

# Investor pre-close briefing

15 September

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2017

Specialist Banking

Asset Management

Wealth & Investment





## Proviso


- Please note that matters discussed in today's presentation 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 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 Sep 2017

## Operational review



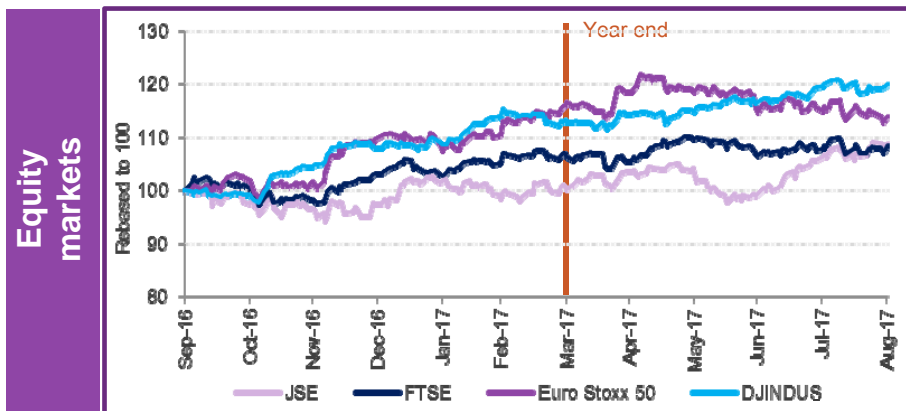
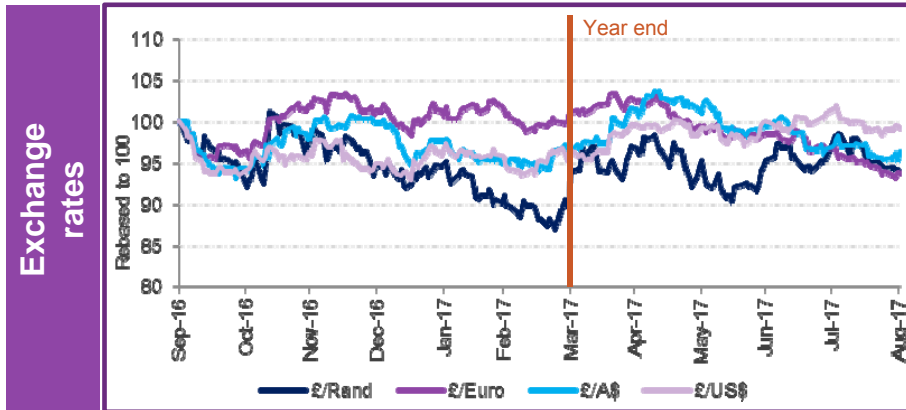
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- Proviso: unless otherwise stated, figures and trends discussed in the operational review relate to the five month period to 31 Aug 2017 and compare 1H2018 vs 1H2017
  - References to operating profit relate to adjusted\* operating profit. Trends within the divisional sections relate to adjusted operating profit
  - Investec will release its results for the six months ended 30 Sep 2017 on 16 Nov 2017

\*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.

## Overview of our operating environment



- 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
- Overall stock markets have been supportive over the period

Source: Datastream



## Overview of the six months ending 30 Sep 2017

- 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
  - The UK Specialist Banking business is expected to report results well behind the prior period



## Overview of the six months ending 30 Sep 2017

- The appreciation of the average Rand: Pounds Sterling exchange rate has had a positive impact on our 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
- Adjusted operating profit\* is expected to be comfortably ahead of the prior period

\*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.



