

Investec Bank plc
Incorporated in England and Wales
Registration number 489604

Unaudited condensed Financial Statements for the six months ended 30 September 2016

Investec Bank plc – the bank
(Incorporated in England and Wales)
(Company Registration Number: 489604)

Interim Management Report

This Interim Management Report is issued by Investec Bank plc, a subsidiary of the listed entity Investec plc, in accordance with the UK Listing Authority's Disclosure and Transparency Rules and has been prepared in accordance with IAS 34 "Interim Financial Reporting". Unless otherwise stated, key trends and figures highlighted below refer to the six months ended 30 September 2016 and the corresponding period in the previous year. Operating profit refers to operating profit before goodwill, amortisation of acquired intangibles, non-operating items and taxation and after non-controlling interests.

Performance overview

The bank reported a 7.4% decrease in operating profit to GBP85.2 million for the six months ended 30 September 2016 (2015: GBP91.9 million).

The balance sheet remains strong, supported by sound capital and liquidity ratios.

The main features of the period under review are:

- The Specialist Banking business reported a decrease in operating profit to GBP56.0 million (2015: GBP66.1 million)
- The Wealth & Investment business reported an increase in operating profit of 13.2% to GBP29.2 million (2015: GBP25.8 million).
- Third party assets under management increased 12.0% to GBP33.7 billion (31 March 2016: GBP30.1 billion)
- Customer accounts (deposits) increased 11.7% to GBP12.3 billion (31 March 2016: GBP11.0 billion)
- Core loans and advances increased 6.3% to GBP8.3 billion (31 March 2016: GBP7.8 billion)
- Capital adequacy ratios* have remained sound with the bank reporting a capital adequacy ratio of 16.5% (31 March 2016: 17.0%) and a common equity tier 1 ratio of 11.8% (31 March 2016: 11.9%). The bank's leverage ratio amounted to 7.3% (31 March 2016: 7.5%)
- Low gearing ratios represented by total assets to equity at 10.2 times (31 March 2016: 9.9 times)
- The annualised credit loss charge as a percentage of average gross core loans and advances amounted to 0.74% at 30 September 2016, with impairments decreasing by 3.9% to GBP30.1 million.

**Including the deduction of foreseeable dividends.*

Business unit review

Wealth & Investment

Wealth & Investment operating profit increased by 13.2% to GBP29.2 million (2015: GBP25.8 million) supported by higher average funds under management and net inflows of GBP0.7 billion. Total funds under management amounted to GBP33.4 billion (31 March 2016: GBP29.8 billion).

Specialist Banking

Specialist Banking operating profit decreased 15.4% to GBP56.0 million (2015: GBP66.1 million). Notwithstanding Brexit-driven volatility, the division recorded a strong performance in its customer flow trading business and robust levels of activity across its lending and advisory businesses. Results were negatively impacted by the write down of an investment in the Hong Kong portfolio. Costs increased as the group continued to deliberately invest in IT infrastructure and headcount to grow the franchise, notably the build out of the private client banking offering. Core loans amounted to GBP7.8 billion, an increase of 4.8% on a currency neutral basis, and impairments declined marginally over the period.

Further information on key developments within each of the business units is provided in a detailed report published on the Investec group's website: <http://www.investec.com>

Operational review

Liquidity and funding

As at 30 September 2016 the bank had GBP6.1 billion in cash and near cash balances, representing 49.2% of customer deposits. Loans and advances to customers as a percentage of customer deposits amounted to 67.1% (31 March 2016: 70.5%). The bank defensively increased cash balances in anticipation of the EU referendum in the UK and remains very liquid given global volatility and uncertainty in the markets. The bank continues to manage its excess liquidity and funding profile accordingly. The bank comfortably meets Basel liquidity requirements for the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR reported to the Prudential Regulatory Authority at 30 September 2016 was 819% for Investec plc and 901% for Investec Bank plc (solo basis). Further detail with respect to the bank's LCR ratio is provided on the website.

Credit quality and counterparty exposures

The bank lends mainly to high net worth and high income individuals, mid to large sized corporates, public sector bodies and institutions. The majority of IBP's credit and counterparty exposures reside within its principal operating geography, namely the UK.

Impairments on loans and advances decreased from GBP31.3 million to GBP30.1 million with the annualised credit loss charge as a percentage of average gross core loans and advances amounting to 0.74%. Total defaults decreased from GBP313.9 million at 31 March 2016 to GBP312.2 million at 30 September 2016.

UK legacy portfolio

The legacy portfolio reduced from GBP583 million at 31 March 2016 to GBP534 million largely through asset sales, redemptions and write-offs. The total legacy business over the period reported a loss before taxation of GBP34.4 million (2015: GBP35.5 million). The remaining legacy portfolio will continue to be managed down. Given the uncertainty in the UK following the EU referendum, the legacy book could take longer to wind down than management's original expectation of two to four years. Total net defaults in the legacy book amount to GBP126 million (31 March 2016: GBP143 million).

Outlook

Uncertainty persists in the macro environment as the UK prepares for Brexit, European political uncertainties remain elevated and the US adopts a new presidential administration. While Investec is mindful of the potentially challenging external circumstances, its operational diversity is supporting a recurring income base which has proved resilient notwithstanding fluctuating market conditions. The group remains committed to providing value for shareholders balanced by appropriate outcomes for stakeholders and an exceptional experience for clients.

On behalf of the board of Investec Bank plc

David van der Walt

Chief Executive Officer

Note to the commentary section

This interim management report includes an unaudited consolidated condensed set of financial statements produced by the bank for the six months ended 30 September 2016, which can be accessed via the following link **<RNS to insert link>**. This document will also be available on Investec's website at http://www.investec.co.uk/#home/investor_relations.html, and via the National Document Storage Mechanism at: www.hemscott.com/nsm/do

Enquires and further information:

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INVESTEC BANK PLC

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for preparing the unaudited consolidated condensed financial statements in accordance with applicable law and regulations.

UK Listing Authority Disclosure and Transparency Rules require the directors to prepare unaudited condensed financial statements for the half-year. The directors have elected to prepare the consolidated financial statements under International Financial Reporting Standards (IFRS) as adopted by the EU.

The directors are responsible for the preparation, integrity and objectivity of the consolidated financial statements that fairly present the state of affairs of the group at the end of the period and the net income for the period, and other information contained in this report.

To enable the directors to meet these responsibilities:

- The board and management set standards and management implements systems of internal controls and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of fraud, error or loss is reduced in a cost effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties
- The Investec plc group's Internal Audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the group Audit Committee, appraises and, when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business
- The Investec plc group Audit Committee, together with the Internal Audit department, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of our knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the system of internal control and procedures has occurred during the period under review.

The group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis and provides additional disclosures when compliance with the specific requirements in International Financial Reporting Standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance.

The financial statements of the group have been prepared in accordance with the Companies Act 2006 and comply with IFRS as adopted by the EU and Article 4 of the IAS regulation.

The directors are of the opinion, based on their knowledge of the group, key processes in operation and specific enquiries that adequate resources exist to support the company on a going concern basis over the next year. These financial statements have been prepared on that basis.

The unaudited consolidated condensed financial statements have not been audited or reviewed by the company's auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

Signed on behalf of the board

David van der Walt

Chief Executive Officer

30 November 2016