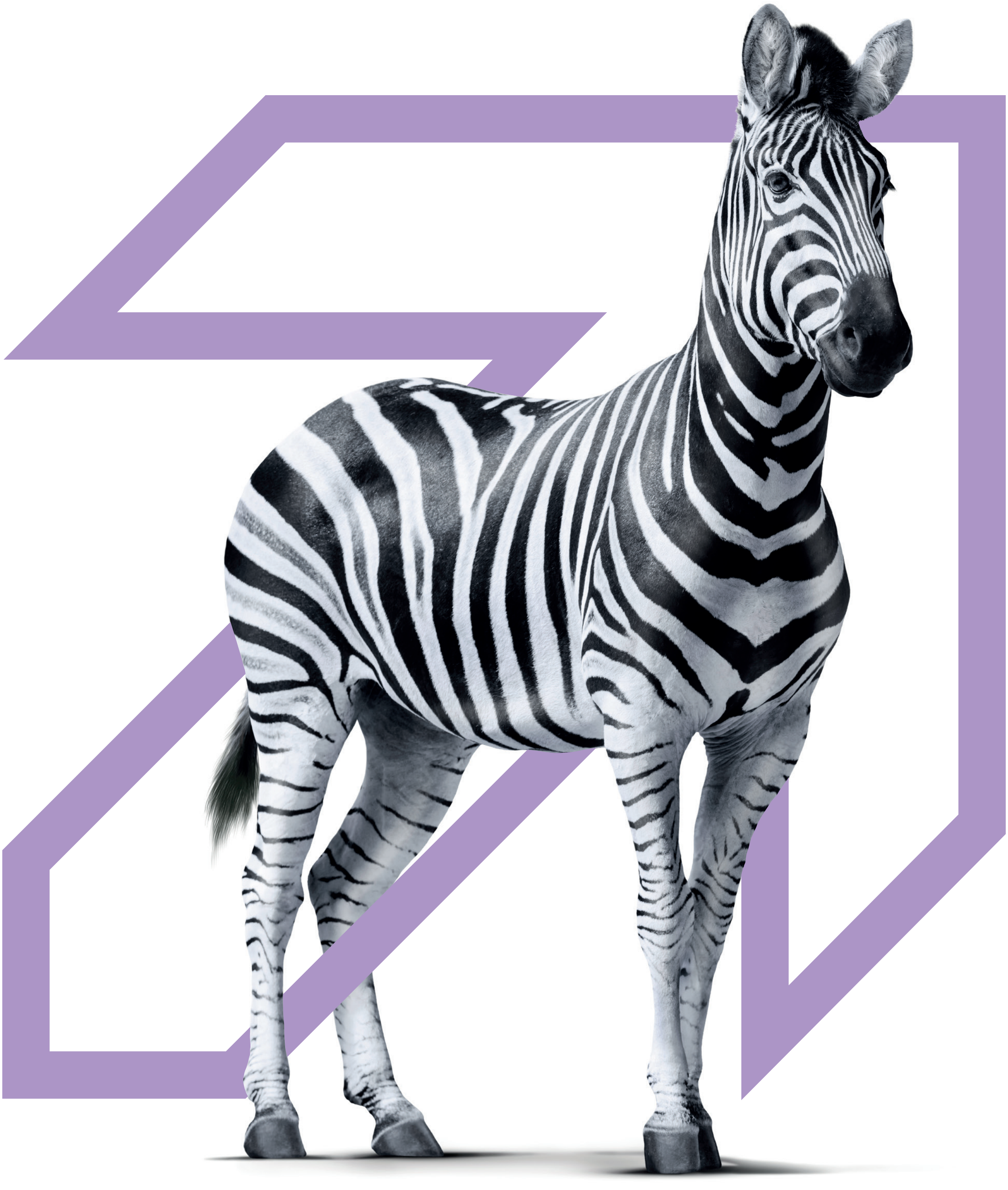
Out of the Ordinary

Investec

Investec Group

Q and A fact sheet

2018



Overview of Investec

Investec (comprising Investec plc and Investec Limited) is an international specialist bank and asset manager that provides a diverse range of financial products and services to a select client base.

