

*Out of the Ordinary*



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# Interim Results Presentation

19 November 2020

# Proviso

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- Please note that matters discussed in today's presentation may contain forward looking statements which are subject to various risks and uncertainties and other factors including, but not limited to:
  - changes in the political and/or economic environment that would materially affect the Investec group
  - changes in the economic environment caused by COVID-19, the resulting lockdowns and government programmes aimed to stimulate the economy
  - changes in legislation or regulation impacting the Investec group's operations or its accounting policies
  - changes in business conditions that will have a significant impact on the Investec group's operations
  - changes in exchange rates and/or tax rates from the prevailing rates at 30 September 2020
  - changes in the structure of the markets, client demand or the competitive environment
- A number of these factors are beyond the Investec group's control
- These factors may cause the Investec group's actual future results, performance or achievements in markets in which it operates to differ from those expressed or implied
- Any forward looking statements made are based on knowledge of the group at 18 November 2020
- Unless otherwise stated, all information in this presentation has been prepared on a statutory basis and relates to continuing operations

# Agenda

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- 1. Overview – Fani Titi, Chief Executive**
2. Financial Review – Nishlan Samujh, Group Finance Director
3. Sustainability – Fani Titi
4. Closing and Q&A – Fani Titi

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**“Nature uses disorder to grow stronger.  
It’s like going to the gym. You get stronger  
because you subject your body to  
stressors and gain from them.”**

**Nassim Nicholas Taleb**, “Black Swan” author.

# COVID-19 Response update

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## Our people

- Staff in South Africa are beginning to **return to the office**. In the UK, staff continue to work from home given the second lockdown
- Research and consideration underway of the **future world of work** post COVID-19 and the multiple remote working models available to us
- **Investec Employee Wellbeing Helpline**

## Our clients

- Current COVID-19 relief provided to **6.3%** of gross loans in **the UK (13.7%** at peak). **In South Africa**, the current proportion of book under relief is **2.2% (23.0%** at peak).
- **Facilitated over R20mn in donations on behalf of clients**, primarily from income generated in our Private Client Charitable Trust
- Accredited lender for government guaranteed COVID-19 lending schemes in both the UK and South Africa

## Our communities

- Committed **£3.6mn (R77.5mn)** for Group to COVID-19 relief for communities with about 63.5% allocated to date
- Senior leaders and staff donated via salary deductions to community initiatives focused on food security, economic continuity, healthcare, education and anti-gender based violence

## Operational resilience

- Managing the **integrity of our balance sheet** through conservative liquidity levels and capital – above internal board-approved targets and regulatory requirements
- Further investment in IT infrastructure
- **Implemented key safety protocols** across all locations with a detailed track and containment process

# Overview

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0 Difficult trading environment

1 Client franchises resilient, despite revenue headwinds

2 Strong balance sheet with robust capital and liquidity levels

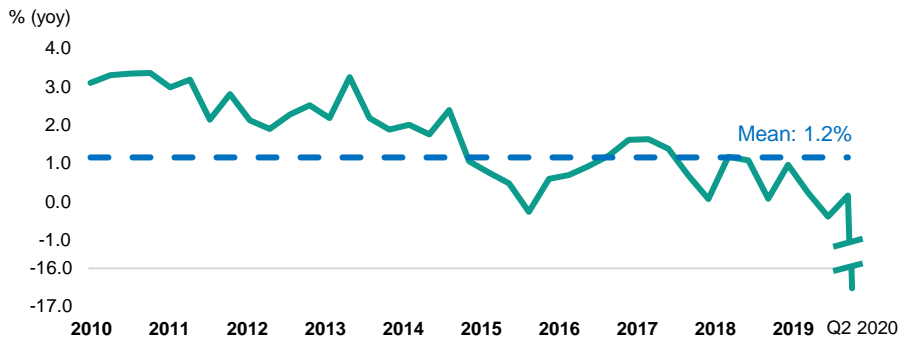
3 Resilient loan book

4 Cost discipline

5 Continued execution of strategic plan

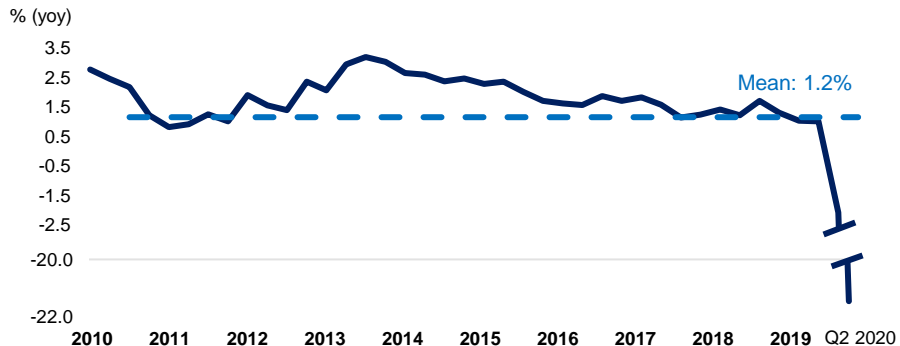
## Six months under review characterised by sharp GDP contractions....

### South Africa GDP growth



- South Africa GDP contracted by an unprecedented 51% quarter on quarter (annualised) in the second quarter of 2020 (16% year on year), mainly due to COVID-19 induced lockdown
- South Africa was already seeing some green shoots of recovery in the Jul to Sep quarter, in line with the expected global GDP expansion
- As at 31 Oct 2020, our base case assumption is 9.2% GDP contraction for calendar year 2020

### UK GDP growth



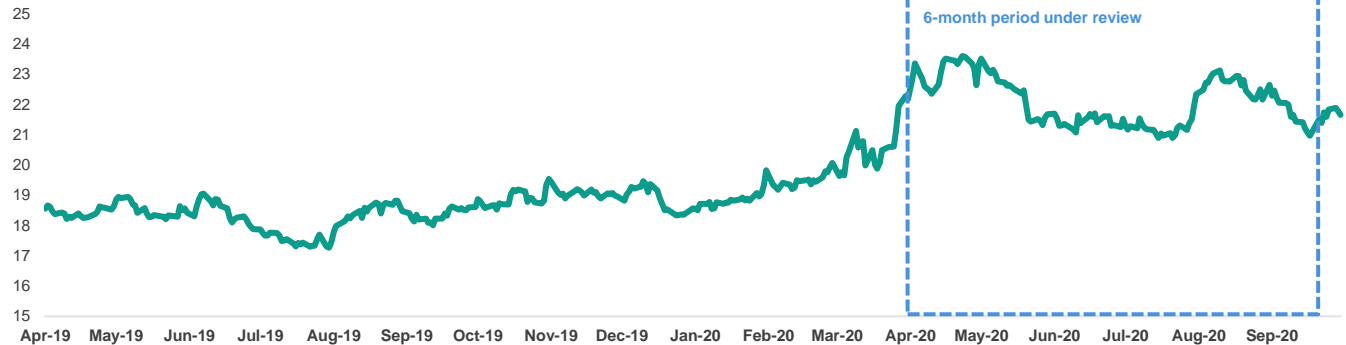
- UK economic activity has been dominated by COVID-19, with the pandemic and associated restrictions driving a 21.8% fall in GDP across the first half of 2020
- A sharp rebound is expected in Q3, but the latest UK lockdown risks another quarter of negative growth in Q4
- As of 31 Oct 2020, our base case assumption is 10.1% GDP contraction for calendar year 2020

## .... and volatile markets

### Markets



### Exchange rate – ZAR / GBP



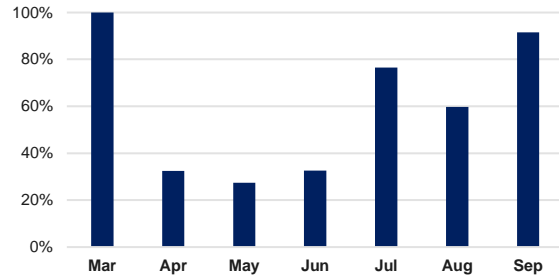


# Impact of COVID-19 lockdowns on our private banking businesses

## South Africa

### Private Banking lending turnover since Mar 2020

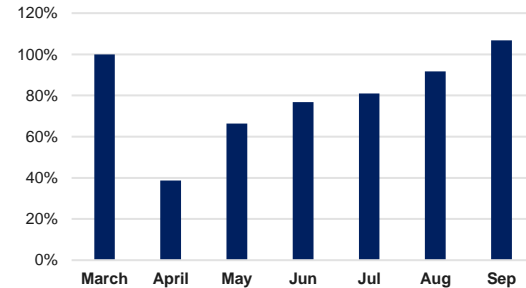
Value of new deals relative to March 2020



- Economic lockdown had an impact on loan origination
- Private client lending has since recovered, albeit still below pre COVID-19 levels in Sep 2020

### Point of Sale (POS) Transactions

Value of card transactions relative to March 2020 levels

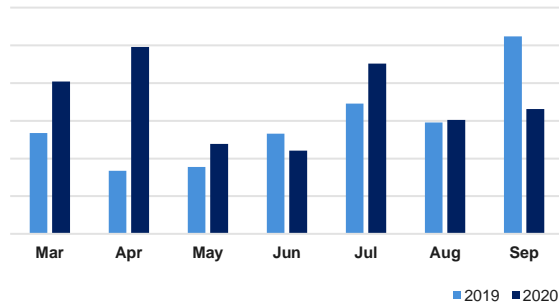


- Hard lockdown in South Africa resulted in a significant decrease on transactional activity as represented by POS spend
- Since the easing of lockdown, POS transaction values have recovered to levels above those recorded in March 2020

## UK & Other

### UK HNW Mortgage monthly lending turnover

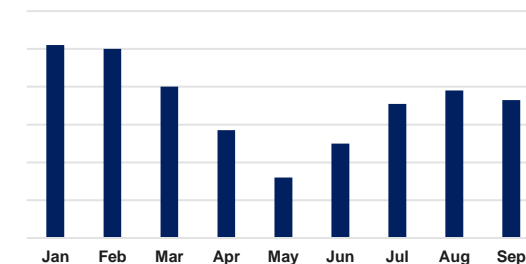
Value of new deals



- UK HNW mortgage lending - strong growth in new originations, despite COVID-19 related challenges

