Investec Limited	**Investec plc**
Incorporated in the Republic of South Africa	Incorporated in England and Wales
Registration number 1925/002833/06	Registration number 3633621
JSE share code: INL	LSE share code: INVP
NSX share code: IVD	JSE share code: INP
BSE share code: INVESTEC	ISIN: GB00B17BBQ50
ISIN: ZAE000081949	

Investec (comprising Investec plc and Investec Limited) – pre-close trading update

18 September 2020

Investec today announces its scheduled pre-close trading update for the six months ending 30 September 2020 (1H2021), the results of which are due for release on 19 November 2020.

A conference call will be held today at 08:30 UK time / 09:30 South African time. Dial-in details are in the Notes section of this announcement.

The commentary and trends that follow, unless stated otherwise, relate to the five months ended 31 August 2020, and compare forecast 1H2021 to 1H2020. The comparability of 1H2021 to the prior period is impacted by the economic effects of COVID-19 which prevailed in the period under review.

Trading update:

- **Operating environment:** A challenging economic backdrop, primarily caused by COVID-19 and associated lockdowns, resulted in reduced economic activity and increased market volatility. The first half of the year has seen lower average interest rates, reduced client activity and a 22% depreciation of the average Rand against Pound Sterling compared to the prior period.
- **Client franchises:** The Wealth & Investment businesses reported net inflows and growth in funds under management (FUM). The Specialist Banking businesses have seen good client acquisition in both geographies, the Private Banking franchise showed resilience reporting loan book growth since year end while the corporate lending businesses experienced reduced lending activity.
- **Key earnings drivers:** Over the five months to 31 August 2020, third-party FUM increased by 14.1% to £51.4 billion (31 March 2020: £45.0 billion) and net inflows were positive at £391 million. Core loans and advances declined 1.3% to £24.6 billion (31 March 2020: £24.9 billion).
- **Operating income:** Remained under pressure, given the operating environment summarised above and unfavourable market conditions for investment income and hedging of structured products.
- **Operating costs:** Reduced against 1H2020 as management increased focus on controllable costs given the challenging trading conditions and our stated strategic objective to reduce costs.
- **Simplification:** Further progress was made on the group's strategy to simplify and focus the business. In the UK we have further enhanced efficiencies by more closely integrating business-enabling functions. This means we are proposing a reduction in the UK Bank's London based headcount of approximately 210 roles or 13%.
- **Capital and Liquidity:** Capital and leverage ratios remain sound, ahead of internal targets and regulatory requirements. The group's cash and near cash at 31 August 2020 was £12.9 billion (representing c.40% of customer deposits).
- **Asset quality:** The group expects elevated levels of expected credit losses, as indicated at the FY2020 results in May 2020, mainly driven by forward-looking macroeconomic scenarios. Following the increased impairments, including a COVID-19 overlay, raised in the last quarter of FY2020, the annualised credit loss ratio is expected to be between 0.47% to 0.54% (1H20: 0.23%; FY2020: 0.52%).
- **30 September 2020 net asset value (NAV) and tangible NAV guidance:**
    - NAV per share expected to increase from 414.3p (FY2020) to between 422p and 428p.

