



2019

**YEAR END RESULTS  
PRESENTATION**

16 May 2019

*Out of the Ordinary*

 **Investec**

# 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 legislation or regulation impacting on 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 outlined in this announcement
  - 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 15 May 2019

# Agenda

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1. Overview – Fani Titi, Joint Group Chief Executive Officer
2. Financial review – Nishlan Samujh, Group Finance Director
3. Business review
  - Bank and Wealth – Fani Titi, Joint Group Chief Executive Officer
  - Asset Management – Hendrik du Toit, Joint Group Chief Executive Officer
4. Closing and Q&A



# 1

OVERVIEW

*Out of the Ordinary*

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# Year under review

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## Sound operating performance

- 9.4% increase in operating profit to £664.5mn
- 3.6% increase in adjusted EPS to 55.1p
- 2.1% dividend growth to 24.5p
- Improved Group ROE to 12.9%

## Supported by strong client franchises

- Substantial net inflows in Asset Management
- Good loan book growth
- Strong performance in UK Bank
- Positive discretionary inflows in Wealth & Investment

## Performance is offset by

- Weaker investment income in banking
- Non-recurrence of investment gains in Wealth & Investment in the prior year, and the current year write down of Click & Invest capitalised software

***Resilient Asset Management and Bank and Wealth businesses against challenging backdrop***

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## Year under review *(cont.)*

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### **Simplify, focus and grow with discipline**

- Smooth leadership transition
- Good progress on the proposed demerger of Asset Management
- Identified growth initiatives on track
- Actions taken to simplify business:
  - Disposal of the Irish Wealth business
  - Discontinued Click & Invest
  - Winding down the Hong Kong non-core investment portfolio
- Cost discipline
- Focus on capital allocation and shareholder returns

***Positioning the business to serve clients and generate shareholder returns***

# Agenda

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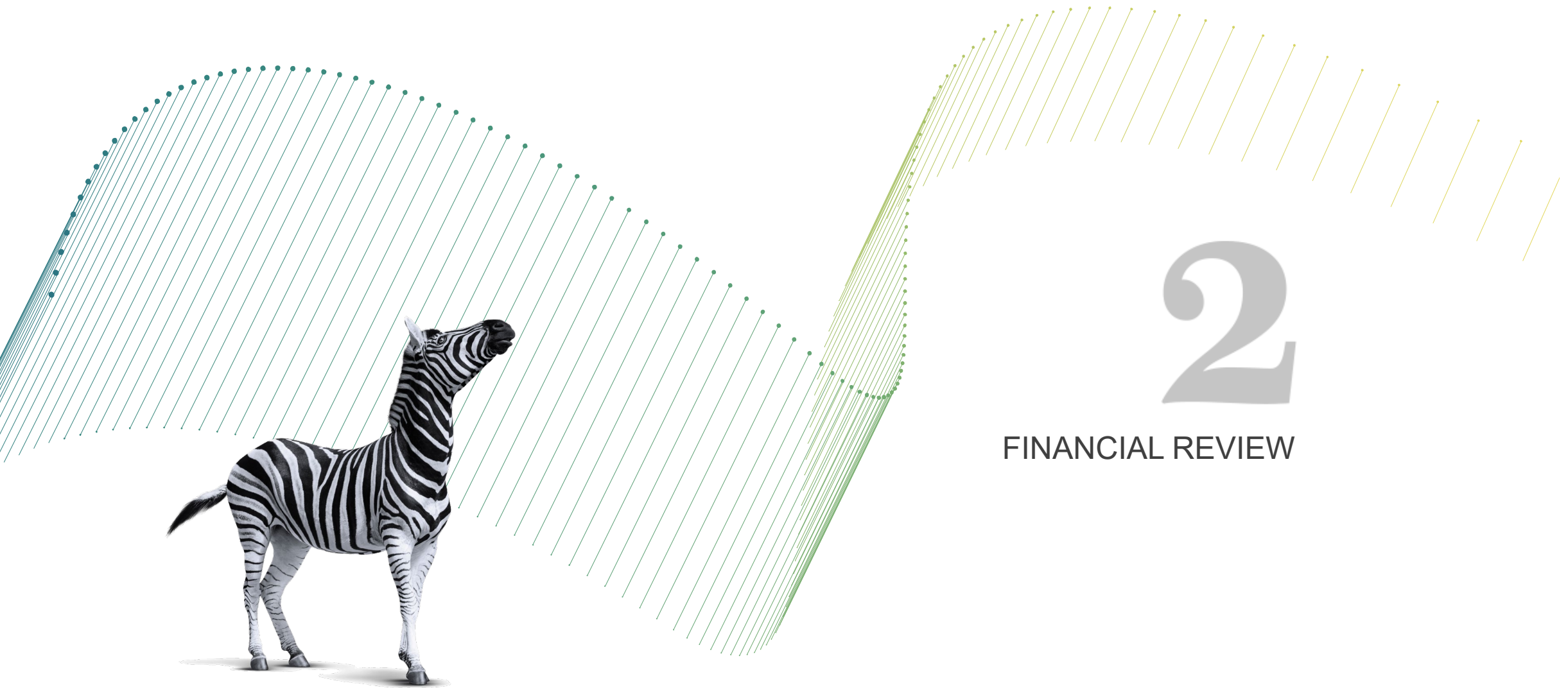
1. Overview – Fani Titi, Joint Group Chief Executive Officer

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# 2

## FINANCIAL REVIEW

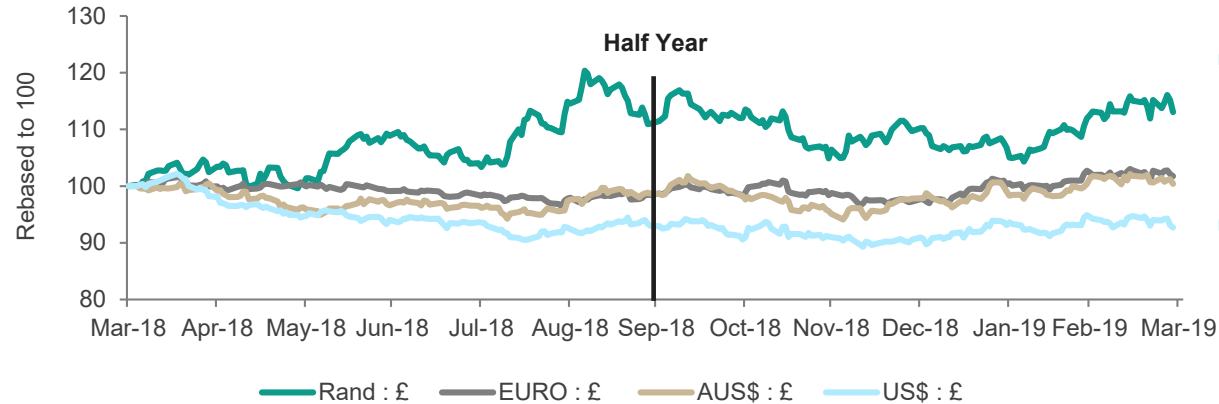
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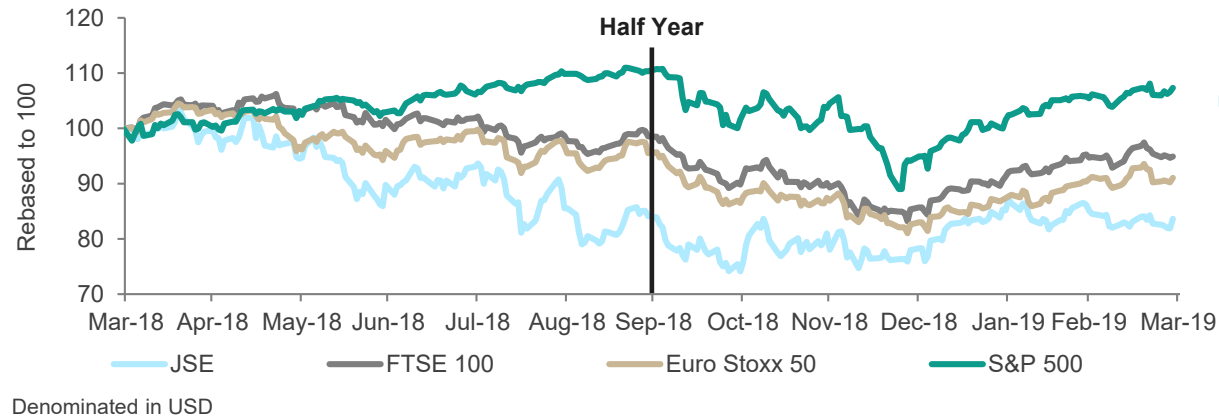
# Backdrop of persistent economic uncertainty

