Investec

Conference Call Transcript

21 November 2024

Investec Interim Results Presentation

Speaker Key:

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CM	Cumesh Moodliar
RL	Ruth Leas
CS	Chris Steward
UM	Unidentified Male
OP	Operator

00:00:05

FT Ladies and gentlemen, I suggest we take our seats. Please, let's take our seats. Are we connected to London? Thank you. Okay, I can see people in… That looks like Johannesburg, not London. Can we see London? Okay, London is starting to take seats. I see Sicelo there. And is the stream online? Okay, I suggest we start.

Good morning, and welcome to the beautiful city of Cape Town, from which we are hosting this presentation of the results. The screens are not on there, so we're going to first start with a short video and then get into the presentation.

Thank you. As usual, I'm going to be joined by my colleagues Nishlan Samujh, our finance director, Cumesh Moodliar, the chief executive of our South African Business, and Ruth Leas, the chief executive of our UK & Other business, to review the results.

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We're going to try to go through the basic presentation in 45 minutes, have about 15 to20 minutes of questions, or more if needed. So, to start off with, just an overview. We're obviously very pleased with the solid results that we have published earlier today for the six-month period ending 30th September 2024.

Really great results, and ROE, as you see, in fact, sorry, not ROE, first let me start with adjusted earnings per share of 39.5p, which is at the upper end of the range that we guided in September when we had our pre-close briefing. If you look at

the graph on the left, you will see that in the first half of '22, we reported adjusted EPS of 26.3p. And you can see a progression of performance over this time, showing that our business has had underlying momentum over a period of time.

Now, just looking at the underlying drivers of our business, and this being funds under management, loan books and deposits, you again can see in the second graph that there is a level… In fact, we haven't shown a time series, but I will talk a little bit about the performance over this year. But if you were to plot the time series, you again will see increasing momentum. It would be difficult with three drivers to have a time series. The graph would be too congested.

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In this environment, at least the first six months of it, we saw a level of muted activity because there was a lot of uncertainty. If you think about pending elections at that time in South Africa, in the UK, in India, and of course, the big one in the USA, you also had a level of unprecedented geopolitics, and that risk continues as we go.

You also had the effects on both corporates and consumers of the higher for longer interest rates. So, these factors combined to mute activity in the first half of the reporting period. I'm pleased to say that when you go to the outlook, we will report that we see an improving operating environment. Despite how difficult the environment was, our client franchises continued to show resilience, and our performance benefited from the fact that we have a diverse source of revenue streams.

So, let me talk about each of the drivers fairly briefly, starting with funds under management. Our wealth business in South Africa, which incorporates Switzerland, recorded a double-digit growth in funds under management to £23.4 billion. Most pleasing, we saw inflows of R10 billion. For our business, this is really a fantastic performance.

Our associate, Rathbones, showed steady progress with funds under management of £108.8 billion. We also saw an increase of around just over 5% in our loan books to £31.7 billion. And equally, we saw our deposits grow by just under 5%, annualised to a number of £40.4 billion. So, overall, the drivers of our performance trended positively, and Nishlan will go into a lot more details around this a little later.

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If you look at the third graph, which we've entitled NAV per share, we see that the business continues to generate strong levels of capital. And this is important because it enables us to reinvest in the business. It enables us to fund new growth initiatives, but it also enables us to continue to make distributions to the providers of capital, our shareholders.

And I know that most of our colleagues in the business are also shareholders. I'm also pleased then to report that the board approved a dividend, declared a dividend of 16.5p, which is an increase of 6.5% over the prior period. I'm in Cape Town, so let me quote the rand numbers as well. In rands, the dividend is R3.80, which is an increase of 8%.

Later in in the presentation, Nishlan will cover our investment in technology. As I say, we generate capital and we reinvest in the business. And then Ruth and Cumesh will talk briefly about where we are investing in our businesses and where we see growth over the next little while. So, this will be a good presentation for you to see where we're focusing our investment as we go forward.

The last graph on the right shows our return on equity of 13.9%, which is in line with guidance and is within the upgraded cycle range of 13% to 17%. And this is notwithstanding the fact that last year, after doing the deal with Rathbones, we had an increase in our capital as we realised a gain on the combination of our Investec Wealth and Investment business in that combination with Rathbones.

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So, comparative numbers are not as easy, given that increase in capital, so we are very, very happy with an ROE of 13.9%. On a ROTE basis, we printed 16.4%, which is really a fantastic performance. And I would like, obviously, to give credit to all our colleagues for the stellar work of supporting our clients, because these profits are a consequence of what we do for our clients.

This stellar first half performance tees up nicely the business to achieve its full year guidance of ROE of 14%, and ROTE of 16%. So, I'm going to go a little bit into the results, starting with pre-provision operating profit, which, as we see there, increased, again by double digits, to £542 million. We saw good growth in net interest income. We saw good growth in non-interest revenue, and our costs grew at a rate much lower than the revenue growth that we realised, so opening up the jaws. Nishlan will talk into the specifics of that performance.

But really, the engine continues to do particularly well, given how difficult the macro environment has been. And talking about costs, we saw an improvement in the cost to income ratio to just under 51%. When we guide later, we will indicate that, for the year, we would expect a cost to income ratio of between 51% and 53%, because we have to continue to invest in our people, to invest in technology, and to back the initiatives for growth that we have identified.

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You will see that we will never skimp on investment on an expenditure that is necessary to improve the experience of our clients. Nishlan will talk a little more about that.

Fixed operating costs increased by 6.7% to reflect exactly the fact that we are investing in people and operating platforms. But also, in this period, we saw significant inflationary pressures. Variable remuneration in each geography grew in line with the profitability of the respective geography. In the next slide, I will go into each of these quite briefly.

Next, I want to talk about the credit loss ratio of 42 basis points, which, as we guided, is at the higher end of through the cycle range of 25 bps to 45 bps. The South African credit loss ratio is at the lower end of the range, and the UK credit loss ratio is elevated as, again, we did indicate that within the UK market, the higher for longer interest rates have had a significant impact on the mid-market, which is where we play. And Ruth will talk about how we serve that market

holistically.

