

Investec Limited

Incorporated in the Republic of South Africa
Registration number 1925/002833/06
JSE share code: INL
NSX share code: IVD
BSE share code: INVESTEC
ISIN: ZAE000081949

Investec plc

Incorporated in England and Wales
Registration number 3633621
LSE share code: INVP
JSE share code: INP
ISIN: GB00B17BBQ50

Investec (comprising Investec plc and Investec Limited) – pre-close briefing statement**14 March 2017**

Investec is today hosting an investor pre-close briefing at 10:00 (BST time) (12:00 South African time) which will focus on developments within the group's core business areas in the second half of the financial year ending 31 March 2017.

Financial overview of the year ending 31 March 2017

Significant macro events over the financial year have impacted the group's operating environment. The UK economy has been performing better than initially expected, however the possibility of a hard Brexit continues to create uncertainty and could impact overall levels of economic growth. The South African economy has been weak as politics continue to dominate developments. The commodity price recovery, improved weather conditions and growth in tourism is expected to have a positive impact on South Africa's gross domestic product going forward.

Against this backdrop, the Asset Management division's results are expected to increase considerably and Wealth & Investment is expected to report results ahead of the prior year. Both divisions have benefitted from higher levels of average funds under management supported by a recovery in equity markets.

The Specialist Banking businesses are expected to report results ahead of the prior year. The UK Specialist Banking business is expected to report results significantly higher than the prior year; whilst the South African Specialist Banking business is expected to report results marginally behind the prior year in Rands (well ahead in Sterling) as a result of the change in accounting treatment from fair value to equity accounting for the assets transferred to Investec Equity Partners.

Taking into account the above mentioned factors, operating profit (refer to definition in the notes) is expected to be comfortably ahead of the prior year.

Salient financial features include:

- Revenue is expected to be well ahead of the prior year
- Recurring income as a percentage of total operating income is expected to be in line with the prior year at approximately 72%
- Impairments are expected to be in line with the prior year
- Expenses are expected to grow marginally faster than revenue as a consequence of planned investment in growing the client franchise businesses and related infrastructure, as well as costs relating to the London office's future premises move
- The appreciation of the average Rand: Pounds Sterling exchange rate is expected to add approximately 3.5% to financial year end 2017 adjusted EPS (refer to definition in the notes)
- For the period 31 March 2016 to 28 February 2017:
 - Third party assets under management increased 24.3% to GBP151.2 billion – an increase of 13.9% on a currency neutral basis
 - Customer accounts (deposits) increased 23.1% to GBP29.6 billion – an increase of 5.5% on a currency neutral basis
 - Core loans and advances increased 27.1% to GBP23.0 billion – an increase of 7.2% on a currency neutral basis.

Operational and strategic overview

The geopolitical environment has seen unanticipated events which have had both positive and negative effects on the group's operating environment.

Focus continues to be placed on growing the group's core earnings drivers and its client franchise businesses. Good progress has been made across the board as the group invests in its future ensuring it remains competitive and relevant in the markets in which it operates.

On behalf of the board

Fani Titi (Chairman), Stephen Koseff (Chief Executive Officer) and Bernard Kantor (Managing Director)

Liquidity and capital management

- The group defensively increased cash balances in anticipation of the EU referendum in the UK. This has been successfully managed down to more appropriate levels and the group will continue to optimise its overall liquidity and funding profile
- Cash balances remain strong. Currently the group holds GBP12.2 billion in cash and near cash balances (GBP7.0 billion (R113.4 billion) in Investec Limited and GBP5.2 billion in Investec plc) which amounts to 41.2% of customer deposits
- Advances as a percentage of customer deposits at 28 February 2017 was 76% (31 March 2014: 74%)
- For the year to 31 March 2017 for both Investec plc and Investec Limited:
 - Capital ratios are expected to be within the group's target total capital adequacy range
 - The common equity tier 1 ratio is expected to remain slightly below the group's target of 10% for Investec Limited; Investec plc is expected to remain ahead of target
 - Leverage ratios are sound and remain comfortably ahead of the group's target of 6% on an estimated Basel 3 fully loaded basis.