Founded as a leasing company in Johannesburg in 1974, Investec acquired a banking licence in 1980 and was listed on the JSE Limited South Africa in 1986.

In July 2002, Investec implemented a dual listed companies (DLC) structure with linked companies listed in London and Johannesburg. A year later, the group concluded a significant empowerment transaction in which the empowerment partners collectively acquired a 25.1% stake in the issued share capital of Investec Limited. Investec plc is a FTSE 250 company.

Since inception, Investec has expanded through a combination of substantial organic growth and a series of strategic acquisitions. Today, the group has an efficient integrated international business platform, offering all core activities in the UK and South Africa and select activities in certain other countries.

Investec is organised as a network comprising three business divisions: Asset Management, Wealth & Investment and Specialist Banking.

The group's strategic goals and objectives are based on the aspiration to be recognised as a distinctive specialist bank and asset manager. This distinction is embodied in Investec's entrepreneurial culture, which is balanced by a strong risk management discipline, client-centric approach and an ability to be nimble, flexible and innovative. Investec does not seek to be all things to all people and aims to build well-defined, value-added businesses focused on serving the needs of select market niches where the group can compete effectively.

Overall group performance – year to 30 September 2018

Investec released its year-end results on 15 November 2018. Key points from the announcement include:

Overview of results

- The group has delivered a sound operational performance.
- This is notwithstanding a challenging operating environment. Rising US interest rates, the threat of trade wars, concerns over global growth prospects, weak economic growth in South Africa and Brexit-related uncertainty in the UK have contributed to this.
- The Asset Management and Wealth & Investment businesses have grown funds under management supported by strong net flows of £4.8 billion.
- The Specialist Banking business saw a substantial reduction in impairments as well as revenue growth supported by reasonable levels of client activity.
- The cost to income ratio improved marginally. Revenue growth and cost containment remain priorities.
- A solid base of annuity revenue has continued to support earnings through varying market conditions.

Overall group performance

Operating profit before goodwill, acquired intangibles, non-operating items and taxation and after other non-controlling interests (operating profit) increased 14.2% to £359.3 million (2017: £314.6 million) – an increase of 17.6% on a currency neutral basis. Overall group results have been negatively impacted by the depreciation of the average Rand: Pounds Sterling exchange rate of approximately 4.1% over the period. The combined South African businesses reported operating profit 5.0% ahead of the prior period (in Rands), whilst the combined UK and Other businesses posted a 40.2% increase in operating profit in Pounds Sterling.

Salient features of the period under review:

- Adjusted earnings attributable to shareholders before goodwill, acquired intangibles and non-operating items increased 8.2% to £265.3 million (2017: £245.3 million) – an increase of 11.1% on a currency neutral basis.
- Adjusted earnings per share (EPS) before goodwill, acquired intangibles and non-operating items increased 6.4% from 26.6 pence to 28.3 pence – an increase of 9.4% on a currency neutral basis.
- Annuity income as a percentage of total operating income amounted to 75.5% (2017: 76.4%).
- The total income statement impairment charge reduced materially to £31.0 million (2017: £59.6 million). The annualised credit loss charge as a percentage of average gross core loans and advances subject to expected credit losses has improved to 0.34% (2017: 0.52%).
- The annualised return on adjusted average shareholders' equity increased to 13.4% from 12.1% at 31 March 2018.
- Third party assets under management increased 3.7% to £166.5 billion (31 March 2018: £160.6 billion) – an increase of 7.2% on a currency neutral basis.
- Customer accounts (deposits) decreased 2.1% to £30.3 billion (31 March 2018: £31.0 billion) – an increase of 4.3% on a currency neutral basis.
- Core loans and advances decreased 3.7% to £24.2 billion (31 March 2018: £25.1 billion) - an increase of 2.4% on a currency neutral basis.
- The group maintained a sound capital position with common equity tier one (CET 1) ratios of 10.4% for Investec plc and 10.3% for Investec Limited, ahead of the group's CET 1 ratio target. The group is comfortable with its CET 1 ratio target at a 10% level, as its leverage ratios for both Investec Limited and Investec plc are above 7%.
- Liquidity remains strong with cash and near cash balances amounting to £12.5 billion.
- The board declared a dividend of 11.0 pence per ordinary share (2017: 10.5 pence) resulting in a dividend cover based on the group's adjusted EPS before goodwill and non-operating items of 2.6 times (2017: 2.5 times), consistent with the group's dividend policy.
- The proposed demerger and separate listing of Investec Asset Management (still subject to regulatory and shareholder approvals) is progressing well.