### UK HNW Client Acquisition

Monthly net client acquisition



- UK HNW client acquisition continued to increase, albeit at a slower pace given COVID-19
- Resulting in strong origination for UK HNW mortgage lending

## Continuing operations results highlights

### Adjusted operating profit

**£142.5mn**

(Sep-19: £276.3mn)

*48.4% behind prior period*

### Adjusted Earnings per share

**11.2p**

(Sep-19: 22.4p)

*50.0% behind prior period*

### Net Asset Value per share

**433.5p**

(Mar-20: 414.3p)

*Up 9.3% annualised since March 2020*

### Return on Equity (ROE)

**5.3%**

(Sep-19: 10.7%)

### Cost to Income ratio

**72.0%**

(Sep-19: 67.0%)

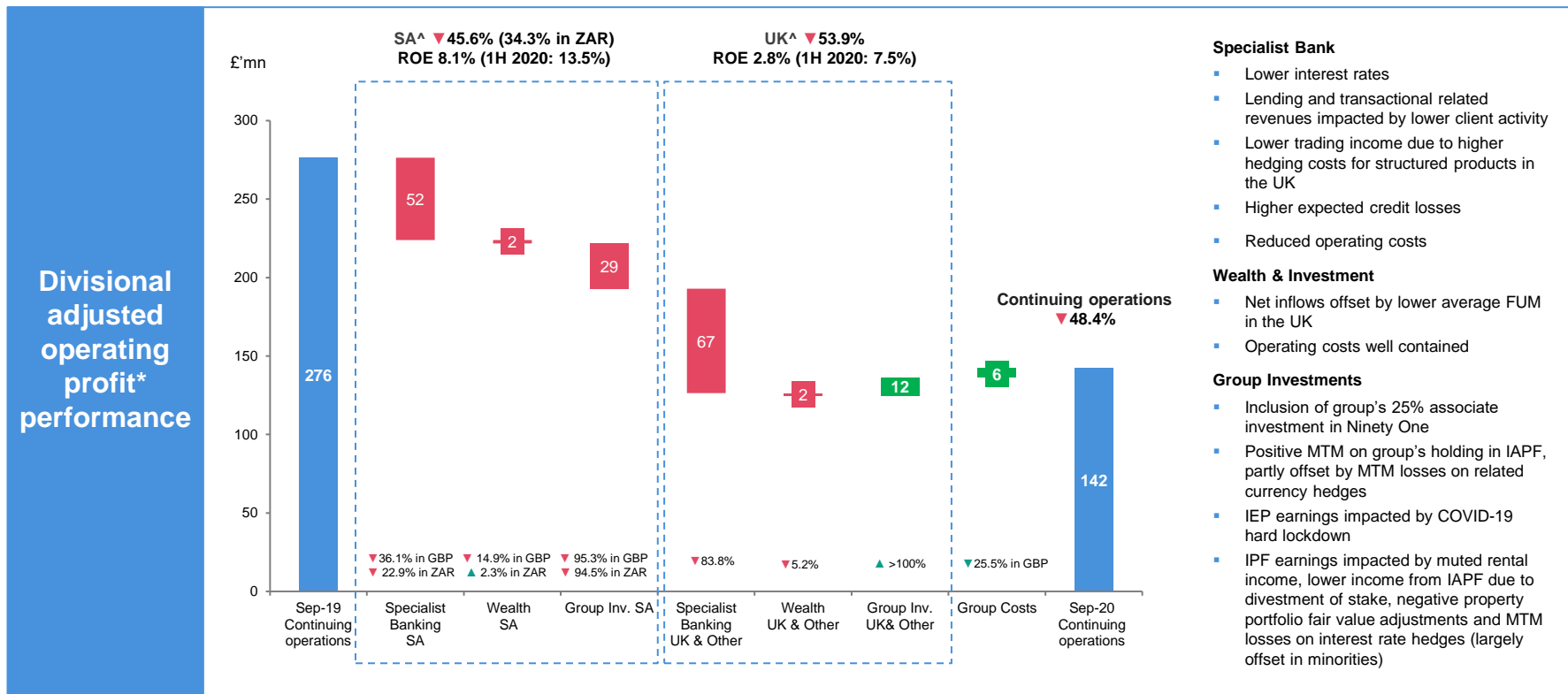
### Credit Loss ratio

**47bps**

(Sep-19: 23bps)

**Interim dividend 5.5p** (1H 2020: 11.0p), *1H 2020 results included 80% attributable earnings from Ninety One*

# Franchise performance offset by the impact of macro headwinds and market volatility



\*Operating profit before goodwill, acquired intangibles and strategic actions, less profit attributable to other non-controlling interests.

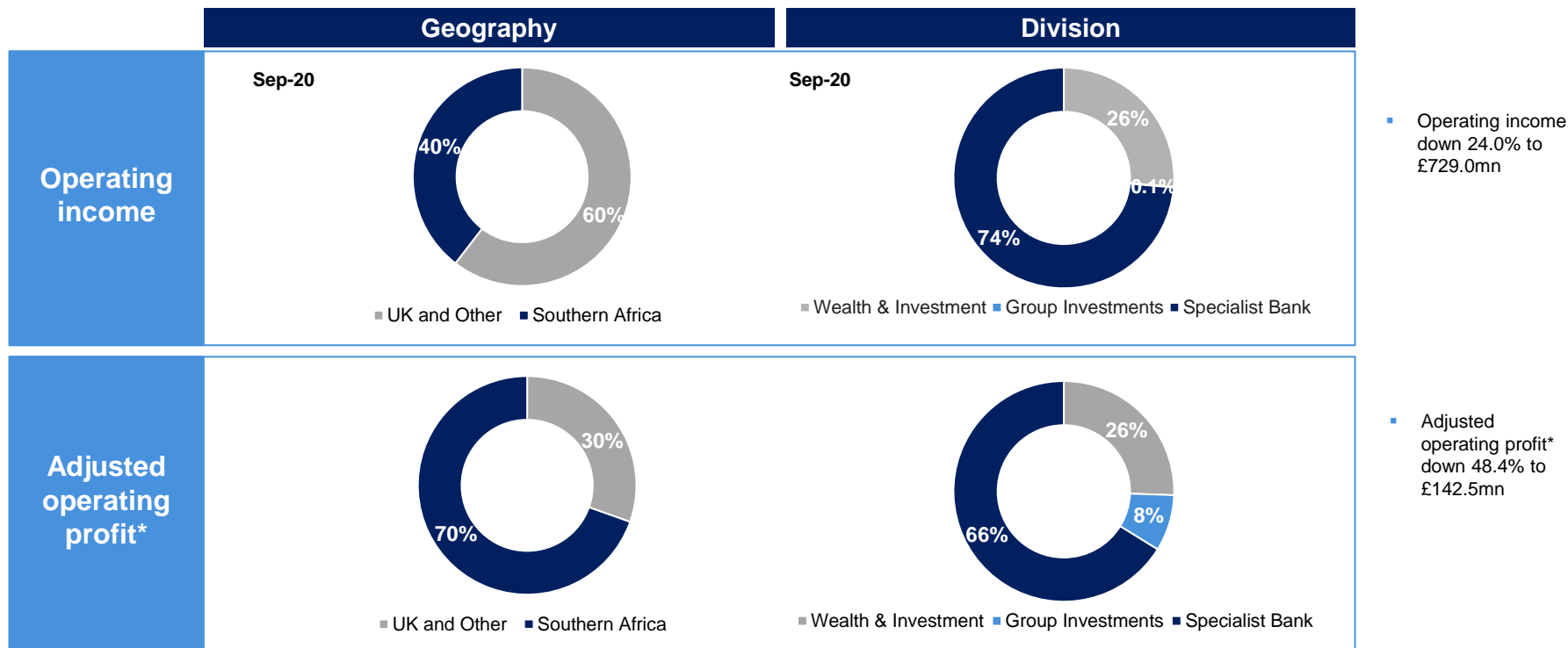
<sup>^</sup> Geographical metrics shown for SA and UK are inclusive of group costs.

# Agenda

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# Diversified, quality revenue mix across geographies and businesses

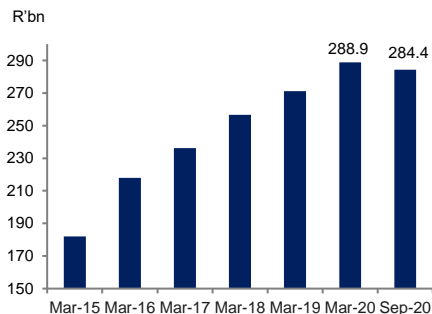


\*Adjusted operating profit by geography is Operating profit before goodwill, acquired intangibles and strategic actions, less profit attributable to other non-controlling interests.  
Adjusted operating profit by division is Operating profit before group costs, goodwill, acquired intangibles and strategic actions, less profit attributable to other non-controlling interests.

