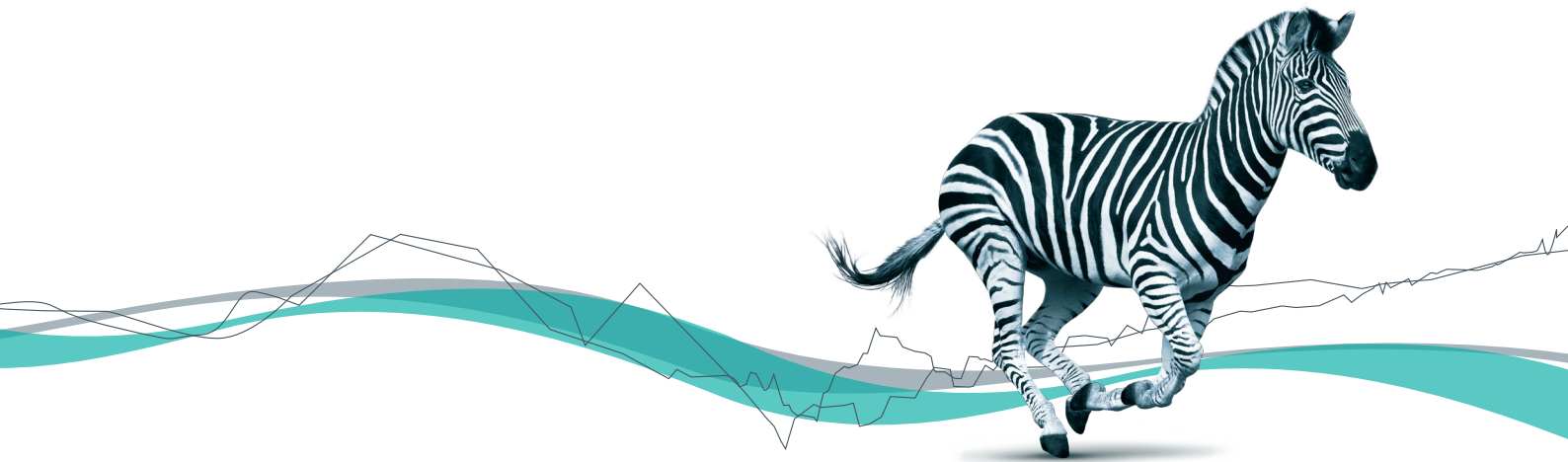


# Investec Bank (Australia) Limited

ABN 55 071 292 594

Results of Investec Bank (Australia) Limited for the year ended  
31 March 2009



*Out of the Ordinary®*

 **Investec**  
Specialist Bank

## Executive Summary

The operating environment over the past financial year has been extremely challenging with heavy volatility and increasing weakness in Australian and global economies.

Our focus and strategy throughout the year has been on maintaining the strength and stability of our balance sheet, albeit at the expense of short term profitability.

For the year ended 31 March 2009, Investec Bank (Australia) Limited ("IBAL") reported an operating profit before goodwill and tax of \$1.9 million. Operating profit before impairments, equity accounted earnings and mark-to-market adjustments on lending related equity options was \$79.6 million, which was broadly in line with the prior year of \$80.1 million.

The underperformance for the year is largely attributable to:

- Slow down in lending activity (other than Investec Experien) as a result of general market conditions and deliberate tightening of risk appetite;
- Significant decline in net interest income with the first half of the year impacted by fierce competition for retail deposits and the second half impacted by lower returns on surplus funds as interest rates declined rapidly;
- Increased impairments on loans and investments;
- Equity accounted losses relating to investments in associates;
- Less transaction and investment related income in an environment not conducive to closing transactions; and
- Adverse mark-to-market movements on lending related equity options portfolio.

Balance sheet fundamentals at 31 March 2009 were strong, with a capital adequacy ratio of 18.3% (tier 1 of 14.4%) and a core liquidity ratio of 36.8%, both well in excess of our minimum regulatory requirements.

At 31 March 2009, IBAL's loan book was \$2.9 billion, a 14% increase since 31 March 2008. The loan book at 31 March 2009 includes Investec Experien loans of \$1.15 billion (up 34% since 31 March 2008). Excluding Investec Experien, the IBAL loan book has increased 4% since 31 March 2008.