Financial information

Financial features

Exchange rates between local currencies and Pounds Sterling have fluctuated over the year. The most significant impact arises from the volatility of the Rand. The average Rand: Pound Sterling exchange rate over the year has depreciated by 4.1% and the closing rate has depreciated by 11.0% since 31 March 2018.

Statutory information

The following tables provide a comparison of the group's results as reported in Pounds Sterling and the group's results on a neutral currency basis.

	Results in Pounds Sterling				
	Actual as reported Six months to 30 Sept 2018	Actual as reported Six months to 30 Sept 2017	Actual as reported % change	Neutral currency^ Six months to 30 Sept 2018	Neutral currency % change
Operating profit before taxation* (million)	£359	£315	14.2%	£370	17.6%
Earnings attributable to shareholders (million)	£280	£252	10.9%	£288	13.9%
Adjusted earnings attributable to shareholders** (million)	£265	£245	8.2%	£272	11.1%
Adjusted earnings per share**	28.3p	26.6p	6.4%	29.1p	9.4%
Basic earnings per share	27.6p	25.8p	7.0%	28.4p	10.1%
Dividends per share	11.0p	10.5p	4.8%	n/a	

* *Before goodwill, acquired intangibles, non-operating items and after other non-controlling interests.*
** *Before goodwill, acquired intangibles, non-operating items and after non-controlling interests.*
^ *For income statement items we have used the average Rand:Pounds Sterling exchange rate that was applied in the prior period, i.e. 17.06.*

	Results in Pounds Sterling				
	Actual as reported At 30 Sept 2018	Actual as reported At 31 March 2018	Actual as reported % change	Neutral currency^^ At 30 Sept 2018	Neutral currency % change
Net asset value per share	422.0p	452.5p	(6.7%)	440.9p	(2.6%)
Net tangible asset value per share	372.7p	401.5p	(7.2%)	391.2p	(2.6%)
Total equity (million)	£5 118	£5 428	(5.7%)	£5 429	0.0%
Total assets (million)	£56 137	£57 617	(2.6%)	£59 918	4.0%
Core loans and advances (million)	£24 190	£25 132	(3.7%)	£25 740	2.4%
Cash and near cash balances (million)	£12 467	£12 825	(2.8%)	£13 125	2.3%
Customer deposits (million)	£30 349	£30 987	(2.1%)	£32 317	4.3%
Third party assets under management (million)	£166 512	£160 576	3.7%	£172 180	7.2%

^^ *For balance sheet items we have assumed that the Rand:Pounds Sterling closing exchange rate has remained neutral since 31 March 2018.*