    - Tangible NAV per share expected to increase from 377.6p (FY2020) to between 387p and 394p.
- **1H2021 earnings guidance for continuing operations:** This excludes the results of Investec Asset Management (which was demerged in March 2020) from the comparative period, but includes the equity accounted earnings of the group's 25% retained stake for 1H2021.
    - Adjusted earnings per share (EPS) expected to be between 10.5p and 8.3p; 53% to 63% behind 1H2020 (1H2020: 22.4p), primarily due to the challenging market conditions described above and effective tax rate normalisation.
    - Basic EPS expected to be between 8.4p and 6.5p; 56% to 66% behind 1H2020 (1H2020: 19.0p).
    - Headline earnings per share (HEPS) expected to be between 9.0p and 7.3p; 47% to 57% behind 1H2020 (1H2020: 17.0p).
- **1H2021 earnings guidance including discontinued operations:** This includes the results of Investec Asset Management (which was demerged in March 2020) in the comparative period and includes the equity accounted earnings of the group's 25% retained stake for 1H2021.
    - Adjusted EPS expected to be between 10.5 and 8.3p; 64% to 71% behind 1H2020 (1H2020: 28.9p), as a result of the demerger of the asset management business in March 2020 in addition to the factors noted above.
    - Basic EPS expected to be between 8.4p and 6.5p; 66% to 74% behind 1H2020 (1H2020: 24.7p).
    - HEPS expected to be between 9.0p and 7.3p; 60% to 68% behind 1H2020 (1H2020: 22.7p).
- **Dividend guidance:** In light of the prevailing guidance from both the South African and UK regulators regarding dividend declarations, the group does not anticipate declaring an interim dividend. Subject to any changes to this guidance the group will declare a dividend in its normal distribution cycles.

Fani Titi, Chief Executive of Investec, said: *"The business has proved resilient in a period characterised by COVID-19 stringent lockdowns in the first quarter, followed by a gradual reopening of the economies. Severe GDP contractions and volatile financial markets negatively impacted revenues.*

Capital and liquidity ratios remain robust and are expected to be stable. Provisions for ECL are expected to remain elevated in the period under review. Net asset value per share is expected to increase. Costs were well managed.

The business is well positioned to support its clients through this challenging environment. We will continue to ensure the safety and wellbeing of our people and the integrity of our balance sheet. I wish to thank my colleagues for their dedication to our clients and communities around us."

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Divisional overview

The commentary and trends that follow, unless stated otherwise, relate to the five months ended 31 August 2020, and compare forecast 1H2021 to 1H2020 for Continuing operations excluding the asset management business which was demerged in March 2020. Continuing operations include the group's equity accounted earnings for Ninety One for the period under review.

- Adjusted operating profit for Continuing operations is expected to be 50% to 60% behind 1H2020 (1H2020: £276.3m) driven by lower operating performance.
    - <u>South African Specialist Bank:</u> adjusted operating profit is expected to be behind 1H2020 in Rands and Pounds Sterling (1H2020: R3 205 million, £175.6 million). We continue to grow our franchises in a difficult trading environment with growth in client acquisition across both private and corporate clients. Growth in trading income was offset by lower net interest income, net fee income, associate and investment income; mainly due to lower interest rates, lower client activity and negative fair value adjustments on both equity and property investments. The ECL impairment charge is expected to remain elevated, albeit lower than 2H2020 which already incorporated updated macroeconomic scenarios and management overlays given COVID-19. Operating costs are expected to be lower than the prior period.
    - <u>UK & Other Specialist Bank:</u> adjusted operating profit is expected to be down on 1H2020 (1H2020: £79.4 million). There was strong performance from the bank's equity capital markets' activities. The Private Banking business continued to increase traction and growth in clients with good levels of private client activity and mortgages. Loan growth was relatively strong in certain areas albeit with overall lending levels behind the prior period given COVID-19 impact on activity levels, resulting in lower net interest and fee income. Net interest income was also reduced by the fall in interest rates. Trading income continued to be negatively impacted by unfavourable market conditions for hedging of structured products as communicated in May 2020. The ECL impairment charge is expected to remain elevated, however below the level reported in 2H2020 which included COVID-19 overlays. Operating costs are expected to be lower than the prior period.
    - <u>South African Wealth & Investment business:</u> adjusted operating profit is expected to be in line with 1H2020 in Rands, behind in Pounds Sterling (1H2020: R258 million, £14.1 million) with modest fee income growth offset by the impact of lower interest rates. Operating costs are expected to be lower than the prior period.
    - <u>UK & Other Wealth & Investment business:</u> adjusted operating profit is expected to be behind 1H2020 (1H2020: £30.5 million). Revenue was impacted by the sale of the Irish wealth business in 2H2020 as well as lower interest rates. Operating costs are expected to be lower than the prior period.
- Net interest margins have been impacted by negative capital endowment and the lag on the repricing of liabilities relative to assets following the reduction in interest rates.
- There were no significant costs associated with the implementation of the group's strategic initiatives in the period under review.

