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

19 March 2021

Investec today announces its scheduled pre-close trading update for the year ending 31 March 2021 (FY2021).

An investor conference call will be held today at 09:00 UK time / 11:00 South African time. Please register for the call at www.investec.com/investorrelations.

Commentary on the group's financial performance in this pre-close trading update represents the continuing operations (excluding Ninety One, formerly Investec Asset Management) for the 11 months ended 28 February 2021 and compares forecast FY2021 to FY2020.

***Fani Titi, Group Chief Executive commented**:*
"The group's operating results for the year ending 31 March 2021 are expected to be in line with the guidance released in our interim results in November 2020. We are encouraged by the momentum we are seeing across our business, the continued recovery of markets and the positive developments related to COVID-19 vaccines. Our expected performance demonstrates the strength of our underlying client franchises, the continued execution of our strategic objectives and the resilience of our people in what has been an unprecedented year.

Adjusted earnings per share from continuing operations for FY2021 is expected to be 20% - 29% behind the prior year. Underlying performance has been resilient notwithstanding the challenging operating environment and the elevated risk management and risk reduction costs associated with hedging our UK structured products book as previously communicated.

While the general outlook is improving, the long-term impact of the pandemic is uncertain. Investec remains well capitalised, highly liquid, and well provisioned for impairments. With the simplification of the group now substantially complete, we are positioned to pursue long term growth."

Trading update - key highlights:
The year-on-year performance has been negatively impacted by lower interest rates, elevated costs related to the hedging of our UK structured products book as guided in November, reduced client activity and a c.14% depreciation of the average Rand against Pound Sterling. This was offset by lower expected credit losses and continued cost containment.

Adjusted operating profit is expected to be 16% - 24% behind the prior year. The effective tax rate for FY2021 is expected to be approximately 22% (FY2020: 11.9%).

The second half (2H2021) adjusted operating profit and earnings are expected to be ahead of comparable numbers reported in the first half (1H2021) of the financial year, reflecting an improving trend, particularly in the last quarter.

- **Resilient client franchises**: The Specialist Banking businesses saw improved client activity in 2H2021 (as economies continued to recover) with good client acquisition in both geographies. The Private Banking franchise reported strong lending book growth in 2H2021. Corporate lending activity was largely subdued over the period under review, showing improvement in the last quarter of the 2020 calendar year. The Wealth & Investment businesses reported growth in funds under management (FUM) reflecting market recovery, continued net inflows and good investment performance.
- **Key earnings drivers:** Core loans increased 5.5% to £26.3 billion (FY2020: £24.9 billion) while deposits were up 5.9% to £34.1 billion (FY2020: £32.2 billion). Over the

11 months to 28 February 2021, third-party FUM increased by 26.7% to £57 billion (FY2020: £45 billion) with net inflows of £961 million.

- **Operating income:** While revenue benefitted from improved client activity and liability repricing in 2H2021 relative to 1H2021, the expected revenue decline in FY2021 reflects an environment still marked by the crisis that prevailed throughout the financial year. Risk management and risk reduction costs related to the hedging of the UK structured products book are expected to be in line with guidance.
- **Costs:** Operating costs for FY2021 are expected to be lower than FY2020 by mid-single digits and include costs associated with the implementation of strategic initiatives during the period under review.
- **Asset quality:** The group expects to report a lower expected credit loss charge in 2H2021 compared to 1H2021. The credit loss ratio is expected to be between 37bps and 44bps (1H2021: 47bps; FY2020: 52bps). We have seen a reduction in clients seeking COVID-19 relief over the period. Currently, 2.3% of UK and an immaterial portion of South Africa's exposures are under some form of COVID-19 relief compared to the peak of 13.7% and 23% respectively.
- **Capital and liquidity:** Capital and leverage ratios remain sound, ahead of internal board-approved minimum targets and regulatory requirements. The liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remain well above the regulatory minimum and the group's cash and near cash at 28 February 2021 was £13.9 billion (representing c.40.8% of customer deposits).
- **Net asset value (NAV):** NAV per share is expected to increase from 414.3p (FY2020) to between 436p and 465p, while Tangible NAV per share is expected to increase from 377.7p (FY2020) to between 398p and 427p.

FY2021 earnings guidance: The table below contains the group's earnings guidance metrics for the total group both including and excluding discontinued operations. Ninety One was consolidated up to 13 March 2020 (the date of the demerger) and disclosed as a discontinued operation for the year ended 31 March 2020.

	Total group (excluding discontinued operations)		**Total group (including discontinued operations)**	
	FY2021 range	**FY2020**	**FY2021 range**	**FY2020**
Adjusted EPS - p	24 to 27	33.9	24 to 27	46.5
Basic EPS - p	19.7 to 22.5	17.5	19.7 to 22.5	115.3*
HEPS - p	19.5 to 22.3	21.5	19.5 to 22.3	29.2

* includes the gain from the demerger of Ninety One.

