

Conference Call Transcript

19 November 2020

INTERIM RESULTS

Fani Titi

Ladies and gentlemen, good morning and welcome to our financial year 2021 interim results presentation. I'm joined by Nishlan Samujh, our Finance Director, on the stage. Before we review the results for the period I would like to give you a brief update on our COVID-19 response. I'm going to start with an update on our people. In South Africa we are beginning to return to the office. In the UK, given the second lockdown, staff continues to work from home. Clearly the future world of work post COVID-19 will benefit from the multiple remote working models now available to us. However, for Investec we want to protect our culture. Therefore the office will remain the centre of gravity as we go forward. We continue to support our colleagues through a number of wellness programmes as we go forward.

Moving on to our clients, current COVID-19 relief provided to 6.3% of gross loans in the UK, and at peak that number was 13.7%. In South Africa the current proportion of the loan book under relief is 2.2%. At peak that number was 23%. So we're beginning to see some good recovery in both geographies. We also facilitated over R20 million in donations on behalf of our clients primarily using income generated from our private clients' charitable trusts. In the UK and SA we are an accredited lender for government schemes.

Moving on to our communities, as we had announced before, we committed £3.6 million of relief, approximately R78 million for relief for communities. And about two-thirds of that amount has been allocated to date. We also did indicate earlier that senior leaders and staff donated via salary deductions to community initiatives that were primarily focussed on food security, economic continuity, healthcare, education and programmes that support anti-gender-based violence, particularly in South Africa.

Moving on to operational resilience, managing the integrity of our balance sheet has been very primary in this period. So we have conservative levels of capital and liquidity, firstly to weather the crisis, second, to support our clients, and thirdly, to fund growth in the long term. We have made further investments in our IT infrastructure with the aim of supporting work from home work, but also to continue to enable our staff to support our clients in giving them the kind of client experience that they expect from Investec. Clearly where our staff has gone back to work we have instituted a number of safety protocols.

Now looking at an overview of the results. It is clear that the trading environment has been very difficult where we have seen in effect massive economic contractions and we also have seen very volatile markets. Despite these conditions our client franchises performed particularly well. We saw net inflows of £336 million in our Wealth businesses with funds under management increasing by 15% to £51.1 billion. In the Specialist Banking businesses we saw good client acquisition in both geographies. Our net core loans grew by 1% to £25.2 billion

with strong loan growth in our Private Banking business in the UK, that growth being offset by subdued corporate lending activity. Corporates were positioned quite conservatively in a period of crisis, and that happened in both geographies. And we also saw corporate repayments.

Our client engagement has continued to be quite good during this period as we have used our digital platforms to continue to support our clients. As indicated, our balance sheet is very strong with robust capital and liquidity levels. Our loan book has been particularly resilient. The quality of our loan book obviously is an indication of this quality of our clients and the strength of our business model. The loan book is conservatively provided, and Nishlan will later unpack our provisioning.

The loan loss ratio increased from 23 basis points to 47 basis points driven largely by macroeconomic assumptions in our models as we calculate our ECLs using IFRS 9. But Nishlan will go into that. This level of provisioning is a little lower than we had during the last half of FY2020 and we expect to see our CLR moderating as we go forward. We have also seen good cost discipline with cost during this period compared to last year 8.1% down in neutral currency. We continue to see good execution on our strategic plan. Our plan remains clear and unchanged, and execution will remain key as we go forward. Later in the presentation we will indicate progress made on our strategic plans.

Starting off just looking at the operating environment, I have already indicated that we saw a very sharp GDP contraction. You can see in South Africa our base case assumption is for a 9.2% contraction in GDP for the calendar year 2020. The impact of this contraction is obviously going to drive ECLs higher as we input assumptions in our model. Activity levels will be low. That will impact non-interest revenues but also the value of assets in contracting economies will be lower. In the UK our base case assumption is for a 10.1% contraction in GDP. We also saw very volatile markets.

On the chart you will see that we have had the FTSE in the comparative period at about 7,000 and in the current period that we're reporting on at about 6,000. So you would expect that to impact the revenues in our Wealth business in the UK as an example. We also will see asset valuations being down given that level of volatility in the public market, and that will flow through also into the private market. Looking at the second graph, we do see there the level of volatility in the average rate of the Rand versus Pound Sterling. Over the period the average Rand against Pound Sterling depreciated by 20.6% compared to the prior period. So in our results you will see the impact of that level of depreciation.

