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 trading update

20 March 2020

Investec today announces its scheduled pre-close trading update ahead of its full-year results for the 12 months ending 31 March 2020 (FY2020), which are due for release on 21 May 2020. A conference call will be held today at 8:30 UK time / 10:30 South African time; dial-in details are in the Notes section of this announcement.

Key points:

- The Group has navigated challenging market conditions, exacerbated recently by the ongoing public health and economic effects of COVID-19.
- Further progress was made in the Group's strategy to simplify and focus the business. This includes the completion of the demerger and listing of Ninety One (the asset management business) which increased capital levels; as well as the restructuring, closure and sale of non-core and subscale businesses resulting in a reduction in risk.
- Group adjusted operating profit is expected to be 7% to 14% behind FY2019 (FY2019: £732 million) and adjusted earnings per share is expected to be 16% to 23% behind FY2019 (FY2019: 60.9p), primarily due to the challenging market conditions mentioned above and effective tax rate normalisation.
- The Group's cash and near cash at 18 March 2020 was £12.4 billion (representing 40% of customer deposits). Capital and leverage ratios remain sound, ahead of internal targets and regulatory requirements.
- Net asset value is expected to be between 425p–450p (FY2019: 434.1p) and tangible net asset value is expected to be between 385p-405p (FY2019: 386.0p) at 31 March 2020. Net asset value has been positively impacted by profitability and the demerger and negatively by the depreciation of the Rand.

Fani Titi, CEO of Investec, said: *"Investec has delivered a resilient performance in challenging market conditions. We have also made notable progress in the simplification of the business and have continued to invest in our platforms to achieve sustainable growth for the long term. In these current difficult times, we are resolutely focused on the safety of our people, the integrity of our balance sheet and supporting our clients. We remain optimistic about our longer-term potential."*

Strategic, operational and financial overview

The Group has continued to progress with the execution of its previously stated strategic objectives, in particular simplifying and focusing the business to create value over the long-term.

Investec successfully completed the demerger of Ninety One (formerly known as Investec Asset Management), which became separately listed on 16 March 2020. Investec decided not to proceed with the sell down of a 10% stake in Ninety One given market volatility and our already comfortable capital position.

In the UK Specialist Bank, we expect costs to have reduced by approximately £25m in FY2020. Previously identified Group cost savings of approximately £10m and technology platform efficiency savings of circa £7.5m remain executable in FY2021. Cost efficiency remains an important area of focus for the Group. We have made good traction in our UK Private Bank proposition with client acquisition and advances growth in line with expectations.

In South Africa, we remain committed to rationalising and optimising the value of the investment portfolio as previously communicated.

The operating environment in the second half of the financial year (2H2020) was difficult in both South Africa and the UK. The effects of COVID-19 on global markets are expected to negatively impact Investec's fourth-quarter operating performance.

The commentary and trends that follow, unless stated otherwise, relate to the 11 months ended 29 February 2020, and compare forecast FY2020 to restated FY2019 as provided in the Group's 1H2020 disclosures (refer to Note 1).

The Group

- The Group (including the Asset Management business) is expected to report adjusted operating profit 7% to 14% behind the prior year (FY2019: £732 million) and adjusted earnings per share 16% to 23% behind the prior year (FY2019: 60.9p) driven by lower operating performance and effective tax rate normalisation in South Africa.
    - Operating income is expected to be behind the prior year (FY2019: £2,527 million). Both net interest income and net fee and commission income are expected to be ahead of the prior year, while other income (refer to Note 2) is expected to be behind the prior year.
    - Operating costs are expected to reduce from the prior year (FY2019: £1,668 million).
    - While impairments are expected to increase, the credit loss ratio is expected to be between 0.31% to 0.37%.
    - The effective tax rate is expected to be approximately 16% (FY2019: 12%).

Bank and Wealth (continuing operations)

- Bank and Wealth adjusted operating profit is expected to be 16% to 22% behind the prior year (FY2019: £552m).
    - Adjusted operating profit in the South African Specialist Bank is expected to be behind the prior year (FY2019: £310 million) with growth in net interest income partially offset by lower associate and trading income.
    - The UK Specialist Bank adjusted operating profit is expected to be down on the prior year (FY2019: £192 million). The marginal growth in net interest and fee income was offset by a reduction in other income (refer to Note 2) year-on-year as a result of recent market volatility, tough trading conditions and a higher base from balance sheet management in the prior year.
    - The South African Wealth & Investment business adjusted operating profit is expected to be ahead of the prior year (FY2019: £26 million) supported by growth in discretionary assets under management (AUM).
    - The UK Wealth & Investment business is expected to be behind the prior year (FY2019: £71 million) impacted by an increase in technology spend to support growth over the long term, higher regulatory levies incurred in 1H2020 and the negative impact from recent global market volatility on revenues in the fourth quarter.
- Net interest margins are expected to be broadly in line with 1H2020.
- Following the progress reported at the interim results, costs are expected to reduce year-on-year, particularly in the UK Specialist Bank.
- Over the 11 months to 29 February 2020, Bank and Wealth core loans and advances grew 3.4% to £25.8 billion and AUM decreased by 7.7% to £51.5 billion. Net inflows were positive at £0.5 billion.