Dividend guidance: We note the updated guidance from the Prudential Authority and the Prudential Regulation Authority regarding the payment of dividends. A final dividend will be considered as part of the normal Board process leading up to the release of the final 31 March 2021 results on 21 May 2021. The group's targeted dividend payout ratio remains between 30% and 50% of adjusted earnings per share.

Business update: Following the FY2021 year end results presentation in May, the group will provide a business update on Investec plc. Webcast details will be provided in due course.

<u>For further information please contact:</u>

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Divisional overview

The commentary and trends that follow, unless stated otherwise, relate to the continuing operations for the 11 months ended 28 February 2021, and compare forecast FY2021 to FY2020. Continuing operations in FY2021 include the group's equity accounted earnings for Ninety One.

Adjusted operating profit from continuing operations is expected to be 16% - 24% behind FY2020 (FY2020: £285.7 million) for Southern Africa, while the UK is expected to be 15% - 26% behind FY2020 (FY2020: £133.5 million).

Southern Africa:

- **Specialist Bank:** Adjusted operating profit is expected to be behind FY2020 in Rands and Pounds Sterling (FY2020: R4 960 million, £263.7 million).
  - Stronger client acquisition and activity levels within the Private Bank, particularly in 2H2021, were offset by subdued corporate lending activity. We note the meaningful recovery in client activity levels since December 2020, however, these were insufficient to reverse the experience in the first eight months of the financial year.
  - The results reflect lower transactional fee income given subdued client activity and the impact of lower interest rates.
  - The ECL impairment charge in 2H2021 is expected to be lower than 1H2021, in line with guidance.
  - Operating costs are expected to be lower than the prior year.
- **Wealth & Investment:** Adjusted operating profit is expected to be ahead of FY2020 in Rands, marginally behind in Pounds Sterling (FY2020: R501 million, £26.8 million).
  - Over the 11 months to 28 February 2021 third-party FUM increased by 30.7% to R329.8 billion (FY2020: R252.4 billion) with net inflows of R200 million (discretionary inflows of R6.7 billion were offset by R6.5 billion outflows in non-discretionary portfolios).
  - A moderate increase in fees in Rands was offset by the impact of a low interest rate environment.
  - Operating costs are expected to be lower than the prior year.

UK & Other:

- **Specialist Bank:** Adjusted operating profit is expected to be significantly behind FY2020 (FY2020: £102.6 million) largely as a consequence of structured products hedging costs as previously guided.
  - Client activity has picked up since the last quarter of the 2020 calendar year supported by steady deal flow and a strong pipeline in certain lending areas despite a third UK lockdown.
  - Private Banking activity showed strong book growth and client acquisition, supporting net interest income which is broadly flat despite lower interest rates.
  - Net fees and commissions were slightly lower than FY2020. Strong equity capital markets activity was offset by lower lending activity levels.
  - Trading income continued to be negatively impacted by elevated risk management and risk reduction costs on hedging the structured products book.
  - The ECL impairment charge in 2H2021 is expected to be lower than 1H2021 as we have not seen portfolio-wide stress due to COVID-19.
  - Operating costs are expected to be higher than the prior year given once-off costs associated with implementation of restructures, including the reorganisation of the UK bank and the closure of our operations in Australia.
- **Wealth & Investment:** Adjusted operating profit is expected to be ahead of FY2020 (FY2020: £63.0 million).
  - Over the 11 months to 28 February 2021 third-party FUM increased by 23.5% to £40.9 billion (FY2020: £33.1 billion) with net inflows of £952 million.
  - Higher income from increased transaction volumes (in early FY2021) and the associated repositioning of client portfolios was offset by the impact of lower interest rates.

- Operating costs are expected to be lower than the prior year.

Group Investments: Adjusted operating profit is expected to be ahead of FY2020 (FY2020: £16.7m) driven by the positive impact from the inclusion of the equity accounted earnings from the group's 25% stake in Ninety One and profit on the sale of certain assets. Operating costs are expected to be lower than the prior year.

Group costs: Group costs are expected to be below £35 million for FY2021 as guided in the interim results. These were also positively impacted by the non-repeat of costs associated with the exit of a marketing contract in the UK in the prior year.

Other information

- The results of Ninety One are equity accounted in FY2021. In FY2020, Ninety One was consolidated up to 13 March 2020 (the date of the demerger) and thus shown as a discontinued operation for the year ended 31 March 2020.
- Results have been negatively impacted by the depreciation of the average Rand against Pound Sterling exchange rate of approximately 14%.
- The effective tax rate is expected to be approximately 22% (FY2020: 11.9%).
- The weighted average number of shares in issue for FY2021 is expected to be approximately 929 million (FY2020: 946 million).