## Overview of the six months ending 30 Sep 2017

- For the period 31 Mar 2017 to 31 Aug 2017:
  - Third party assets under management increased 6.1% to £160.0bn
  - Customer accounts (deposits) increased 1.3% to £29.5bn
  - Core loans and advances increased 4.5% to £23.7bn
  - Immaterial exchange rate impact on the balance sheet



## Balance sheet soundness

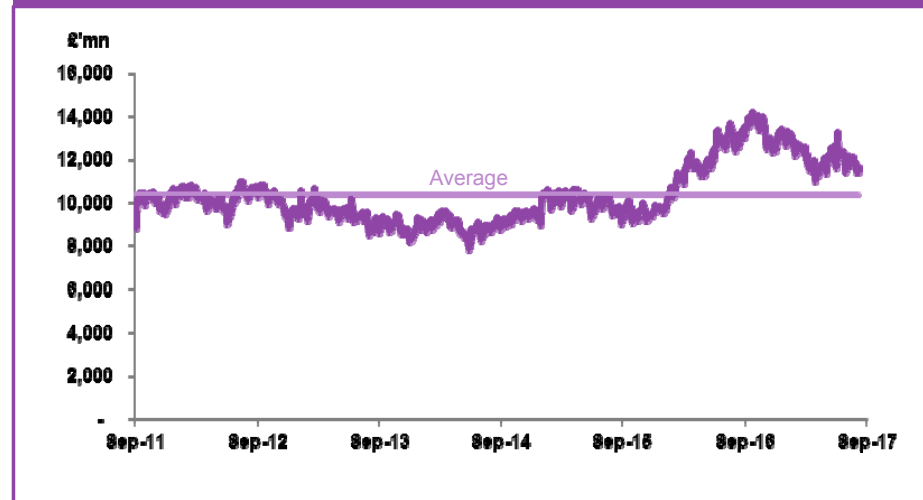
### Liquidity

- The group has maintained strong liquidity levels
- Cost of funds in the UK has continued to reduce
- Advances as a percentage of customer deposits at 31 Aug 2017 was 79% (Mar 2017: 76%)

### Capital

- Investec Limited CET1 ratio is expected to remain slightly below the 10% target while Investec plc is expected to remain ahead of target
- We are on track to implement AIRB in South Africa in calendar year 2018, subject to regulatory approval
- Our leverage ratios are sound and remain comfortably ahead of our target of 6% on an estimated Basel 3 fully loaded basis

### Cash and near cash



Min* £bn	Max* £'bn	Ave* £'bn
£11.0bn	£13.2bn	£11.9bn

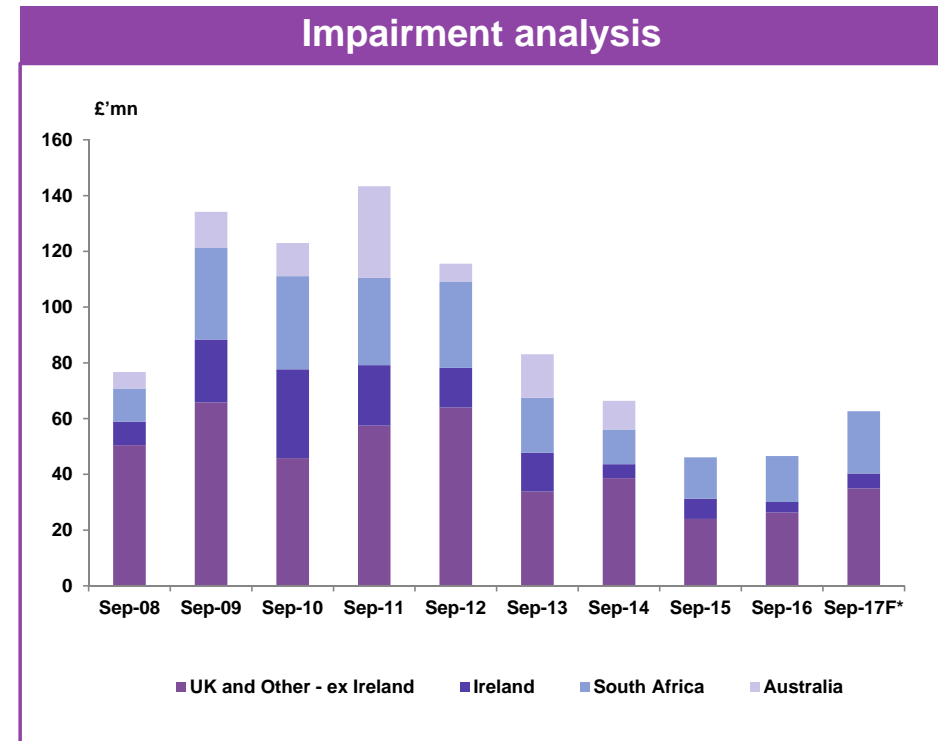
\*Since 1 Apr 2017.

