

2019

**INVESTOR PRE-CLOSE BRIEFING**

15 March



*Out of the Ordinary*



Specialist Banking | Asset Management | Wealth & Investment



# 1

OPERATIONAL REVIEW

*Out of the Ordinary*



# Recap of strategic priorities

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## **Bank and Wealth**

*Focused on enhancing effectiveness of operating platform to better serve clients and deliver long-term shareholder returns*

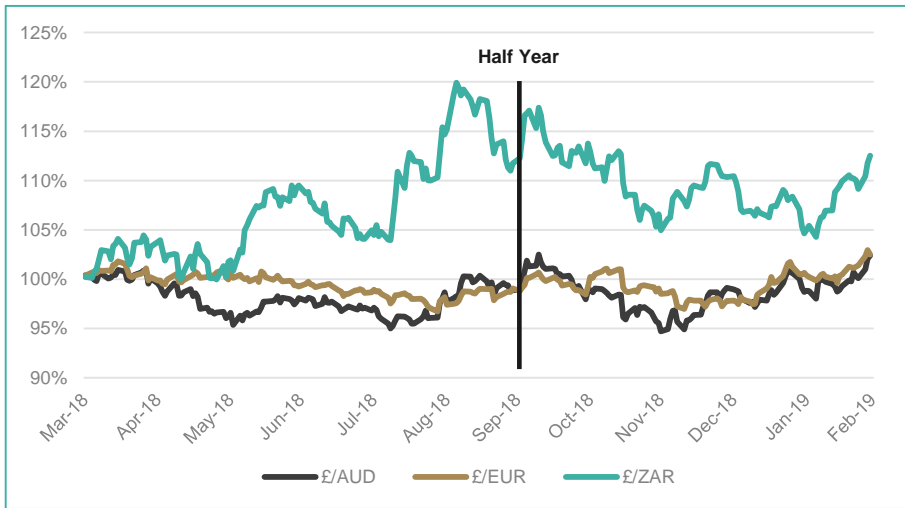
- Increase discipline in capital allocation
- Manage the cost base for greater efficiencies
- Accelerate revenue growth
- Expanding connectivity across the organisation to more fully serve client needs
- Bolster digital capabilities

## **Asset Management**

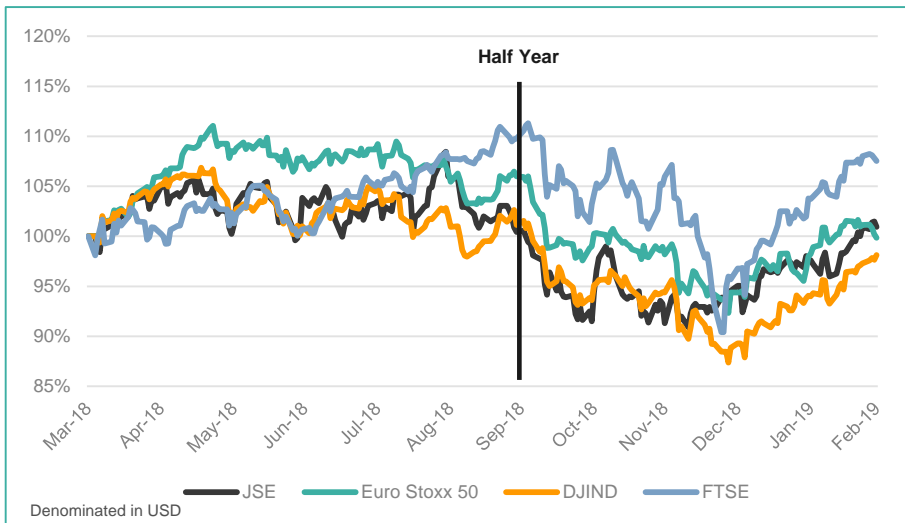
- Concentrate efforts on existing offering
  - Deepen and strengthen investment and client capabilities for the long-term
  - Scale the offering through our global distribution model
  - Position for growth
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# Overview of operating environment

## Exchange rates



## Equity markets



- 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

## Overall group performance for the year ending 31 March 2019

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- Revenue is expected to be in line with the prior year
- Substantial net inflows and sound loan book growth over the year
- Annuity income as a percentage of total operating income is expected to be approximately 77% (2018: 76%)
- The ECL charge is anticipated to be significantly less than the prior year. The credit loss ratio<sup>^</sup> is expected to be between 0.30% to 0.35% (Sep 2018: 0.34%, Mar 2018: 0.61%)
- Modest cost growth is expected
- Taken together, adjusted operating profit\* is expected to be ahead of the prior year
- 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
- The proposed demerger and separate listing of Investec Asset Management is on track, subject to regulatory and shareholder approvals

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\*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

<sup>^</sup>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.