# Specialist Banking Southern Africa

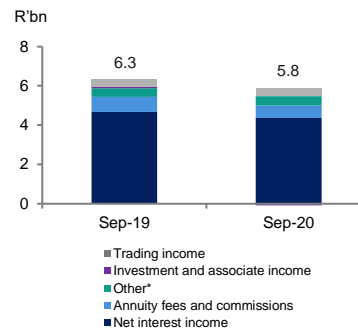
Performance reflects the recessionary economic backdrop and lower interest rate environment, costs were well managed

## Net core loans



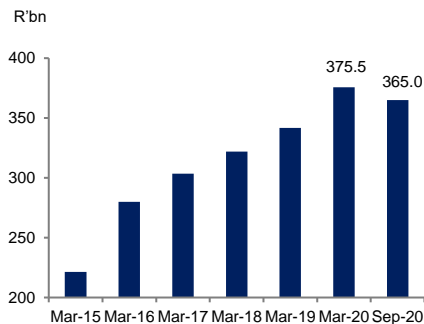
- Core loans reduced 1.6% to R284.4bn since Mar 2020
- Private client book growth remained flat, while lower corporate client activity and higher repayments resulted in the corporate book decline
- Investec For Business (trade finance and import solutions) impacted by COVID-19

## Operating income analysis



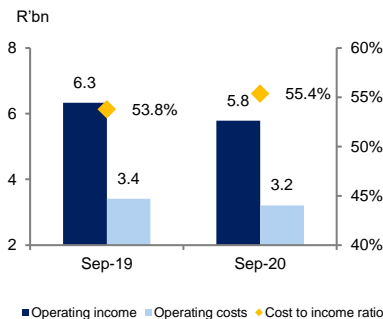
- NII impacted by 300bps rate cut since Jan 2020 and delayed liability repricing
- NIM reduced by 41bps since Sep 2019
- Lending and transactional fee income impacted by COVID-19 lockdown and corporates remaining cautious
- Investment income reflecting lower realisations and dividend income, and negative FV adjustments

## Customer accounts (deposits)



- Deposits reduced 2.8% to R365.0bn since Mar 2020

## Cost to income



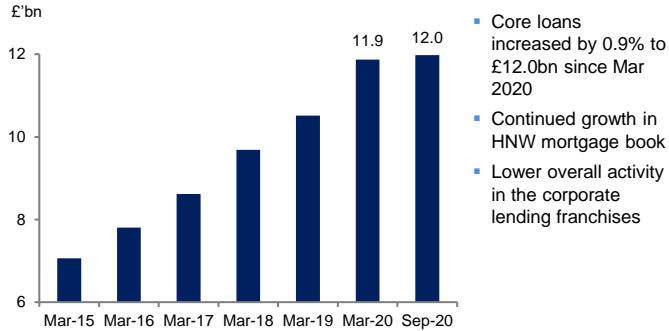
- Cost to income ratio of 55.4% (1H 2020: 53.8%)
- Operating income reduced 8.7%
- Operating costs reduced 6.0% mainly due to reduction in variable remuneration and discretionary costs

\*Other includes deal fees and other operating income

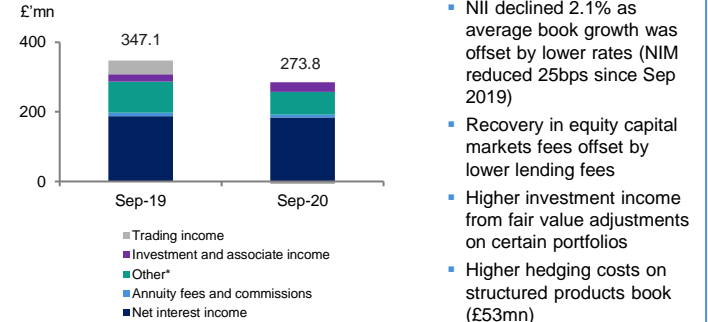
# Specialist Banking UK and Other

## Recovery in equity capital markets fees and positive fair value adjustments were offset by lower lending fees and higher hedging costs

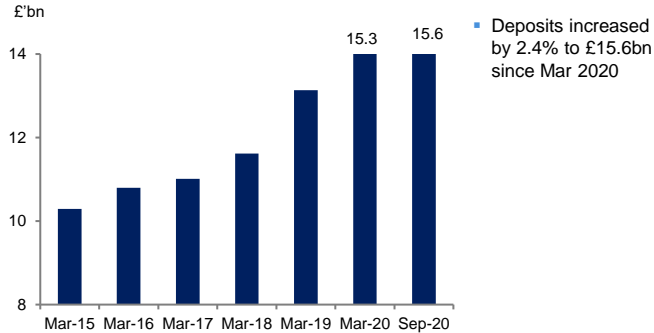
### Net core loans



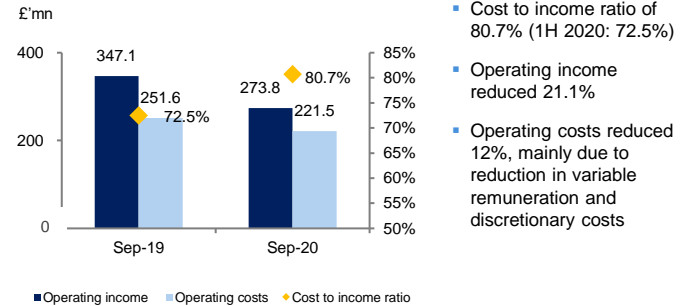
### Operating income analysis



### Customer accounts (deposits)



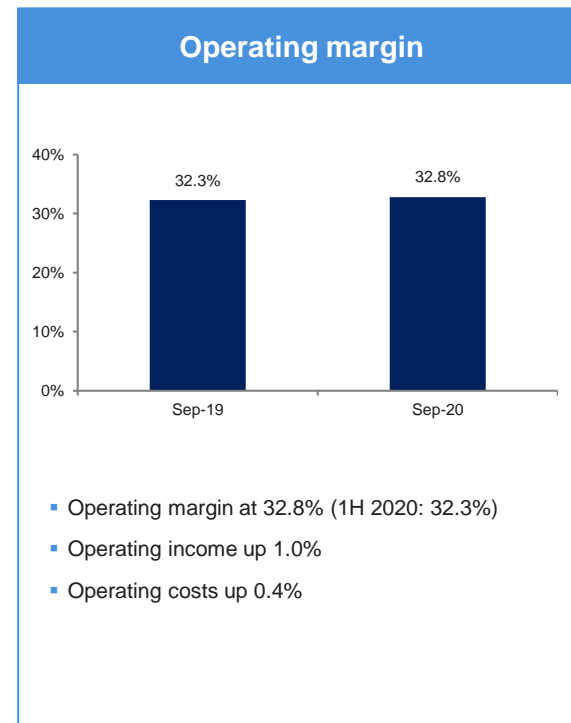
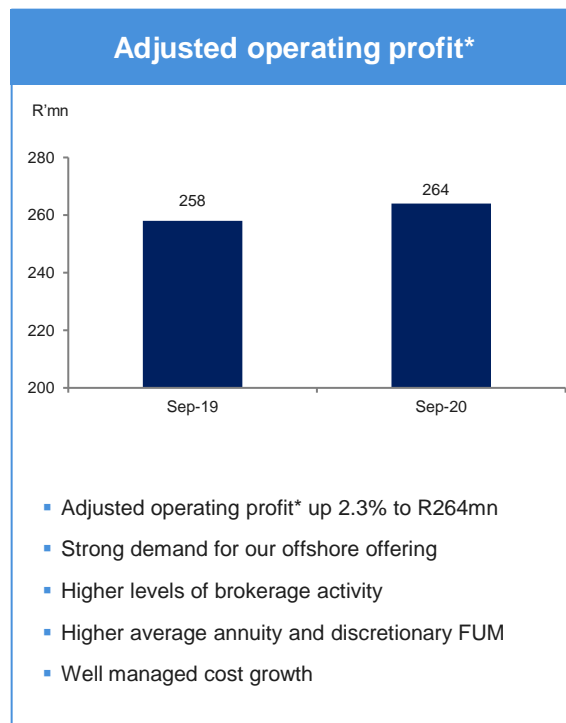
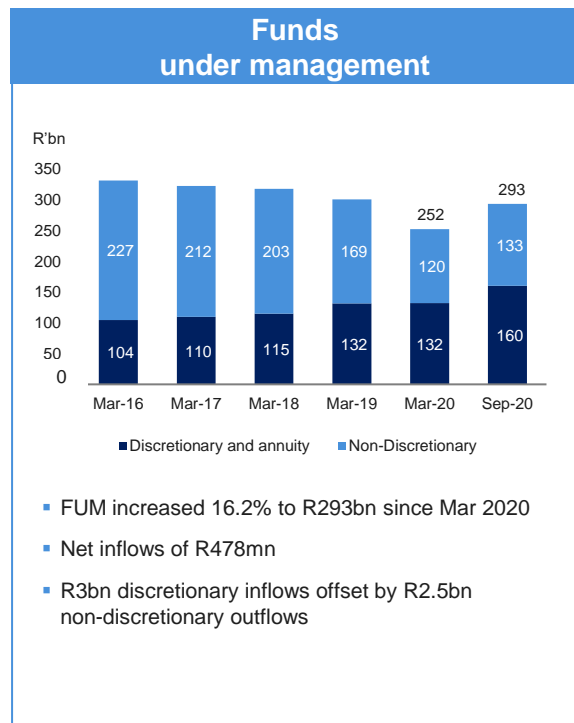
### Cost to income