We do not, however, see any trend deterioration, so we remain quite comfortable with the quality of the credit in our loan books. In fact, as we go forward, as we expect interest rates to reduce, we would expect that the cost of credit should improve, albeit the reductions in interest rates are expected to be slower than before.

If we look at the combined effect of the growth in pre-provision, operating profit, costs, credit loss ratio, we have the final outcome of a 7.6% increase in adjusted operating profit to £475 million.

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Now, looking at our business through a geographic lens, firstly about deposits, we see a very pleasing growth in our deposits in the UK, with a growth of 8.1% annualised within what is a very competitive deposit market. In fact, when Nishlan talks about the UK market, we talk about a repricing of deposits to show how competitive that environment is.

In South Africa, we saw in Rands a reduction of 6.2%, but this is as a consequence of us implementing a strategy that focuses on us increasing the more effective retail deposits. And in this case, we increased those by a very pleasing 6.9%. We're also shedding shorter term wholesale deposits, while at the same time, we're lengthening the term of our deposit book. So, this is right in line with strategy. We're increasing deposits where we want to, and we are shedding deposits where there is lower efficiency. So, we're really quite pleased with that performance.

You see in South Africa an amazing performance on an adjusted operating profit basis, that our profit in Rands went up 21.9%. And for most of us, we know how anaemic growth has been in this market, so this is a commendable achievement.

In the UK, we saw adjusted operating profit down by 5.4%. And just to give you a bit of colour on it, the performance of the bank, the specialist bank, was down only 2.4%, and Nishlan will go into a bit more detail to give you colour. I've already talked about the cost of deposits. There will be, excuse me, a few other aspects that Nishlan will cover to give a bit more detail on it.

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Secondly, within the UK context, we saw the share of our profits from our associate company Rathbones being 10% lower than the profits that we had reported from IW&I UK in the prior period. And when we did the transaction at the time, we did say, for the first few years there will be a deterioration in the profits we get. But over the years, and in year three, we will see a pickup in contribution. And in fact, we've already seen an improvement in the operating margin of Rathbones. So, quite as expected.

I'm going to just pick then on the ROE and ROTE. The South African ROE of 19.9% is at the very top end of our through the cycle range of 16% to 20%. I've said to Cumesh I want to make sure that there is enough investment in the business. So, this ROE is really high. Let's invest in our people. Let's invest in our business. Cumesh will talk about investment in the mid-market.

And there's a level of investment in transactional banking there, so we need to put in the money to make sure that we invest for the future, but also that our current systems do well. Commendable ROE of 19.9%. In the UK, equally, we printed a very strong ROTE of 13.5%. You obviously have to compare that performance with UK performance, top of the class performance, as I say. So, really pleased with the performance of our businesses.

If we move now to our commitment to sustainability, I'm not going to go into a lot of detail, as you know. Our purpose is to create enduring work that we create and we try to generate profits because we believe, as we do so, we can contribute positively both to the economy, but also generally to the planet.

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So, we continue to make progress in terms of sustainability generally, but in particular with respect to the commitments that we have made to reaching net zero by 2050. Those who follow us will know that we have had significant disclosures around our fossil fuel commitments in our annual statements, and there are disclosures on our website over this period.

Marc Kahn, where is the doctor? Marc Kahn sitting here has been doing a lot of work in both geographies, with our teams in particular in the banks, to make sure that we can improve on our understanding of transition finance and sustainable finance. And to that end, we will be publishing, at the end of our financial year when we have our results in May, our commitments with respect to this, I'm not going to go into more detail.

One of the areas of activity also is in advocacy. We are encouraging our clients and our suppliers to go down the route of decarbonisation. With that, I'm going to ask Nishlan to go into the detail of the presentation. Thank you, Nish.

NS It's an absolute privilege to be here to present these results. I don't know where in the world you could have a backdrop of Table Mountain just in front of you. And I think, as we go through these results, we were last in town, I think, when we presented our CMD back in 2019. And it's been absolutely amazing to just watch the trajectory of the business through that cycle and really reflect the power and the growth and the depth of the business as we move forward.

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Now, I'm just going to give you some backdrop in terms of what we operated in and the environment. And I think, as Fani has highlighted, if you look at the underlying GDP environment in both South Africa and the UK, it's been relatively subdued over this period. And, in fact, understanding that we've come out of COVID, understanding that there have been anomalies as you measure through these periods, but there are still quite significant constraints that apply.

That being said, I think as we look forward and as we look into the next financial year, notwithstanding what is a difficult budget announcement that has come through, and the tax environment that has just been announced by the Labour Government that the society has to absorb, I think there is still an expectation that you will see underlying growth and an improvement in growth. And our projection is a forecast in the UK of 1% growth in the 2024 year, and a 1.8% growth in the

2025 year.

And in South Africa, I think just having the stability that we have had on fundamentals such as electricity, and obviously the positive environment that the GNU has brought in, notwithstanding a lot of the noise that sits in the system, because there's a lot to balance in the equation, I think the expectation of GDP picking up to 1.7% and knowing that we need to challenge ourselves to get that much higher, to deal with some of the structural constraints in this environment.

I think if we look at markets, just reflecting on the JSE, that was up 19.6% from September 2023, and a very similar rate since March 2024. And that is reflected in our funds under management. But I think we are also proud of the net inflows that that business has been able to maintain.

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Across the world, we've seen improving markets as some of the uncertainties have unfolded over the period. From an exchange rate perspective, I'm glad that I don't have to talk too much about neutral currency and Rand and Pound and the rest of it, because it creates complexity, with the average rate really being highly comparable as we look at Sterling results.

From a balance sheet perspective, the South African contribution to our DLC GBP balance sheet is much stronger because the Rand has actually strengthened over this period, particularly as we compare against March.

We've started to see global interest rates starting to reset towards what would be levels that I think are more normalised. But they remain high. And to some extent, some of the risks that continue to play out are still in play, but at least we are seeing good signs around inflation.