## Exchange rates



- Policy uncertainty and weak economy in SA has impacted activity levels
- Brexit and political uncertainty has impacted corporate and consumer confidence in the UK

## Equity markets



- Trade wars, reduced monetary stimulus and global growth concerns have resulted in market volatility

# Snapshot of group financial performance

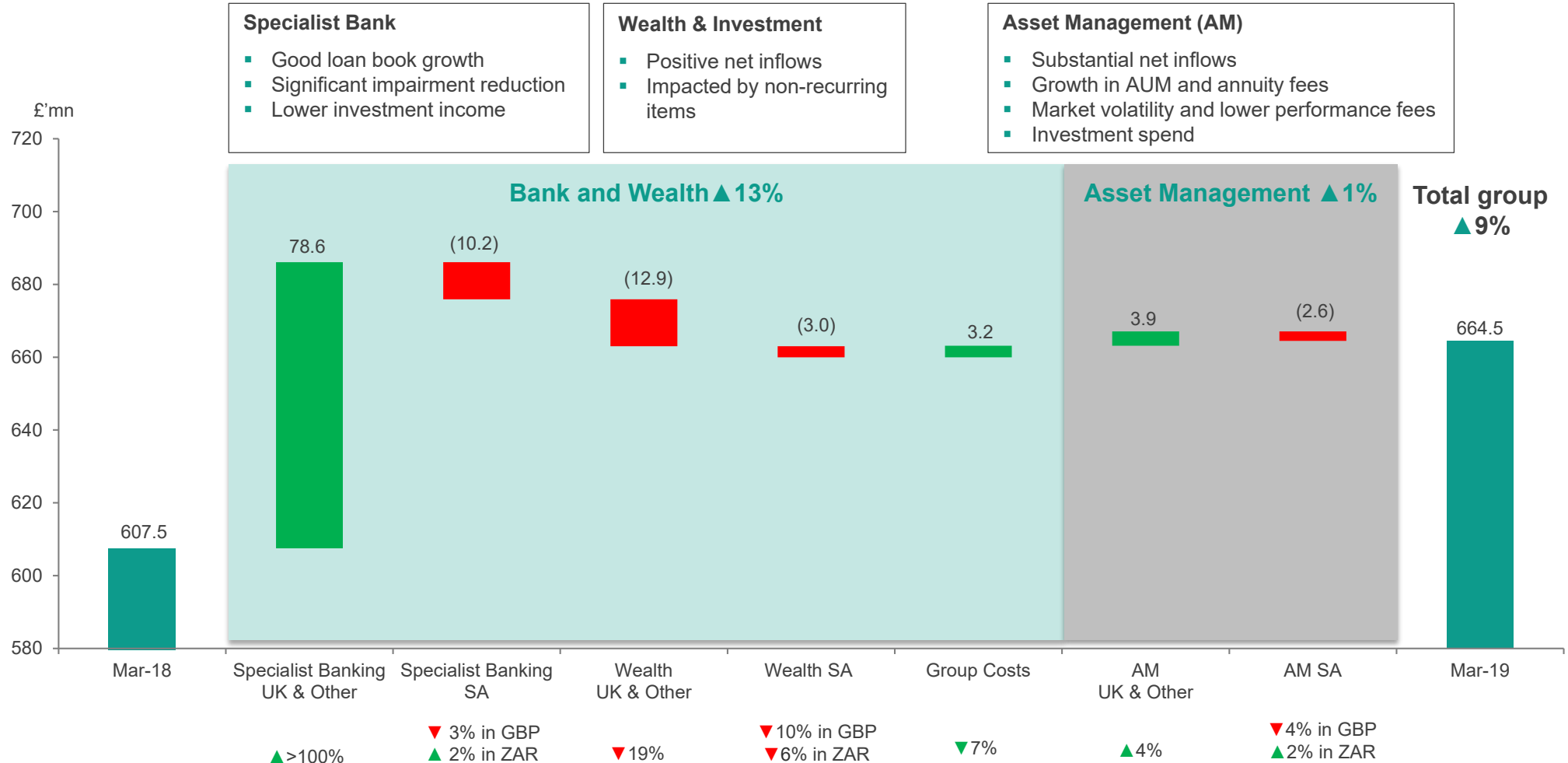
- Growth in operating profit\* and adjusted EPS\*\* of 9.4% and 3.6% respectively

Key metric	ROE	Cost to Income Ratio <sup>^</sup>	CET1 Ratio	Dividend Cover
Target	12% to 16%	< 65%	> 10%	1.75x to 3.5x
Mar-19	12.9%	69.9%	Limited: Standardised – 10.5% Pro-forma FIRB – 11.6% plc: 10.8%	2.2x

\*Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests. \*\*Before goodwill, acquired intangibles and non-operating items and after non-controlling interests and the deduction of preference dividends. <sup>^</sup>The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. As such, the cost to income ratio is calculated as: operating costs divided by operating income (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests).

# Divisional operating profit\* performance

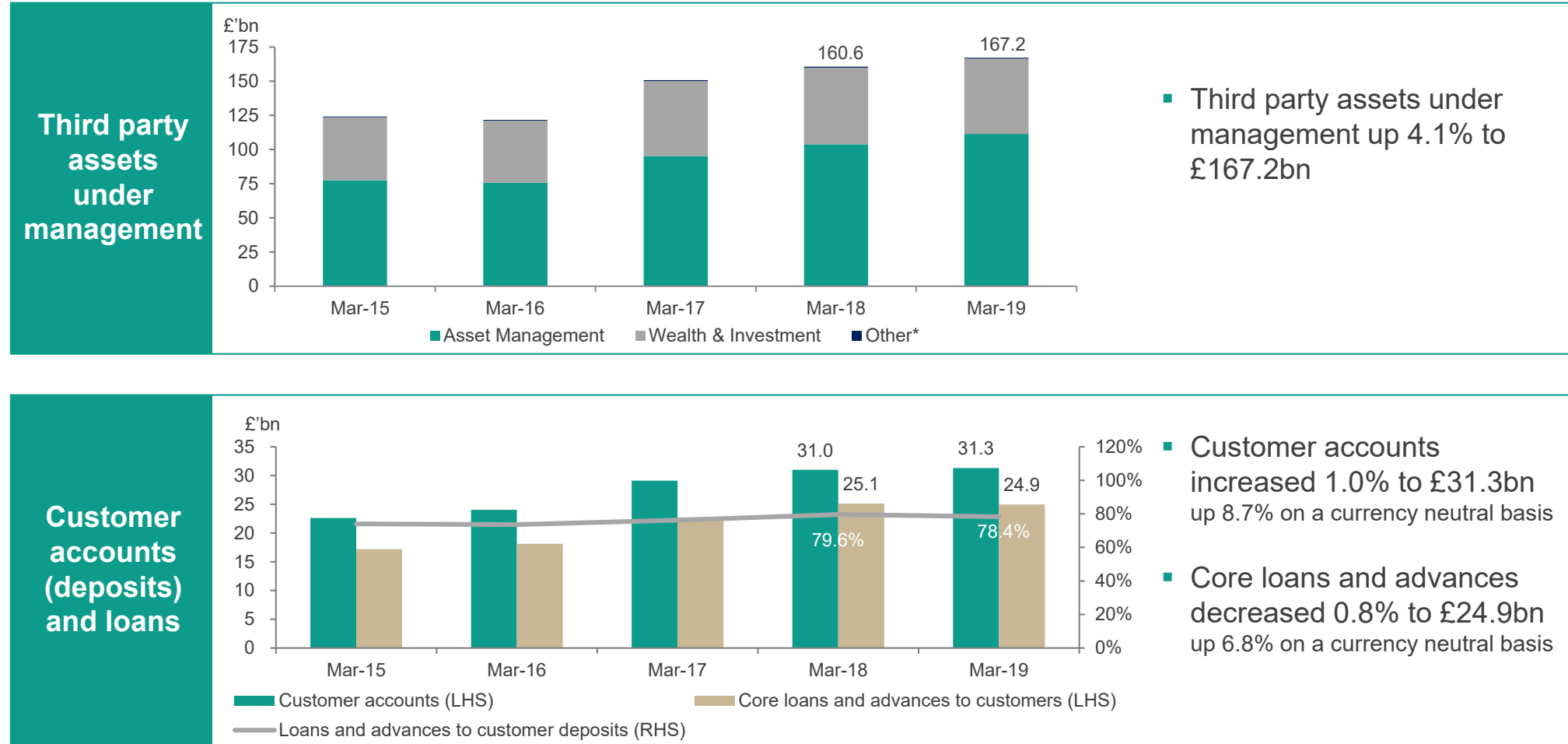
## Strong performance from the UK Specialist Bank



\*Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.