\* Other includes deal fees and other operating income

# Wealth & Investment South Africa

## Market recovery, current and prior periods inflows and brokerage fee income supported modest revenue growth in Rands

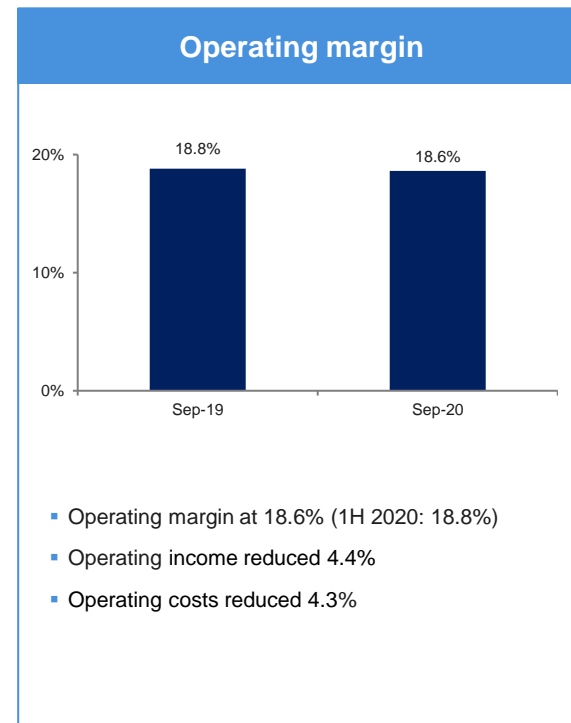
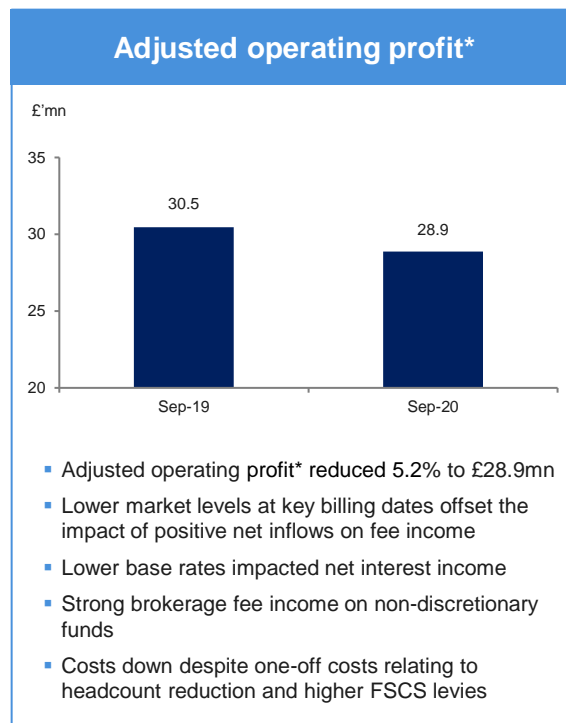
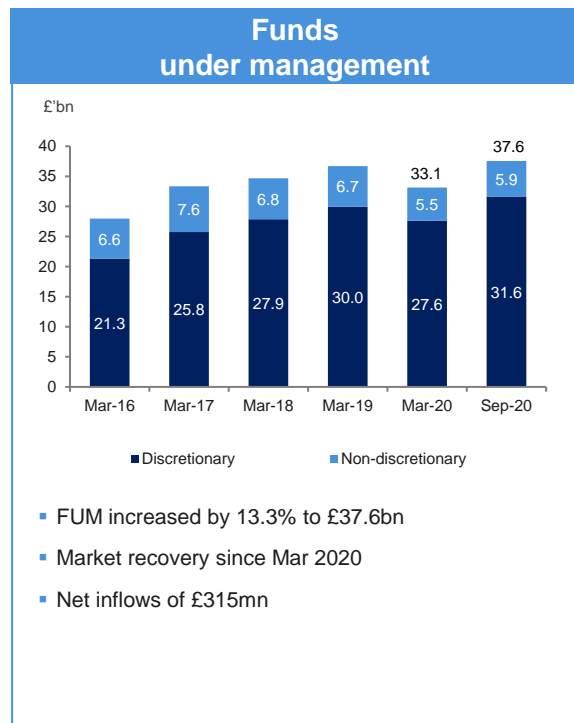


\*Operating profit before goodwill, acquired intangibles and strategic actions, less profit attributable to other non-controlling interests.



# Wealth & Investment UK & Other

## Net organic growth in FUM in the prior and current year offset by lower FUM at key billing dates and lower interest rates

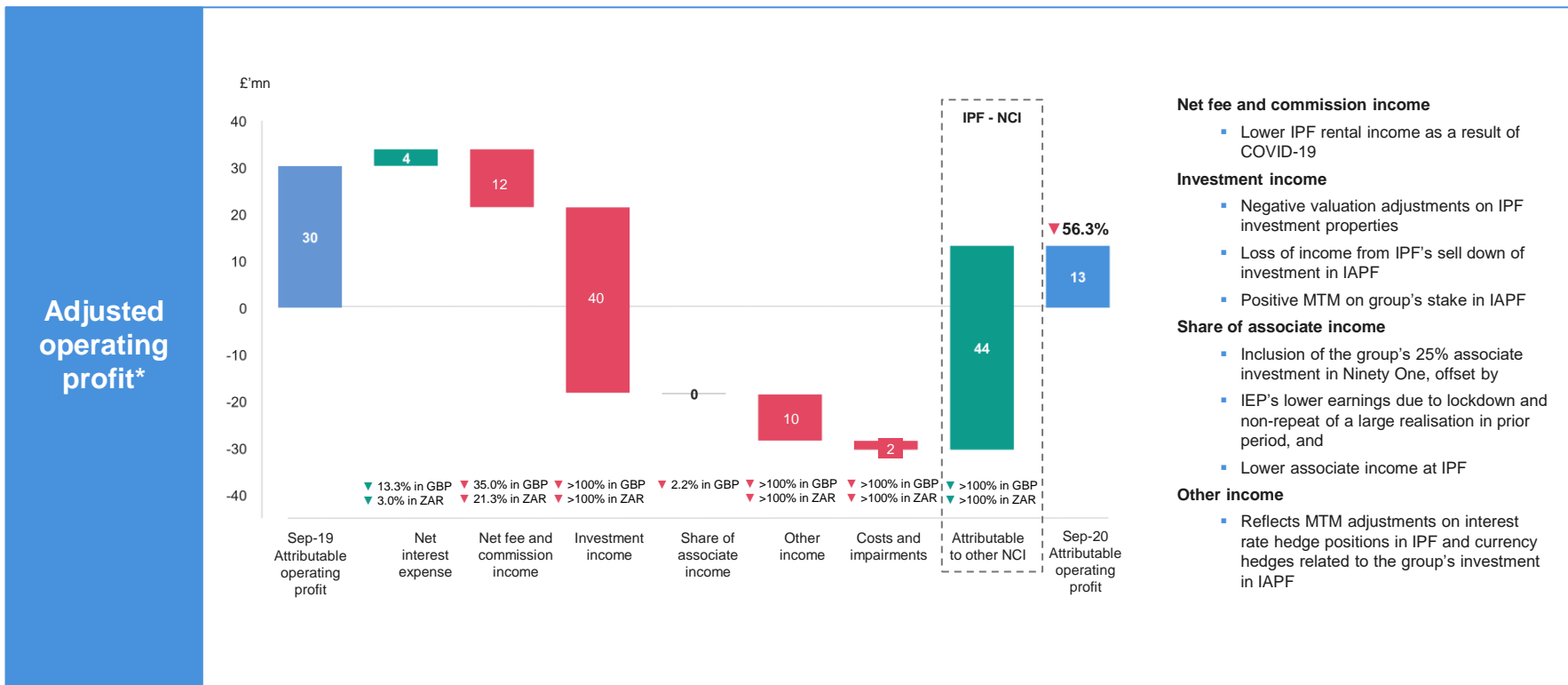


\*Operating profit before goodwill, acquired intangibles and strategic actions, less profit attributable to other non-controlling interests.

Note: Funds under management (FUM) relating to the Irish Wealth & Investment business which was disposed in October 2019 have been excluded from the Funds under management graph.

# Group Investments

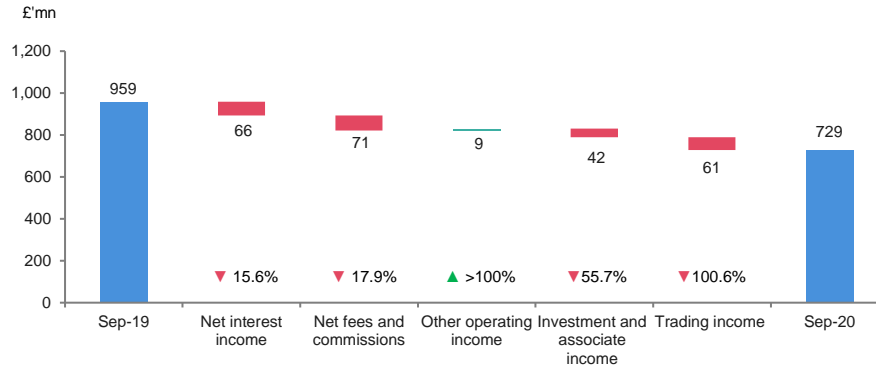
Group Investments pillar consists of equity investments held outside the group's banking activities



Note: IEP is Investec Equity Partners, IPF is Investec Property Fund, IAPF is Investec Australia Property Fund.  
 \*Operating profit before goodwill, acquired intangibles and strategic actions, less profit attributable to other non-controlling interests.

# Revenue analysis

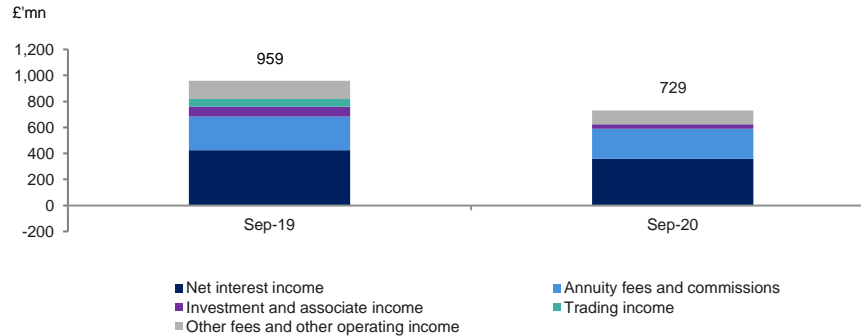
## Operating income analysis



### Operating income reduced 24.0% (17.8% in neutral currency)

- Net interest income reflective of lower interest rates, lag in liability repricing following rate cuts and muted asset growth
- Fee and commission income impacted by lower lending and transactional activity
- Investment and associate income driven by:
  - Inclusion of group's share of profits from Ninety One
  - Negative FV adjustments (including IPF)
  - Lower IEP associate income due to inability to trade during lockdown and non-repeat of a larger realisation in prior period
- Trading income
  - Higher risk management and risk reduction costs of hedging UK structured products

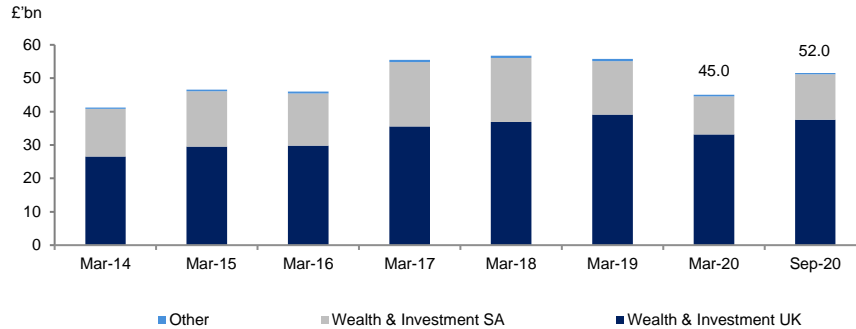
## Operating income mix



- Annuity income is 81.1% of total operating income (1H 2020: 71.3%)