Additional capital information with respect to Investec Bank plc

On 2 December 2016 the Bank of England (BoE), as the UK resolution authority, set their preferred resolution strategy for Investec Bank plc. Under the EU Bank Recovery and Resolution Directive (BRRD) and the Banking Act 2009, the BoE must conduct resolution planning for all financial institutions within scope of the resolution regime, in preparation for potential failure.

The preferred strategy that has been set for Investec Bank plc is the bank insolvency (special administration) procedure under the Investment Bank Special Administration Regulations 2011 – otherwise known as “Modified insolvency”. As the resolution strategy is “Modified insolvency”, the BoE has set Investec Bank plc's Minimum Requirement for Own Funds and Eligible Liabilities (MREL) requirement as equal to its regulatory capital requirements (Pillar 1 + Pillar 2A).

As noted in the statement of policy on the BoE's approach to setting MREL, the actual approach taken to resolve an institution will depend on the circumstances at the time of its failure. The preferred resolution strategy may not necessarily be followed if a different approach would better meet the resolution objectives at the time.

Asset quality, impairment trends and loan book growth

- The total income statement impairment charge is expected to be in line with the prior year
- Impairments on the UK legacy portfolio continue to decline
- Impairments in South Africa are expected to be ahead of the prior year although the credit loss ratio remains at the lower end of the target range for the region
- The group expects the credit loss ratio on average core loans and advances to be approximately 0.52% to 0.55% (March 2016: 0.62%).

Business commentary

Salient features of the operating performance of the group's core business areas are listed below and further details will be provided in the briefing presentation which can be viewed on the group's website.

Asset Management

- The Asset Management division's results are expected to increase considerably
- Since 31 March 2016 assets under management have increased by 26.2% to GBP95.5 billion (an increase of 15.7% on a currency neutral basis) largely driven by currency and market movements
- The second half of the financial year has been more challenging for flows, but net inflows for the year are expected to be marginally positive
- In spite of some short-term challenges, long-term performance remains competitive.

Wealth & Investment

- Overall performance of the global business is expected to be ahead of the prior year:
 - Higher average funds under management
 - Solid net inflows of GBP1.1 billion to the end of February 2017
- Investment expenditure on digital offering continues with Click & Invest expected to launch mid-year
- Good performance from the South African business in Rand, supported by net inflows
- Since 31 March 2016 assets under management have increased by 21.2% to GBP55.1 billion (an increase of 11.0% on a currency neutral basis).

Specialist Banking

- The Ongoing Specialist Banking business is expected to post results ahead of the prior year
- In summary key aspects include:
 - *Net interest income*
 - Net interest increase supported by book growth of 7.2% on a currency neutral basis
 - *Net fees and commissions*
 - Increase in the scale of the property fund business in South Africa
 - Good performance from corporate and advisory businesses
 - Private client transactional and lending activities benefitting from growth in client base
 - *Investment, associate, trading and other operating income*
 - Investment income is expected to be behind the prior year as a result of the change in accounting treatment from fair value to equity accounting for the assets transferred to Investec Equity Partners in South Africa
 - Customer flow trading income has increased substantially supported by client acquisition and market volatility
 - *Costs*
 - Costs have increased as the group continued to deliberately invest in IT infrastructure and headcount to grow the franchise, notably the build out of the UK private client banking offering
 - Costs are also impacted by additional premises expenses relating to the London office move scheduled for the end of the 2018 calendar year
 - *Information on the UK Specialist Banking legacy business:*
 - The Legacy business is expected to report a smaller loss than the prior year as a result of an overall reduction in both impairments and costs
 - Total legacy portfolio assets are expected to decline to GBP475 million (31 March 2016: GBP583 million).

Other information

Additional aspects

- Effective tax rate: expected to be approximately 19%

- Net non-controlling interests of approximately GBP76 million (profits attributable) relating to the Asset Management business and the consolidation of the Investec Property Fund
- Weighted number of shares in issue for the year ending 31 March 2017 is expected to be approximately 903 million.

Additional information – Competition Commission allegations

Eighteen banks, including Investec Limited, have been cited on allegations of collusion in relation to foreign exchange. Despite seeking further details of what the precise allegations are against Investec Limited, the relevant information has not yet been received.

The Competition Commission's case against Investec Limited is confined to the alleged conduct of a single trader. This particular trader dealt with interbank clients. Revenue from foreign exchange trading activities has averaged below 1% of the South African bank's total revenues over the past 10 years.

