

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**15 September 2017**

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 2018.

Financial overview of the six months ending 30 September 2017

The first half of the group's financial year continued to see macro uncertainty in its key operating geographies. The UK economy has been growing at a slower pace, with the increase in inflation squeezing household spending whilst Brexit continues to create uncertainty. The South African economy came out of recession in the second quarter but business and consumer confidence remain low and the political environment remains challenging. This has been somewhat offset by supportive global markets and an improved outlook for the global economy.

Against this backdrop, the Wealth & Investment business is expected to report results comfortably ahead of the prior period, while the Asset Management division is expected to report results in line with the prior period. Both divisions have benefitted from higher levels of average funds under management supported by favourable equity markets and sound net inflows.

The Specialist Banking business is expected to report results ahead of the prior period. The South African Specialist Banking business is expected to report results well ahead of the prior period, while the UK Specialist Banking business is expected to report results well behind the prior period.

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

Salient financial features include:

- The appreciation of the average Rand: Pounds Sterling exchange rate has had a positive impact on the group's results
- Revenue is expected to be ahead of the prior period
- Recurring income as a percentage of total operating income is expected to be approximately 75% (2016: 72%)
- Expenses are expected to grow in line with revenue as a consequence of continued planned investment in growing the client franchise businesses and related infrastructure as well as costs relating to the London office's future premises move
- For the period 31 March 2017 to 31 August 2017:
 - Third party assets under management increased 6.1% to GBP160.0 billion
 - Customer accounts (deposits) increased 1.3% to GBP29.5 billion
 - Core loans and advances increased 4.5% to GBP23.7 billion
 - There has been an immaterial exchange rate impact on the balance sheet.

Operational and strategic overview

Activity levels have remained reasonable and the group's client base has demonstrated resilience under mixed economic backdrops. Positive overall performance has been supported by diverse revenue streams and strong franchise businesses.

The group continues to focus on execution of strategic initiatives, mindful of the tough macro environment and uncertainty expected to continue into the second half of the group's financial year.

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 maintained strong liquidity levels
- The cost of funding in the UK has continued to reduce
- Cash balances remain strong. Currently the group holds GBP11.5 billion in cash and near cash balances (GBP6.5 billion (R108.4 billion) in Investec Limited and GBP5.0 billion in Investec plc) which amounts to 39% of customer deposits
- Advances as a percentage of customer deposits at 31 August 2017 was 79% (31 March 2017: 76%)
- For the six months to 30 September 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 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
- The group is on track to implement the Advanced Internal Ratings-Based (AIRB) approach in South Africa in calendar year 2018, subject to regulatory approval
- During August 2017 the Prudential Regulation Authority issued Investec plc with a revised Pillar 2A requirement of 1.51% of risk-weighted assets, of which 0.84% has to be met from common equity tier 1 capital (previously 1.8% of risk-weighted assets, of which 1.0% had to be met from common equity tier 1 capital).

Asset quality and impairment trends

- The total income statement impairment charge is expected to be ahead of the prior period
- Impairments on the UK legacy portfolio are expected to be slightly ahead of the prior period
- Impairments in South Africa and the ongoing UK business are expected to be ahead of the prior period, although the credit loss ratio remains at the lower end of the group's long term range
- The group expects the credit loss ratio on total average core loans and advances to be between 0.52% to 0.55% (March 2017: 0.54%; September 2016: 0.48%).

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 GBP1.9 billion to end of August 2017
- Earnings have been supported by market levels and solid net inflows offset by lower performance fees in South Africa
- Competitive investment performance over the long-term supported by a strong run in recent months
- Since 31 March 2017 assets under management have increased by 7.2% to GBP102.1 billion.

Wealth & Investment

- Overall performance of the global business is expected to be ahead of the prior period:

- Higher average funds under management
- Net inflows of GBP0.9 billion to the end of August 2017
- Earnings in South Africa have been impacted by lower activity levels, while the UK business had a strong performance
- Since 31 March 2017 assets under management have increased by 4.3% to GBP57.1 billion
- Click & Invest was successfully launched in June 2017.

Specialist Banking

- The Ongoing Specialist Banking business is expected to post results ahead of the prior period
- In summary key aspects include:
 - *Net interest income*
 - Net interest increase has been supported by book growth of 4.5% since 31 March 2017
 - The UK business has benefitted from a continued reduction in the cost of funding
 - The cost of foreign liabilities in South Africa has been impacted by the sovereign rating downgrade
 - *Net fees and commissions*
 - Good performance from the South African corporate treasury and structuring businesses
 - UK corporate fees have been impacted by less investment banking and securities activity following a strong prior period
 - *Investment, associate, trading and other operating income*
 - Investment income is expected to be ahead of the prior period as a result of a solid performance from the South African investment portfolio partially impacted by less realisations in the UK investment portfolio
 - Trading income from customer flow is expected to be behind the prior period as a consequence of lower levels of volatility
 - *Costs*
 - Costs are expected to increase as the group continues to deliberately invest in IT infrastructure and headcount to grow the franchise, notably the build out of the UK private client offering
 - Costs are also impacted by the 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 loss moderately ahead of the prior period as a result of anticipated acceleration of a sale of a portion of the book
 - Total legacy portfolio assets are expected to decline to GBP430 million by the end of September 2017 (31 March 2017: GBP476 million).

Other information

Additional aspects

- Effective tax rate: expected to be approximately 15%
- Net non-controlling interests of approximately GBP32 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 six months to 30 September 2017 is expected to be approximately 924 million.
- **Notes:**
 1. Key trends set out above, unless stated otherwise, relate to the five months ended 31 August 2017, and compare the first half of the 2018 financial year (1H2018) 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. 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 15 September 2017.
5. 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-17		Year to 31-Mar-17		Six months to 30-Sep-16	
	Period end	Average	Period end	Average	Period end	Average
Currency per GBP1.00						
South African Rand	16.75	16.97	16.77	18.42	17.88	19.99
Australian Dollar	1.63	1.36	1.64	1.75	1.70	1.83
Euro	1.08	0.92	1.17	1.19	1.16	1.23
US Dollar	1.29	1.03	1.25	1.31	1.30	1.38

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 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:

Interim period end: 30 September 2017
Release of interim results: 16 November 2017

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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 9 700 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 GBP5.6 billion.