

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: INVPL
JSE share code: INP
ISIN: GB00B17BBQ50

Investec (comprising Investec plc and Investec Limited) – pre-close briefing statement**15 March 2019**

Investec is today hosting an investor pre-close briefing at 09:00 BST time/11:00 South African time, which will focus on developments within the group's core business areas for the financial year ending 31 March 2019.

Strategic, operational, and financial overview of the year ending 31 March 2019

Approximately six months ago, the group announced its intention to simplify and focus its business in pursuit of disciplined growth over the long term. This process started with the announcement of the intention to demerge and separately list Investec Asset Management. Subsequently, the group has articulated a clear set of strategic priorities for both the Asset Management and Bank and Wealth businesses.

The Bank and Wealth business is focused on a plan to enhance the effectiveness of its operating platform to better serve clients and deliver long-term shareholder returns. There are five key priorities: increasing discipline in capital allocation; managing the cost base for greater efficiencies; accelerating revenue growth; expanding connectivity across the organisation to more fully serve client needs; and bolstering digital capabilities.

The Asset Management business is concentrating efforts on its existing offering: deepening and strengthening investment and client capabilities for the long term; scaling the offering through its global distribution model; and positioning for growth.

The operating environment has remained challenging over the period. Global equity markets experienced a sharp decline at the end of the 2018 calendar year before showing some recovery. Economic growth has been weak in both South Africa and the UK, the group's two core banking markets.

Against this backdrop, the group's operating profit (refer to the definition in the notes) is expected to be ahead of the prior year. The Bank and Wealth business is expected to report results ahead of the prior year, while the Asset Management business is expected to report results marginally behind the prior year. Additional information is provided under the business review section of this announcement.

Salient financial features of the group for the period under review include:

- Revenue is expected to be in line with the prior year
- Annuity income as a percentage of total operating income is expected to be approximately 77% (2018: 76%)
- The expected credit loss (ECL) charge is anticipated to be significantly less than the prior year. The credit loss ratio is expected to be between 0.30% to 0.35% (September 2018: 0.34%; March 2018: 0.61%)
- Modest cost growth is expected
- Overall group results have been negatively impacted by the depreciation of the average Rand against Pound Sterling exchange rate of approximately 4% over the period
- For the period 31 March 2018 to 28 February 2019:
 - Third party assets under management increased 1.9% to GBP163.7 billion - an increase of 5.8% on a currency neutral basis
 - Net inflows of GBP6.9 billion were generated

- Core loans and advances decreased 0.9% to GBP24.9 billion - an increase of 6.0% on a currency neutral basis
- Customer accounts (deposits) increased 1.1% to GBP31.3 billion - an increase of 8.1% on a currency neutral basis
- The proposed demerger and separate listing of Investec Asset Management is on track, subject to regulatory and shareholder approvals.

Conclusion

The group's performance has been supported by growth in assets under management and substantial net inflows, good loan book growth, and significantly improved performance from the UK Specialist Banking business. The group is committed to a strategy of simplification, focus, and growth with discipline. The Bank and Wealth business and the Asset Management business are dedicated to pursuing the objectives outlined at their capital markets day presentations.

On behalf of the board

Perry Crosthwaite (Chairman), Fani Titi (Joint Chief Executive Officer) and Hendrik du Toit (Joint Chief Executive Officer)

Liquidity and capital management

- The group has maintained a healthy liquidity position
- The loans to customer deposits ratio at 28 February 2019 was 78.2% (31 March 2018: 79.6%)
- Cash balances remain strong at GBP13.2 billion at 28 February 2019 (31 March 2018: GBP12.8 billion), equating to 42.0% of customer deposits. This comprises cash and near cash of GBP6.3 billion (R117.1 billion) in Investec Limited and GBP6.9 billion in Investec plc as at 28 February 2019
- For the year to 31 March 2019 for both Investec plc and Investec Limited:
 - Common equity tier 1 ratios are expected to remain in line with the group's target of 10%
 - Leverage ratios are robust and remain comfortably ahead of the group's target of 6%
- The group expects to implement the Foundation Internal Ratings-Based (FIRB) approach in South Africa in the first quarter of the 2020 financial year, subject to regulatory approval.

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.

Bank and Wealth

Specialist Banking

- The Specialist Banking business is expected to post results well ahead of the prior year. The UK Specialist Bank is expected to report results significantly ahead of the prior year, while the South African Specialist Bank is expected to report results behind the prior year
- In summary, key aspects include:
 - *Net interest and net fee income*
 - An increase in net interest income driven by book growth in both the UK and South Africa
 - Net fees and commissions in line with the prior year; supported by strong advisory and structuring fees earned in the UK Investment Banking business, and offset by lower investment banking and corporate client activity levels in South Africa

- *Other income (refer to the definition in the notes)*
 - Other income is expected to be behind the prior year largely due to a weaker performance across the investment portfolio
- *Impairments*
 - Impairments are expected to decrease significantly due to no further occurrence of substantial losses on the legacy portfolio
- *Costs*
 - Costs in the UK are expected to increase in line with revenue
 - Costs in South Africa are expected to grow ahead of revenue, primarily as a result of the prior-year rental provision release.

Wealth & Investment

- The Wealth & Investment business is expected to report results behind the prior year
- Net inflows of GBP0.5 billion were generated to the end of February 2019 (sound discretionary inflows were partially offset by outflows relating to discontinued non-core non-managed UK services)
- Since 31 March 2018, assets under management have decreased by 4.0% to GBP53.8 billion (a decrease of 0.6% on a currency neutral basis)
- Earnings have been impacted primarily by lower transaction-based commissions and a non-recurring investment gain realised in the prior year.