Liquidity and funding

As at 30 September 2018 the group held £12.5 billion in cash and near cash balances (£6.5 billion in Investec plc and R110.8 billion in Investec Limited) which amounted to 41.1% of customer deposits. The group continues to focus on maintaining an optimal overall liquidity and funding profile. Loans and advances to customers as a percentage of customer deposits amounted to 78.2% (31 March 2018: 79.6%). The group comfortably exceeds Basel liquidity requirements for the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Investec Bank Limited (solo basis) ended the period to 30 September 2018 with the three-month average of its LCR at 137.4% and an NSFR of 111.3%. Further detail with respect to the bank's LCR and NSFR in South Africa is provided on the website. For Investec plc and Investec Bank plc (solo basis) the LCR is calculated using our own interpretations of the EU Delegated Act. The LCR reported to the PRA at 30 September 2018 was 332% for Investec plc and 339% for Investec Bank plc (solo basis). Ahead of the implementation of the final NSFR rules, the group has applied its own interpretations of regulatory guidance and definitions from the BCBS final guidelines to calculate the NSFR which was 140% for Investec plc and 134% for Investec Bank plc (solo basis). The reported NSFR and LCR may change over time with regulatory developments and guidance.

Capital adequacy and leverage ratios

The group is targeting a minimum common equity tier 1 capital ratio above 10% and a total capital adequacy ratio range of 14% to 17% on a consolidated basis for each of Investec plc and Investec Limited. The group's anticipated fully loaded Basel III common equity tier 1 (CET 1) ratios in both Investec plc and Investec Limited are reflected below. The group expects to implement the Foundation Internal Ratings-Based (FIRB) approach in South Africa by the end of the 2019 financial year, subject to final regulatory approval.

A summary of capital adequacy and leverage ratios

	Investec plc°*	IBP°*	Investec Limited*^	IBL*^
As at 30 September 2018				
Common equity tier 1 (as reported)□	10.4%	11.2%	10.3%	10.9%
Common equity tier 1 ('fully loaded')^^	10.0%	10.8%	10.2%	10.8%
Tier 1 (as reported)□	12.2%	12.6%	11.1%	11.2%
Total capital adequacy ratio (as reported)□	15.4%	16.9%	14.7%	15.2%
Leverage ratio** – current	7.7%	7.7%	7.5%#	7.7%#
Leverage ratio** – 'fully loaded'^^	7.3%	7.4%	7.1%#	7.5%#
As at 1 April 2018				
Common equity tier 1 (as reported)□	10.5%	11.4%	10.0%	10.7%
Common equity tier 1 (fully loaded)^^	10.3%	11.2%	9.8%	10.6%
Tier 1 (as reported)	12.4%	12.9%	10.8%	11.0%
Total capital adequacy ratio (as reported)	15.0%	16.1%	14.5%	15.4%
Leverage ratio – current	8.3%	8.3%	7.4%#	7.6%#
Leverage ratio – 'fully loaded'^^	8.0%	8.2%	6.9%#	7.3%#
As at 31 March 2018				
Common equity tier 1 (as reported)	11.0%	11.9%	10.2%	10.9%
Common equity tier 1 ('fully loaded')^^^	11.0%	11.9%	10.2%	10.9%
Tier 1 (as reported)	12.9%	13.4%	11.0%	11.2%
Total capital adequacy ratio (as reported)	15.4%	16.6%	14.6%	15.5%
Leverage ratio** – current	8.5%	8.6%	7.5%#	7.7%#
Leverage ratio** – 'fully loaded'^^^	8.4%	8.6%	7.1%#	7.5%#

* *Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.*

** *The leverage ratios are calculated on an end-quarter basis.*

° *The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and Investec Bank plc this does not include the deduction of foreseeable charges and dividends when calculating the CET 1 ratio as required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of this deduction totalling £45 million (31 March 2018: £65 million) for Investec plc and £19 million (31 March 2018: £18 million) for IBP would lower the CET 1 ratio by 30bps (31 March 2018: 45bps) and 13bps (31 March 2018: 13bps) respectively.*

^ *Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 27bps and 15bps lower. At 31 March 2018, Investec Limited's and IBL's common equity tier 1 ratio would be 25bps and 13bps lower*

□ *The reported CET 1, T1 and total capital adequacy ratios are calculated applying the IFRS 9 transitional arrangements.*

