

Investec Limited
Incorporated in the Republic of South Africa
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JSE share code: INL
JSE hybrid code: INPR
JSE debt code: INLV
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BSE share code: INVESTEC
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LEI: 213800CU7SM6O4UWOZ70

Investec plc
Incorporated in England and Wales
Registration number 3633621
LSE share code: INVP
JSE share code: INP
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Group pre-close trading update and trading statement

22 September 2023

Investec today announces its scheduled pre-close trading update for the interim period ending 30 September 2023 (1H2024). An investor conference call will be held today at 09:00 UK time / 10:00 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 five months ended 31 August 2023 and compares forecast 1H2024 to 1H2023 (30 September 2022). The average Rand / Pound Sterling exchange rate depreciated by approximately 19% for the five months to 31 August 2023, resulting in a significant difference between reported and neutral currency performance.

The comparability of the total Group's period on period performance will be affected by the financial effects of previously announced strategic actions, some of which will result in the Group performance being presented on a continuing and discontinuing basis in line with the accounting standards. We provide further details on the structural strategic actions in note 1 below.

Significant strategic actions taken:

- Combination of Investec Wealth & Investment UK (IW&I UK) with the Rathbones Group
- Approximately R6.7 billion or c.£300 million share buy-back and share repurchase programme, in line with the Group's strategy to optimise capital in South Africa
- Disposal of the management companies to Investec Property Fund (IPF) (now known as Burstone Group Limited) and consequent deconsolidation of IPF
- The restructure of The Bud Group Holdings (formerly known as IEP) to facilitate Investec's orderly exit in the prior year
- The distribution of the 15% shareholding in Ninety One in the prior year

The following commentary is based on the Group's total performance, comprising continued and discontinued operations.

1H2024 earnings update and guidance

The Group continued to experience solid performance from underlying client franchises notwithstanding the challenging macroeconomic environment. Our ongoing strategic execution and strong balance sheet, position us well to support our clients and achieve our financial targets.

For the six months ending 30 September 2023, the Group expects:

- Adjusted earnings per share between 35.5p and 37.5p (8.0% to 14.0% ahead of prior period) (1H2023: 32.9p)
- Basic earnings per share between 67.2p and 69.2p (33.0% to 37.0% ahead of prior period) (1H2023: 50.6p), positively impacted by the net gain from the implementation of the UK Wealth & Investment combination with Rathbones which was partly offset by the effects of IPF's deconsolidation
- Headline earnings per share between 33.8p and 35.8p (6.0% to 12.0% ahead of prior period) (1H2023: 32.0p) which includes the cost of executing strategic actions
- Adjusted operating profit before tax between £428.7 million and £449.6 million (1H2023: £405.0 million)
 - UK business' adjusted operating profit to be at least 25% higher than prior period (1H2023: £174.4 million). Specialist Bank expected to be at least 40% higher than prior period (1H2023: £128.6 million)
 - Southern African business' adjusted operating profit to increase by at least 5% on prior period in Rands (1H2023: R4 574 million, £230.6 million). Specialist Bank expected to be at least 12% higher than prior period in Rands (1H2023: R4 026 million, £202.9 million)
- ROE to be around the mid-point of the Group's target range of 12% to 16%.

The year to date performance which formed the basis for the above expectations is summarised below:

Growth in pre-provision adjusted operating profit was driven by continued client acquisition, positive effects from higher global interest rates and year on year growth in average lending books.

- Revenue growth was supported by continued success in our client acquisition strategies, a higher interest rate environment and balance sheet growth; and partially offset by the effects of some of the strategic actions described above and the persistent macroeconomic uncertainty.
 - Net interest income benefitted from growth in average lending books and higher interest margin given the higher interest rate environment
 - Non-interest revenue from our banking and wealth and investment businesses increased despite significant economic headwinds that continue to prevail in our core geographies; underpinned by increased client activity and diversity of income streams. This was offset by the effects of the strategic execution on the current period's earnings, comprising the cessation of equity accounting of Ninety One post distribution and The Bud Group Holdings following the restructure in 2022, and the deconsolidation of IPF after the disposal of the management companies
- The cost to income ratio improved as revenue grew ahead of costs and is expected to be below 60%. The fixed operating expenditure increase was driven by continued investment in people and technology as well as inflationary pressures. Variable remuneration grew in line with profitability.