Some of the short-term prints of inflation I think do get exaggerated in certain instances, but the overall trend in all of the geographies that we operate in is in the right direction.

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And I think just to understand from an interest rate perspective, if you look at average interest rates over the period, from a closing perspective, interest rates dropped by 25 basis points. We anticipate probably another drop of 25 basis points today in South Africa. And the base rate in the UK has dropped by 25 basis points. And in fact, at this point in time, it's at 4.75%. Average rates for the period did continue to climb up a bit, as we obviously started from a much lower base back in September ‘23.

Now, bringing that picture together, Fani has highlighted some of these numbers, so I'm not going to overemphasise them. But I think we are quite proud of where we've landed up as a business in the context of the environment that we have operated in, with funds under management up 11.9% and 8.4% in neutral currency.

I think from a Rathbones perspective, the combination, it's still early days. In fact, we executed the combination on the 30th of September 2023. So, this is the one-year point that we are marking our interest in the 41.25% holding.

And I think some key stats that's important for us is we saw the operating margin improve to just over 25% in this period. We have seen minor flow outflows in terms of AUM in the last print of the AUM, but again, relatively strong considering the combination that has taken place, reporting AUM at £108.8 billion.

Core loans in this period, growing by 2.7%. And this is an aggregated number, so it represents a lot that was going on in the balance sheet. And with higher interest rates, corporates have been quite defensive. We saw higher rates of repayments over the period.

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And from a private client perspective, I think we have been quite pleased with what we've started to see as a pickup in activity and similar in the corporate market itself. So, core loans and advances growing up to £31.7 billion. Fani has really gone into detail around deposits, so I'm not going to get into that detail.

Now, if we unpack group performance, and here I've got to thank Donovan, he's done some animation, so I might go a bit offbeat on this, but forgive me. But I think, just trying to unpack adjusted operating profit growing by 7.6% from £441 million to £475 million, let's focus on the key drivers.

Revenue grew by 5.6% over the period. And if we look at the gross net interest income growing by 2% and non-interest revenue growing by 12.2%, contributing £418 million to the total of £1.1 billion in the period.

NII really benefited from high interest rates, as I've indicated, and higher lending books, but as we've detailed, there has been a higher cost of deposits, pretty much acute in the UK market.

Non-interest revenue in the period growing by 12.2%, supported by almost all lines except for trading income in the non-interest income line, with strong growth in fees, particularly from our wealth business and from our private client businesses. Investment income benefiting from that rerate that we've seen in the market. And to the extent there was a non-repeat of some of the gains that we had in the prior year on our trading income as we executed our structural hedge in the UK.

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From an ECL perspective, ECL growing from £46 million to £67 million, and credit loss ratio growing to 42 basis points. Again, given the environment that we've operated in, pretty much in line with what we have been anticipating and indicating to the market. The majority of these impairments are really driven by specific impairment experiences, but no trends to call out. We don't see any deterioration in the major areas that we operate in.

And in fact, as we implemented the forward look of the economic outlook in the regions, we have had some release of portfolio impairments over the period. And I'll unpack some of the asset quality just now.

And then from an operating cost perspective, operating costs increasing by 0.8%. We saw fixed costs increasing by 6.7% over the period, and that's really driven by higher personnel cost, which is the majority of those costs, as well as IT spend and other areas of business activity over the period. And that included an increase

in specific headcount in areas that we're quite excited at from a growth perspective, as well as inflationary increases.

And bringing that together, the cost to income ratio, as we've indicated, is pretty low at 50.8% in this period. That's where we are. Now, Fani has indicated that I'll give you some detail on technology. And I think as we reflect on technology, for us, it's not an easy topic to present in a highly summarised fashion because it's an area that involves quite deep effort and work as we work through an evolving environment, particularly as technology continues to enhance capability.

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But I think what we want to reflect on is just to give you some of the areas that we are strategically focussed on from an IT perspective. And when I go through what the numbers mean, the majority of the costs of this sits in the run rate that we represent in the income statement. And really, at the core of it is for our delivery to our clients and for a delivery of what Investec is known as, and the continuation of really deepening the personal relationship that we are able to offer from a digital perspective.

Obviously, preparing and continually enhancing our platforms to be able to interact on a much higher scale, and to focus on the growth that the business has been able to deliver. And for our colleagues, obviously, ensuring that the digital workplace is something that is usable and makes sense, and that you are able to interact with the technology, in particular developments around AI and so forth.

I think modernising the platform as a banking business, often you would hear about legacy systems and fintech and where the world is today, but I think we are very conscious around the need to be continuously within the modern world, because that really influences how you interact with the rest of the world. And to date, we've effectively transferred about 48% of our platform onto the cloud, and we do this very cautiously. We do it in a way to ensure that we don't give away the ability and the strength that we have as an organisation to manage our own platforms.

Obviously, getting into the right architecture and engineering capability will continuously help us to deliver as we move forward. Protecting our platform and ensuring that we are very, very mindful of developments, particularly around cyber, and ensuring that we are able to monitor and deal with digital threats, remains something that you've got to operate on 24/7.

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And from an AI perspective, we don't have the same reach and depth as some of the giants that are out there. So, what we do is we partner, we partner with entities that we know are at the forefront of development, and we try and find ways to incorporate that into our platforms.

And if we bring it into the outcomes of these things, for this period, we spent just over 20% of our overall operating costs, at about £109.2 million, which is a material number. And as I've indicated before, that represents pretty much the run rate, because we have about £9.9 million of capitalised software on our balance sheet. So, a relatively small element of capitalised costs. The majority of the spend is really sitting in the run rate. And as I've indicated, 48% of our estate now in the

cloud.

Okay, let's get into some detail around the divisions. So, from a UK perspective, Fani, again, I think when you say Nish is going to provide more detail, I think he's provided with detail already. It's pretty easy. Yes. From a UK perspective, we saw profitability decrease from £235 million to £222 million.

As Fani has indicated, at this stage of where we are with the wealth business and the work that's been done, again, I think a number to call out is that that business has achieved run rate synergies by the end of September of about £25.5 million, which, when we originally drew up the timeframe, we expected to be at around about £15 million at this point in time. So, they are ahead, both in momentum and positive execution on certain aspects.