# Snapshot of divisional results for the year ending 31 March 2019

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## **Bank and Wealth**

- The Bank and Wealth business is expected to report results ahead of the prior year

## **Asset Management**

- The Asset Management business is expected to report results marginally behind the prior year

## Key earnings drivers

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### For the period 31 Mar 2018 to 28 Feb 2019:

- Third party assets under management increased 1.9% to £163.7bn
  - An increase of 5.8% on a currency neutral\* basis
- Core loans and advances decreased 0.9% to £24.9bn
  - An increase of 6.0% on a currency neutral\* basis
- Customer accounts (deposits) increased 1.1% to £31.3bn
  - An increase of 8.1% on a currency neutral\* basis

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\* Calculation assumes that the group's relevant closing exchange rates as at 28 Feb 2019 are the same as at 31 Mar 2018

# Balance sheet overview

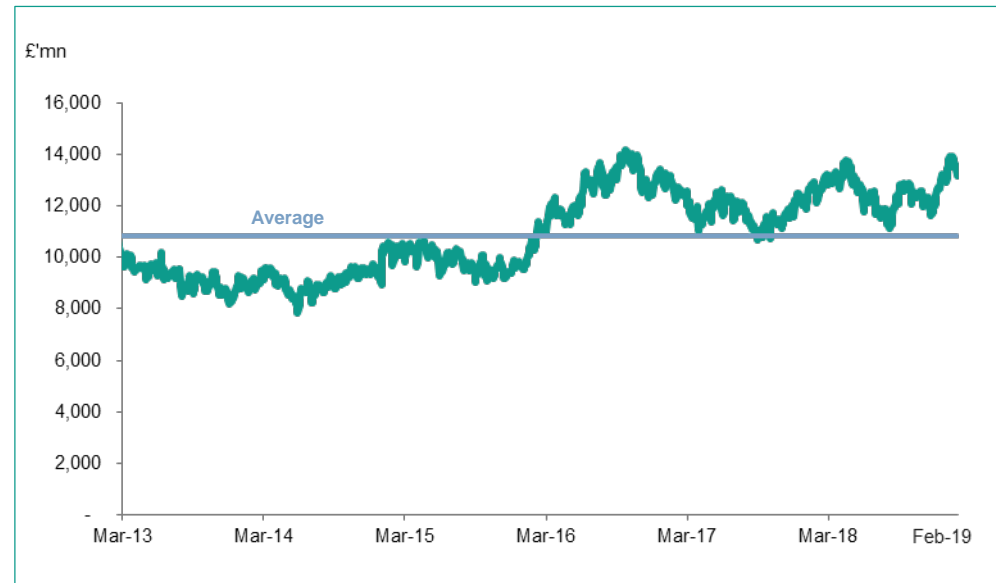
## Liquidity

- The group has maintained solid liquidity levels
- The loans to customer deposits ratio at 28 Feb 2019 was 78.2% (31 Mar 2018: 79.6%)

## Capital

- Investec Limited and Investec plc CET1 ratios are expected to remain in line with the group's target of 10%
- We expect to implement FIRB<sup>^</sup> in South Africa in the first quarter of 2020 financial year subject to regulatory approval
- Our leverage ratios are robust and remain comfortably ahead of our target of 6%

