



# **Investec Group Ltd**

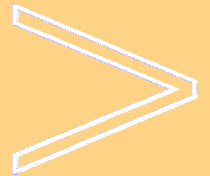
## **Analyst Presentation 2002**



**“Please note that except for historical information, matters discussed in today’s conference call may contain forward looking statements which are subject to various risks and uncertainties and other factors, some of which are beyond the Company’s control. These factors may cause the Company’s results, performance or achievements in the markets in which it operates to differ from those expressed or implied.”**



# Summary of Results



# Snapshot of 2002 results



	31 March 2002	31 March 2001	% Change
Headline attributable earnings (R'mn)	1 684	1 314	28.2
Headline EPS (cents)	1 840.4	1 628.2	13.0
DPS (cents)	825	750	10.0
Return on equity (%)	27.6	25.8	
Cost to income ratio (%)	65.5	63.2	
Assets under administration (R'mn)	758 858	514 629	47.5

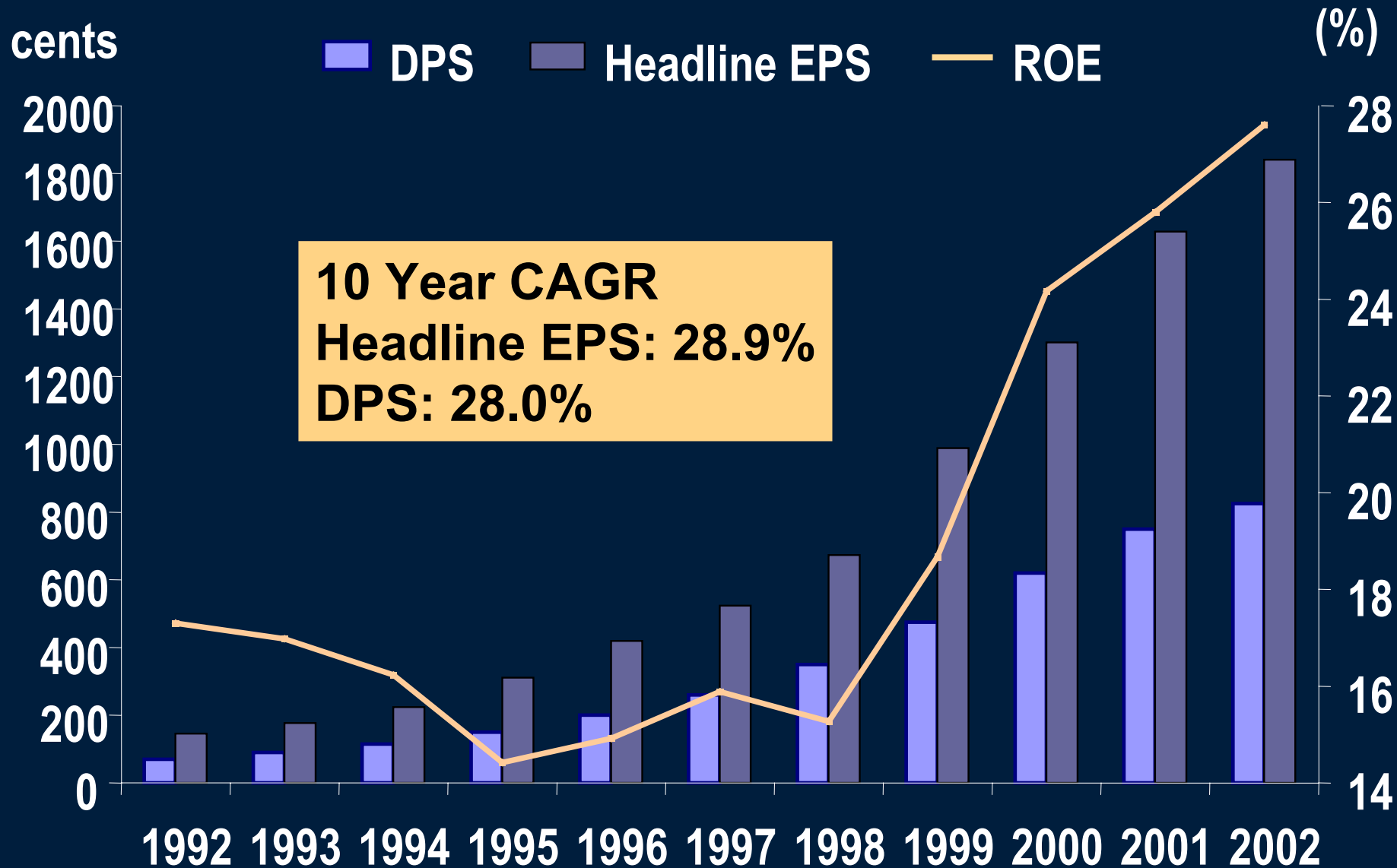
# Reconciliation to headline earnings

Attributable earnings	626
Exceptional items	1 058
Amortisation of goodwill for the year	747
Goodwill impairment	512
Loss on disposal of subsidiaries and fixed assets	21
Profit on disposal of non-trading loans	(267)
Share of associate's exceptional losses	45
Headline earnings	1 684

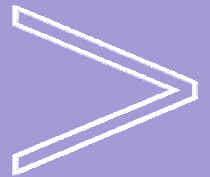
# Goodwill impairment

- AC 128 and AC 131: annual review of carrying value of all assets and test on goodwill arising from acquisitions for impairment losses
- Result of exercise: Impairment of R472mn with respect to goodwill on Fedsure insurance business and R40mn on Private Client Group in the US

# Headline EPS, DPS and ROE



# Global Positioning and Review





**“It was the best of times,  
it was the worst of times...”**

***- Charles Dickens***

It was the best of times...