# Growth in key earnings drivers

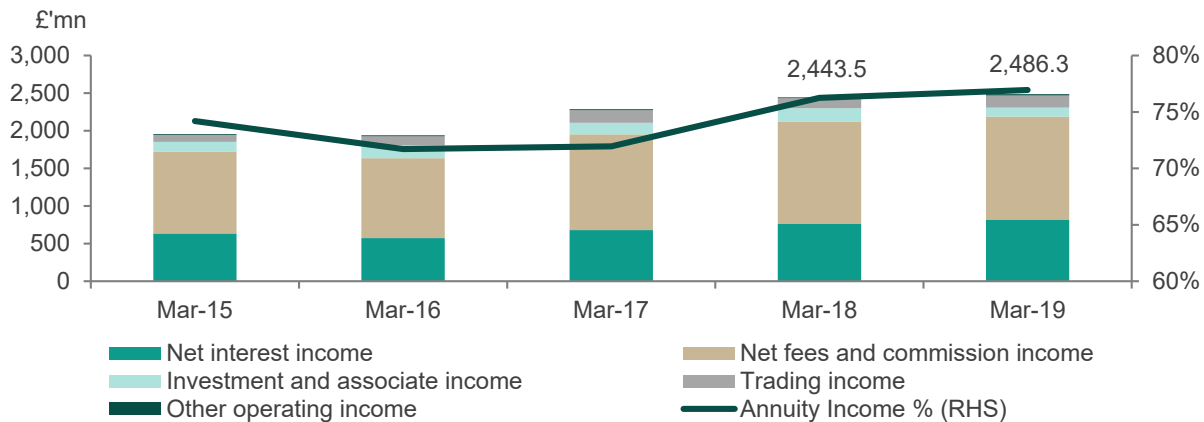
Core income drivers impacted by the closing Rand depreciation of 13.1%



\*Other includes private equity and property assets under management

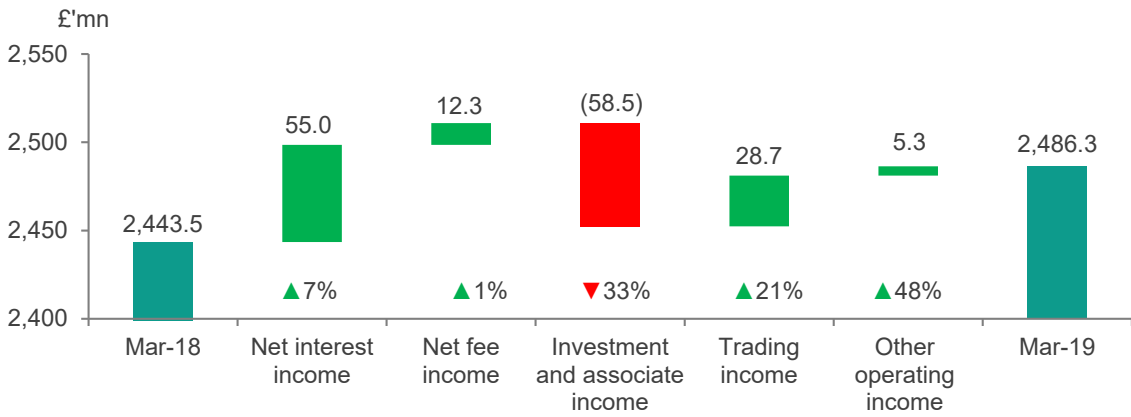
# Supporting growth in operating income

## Operating income trend



- Annuity revenue continues to support earnings
- Total operating income increased by 1.8% to £2,486.3mn

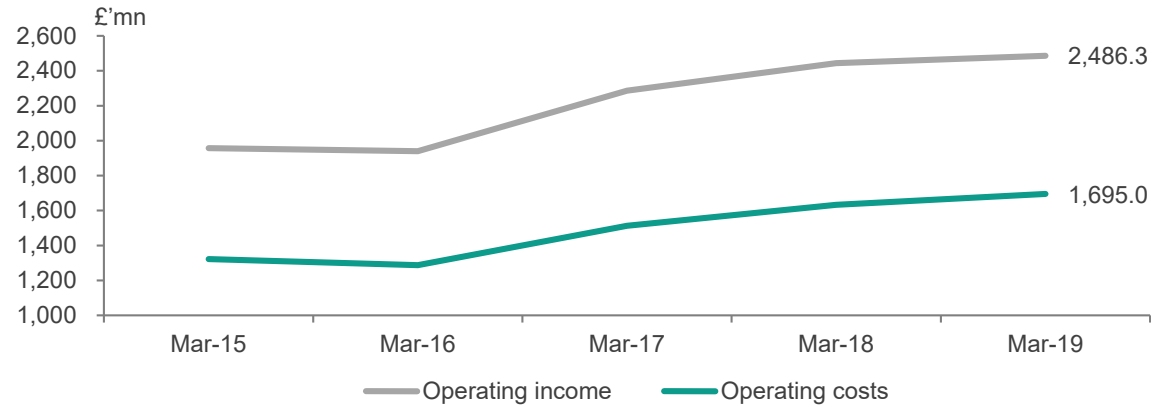
## Operating income analysis



- Interest income driven by good book growth
- Offset by weak performance from Bank equity and investment property portfolios

# Costs up ahead of revenue and an area of focus for management

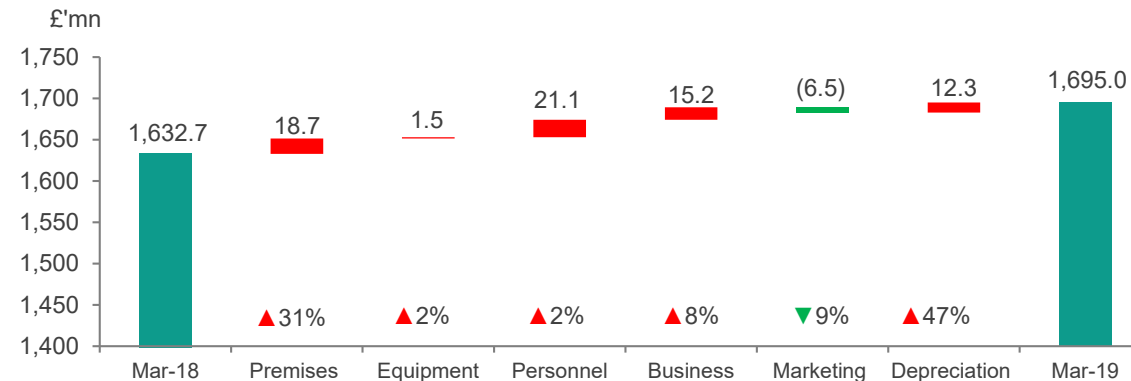
## Jaws ratio



**Cost to income<sup>^</sup> of 69.9%**  
(Mar-18: 68.3%)

- Operating income up 1.8%
- Operating costs up 3.8%
- Revenue growth and cost containment remain priorities