### Current total £11.5bn

Ltd £6.5bn (R108.4bn); plc £5.0bn

## 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 our long term range
- We expect the credit loss ratio on average core loans and advances to be between 0.52% to 0.55% (Mar 2017: 0.54%; Sep 2016: 0.48%)



Trends reflected in graph are for the six months to 30 Sep.

Australian numbers included in UK and Other as from Sep 2015.

\*Expected.

## Divisional review



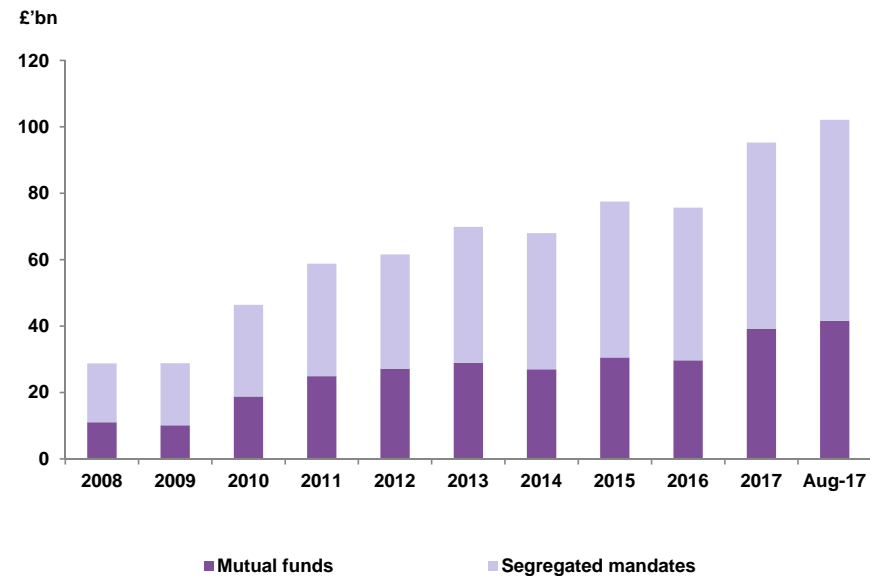
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## Asset Management

- Positive net inflows of £1.9bn to end of Aug 2017
- 1H2018 earnings 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

### Assets under management Since 31 Mar 2017: up 7.2% to £102.1bn

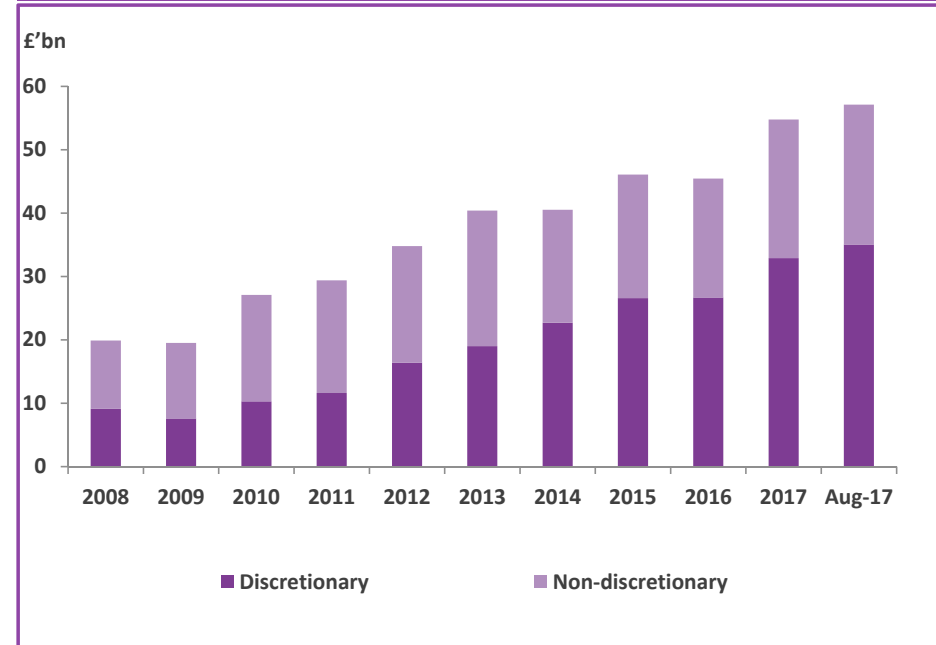


Trends reflected in graph are as at 31 Mar, unless otherwise indicated.