# **BUSINESS DAY**

Final Edition

NOVEMBER 23 2001

**INVESTEC  
GETS ITS  
PASSPORT  
TO LONDON**

- *Charles Dickens*

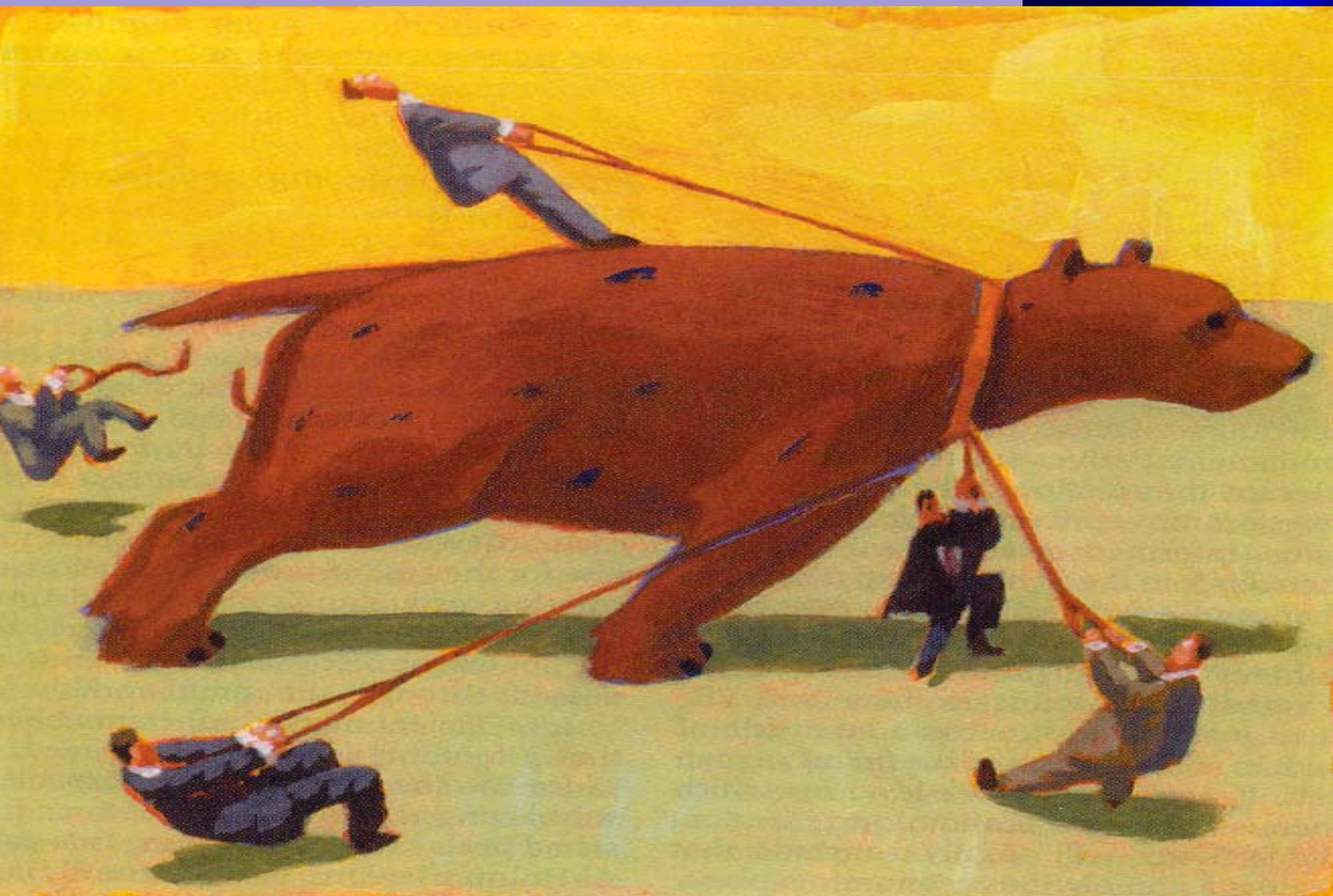
# Operating environment

## Best of times...

- Fedsure rationalised and integrated
- Received permission to dual list:
  - > Key to internationalisation strategy
  - > Expected to raise the international profile and perception of the Group
  - > Provides clear strategic direction
- The Group demonstrated resilience in a challenging environment



It was the worst of times...



# Operating environment

## Worst of times...

- Negative sentiment surrounding Fedsure
- Delays on the UK listing permission
- SA banking sector experienced a difficult period
- Depressed global markets
- Regional political upheaval
- Exceptionally challenging operating environment