The Group expects to report a credit loss ratio closer to the upper end of the through-the-cycle (TTC) range of 25bps to 35bps. South Africa is expected to report a credit loss ratio around the lower end of its TTC range of 20bps to 30bps, positively impacted by recoveries from previously written off exposures, while the UK is expected to report a credit loss ratio above the upper end of its TTC range of 30bps to 40bps. The expected credit loss experience to date reflects the higher interest rate and inflationary environment. We have seen idiosyncratic client stresses with no evidence of trend deterioration in the overall credit quality of our books.

For the five months period ended 31 August 2023:

- The Wealth & Investment business funds under management (FUM) increased by 1.3% to £61.3 billion. The positive net inflows of £325 million from discretionary FUM reflect the uncertain economic backdrop which is characterised by the cost of living crisis and higher interest rates which negatively impacted discretionary inflows from our UK business. In the Southern African business, net discretionary inflows of R7.5 billion were partly offset by net outflows of R1.9 billion in non-discretionary FUM
- Within Specialist Banking, core loans decreased marginally to £29.9 billion (31 March 2023: £30.2 billion) and increased by 8.3% in neutral currency annualised, driven by corporate lending in both geographies. Customer deposits also decreased marginally to £39.3 billion (31 March 2023: £39.6 billion) and increased by 9.3% in neutral currency annualised.

The Group remains well capitalised with strong liquidity, and well positioned to continue supporting its clients navigate the uncertain and complex operating environment.

Yesterday, we announced the completion of the combination of Investec Wealth & Investment UK with Rathbones, which marked the beginning of a long term strategic and symbiotic partnership between Investec Group and Rathbones which will enhance the client proposition for both groups.

We remain committed to our strategic priority to optimise shareholder returns. To date, the Group has acquired c.64 million INL and INP shares or an equivalent of 6.4% of the shares outstanding when the share purchase and share buy-back programme was announced; and returned c.R6.7 billion or c.£300 million to shareholders. We continue to make progress in the realisation of the remaining assets to facilitate our exit from The Bud Group Holdings.

Other information

The financial information on which this trading update and trading statement is based, has not been reviewed and reported on by the external auditors.

An investor conference call will be held today at 09:00 UK time /10:00 South African time. Please [REGISTER HERE](#) for the call.

Interim results

The interim results for the six months ending 30 September 2023 are scheduled for release on **Thursday, 16 November 2023**.

On behalf of the board
Philip Hourquebie (Chair), Fani Titi (Group Chief Executive)

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Key income drivers

Core loans

£'m	31-Aug-23	31- Mar-23	% change	Neutral currency % change
UK and Other	16,090	15,563	3.4%	3.4%
South Africa	13,838	14,616	(5.3%)	3.5%
Total	29,928	30,179	(0.8%)	3.5%

Customer deposits

£'m	31-August-23	31- Mar-23	% change	Neutral currency % change
UK and Other	20,014	19,116	4.7%	4.7%
South Africa	19,273	20,440	(5.7%)	3.1%
Total	39,288	39,556	(0.7%)	3.9%

Funds under Management (FUM)

£'m	31-Aug-23	31-Mar-23	% change	Neutral currency % change
Total Wealth & Investment FUM	61,357	60,577	1.3%	3.9%
UK and Other	42,293	40,747	3.8%	3.8%
Discretionary	36,860	35,291	4.4%	4.4%
Non-discretionary	5,433	5,456	(0.4%)	(0.4%)
Southern Africa	19,064	19,830	(3.9%)	4.2%
Discretionary and annuity	10,638	10,704	(0.6%)	8.2%
Non-discretionary	8,426	9,126	(7.7%)	(0.4%)
Specialist Bank	-	382	(100%)	(100%)
Total FUM	61,357	60,959	0.7%	3.3%