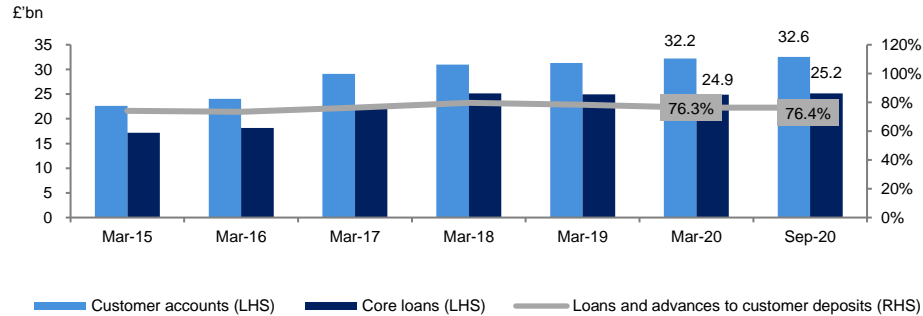
# Earnings drivers

## Third party funds under management



- Third party FUM up 15.5% to £52.0bn (14.6% in neutral currency)
- Net inflows of £336mn
- Recovery in market levels since 31 March 2020

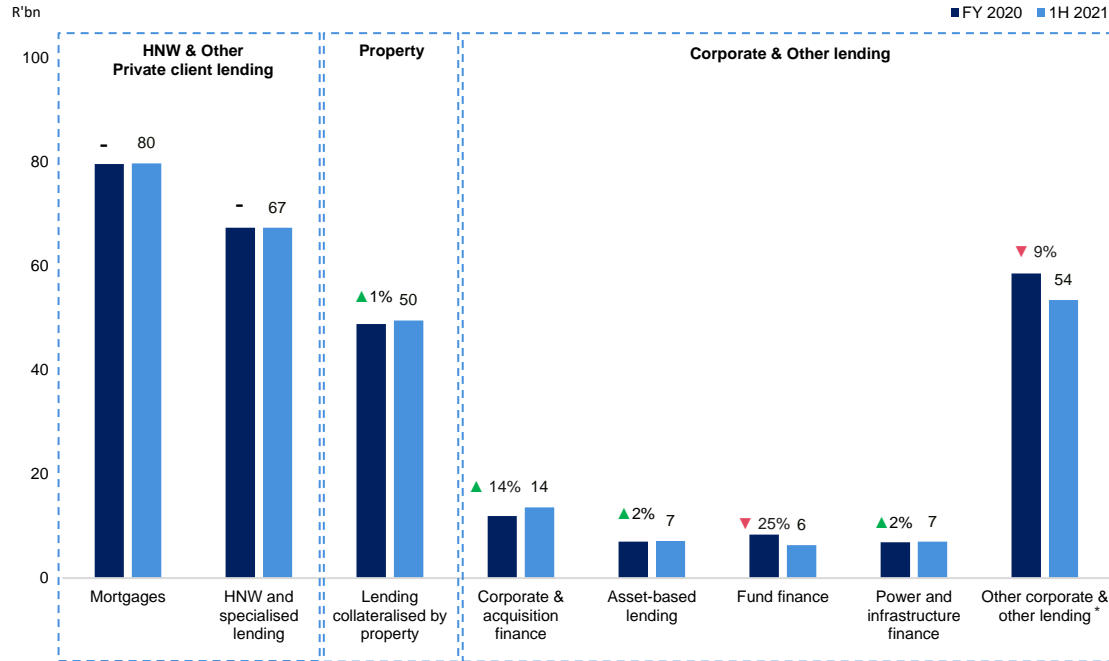
## Customer accounts (deposits) and loans



- Customer accounts (deposits) up 1.0% to £32.6bn
  - reduced 0.3% in neutral currency
- Core loans up 1% to £25.2bn
  - reduced 0.4% in neutral currency

# SA net core loan decline driven by corporate and other lending

## SA net core loans



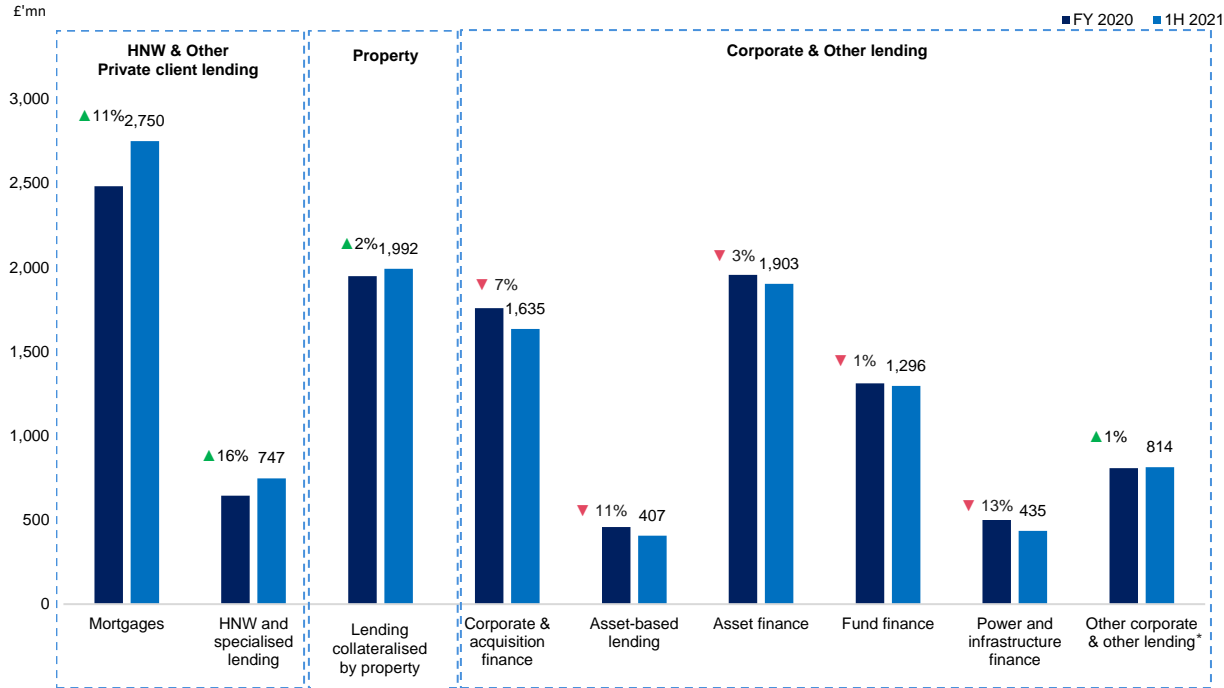
**SA net core loans and advances reduced 1.6%, driven by:**

- Other corporates and Fund finance in Corporate and Other lending due to higher repayments and lower activity levels
- Strong growth in Corporate and acquisition finance

\*Other corporate & other corporate lending includes Other corporates and financial institutions and governments, Small and large ticket Asset finance and Resource finance.

# Underpinned by Private Bank franchise which offset lower corporate advances

## UK net core loans



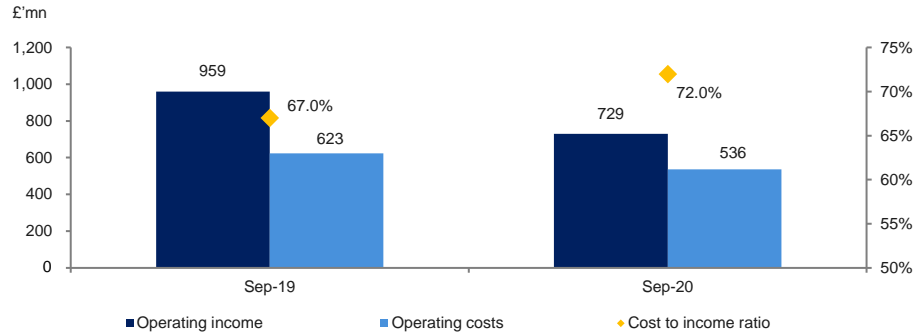
**UK net core loans and advances up 0.9%, driven by:**

- High net worth and other private client lending, predominantly through the HNW Mortgage offering
- Lower activity levels in corporate and other lending across asset portfolios

\*Other corporate & other corporate lending includes Other corporates and financial institutions and governments and Resource finance.