Just going to the next slide, despite this level of volatility and the contraction that we have seen in the economies in which we operate, we are beginning to see some pick-up in activity. And to evidence that we have given you on this slide [break in audio] banking businesses, starting with South Africa and looking at private bank lending turnover with March 2020 as a base. You can see the impact of the lockdown in April, May and June. And as the lockdown started to ease off in July you can see turnover pick up quite significantly. And in September we saw turnover quite impressively up, albeit that we were still not where we were in March. If you look at point of sale transactions as measured by the value of card transactions, again with March as a base, you can see that by September we have caught up to where we were in March. So encouraging levels of activity and

these will hopefully continue, depending of course on whether the lockdowns remain where we are. There is no stricter lockdown in South Africa.

In the UK if you look at the graph on the left we're looking at our high net worth mortgage monthly lending turnover. And the light blue bar is 2019 and the darker blue is 2020. Again you can see activity in the months of May and June being rather subdued and you can see a pick up. If you look at client acquisition in the UK private bank you can see that in April/May we saw reductions in client acquisitions, but we have seen that pick up since. So we are hopeful that we will continue to see activity improving, and that will inform our outlook of performance in the second half.

Just looking at results highlights for continuing operations, adjusted operating profit decreased by 48.4% to £142.5 million. Again, the main contributors, as indicated, in the economic environment and market volatility will be the compression of net interest margin, the reduction in non-interest revenue given lower activity, and trading income reducing by about 100% given some hedging losses in the UK bank related to our structured product. Nishlan will cover that later on. This was offset obviously by good cost control as I have indicated. I also have indicated that our impairments were up in the area.

All in all that led to adjusted operating profit reducing by 48.4%. That translated into adjusted earnings per share coming in at 11.2%, which is 50% behind the prior period but ahead of the guidance that we had given. Net asset value per share increased quite pleasingly at an annualised 9.3% since March. Return on equity is reported at 5.3% versus 10.7% in the comparative period. Our cost to income ratio increased from 67% to 72%, largely driven by a reduction of 24% in net income offset of course by the cost reduction of 14% that I have referred to. The credit loss ratio increased from 23 bps to 47 bps as I have already covered. I'm pleased to announce that we have declared an interim dividend of 5.5p which is compared to 11p in the comparative period. But I hasten to add that in the comparative period the results included 80% attributable earnings from Ninety One.

We obviously do endorse the guidance notes that have been issued by the SARB with respect to banks having to conserve capital and having to support the real economy. We did not pay a final dividend when we announced our results in May, and the current dividend that has been declared is predominantly carried by our capital light businesses. We continue to remain a 25% shareholding in Ninety One and we have two Wealth businesses that have performed particularly well in this tough environment. So within our banking businesses while there is a contribution to the payment of dividend we have substantially built up capital resources in this period.

If we look at the performance of the franchises very briefly – and Nishlan will go into more detail, so I'm going to be quite high level – starting off with the South African business, the Specialist Banking business saw adjusted operating profit reduce by £52 million. Again the biggest contributors were compression in net interest margin given the sharply lower interest rates, reduction in non-interest income given lower activity and lower investment income, and obviously we increased impairments – good cost control reducing the extent of the reduction. In Rands that reduction in 23%, which is quite a commendable performance in the current environment.

Our Wealth business in South Africa saw profits in Rands increasing by 2.3% and we saw net inflows in discretionary funds under management. Our group investments where we have our holding of Ninety One, investment in IPF, we saw a reduction of R29 million. Nishlan will go into more detail there. All in all the South African business recorded a reduction in profit of 45.6% but in Rands the reduction in 34.3%. As I indicated, there was a 20.6% depreciation of the average Rand versus the Sterling Pound. The ROE for the South African business in total came in at 8.1% versus 13.5% in the prior period.

Moving on to the business in the UK, the Specialist Banking business recorded a reduction of £67 million or 84%. Again the drivers in the banking business were the same. Net interest margin compression, non-interest revenue reduction, increase in impairments and significant cost savings within that business. And in this business, as I have mentioned a little earlier, we saw a hedging loss of £53 million. So of the reduction of £67 million, £53 million has been contributed by the hedging loss. Nishlan will cover that a little later in the presentation. Our Wealth business performed particularly well. As I indicated, the level of the FTSE in this period was about 1,000 points lower. We saw significant cost reductions as well despite the fact that we had to spend some cost in certain restructure activities that we performed. So a pleasing performance, even though that performance is behind last year's performance by 5.2%. Group investments relates to our holding in Ninety One. I'm going to hand over the presentation to Nishlan to go deeper into the detail.