At Investec, sound corporate governance is embedded in the group's values, culture, processes, functions and organisational structure. The group's values require, inter alia, that employees behave with integrity and treat customers fairly. Investec does not tolerate any behaviour in contravention of its value system, the law or regulatory requirements including the Competition Act, the FX Market Code of Conduct or the applicable internal Investec policies.

Investec actively monitors compliance with these requirements including compliance with the relevant South African Reserve Bank Code of Conduct with respect to, inter alia, conducting over-the-counter and foreign exchange transactions.

• **Notes:**

1. Key trends set out above, unless stated otherwise, relate to the eleven months ended 28 February 2017, and compare the second half of the 2017 financial year (2H2017) to the first half of the 2017 financial year (1H2017).
 2. The financial information on which this statement is based has not been reviewed and reported on by the group's auditors.
 3. References to operating profit relate to adjusted operating profit, where adjusted operating profit refers to net profit before tax, goodwill, acquired intangibles and non-operating items but after adjusting for earnings attributable to other non-controlling interests and before non-controlling interests relating to Asset Management. Trends within the divisional sections relate to adjusted operating profit before group costs.
 4. References to adjusted EPS relate to adjusted earnings per share, where adjusted earnings per share refers to net profit before goodwill, acquired intangibles and non-operating items but after adjusting for tax, preference dividends and earnings attributable to non-controlling interests; divided by the weighted average number of ordinary shares in issue during the year.
 5. Amounts represented on a currency neutral basis for income statement items assume that the relevant average exchange rates, as reflected below, remain the same for the year to 31 March 2017 when compared to the prior year. Amounts represented on a currency neutral basis for balance sheet items assume that the relevant closing exchange rates, as reflected below, remain the same at 28 February 2017 when compared to 31 March 2016.
 6. Please note that matters discussed in the briefing and highlighted above may contain forward looking statements which are subject to various risks and uncertainties and other factors, including, but not limited to:
 - the further development of standards and interpretations under International Financial Reporting Standards (IFRS) applicable to past, current and future periods, evolving practices with regard to the interpretation and application of standards under IFRS
 - domestic and global economic and business conditions
 - market related risks.
- A number of these factors are beyond the group's control.

- These factors may cause the group's actual future results, performance or achievements in the markets in which it operates to differ from those expressed or implied.
 - Any forward looking statements made are based on the knowledge of the group at 14 March 2017.
7. The group's reporting currency is Pounds Sterling. Certain of the group's operations are conducted by entities outside the UK. The results of operations and the financial condition of these individual companies are reported in the local currencies in which they are domiciled, including Rands, Australian Dollars, Euros and US Dollars. These results are then translated into Pounds Sterling at the applicable foreign currency exchange rates for inclusion in the group's combined consolidated financial statements. In the case of the income statement, the weighted average rate for the relevant period is applied and, in the case of the balance sheet, the relevant closing rate is used. The following table sets out the movements in certain relevant exchange rates against Pounds Sterling over the period:

Currency per GBP1.00	Eleven months to 28-Feb-2017		Six months to 30-Sep-16		Year to 31-Mar-16	
	Period end	Average	Period end	Average	Period end	Average
South African Rand	16.23	18.64	17.88	19.99	21.13	20.72
Australian Dollar	1.62	1.76	1.70	1.83	1.87	2.04
Euro	1.17	1.20	1.16	1.23	1.26	1.37
US Dollar	1.24	1.32	1.30	1.38	1.44	1.50

Presentation details

The briefing starts at 10:00 (BST time) (12:00 South African time) and will be broadcast live via video conference from the group's offices in London to Johannesburg. The briefing will also be available via a live and recorded telephone conference call, a live and delayed video webcast, a delayed podcast and a delayed Mp3. Further details in this regard can be found on the website at: www.investec.com

Timetable:

Year end: 31 March 2017
Release of year end results: 18 May 2017

For further information please contact:

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About Investec

Investec is an international specialist bank and asset manager that provides a diverse range of financial products and services to a select client base in three principal markets, the UK and Europe, South Africa and Asia/Australia as well as certain other countries. The group was established in 1974 and has approximately 9 300 employees.

Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

In July 2002 the Investec group implemented a dual listed company structure with listings on the London and Johannesburg Stock Exchanges. The combined group's current market capitalisation is approximately GBP5.7 billion.