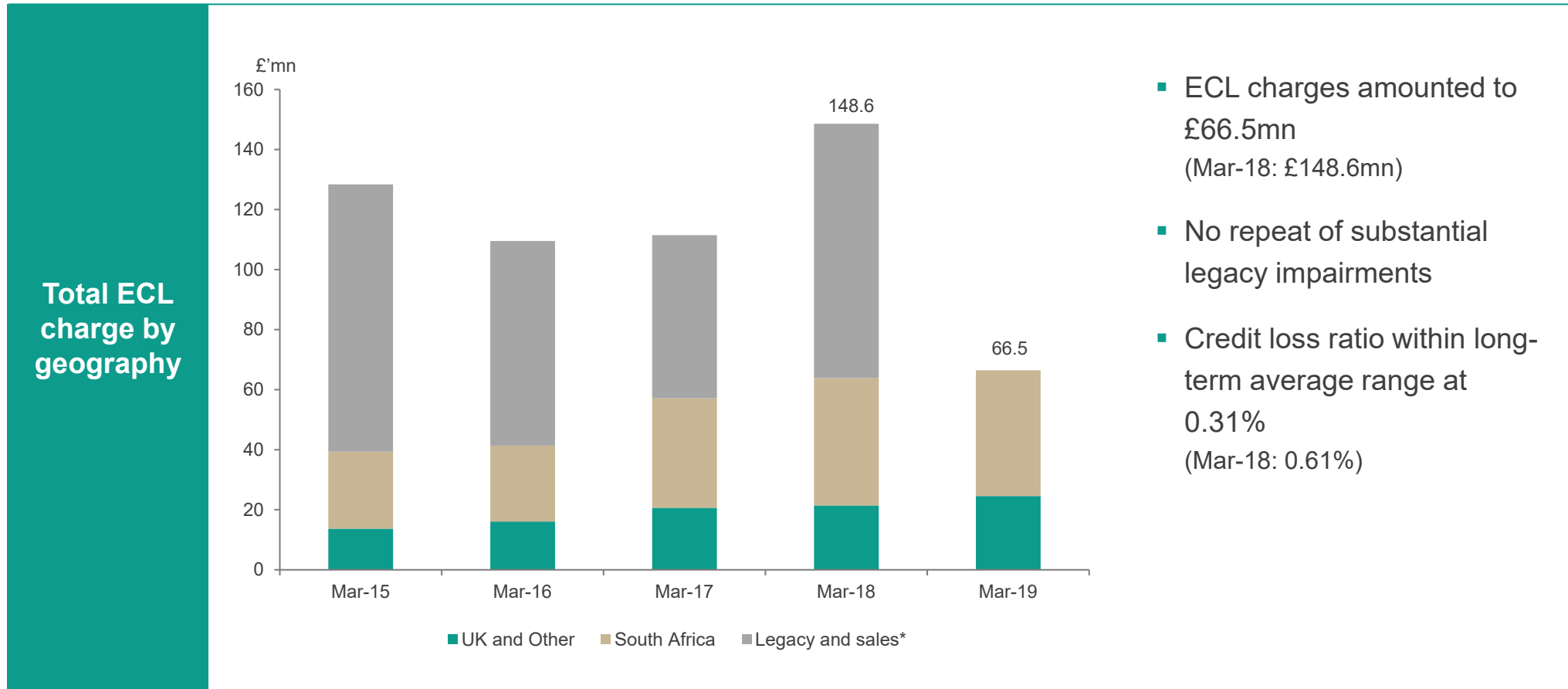
## Cost analysis



- Premises costs up due to prior year rental provision release in South Africa and new Asset Management premises
- Personnel costs up due to increase in headcount to support business activity, increased regulation and IT development

<sup>^</sup>The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. As such, the cost to income ratio is calculated as: operating costs divided by operating income (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests).

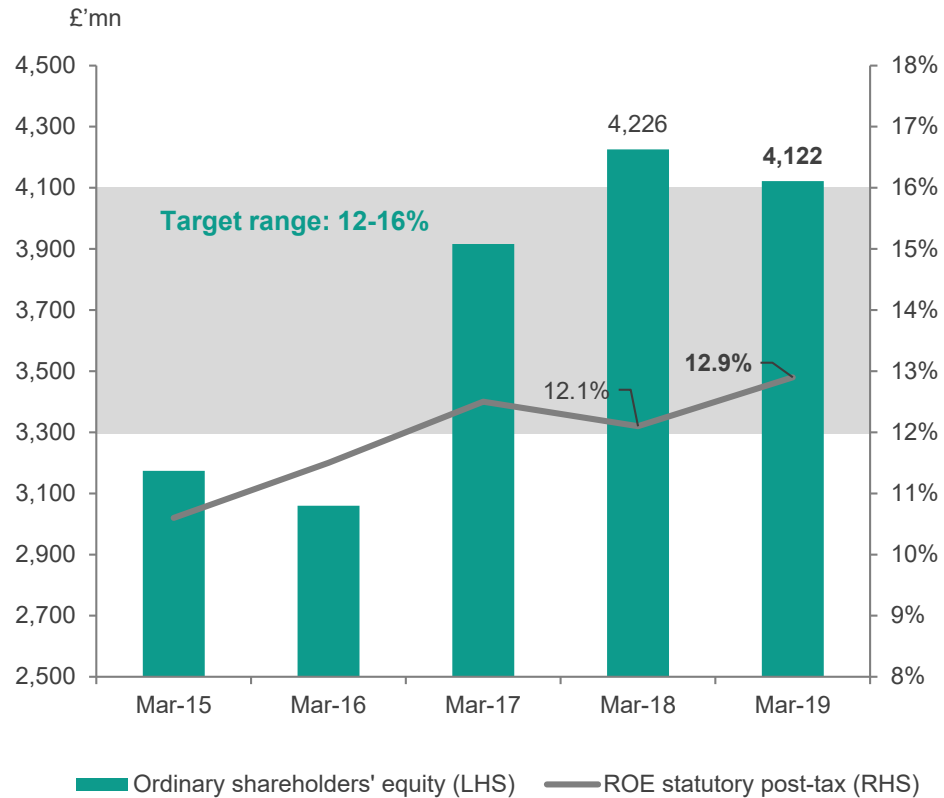
# Reduction in ECL<sup>^</sup> charges



<sup>^</sup>Expected credit loss impairment charges. \*Refers to the remaining UK legacy business and group assets that were sold in the 2015 financial year. From 2019 financial year the UK legacy business is no longer reported separately.