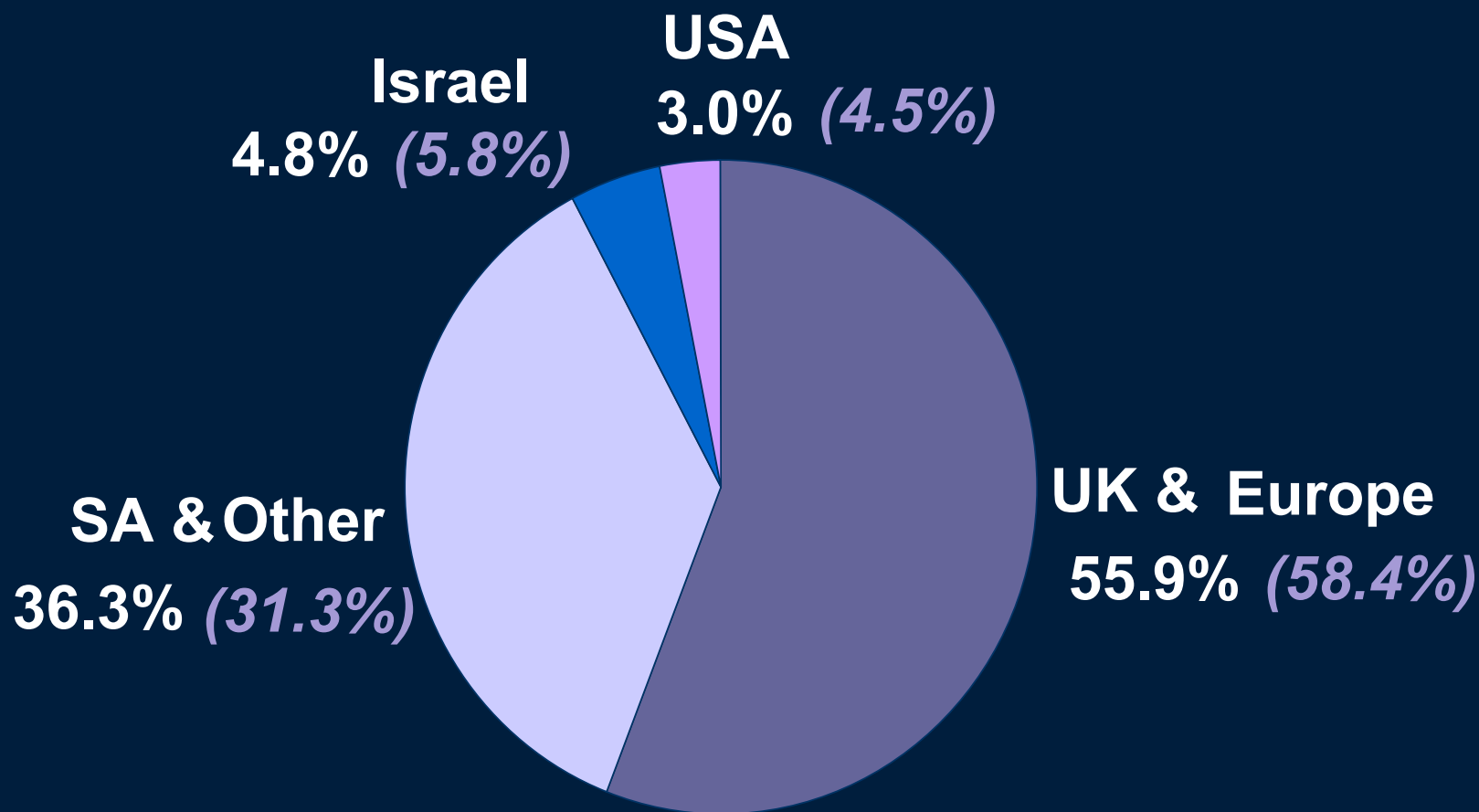
# Operating environment

- Overall, the environment was not very conducive for a specialist banking group like Investec
- Notwithstanding the difficult environment, Investec has grown earnings below historic levels but still above other international investment banks

# Geographic review

For the year ended 31 March 2002	Headline NIBT	Headline Earnings
UK & Europe	↓ 5.2%	↓ 5.3%
Southern Africa & Other	↑ 89.3%	↑ 97.5%
USA	↓ 82.4%	↓ 1.7%
Israel	↑ 61.5%	↑ 78.6%