Nishlan Samujh

Thanks Fani, and good morning to everyone. It's really a pleasure to deliver these half year results to you. I'm going to dig a little deeper and just pick up from where Fani left off. I think again if we look at the overall business from a geographic perspective our operating income, around about 60% of our operating income was contributed from our UK business. And from an operating profit perspective around about 70% of the operating profit was contributed from our South African business. From a divisional performance perspective our Wealth & Investment business contributed 26% to the overall operating income with the Specialist Bank contributing 74%. And from a profitability perspective you see around about 8% contributed from group investments. That includes the return on the 25% that we hold in Ninety One and other investments that we have chosen to represent separately from our Specialist Banking businesses so that you actually can evaluate the franchises independent of these group investments that we hold. The Wealth & Investment business contributing similar to operating income at 26% and the Specialist Bank at 66%.

Let's get a little deeper into the franchise businesses, and let's start with the Specialist Bank business in South Africa. Looking at some of the core drivers, net core loans and advanced did decrease by 1.6% in the period to R284.4 billion, and that was mainly driven by the fact that our private client book remained relatively flat. I will give you some detail later on when I decompose the loan book. But we did see that corporate South Africa in the main remained fairly defensive from a balance sheet perspective and also fairly cautious from an investment deployment perspective given the economic outlook. Therefore we did see a reduction in our levels of corporate activity over this period. In particular, one of our business lines, Investec for Business, which deals with trade finance and import solutions, did see lower activity levels given the uncertain outlook and corporates being cautious on the deployment of working capital given the uncertain outlook caused by the COVID environment. Customer deposits remained strong. A reduction of 2.8% to R365 billion in the period is really part and parcel of our overall liquidity management.

From an operating income perspective overall operating income decreased from R6.5 billion for the half year to R5.8 billion in this half year. It was quite an even impact across various line items. If I unpack that, net interest margin did contract more than we would expect at about 41 basis points in this period. When we look at it from an overall year perspective we would expect that in the second half that this will recover by at least half, if not more, of that reduction in basis points. That's as a function of the fact that our assets have repriced earlier than liabilities and the nature of the sharp decrease in interest rates in the market, particularly over the period January to March. And if we compare it to prior year there has been an overall 300 basis point reduction in interest rates. There is an impact that will linger, and lower interest rates do result in a lower contribution on our effective endowment capital that we hold, and the fact that we continue to hold a defensive cash position on our balance sheet.

From an activity level perspective, lending and transactional fee income was impacted by the sharp slowdown that you saw on Fani's slides particularly between April and June. And in fact, as we saw the economy open up in September we saw activity levels above the prior year. So I think there will remain volatility as we see activity levels impacted by cautiousness around economic activity, but I think the resilience of our client base is starting to reflect as the economy is much more active. From an investment income perspective, in the franchise businesses the investment assets within the pillar did generate lower dividend flow income in the period as well as lower opportunities for realisations. And therefore we have seen lower investment income.

Now, we did have positive momentum in terms of markets because there has been a recovery since the end of March. Some of our listed stocks did contribute positively, but we have continued to adjust down some of the valuations related to our non-listed portfolios. From a cost to income ratio perspective the overall cost to income ratio for the Specialist Bank in South Africa was 55.4%. That is a bit weaker from where we have operated historically, and that's notwithstanding the fact that costs have reduced by 6% in the period. That included a reduction in variable as well as discretionary spend in the period. You will see in both South Africa and the UK head count has been quite conservatively managed throughout this period as we ensure the strength of the overall business. From an operating income perspective a reduction of 8.7% as I have unpacked that.

Turning to our banking business in the UK, from a net core loans and advances perspective we saw an increase of just under 1% for the period, so annualised at closer to 2%, growing to £12 billion. And that was mainly experienced within our high net worth mortgage book which continued to experienced higher growth levels as we continued to expand that particular base. Similar to South Africa we saw lower overall corporate lending activity. Customer deposits in our banking business in the UK grew by 2.4% in the period to £15.6 billion. Unpacking operating income – and again very similar effects that we saw across our banking businesses – net interest income did decline by 2.1% over the period with net interest margin reducing by about 25 basis points since September 2019. That reduction I think was mainly driven by lower interest earned on our balance sheet position and, similar to South Africa, we are experiencing an improvement as repricing of liabilities takes effect as well as repricing for credit risk. From a cost to income ratio perspective overall cost to income ratio did reduce in the current period, and that's within the context of having reduced operating costs by 12%, which is

mainly driven by a combination of variable, remuneration and discretionary costs. Again we will unpack that. Operating income reduced by 21.1%. Overall cost to income ratio for the period was at 80.7%.