^^ *The CET 1 fully loaded ratio and the fully loaded leverage ratio assumes full adoption of IFRS 9 and full adoption of all CRDIV rules of South African Prudential Authority regulations. As a result of the adoption of IFRS 9 Investec plc elected to designate its subordinated fixed rate medium-term notes due in 2022 at fair value. By the time of full adoption of IFRS 9 in 2023, these subordinated liabilities will have reached final maturity and will be redeemed at par value. The remaining interest rate portion of the fair value adjustment at 30 September 2018 of £18 million (post-taxation), has therefore been excluded from the fully loaded ratios as it will be released into profit and loss over the remaining life of the investment.*

^^^ *The fully loaded CET 1 ratio and leverage ratio assumes full adoption of all CRD IV rules or South African Prudential Authority regulations.*

\# *Based on revised BIS rules.*

Deposit guarantees

Investec does not guarantee client deposits, however, the following schemes exist in the two main geographies in which the group operates:

UK and Other

- In terms of the Financial Services Compensation Scheme, the UK government guarantees a maximum deposit of £85 000 per individual per institution
- Investec Bank (Channel Islands) Limited is a participant in both the Guernsey and Jersey Banking Deposit Compensation schemes. These schemes offer protection for 'qualifying deposits/eligible deposits' up to £50 000, subject to certain limitations. The maximum total amount of compensation is capped at £100 million in any five-year period.

Further details are available on request or alternatively on the Guernsey Scheme's website: www.dcs.gg <http://www.dcs.ggl> or on the Jersey States website which will also highlight the banking groups covered.

South Africa

There are no deposit guarantees in South Africa.

Asset quality and exposures

- The bulk of Investec's credit and counterparty risk arises through its private client and corporate client activities. The group lends to high net worth and high income individuals, mid- to large-sized corporates, public sector bodies and institutions
- We have a preference for primary exposure in the group's two main operating geographies, i.e. South Africa and the UK and specific countries where we have subsidiaries or branches
- The majority of our credit and counterparty exposures reside within our two core geographies, namely the UK and South Africa
- Credit and counterparty risk is always assessed with reference to the aggregate exposure to a single counterparty or group of related parties to avoid or minimise over exposure and concentration risk
- Our assessment of our clients includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on historical and ongoing stability of income and cash flow streams generated by the clients. Our primary assessment method is therefore the ability of the client to meet their payment obligations. Furthermore we have little appetite for unsecured debt and require that good quality collateral is provided in support of obligations
- We are client-centric in our approach and originate loans with the intent of holding these assets to maturity, thereby developing a 'hands-on' and long-standing relationship with our clients. In certain instances we may elect to sell certain assets down and/or securitise them
- The total ECL impairment charges amounted to £31.0 million for the six months ended 30 September 2018, a substantial reduction from £59.6 million in the prior period, primarily reflecting a reduction in legacy impairments. The annualised credit loss ratio amounted to 0.34% at 30 September 2018 (2017: 0.52%)
- Since 1 April 2018 gross core loan Stage 3 assets have reduced by £141 million to £595.0 million largely driven by a reduction of legacy exposures. Stage 3 assets (net of ECL impairment charges) as a percentage of net core loans subject to ECL was 1.7% (1 April 2018: 2.0%).

Property-related exposures

- Investec does have property-related lending exposures
- For the most part Investec's exposure to the property markets arises from collateral that we have taken through our various activities in the structured property finance and growth and acquisition finance areas
- Investec has a strong client-centric focus with a credit assessment process that focuses not only on the value of the underlying property but also the client's ability to repay and the sustainability of income through the cycle.

Gearing

Investec is not a highly geared bank. A number of the banks that have come into difficulty in the past have been in excess of 40 times geared. Investec's comparative ratio would be approximately 9.4 times.

Investec's DLC structure

- Investec plc and Investec Limited are separate legal entities and listings, but are bound together by contractual agreements and mechanisms
- Investec operates as if it is a single unified economic enterprise. Both companies have the same boards of directors and management
- Shareholders have common economic and voting interests as if Investec Limited and Investec plc were a single company:
  - equivalent dividends on a per share basis
  - joint electorate and class right voting
- Creditors are, however, ring-fenced to either Investec Limited or Investec plc as there are no cross-guarantees between the companies.