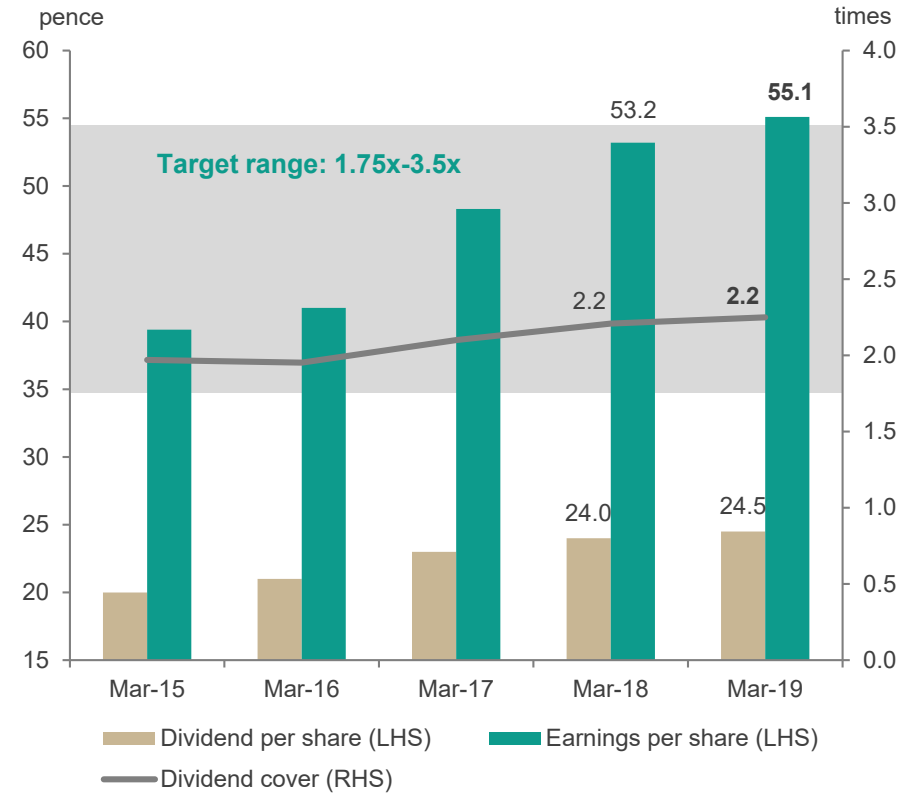
# Improving group equity returns

## Return on Equity



*Focus on improving ROE in medium-term*

## Dividend and dividend cover



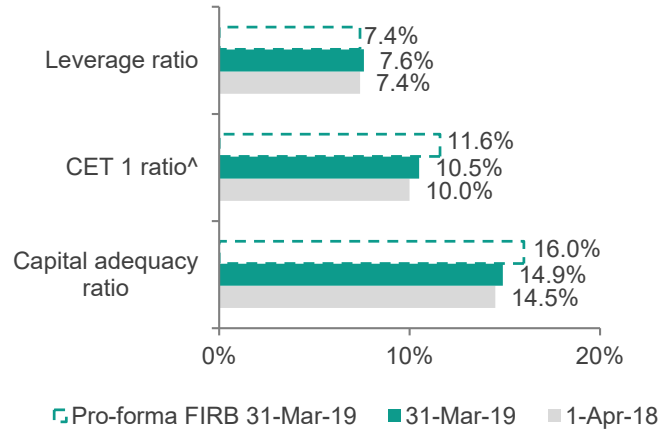
*Average pay out ratio of 48% since 2015*



# Sound balance sheet

## Capital ratios in excess of regulatory requirements

### Investec Limited



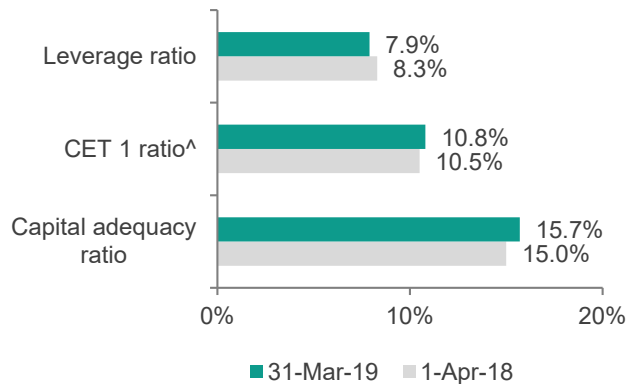
### Capital

- CET 1 ratio above 10% target and total capital ratios within target range of 14%-17%
- Solid leverage ratios, remain comfortably ahead of 6% target
- Investec Limited received approval to adopt the FIRB\* approach, effective 1 April 2019.

### Liquidity

- High level of readily available, highly liquid assets
- Advances as a percentage of customer deposits of 78.4% (Mar-18: 79.6%)