From a Wealth & Investment perspective again let's focus on the drivers. Turning to our South African business, I think we were quite pleased in the period with net inflows into our discretionary platform of R3 billion and positive markets mainly driving the increase of funds under management by 16.2% up to R293 billion. We did see outflows in our non-discretionary funds, but that's really off the back of clients managing their portfolios. Adjusted operating profit for the period increased by 2.3% to R264 million, and that was supported by strong demand for our offshore offering which does yield foreign currency earnings, as well as increased brokerage activity particularly in the early stages of the period. Higher average annuity and discretionary as well as cost management continued to contribute. We did experience lower interest rates, and that has a somewhat negative impact. From an operating margin perspective the operating margin improved from 32.3% to 32.8% with operating income up 1% against operating costs increasing by 0.4%.

Our Wealth & Investment business in the UK again had positive market momentum. We saw funds under management increased by 13.3% to £37.6 billion and we did experience net inflows over the period of £315 million into the portfolio. From an operating profit perspective we did see a reduction of 5.2% to £28.9 million. That was notwithstanding the fact that we did have higher funds under management. But as Fani had alluded, there were lower market fundamentals affecting the level of fees earned in the period. Brokerage was strong in the period, particularly on our non-discretionary funds as clients continued to manage their underlying portfolios. Lower interest rates do have a negative impact, and that has been absorbed effectively into the base given the current interest rate outlook. From a cost perspective costs were well managed in the period, but there were increases in regulatory costs, particularly the FSCSC levies that we contributed. From an operating margin perspective a slight decline from 18.8% to 18.6%, really influenced by a slightly higher reduction in operating income at 4.4% compared to a reduction in operating costs of 4.3%.

This is a new pillar, which is Group Investments. Given our holding in Ninety One we felt that it is appropriate to reflect these assets, which at the end of the day are assets that the group has generated through various historical activities and platforms. And the main pool of assets in these which we have separated from our franchise Specialist Banking business is our investment in Ninety One, our investment in IEP in South Africa, our investment in the Investec Property Fund, and our investment in the Investec Australia Property Fund. The Investec Property Fund delivered its results yesterday. What you see in this slide is really a [unclear] of every income statement line that is influenced by the fact that we consolidate some of these investments and that there is a large portion attributable to minorities. So for example, with the Investec Property Fund we hold 24% interest in the fund and recognise the impact on the left-hand side of this graph on 100% basis and then allocate the portion attributable to minorities in non-controlling interests.

The large negative valuation is driven by the fact that the fund has reduced the carrying value of their property investments, as is experienced in these markets, and lower valuations and lower equity accounted income from IEP which is really a function of the lockdowns that you saw which would have affected activity within the portfolio itself. A large portion of the reduction is effectively reduced out of the numbers through our non-controlling interest. In this period we equity accounted about £18 million of income from Ninety One, who

released their results a few days ago, and we will receive a dividend of about £14 million on or about the 23rd December from that particular investment. The rest of the portfolio is effectively accounting for the net reduction from £17 million [?] contribution last year to £13 million in the current period.

If we look at revenue this is really bringing the picture back to the combined group. Overall operating income decreased from £959 million to £729 million, net interest income, net fees and commissions really driven by the fundamentals that we have spoken through, investment and associate income driven by what I've unpacked in our group investments portfolio, and trading income driven by what Fani had mentioned was a £53 million loss recognised in the period, and thus a reduction in trading income of just over 100% in the period. That is associated with our financial products business in the UK and effectively our structured deposit business. And in this current period what we have done is effectively stopped any new business associated with some of the high-risk profile in that particular book.

The heightened cost of £53 million includes costs incurred in the current period to reduce risk in the portfolio and to exit certain elements of the portfolio. This is still effectively a deposit taking and a successful business overall and we continue to incur risk management costs navigating the current market. We are guiding to the fact that in the second half we will continue to see heightened cost experienced, and that's really off the back of continuing to execute de-risking of the underlying portfolio which places us in a much better position as we enter into the 2022 financial year and the 2023 financial year. From an operating income perspective you see the mix with annuity income increasing to 81.1% as the level of deal income in this type of environment has had a lower weighting on our overall revenue.

From an earnings driver perspective again a summary of what was presented from the divisions. Our third party funds under management increased from £45 billion, up 15.5% in the period to £52 billion, or 14.6% from a neutral currency perspective. That was on the basis of net inflows of £336 million in the portfolio and driven by recovery of markets that we have seen since the end of March. Core loans and advances increased by 1% to £25.2 billion, and that is a reduction of 0.4% in neutral currency with strong performance within our private banking business, particularly in the UK platform. Customer accounts are up 1%.

If we unpack some of our loans, firstly I'll start with the South African loan book. Here we saw flattish performance within our mortgage and high net worth lending books. That includes turnover as well as new activity in the period. Our property lending as well was relatively muted in the early part of this particular period. But the negative movement on the portfolio is again being driven by corporate lending. Now, we did see strong growth within our corporate and acquisition finance portfolios and a reduction in other portfolios as corporates repaid and managed their balance sheet liability positions as well as lower activity levels.

