

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**16 September 2016**

Investec is today hosting an investor pre-close briefing at 9:00 (BST time) (10:00 South African time) which will focus on developments within the group's core business areas in the first half of the financial year ending 31 March 2017.

Financial overview of the six months ending 30 September 2016

The first half of the group's financial year continued to see high levels of macro uncertainty in its key operating geographies.

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

The Specialist Banking businesses are expected to report results behind the prior year; albeit that both geographies continued to experience reasonable activity levels. The UK Specialist Banking business is expected to report results behind the prior year largely due to increased investment spend, whilst the South African Specialist Banking business is expected to report results behind the prior year as a consequence of the formation of Investec Equity Partners which resulted in a change in accounting policy from fair value to equity accounting.

Overall group results have been marginally impacted by the depreciation of the average Rand against Sterling exchange rate of approximately 3% over the period.

Taking into account the above mentioned factors, operating profit (refer to definition in the notes) is expected to be slightly behind the prior year; albeit well ahead of 2H2016.

Salient financial features include:

- Revenue (net of depreciation on operating leased assets) is expected to be ahead of the prior year
- Recurring income as a percentage of total operating income is expected to be in line with the prior year
- Impairments are expected to be in line with the prior year
- Expenses are expected to grow faster than revenue as a consequence of investment into growth initiatives and related infrastructure
- For the period 31 March 2016 to 31 August 2016:
 - Third party assets under management increased 13.3% to GBP137.9 billion – an increase of 10.0% on a currency neutral basis
 - Customer accounts (deposits) increased 12.7% to GBP27.1 billion – an increase of 7.2% on a currency neutral basis
 - Core loans and advances increased 10.5% to GBP20.0 billion – an increase of 3.8% on a currency neutral basis

On behalf of the board

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

Liquidity and capital management

- The group has continued to diversify and improve the quality of its funding sources
- The group defensively increased cash balances in anticipation of the EU referendum and remains very liquid
- Net interest margins have remained broadly stable
- Cash balances remain strong. Currently the group holds GBP13.0 billion in cash and near cash balances (GBP6.9 billion (R128.0 billion) in Investec Limited and GBP6.1 billion in Investec plc) which amounts to 48.0% of customer deposits
- Advances as a percentage of customer deposits at 30 August 2016 was 72.1% (31 March 2016: 73.6%)
- For the six months to 30 September 2016 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 be ahead of this target
 - Leverage ratios are sound and remain comfortably ahead of the group's target of 6% on an estimated Basel 3 fully loaded basis.

Asset quality and impairment trends

- 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 our long term range
- The group expects the credit loss ratio on total average core loans and advances to be approximately 0.48% to 0.53% (March 2016: 0.62%; September 2015: 0.54%).

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

- Positive net inflows of approximately GBP1.1 billion to end of August 2016
- Assets under management and earnings positively impacted by market and currency movements and higher performance fees
- Stable, experienced staff complement and leadership team
- Competitive long-term investment performance
- Since 31 March 2016 assets under management have increased by 14.8% to GBP86.9 billion.

Wealth & Investment

- Performing ahead of the prior year
 - Higher average funds under management
 - Net inflows of GBP0.5 billion to the end of August 2016
- Investment expenditure on digital offering continues
- Since 31 March 2016 assets under management have increased by 11.0% to GBP50.4 billion.

Specialist Banking

- The Ongoing Specialist Banking business is expected to post results behind the prior year
- In summary key aspects include:
 - *Net interest income*
 - Net interest increase in the South African business driven by strong book growth in the 2016 financial year

- Net interest in the UK business negatively impacted by higher redemptions in the prior period partially offset by strong book growth in the 2016 financial year.
- *Net fees and commissions*
 - Private client transactional and professional finance activities benefitting from growth in client base
 - Good performance from the South African corporate and property fund businesses
 - Good performance from the UK and Other corporate and advisory businesses
- *Investment, trading and other operating income*
 - Investment income is expected to be behind the prior year
 - Weaker performance from the Hong Kong portfolio
 - Prior period included gains from the UK fixed income portfolio and high realisations from the formation of Investec Equity Partners
 - Customer flow trading income increased
 - Other operating income now includes equity accounted earnings from Investec Equity Partners
- *Costs*
 - South Africa is expected to report a decrease in costs as a consequence of non-recurring costs and equity accounting of Investec Equity Partners
 - Costs in the UK business have increased largely due to investment in the private bank and corporate platforms, and increased headcount to support growth in the business
- *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 GBP538 million (31 March 2016: GBP583 million).