Customer deposits at 31 March 2009 were just under \$2 billion, a 51% increase since 31 March 2008. Included in this amount at year end are Private client deposits of \$1.4 billion, which have increased by 46% since 31 March 2008.

In addition to strong balance sheet fundamentals, there were a number of positive business/transaction developments during the year including:

- Sale of two wind farm development assets in December 2008 for a significant profit. We continue to hold interests in other wind farm development assets with further potential upside.
- Completed several aircraft transactions for the Investec Global Aircraft Fund earning structuring fees for IBAL. We expect opportunities in this market to continue both through expansion of the Fund as well as third party advisory.
- Successfully completed the physical integration of Investec-Experien professional lending business. The business has provided a diversification to our previous lending portfolios and has continued to grow steadily throughout the year.
- Completed inaugural government guaranteed wholesale debt issues in February 2009 (\$400 million 3-year and \$200 million 5-year).
- Successfully implemented a new banking system in November 2008 for Private Bank deposits.

The outlook for the global economy is uncertain and markets are likely to remain volatile, although there is a general expectation that Australia may emerge from the downturn sooner than the U.S. and U.K. / Europe. However, we do not expect a material improvement in the operating environment in the short-term and we will therefore continue to focus on:

- Moderating loan book growth and shifting the emphasis to increasing non-lending income;
- Closely managing the existing loan book;
- Maintaining credit quality;
- Strictly managing risk and liquidity;
- Broadening our retail deposit base;
- Building relationships with top quality private and wholesale clients;
- Building business depth rather than business breadth to deepen existing client relationships and generate high quality sustainable revenue streams; and
- Creating additional operational efficiencies and containing costs.

We believe that the above strategies will place us in a strong position to navigate through these difficult times and benefit from opportunities that arise from the current market dislocation.

## Financial highlights

(\$'m) unless otherwise stated	31 March 2009	31 March 2008
Operating profit before impairments, equity accounted earnings, and mark-to-market adjustments on lending related equity options	79.6	80.1
Operating profit before goodwill and acquisition adjustments	1.9	76.5
Total shareholders' equity	619.2	663.0
Total assets	5,101.3	3,918.7
Capital adequacy ratio	18.3%	18.8%
Tier 1 ratio	14.4%	15.7%
Liquidity ratio	36.8%	25.0%
Cost to income ratio	69%	59%

## Segmental information

For the year ended 31 March 2009 (\$'m)	Private Client Activities	Capital Markets	Investment Banking	Property Activities	Group Services and other Activities	Total
Net operating income before impairments, equity accounted earnings, and mark-to-market adjustments on lending related equity options	111.2	42.1	17.4	7.4	10.9	189.0
Operating expenses	(56.6)	(24.0)	(20.5)	(2.8)	(5.5)	(109.4)
Net contribution	54.6	18.1	(3.1)	4.6	5.4	79.6
Impairments (loans and investments)	(48.8)	(6.3)	(7.0)	-	-	(62.1)
Equity accounted earnings	(0.5)	-	(7.7)	-	-	(8.2)
Mark-to-market adjustments on lending related equity options	(0.3)	(7.1)	-	-	-	(7.4)
Operating profit before goodwill and acquisition adjustments	5.0	4.7	(17.8)	4.6	5.4	1.9

For the year ended 31 March 2008 (\$'m)	Private Client Activities	Capital Markets	Investment Banking	Property Activities	Group Services and other Activities	Total
Net operating income before impairments, equity accounted earnings, and mark-to-market adjustments on lending related equity options	111.3	41.2	29.5	1.4	27.6	211.0
Operating expenses	(53.5)	(28.2)	(23.4)	(1.1)	(24.7)	(130.9)
Net contribution	57.8	13.0	6.1	0.3	2.9	80.1
Impairments (loans and investments)	(14.8)	-	2.0	-	-	(12.8)
Equity accounted earnings	0.1	(0.1)	3.0	-	-	3.0
Mark-to-market adjustments on lending related equity options	(1.0)	7.2	-	-	-	6.2
Operating profit before goodwill and acquisition adjustments	42.1	20.1	11.1	0.3	2.9	76.5