## Cash and near cash



Min* £bn	Max* £'bn	Ave* £'bn
£11.1bn	£13.9bn	£12.6bn

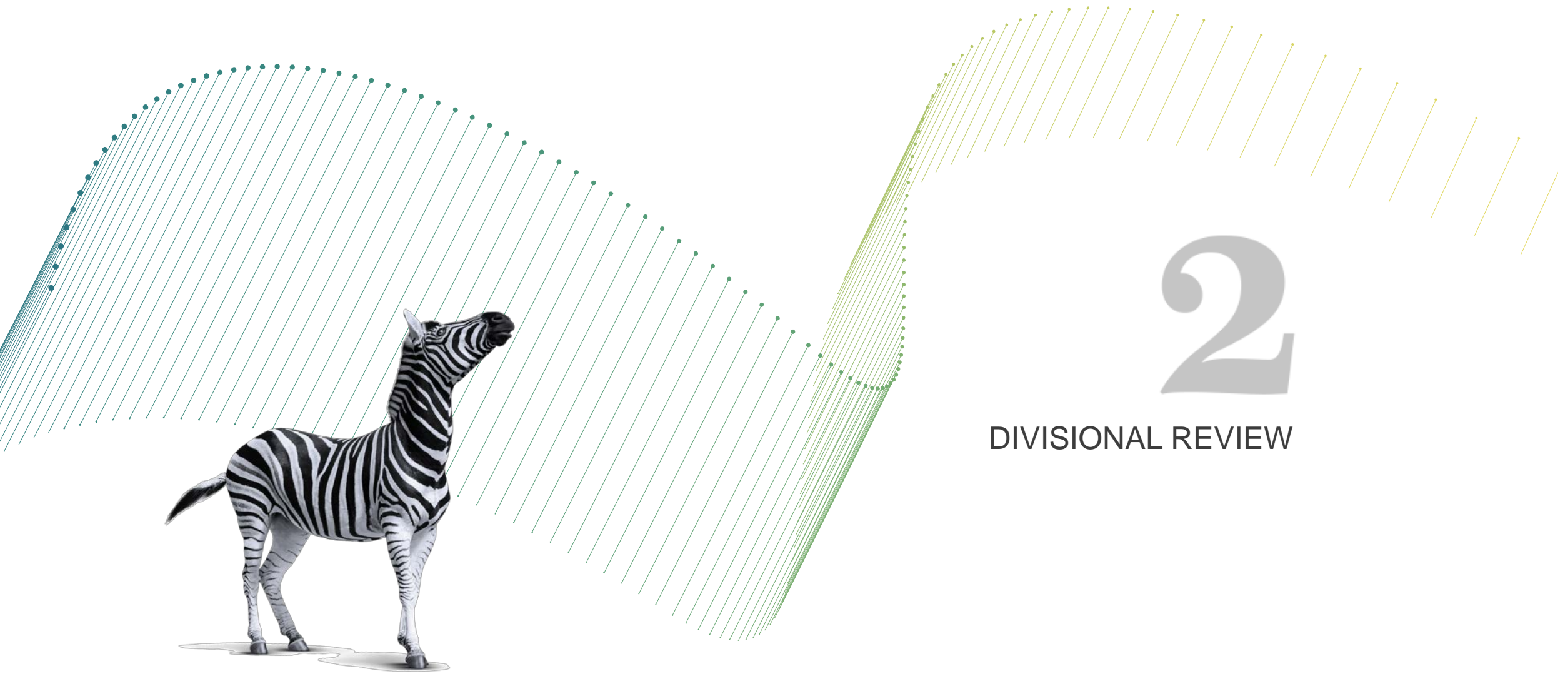
\* Since 1 Apr 2018

**28 Feb 2019: £13.2bn**

Ltd 6.3bn (R117.1bn); plc £6.9bn

<sup>^</sup> Where FIRB is Foundation Internal Ratings-Based approach





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DIVISIONAL REVIEW

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# Bank and Wealth: Specialist Banking

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**The Specialist Bank results are expected to be well ahead of the prior year:**

- The UK Specialist Bank is expected to report results significantly ahead the prior year
- The South African Specialist Bank is expected to report results behind the prior year

## **Net interest income ↑**

- Driven by book growth in both the UK and South Africa

## **Net fee income – flat**

- Strong advisory and structuring fees in the UK Investment Banking business offset by lower investment banking and corporate client activity levels in South Africa

## **Other income\* ↓**

- Other income expected to be behind the prior year largely due to a weaker performance across the investment portfolio