Impacts arising from Brexit

While the referendum result is clear, there remains uncertainty as to how and when this might be implemented. While we cannot predict the impact of Brexit on levels of economic activity, our diversified business model with multiple income streams should provide resilience as it has done in the past during times of economic uncertainty. We have significant excess liquidity and sound capital ratios which continue to support our underlying balance sheet fundamentals.

Taking the above comments into account, the current impact arising from Brexit on the group's UK businesses can be summarised as follows:

Asset Management and Wealth & Investment

- Equity market indices have been favourable, positively impacting funds under management
- Limited impact on net inflows
- Wealth & Investment is largely a UK domiciled business and net flows are marginally below the 5% target
- Investec Asset Management:
 - The UK fund range is distributed predominantly within the UK and is not currently registered for sale in Europe
 - The Luxembourg fund range is distributed to all other regions (i.e. the rest of Europe and globally), and managed by a Luxembourg domiciled entity.

Specialist Banking business

- Activity levels appear to be stable, although economic growth is expected to decline
- The group deliberately increased its surplus liquidity ahead of the referendum which needs to be actively managed
- The bank has limited proprietary trading positions, with the majority of trading transactions undertaken to support customer flow related activity

- Asset quality metrics remain sound
- Property exposures (excluding legacy book) are well collateralised and servicing from consistent cash flows. Imminent defaults are not expected in this portfolio but underlying exposures are being regularly monitored
- The main property portfolios can be assessed as follows:
 - *Commercial property book: approximately GBP890 million*
 - Approximately 65% of the portfolio is in the UK (largely London and Home Counties). Of the non-UK portion the majority of the exposure is in Germany and Switzerland
 - The book is income producing supported by leases with good quality tenants that provide consistent cash flows
 - Average loan to value is approximately 70%
 - Average loan size is generally less than GBP10 million
 - In addition to the property security value and lease cash flow streams, personal guarantees from principals are held
 - The gross default percentage on the current book is 0% (approximately 4% in 2011)
 - *High net worth and high income residential mortgages: approximately GBP1.2 billion*
 - Lending to high income and high net worth clients who have strong income streams, and who exhibit an ability to earn income through economic cycles
 - Largely London and Home Counties
 - Average loan to value is approximately 50%
 - Average loan size is just over GBP1 million
 - Gross defaults are approximately GBP13 million
 - *Residential development book: approximately GBP320 million*
 - Focused on target clients with lending in established areas (London and the South East)
 - Average loan to value is approximately 55%
 - Recourse to principal and high level of cash equity contributions into transactions
 - Gross defaults are approximately GBP3 million
 - *Legacy book: expected to be approximately GBP538 million at 30 September 2016*
 - Approximately 25% of the book is in default, with the balance performing
 - Impairments have decreased although a loss is still expected to be reported on this book
 - Book may take longer to wind down than expected.

Other information

Additional aspects

- Effective tax rate: expected to be approximately 18% to 19%
- Net non-controlling interests of approximately GBP27 million (profits attributable) relating to the Asset Management business and the consolidation of the Property Fund
- Weighted number of shares in issue for the six months to 30 September 2016 is expected to be approximately 895 million.

• **Notes:**

1. Key trends set out above, unless stated otherwise, relate to the five months ended 31 August 2016, and compare the first half of the 2017 financial year (1H2017) to the first half of the 2016 financial year (1H2016).
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. Amounts represented on a currency neutral basis for balance sheet items assume that the group's relevant closing exchange rates, as reflected below, remain the same as at 31 August 2016 when compared to 31 March 2016.
5. 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 16 September 2016.
6. 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:

	Five months to 31-Aug-16		Year to 31-Mar-16		Six months to 30-Sep-15	
	Period end	Average	Period end	Average	Period end	Average
Currency per GBP1.00						
South African Rand	19.29	20.29	21.13	20.72	20.95	19.33
Australian Dollar	1.74	1.85	1.87	2.04	2.15	2.05
Euro	1.18	1.24	1.26	1.37	1.35	1.39
US Dollar	1.31	1.39	1.44	1.50	1.51	1.54

Presentation details

The briefing starts at 9:00 (BST time) (10:00 South African time) and will be broadcast live via video conference from the group's offices in Johannesburg to London. 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:

Interim period end: 30 September 2016
Release of interim results: 17 November 2016

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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 niche client base in three principal markets, the United Kingdom and Europe, South Africa and Asia/Australia, as well as certain other countries. The group was established in 1974 and currently has approximately 9 000 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 GBP4.4 billion.