### Investec plc



### Group cash and near cash



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## BUSINESS REVIEW

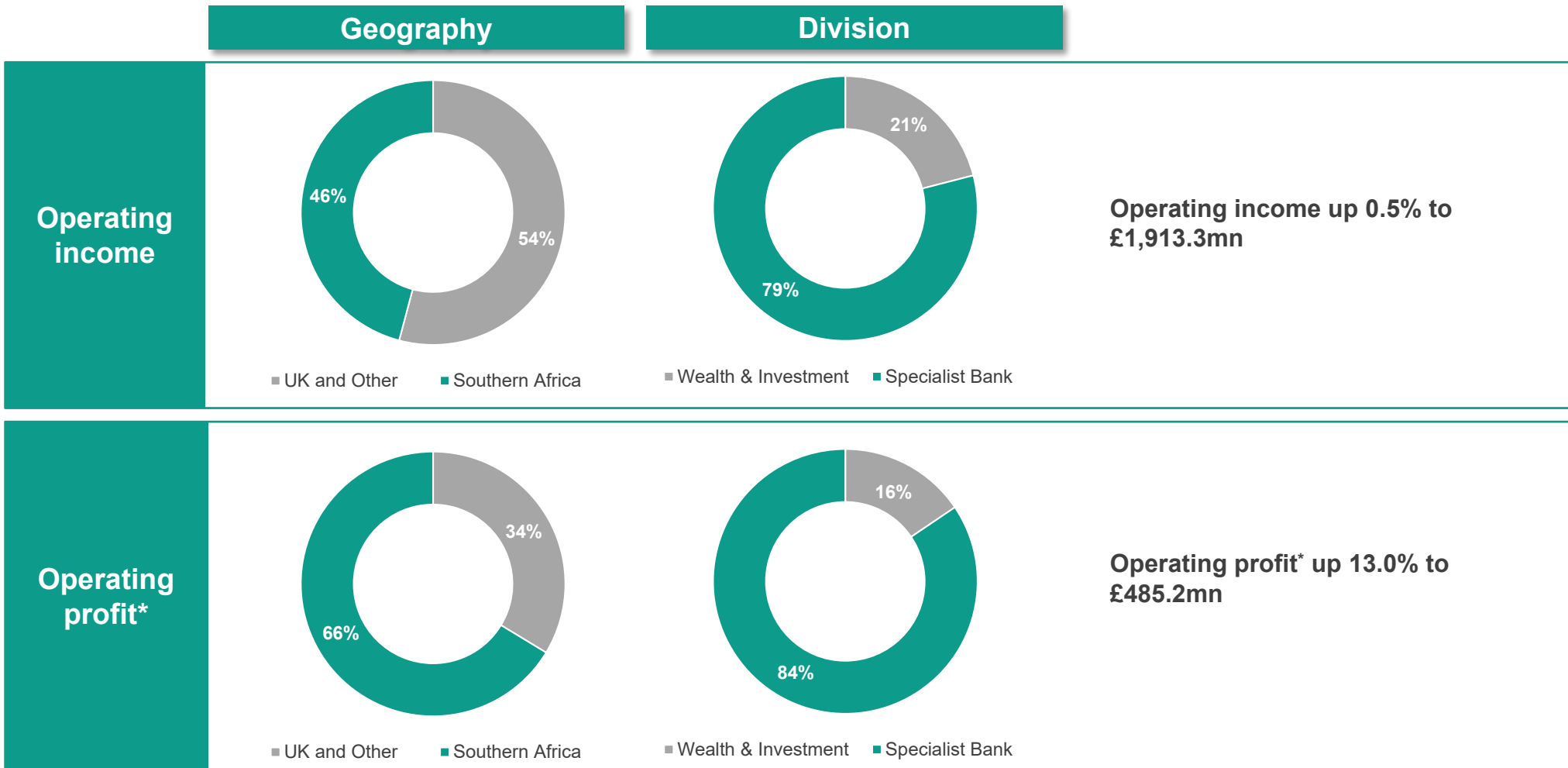


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 **Investec**

# Bank and Wealth - overview

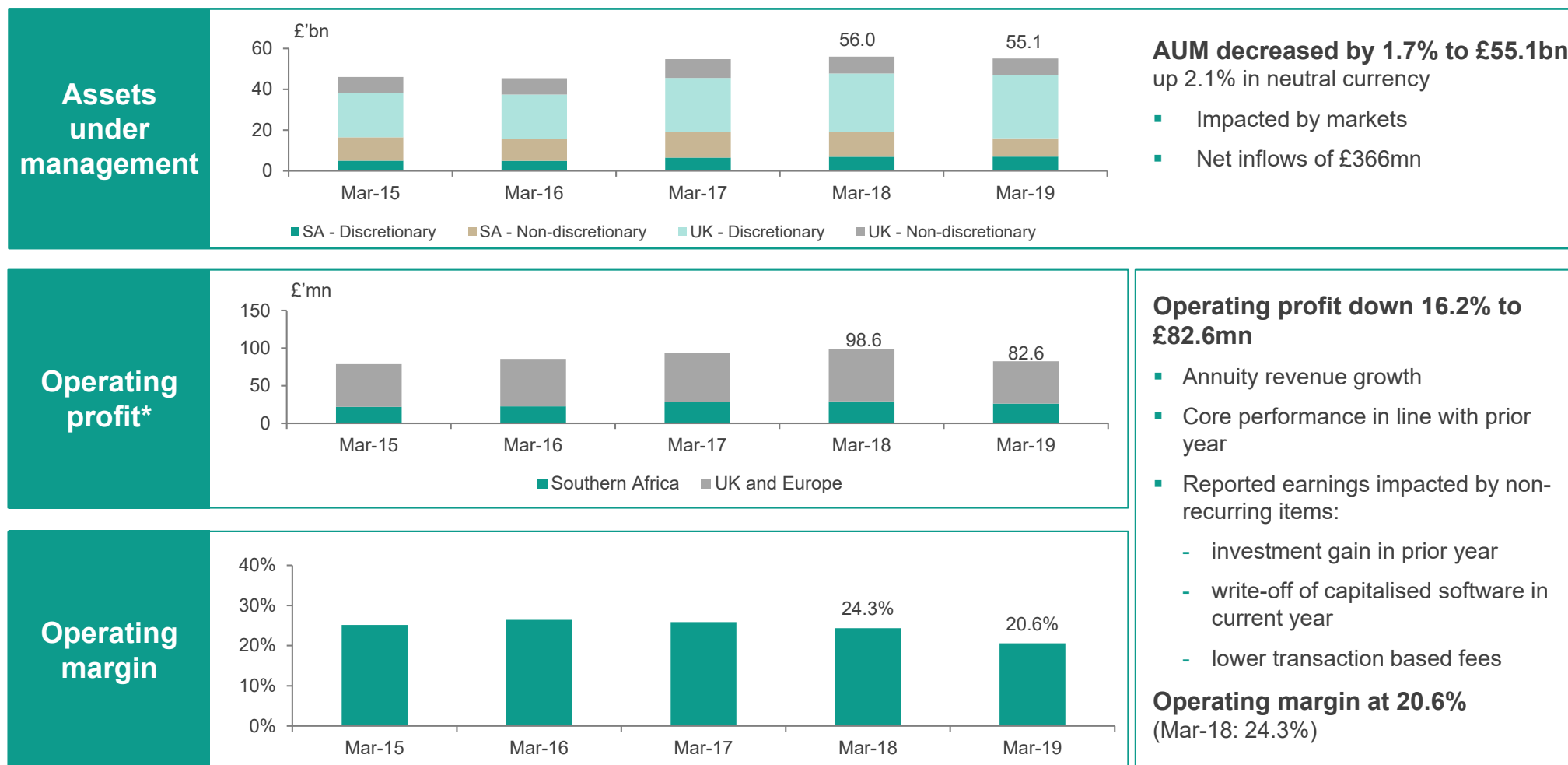
## A diversified mix of businesses



\*Operating profit by geography is before tax, goodwill, acquired intangibles, non-operating items but after adjusting for earnings attributable to other non-controlling interests and group costs. Operating profit by division is before tax, goodwill, acquired intangibles, non-operating items and group costs but after adjusting for earnings attributable to other non-controlling interests.

# Wealth & Investment - overview

## Stable core earnings impacted by non-annuity revenue

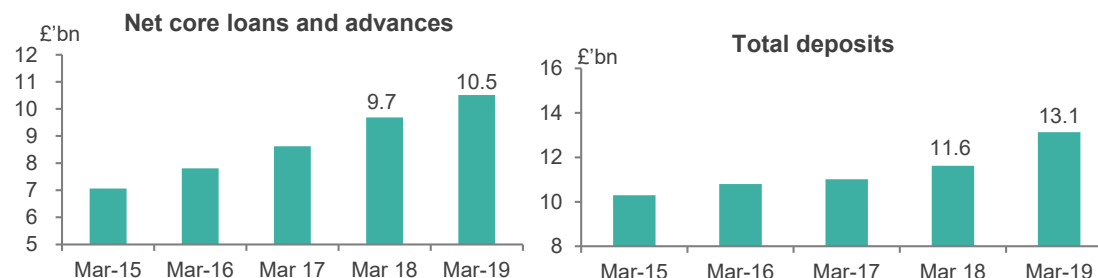


\*Operating profit before goodwill, acquired intangibles, non-operating items, taxation and before non-controlling interests.

# Specialist Banking UK and Other - overview

## Revenue supported by client activity

### Customer accounts (deposits) and loans

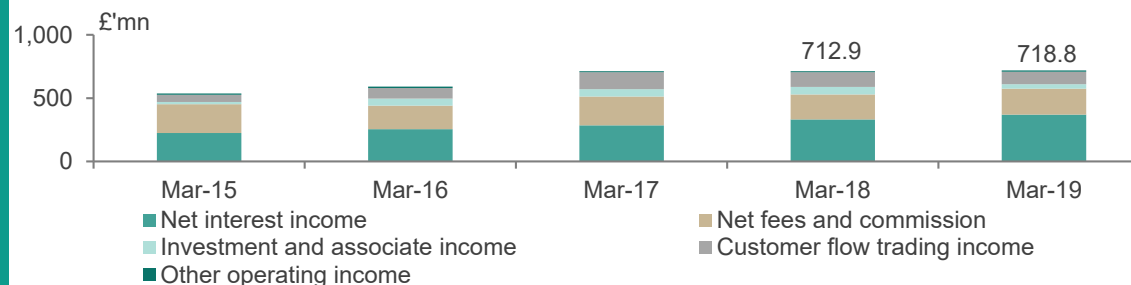


### Core loans up 8.5% to £10.5bn

- Good traction in HNW mortgage book growth
- Diversified corporate client book growth

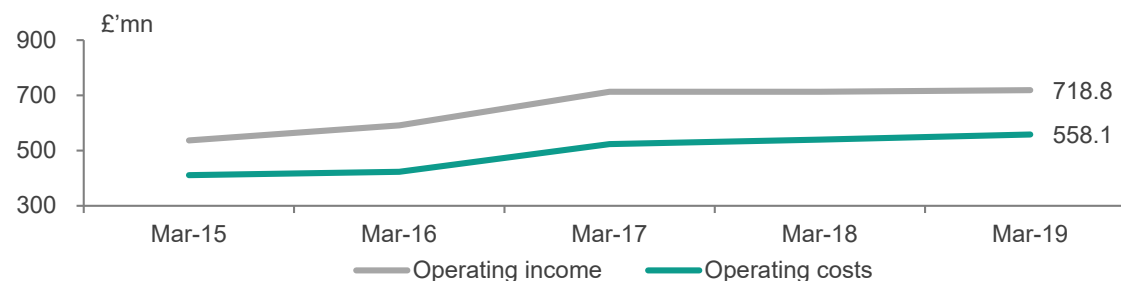
### Deposits up 13.0% to £13.1bn

### Operating income analysis



- Net interest income up from solid lending activity and endowment impact
- Weaker performance from investment portfolio

### Jaws ratio



### Cost to income<sup>^</sup> of 77.4%

(Mar-18: 76.7% statutory) **(Target: <63%)**

- Investment phase in the Private Bank largely complete
- Cost containment
- Marginal revenue increase

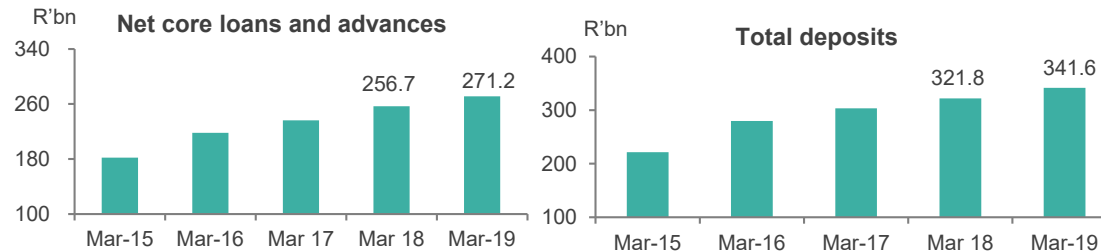
Information on this slide is based on the results of the ongoing business (excluding UK Specialist Bank legacy assets and businesses sold), unless otherwise specified. All FY19 information is on a statutory basis.

<sup>^</sup>The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. As such, the cost to income ratio is calculated as: operating costs divided by operating income (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests).