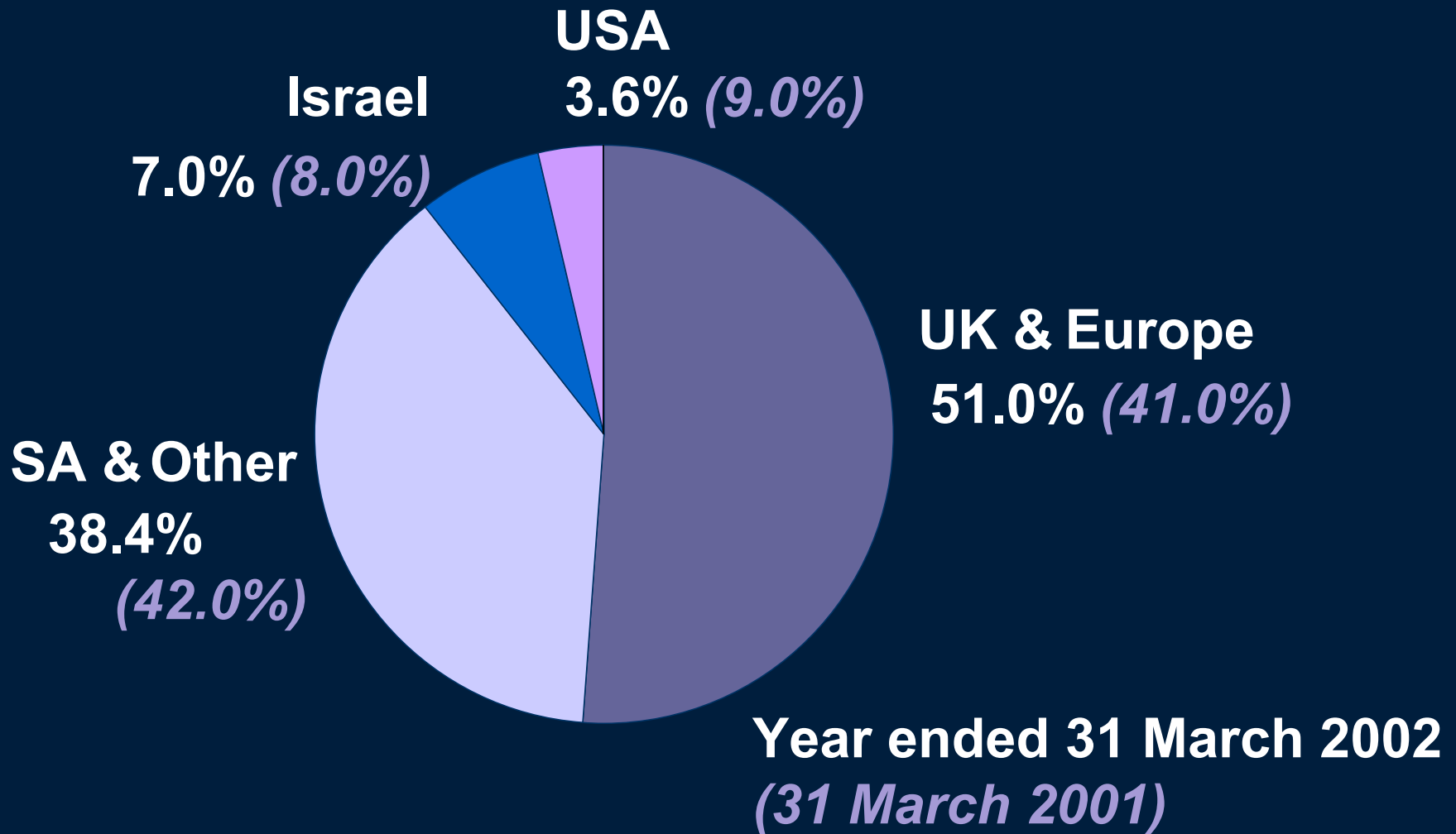
# Assets by geography



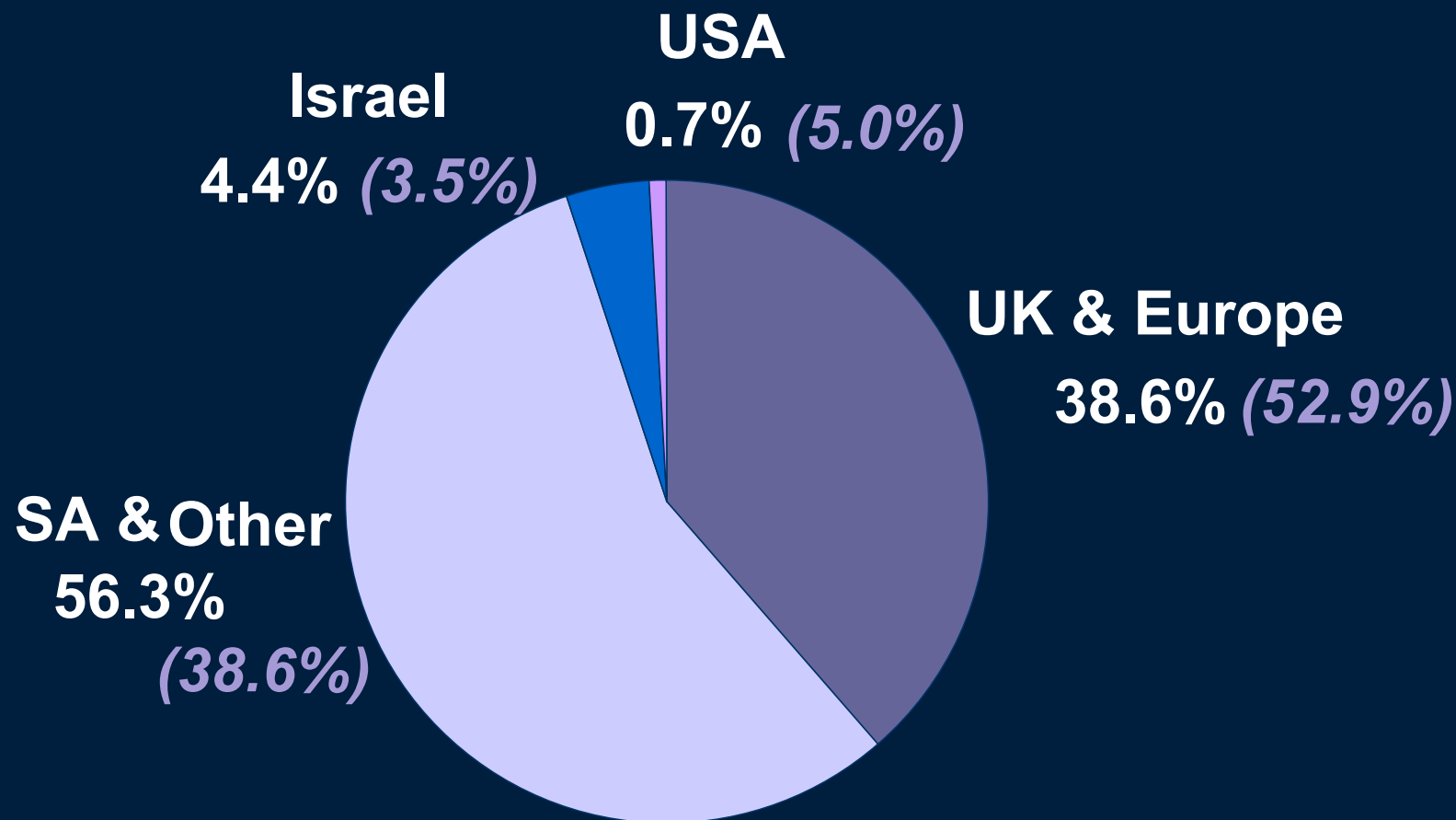
**Year ended 31 March 2002**  
*(31 March 2001)*



# Tangible NAV by geography

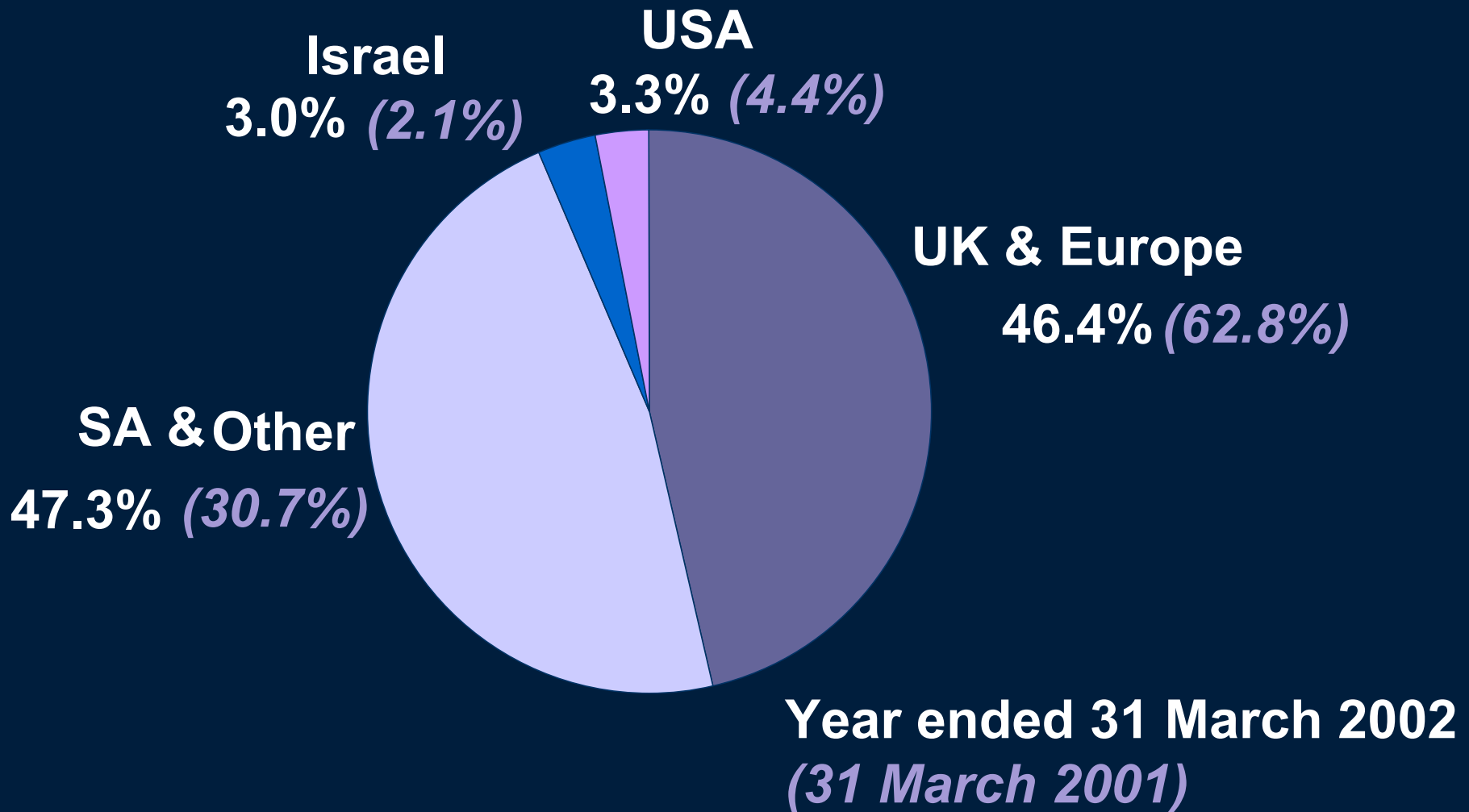


# Headline NIBT by geography



**Year ended 31 March 2002**  
*(31 March 2001)*

# Headline earnings by geography



- Headline NIBT declined marginally in Rand terms:
  - > Equity related activities suffered from market volatility
  - > Stronger performances from private banking, treasury and specialised finance