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The specialist bank profitability reducing by 2.4%, the slide says 2.5%, but that's the way the rounding works, to £202.3 million. And when I went through the income statement, you saw some impact on net interest income, non-interest income positively influenced by fees, investment income, and, to some extent, slightly lower trading income in the period.

Group investments is really the dividend that we receive from Ninety One on our 10% holding that we have. Group costs marginally up. There are some stranded costs in those costs, as we indicated at the end of March, and we'll continue to manage that actively as we move forward.

And looking at ECL from a UK perspective, printing a credit loss ratio of 60 basis points. We guide through the cycle range of between 50 to 60. And when Fani deals with the outlook, we're kind of of the view that we should be in that range by year end.

Again, as I've indicated, this is really an experience of some specific impairments and nothing to call out from an overall book perspective. And in particular, a line that we watch is you can see that the stage three book of £531 million is fairly consistent. Sorry, £528 million is fairly consistent with what we saw at the end of March.

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I think from a coverage perspective, you do see the coverage reducing from 30 basis points to 26 basis points with stage one, and that's really driven by models and the economic outlook.

Moving on to South Africa, South Africa printing a growth in profitability of 21.9%, with the specialist bank producing a growth of 13.8% in the context of the environment that we have operated in. And again, strongly supported by the fact that interest income continued to increase, and that's really higher average rates and higher book. And we haven't seen the same deposit pricing extent of rerate. And as Fani has indicated, we have quite actively managed our overall deposit book to achieve that outcome.

From a non-interest perspective, I think strong fee growth. And that's really a support from our wealth business, as well as our private client businesses, and

our corporate businesses remaining quite active in the market in terms of which we operate in.

Investment income, both in the specialist bank and in group investments, grew quite well in this period. And in fact, the Burstone mark to market is represented in the group investments portfolio, and we've seen a nice uplift in the valuation of that stock in this period. Group costs, yes, increasing by 14%. I think we can do a little better there, so we'll watch it.

From a credit loss perspective, 16 basis points in South Africa. And I think on a gross basis, we’re operating between 20 and 25 basis points.

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It's really influenced by recoveries. And we saw much higher recoveries, particularly in the second half of last year. And to some extent, we continue to see model releases as the economic environment improves.

We are quite comfortable where the coverage ratio is. To some extent, you will continuously see volatility in the coverage ratio for stage three, because it's really dependent on the level of collateral that supports that underlying position.

And from a wealth business, again, we are quite proud of the net inflows that this business has continued to achieve in the context of a high interest rate environment, with overall fund increasing 7.9% to £540.9 billion in the period.

I think it's also worth calling out that the drivers around the operating profit increasing to 28.2% is really driven by the underlying sustained inflows, growth in fee income generated from some of our structured products, and strong client retention and client activity picking up in this period as trading activity picked up. And operating margin for the business. That includes Switzerland at 31.4%, and the South African business printing an operating margin of 33%.

This picture really just summarises everything that I've presented, so there's very little to call out, but noting that we had operating profit increase by 8% over the period.

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And from a return on equity, and this slide really just also gives you some insight into where we have the capital deployed from a group perspective, noting that when we measure for requirements from a UK perspective, we continue to measure under standardised. And from a South African perspective, we measure under ARB. But strong return on equity and tangible equity.

Obviously, we do have capital light businesses within the mix to, so to some extent, you will have some pressure on ROE as you carry some of those businesses from a capital perspective.

Our net asset value per share has really been influenced by profitability generated and distributions to shareholders over the period. Similarly, with tangible net asset value per share. The differential between the two is really the goodwill allocated to our Rathbones business.

And from a capital perspective, continuing to manage capital on a basis that we

are really forward looking and ensuring that the platforms can support the growth across the geographies in which we operate.

I think it's noteworthy just calling out that the CET1 ratio of 12.6%, from a UK perspective, measured on standardised, within the context of maintaining the leverage ratio of 9.9%. From a South African perspective, CET1 ratio measured on advance at 14.8%, with a leverage ratio of 6.3%. We've maintained strong cash and near cash levels, and we remain conservative on our overall balance sheet. And that's the numbers. So, Ruth, over to you.

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RL Hello and good morning, everybody. Absolutely wonderful to be here in Cape Town to talk with you this morning. When I left London, it was snowing, so it is really fantastic to be in the warm glow of the blue sky and the summer sunshine here down in Cape Town.

It's also very refreshing to be part of the very positive spirit of the people of South Africa post the outcome of the recent elections. And we look forward to the future with optimism and hope. And I'll leave Cumesh to talk about that in his part of the presentation.

Focusing on the Northern Hemisphere and our businesses internationally, we continue to focus on building the scale and relevance of our businesses, and we have our sights set on becoming the leading financial services group in the mid-market in the UK and Europe.

We have created for ourselves a unique positioning in the mid-market in the UK and Europe, in that we have multiple competitors in every activity that we do, but there is no one competitor in the mid-market space providing the breadth and depth of capabilities that we provide to the mid-market, and that is across private banking and corporate and investment banking.

And if I reflect back to May 2020, which is the first time that I presented these cogs to the market, we spoke about taking our clients on their personal journey and their business journey, putting the client truly at the centre of everything that we do, creating one leadership team across the bank, taking away all silos, and making sure that we are focussed on accelerating our client acquisition and growth, and making sure we can increase the share of wallet from across all our clients.

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And I'm very happy to be able to say that this is working, and we are working towards getting that momentum going even faster towards a flywheel momentum. There is a natural muscle now of referrals of business and opportunities between all areas of the bank that works day by day. And over the past year, we increased our referrals internally by 150% on average, one and a half times what we saw the year before. And I can just see that momentum growing as we move further in time.

So, a really connected client ecosystem and a differentiator in the markets in which we operate, where we do differentiate in terms of exceptional client service. You'll see a small mention at the top of the slide here to high tech and high touch. We are very focussed also on our digital capability and investment in digital and tech

digitalisation.