# Operating cost analysis

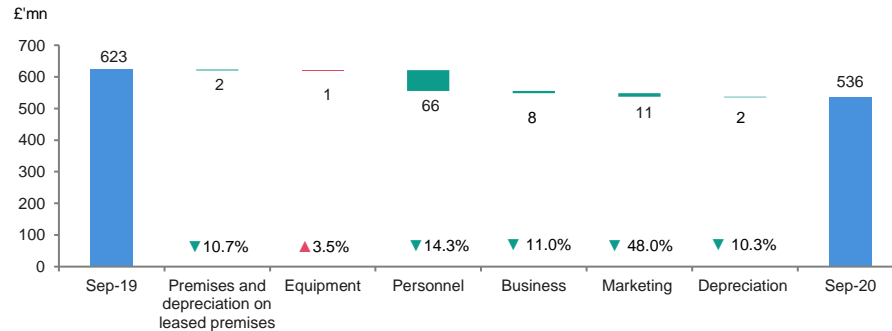
## Cost to income



### Cost to income ratio of 72.0% (1H 2020: 67.0%)

- Operating income reduced 24.0% (17.8% in neutral currency)
- Operating costs reduced 14.0% (8.1% in neutral currency)
- Heightened focus on cost control given the challenging environment for revenue generation

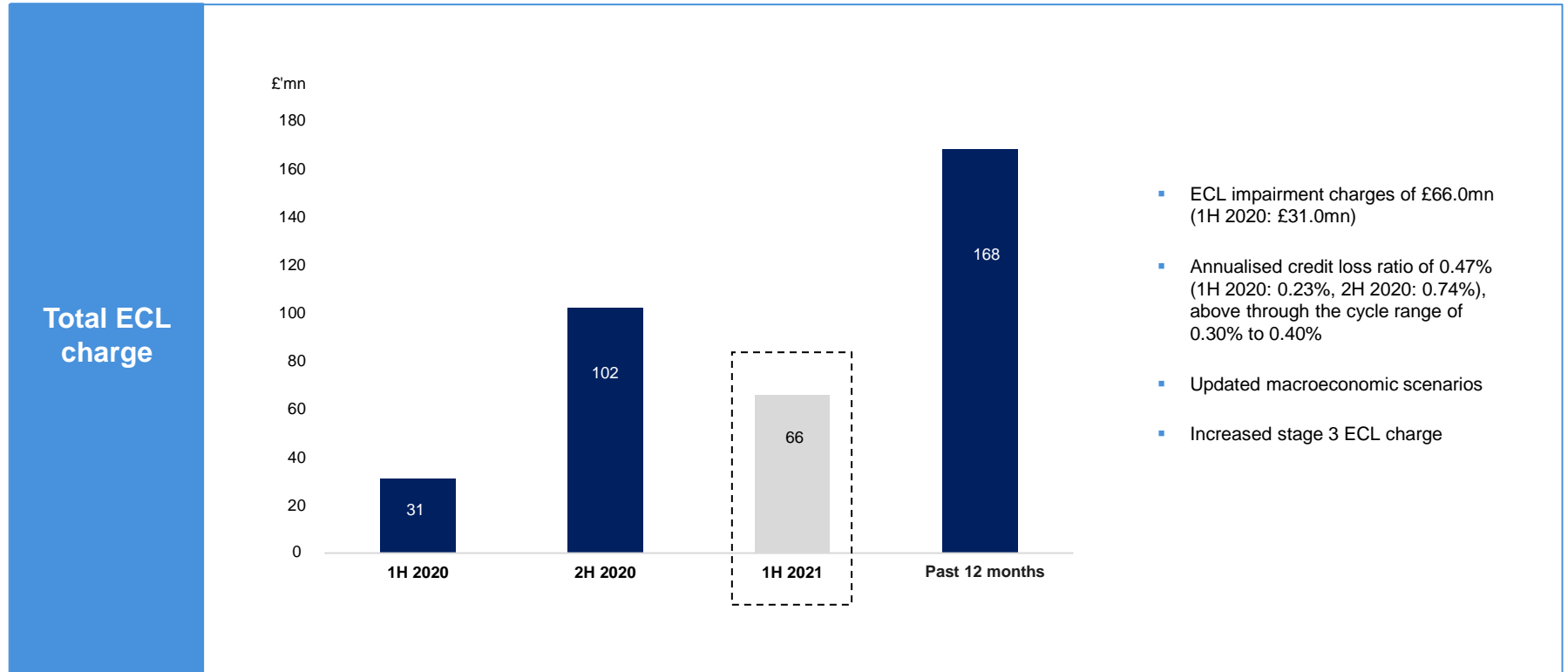
## Cost analysis



### Costs reduced 14.0%

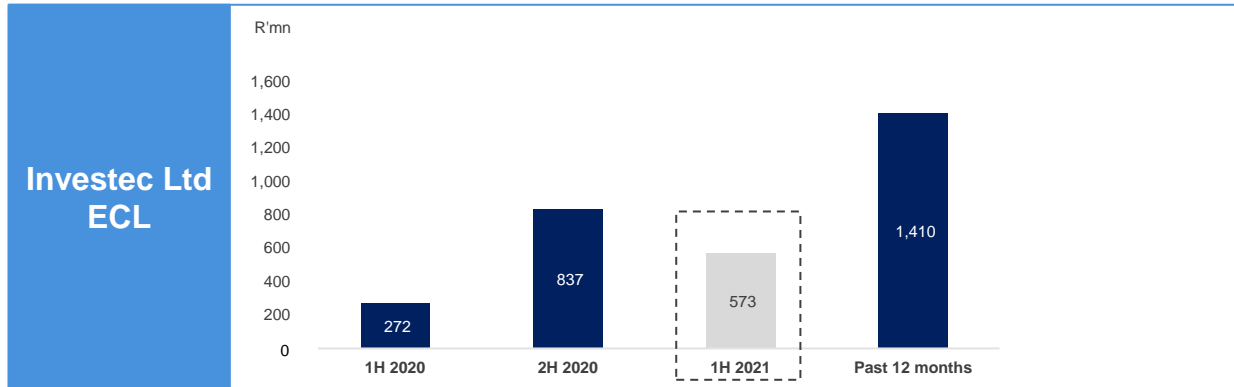
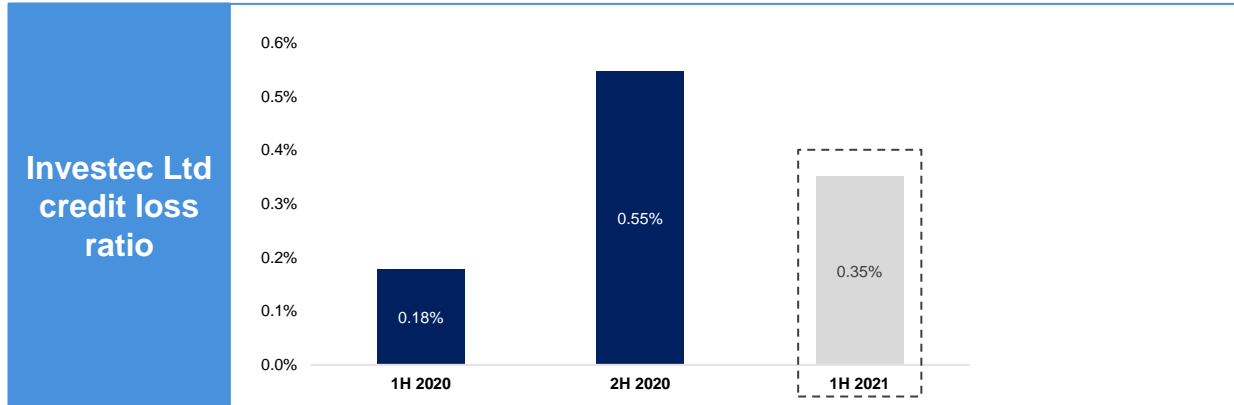
- Cost containment across the group
- Fixed personnel costs reduced 6.2%
- Marketing costs driven by a reduction in activations during the COVID-19 period, the elimination of certain sponsorship arrangements, and a tighter focus of resources in key markets

# ECL impairment charges increased year on year





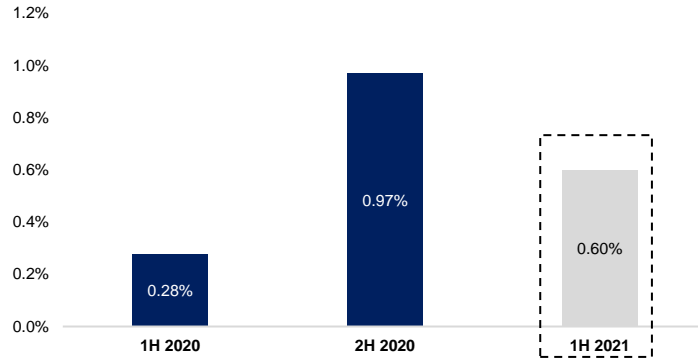
# Unpacking the credit loss ratio - SA



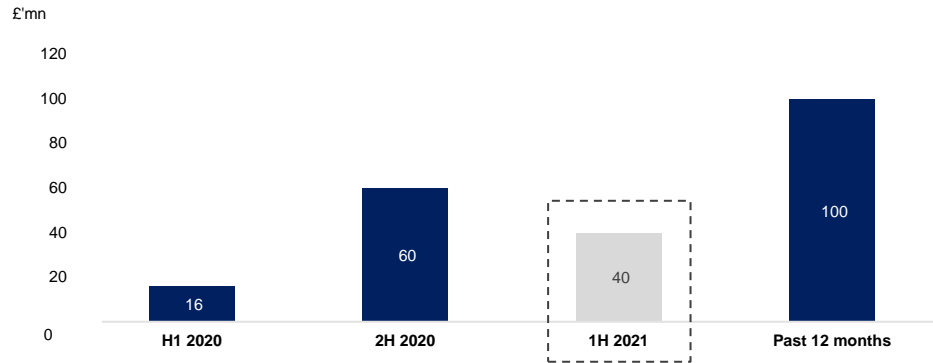
- Double the level reported in 1H 2020 and in line with expectations
- Moderation in credit loss ratios relative to the 2H 2020
- Updated macroeconomic scenarios
- Increased stage 3 ECL charge

# Unpacking the credit loss ratio - UK

## Investec plc credit loss ratio



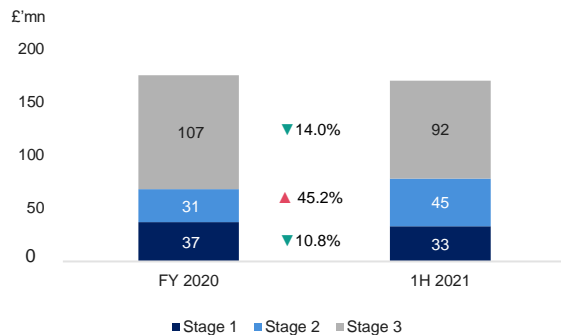
## Investec plc ECL charge



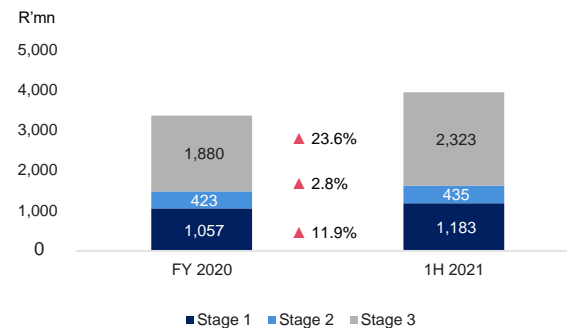
- Credit loss ratio remains elevated
- Updated macroeconomic scenarios
- COVID-19 related stage 3 ECL charge and other unrelated specific impairments