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

Key income drivers

Core loans

£'m	28-Feb-21	31- Mar-20	% change	Neutral currency % change
UK and Other	12,595	11,870	6.1%	6.1%
South Africa	13,688	13,041	5.0%	(0.8%)
Total	**26,283**	**24,911**	**5.5%**	**2.5%**

Customer deposits

£'m	28-Feb-21	31- Mar-20	% change	Neutral currency % change
UK and Other	16,386	15,272	7.3%	7.3%
South Africa	17,745	16,949	4.7%	(1.0%)
Total	**34,131**	**32,221**	**5.9%**	**2.9%**

Funds under Management (FUM)

£'m	28-Feb-21	31-Mar-20	% change	Neutral currency % change
Total Wealth & Investment FUM	**56,646**	**44,510**	**27.3%**	**25.3%**
UK and Other	**40,893**	**33,117**	**23.5%**	**23.5%**
Discretionary	34,274	27,599	24.2%	24.2%
Non-discretionary	6,619	5,518	20.0%	20.0%
Southern Africa	**15,753**	**11,393**	**38.3%**	**30.7%**
Discretionary and annuity	8,332	5,982	39.3%	31.6%
Non-discretionary	7,422	5,411	37.2%	29.6%
Specialist Bank	**388**	**508**	**(23.7%)**	**(25.0%)**
Total third party FUM	**57,034**	**45,018**	**26.7%**	**24.8%**

Notes

1. **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. Pro-forma financial information was prepared for illustrative purposes and because of its nature may not fairly present the issuer's financial position, changes in equity or results of operations. 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 specifically excludes the after-tax gains realised on the demerger and the sale of subsidiaries in FY2020 but includes the transaction costs incurred. Headline earnings is an earnings measure required to be calculated and

disclosed by the JSE and is calculated in accordance with the guidance provided in Circular 1/2019.

- **Headline earnings per share** (HEPS) 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.*
- **Core loans** is defined as net loans 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 as a percentage of average gross core loans subject to ECL.

2. 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:

	11 months to 28 February 2021		Year to 31 March 2020		Six months to 30 September 2020	
Currency per GBP1.00	**Period end**	**Average**	**Period end**	**Average**	**Period end**	**Average**
South African Rand	20.94	21.39	22.15	18.78	21.58	22.05
Australian Dollar	1.81	1.81	2.03	1.87	1.80	1.85
Euro	1.15	1.12	1.13	1.15	1.10	1.12
US Dollar	1.40	1.30	1.24	1.27	1.29	1.27

3. Profit forecasts

- The following matters highlighted in this announcement contain forward-looking statements:
  - Adjusted EPS is expected to be between 24p and 27p which is behind FY2020.
  - Basic EPS is expected to be between 19.7p and 22.5p which is ahead of FY2020.
  - HEPS is expected to be between 19.5p and 22.3p which is behind FY2020.
  - Adjusted operating profit is expected to be 16% to 24% behind FY2020.
  - Adjusted operating profit for the South African Specialist Bank is expected to be behind FY2020.
  - The UK Specialist Bank adjusted operating profit is expected to be significantly behind FY2020.
  - The South African Wealth & Investment business adjusted operating profit is expected to be ahead of FY2020 in Rands, behind in Pounds Sterling.
  - The UK Wealth & Investment business adjusted operating profit is expected to be ahead of FY2020.

  (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

actual future results, performance or achievements in the markets in which it operates to differ from those expressed in the Profit Forecasts.

- Any forward looking statements made are based on the knowledge of the group at 18 March 2021.
- These forward looking statements represent a profit forecast under the Listing Rules. The Profit Forecasts relate to the year ending 31 March 2021.
- 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 2020 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 2021.
- The Profit Forecasts have been prepared based on (a) the unaudited interim financial statements of the group for the six months to 30 September 2020, and the results of the Specialist Banking and Wealth & Investment businesses underlying those interim financial statements; (b) the unaudited management accounts of the group and the Specialist Banking and Wealth & Investment businesses for the eleven months to 28 February 2021; and (c) the projected financial performance of the group and the Specialist Banking and Wealth & Investment businesses for the remaining one month of the year ending 31 March 2021.
- Percentage changes shown on a neutral currency basis for balance sheet items assume that the relevant closing exchange rates at 28 February 2021 remain the same as those at 31 March 2021.

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 above.
- 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 reporting period. 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 judgmental in nature.

- Valuation of investment properties is performed by capitalising the budget net income of the property at the market related yield applicable at the time.
- The group's income tax charge and balance sheet provision are judgmental 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.

About Investec
Investec partners with private, institutional, and corporate clients, offering 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 8,500 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, which became separately listed on 16 March 2020. Investec's current market capitalisation is approximately £2.4 billion.

Johannesburg and London

JSE Equity Sponsor: Investec Bank Limited