## Income Statement

For the year ended 31 March  
Consolidated

\$'m	2009	2008
Interest income	372.2	313.0
Interest expense	(246.3)	(184.0)
<b>Net interest income</b>	<b>125.9</b>	<b>129.0</b>
Fee and commission income	51.9	53.5
Fee and commission expense	(2.9)	(3.2)
Principal transactions	6.7	36.5
Share of (loss)/profit of investments accounted for using the equity method	(8.2)	3.0
Other operating income	-	1.4
<b>Other income</b>	<b>47.5</b>	<b>91.2</b>
<b>Total operating income</b>	<b>173.4</b>	<b>220.2</b>
Impairments (loans and investments)	(62.1)	(12.8)
<b>Net operating income</b>	<b>111.3</b>	<b>207.4</b>
Operating expenses	(109.4)	(130.9)
<b>Operating profit before goodwill and acquisition adjustments</b>	<b>1.9</b>	<b>76.5</b>
Share of goodwill write-off attributable to investments in associates accounted for using the equity method	(6.3)	-
Loss on acquisition	-	(1.5)
<b>(Loss)/Profit before income tax</b>	<b>(4.4)</b>	<b>75.0</b>
Income tax benefit/(expense)	2.0	(13.3)
<b>(Loss)/Profit attributable to members</b>	<b>(2.4)</b>	<b>61.7</b>

## Balance Sheet

As at 31 March	Consolidated		Investec Bank (Australia) Limited	
	2009	2008	2009	2008
\$'m				
<b>Assets</b>				
Cash and liquid assets	1,054.1	937.0	1,004.4	900.2
Derivative financial instruments	222.3	148.5	221.7	141.9
Financial investments - available-for-sale	662.0	50.6	659.7	38.1
Financial assets held for trading	10.1	27.0	10.1	24.4
Loans and advances to customers	2,930.1	2,583.3	2,038.0	1,842.5
Investments accounted for using the equity method	7.9	19.8	4.4	16.3
Other financial assets	44.5	14.0	178.2	120.3
Property, plant and equipment	11.3	9.3	11.0	8.7
Deferred tax assets	23.4	18.3	21.3	25.3
Other assets	37.4	18.2	26.8	10.0
Goodwill	89.4	89.4	-	-
Assets held for sale	3.8	-	-	-
Intangible assets	5.0	3.3	2.9	3.0
<b>Total assets</b>	<b>5,101.3</b>	<b>3,918.7</b>	<b>4,178.5</b>	<b>3,130.7</b>
<b>Liabilities</b>				
Customer accounts	1,968.2	1,305.2	1,968.2	1,305.2
Derivative financial instruments	154.9	117.5	111.2	117.2
Debt issued and other borrowed funds	2,213.2	1,655.9	1,312.1	929.2
Other liabilities	44.8	76.6	36.7	55.8
Subordinated debt	101.0	100.5	101.0	100.5
<b>Total liabilities</b>	<b>4,482.1</b>	<b>3,255.7</b>	<b>3,529.2</b>	<b>2,507.9</b>
<b>Total equity</b>	<b>619.2</b>	<b>663.0</b>	<b>649.3</b>	<b>622.8</b>
<b>Equity</b>				
Share capital	291.7	291.7	291.7	291.7
Retained earnings	335.2	353.6	332.5	314.1
Other reserves	(7.7)	17.7	24.7	17.0
<b>Total equity</b>	<b>619.2</b>	<b>663.0</b>	<b>649.3</b>	<b>622.8</b>

## Asset quality and impairments

### Calculation of core loans and advances to customers

As at 31 March	Consolidated	
	2009	2008
\$'m		
Gross core loans and advances to customers	2,962.4	2,602.5
Specific impairments	(32.3)	(19.2)
<b>Net core loans and advances to customers</b>	<b>2,930.1</b>	<b>2,583.3</b>

The table below provides information with respect to the asset quality of our core loans and advances to customers.