## Wealth & Investment

- Overall performance of the global business expected to be ahead of the prior year
  - Higher average funds under management
  - Solid net inflows of £0.9bn to end of Aug 2017
- Earnings in South Africa impacted by lower activity levels, while the UK business had a strong performance
- Click & Invest was successfully launched in June 2017

### Funds under management Since 31 Mar 2017: up 4.3% to £57.1bn



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

## Specialist Banking

- Ongoing Specialist Bank results expected to be ahead of the prior year

### Net interest income

- Net interest income supported by book growth of 4.5% since 31 Mar 2017
- UK benefitting from continued reduction in cost of funding
- The cost of foreign liabilities in South Africa has been impacted by the sovereign rating downgrade

SA ↓

UK & Other ↑

In home currency

### Investment, associate, trading and other operating income

- Investment income expected to be ahead of the prior period; solid performance from the South African investment portfolio partially impacted by less realisations in the UK investment portfolio
- Trading income from customer flow expected to be behind the prior period as a consequence of lower levels of volatility

SA ↑

UK & Other ↓

In home currency

### Net fees and commissions

- Good performance from the South African corporate treasury and structuring businesses
- UK corporate fees impacted by less investment banking and securities activity off the back of a strong prior period

SA ↑

UK & Other ↓

In home currency

### Costs

- Costs 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 additional premises expenses relating to the London office move scheduled for end of 2018 calendar year

