perform well. Following the creation of Investec Equity Partners (refer to note under additional information) the bank will equity account its 45% interest in the new vehicle which has a 31 December financial year-end.
- Trading income arising from customer flow and other trading activities increased 7.5% to R591 million (2015: R550 million) reflecting higher activity levels and foreign currency gains.

Impairments on loans and advances increased from R455 million to R517 million. However, the credit loss charge as a percentage of average gross core loans and advances has improved from 0.29% at 31 March 2015 to 0.26%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 1.06% (2015: 1.46%).

The ratio of total operating costs to total operating income amounts to 53.3% (2015: 53.9%). Total operating expenses at R5,537 million were 14.9% higher than the prior year (2015: R4,818 million) largely as a result of: an increase in headcount and system infrastructure costs to support growth initiatives; the acquisition of the Blue Strata group; and an increase in variable remuneration given improved profitability.

As a result of the foregoing factors, profit before taxation and acquired intangibles increased by 18.0% to R4,334 million (2015: R3,673 million).

ADDITIONAL INFORMATION

ACQUISITION OF BLUE STRATA (REBRANDED INVESTEC IMPORT SOLUTIONS)

On 1 July 2015, Investec Bank Limited acquired the remaining 51.5% of the Blue Strata group (since rebranded Investec Import Solutions) and in doing so obtained control. Investec Bank Limited paid R367 million for the additional 51.5% interest. For the post acquisition period 1 July 2015 to 31 March 2016, the operating income of Investec Import Solutions was R204.9 million and the profit before taxation amounted to R68.2 million. Investec Import Solutions provides import logistics and trade finance. Their main source of revenue is commission earned from services and is reflected in 'fee and commission income'.

INVESTEC EQUITY PARTNERS

A new investment vehicle, Investec Equity Partners (IEP), was created on 11 January 2016 in which Investec holds a 45% stake alongside other strategic investors who hold the remaining 55%. The bank transferred certain portfolio investments to the value of R5.8 billion to IEP. In exchange the bank received R0.7 billion in cash and 45% of the shares in IEP (R5.1 billion), reflected as an associate on the balance sheet.

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, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited Listings Requirements and the Companies Act 71, of 2008.

The accounting policies applied in the preparation of the results for the year ended 31 March 2016 are consistent with those adopted in the financial statements for the year ended 31 March 2015.

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 2016 will be posted to stakeholders on 30 June 2016. These annual financial statements will be available on the group's website at the same date.

On behalf of the Board of Investec Bank Limited

Fani Titi
Chairman

Richard Wainwright
Chief Executive Officer

18 May 2016

REVIEW CONCLUSION

These preliminary condensed consolidated financial statements for the year ended 31 March 2016 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 2016 R'million	Total instruments at fair value	Total instruments at amortised cost	Non-financial instruments	Total
Assets				
Cash and balances at central banks	–	7 801	–	7 801
Loans and advances to banks	–	26 779	–	26 779
Non-sovereign and non-bank cash placements	3	9 855	–	9 858
Reverse repurchase agreements and cash collateral on securities borrowed	24 155	14 757	–	38 912
Sovereign debt securities	37 607	3 718	–	41 325
Bank debt securities	6 104	7 864	–	13 968
Other debt securities	10 532	2 229	–	12 761
Derivative financial instruments	15 843	–	–	15 843
Securities arising from trading activities	992	–	–	992
Investment portfolio	6 360	–	–	6 360
Loans and advances to customers	12 241	195 031	–	207 272
Own originated loans and advances to customers securitised	–	7 967	–	7 967
Other loans and advances	–	367	–	367
Other securitised assets	–	115	–	115
Interests in associated undertakings	–	–	5 145	5 145
Deferred taxation assets	–	–	116	116
Other assets	324	2 500	832	3 656
Property and equipment	–	–	236	236
Investment properties	–	–	1	1
Goodwill	–	–	171	171
Intangible assets	–	–	524	524
Loans to group companies	–	5 460	–	5 460
	114 161	284 443	7 025	405 629
Liabilities				
Deposits by banks	–	37 242	–	37 242
Derivative financial instruments	13 424	–	–	13 424
Other trading liabilities	1 405	–	–	1 405
Repurchase agreements and cash collateral on securities lent	2 509	14 407	–	16 916
Customer accounts (deposits)	12 059	267 677	–	279 736
Debt securities in issue	5 080	2 585	–	7 665
Liabilities arising on securitisation of own originated loans and advances	–	809	–	809
Current taxation liabilities	–	–	671	671
Deferred taxation liabilities	–	–	122	122
Other liabilities	680	1 233	3 129	5 042
Subordinated liabilities	–	10 732	–	10 732
	35 157	334 685	3 922	373 764

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)