Unpacking the UK net core loans and advances, you see strong growth in our private client lending activity of 11% in the period as well as high net worth and specialised lending of 16% in the period. This has been a core strategic area of focus for the group and we are pleased with the level of growth achieved. There was positive momentum also achieved with some of the regulatory initiatives in the UK particularly around stamp duty relief. The corporate activity in London or in our UK business and other jurisdictions remaining relatively steady in the period but with no real growth experienced.

Coming back to the income statement, our cost to income ratio has weakened from 67% to 72% in the period. And as Fani had highlighted, that's driven by the fact that in neutral currency revenue was down 17.8% with operating costs reducing by 8%. Operating income was influenced by lower net interest margin and valuations offset by continued activity level within our underlying franchise portfolios. From a cost perspective the main areas in which we experienced reductions in cost related to personnel where we had fixed personnel costs reducing by 6.2% in the period, as well as marketing cost, that reduction really driven by the activations in the COVID-19 period reducing. And we did eliminate certain sponsorship arrangements and obviously a tighter focus on overall allocation of resources.

Looking at impairments, I think it's important to note that we did report at the end of March 2020 we were already effectively in a COVID environment at that point in time and we did see a marked increase in impairments as we reported with overall impairments increasing from about £31 million in the first half of last year to £102 million in the second half. In this period we continued to increase our impairment levels with the overall impairment charge at £66 million. That, as Fani highlighted, is mainly driven by the update to our macroeconomic scenarios, having applied scenarios that we generated off the back of the March results now into the September results. The reduction in the macroeconomic environment I think was really driven within the first half of this financial year. There has been an increase in some of our stage 3 provisioning as we have continued to ensure that we are well covered, taking into consideration collateral. For the past 12 months we have raised impairments or created impairment charges to the income statement of around £168 million.

Looking at it by geography and a South African perspective our net credit loss ratio closed at 35 basis points for this period, significantly up from 18 basis points and ahead of our long-term experience, but significantly lower than what we had experienced in the second half of last year where our credit loss ratio was 55 basis points. From an overall charge in South Africa a cumulative charge over the last 12 months of about R1.4 billion with impairment charge for this period of R573 million markedly up from last year September but below our second half experience. And that's a consistent experience as we move on to our results in our UK and other geography. Our credit loss ratio was at about 60 basis points compared to 97 basis points in the second half of last year and 28 basis points in the first half. From an overall group perspective we guide towards a credit loss ratio of between 30 and 40 basis points through the cycle, and with the group credit loss ratio at about 47 basis points we remain elevated.

From a balance sheet provisioning perspective, on the left-hand side of this slide we detail our Plc or our UK and other geography and on the right-hand side our southern African businesses or Investec Ltd. Balance sheet provisioning again providing you a mix between our stage 1, stage 2 and stage 3 portfolios. We've seen an increase in our stage 2 provisioning as we did migrate a portion of our book into stage 2. I will unpack that in the next slide. And overall impairments were really driven by migration between portfolios and particular write-offs that would have taken place in the current period. Our overall coverage ratio for stage 1 at 30 basis points, stage 2 at 3.4%, is down from our coverage ratio of 5.4% in the prior year. In the year we increased our stage 2 portfolio from about £576 million to around £1.3 billion and the migration into stage 2 was really driven from our forward looking macroeconomic scenarios rather than any observed credit deterioration or credit quality deterioration.

The portfolio that we would have migrated to stage 2 based on credit quality continued to maintain a higher level of coverage, and given the lower probability of default on the portfolio that has migrated into that particular staging we saw a net reduction in overall coverage ratios. Stage 3 is really a function of the specific assets in that portfolio, and in the current period we would have had some write-offs for assets that were more fully provided and closure on those particular transactions, or closure on our views, and therefore a slight reduction in our stage 3 provision.

From an Investec Ltd perspective we continue to see an increase in overall balance sheet provisioning with our coverage on stage 1 increasing to 0.5%. Stage 2 is relatively stable at 2.4% and stage 3 at 33.3% again is a function of a mixture of the assets and write-offs experienced in the current period. This slide effectively details the migration that we saw between stage 1 and 2 in Plc and in South Africa. So overall our stage 2 portfolio at 11.5% compared to 5.1% in the prior year, and in South Africa at 6.4% compared to 5.3%. Again the majority of the staging is really driven by modelling factors that we have brought in. Migrations between stage 2 and stage 3 are really specific to exposures and we haven't seen any specific trend either within areas that we may be concerned about from a COVID perspective and the overall portfolio.