We have worked on rebuilding a number of our core platforms over the past few years so that we can more easily and better bring about change in a dynamic way as we go forward from a tech point of view, and also focusing on our capabilities to enhance the client experience. So, investing in the client experience in corporate ethics, for example.

We are very proud of what we've done from a digital infrastructure behind our savings platform, also created a business current account and many other things from a digital and tech perspective. So a high tech, high touch approach and very focussed on that as we go forward in time.

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The operating environment that's around us. Fani and Nishlan did talk a little bit around that, or a lot around that in the earlier part of the presentation. A few years ago, we had the great resignation, and now, not we, Investec, but the market was speaking about the great resignation. I think this was the great election year.

And in the six months since we spoke to you last, we first had the outcome of the India elections, South Africa, and then, of course, the UK, and now the US. So, new policies coming out, people still to take office. It is certainly, if not uncertainty, certainly facing a lot of change to deal with. And the business has done very well under these circumstances.

We very much positively welcome the words from the Chancellor of the Exchequer in the UK, Rachel Reeves, who spoke at Mansion House just about a week ago.

It was the most proactive pro-city speech we have heard for some time, really focusing on moving away from risk elimination post the global financial crisis to a positive approach, encouraging regulators to focus on their secondary objective of competitiveness and making adjustments to parts of the UK where we are uncompetitive relative to our competitors, for example, the Senior Managers regime and various other elements of the market.

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So, that is a very positive boost for financial services, and we look forward to more clarity coming out around those policies as we go forward. Fani mentioned that there were a number of tax changes, and Nishlan, that came through in the budget, and we are navigating that. As usual, we will need to adapt and absorb and move forward. And the business has navigated multiple uncertainties and changes over the past few years and will continue to do so.

So, our areas of focus for the strategy ss we look forward. We wish to accelerate our current strategy, growing and deepening our client franchises. If you look into our headcount underlying, you will see that we have invested heavily in hiring originators and revenue generators. We created that space to be able to invest for the long term by really enhancing our operational efficiency and working on cost discipline over the past few years.

And we have now invested in hiring revenue generators, positioned for growth when it comes. You do need to make sure that you make these investments before

the growth comes. When you bring in new people in different areas across corporate and investment banking and private client activities, it takes a natural period of time to bed in and then to be able to deliver. And we are well poised to see that growth when it comes.

Interest rates are coming down in the UK, albeit a little slower than we would have liked, but nevertheless, we do expect an upswing to come, and we are ready for that, which will enable us to grow our scale and our market share. We still have very small market share in all the markets in which we operate, so a very large runway to grow.

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And the UK therefore does present ourselves with a very exciting market opportunity, and then internationally connected to other geographies, which are also showing very strong growth, like the United States and also India, where we have businesses that have been growing over the past number of years, and of course, very integrated also with our business in the Channel Islands.

And I will now talk to Europe. We speak about our focus for the future, to increase the runway, to grow on the front foot in continental Europe. We are working on a solution to be able to flexibly operate in Europe. Brexit has caused some or put in place some obstacles towards that, and we are working towards moving those out of the way so that we can be very front footed in our growth in Europe.

We have been lending in Europe for well over ten to 15 years in Direct Lending and in Fund Solutions, and we will continue to do that. We've also done Treasury Risk Solutions and Hedging and Risk Management in that part of the world for many years. We've now hired a number of people in the Netherlands to continue that activity. We have some people based in Ireland doing that.

And as you know, last year we made the acquisition of a majority stake in Capitalmind, which really boosted our advisory revenues across the continent, giving us an immediate footprint across multiple countries in Europe, and really a focus on capital light revenues, which is where our attention is focussed, building up that non-interest revenue as well.

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We really didn't have a strong mix of M&A advisory revenues in the business about four or five years ago, so this has grown substantially over the past four or five years. That part of the market is challenging, but as I say, we are looking to growth coming through and cautiously optimistic about where that can go as we go forward in time.

We are working on advancing our alternative investment management strategy. Many times where I've presented to the market, I've explained that we have a very strong origination capability in the mid-market, but that our balance sheet has limitations in terms of how much risk we can take on. We can originate far more than we can actually hold on balance sheet. We also like to run a diversified risk management approach and therefore distribute some of the risk that we take on.

One of the ways for distribution of risk is through alternative investment funds. There is a lot of interest from both private clients, wealth management clients, and

institutions into the private credit space and into alternatives. We've been active in this space for as long as I can remember and have very strong track records of performance in all of these activities.

We are growing funds, raising funds in Private Debt Fund I, and now fundraising for Private Debt Fund II in the Direct Lending space. We have now launched real estate funds in terms of growing that distribution. We also have private credit funds out in India. And for many years, we did run aviation funds. So, this is growing, it is nascent. And when this gets to critical mass, we can do more with it.

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We're also looking at other innovative ways of bringing in external capital. For example, in Fund Finance, where we recently did a very large transaction to bring in about €1 billion of committed capital to our Fund Finance activities from a very highly reputable private equity manager. So, very exciting options there, which is giving us a whole expansion to the size of our balance sheet and continuing to manage our risk in a well-diversified way.

And lastly, we are working closely from a banking point of view with our colleagues at Rathbones. We've been delighted that they've moved into our building in 30 Gresham Street, into their newly renovated offices upstairs, which obviously brings the collaboration together and the long-term committed partnership between our private client area and wealth management.

And we're pleased to say that the referrals both ways are going well, and we continue to invest in that relationships in order to enhance the level of referrals that will be going both between our private client business to wealth management and to Rathbones and referrals that are coming into the bank.

So, overall, in sum, the business has performed well over the past six months. Of course, we have headwinds from reducing interest rates, but nevertheless, that income has been made up across other areas of the business. The loan book showing growth of around just over 2% there. Underlying that, on a currency neutral basis, actually, the loan book grew just over 4%, which is very good, against a backdrop of low or anaemic growth that we've seen in the markets in the UK and actually in Europe.