At 31 March 2016 R'million	Total instruments at fair value	Fair value category		
		Level 1	Level 2	Level 3
Assets				
Non-sovereign and non-bank cash placements	3	–	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 155	–	24 155	–
Sovereign debt securities	37 607	37 607	–	–
Bank debt securities	6 104	4 429	1 675	–
Other debt securities	10 532	10 532	–	–
Derivative financial instruments	15 843	–	15 833	10
Securities arising from trading activities	992	992	–	–
Investment portfolio	6 360	3 287	503	2 570
Loans and advances to customers	12 241	–	12 241	–
Other assets	324	324	–	–
	114 161	57 171	54 410	2 580
Liabilities				
Derivative financial instruments	13 424	–	13 424	–
Other trading liabilities	1 405	576	829	–
Repurchase agreements and cash collateral on securities lent	2 509	–	2 509	–
Customer accounts (deposits)	12 059	–	12 059	–
Debt securities in issue	5 080	–	5 080	–
Other liabilities	680	–	680	–
	35 157	576	34 581	–
Net assets	79 004	56 595	19 829	2 580

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	2016
Balance at 1 April 2015	6 509
Total gains or losses included in the income statement	761
Purchases	483
Sales	(5 379)
Issues	70
Settlements	(397)
Transfers into level 3	103
Transfers out of level 3	332
Foreign exchange adjustments	98
Balance at 31 March 2016	2 580

For the year ended 31 March 2016, R103.3 million has been transferred into level 3 from level 2 as a result of the inputs to the valuation methods becoming unobservable in the market. R331.9 million related to instruments transferred from level 3 to level 2 as a result of inputs to the valuation methods becoming more observable.

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

For the year to 31 March 2016

R'million	Total	Realised	Unrealised
Total gains or (losses) included in the income statement for the year			
Investment income	739	3 450	(2 711)
Trading income arising from customer flow	22	22	–
	761	3 472	(2 711)

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 2016	Level 3 balance sheet value	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Reflected in the income statement	
					Favourable changes R'million	Unfavourable changes R'million
Assets						
Derivative financial instruments	10	Price multiple	Net asset value	(10%) – 10%	1	(1)
					1	(1)
Investment portfolio	2 570				399	(327)
		Price earnings	Change in PE multiple	*	102	(79)
		Other	Various	**	297	(248)
Total	2 580				400	(328)

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

**These valuation sensitivities have been determined individually using varying scenario-based techniques to obtain the favourable and unfavourable valuations.

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.

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		
Non-sovereign and non-bank cash placements	Discounted cash flow model	Yield curve
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
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Investment portfolio	Adjusted quoted price	Liquidity adjustment
Loans and advances to customers	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 2016
R'million

	Carrying amount	Fair value
Assets		
Cash and balances at central banks	7 801	7 801
Loans and advances to banks	26 779	26 779
Non-sovereign and non-bank cash placements	9 855	9 855
Reverse repurchase agreements and cash collateral on securities borrowed	14 757	14 757
Sovereign debt securities	3 718	3 798
Bank debt securities	7 864	8 778
Other debt securities	2 229	2 247
Loans and advances to customers	195 031	195 157
Own originated loans and advances to customers securitised	7 967	7 967
Other loans and advances	367	367
Other securitised assets	115	115
Other assets	2 500	2 500
Loans to group companies	5 460	5 460
	284 443	285 581
Liabilities		
Deposits by banks	37 242	37 399
Repurchase agreements and cash collateral on securities lent	14 407	14 452
Customer accounts (deposits)	267 677	268 191
Debt securities in issue	2 585	2 587
Liabilities arising on securitisation of own originated loans and advances	809	809
Other liabilities	1 233	1 233
Subordinated liabilities	10 732	11 692
	334 685	336 363

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 26

Notice is hereby given that preference dividend number 26 has been declared by the board from income reserves for the period 01 October 2015 to 31 March 2016 amounting to a gross preference dividend of 412.48350 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, 10 June 2016.

The relevant dates for the payment of dividend number 26 are as follows:

Last day to trade <i>cum</i> -dividend	Friday, 03 June 2016
Shares commence trading <i>ex</i> -dividend	Monday, 06 June 2016
Record date	Friday, 10 June 2016
Payment date	Monday, 20 June 2016

Share certificates may not be dematerialised or rematerialised between Monday, 06 June 2016 and Friday, 10 June 2016, 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 15% (subject to any available exemptions as legislated)
- The net dividend amounts to 350.61098 cents per preference share for shareholders liable to pay the Dividend Tax and 412.48350 cents per preference share for preference shareholders exempt from paying the Dividend Tax.

By order of the board

N van Wyk

Company secretary

18 May 2016

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
70 Marshall Street, Johannesburg, 2001

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)
SE Abrahams, ZBM Bassa
GR Burger[^], D Friedland
KL Shuenyane, KXT Socikwa^{*}
B Tapnack[^], PRS Thomas

[^] Executive.

^{*} Did not seek re-election at the annual general meeting on 06 August 2015.

^{**} Appointed on 01 February 2016.