# UK and Europe

- Continued to focus on developing core areas:
  - > Acquisition of European Capital team
  - > Established structured finance and financial products operations
  - > Made several key recruitments

## Salient financial features

	31 March 2002	31 March 2001	% change
<b>Assets (R'bn)</b>	<b>170</b>	<b>114</b>	<b>49.1</b>
<b>Headline NIBT (R'mn)</b>	<b>915</b>	<b>965</b>	<b>(5.2)</b>
<b>Headline earnings (R'mn)</b>	<b>781</b>	<b>825</b>	<b>(5.3)</b>
<b>Staff</b>	<b>1 492</b>	<b>1 432</b>	<b>4.2</b>
<b>Return on tangible NAV (%)</b>	<b>24.1</b>	<b>34.4</b>	
<b>Cost to income ratio (%)</b>	<b>72.7</b>	<b>61.4</b>	

# Southern Africa and Other

- Strong performance from SA operations
- Particularly good performances from treasury and specialised finance, investment banking, private banking and the property division
- Inclusion of the Fedsure acquisition for 10 months enhanced overall results

# Southern Africa and Other

## Salient financial features\*\*

	31 March 2002	31 March 2001	% change
Assets (R'bn)	110	61	80.3
Headline NIBT (R'mn)	1 333	704	89.3
Headline earnings (R'mn)	796	403	97.5
Staff	3 111	2 303	35.1
Return on tangible NAV (%)	36.7	23.2	
Cost to income ratio (%)	49.6	59.3	

***\*\*Includes: Mauritius, Botswana, Hong Kong and Australia***



- Negative earnings growth as a result of:
  - > Subdued state of the equity markets
  - > Investment banking and private client operations negatively impacted
- Enhanced investment banking capability – select recruitment
- Decided to exit Private Client Stockbroking business in March 2002

## Salient financial features

	31 March 2002	31 March 2001	% change
<b>Assets (R'bn)</b>	<b>9</b>	<b>9</b>	<b>-</b>
<b>Headline NIBT (R'mn)</b>	<b>16</b>	<b>91</b>	<b>(82.4)</b>
<b>Headline earnings (R'mn)</b>	<b>57</b>	<b>58</b>	<b>(1.7)</b>
<b>Staff</b>	<b>688</b>	<b>859</b>	<b>(19.9)</b>
<b>Return on tangible NAV (%)</b>	<b>14.0</b>	<b>13.2</b>	
<b>Cost to income ratio (%)</b>	<b>98.2</b>	<b>84.1</b>	

# Israel

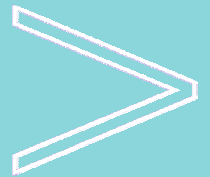
- Posted creditable results off a low base
- Extremely difficult political and economic environment
- Rationalisation of the business in process which will result in reductions in headcount and costs

## Salient financial features

	31 March 2002	31 March 2001	% change
<b>Assets (R'bn)</b>	<b>15</b>	<b>11</b>	<b>36.4</b>
<b>Headline NIBT (R'mn)</b>	<b>105</b>	<b>65</b>	<b>61.5</b>
<b>Headline earnings (R'mn)</b>	<b>50</b>	<b>28</b>	<b>78.6</b>
<b>Staff</b>	<b>238</b>	<b>242</b>	<b>(1.7)</b>
<b>Return on tangible NAV (%)</b>	<b>9.8</b>	<b>6.6</b>	
<b>Cost to income ratio (%)</b>	<b>59.7</b>	<b>66.1</b>	

- Creditable performance, particularly from Investec Wentworth
  - > Headline NIBT of R15mn
- Banking license application in process
- Robust and scalable business platforms are being created