Credit ratings

A summary of our credit ratings is provided below:

Rating agency		Investec Limited	Investec Bank Limited – a subsidiary of Investec Limited	Investec plc	Investec Bank plc – a subsidiary of Investec plc
Fitch	**Long-term ratings**				
	Foreign currency	BB+*	BB+*		BBB+
	National		AA(zaf)		
	Short-term ratings				
	Foreign currency	B*	B*		F2
	National		F1+(zaf)		
	Viability rating	bb+	bb+		bbb+
	Support rating	NF	3		5
Moody's	**Long-term deposit ratings**				
	Foreign currency		Baa3*	Baa1	A2
	National		Aa1.za		
	Short-term deposit ratings				
	Foreign currency		P-3*	P-2	P-1
	National		P-1.za		
	Baseline Credit Assessment (BCA) and adjusted BCA		baa3*		baa2
Standard & Poors	**Long-term deposit ratings**				
	Foreign currency		BB*		
	National		za.AA+		
	Short-term deposit rating				
	Foreign currency		B*		
	National		za.A-1+		
Global Credit Ratings	International long-term rating		BB+*		
	National long-term rating		AA(za)		BBB+
	National short-term rating		A1+(za)		A2

* *Impacted by the downgrade of the South African sovereign rating to non-investment grade. A South African bank cannot have a higher foreign currency rating than the sovereign rating.*

Our strategic goals and objectives are based on our aspiration to be recognised as a distinctive specialist bank and asset manager

Client focused approach

- Clients are at the core of our business
- We strive to build business depth by deepening existing and creating new client relationships
- High-tech, high-touch approach
- High level of service by being nimble, flexible and innovative.

Specialised strategy

- Serving select market niches as a focused provider of tailored structured solutions
- Enhancing our existing position in principal businesses and geographies through organic growth and select bolt-on acquisitions.

Sustainable business

- Contributing to society, macro-economic stability and the environment
- Well-established brand
- Managing and positioning the group for the long term
- Balancing capital light versus capital intensive activities while creating value for shareholders
- Cost and risk conscious.

Strong culture

- Strong entrepreneurial culture that stimulates extraordinary performance
- Passionate and talented people who are empowered and committed
- Depth of leadership
- Strong risk awareness
- Material employee ownership.

Our strategy

Our long-term strategy is to build a diversified portfolio of businesses and geographies to support clients through varying markets and economic cycles. Since inception we have expanded through a combination of organic growth and strategic acquisitions.

In order to create a meaningful and balanced portfolio we need proper foundations in place which gain traction over time.

Our long-term internationalisation strategy

- Follow our customer base
- Gain domestic competence and critical mass in our chosen geographies
- Facilitate cross-border transactions and flow.

We have a very deliberate and focused client strategy:

- to leverage our unique client profile
- to provide the best integrated solution supported by our comprehensive digital offering.

Asset Management

- Concentrate on our existing offering
- Scale through our global distribution model and capture the next wave of flows, including North America and Asia
- Continue to deepen and strengthen investment and client capabilities for long-term

Investec (Bank and Wealth)

- Target market client acquisition and deepening client relationships
- Establishing a high-tech and high-touch domestically relevant UK private Bank
- Investing in our technology platforms
- Improving the jaws ratio
- Increasing capital light activities
- Managing our capital base

Our diversified and balanced business model supporting long-term strategy

Broadly defined, we operate across three areas of specialisation focused on well defined target clients:

Asset Management	Specialist Banking	Wealth & Investment
Operating completely independently		
Corporate/institutional/government		**Private client (high net worth/high income)/ charities/trusts**
– Investment management services to external clients	– Lending – Transactional banking – Deposit raising activities – Treasury and trading – Advisory – Investment activities	– Investment management services – Independent financial planning advice

We aim to maintain an **appropriate balance** between revenue earned from capital light activities and revenue earned from capital intensive activities.