Asset quality

- Given the further deterioration in the macroeconomic backdrop due to COVID-19, the group is expected to report an increase in stage 2 and 3 loans in South Africa; and an increase in stage 2 loans and stable stage 3 loans in the UK. The group predominantly provides secured loans to niche target markets, such as professionals, high net worth individuals and income producing real estate. The corporate book is well diversified across industries and asset classes.
- COVID-19 relief: In support of our clients and the economy during this crisis, we have provided various forms of relief on request from some of our clients. At the peak, the group provided relief to loans equivalent to 13.7% of the book in the UK (mainly in asset finance, lending collateralised by property and corporate lending) and 23.0% in South Africa (mainly in lending collateralised by property and Investec for Business). Currently, 12.3% of UK and 5.6% of South Africa's loans are under some form of relief.

Capital and Liquidity management

- For the six months to 30 September 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.
- The group has maintained strong liquidity levels. Cash balances remain strong. As at 31 August 2020 cash and near cash balances amounted to £12.9 billion (£6.5 billion (R147 billion)) in Investec Limited and £6.4 billion in Investec plc) amounting to approximately 40% of customer deposits.
- The loan to customer deposit ratio at 31 August 2020 was 75%.

Other information

- The results of Ninety One are equity accounted in 1H2021 and reflected as a discontinued operation in the 1H2020 results.
- Results have been negatively impacted by the depreciation of the average Rand against Pound Sterling exchange rate of approximately 22%.
- The effective tax rate is expected to be approximately 19% (1H2020: 16.2% for the group including asset management; 14.4% for Continuing operations).
- The weighted number of shares in issue for 1H2021 is expected to be approximately 934 million (1H2020: 948 million).

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

Key income drivers

Core loans

£'m	31- Aug-20	31- Mar-20	% change	Neutral currency % change
UK and Other	12,017	11,870	1.2%	1.2%
South Africa	12,571	13,041	(3.6%)	(1.3%)
Total	**24,587**	**24,911**	**(1.3%)**	**(0.1%)**

Customer deposits

£'m	31- Aug-20	31- Mar-20	% change	Neutral currency % change
UK and Other	15,947	15,272	4.4%	4.4%
South Africa	16,418	16,949	(3.1%)	(0.8%)
Total	**32,364**	**32,221**	**0.4%**	**1.6%**

Funds under Management (FUM)

£'m	31-Aug-20	31-Mar-20	% change	Neutral currency % change
Total Wealth & Investment FUM	**50,582**	**44,510**	**13.6%**	**14.3%**
UK and Other	**37,697**	**33,117**	**13.8%**	**13.8%**
Discretionary	31,713	27,599	14.9%	14.9%
Non-discretionary	5,984	5,518	8.4%	8.4%
Southern Africa	**12,885**	**11,393**	**13.1%**	**15.8%**
Discretionary and annuity	6,948	5,982	16.2%	18.9%
Non-discretionary	5,936	5,411	9.7%	12.3%
Specialist Bank	**782**	**508**	**54.0%**	**46.8%**
Total third party FUM	**51,364**	**45,018**	**14.1%**	**14.7%**

Notes

1. 1H2020 adjusted operating profit

£'000	30 Sept 2019
Total operating income	959,269
Impairment losses on loans and advances	(31,021)
Operating costs	(622,247)
Depreciation on operating leased assets	(845)
Operating profit before goodwill	305,156
Operating profit attributable to minorities	(28,863)
Adjusted operating profit - Continuing operations	**276,293**
Taxation on adjusted operating profit	(41,482)
Earnings attributable to other preference share and equity holders	(22,464)
Adjusted earnings attributable to shareholders - Continuing operations	**212,347**
Adjusted earnings attributable to shareholders - Discontinued operations	61,265
Adjusted earnings attributable to shareholders - Total group	**273,612**
Adjusted earnings attributable to shareholders - Continuing operations including 25% interest in Investec Asset Management	**227,663**