## **Impairments ↓**

- Impairments decreased 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 expected to grow ahead of revenue, primarily as a result of the prior-year rental provision release

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\* Where Other income comprises investment income, share of post taxation profit of associates, trading income and other operating income

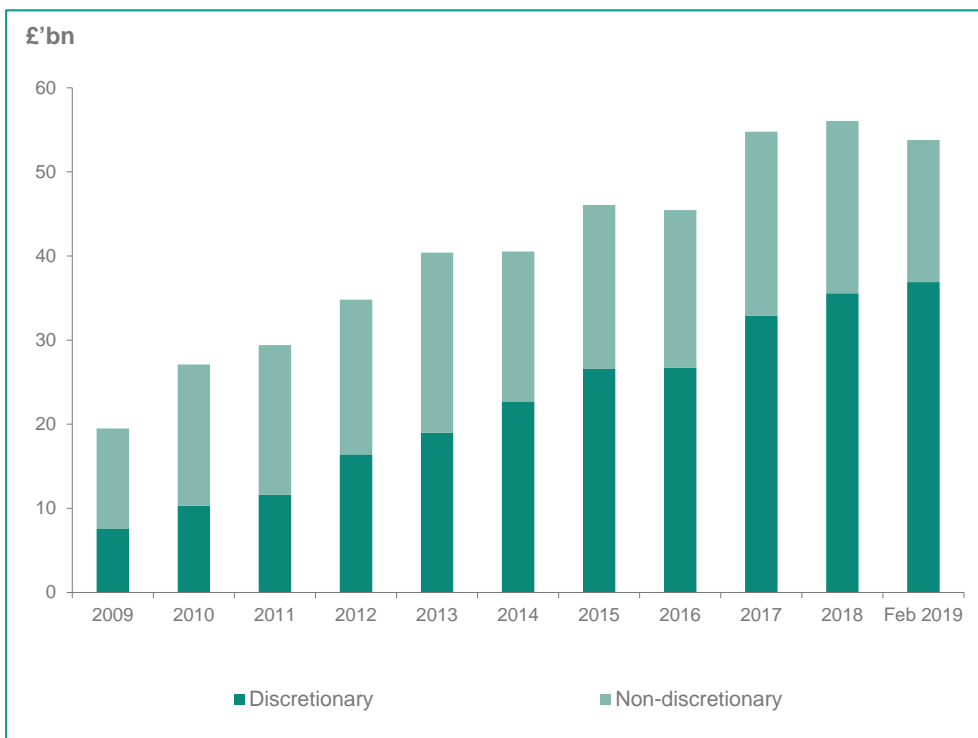
# Bank and Wealth: Wealth & Investment

## Wealth & Investment

- The Wealth & Investment business is expected to report results behind the prior year
- Net inflows of £0.5bn to end of Feb 2019
- Sound discretionary inflows partially offset by outflows relating to discontinued non-core non-managed UK services
- Earnings have been impacted primarily by lower transaction-based commissions and a non-recurring investment gain realised in the prior year

## Assets under management:

Since 31 March 2018: down 4.0% to £53.8bn  
- down 0.6% on a currency neutral<sup>^</sup> basis