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And we look forward to gaining more market share, growing more strongly, and ultimately becoming the leading financial services group in the mid-market in the UK and Europe. I'll now hand over to Cumesh to talk about South Africa.

CM Good morning, everyone. And as Nishlan said, it's very nice to be presenting from Cape Town and having the most amazing view of Table Mountain. What's equally amazing for me was counting the number of cranes I could see. When you're in a bank where you have a big property book, one thing that excites you more than seeing the mountain is seeing cranes.

So I think, just talking from a South African perspective and just looking at when we were presenting in May, the year end results, what was very different was the anticipation of going into an election cycle, waiting to hear what the outcome would be. Standing here six, seven months later, and talking at the half year, we stand

in a very different South African business to what we stood in previously.

I think one of the things, and Ruth had two concentric circles set up of the structure of the UK business, the structure of the South African business, as many of you would know, is slightly different. We still operate within a framework of having four key franchises, our Private Bank, our Investec Corporate and Institutional Bank, our Investment Bank, and Investec for Business.

A large part of the work that we've been focusing on over the last period of time, and under Fani's banner and strategic thinking of a one Investec approach, is how do we keep on integrating around our client segments, and how do we make sure that those business units deliver effectively to the target markets that we wish to serve?

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One of the most exciting things for us from a South African perspective is the fact that when we look at the markets that we serve, we still have significant opportunities to grow in each of those client segments. We look at our private client segment, and when I say private client, I'm referring to both private bank and wealth and investment, and in the mid-market space, as well as in the corporate space.

In the mid-market space, we still think we have a very insignificant portion of the market. We're quite excited about, and I'll talk to that later in the presentation, around what we're continuing to invest in the mid-market, in the business transactional banking service, and also on the back of our corporate business, the way we're integrating our corporate business across investment banking, corporate finance, corporate lending, and the flow of businesses.

So, we're very excited about the fact that across all three of those core segments, there's significant market share that we believe we can still take.

So, coming out of, and I think Fani and Nish both alluded to it, what was really a risk-off first six months of the calendar year where clients reset back to wait to see what the election outcome would be, to get a sense of where the interest rate cycles would turn as well. In the last three months, we've started to see activity pick up.

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We've seen lending activity pick up. We've seen a lot more enquiries coming our way around broader investment, and I think some of that is borne out just by what you're starting to see more, not just in the Western Cape, which I think has got a case story of growth itself, but in the broader business, we're starting to see levels of growth come through.

So, excited about what we think we can achieve in that space, and also very proud of the ROE that the team has achieved in the year to date. As Fani has also mentioned, that's not the only factor we're going to be taking into account. We want to continue the reinvestment. We want to continue to make sure that we're making decisions for the long-term growth of our franchise. And that may mean that that comes back slightly, but with a view to taking a sustainable growth path for our business going forward.

I think, looking at the operating environment, what we've touched on, and I think Ruth and Fani both alluded to it, was really the increase in sentiment in South Africa from a risk-off sentiment to a risk-on sentiment. How do we see that coming, playing through? We're seeing increasing levels of activity. We know that later today, the South African Reserve Bank will make its decision on rates.

What's factored in, if we saw what came out from an inflation print of 2.8%, is that in all likelihood, we should at least get a 25 basis points cut. The governor has really issued a note of caution for people not to get ahead of themselves.

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As much as we're achieving the midpoint of the cycle from an inflation perspective, concerns around trade policies, concerns around what a Trump presidency may mean for an emerging market, etc. So, those are some of the things that we have to take into account.

The other aspect that has been a significant aspect, and I was trying to look at the exact number we've had load shedding-free days in South Africa, and I think it's just under 300. It's around 270, 280. That, for us, is a significant factor. For one, it influences two things, sentiment and actual growth in industry and productivity. It gives us a very different platform to growth. And I think that that has been significant.

And we've actively engaged with Eskom, with the team who actually have been running it. And we take a high level of confidence that we're on the right path. It doesn't mean we won't have the odd day. That that is one of the most significant factors that we think will influence GDP growth.

When we look at forecasts for GDP growth, our house view is a view of 1.7% for 2025. There are more optimistic views out there. And please, as they would say, from those economists' lips to God's ears, that it is higher. But the reality is, that's what we need to focus on as an emerging market.

We've got to get our GDP growth rate up. We've got to be in line with more of our peers from an emerging market perspective, and certainly the government of national unity and some of the pro-business and pro-growth strategies that are being discussed will support that. And we need to continue on that path.

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What we're not seeing enough of is investment in growth, in fixed capital investment in the country. And those are the aspects that will really drive the next chapter for SA. Certainly, from an Investec perspective, in country what we really are focusing on is how do we work together with government, together with civil society, to take that next chapter for the country forward, and in turn, for the group and for those in the broader economy.

Some of the factors that do remain of concern would be what would happen if there are trade policies that impact us as a country. So, one of those that often gets flagged is, for example, the benefits we receive under AGOA from the US. All of those things have to be taken into account. And what would impact on the trade policies in China, and particularly for us as a commodity driven country, what would be the impact if those policies hit the Chinese market as well, which is a

large trading partner for us.

So we remain optimistic, but we are conscious, whilst we have tailwinds, there is some note for caution. And similarly, we need to see, and we do believe we're starting to see that already, the government is starting to implement and continues with the structural reform programme that the President has initiated.

Talking to the strategic focus of the business, and I think I've covered some of these aspects. In our private client franchise, we’re continuing to grow the core client base. In the year from March, we've grown the core base by about 6.7%.

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If you take a year-on-year view, we are about just under 8%. We do know that we still have significant opportunity heading in that space, and we will continue to grow that.

Where we've also seen growth has been in Investec Life, which again is coming off a low base, but we're seeing that gaining traction with our clients. And that allows us the opportunity to create a deeper sense of entrenchment.

Alongside all of what we continue to do and invest in South Africa, we also continue to evolve our international proposition for South African clients. Working with Ruth and her team in the UK, you’ll see we have South African clients with just under or just on 12,000 UK private bank accounts.