# Divisional Review

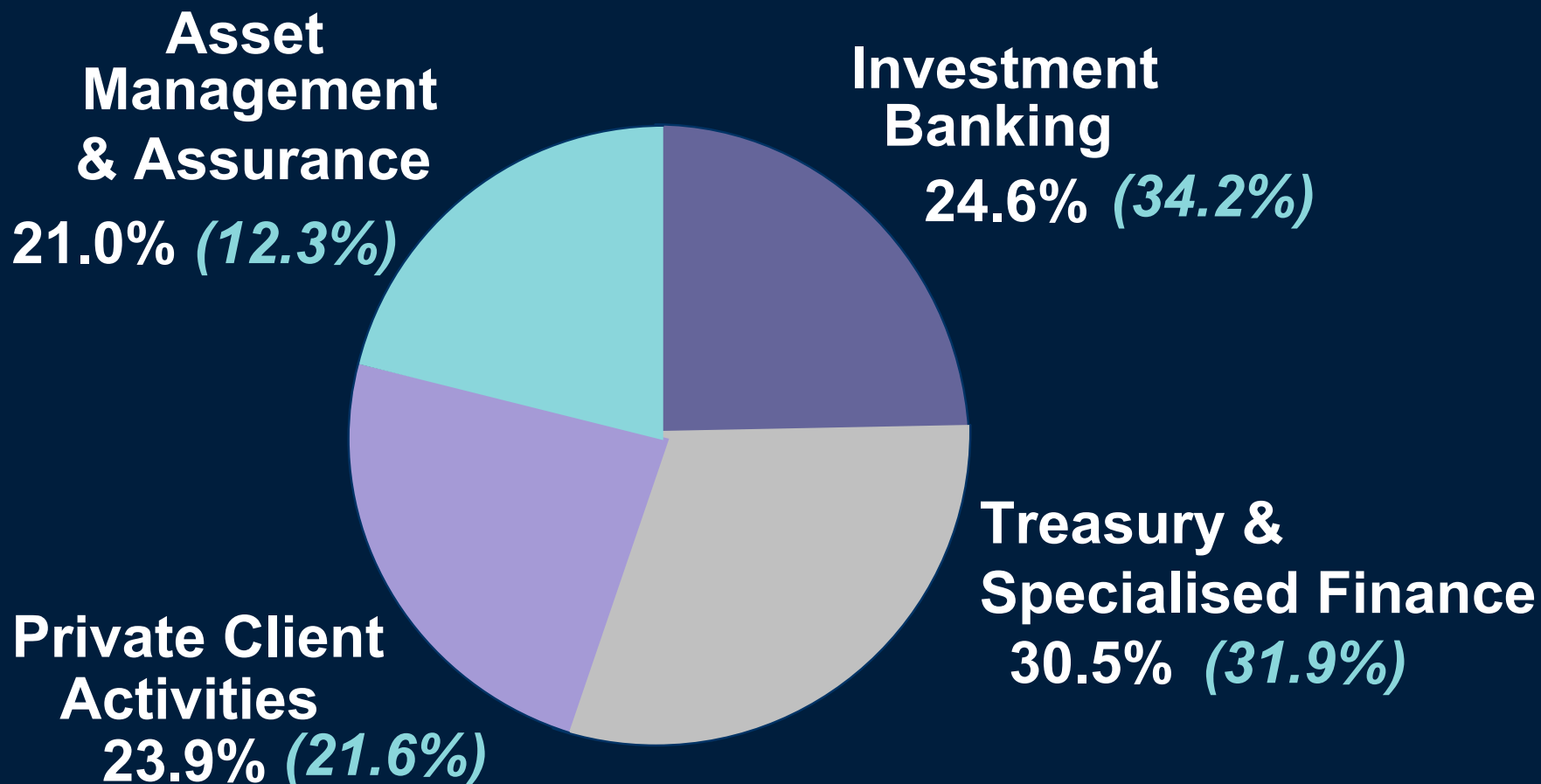


# Divisional review

## Headline NIBT

Investment Banking Decline reflecting difficult market conditions	7.7%
Treasury and Specialised Finance Good results despite market volatility	22.7%
Private Client Activities Strong performance from private banking in UK and SA	42.3%
Asset Management Sound contribution, supported by acquisition of Fedsure	22.8%

# Contribution analysis



Year ended 31 March 2002  
(31 March 2001)



# Investment Banking

- Performance reflects the weak market conditions
- Decline primarily from the UK and the US
- Internationalisation strategy continued:
  - > Focus on key sectors
  - > Senior appointments made in SA and UK

# Investment Banking

*Includes: Corporate Finance, Institutional Stockbroking, Private Equity, Direct Investments*

## Salient financial features

	31 March 2002	31 March 2001	% Change
<b>Net operating income (R'mn)</b>	<b>1 324</b>	<b>1 021</b>	<b>29.7</b>
<b>Operating expenses (R'mn)</b>	<b>740</b>	<b>388</b>	<b>90.7</b>
<b>Headline NIBT (R'mn)</b>	<b>584</b>	<b>633</b>	<b>(7.7)</b>
<b>Cost to income ratio (%)</b>	<b>55.6</b>	<b>37.4</b>	

## South Africa

- **Corporate Finance** - continued to perform strongly relative to local peers
- **Institutional Stockbroking** - structured equity desk performed well in its first year of operation
- **Private Equity and Direct Investments** - performed better than expected and select investments and realisations were made

# Investment Banking

## United Kingdom and Europe

- **Investment Banking & Securities**
  - > Slowdown in IPO's and secondary fundraisings
  - > Growth in large cap agency business and market making offset difficult secondary market
  - > Concluded 21 M&A transactions
- **Private Equity and Direct Investments**
  - > Focused on enhancing and realising existing portfolio of investments

# Investment Banking

## USA

- Acquired PMG Capital in June 2001
- Particularly vulnerable to weak US markets
- Acquired teams to boost niche sectors of TMT and Healthcare

# Investment Banking

## Australia

- Corporate advisory capability established with the acquisition of Wentworth Associates in March 2001
- Good deal flow with contribution to headline NIBT of R34mn
- Private Equity capability established

# Treasury and Specialised Finance

- Banking activities performed well, particularly:
  - > Treasury, financial products, structured finance and project and resource finance
- Financial market activities produced mixed performances:
  - > Good results from the commodities unit

# Treasury and Specialised Finance

*Includes: non-private client deposit-taking, corporate and public sector lending, structuring and proprietary trading activities*

## Salient financial features

	31 March 2002	31 March 2001	% Change
Net operating income (R'mn)	1 320	1 006	31.2
Operating expenses (R'mn)	595	415	43.4
Headline NIBT (R'mn)	725	591	22.7
Cost to income ratio (%)	44.1	39.3	



# Treasury and Specialised Finance

## South Africa

- **Project Finance:**
  - > N1-N4 Platinum Toll Road project - joint lead arranger
  - > Arranged, underwrote and placed R1bn of CPI-linked bonds in SA capital market

# Treasury and Specialised Finance

## South Africa contd.

- **Structured Finance** benefited from low interest rate levels in SA which stimulated demand for long term funding
- **Interest rate** desk suffered from volatility experienced in the market in December

## International Operations

- Further expansion and development of international capabilities
- **UK and Europe:**
  - > Acquired European Capital team
  - > Good progress made by structured finance in its first year of operation
  - > Financial products and resource teams were established
- **Australia:**
  - > Set up a structured finance team

# Private Client Activities

- Strong results
- Particularly strong performances from private banking in the UK and SA
- Global lending book grew 39.1% to R28.1bn

# Private Client Activities

*Includes: Private Banking, Private Client Stockbroking and Portfolio Management*

## Salient financial features

	31 March 2002	31 March 2001	% Change
<b>Net operating income (R'mn)</b>	<b>2 048</b>	<b>1 585</b>	<b>29.2</b>
<b>Operating expenses (R'mn)</b>	<b>1 479</b>	<b>1 185</b>	<b>24.8</b>
<b>Headline NIBT (R'mn)</b>	<b>569</b>	<b>400</b>	<b>42.3</b>
<b>Cost to income ratio (%)</b>	<b>68.0</b>	<b>70.3</b>	

# Private Client Activities

- Total headline NIBT for Private Client Activities
  - > Private Banking increased from R200mn to R352mn
  - > Private Client Stockbroking and Portfolio Management increased from R200mn to R217mn

## Private Banking

- South Africa:
  - > Solid performance driven by strong growth in advances, assets under administration and non-interest income
  - > Loan portfolio grew 36% to R13.7bn
  - > Product innovation and differentiation continued to be a core focus

# Private Client Activities

## Private Banking contd.

- UK and Europe:
  - > Strong performance supported by healthy growth in advances
  - > Commendable performance from the trust and fiduciary businesses
  - > Loan portfolio grew 28% to £797mn
- Australia:
  - > Private Banking still in its development phase and has been refocused



# Private Client Activities

## Private Client Stockbroking

- South Africa:
  - > Ongoing consolidation in the industry
  - > Acquired Merrill Lynch South Africa's private client operation in Cape Town
- UK:
  - > Reduction in income partially offset by high level of net new FUM: £505mn
  - > Supported by the two teams acquired from Gerrard Group