As at 31 March	Consolidated	
	2009	2008
\$'m		
<b>Current loans and advances to customers</b>	<b>2,595.5</b>	<b>2,422.3</b>
<b>Non-current loans and advances to customers</b>		
Past due loans and advances to customers (1-90 days)	34.4	87.3
Special mention loans and advances to customers	20.3	10.9
Default loans and advances to customers	312.2	82.1
<b>Total non-current loans and advances to customers</b>	<b>366.9</b>	<b>180.2</b>
<b>Gross core loans and advances to customers</b>	<b>2,962.4</b>	<b>2,602.5</b>
Gross core loans and advances to customers that are past due but not impaired	243.6	98.1
Gross core loans and advances to customers that are impaired	123.3	82.1
<b>Total non-current loans and advances to customers</b>	<b>366.9</b>	<b>180.2</b>
Gross core loans and advances to customers that are impaired	123.3	82.1
Collateral and other credit enhancements	(91.4)	(74.9)
Specific impairments	(32.3)	(19.2)
<b>Net default loans and advances to customers (limited to zero)</b>	<b>-</b>	<b>-</b>
<b>General reserve for credit losses</b>	<b>33.8</b>	<b>17.8</b>
<b>Ratios:</b>		
Specific impairments as a % of gross core loans and advances to customers	1.09%	0.74%
Specific impairments as a % of default loans and advances to customers	10.35%	23.39%
Gross core loans and advances to customers that are impaired as a % of gross core loans and advances to customers	4.16%	3.15%
General reserve for credit losses as a % of gross core loans and advances to customers	1.14%	0.68%

## Australian Prudential Regulation Authority (APRA) Prudential Standard 330 disclosure

The disclosure is on a consolidated basis being Investec Bank (Australia) Limited and the entities it controls.  
The information provided below is for the quarter ended 31 March 2009

Capital adequacy Aus \$'000	
<b>Tier 1 capital</b>	
Paid-up ordinary shares	291,698
Retained earnings, including current year earnings	336,230
Other reserves	(7,231)
Less: impairments (goodwill and other deductions)	(183,446)
	437,251
<b>Tier 2 capital (net of deductions)</b>	116,929
<b>Capital base</b>	554,179

Capital adequacy Aus \$'000	Risk-weighted assets
<b>Credit risk:</b>	
- claims secured by residential mortgage	44,074
- other retail	126,146
- corporate	2,070,934
- bank	319,924
- all other	132,409
	2,693,488
<b>Market risk</b>	10,790
<b>Operational risk</b>	322,022
<b>Total</b>	3,026,300
Total capital adequacy ratio	18.3%
Tier 1 ratio	14.4%
<b>Capital adequacy ratio - pre operational risk</b>	20.5%
Tier 1 ratio - pre operational risk	16.2%

Credit and counterparty risk exposure by type ** Aus \$'000	Gross exposure	* Average gross exposure
- debt instruments (NCDs, bank bills, bonds held)	1,307,808	1,274,470
- bank placements	298,074	230,325
- sovereign, government placements	542	641
- trading exposures (positive fair value excluding potential future exposures)	216,888	241,159
- gross core loans and advances to customers	2,019,962	2,003,817
- all other	46,939	46,924
<b>Total on-balance sheet exposures</b>	3,890,213	3,797,337
Guarantees entered into in the normal course of business	60,607	69,302
Commitments to provide credit	271,060	311,807
<b>Total off-balance sheet exposures</b>	331,667	381,109
<b>Total credit and counterparty exposures pre collateral and other credit enhancements</b>	4,221,881	4,178,447

Credit and counterparty risk exposure by portfolio** Aus \$'000	Gross exposure	* Average gross exposure
- claim secured by residential mortgage	54,562	70,653
- other retail	143,670	164,517
- corporate	1,826,395	2,048,796
- bank	2,057,347	1,867,005
- all other	139,906	27,476
<b>Total credit and counterparty exposures by portfolio</b>	4,221,881	4,178,447
General reserve for credit losses	33,908	

Asset quality of credit and counterparty risk exposures** Aus \$'000	Total	Claims secured by residential mortgage	Other retail	Corporate	Bank	Government	And all other
Impaired facilities	123,294	-	14,350	108,945	-	-	-
Past due facilities < 90 days	54,701	-	12,239	42,462	-	-	-
Past due facilities > 90 days	188,890	-	33,383	155,507	-	-	-
<b>Total</b>	366,886	-	59,972	306,913	-	-	-
Specific provision	32,293	-	4,399	27,895	-	-	-
Charges for specific provisions	29,426	-	1,793	27,632	-	-	-
Write-offs during the period	21,239	-	-	21,239	-	-	-

\*Where the average is based on a month-end balances for the period 1 January 2009 to 31 March 2009

\*\*Excluding securitisation exposures