I am trying to bring the picture to a close with a couple more slides. ROE on this slide we unpack for you between the various businesses, the Specialist Bank in South Africa generating an ROE of 9.1% in the period and utilising around about 39.2% of the capital base of the group, with the Specialist Bank in the UK generating a 0.7% ROE with a credible performance from the underlying portfolio offset by the reduction in trading income arising from the £53 million loss that I have mentioned earlier.

Our overall Wealth & Investment businesses continued to generate significantly to the underlying ROE of the businesses. Their capital requirements are really driven by their operating income, so the higher your operating income the higher your capital requirement. And in the UK we did have an acquisition historically that has goodwill associated with it. Group Investments in the UK that's solely the return from Ninety One and in South Africa it's the return from Ninety One and a positive contribution from our Investec Australia Property Fund offset by negative movements given the valuation adjustments coming through in this particular period. So overall ROE coming in at 8.1% for South Africa and 2.8% from a UK perspective. I think it's very important that these ROEs are contextualised within the environment that we are operating in and what we've seen from across the sector. From a return on tangible equity the material difference in this ROE is really represented in our Wealth businesses which include a higher level of intangibles.

From a balance sheet perspective overall capital ratios remaining robust in both South Africa and the UK. I think it's important to note that we report on a standardised basis in the UK and on a FIRB basis in South Africa. In South Africa we continue on the journey to ARB. We have received model approval on several models to migrate to ARB and we're currently on a parallel run process for implementation successfully in January. But there is one material portfolio where we are still in discussions in terms of the overall modelling approach with the SARB. We continue to quantify that the differential to ARB is around about 2% positive uplift on capital. From a liquidity perspective loans and advances to customers as a percentage of deposits was at about 76.4%

and we've continued to manage and maintain high levels of readily available, highly liquid assets with overall cash and near cash at £12.9 billion.

So having presented the current results – and we haven't really done this in the past – we have introduced a slide which gives you a view of our expectations to the year end. I think it's in the context of a forecast, and take it as such. Overall we anticipate that client activity will continue to recover, and we've seen that in the months past September and we expect that trend to continue. Net interest margin, as I've indicated, is also expected to improve notwithstanding the low interest rate environment for factors that I've highlighted. Non-interest income is expected to improve relative to the first half, but overall we still expect early double-digit decline for the full year given negative movements on investment in come.

With regard to trading income we expect it to continue to be markedly lower driven by the fact that we will continue to manage down risk in our structured products book and that we anticipate that if markets remain as they are to continue to incur the same level of risk management cost that we incurred in the first half. From an expected ECL perspective we expect to see continued moderation, and costs from a full year perspective are expected to decrease in the mid to upper single digit overall. So, bringing all of this together we expect to be ahead of the first half in the second half of this financial year. Fani, I now hand back to you.

Fani Titi

Nishlan, thank you for that comprehensive unpacking of the results. I would now like to cover sustainability. We look at sustainability as an integral part of our business. That's why we continue to integrate it into business strategy. As we always say in Investec, we live in society and not off it. So this is quite an important part of who we are and what we do, but also we do see significant business opportunity in sustainability. So we talk of creating a financial and social value by living in a sustainable way, ensuring a low-carbon and inclusive world. Our framework is based, as I said, on living sustainably in our operations. We also partner with our clients on their ESC journeys and we offer sustainability products and services. I did earlier on indicate when I talked about how we have reacted to COVID how we have partnered with our clients to distribute certain aid to communities.

We also align our community initiatives and corporate social investment to our SDG priorities. If you look at our priority areas, SDG 10, being reducing inequality, and SDG 13, being climate action, are our core priorities. Secondary priorities include water and sanitation, affordable clean energy, industry innovation and infrastructure, and a few others. In our corporate banking business a number of opportunities have arisen out of some of these areas of work. Our advocacy and board leadership is based on our active participation in the United Nations Global Investors for Sustainable Development. The UNGISD. We also work with industry in South Africa to ensure policy coherence around sustainability as there is a transition towards a more sustainable world and planet, but also in the transition around global warming. We also use the strength of our brand to educate and promote sustainability thinking.

Just looking at what we have been able to achieve in the period under review, we published our first standalone TCFD report, the Task Force in Climate-Related Financial Disclosures. We also tabled some resolutions at our AGM in August where we received overwhelming support from our shareholders, 99.95%. We also committed to net zero during this period and purchased carbon credits to achieve the same. We were ranked number 55

out of 5,500 corporates in the Wall Street Journal top 100 most sustainable companies and 9th in the social category. In South Africa we are rated level 1 in terms of the Financial Services Code. And as I indicated, we have launched a number of ESG related products including in the UK.