# Private Client Activities

## Private Client Stockbroking contd.

- USA:
  - > Particularly impacted by poor market conditions
  - > In March 2002, corporate management decided to exit the retail brokerage business with the current management of the business identified as the primary buyers

# Asset Management

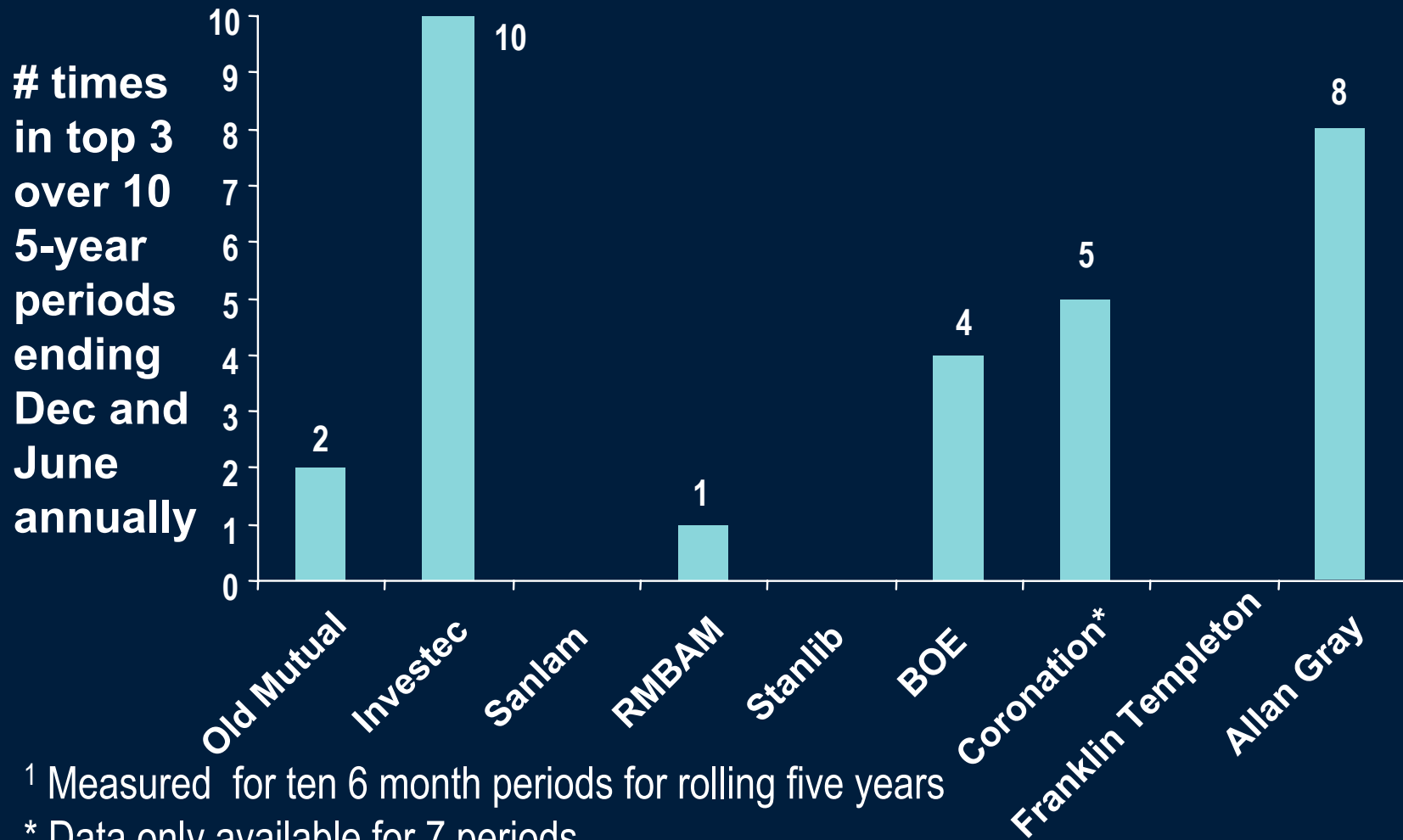
- Sound performance supported by Fedsure acquisition
- Strong performance in SA
- Effectively integrated Fedsure assets and retail business
- Grew the offshore funds
- Strong net sales in UK retail
- Continued success in UK equities
- Strong global fixed income performance

## Salient financial features

	31 March 2002	31 March 2001	% Change
Net operating income (R'mn)	1 097	881	24.5
Operating expenses (R'mn)	817	653	25.1
Headline NIBT (R'mn)	280	228	22.8
Cost to income ratio (%)	74.5	74.0	

# Asset Management

## South Africa - Top 3 performer over last 5 years<sup>1</sup>



<sup>1</sup> Measured for ten 6 month periods for rolling five years

\* Data only available for 7 periods

Based on monthly compounded performance (Source: Alexander Forbes)

# Asset Management

## South Africa - retail performance

- Improvement in SA investment performance
- Percentile ranking of in-house managed funds on avg., top quartile



# Asset Management

- Total FUM increased from R172bn to R263bn
  - > Inclusion of Fedsure assets
  - > Depreciation of the Rand
  - > Reasonable inflows

# Assurance Activities

## Investec Employee Benefits

- Completed restructuring of policyholder portfolios
- Significant cost reductions
- Improvement in compliance



# Assurance Activities

## Investec Employee Benefits

	<b>March 2002</b>	<b>May 2001</b>
<b>Embedded value (R'mn)</b>	<b>2 951</b>	<b>2 478</b>
<b>Net asset value (R'mn)</b>	<b>2 523</b>	<b>2 308</b>
<b>Qualifying capital (net of inadmissible assets) (R'mn)</b>	<b>2 368</b>	<b>2 271</b>
<b>CAR cover</b>	<b>2.73</b>	<b>1.85</b>
<b>Operational income(R'mn)</b>	<b>220</b>	<b>-</b>

# Other Activities

<b>R'mn</b>	<b>31 March 2002</b>	<b>31 March 2001</b>	<b>% Change</b>
<b>Net Income - International Trade Finance</b>	<b>34</b>	<b>65</b>	<b>(47.7)</b>
<b>Net Income - Property Worldwide</b>	<b>261</b>	<b>81</b>	<b>222.2</b>
<b>Net Income - USA Clearing and Execution</b>	<b>44</b>	<b>58</b>	<b>(24.1)</b>
<b>Traded Endowments</b>	<b>46</b>	<b>-</b>	<b>-</b>
<b>Net Return on Surplus Capital</b>	<b>317</b>	<b>354</b>	<b>(10.5)</b>
<b>Central Costs</b>	<b>(502)</b>	<b>(386)</b>	<b>30.0</b>
<b>Centralised Funding</b>	<b>(209)</b>	<b>(199)</b>	<b>5.0</b>
<b>Headline NIBT</b>	<b>(9)</b>	<b>(27)</b>	<b>66.7</b>