Trends reflected in graph are as at 31 Mar, unless otherwise indicated

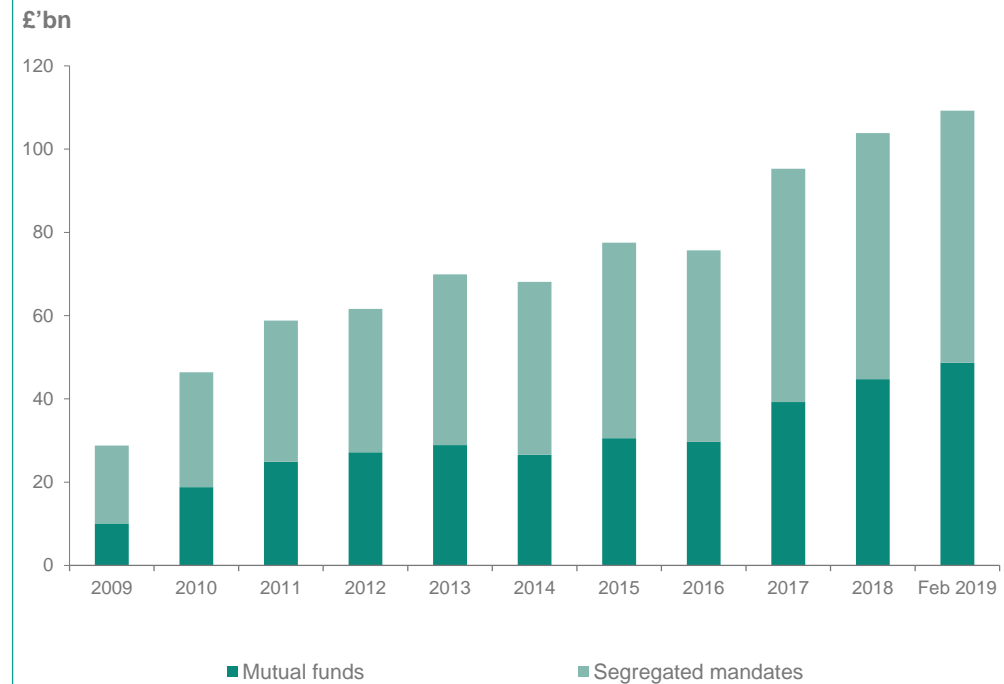
<sup>^</sup> Calculation assumes R:£ closing exchange rate remains the same as at 28 Feb 2019 when compared to 31 Mar 2018

# Asset management

- Substantial net inflows of £6.4bn to end of Feb 2019
- 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 MiFID II\* and new premises costs

## Assets under management:

Since 31 Mar 2018: up 5.2% to £109.2bn  
- up 9.2% on a currency neutral^ basis



Trends reflected in graph are as at 31 Mar, unless otherwise indicated

^ Calculation assumes R:£ closing exchange rate remains the same as at 28 Feb 2019 when compared to 31 Mar 2018

\* Where MiFID II is Markets in Financial Instruments Directive II

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ADDITIONAL ASPECTS



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## Other Information

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- Effective tax rate: expected to be approximately 13% compared to 9.6% in the prior year
- Net non-controlling interests of approximately £91mn (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 Mar 2019 expected to be approximately 942mn



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CONCLUSION

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## Conclusion

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- 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





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APPENDICES

*Out of the Ordinary*

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## Contact Details

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For further information please refer to the Investor Relations section of [www.investec.com](http://www.investec.com)

- Or contact the Investor Relations team:
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## Operating environment

	28 Feb 2019	30 Sep 2018	31 Mar 2018	% move since Mar 2018
JSE ALSI	58 325	55 709	55 475	5.1%
FTSE ALSI	3 982	4128	3 894	2.3%
SA Prime	10.25%	10.00%	10.00%	
UK Clearing Banks	0.75%	0.75%	0.50%	

Year to date	28 Feb 2019		30 Sep 2018		31 Mar 2018	
Currency per £1.00	Close	Ave	Close	Ave	Close	Ave
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

## Adjusted\* operating profit for the six months ended 30 September 2018

£'000	UK & Other	Southern Africa	Total group
Asset Management	56 840	34 686	91 526
Wealth & Investment	32 864	13 544	46 408
Specialist Banking	80 756	164 625	245 381
	<b>170 460</b>	<b>212 855</b>	<b>383 315</b>
Group costs	(17 227)	(6 821)	(24 048)
<b>Total group</b>	<b>153 233</b>	<b>206 034</b>	<b>359 267</b>
Non-controlling interest: equity			36 846
<b>Operating profit before tax</b>			<b>396 113</b>

\*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.

## Adjusted\* operating profit for the year ended 31 March 2018

£'000	UK & Other	Southern Africa	Total group
Asset Management	103 918	74 127	178 045
Wealth & Investment	69 269	29 296	98 565
Specialist Banking	59 958	320 535	380 493
	<b>233 145</b>	<b>423 958</b>	<b>657 103</b>
Group costs	(33 789)	(15 809)	(49 598)
<b>Total group</b>	<b>199 356</b>	<b>408 149</b>	<b>607 505</b>
Non-controlling interest: equity			52 288
<b>Operating profit before tax</b>			<b>659 793</b>

\*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.