So to conclude the presentation I would like to take a bit of stock as to where we are. Clearly we have concentrated on protecting our resilient balance sheet, have kept high levels of capital, and we are lowly leveraged and we have high levels of liquidity to continue to navigate the crisis of our lifetime, and to continue in that vein to support our clients and to be prepared to fund future growth. That remains our position, and our confidence has been demonstrated in the fact that we have declared a dividend in this period, and our expectation in this half is for a much improved performance. We believe the business is well positioned for the long term.

Over the last 18 months or so we have engaged on a programme of simplification. You will remember that we did exit a subscale Wealth operation in Ireland. We did close Click & Invest, the robo advisor in our Wealth business because we did not believe we would get to the kind of scale that we required. We exited the Hong Kong investment portfolio because the risk profile was inappropriate as far as we were concerned. So we have continued to simplify our business. We will be substantially complete in terms of our simplification process by the end of the current financial year. We announced this week the conclusion of the sale of Investec Australia Property Fund Management Company with proceeds of about A\$40 million. We also have completed a JV partnership in India with the largest bank in India to strengthen our position there. And we have announced earlier during this period a closer integration of business-enabling functions in the UK, and as announced earlier, regrettably we will have about 210 of our colleagues being made redundant as a consequence of that.

If you look at what we have been able to achieve in terms of cost discipline, because that is what we have control over in this period of crisis, we have made significant strides in terms of cost discipline. In the UK Specialist Bank fixed costs have been reduced by £40 million since we presented to the market during February 2019 during our capital markets day. The changes that Ruth and her team have announced will obviously impact future costs, so we do expect costs to decline in the medium term within that business. Group costs we expect to reduce to under £35 million at the end of FY2020, again a 24% reduction to the level that we saw at the capital markets day presentation.

We also have had a strong focus on growth. We indicated in reporting on these numbers the progress we have made in our high net worth mortgage lending book in the UK, and that we are on track to reach the 6,500 clients that we needed to reach to break even, and from there we will continue to grow clients and have that platform move into profitability. We have also launched in South Africa an online business banking platform and we expect over time to do well out of that platform. Our Investec Life proposition has gained traction, so as we look forward we will have a strong focus on growing the elected initiatives that we have chosen to invest in. While we will be quite disciplined on cost, we will continue to invest for the future.

We had also talked about capital optimisation and the right-sizing of our direct investment portfolio in line with our stated strategy. In South Africa over this period we have seen that portfolio reduce by R1.1 billion. Clearly in these markets it is difficult to right-size that portfolio because we are not in the business of throwing away

valuable assets. We will not sell for the sake of selling, so our progress has been much slower than we would have anticipated given the environment. So we think the fundamentals of our business are particularly strong and we're confident that our business is well positioned for the long term. And we have deep and well-established relationships with our clients and we continue to foster our client-centric, entrepreneurial culture where our people live for our clients. As we say colloquially, we do break china for our clients.

We remain committed to great client experience demonstrated by our agility and increasing intensity of client engagement in a time of need. We will continue to execute on our strategic plan. While medium-term targets are under review given the effects of the pandemic on the economies in which we operate and the markets that we operate in, we are however making significant progress to advance our strategic objectives, positioning the business for the long term. We are now ready to take questions. Thank you. I think we will start with Audio Africa and then thereafter go to questions that have been emailed to us.

Operator

Thank you sir. For those on the conference call, if you would like to ask a question please press * and then 1 now. If you decide to withdraw the question, you can press * and then 2. Again, if you would like to ask a question please press * and then 1. The first question we have is from John Storey from JP Morgan.

John Storey

Hi. Good morning. Thanks very much, Fani and Nishlan. I appreciate your time and insight this morning. I just wanted to get a quick sense on the size of the structured book that you've referenced today. I'm just trying to have a look at the £53 million cost relative to the size of the book, if you could just provide some insight on that. Thanks very much.

Fani Titi

John, we haven't disclosed the size of that book. Needless to say, we have given you guidance as to what we think the cost to reduce risk and to manage risk will be. We've given an indication for second half costs of £53 million, and given the activities to reduce cost already taken and those to be taken, we believe in the next financial year those costs would be less than half. As Nishlan indicated, we have ceased the issuance of the complex, high-risk products that we have seen in the portfolio. Just to give you an indication, the capital at risk products are of a kick out nature. As an example, if the FTSE were to increase over the next 12 months to 7300 or 7500 the size of that portfolio would reduce dramatically. Clearly obviously if you continue to have lower markets you would have a tenure of two to three years. But we've taken significant action to contain the risk. We've given the market very transparent guidance as to what we think the relevant costs are likely to be going forward.