Notes

1. Further details on structural strategic actions executed.

- Following the completion of the combination with Rathbones (effective 21 September 2023), the Group will deconsolidate IW&I UK and going forward will apply equity accounting to its investment in the combined Rathbones Group (41.25% shareholding). In accordance with IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*), the Group's interest in IW&I UK will be presented as a discontinued operation for the current financial year.
- Subsequent to the disposal of the IPF management companies and IPF's name change to Burstone Group Limited, the Group's 24.3% shareholding in Burstone Group has been deconsolidated and is now held as an investment at fair value through profit and loss.
- Effective 30 May 2022, the Group distributed a 15% shareholding in Ninety One, with the remaining 10.08% shareholding held at fair value through other comprehensive income.
- The Group holds its 38.3% interest in The Bud Group Holdings at fair value through profit and loss following the restructure in November 2022. Prior to this date the Group applied equity accounting to its shareholding.
- The Group has repurchased R6.7 billion of its shares to date in relation to the R7 billion share repurchase programme announced in November 2022.

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 Listings 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 an earnings measure required to be calculated and disclosed by the JSE and is calculated in accordance with the guidance provided by The South African Institute of Chartered Accountants in Circular 1/2021.
- **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.

3. 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:

Currency per GBP1.00	Five months to 31 August 2023		Year ended 31 March 2023		Six Months to 30 September 2022	
	Period end	Average	Period end	Average	Period end	Average
South African Rand	23.99	23.47	21.94	20.45	20.05	19.80
Euro	1.17	1.16	1.14	1.16	1.14	1.17
US Dollar	1.27	1.26	1.24	1.21	1.11	1.22

4. Profit forecasts

- The following matters highlighted in this announcement contain forward-looking statements:
 - Adjusted EPS is expected to be between 35.5p and 37.5p which is ahead of 1H2023.
 - Basic EPS is expected to be between 67.2p and 69.2p which is ahead of 1H2023.
 - HEPS is expected to be between 33.5p and 35.5p which is ahead of 1H2023.
 - Adjusted operating profit is expected to be between £428.7 million and £449.6 million which is ahead of 1H2023.
 - The UK business' adjusted operating profit to be at least 30% higher than prior period.
 - The Southern African business' adjusted operating profit to increase by at least mid-single digits ahead of prior period in Rands.
 - ROE is expected to be around the mid-point of the Group's target range of 12% to 16%.(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 21 September 2023.
- These forward looking statements represent a profit forecast under the Listing Rules. The Profit Forecasts relate to the six months period ending 30 September 2023.
- 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 compiled using the assumptions stated below, and on a basis consistent with the accounting policies adopted in the Group's March 2023 audited financial statements, which are in accordance with IFRS and are those which the Group anticipates will be applicable for the year ending 31 March 2024.
- The Profit Forecasts have been prepared based on (a) audited financial statements of the Group for the year ended 31 March 2023, and the results of the Specialist Banking and Wealth & Investment businesses underlying those audited financial statements; (b) the unaudited management accounts of the Group and the Specialist Banking and Wealth & Investment businesses for the five months to 31 August 2023; and (c) the projected financial performance of the Group and the Specialist Banking and Wealth & Investment businesses for the remaining one month of the period ending 30 September 2023.
- Percentage changes shown on a neutral currency basis for balance sheet items assume that the relevant closing exchange rates at 31 August 2023 remain the same as those at 31 March 2023. This neutral currency information has not been reported on by the Group's auditors.

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.
- The Rand/Pound Sterling and US Dollar/Pound Sterling exchange rates remain materially unchanged from the prevailing rates detailed above.
- The tax rates remain materially unchanged.
- 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 budgeted 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 Group (comprising Investec plc and Investec Limited) partners with private, institutional, and corporate clients, offering private banking, wealth management, corporate and investment banking, and investment 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 8,700 employees.

In 2002, Investec implemented a dual listed company structure with listings on the Johannesburg and London Stock Exchanges.

Johannesburg and London

JSE Equity Sponsor: Investec Bank Limited