We also, similarly, with our wealth and investment business, are continuing to grow and build out our offering on the Swiss platform for high-net-worth South Africans. That's creating a halo effect for the rest of our business in many of those areas, and it's a key part of our strategy.

Similarly, many of you would have noted that we've opened an office in the UAE, in Dubai, and that's really an option for us to consider what we could do in the broader Gulf region. We've looked at the number of expat South Africans, expat UK residents who are working, living in that broader region, and how could we support that.

We don't intend to be credit granting or deposit raising in the UAE, but we do certainly want to be in a position to service and support those clients in those two core geographies that we operate in. So, we’re continuing to look at that, and it's a key part of our international strategy.

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I've touched on earlier the mid-market proposition. What's a very key investment for us, and Nishlan alluded to some of it, is the investment that we're continuing to do, building out our transactional banking platform in the mid-market space. We're continuing to add to those clients in that segment. We have approximately 2,500 clients there at the moment. As we continue to broaden our proposition, we will continue to grow that. We're finding a high residence in the market for that level of service from clients, so we're very excited about that.

Alongside all of this, we continue to look at the rest of Africa strategy and how we can continue to grow our footprint and what we do on the rest of the continent in a

risk adjusted way, and in line with our strategy around how we look at some of the sovereign risk in the rest of the continent. We still see exciting growth rates in many of those geographies, and we believe, as a group, we're well positioned to serve some of the clients who will seize that opportunity.

So, just a quick overview from the South African business. Thank you. I'll hand over to Fani now.

FT Okay, we're going to wrap it up. I think we went a bit longer than we had intended to, starting with me. So, let's wrap it up. So, as we look forward, you've heard enough that we expect an improving environment, given expectations on GDP growth in both South Africa and the UK.

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Cumesh talked about the still significant risks in the geopolitics, both with respect to trade and, in particular, the Middle East. But even with that, as I say, we expect growth in GDP, and as a consequence, we would expect revenue to be underpinned by increases in our loan books, first, and second, that as we see lower interest rates, we would see more activity in our client segments.

So, that's the impact of the macro environment internally. We continue to be excited by the opportunity we have, and our people continue to be active and agile in serving clients and in winning market share. So, that's what we can control, and we remain quite excited about that as a prospect.

So, given that backdrop, we are comfortable to reconfirm our full year guidance of ROE of c.14%, so 13.5% to 14.5% on the bounds, and ROTE of 16%, which would be a range of 15.5% to 16.5%. And these are well within our revised performance targets. We're also pleased that we are upgrading our South African ROE to 19%. So, that is 18.5% to 19.5%.

And we are moderating our ROTE expectation for our UK business to 13.5%, first in line with the performance that we have recorded now. And secondly, as Ruth indicated, there have been some change in government in the UK. There has been a significant revision in the tax environment. You would expect that in the short term, that clients, both corporate and individual, would adjust to that new environment.

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Overall, in the medium term, we would expect that economy to do well. Our cost to income ratio came in at about 51%, and we expect for the full year a cost to income ratio of between 51% and 53%. As you saw with both Cumesh and Ruth, we continue to invest in our growth initiatives, the mid-market opportunities. South Africa, for instance, seeks to serve smaller companies, but we need to invest in a transactional banking capability, what we call a business bank.

And over time, as we go into the UK, we'll be investing in a transactional banking capability. And we have a number of things we want to do. So, we will not skimp on investment, as I've indicated. So, for the full year, we are indicating a 51% to 53% cost to income ratio.

With respect to the credit loss ratio, we expect to be in the range 25 to 45 RTTC

range, and we would equally expect South Africa to be on the lower end of it, the UK and other business to be in the 50% to 60% range, which means we expect an improvement in the CLR ratio and the cost of credit within the UK environment for the reasons that we have indicated. So, we remain well positioned in this environment to pursue the opportunities that we see in the market.

So, I will simply close to say we are excited, we're pursuing scale and relevance, we have strong capital generation, as indicated earlier, and we see significant opportunities that we can deliver growth on in a disciplined way. And we continue to be focussed not only on profits, but purposeful profits, as we pursue our purpose of creating enduring wealth.

01:04:21

On that basis, we'll close the presentation and invite questions from the floor. So, I think when grading on our timing, we didn't do well. We took a bit long, but let's go. Stephen is shaking his head. Bernard used to persecute him if he went over 30 minutes. Questions. So, we don't have questions from Cape Town. I'll ask then for us to move to Johannesburg. Questions from Joburg? Thank you.

And we can now move to questions from London. Stephen said, if there's no question, I remember five years ago, I dilly-dallied a lot and then I had a barrage of questions. He says, if nobody has questions, don't keep dillydallying, move on. So, Stephen, I learned something. Questions from London. Chris, I see that we've come to your city, and you've gone to Ruth's city in London.

You can't get it right. That's Chris Steward on the on the screen. Chris. Chris, you're going to have to shout a bit. I think we can't hear you. Thank you.

CS Is that better?

FT Yes, that's better. Thanks.

CS Okay, great. Thanks. I guess a couple of questions from my side. I commend you on 11% pre-provision operating profit growth, pre-provision operating profit growth, 8% operating profit growth. Perhaps just unpack for us how that translates to 2% adjusted EPS growth, is the first question.

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Second question, with a 14.8% common equity Tier-1 ratio now in SA, how are you thinking about capital, given that your cash generation is currently pretty strong? You will talk to perhaps a normalisation of the impairment charge over time, but even then, your organic capital generation is strong. Third of all, the old bugbear, group costs SA up 14, UK up 27. Perhaps you can just comment on what you're planning to do about that. And then a question for Cumesh and for Ruth, on the rates environment…

FT Chris, you're really rushed.

CS lower rates, it's negative for margins, but positive for activity levels. And credit quality, perhaps you could paint for us what you would see as the perfect rates environment in the UK and in SA please.

FT Chris, you want us to foretell the future. Let me start with the last question, and I'll

ask my colleagues to come through. We've obviously forecast a modest level of reductions in interest rates. In South Africa, we expect that the posture of the Reserve Bank will be dictated by the fact that in the short to medium term, the Reserve Bank is agitating for a lower inflation target. So, we would see reductions in quarter points.