Taking into consideration the financial impact of the strategic actions expected to complete during FY2020 as well as the c.£837 million net gain on the demerger and listing of Ninety One (post taxation and transaction costs), Group basic earnings per share is expected to be between 135% and 148% (122p and 129p) above the prior year (FY2019: 52p), while Group headline earnings per share (HEPS) is expected to be between 41% and 46% (31p and 28.4p) behind the prior year (FY2019: 52.6p). HEPS as defined by the JSE (refer to Note 2) excludes gains on business disposals but includes related costs.

Liquidity and capital management

- The Group has maintained strong liquidity levels, including strong USD liquidity.
- Cash balances remain strong. As at 18 March 2020 cash and near cash balances amounted to £12.4 billion (£7.1 billion (R141.9 billion) in Investec Limited and £5.3 billion in Investec plc) amounting to 40% of customer deposits.
- The loan to customer deposit ratio at 29 February 2020 was 81%.
- For the year to 31 March 2020 for both Investec plc and Investec Limited:
    - The common equity tier 1 ratio is expected to remain ahead of internal targets and regulatory requirements.
    - Leverage ratios are sound and remain comfortably ahead of the Group's 6% target.

Other information

- The results of Ninety One (which will be reflected as a discontinued operation in the FY2020 results) are consolidated for the period to 13 March 2020 (effective date of demerger) and equity accounted thereafter.
- Group results have been negatively impacted by the depreciation of the average and closing Rand against Sterling exchange rate of approximately 3.4% and 6.8% respectively over the year.
- Net non-controlling interests are expected to amount to approximately £111 million (profits attributable) (FY2019: £84 million) relating to the Asset Management business and the consolidation of the Investec Property Fund.
- The weighted number of shares in issue for FY2020 is expected to be approximately 947 million (FY2019: 942 million).

On behalf of the board
Perry Crosthwaite (Chairman), Fani Titi (Group Chief Executive)

Key income drivers

Core loans

£'m	29- Feb-20	31- Mar-19	% change	Neutral currency % change
UK and Other	11,727	10,514	11.5%	11.5%
South Africa	14,062	14,427	(2.5%)	4.1%
Total core loans	**25,789**	**24,941**	**3.4%**	**7.2%**

Customer deposits

£'m	29- Feb-20	31- Mar-19	% change	Neutral currency % change
UK and Other	13,505	13,137	2.8%	2.8%
South Africa	17,722	18,170	(2.5%)	4.2%
Total customer deposits	**31,227**	**31,307**	**(0.3%)**	**3.6%**

Bank and Wealth AUM

£'m	29-Feb-20	31-Mar-19	% change	Neutral currency % change
Total Wealth & Investment AUM	**50,758**	**55,121**	**(7.9%)**	**(6.2%)**
UK and Other (excluding Ireland)	36,805	36,671	0.4%	0.4%
Discretionary	30,465	29,966	1.7%	1.7%
Non-discretionary	6,340	6,705	(5.4%)	(5.4%)
Southern Africa	13,953	16,003	(12.8%)	(6.9%)
Discretionary - South Africa	7,095	6,999	1.4%	8.3%
Non-discretionary - South Africa	6,858	9,004	(23.8%)	(18.7%)
Ireland*	-	2,447	(100.0%)	(100.0%)
Specialist Bank AUM	**699**	**633**	**10.4%**	**18.2%**
Total third party AUM	**51,457**	**55,754**	**(7.7%)**	**(5.9%)**

*The Irish Wealth & Investment business was sold during FY2020.