# Specialist Banking SA - overview

## Resilient performance against a challenging backdrop

### Customer accounts (deposits) and loans

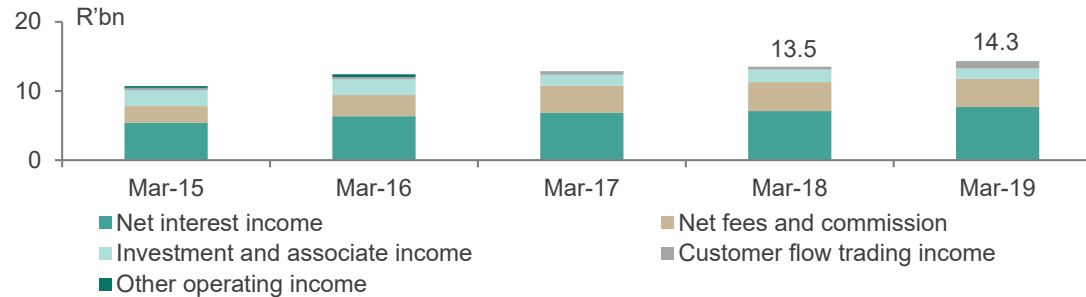


**Core loans up 5.6% to R271.2bn**

- Good private client lending activity

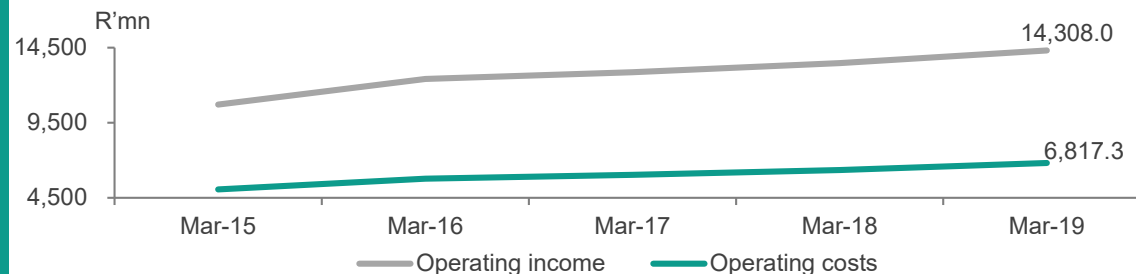
**Deposits up 6.1% to R341.6bn**

### Operating income analysis



- Growth in private client interest and fee income
- Subdued corporate activity against a challenging backdrop
- Weaker performance from equity and investment property portfolios

### Jaws ratio



**Cost to income<sup>^</sup> of 51.7%**  
(Mar-18: 50.6%) **(Target: 49% to 52%)**

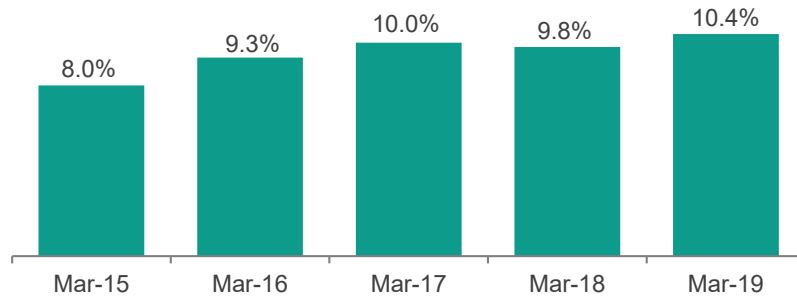
- Operating income up 6.2%
- Operating costs up 7.4% - impacted by prior year rental provision release

<sup>^</sup>The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. As such, the cost to income ratio is calculated as: operating costs divided by operating income (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests).

# Bank and Wealth - key metric trends

## ROE and costs - an area of focus for management

### ROE trend

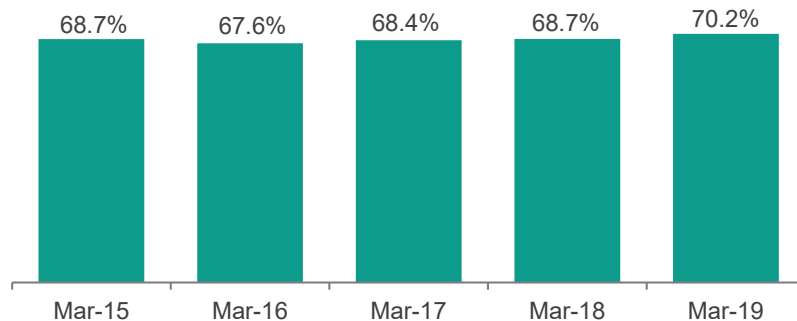


**ROE  
Target\*:**  
**12% to 16%**

#### Drivers for ROE enhancement:

- Revenue growth initiatives
- Cost discipline
- Optimising capital allocation
- Greater connectivity across the business

### Cost to income<sup>^</sup> trend



**Cost to  
income  
Target\*:**  
**<63%**

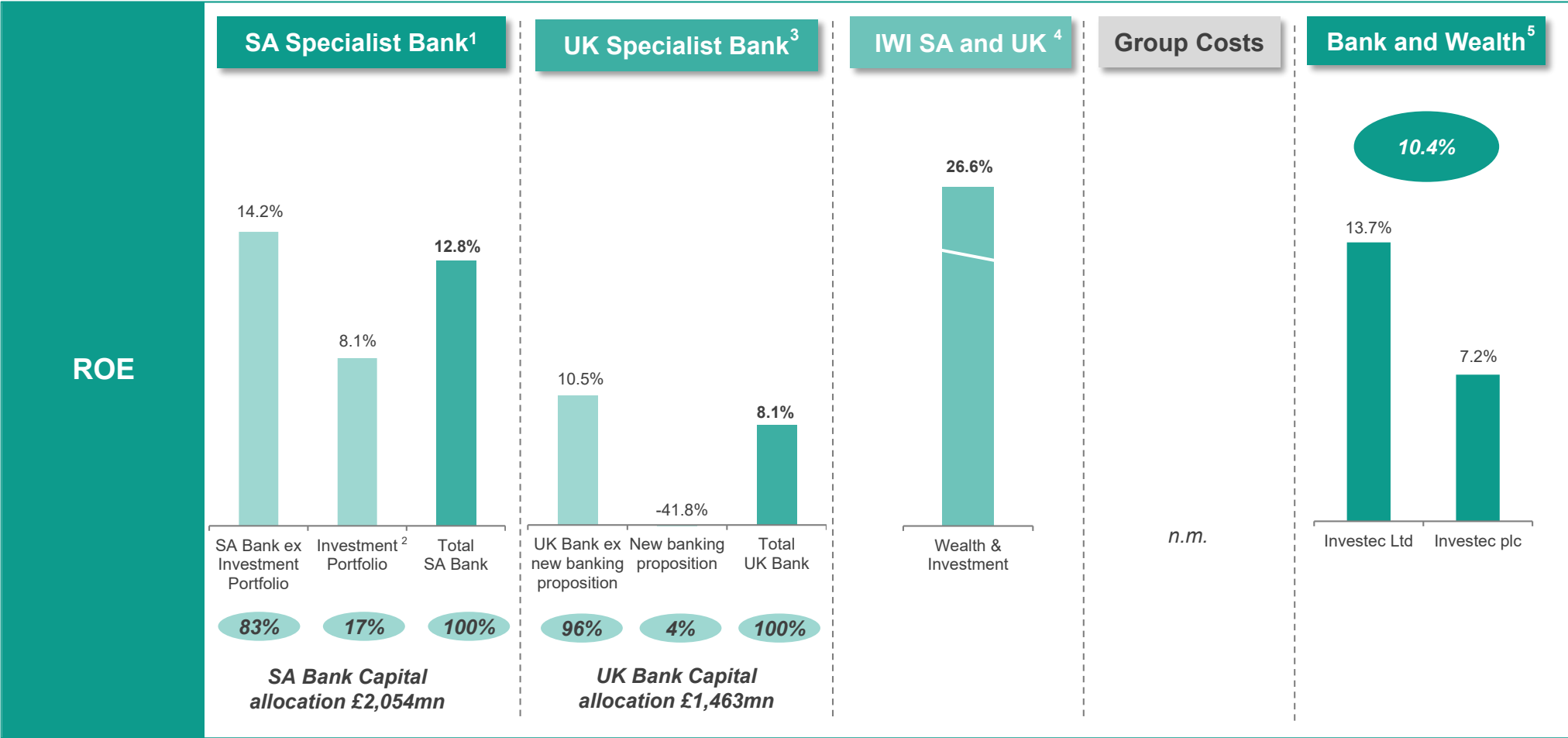
#### Going forward improvement through:

- Leveraging the investment in the business
- Reduction in Group Costs
- Greater shared use of technology, optimising operational platforms
- Further utilisation of lower cost operations, including SA

\*Which we aim to deliver on over the next three years. ^The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. As such, the cost to income ratio is calculated as: operating costs divided by operating income (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests).