SA ↑

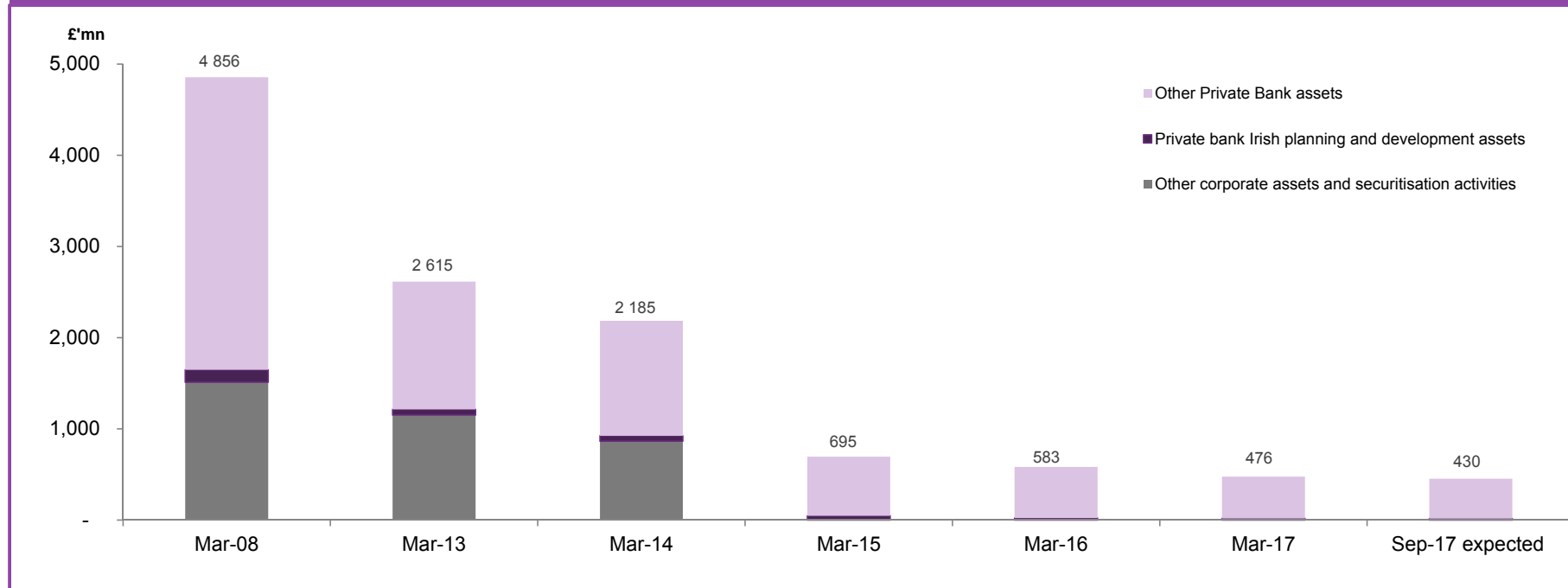
UK & Other ↑

In home currency

## Specialist Banking- UK 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 remaining UK legacy assets



## Additional aspects



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## Other Information

- Effective tax rate: expected to be approximately **15%**
- Net non-controlling interests of approximately **£32mn** (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 30 Sep 2017 is expected to be approximately **924mn**

## Conclusion



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## Conclusion

- The geopolitical environment has been challenging with much uncertainty prevailing in our two core geographies. The uncertainties arising from the complexity of Brexit continue, while the South African political environment remains unsteady in the run up to the December ruling party leadership elections
- This has been somewhat offset by supportive global markets and an improved outlook for the global economy
- Activity levels have remained reasonable and our client base has demonstrated resilience under mixed economic backdrops
- We have continued to see positive overall performance supported by diverse revenue streams and strong franchise businesses
- We continue to focus on execution of our strategic initiatives, mindful of the tough macro environment and uncertainty expected to continue into H2

## Appendices



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## Operating environment

	31 Aug 2017	31 Mar 2017	30 Sep 2016	% move since Mar 2017
JSE ALSI	56,522	52,056	51,950	8.6%
FTSE ALSI	4,073	3,990	3,755	2.1%
SA Prime	10.25%	10.50%	10.50%	(0.25%)
UK Clearing Banks	0.25%	0.25%	0.25%	-

Year to date	31 Aug 2017		31 Mar 2017		30 Sep 2016	
Currency per £1.00	Close	Ave	Close	Ave	Close	Ave
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

Source: Datastream

## Adjusted\* operating profit:

For the year ended 31 Mar 2017

£'000	UK & Other	Southern Africa	Total group
Asset Management	91,262	73,562	164,824
Wealth & Investment	65,190	28,053	93,243
Specialist Banking	104,604	285,226	389,830
Specialist Banking - Ongoing	169,196		
Specialist Banking - Legacy business	(64,592)		
	<b>261,056</b>	<b>386,841</b>	<b>647,897</b>
Group costs	(36,163)	(12,613)	(48,776)
<b>Total group</b>	<b>224,893</b>	<b>374,228</b>	<b>599,121</b>
Non-controlling interest: equity			60,239
<b>Operating profit before tax</b>			<b>659,360</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 six months ended 30 Sep 2016

£'000	UK & Other	Southern Africa	Total group
Asset Management	43,116	39,138	82,254
Wealth & Investment	29,192	14,005	43,197
Specialist Banking	62,166	117,623	179,789
Specialist Banking - Ongoing	95,211		
Specialist Banking - Legacy business	(33,045)		
	<b>134,474</b>	<b>170,766</b>	<b>305,240</b>
Group costs	(17,758)	(6,064)	(23,822)
<b>Total group</b>	<b>116,716</b>	<b>164,702</b>	<b>281,418</b>
Non-controlling interest: equity			18,033
<b>Operating profit before tax</b>			<b>299,451</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.