# Balance sheet provisions

## Investec plc balance sheet ECL provision



## Investec Ltd balance sheet ECL provision



## Investec plc ECL coverage ratio %

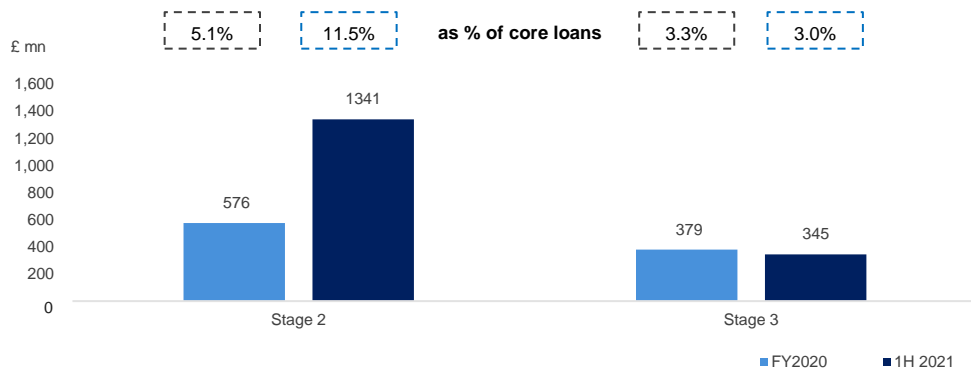
|                          | FY 2020 | 1H 2021 |
|--------------------------|---------|---------|
| Stage 1                  | 0.4%    | 0.3%    |
| Stage 2                  | 5.4%    | 3.4%    |
| Stage 3                  | 28.2%   | 26.7%   |
| of which Ongoing Stage 3 | 24.9%   | 20.6%   |

## Investec Ltd ECL coverage ratio %

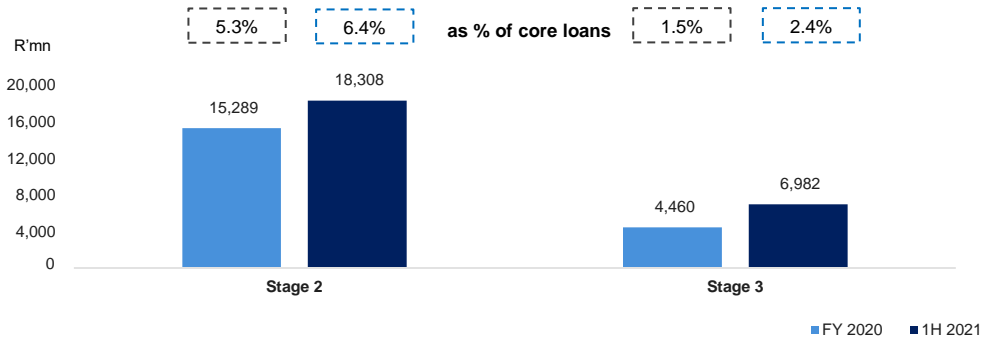
|         | FY 2020 | 1H 2021 |
|---------|---------|---------|
| Stage 1 | 0.4%    | 0.5%    |
| Stage 2 | 2.8%    | 2.4%    |
| Stage 3 | 42.2%   | 33.3%   |

## Stage 2 and 3 loans and advances subject to ECL

### Investec plc core loans by Stage

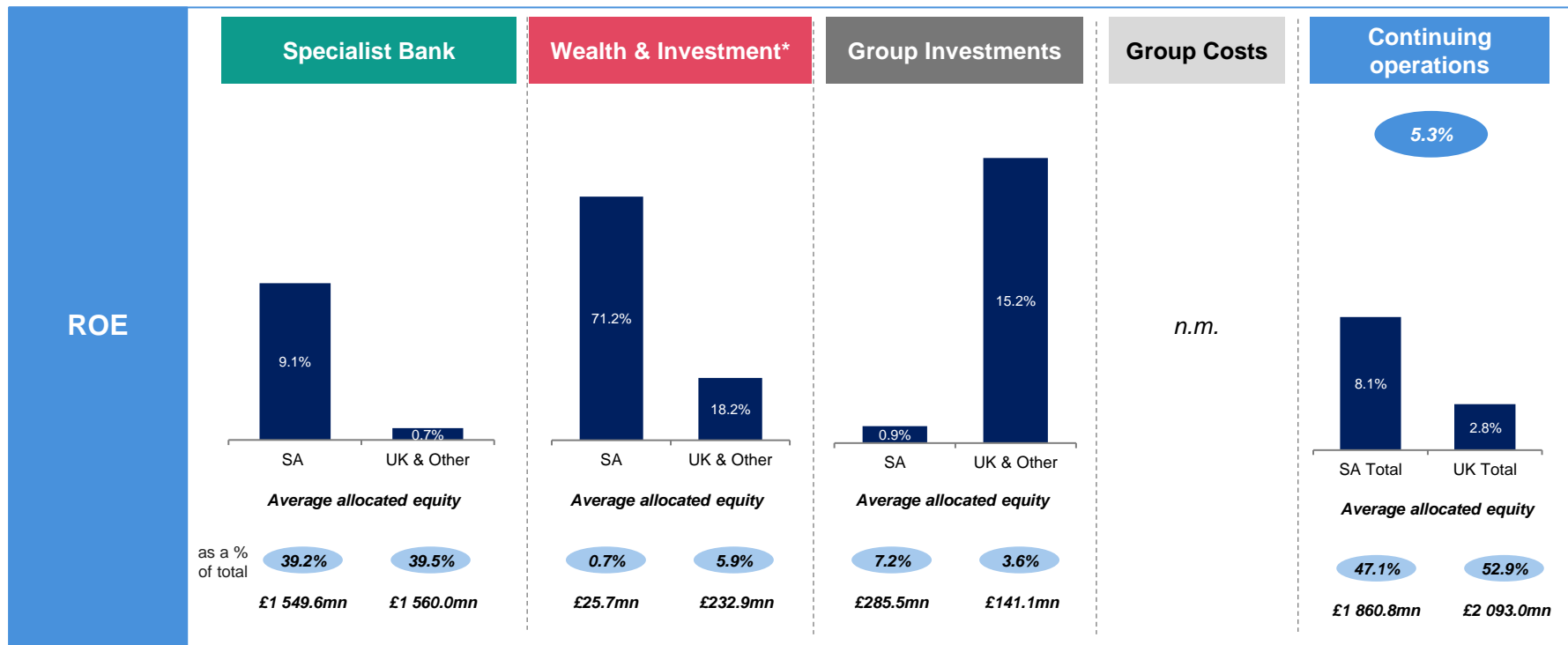


### Investec Ltd core loans by Stage



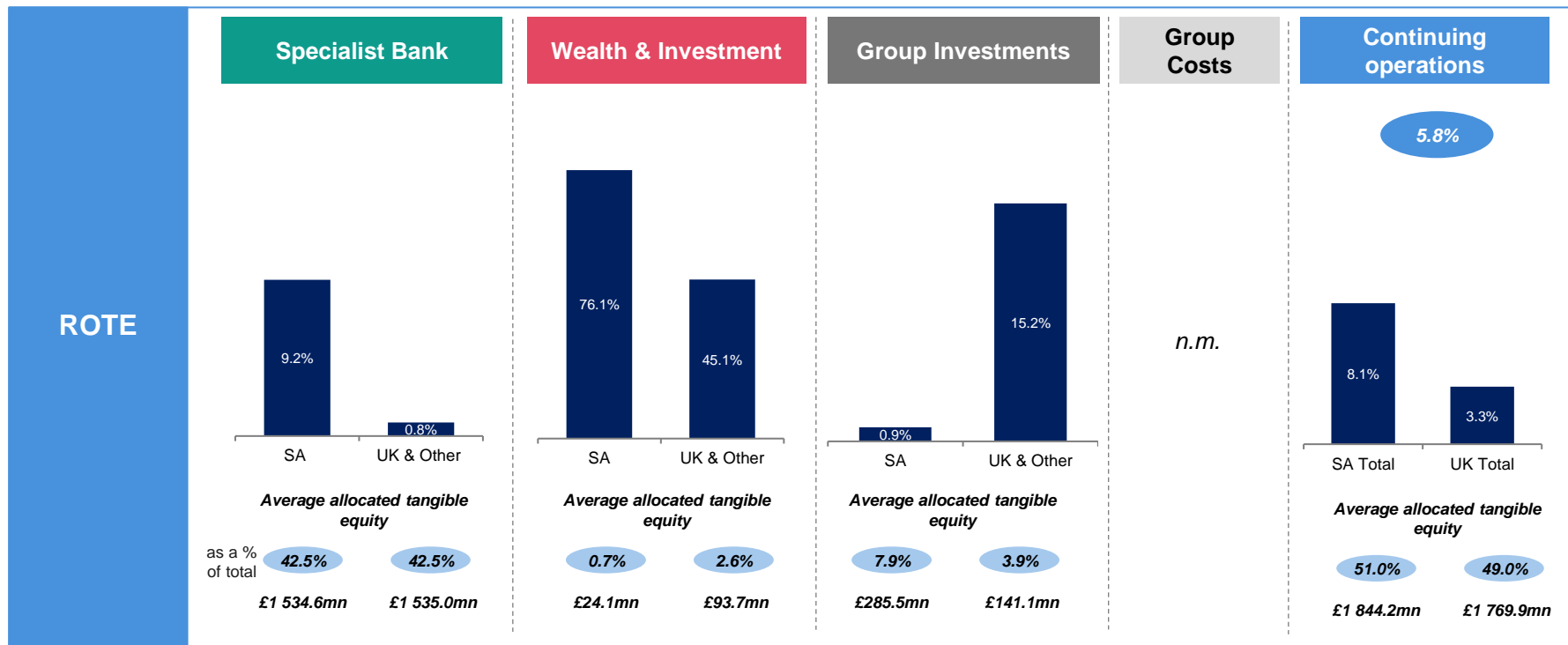
- The increase in Investec plc Stage 2 exposures was driven by model-driven migrations from updated macroeconomic scenarios
- The increase in Investec Ltd Stage 2 was mainly driven by:
  - Model-driven stage migrations mainly in the residential mortgage book and
  - A few counters in sectors particularly affected by COVID-19
- Investec Ltd increase in Stage 3 loans was mainly driven by a few counters across various sectors