Clearly, interest rates in the US will be influenced somewhat by the new policies of the incoming president-elect, and that will have an impact on trade potentially, and that could feed into inflation over time. I think terminal rates in the UK would be seen as in the mid twos to the mid threes, depending on what happens to global trade.

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And in South Africa, we would see the terminal rates coming a bit lower. I don't think we've been over the last few years at bank rates of 6%, 6.5%, and therefore, we've seen prime rate at ten or above. So, it is a highly subjective question, dependent on what happens around the world.

With respect to the numbers that you quoted, I'll just talk to the pre-provision operating profit. Obviously, that is the growth in revenue of 5.6%, as Nishlan explained, less the growth in costs of 0.8%, giving you the opening jaws. We then talked about an increased credit loss ratio and impairment charge. That factors into your overall 8% increase in adjusted operating profit. Nish, do you want to just unpack as we go into tax there? There will be, obviously, some level of tax charge, and Nish can talk to that.

NS There's really only two other lines that's left, which is the tax charge, which is actually pretty similar, but from a UK perspective, we have obviously absorbed an increase in tax rates, and that average rate is about 23.5% at this stage, so there's a bit of a tick up.

But more importantly, from an AT1, or additional Tier-1 capital perspective, we've issued new instruments. That has come at a higher cost because the rate environment is much higher. And that's really the factor that has influenced it. Now, to some extent, we are carrying additional costs for instruments that we're only redeeming in December, so that will come out of the system at that point in time. But there is a higher cost in that particular line, and that really reconciles it.

01:10:14

FT Thanks, Nish. And then you talked about group cost, and Nish said he thinks we can do better. There is what Nishlan called stranded costs of about £2.5 million in the UK. When we undertook the combination, remember that we had certain services that we offered to the group as a whole, the bank and the wealth business, with the wealth business combined into Rathbones.

There will be certain of those costs that we will have to manage as we go forward, and Ruth and the team are dealing with those. And generally, over this period, we also committed, for the first time, to a pretty significant sponsorship in trying to get our brand back on the front foot in terms of our presence in South Africa and in the markets within Europe, where we intend to grow. So we think we've got our eye on group costs, and we will continue to monitor those as we go forward.

Any further questions in the UK? Chris, you really took a swing at it. I think you gave us four or five questions. But we're seeing you in a few days, I think.

CS You've got one still to go, Fani. That's the 14.8% common equity Tier-1 ratio in South Africa.

FT Oh, Nish. We obviously have to prepare also for Basel 3.1 as we go forward. But Nish can talk about that.

NS I think in South Africa, we're pretty efficient in terms of measuring risk-weighted assets. In fact, that's around about 66% to 67% relative to standardised. When capital flows come in, that will be calibrated to 72.5%, which we have to get to by 2028. That will take off about 1.2% to 1.3% on the capital ratio.

01:12:08

Now, if I put that aside, Chris, your point remains valid. We continue to generate surplus capital in a low growth environment. And to the extent, I think you've got to be mindful of the fact that in this period, we've had very muted growth in risk-weighted assets. In an improving environment, we will see that rate of growth pick up. So the ability to absorb growth is the point that I emphasised. And obviously, if the number becomes unattainable, just as we had with the previous CEO, I think Cumesh will shout when we need to think about other actions.

FT Thank you. Any further question in the UK or in London?

UF No further questions, Fani.

FT Thank you. Any questions online?

OP There are no questions on the telephone lines.

FT No questions. What do you think, Stephen? Should we give them another shot in Joburg? He says run. Is there a question? I thought there is not.

UM We have a question on the webcast from Baron. Baron Nkomo from JP Morgan has two questions. He asks, please unpack how you are quantifying the synergies from the Rathbones deal which you flagged as tracking ahead of expectations. What key risks do you think the market should be aware of around this deal that could result in negative earnings surprise in 2025 to 2026?

01:13:38

FT Look, it would be unbecoming of us to talk about the operations of a business that we do not run or control. So, it really is important that we limit our comments specifically to what Paul Stockton and Iain Hooley have said in the results they have produced.

Firstly, for us, as I indicated, the reduction that we saw was not a surprise. We had fairly specifically detailed that we will see some negative impact in the first two years, and beyond year three, we would hope to see accretion. So, the integration is on track on that basis.

I think when they released their results, there was an indication that some of the progress of getting the synergies of £25.5 million versus 15 related to being ahead of schedule in terms of re-leasing their Finsbury property. But I don't want to talk

too detailed on Rathbones. Our partners have talked about the progress they are making, and I would again ask that the relevant questioner talks to Rathbones.

We are quite pleased with the performance, and we are committed to the strategy. We think the benefits are significant. As Ruth indicated, they've now moved into 30 Gresham Street. Collaboration can be a lot easier. And, wow, those offices are fantastic. It's really a private wealth type office. I hope our colleagues there will be very happy and will be, market facing, very happy with the investment.

UM And we have a question from Jarred Houston from All Weather. He asks, please explain the 1.8% increase in net shares in issue compared to March. Given the strong capital position, would you consider buying back shares to at least limit dilution?

01:15:49

FT Nishlan is rising. He's chomping at the bit. Nish?

NS Yes. I think last year we executed, I think, just under R7 billion buyback of shares, so that was quite significant. I think if you look at it, the number that you're quoting is our weighted average number of shares in issue. That increased from about 848-odd million to about 855 million.

And that's really a function that will move around a little bit, firstly because it's a weighted number, and secondly, because we do have certain options in our share schemes that do mature over time, which we hold in Treasury stock. But there's no new issuances of shares in the overall number.

FT Thank you, Nish. No new issuances of shares, as we committed five years ago. But yes, thanks, Nish.

UM No further questions.

FT No further questions. On that basis, let me thank everyone in the hall in Cape Town, in London, in Johannesburg and online. It is a beautiful day in the Mother City, and the views are absolutely gorgeous. For our colleagues in London, I'm sorry, it's winter there and it may be snowing. Goodbye, everyone.

01:17:05