## Investec Asset Management: Assets under management\*

£'million	31 Aug 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016	% change YTD vs Mar 2017
<b>UK and international</b>	<b>66,319</b>	<b>61,379</b>	<b>59,030</b>	<b>51,076</b>	<b>8.0%</b>
- Mutual funds	26,406	23,399	20,726	18,289	12.9%
- Segregated mandates	39,913	37,980	38,304	32,787	5.1%
<b>Southern Africa</b>	<b>35,801</b>	<b>33,908</b>	<b>30,807</b>	<b>24,603</b>	<b>5.6%</b>
- Mutual funds	15,178	15,848	15,104	11,388	(4.2%)
- Segregated mandates	20,623	18,060	15,703	13,215	14.2%
<b>Total AUM*</b>	<b>102,120</b>	<b>95,287</b>	<b>89,837</b>	<b>75,679</b>	<b>7.2%</b>

Home currency R'million	31 Aug 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016	% change YTD vs Mar 2017
<b>Southern Africa</b>	<b>599,670</b>	<b>568,630</b>	<b>550,896</b>	<b>519,861</b>	<b>5.5%</b>
- Mutual funds	254,232	265,770	270,092	240,628	(4.3%)
- Segregated mandates	345,438	302,860	280,804	279,233	14.1%
<b>Rates: R:£</b>	<b>16.75</b>	<b>16.77</b>	<b>17.88</b>	<b>21.13</b>	

\*All AUM are on a managed basis.



## Investec Wealth & Investment: Funds under management

£'million	31 Aug 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016	% change YTD vs Mar 2017
UK and Other	37,370	35,555	33,359	29,769	5.1%
Southern Africa	19,747	19,218	17,969	15,690	2.8%
<b>Total</b>	<b>57,117</b>	<b>54,773</b>	<b>51,328</b>	<b>45,459</b>	<b>4.3%</b>

## Investec Wealth & Investment UK and Other: Funds under management

£'million	31 Aug 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016	% change YTD vs Mar 2017
Discretionary	28,162	26,336	24,311	21,747	6.9%
Non-discretionary and other	9,208	9,219	9,048	8,022	(0.1%)
<b>Total</b>	<b>37,370</b>	<b>35,555</b>	<b>33,359</b>	<b>29,769</b>	<b>5.1%</b>

## Investec Wealth & Investment SA: Funds under management

R'million	31 Aug 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016	% change YTD vs Mar 2017
Discretionary	115,101	109,869	105,735	104,480	4.8%
Non-discretionary	215,657	212,412	215,593	227,033	1.5%
<b>Total</b>	<b>330,758</b>	<b>322,281</b>	<b>321,328</b>	<b>331,513</b>	<b>2.6%</b>

£'million	31 Aug 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016	% change YTD vs Mar 2017
Discretionary	6,872	6,552	5,913	4,945	4.9%
Non-discretionary	12,875	12,666	12,056	10,745	1.7%
<b>Total</b>	<b>19,747</b>	<b>19,218</b>	<b>17,969</b>	<b>15,690</b>	<b>2.8%</b>
<b>Rates: R:£</b>	<b>16.75</b>	<b>16.77</b>	<b>17.88</b>	<b>21.13</b>	

## Total group core loans

£'million	31 Aug 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016	% change YTD vs Mar 2017
UK and Other	8,956	8,621	8,299	7,804	3.9%
Southern Africa	14,776	14,086	12,599	10,315	4.9%
<b>Total core loans</b>	<b>23,732</b>	<b>22,707</b>	<b>20,898</b>	<b>18,119</b>	<b>4.5%</b>

Home currency R'million	31 Aug 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016	% change YTD vs Mar 2017
Southern Africa	247,489	236,225	225,304	217,958	4.8%
<b>Rates: R:£</b>	<b>16.75</b>	<b>16.77</b>	<b>17.88</b>	<b>21.13</b>	

## Total group customer deposits

£'million	31 Aug 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016	% change YTD vs Mar 2017
UK and Other	11,082	11,013	12,033	10,801	0.6%
Southern Africa	18,404	18,096	16,272	13,243	1.7%
<b>Total customer deposits</b>	<b>29,486</b>	<b>29,109</b>	<b>28,305</b>	<b>24,044</b>	<b>1.3%</b>

Home currency R'million	31 Aug 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016	% change YTD vs Mar 2017
Southern Africa	308,276	303,470	290,969	279,820	1.6%
<b>Rates: R:£</b>	<b>16.75</b>	<b>16.77</b>	<b>17.88</b>	<b>21.13</b>	