Asset Management

- The Asset Management business is expected to report results marginally behind the prior year
- Substantial net inflows of GBP6.4 billion were generated to the end of February 2019
- Since 31 March 2018, assets under management have increased by 5.2% to GBP109.2 billion (an increase of 9.2% on a currency neutral basis)
- Revenue growth was dampened by considerable market volatility during the second half of the year
- Earnings have been impacted by lower performance fees in South Africa and higher costs in the UK, including Markets in Financial Instruments Directive II (MiFID II) and new premises costs.

Other information

- The effective tax rate is expected to be approximately 13% compared with 9.6% in the prior year
- Net non-controlling interests are expected to amount to approximately GBP91 million (profits attributable) relating to the Asset Management business and the consolidation of the Investec Property Fund
- The weighted number of shares in issue for the year ending 31 March 2019 is expected to be approximately 942 million.

Notes

1. Profit forecasts for the group, Bank and Wealth and Asset Management

- The following matters as discussed in the briefing and highlighted above contain forward-looking statements:
 - the group's operating profit (refer to the definition in the notes) is expected to be ahead of the prior year;
 - the Bank and Wealth business is expected to report results ahead of the prior year; and
 - the Asset Management business is expected to report results marginally behind the prior year
 (collectively the ***Profit Forecasts***).

- The basis of preparation of each of these statements and the assumptions upon which they are based are set out below. These statements are subject to various risks and uncertainties and other factors - these factors may cause the group's, Bank and Wealth's and/or Asset Management's actual future results, performance or achievements in the markets in which they operate to differ from those expressed in the Profit Forecasts
- Any forward looking statements made are based on the knowledge of the group, Bank and Wealth and Asset Management at 14 March 2019
- These forward looking statements represent a profit forecast under the Listing Rules. The Profit Forecasts relate to the period ending 31 March 2019
- The financial information on which the Profit Forecasts are based, is the responsibility of the Directors of the group and have not been reviewed and reported on by the group's auditors.

Basis of preparation

- The Profit Forecasts have been properly compiled using the assumptions stated below, and on a basis consistent with the accounting policies adopted in the group's September 2018 unaudited interim financial statements, which are in accordance with IFRS and are those which the group anticipates will be applicable for the year ending 31 March 2019
- The Profit Forecasts have been prepared based on (a) the unaudited interim financial statements of the group for the six months to 30 September 2018, and the results of Bank and Wealth and Asset Management underlying those interim financial statements; (b) the unaudited management accounts of the Investec group for the eleven months to 28 February 2019; and (c) the projected financial performance of the Investec group for the remaining one month of the year ending 31 March 2019.

Assumptions

The Profit Forecast has been prepared on the basis of the following assumptions during the forecast period:

Factors outside the influence or control of the Investec Board:

- There will be no material change in the political and/or economic environment that would materially affect the Investec group
- There will be no material change in legislation or regulation impacting on the Investec group's operations or its accounting policies
- There will be no business disruption that will have a significant impact on the Investec group's operations
- The Rand/Pound Sterling and US Dollar/Pound Sterling exchange rates and the tax rates remain materially unchanged from the prevailing rates detailed below
- There will be no material changes in the structure of the markets, client demand or the competitive environment.

Estimates and judgements

In preparation of the Profit Forecasts, the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments primarily in the private equity, direct investments portfolios and embedded derivatives. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility
- The determination of ECL against assets that are carried at amortised cost and ECL relating to debt instruments at fair value through other comprehensive income (FVOCI) involves the assessment of future cash flows which is judgemental in nature

- Valuation of investment properties is performed twice annually by directors of subsidiary companies who are qualified valuers. The valuation is performed by capitalising the budget net income of the property at the market related yield applicable at the time. Properties in Investec Property Fund are valued according to the JSE Listings Requirements
- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group recognises in its tax provision certain amounts in respect of taxation that involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. The carrying amount of this provision is often dependent on the timetable and progress of discussions and negotiations with the relevant tax authorities, arbitration processes and legal proceedings in the relevant tax jurisdictions in which the group operates. Issues can take many years to resolve and assumptions on the likely outcome would therefore have to be made by the group
- Where appropriate, the group has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions. Determination of interest income and interest expense using the effective interest rate method involves judgement in determining the timing and extent of future cash flows.

2. Definitions

- 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. Adjusted operating profit is considered an important measure by Investec of the profit realised by the group in the ordinary course of operations. In addition, it forms the basis of the dividend pay-out policy. Non-IFRS measures such as adjusted operating profit are considered as pro forma financial information as per the JSE Listing Requirements. The pro forma financial information is the responsibility of the group's Board of Directors. This pro forma financial information has not been reported on by the group's auditors
- Amounts represented on a currency neutral basis for balance sheet items assume that the relevant closing exchange rates, as reflected below, at 28 February 2019 remain the same as those at 31 March 2018
- The credit loss ratio is calculated as expected credit loss (ECL) impairment charges on gross core loans and advances as a percentage of average gross core loans and advances subject to ECL
- References to other income relate to investment income, share of post taxation profit of associates, trading income and other operating income.

3. Exchange rates

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 the Pound Sterling over the period:

	Eleven months to 28-Feb-2019		Six months to 30-Sep-18		Year to 31-Mar-18	
Currency per GBP1.00	Period end	Average	Period end	Average	Period end	Average
South African Rand	18.62	17.96	18.44	17.76	16.62	17.21
Australian Dollar	1.87	1.80	1.80	1.79	1.83	1.72
Euro	1.17	1.13	1.12	1.13	1.14	1.14
US Dollar	1.33	1.31	1.30	1.33	1.40	1.33

Presentation details

The briefing starts at 09:00 (BST time) (11:00 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 2019

Release of year end results: 16 May 2019

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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 10 300 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 GBP4.7 billion.

Johannesburg and London

Sponsor: Investec Bank Limited