Notes

1. FY2019 restated adjusted operating profit

£'m	UK & Other	Southern Africa	Total
Specialist Bank	192	310	502
Wealth & Investment	71	26	97
Group costs	(32)	(15)	(47)
Bank and Wealth	**231**	**321**	**552**
Investec Asset Management (discontinued operation)	108	72	180
Group adjusted operating profit	**339**	**393**	**732**
Profit attributable to other non-controlling interests			58
Group adjusted operating profit before non-controlling interests			**790**

2. Definitions

- **Adjusted operating profit** refers to operating profit before goodwill, acquired intangibles and strategic actions and after adjusting for earnings attributable to other non-controlling interests. 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.
- **Adjusted earnings** is calculated by adjusting basic earnings attributable to shareholders for the amortisation of acquired intangible assets, non-operating items including strategic actions, and earnings attributable to perpetual preference shareholders and other additional tier 1 security holders.
- **Adjusted earnings per share** is calculated as adjusted earnings attributable to shareholders divided by the weighted average number of ordinary shares in issue during the year.
- **Headline earnings** is adjusted earnings plus the after tax financial effect of strategic actions and the amortisation of acquired intangible assets. This adjustment will specifically exclude the after-tax gains realised on the demerger

and the sale of subsidiaries but include the transaction costs incurred. Headline earnings is an earnings measure required to be calculated and disclosed by the JSE and was calculated in accordance with the guidance provided in Circular 4/2018.

- **Headline earnings per share** is calculated as headline earnings divided by the weighted average number of ordinary shares in issue during the year.
- **Basic earnings** is earnings attributable to ordinary shareholders as defined by IAS33 *Earnings Per Share*
- **Other income includes:** Investment income, share of post taxation operating profit of associates, trading income and other operating income.
- **Core loans and advances** is defined as net loans and advances to customers plus net own originated securitised assets.
- **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.

3. Conference call details

The conference call will commence today at 8:30 (UK time) (10:30 South African time).
Telephone conference dial in numbers:
– Australia: 1 800 350 100
– Ireland: 014 860 742
– Johannesburg (Neotel): 011 535 3600
– Johannesburg (Telkom): 010 201 6800
– Other (Neotel): +27 11 535 3600
– Other (Telkom): +27 10 201 6800
– UK: 0 333 300 1418
– USA: 1 508 924 4326

4. Timetable:

Year end: 31 March 2020
Release of year end results: 21 May 2020

5. 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 29-Feb-2020		Six months to 30-Sep-19		Year to 31-Mar-19	
Currency per GBP1.00	**Period end**	**Average**	**Period end**	**Average**	**Period end**	**Average**
South African Rand	20.08	18.61	18.69	18.28	18.80	18.04
Australian Dollar	1.97	1.86	1.82	1.82	1.83	1.80
Euro	1.16	1.15	1.13	1.13	1.16	1.13
US Dollar	1.28	1.28	1.23	1.26	1.30	1.31

6. Profit forecasts

- The following matters as discussed in the briefing and highlighted above contain forward-looking statements:
  - The Group (including the Asset Management business) is expected to report adjusted operating profit 7% to 14% behind the prior year and adjusted earnings per share 16% to 23% behind the prior year.
  - Group basic earnings per share is expected to be between 135% and 148% above the prior year and Group HEPS is expected to be between 41% and 46 % behind the prior year.
  - Bank and Wealth adjusted operating profit is expected to be 16% to 22% behind the prior year.
  - Adjusted operating profit in the South African Specialist Bank is expected to be behind the prior year.
  - The UK Specialist Bank adjusted operating profit is expected to be behind the prior year.
  - The South African Wealth & Investment business adjusted operating profit is expected to be ahead of the prior year.
  - The UK Wealth & Investment business adjusted operating profit is expected to be 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 and/or Bank and Wealth'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 and Bank and Wealth at 19 March 2020.
- These forward looking statements represent a profit forecast under the Listing Rules. The Profit Forecasts relate to the period ending 31 March 2020.
- The financial information on which the Profit Forecasts are based is the responsibility of the Directors of the Group and has 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 2019 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 2020.
- The Profit Forecasts have been prepared based on (a) the unaudited interim financial statements of the Group for the six months to 30 September 2019, and the results of Bank and Wealth underlying those interim financial statements; (b) the unaudited management accounts of the Group and Bank and Wealth for the eleven months to 29 February 2020; and (c) the projected financial performance of the Group and Bank and Wealth for the remaining one month of the year ending 31 March 2020.
- Percentage changes shown on a neutral currency basis for balance sheet items assume that the relevant closing exchange rates at 29 February 2020 remain the same as those at 31 March 2019.

Assumptions

The Profit Forecasts have 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, whether for Covid-19 or otherwise
- 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 valuators. 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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About Investec

Investec partners with private, institutional and corporate clients to offer international banking, investments and wealth management services in two principal markets, South Africa and the UK, as well as certain other countries. The Group was established in 1974 and currently has approximately 8,300 employees.

In 2002, Investec implemented a dual listed company structure with listings on the London and Johannesburg Stock Exchanges. In March 2020, the Group successfully completed the demerger of Ninety One (formerly known as Investec Asset Management), which became separately listed on 16 March 2020. Investec's current market capitalisation is approximately GBP1.6 billion.

Johannesburg and London

Sponsor: Investec Bank Limited