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 specifically excludes the after-tax gains realised on the demerger and the sale of subsidiaries but includes 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 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 and advances** is defined as net loans and advances to customers plus net own originated securitised assets.
- **The annualised credit loss ratio** is calculated as expected credit loss (ECL) impairment charges on gross core loans and advances (annualised) 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) (9:30 South African time).
Telephone conference dial in numbers:

- Australia: 02 8015 2168
- Ireland: 014 860 742
- Johannesburg: 010 201 6700
- Johannesburg: 011 535 3500
- Other Countries: +27-10-201-6700
- Other Countries: +27-11-535-3500
- South Africa: 0 800 203 599
- UK: 0 333 300 1417
- USA and Canada: 1 508 924 4325

4. 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:

	Five months to 31 August 2020		Year to 31 March 2020		Six months to 30 September 2019	
Currency per GBP1.00	**Period end**	**Average**	**Period end**	**Average**	**Period end**	**Average**
South African Rand	22.68	22.13	22.15	18.78	18.69	18.28
Australian Dollar	1.82	1.87	2.03	1.87	1.82	1.82
Euro	1.12	1.12	1.13	1.15	1.13	1.13
US Dollar	1.33	1.26	1.24	1.27	1.23	1.26

5. Profit forecasts

- The following matters highlighted in this announcement contain forward-looking statements:
  - Continuing adjusted EPS is expected to be between 10.5p and 8.3p; 53% to 63% behind 1H2020.
  - Continuing basic EPS is expected to be between 8.4p and 6.5p; 56% to 66% behind 1H2020.
  - Continuing HEPS is expected to be between 9.0p and 7.3p; 47% to 57% behind 1H2020.
  - Group adjusted EPS (including discontinued operations in the prior period) is expected to be between 10.5 and 8.3p; 64% to 71% behind 1H2020.
  - Group basic EPS (including discontinued operations in the prior period) is expected to be between 8.4p and 6.5p; 66% to 74% behind 1H2020.
  - Group HEPS (including discontinued operations in the prior period) is expected to be between 9.0p and 7.3p; 60% to 68% behind 1H2020.
  - Adjusted operating profit for Continuing operations is expected to be 50% to 60% behind 1H2020.
  - Adjusted operating profit in the South African Specialist Bank is expected to be behind 1H2020.
  - The UK Specialist Bank adjusted operating profit is expected to be behind 1H2020.
  - The South African Wealth & Investment business adjusted operating profit is expected to be in line with 1H2020 in Rands, behind in Pounds Sterling.
  - The UK Wealth & Investment business adjusted operating profit is expected to be behind 1H2020.

  (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 they operate to differ from those expressed in the Profit Forecasts.
- Any forward looking statements made are based on the knowledge of the group at 17 September 2020.
- These forward looking statements represent a profit forecast under the Listing Rules. The Profit Forecasts relate to the six month period ending 30 September 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 audited financial statements for the year ending 31 March 2020, which are in accordance with IFRS and are those which the group anticipates will be applicable for the interim period ending September 2020.
- The Profit Forecasts have been prepared based on (a) the unaudited management accounts of the group for the five months to 31 August 2020; and

(b) the projected financial performance of the group for the remaining one month of the interim period ending 30 September 2020.

- Percentage changes shown on a neutral currency basis for balance sheet items assume that the relevant closing exchange rates at 31 August 2020 remain the same as those at 31 March 2020.

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 judgemental 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 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.

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 8,700 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 GBP1.4 billion.

Johannesburg and London

Sponsor: Investec Bank Limited