# Bank and Wealth return on equity



1. Shown on Rand currency basis using SA effective tax rate of 10.0%; 2. Does not include equity investments residing in our franchise client businesses and utilises effective portfolio tax rate; 3. Using UK effective tax rate of 14.8%; 4. Excludes goodwill associated with Rensburg Sheppards acquisition. Including goodwill on Rensburg Sheppards acquisition, Wealth & Investment generated an ROE of 15.9%. Using the Wealth & Investment effective tax rate of 20.0%. 5. Using effective Bank and Wealth tax rate; Investec Limited shown on a Rand basis.

# Bank and Wealth - outlook

## Positioning



### UK and Other

Brand well recognised

One of UK's leading private client investment managers

Sustainable banking business with strong domestic franchises

### Southern Africa

Strong brand and positioning

A leading Wealth & Investment player in the South African market

Leading corporate, institutional and private client banking activities

## Outlook

- Market leading client franchises positioned for long term value creation despite challenging environment
- Continue to focus on our clients and our people
- Committed to achieving our performance targets in the short to medium term

# Bank and Wealth - strategic priorities

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## Strategic priorities

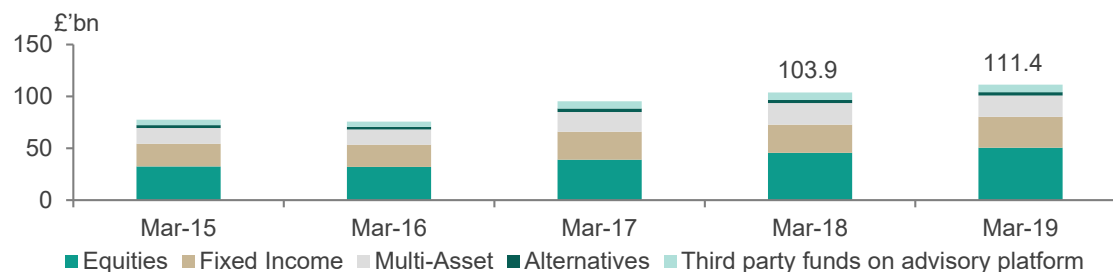
- Capital discipline, including reshaping the equity investment portfolio
- Build momentum in selected growth initiatives
- Cost management
- Deliver a shared value proposition to clients across Bank and Wealth as well as across geographies
- Continue to invest in digital capabilities

**Simplify, focus and grow with discipline**

# Asset Management - overview

## Momentum remains positive

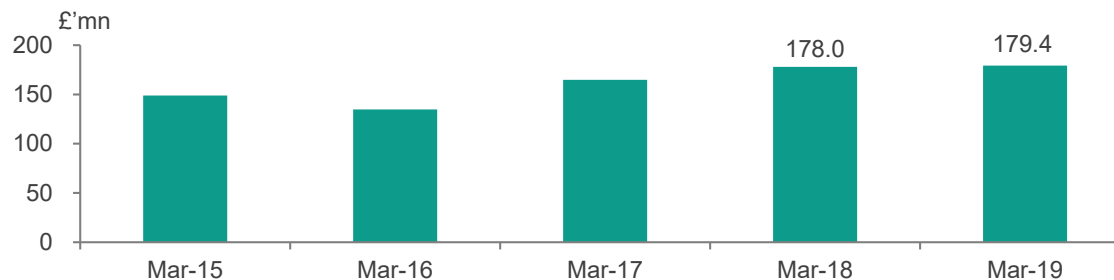
### Assets under management



**AUM increased by 7.3% to £111.4bn**

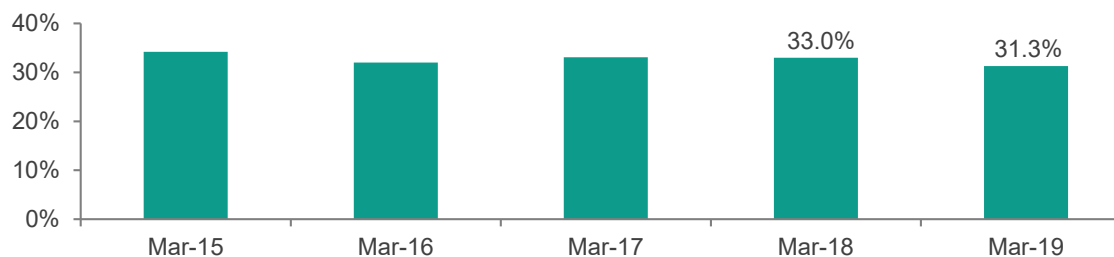
- Substantial net inflows of £6.1bn
- AUM supported by market recovery in last quarter

### Operating profit\*



**Growth of 0.7% in operating profit to £179.4mn**

### Operating margin



**Operating margin at 31.3%**  
(Mar-18: 33.0%)

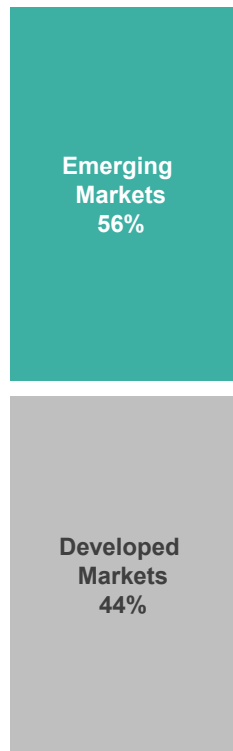
- Margin compression driven by investment in key strategic growth areas and lower performance fees
- Some additional costs due to MIFID II and new London building

\*Operating profit before goodwill, acquired intangibles, non-operating items, taxation and before non-controlling interests.

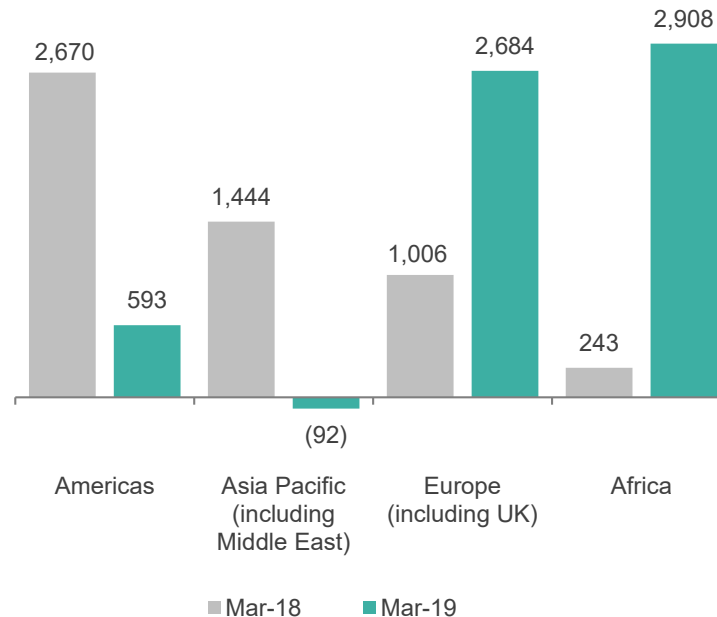
# Asset Management - outlook

## Positioning

AUM by strategy type\*



Net flows by geography (£'mn)



## Outlook

- The long-term growth fundamentals in the asset management industry remain attractive in spite of challenges
- Positive business momentum
- Motivated and stable staff, supported by well established culture

\*AUM by strategy type as at 31 March 2019; South Africa included within Emerging Markets

# Asset Management - strategic priorities

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## Strategic priorities

- Grow Advisor business
- Grow North America Institutional business
- Continue to invest across investment platforms, especially Multi-Asset and China
- Embrace the Sustainability trend
- Achieve a successful demerger and listing

**Everything we do is for the long term and for our clients**

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## 4. Closing and Q&A

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4

CLOSING AND Q&A

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 **Investec**



**Two independent businesses poised  
for long term growth and value creation**