## Specialist Banking: core loans

£'million	28-Feb-19	30-Sep-18	31-Mar-18	% change YTD vs Mar 2018
UK and Other	10 510	10 056	9 687	8.5%
Southern Africa	14 401	14 134	15 445	(6.8%)
<b>Total core loans</b>	<b>24 911</b>	<b>24 190</b>	<b>25 132</b>	<b>(0.9%)</b>

Home currency R'million	28-Feb-19	30-Sep-18	31-Mar-18	% change YTD vs Mar 2018
Southern Africa	268 142	260 636	256 702	4.5%
<b>Rates: R:£</b>	<b>18.62</b>	<b>18.44</b>	<b>16.62</b>	

## Specialist Banking: customer deposits

£'million	28-Feb-19	30-Sep-18	31-Mar-18	% change YTD vs Mar 2018
UK and Other	13 230	12 362	11 624	13.8%
Southern Africa	18 094	17 987	19 363	(6.6%)
<b>Total customer deposits</b>	<b>31 324</b>	<b>30 349</b>	<b>30 987</b>	<b>1.1%</b>

Home currency R'million	28-Feb-19	30-Sep-18	31-Mar-18	% change YTD vs Mar 2018
Southern Africa	336 916	331 672	321 823	4.7%
<b>Rates: R:£</b>	<b>18.62</b>	<b>18.44</b>	<b>16.62</b>	

## Wealth & Investment: assets under management

£'million	28-Feb-19	30-Sep-18	31-Mar-18	% change YTD vs Mar 2018
<b>UK and international</b>	<b>37 544</b>	<b>39 355</b>	<b>36 923</b>	<b>1.7%</b>
-Discretionary	30 078	31 108	28 638	5.0%
-Non-discretionary	7 466	8 247	8 285	(9.9%)
<b>Southern Africa</b>	<b>16 239</b>	<b>17 332</b>	<b>19 125</b>	<b>(15.1%)</b>
-Discretionary	6 813	6 989	6 936	(1.8%)
-Non-discretionary	9 426	10 343	12 189	(22.7%)
<b>Total AUM</b>	<b>53 783</b>	<b>56 687</b>	<b>56 048</b>	<b>(4.0%)</b>

Home currency R'million	28-Feb-19	30-Sep-18	31-Mar-18	% change YTD vs Mar 2018
<b>Southern Africa</b>	<b>302 290</b>	<b>319 614</b>	<b>317 876</b>	<b>(4.9%)</b>
-Discretionary	126 866	128 875	115 287	10.0%
-Non-discretionary	175 524	190 739	202 589	(13.4%)
<b>Rates: R:£</b>	<b>18.62</b>	<b>18.44</b>	<b>16.62</b>	



## Asset Management: assets under management

£'million	28-Feb-19	30-Sep-18	31-Mar-18	% change YTD vs Mar 2018
<b>UK and international</b>	<b>74 267</b>	<b>74 978</b>	<b>69 371</b>	<b>7.1%</b>
- Mutual funds	29 623	30 351	29 615	0.0%
- Segregated mandates	44 644	44 627	39 756	12.3%
<b>Southern Africa</b>	<b>34 974</b>	<b>34 226</b>	<b>34 491</b>	<b>1.4%</b>
- Mutual funds	15 899	15 648	15 126	5.1%
- Segregated mandates	19 075	18 578	19 365	(1.5%)
<b>Total AUM</b>	<b>109 241</b>	<b>109 204</b>	<b>103 862</b>	<b>5.2%</b>

Home currency R'million	28-Feb-19	30-Sep-18	31-Mar-18	% change YTD vs Mar 2018
<b>Southern Africa</b>	<b>651 209</b>	<b>631 127</b>	<b>573 257</b>	<b>13.6%</b>
- Mutual funds	296 036	288 549	251 401	17.8%
- Segregated mandates	355 173	342 578	321 856	10.4%
<b>Rates: R:£</b>	<b>18.62</b>	<b>18.44</b>	<b>16.62</b>	

# Proviso

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## **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.

## Proviso (cont'd)

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### **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 in earlier slides
- 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.
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## Proviso (cont'd)

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### 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.