

Interview transcript

21 November 2013

INTERIM RESULTS MEDIA PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Investec interim results media conference. All participants will be in listen-only mode and there will be opportunity to ask questions after this morning's presentation. If you should need assistance during the conference please signal an operator by pressing star and then zero. Please also note that this conference is being recorded. I would now like to turn the conference over to Mr Stephen Koseff. Please go ahead, sir.

Stephen Koseff

Good morning everybody. Thank you for giving us the time. I just wanted to run through a few highlights for our interim results to 30th September and then open it up for questions. You remember we gave a trading update towards the middle of September when we gave some guidance on the results.

The operating profit for this period was down 2.3%, which was at the top end of our trading range. We gave a range of 0% to 10% down. The key reason for that is the depreciation of the Rand which fell 15% during the period. In Rand terms or stable currency our operating profit would have been up by 12%.

Our asset management business saw its profits rise 6.8% and continued to see net inflows with net inflows of about £1.4 billion during the period, which was 2% of opening [?] funds under management. We still have a very solid and strong long-term performance track record. 88% of our portfolios were outperforming their benchmarks over a ten year period. And you would remember that at the end of July we closed the sale of a 15% stake in our management [unclear].

Our second of our three core businesses, wealth and investment, had a very good half year with operating profit up by 35%. I think you will remember we made a couple of acquisitions over the last couple of years. This is fully integrated, and I think we have a very strong footprint right throughout the UK. We also have in South Africa cooperation between our private banking business and our wealth business, and we are starting to see a lot of good inflows as a consequence of that. In fact our discretionary funds under management in South Africa grew 16%.

We also had a very strong performance from our specialist bank in South Africa. They saw profits up 45% in Rand. And that was as a consequence of a good growth in fees and commission income, largely driven by our activities across our various business areas, both private banking, corporate institutional banking and our property funds that we manage under that pillar.

The London specialist bank has seen an uptick in activity levels in the last two months as the UK economy has started to improve. This does not get reflected in these results. We did see a drop-off in impairments. Our strategy is still to deal with our legacy book of loans that rose pre the financial crisis that we need to still manage out. At this point in time we split the business between legacy activities



and non-legacy activities or ongoing activities. The ongoing profits were £76 million, but we lost £49 million in the legacy business. And the return on equity in the ongoing business is about 18% of the [unclear].

We saw investment and trading income impacted by slightly lower returns in the fixed income space, but overall we're fairly comfortable with the outlook for the full year. As we mentioned in our previous trading update, we had to take a number of measures in our Australian business, so we cut out businesses that lacked scale or were not appropriately aligned with our broader group. These costs are reflected in these results. We continue to focus on building businesses in our select niches which are strategically aligned to our broader group.

The key challenge for us has been to ensure our specialist banking business is in the best possible shape to take advantage of what we perceive as an upturn in the global economy and generate appropriate shareholder returns. You've already seen the actions that we've taken over the past year have come through in the South African banking results, and we believe we are making good progress in the other parts of the world.

So looking ahead I think we do see that there is some pick-up in activity in markets around the world and we think we're quite well placed to take advantage of that. Our aim is to ensure that we build and expand the areas where we are strong, and we are ensuring that our senior management are focusing very much on delivering growth into the future and ensuring that we put resources into the right areas.

So that just gives you a brief overview. We have also reported for the first time the results both in Sterling and in Rand. So for the Rand investors you will see that the results were up right across the board. The currency did play a major factor in these results. I'm open for questions.

Operator

Thank you very much, sir. Ladies and gentlemen, at this time if you wish to ask a question please press star then one on your touchtone phone. If you decide to withdraw the question please press star then two to remove yourself from the question queue. Again, if you wish to ask a question please press star and then one now. We will pause a moment to see if there are any questions. Our first question comes from Renee Bonorchis from Bloomberg. Please go ahead.

Renee Bonorchis

Good morning everybody. Two questions. Since the end of September the Rand has continued to be volatile and it is still pretty much on a weakening trend. At this point is it looking like a negative impact on your second half? And the second question. I just wanted to know a bit more about the specifics in Australia. What exactly was closed and how many jobs was that?

Stephen Koseff

There were 80 jobs and a number of business units were closed down. We closed down our securities business. We didn't think it was necessary for us to have a securities business there. And we closed down some of our structured finance activities. So little pockets of businesses. And there were 80 jobs as a consequence of that.

Renee Bonorchis

Thanks. And just on the Rand?



Stephen Koseff

It impacts us obviously. It does impact on our conversion of results into Sterling. And we don't know where the Rand will go. It got very weak. It's coming back a bit. But who knows? It does affect our Sterling results obviously. Our Rand results have been pretty strong. It depends on what aspect you look at the group from.

Operator

Ladies and gentlemen, a reminder, if you wish to ask a question please press star then one now. We will pause another moment to see if there are any further questions. Sir, it appears that we have no further questions. Do you have any closing comments?

Stephen Koseff

No, I think I have covered what I think is appropriate. Obviously the exchange rate marred the underlying performance of the group because we made significant progress on some of the legacy issues. There are some that still exist, but I think we are well on the path to dealing with those. And we are very confident where our business is at the moment, and the quality of our brand and our franchise and the customer experience that we're getting feedback on. So we're fairly comfortable in our space. Some strategic initiatives over the last two years are starting to bear fruit. If you look at the wealth business it is really gaining traction and starting to come through pretty strongly. The return on equity in that business based on what we paid for those businesses was already about 20% pre-tax. So we are really starting to see that business come through pretty strongly. We are fairly comfortable with where we are. Obviously we've still got work to do.

Operator

Thank you very much, sir. Ladies and gentlemen, on behalf of Investec that concludes this morning's conference. Thank you for joining us and you may now disconnect your lines.

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