John Storey

Thanks very much.

Operator

Thank you sir. Ladies and gentlemen, just a reminder, if you would like to ask a question, please press * and then 1 now. Sir, at this stage there seems to be no further questions in the question queue.

Fani Titi

Thank you. We'll take questions from the email line.

Tash de Saldanha

Okay. The first question is from Mark du Toit. He's from Oystercatcher Investments. I'm going to read verbatim. Could you give me more detail on the hedging loss in structured products? What products caused these losses? Is it perhaps collars that you have written or what is causing these losses? Is it related to listed property stocks?

Fani Titi

Not related to listed property stocks. As indicated, we have a structured deposit book where we issue products raising deposits at the back of that to our clients. And obviously we have to hedge out that risk when we have these products on book. In volatile markets it became difficult to hedge the underlying risk given firstly the level of volatility, second, the drying up of liquidity in terms of some of these products. As I said, some of the products were quite complex and had a number of indices. We have substantially reduced some of those products. We will continue to do so. I think we can give further details to... what is his name?

Tash de Saldanha

Mark du Toit.

Fani Titi

To Mark du Toit if he wants to engage. Clearly we wouldn't give any detail to one person as opposed to the whole market, but I just think I don't want to spend all the time talking about this one issue. We've given very clear guidance as to our expectations of costs going forward.

Tash de Saldanha

Right. The second question is from Diana Mwandidya from Resco Asset Management. As your capital position has improved, how are you currently looking at your associates, for example your associate IPF, Investec Property Fund. Are you looking at selling your stake at the current low share price? You aim to complete the simplification plan by the year end, so I would like to know if Investec will keep holding IPF if IPF share price does not recover.

Fani Titi

I don't want to address one specific asset. I think as a general principle while we want to reduce the level and size of our investment portfolio, as I indicated we will not do so in a manner that destroys value. That's as a general principle. You will know that we wanted to sell 10% of Ninety One during the demerger, but felt that the price that was on offer at the time during the demerger was inappropriate and we decided to hold on to Ninety One. It has turned out to be a good call. We are not in the business of selling assets in a sub-economic way.

Tash de Saldanha

The next question is from Chris Stewart from Ninety One. Please can you give a sense of the financial impact of the IAPF ManCo?

Nishlan Samujh

Is that the go-forward financial?

Fani Titi

It should be the go-forward.

Nishlan Samujh

I think in the overall context of the results it will not have an overall material impact in terms of earnings.

Tash de Saldanha

The last question is from Masechaba Makhura from Melville Douglas. Thanks Fani and team for a comprehensive presentation. Please unpack the regulatory hurdles you were able to overcome to be able to declare an interim dividend. Many thanks.

Fani Titi

I tried to answer the question during my section of the presentation. As indicated, we are supportive of the regulatory objective of preserving capital given the level of uncertainty going forward and, second, given the need for banking institutions to support the real economy. Investec has been in the forefront in South Africa and we play a part in the UK in supporting the real economy. We have participated in the different schemes that have been set out, so we support those objectives. As indicated, we did not declare a final dividend in May when we released our results, in keeping with the spirit of that guidance. Clearly our board looked at our capital position, looked at our outlook over the next little while, and believed that we have the capital resources both to continue to support the economy, to weather the storm, and to be able to declare a dividend.

Equally, I did indicate that the majority of the dividend is supported by the proceeds that we will receive from Ninety One and also that we receive from our Wealth business. So the majority of the dividend will be from capital-light businesses. And we believe that we will have substantial build-up of capital over this period given that we did not declare a dividend and as indicated our loan book has not grown significantly given the level of uncertainty in the market. Clearly when we do this type of thing we will never want to surprise our regulators. There would have been appropriate interaction. And regulators wouldn't either approve or not approve this type of action because it is always up to the board, but our actions will not be a surprise to our regulators.

Tash de Saldanha

Shall we do one more question? Chris Stewart, Ninety One. Just clarifying that you are referring to the profit on disposal of the IATF ManCo sale, not the ongoing impact.

Nishlan Samujh

Okay. In terms of the gain on the sale that will be in our second half results. It was held in the UK portfolio so will be in the overall results from a UK perspective.

Tash de Saldanha

Those are all the questions.

Fani Titi

Do we have any further questions from Audio Africa?

Operator

At this stage, sir, there are no questions.

Fani Titi

Okay. Ladies and gentlemen, thank you very much for your interest in our business and for your attendance of the presentation. We hope to see you in another six months or so when we present our final year results. As indicated, we would expect that performance in the second half would be better than the reported performance given our expectations around a number of the areas that we spoke about. Thank you so much for your attendance.

END OF TRANSCRIPT