# Divisional ROE



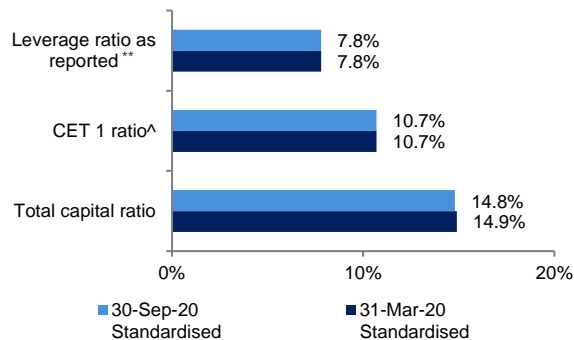
\* Excludes goodwill associated with Rensburg Sheppards acquisition

# Divisional ROTE



# Robust capital and liquidity position

## Investec plc Capital Ratios



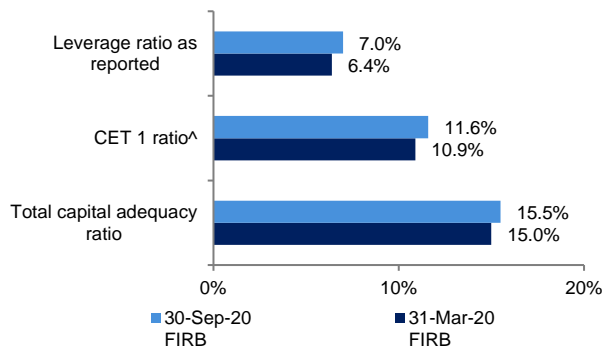
### Capital summary

- CET 1 ratio above 10% target, total capital ratios within target range of 14%-17%
- Leverage ratios above group target of 6%
- Investec Limited's application for conversion to AIRB\* is under review by SA PA. Conversion to AIRB expected to result in c.2% uplift in CET 1 ratio

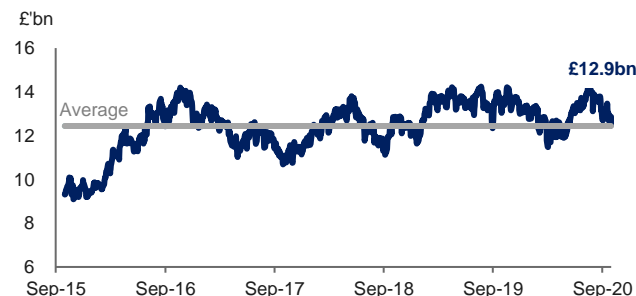
### Liquidity summary

- High level of readily available, highly liquid assets
- Loans to customers as % of customer deposits of 76.4% (Mar-20: 76.3%)

## Investec Ltd Capital Ratios



## Group Cash and Near Cash



## Financial outlook to year end

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- Client activity expected to recover from 1H 2021 levels
- Net interest margin expected to improve notwithstanding the low interest rate environment
- Non-interest income expected to improve relative to first half and result in early double-digit decline for the full year
- Continued cost to manage and reduce risk in our structured products book
- ECL expected to continue to moderate
- Costs expected to decline by mid to upper single digits for the full year compared to the prior year
- As a result, we expect overall operating performance to be ahead of the first half of 2021



# Agenda

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- 3. Sustainability– Fani Titi**
4. Closing and Q&A – Fani Titi

# Integrating the Sustainable Development Goals (SDG) into business strategy

Creating financial and social value in a sustainable way that ensures a low-carbon, inclusive world

Investec's sustainability framework is based on:

- Living sustainably within our operations
- Partnering with clients on their ESG journey and offering sustainability products and services
- Aligning our community initiatives to our SDG priorities to maximise impact
- Advocacy and thought leadership
  - Active participation in the United Nations Global Investors for Sustainable Development (UN GISD)
  - Working with industry in the UK and SA to ensure policy coherence
  - Using the strength of our brand to educate and promote sustainable thinking



# Focused on addressing climate change and inequality

## Action taken in the past six months

Published our **first stand alone TCFD report** in line with our commitment to climate disclosures

Shareholders voted **99.95% in favour of our climate-related resolution** at the August 2020 AGM

**Purchased carbon credits** to offset our FY 2020 emissions and meet our **net zero commitment**

Signed up to the **United Nations Environment Programme Finance Initiative** (UNEP FI) and the **Partnership for Carbon Accounting Financials** (PCAF)

**Ranked 55** (out of 5,500) in the **Wall Street Journal** Top 100 Most Sustainable Companies and 9<sup>th</sup> in the Social Category

Rated **Level 1** under the Financial Sector Code in South Africa

**Launched a number of ESG products** including the first European mid-market ESG-linked subscription lines and the UK's first retail ESG-linked Deposit Plan

## Well positioned in ESG rankings and ratings



**Top 15%** in the global diversified financial services sector (inclusion since 2006)



**Top 30** in the FTSE/JSE Responsible Investment Index



**Top 20%** of globally assessed companies in the Global Sustainability Leaders Index



**Top 2%** scoring AAA in the financial services sector by MSCI ESG Research



**Score B** against an industry average of C (formerly Carbon Disclosure Project)



**Top 20%** of the ISS ESG global universe and **Top 14%** of diversified financial services



Included in the FTSE **UK 100 ESG Select Index** (out of 641 companies)



**1 of 43** banks and financial services in the **Global ESG Leaders Index** (total of 439 components)



**1 of 5** finalists for the **ESG Sustainability Professional Award**

# Agenda

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1. Overview – Fani Titi, Chief Executive
2. Financial Review – Nishlan Samujh, Group Finance Director
3. Sustainability – Fani Titi
- 4. Closing and Q&A – Fani Titi**

# Resilient balance sheet, positioning the business for the long term

Expect to substantially complete our **simplification** process by the end of the financial year

- Concluded sale of the IAPF management company this week, and continue to consider other actions around the world
- Completed a JV partnership for our India business with the largest bank in India
- Closer integration of business enabling functions in UK Bank

## Capital optimisation

- Rightsizing the direct equity investment portfolio in line with our stated strategy
- Aggregate investment sell down in our direct equity portfolio since CMD of c.R1.1bn in South Africa

## Continued **cost discipline**

- UK Specialist Bank fixed costs reduced by £40mn since CMD, and expected to decline in the medium term
- Group costs expected to be £35mn in FY 2021, 24% or £11mn since CMD

## Strong business fundamentals

- Confident in the fundamentals of our business and in our long-established client relationships
- Remain committed to great client experience, demonstrated by our agility and increasing intensity of client engagement in a time of need

## Focus on **growth**

- UK HNW mortgage lending on track to achieve milestones set at CMD, client acquisition and originations remained strong despite the constraints brought by COVID-19
- Launched online business banking in South Africa, and are starting to acquire clients – progressing our corporate strategy

## Continued **execution of strategic plan**

- Medium-term targets under review given prevailing uncertain environment - however continue to advance our strategic objectives, positioning the business for the long term



*Out of the Ordinary*



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## Appendix

## Macroeconomic scenarios – 30 September 2020

| UK | Financial year ending (%)   | Base case |      |      |      | Average 2020-2025 |           |                    |                          |
|----|-----------------------------|-----------|------|------|------|-------------------|-----------|--------------------|--------------------------|
|    |                             | 2021      | 2022 | 2023 | 2024 | Upside            | Base case | Downside 1 L-shape | Downside 2 No-FTA Brexit |
|    | GDP growth                  | (8.7)     | 6.7  | 1.5  | 1.6  | 2.1               | 0.7       | (1.7)              | (1.0)                    |
|    | Unemployment rate           | 6.1       | 6.7  | 5.5  | 4.5  | 3.9               | 5.4       | 7.7                | 7.5                      |
|    | House price growth          | (4.7)     | 4.1  | 2.7  | 2.4  | 2.5               | 1.4       | (0.9)              | (0.8)                    |
|    | Bank of England – Bank rate | 0.1       | 0.1  | 0.1  | 0.2  | 0.9               | 0.2       | (0.3)              | 0.1                      |
|    | <b>Scenario weightings</b>  | <b>50</b> |      |      |      | <b>5</b>          | <b>50</b> | <b>10</b>          | <b>35</b>                |

| South Africa | Financial year ending (%)         | Base case |       |      |      | Average 2020-2025 |          |           |                |                  |
|--------------|-----------------------------------|-----------|-------|------|------|-------------------|----------|-----------|----------------|------------------|
|              |                                   | 2021      | 2022  | 2023 | 2024 | Extreme up case   | Up case  | Base case | Lite down case | Severe down case |
|              | GDP growth                        | (10.1)    | 4.8   | 2.1  | 2.1  | 3.9               | 2.5      | 1.3       | 0.0            | (1.1)            |
|              | Repo rate                         | 3.6       | 4.3   | 4.8  | 5.0  | 3.3               | 3.9      | 4.7       | 4.9            | 6.1              |
|              | Bond yield                        | 9.9       | 10.2  | 10.6 | 10.7 | 9.5               | 9.9      | 10.5      | 10.8           | 11.2             |
|              | Residential property price growth | 2.0       | 2.6   | 3.5  | 4.7  | 5.8               | 4.7      | 3.9       | 3.3            | 2.2              |
|              | Commercial property price growth  | (8.1)     | (1.8) | 0.5  | 1.0  | 1.9               | 0.7      | (0.7)     | (1.5)          | (2.2)            |
|              | <b>Scenario weightings</b>        | <b>47</b> |       |      |      | <b>1</b>          | <b>3</b> | <b>47</b> | <b>46</b>      | <b>3</b>         |