This ensures that we are **not over reliant** on any one part of our businesses to sustain our activities and that we have a large recurring revenue base that enables us to navigate through varying cycles and supports our long-term strategy.

Capital light activities

55%

Contributed to group income

- Asset management
- Wealth management
- Advisory services
- Transactional banking services
- Property and other funds

Capital light activities

45%

Contributed to group income

- Lending portfolios
- Investment portfolios
- Trading income
  - client flows
  - balance sheet management

Fee and commission income ← **Types of income** → **Net interest, investment, associate and trading income**

Our corporate responsibility philosophy

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through entrepreneurship and education, and leveraging the value in our diversity. We recognise the challenges that climate change presents to the global economy and we will consider supporting any meaningful activity that either reduces the negative impact on or prolongs the life of our planet.

We care about our

People

Attracting and developing a strong, diverse and capable workforce.

1.9% — % spend on learning and development as a % of staff costs for the group. March 2018 (2017: 2.1%) (target of >1.5%)

Recognition

- Voted third most attractive employer in South Africa through the Universum 2018 survey
- Investec received a Level 1 BEE rating under revised financial sector code
- Investec ranked 27th in the world and 4th in the UK for progress in gender equality and reporting by Equileap in 2018.

We care about our

Communities

Unselfishly contributing to our communities through education and entrepreneurship.

1.2% — % CSI spend as a % of operating profit for the group. March 2018 (2017: 1.2%) (target of >1.0%)

Recognition

- R164.8 million spent on Promaths since inception
- Winner of the following Business Charity Awards:
  - Community Impact 2017
  - Business of the Year 2017
- Winner of the National CSR Award for Best Community (Legacy) Project 2017
- Winner of the Bromley by Bow partner of the year award
- Bromley by Bow Centre was awarded the Lord Mayor's Community Partners Dragon Award 2017 for its partnership with Investec in a social enterprise incubator, Beyond Business
- Finalist in the Thomson Reuters 2018 Southern African Excellences Awards in the Most Impactful Business: Doing Good and Doing Well Award category.

We care about our

Environment

Having a positive environmental impact through our operations and business activities.

6.1% — % reduction in carbon emissions for the group. March 2018 (2017: 7.9%)

Recognition

- Investec Limited was awarded a B for the CDP 2017/2018 climate scoring
- Our 2 Gresham Street office won the Chairman's Cup in the Corporation of London's Clean City Awards Scheme
- The Energy Management System (EnMS) that covers 23 of our offices in the UK, Ireland and Channel Islands was certified ISO 50001
- Our 2 Gresham Street's Environmental Management System (EMS) was recertified ISO 14001
- R4.1 million spent on BirdLife SA since inception
- Over R18 million spent on Rhino Lifeline since inception, of which over 67% spent on educating communities.

External recognition and memberships

	2018	2017	2016
Carbon Disclosure Project (CDP) (Investec is a member and Investec Asset Management is a signatory Investor)	B	A-	A-
Code for Responsible Investment Index in South Africa (CRISA)	Signatory	Signatory	Signatory
Dow Jones Sustainability Investment Index (score out of 100)	73	69	69
ECPI Index	Constituent	n/a	n/a
FTSE4Good	Included	Included	Included
JSE Limited Socially Responsible Investment Index	Constituent	Constituent	Constituent
MSCI Global Sustainability Index Series (Investec plc) Intangible value assessment (IVA) rating	AAA	AAA	AAA
STOXX Global ESG Leaders indices	Member	Member	Member
United Nations Global Compact	Participant	Active	Active
United Nations Principles for Responsible Investment (UNPRI)	Signatory	Signatory	Signatory

For further information:

Investor Relations
Tel: (27) 11 286 7070/(44) 20 7597 5546/(44) 20 7597 4493 e-mail: investorrelations@investec.com Internet address: www.investec.com

Date of print: 15 November 2018