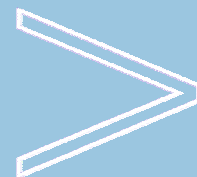
# Other Activities

- Investec Property Group
  - > Significant enhancement to Property Group took place during the period with:
    - the acquisition of Fedsure;
    - the merger of Growthpoint with the Mines Pension Fund properties; and
    - the management contract of Melrose Arch
  - > Benefited from the low long term interest rates during the first 8 months of the financial year
  - > Thereby significantly increasing the contribution from Property activities

# Other Activities

- US Clearing and Execution Activities:
  - > Highly dependent on transactional activity
  - > Negatively impacted by market conditions
  - > Partially offset by acquisition of the clearing arm of Herzog Heine Geduld

# Group Performance



# Salient financial features

## Balance Sheet

<b>R'mn</b>	<b>31 March 2002</b>	<b>31 March 2001</b>	<b>% Change</b>
<b>Shareholders' funds</b>	<b>13 230</b>	<b>9 028</b>	<b>46.5</b>
<b>Total capital resources</b>	<b>16 016</b>	<b>11 240</b>	<b>42.5</b>
<b>Total assets</b>	<b>303 841</b>	<b>194 732</b>	<b>56.0</b>
<b>Advances</b>	<b>54 413</b>	<b>38 062</b>	<b>43.0</b>
<b>Third party FUM</b>	<b>455 017</b>	<b>319 897</b>	<b>42.2</b>

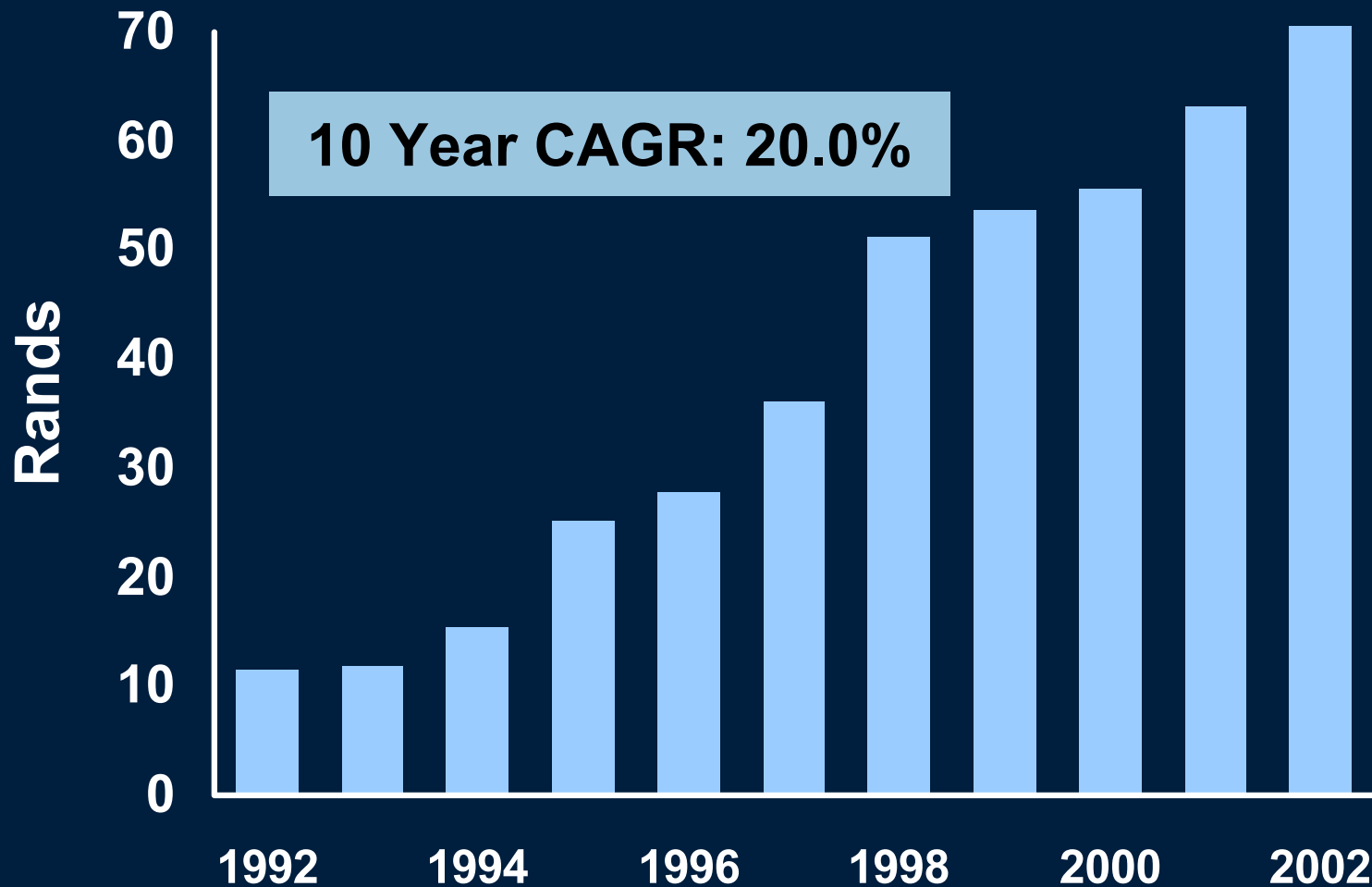
# Salient financial features

## Income Statement

<b>R'mn</b>	<b>31 March 2002</b>	<b>31 March 2001</b>	<b>% Change</b>
<b>Net interest income</b>	<b>2 183</b>	<b>1 878</b>	<b>16.3</b>
<b>Provision for bad &amp; doubtful debts</b>	<b>202</b>	<b>198</b>	<b>2.0</b>
<b>Other income</b>	<b>5 273</b>	<b>3 621</b>	<b>45.6</b>
<b>Operating expenses</b>	<b>4 885</b>	<b>3 476</b>	<b>40.5</b>
<b>Headline NIBT</b>	<b>2 369</b>	<b>1 825</b>	<b>29.8</b>
<b>Headline earnings</b>	<b>1 684</b>	<b>1 314</b>	<b>28.2</b>

# Salient financial features

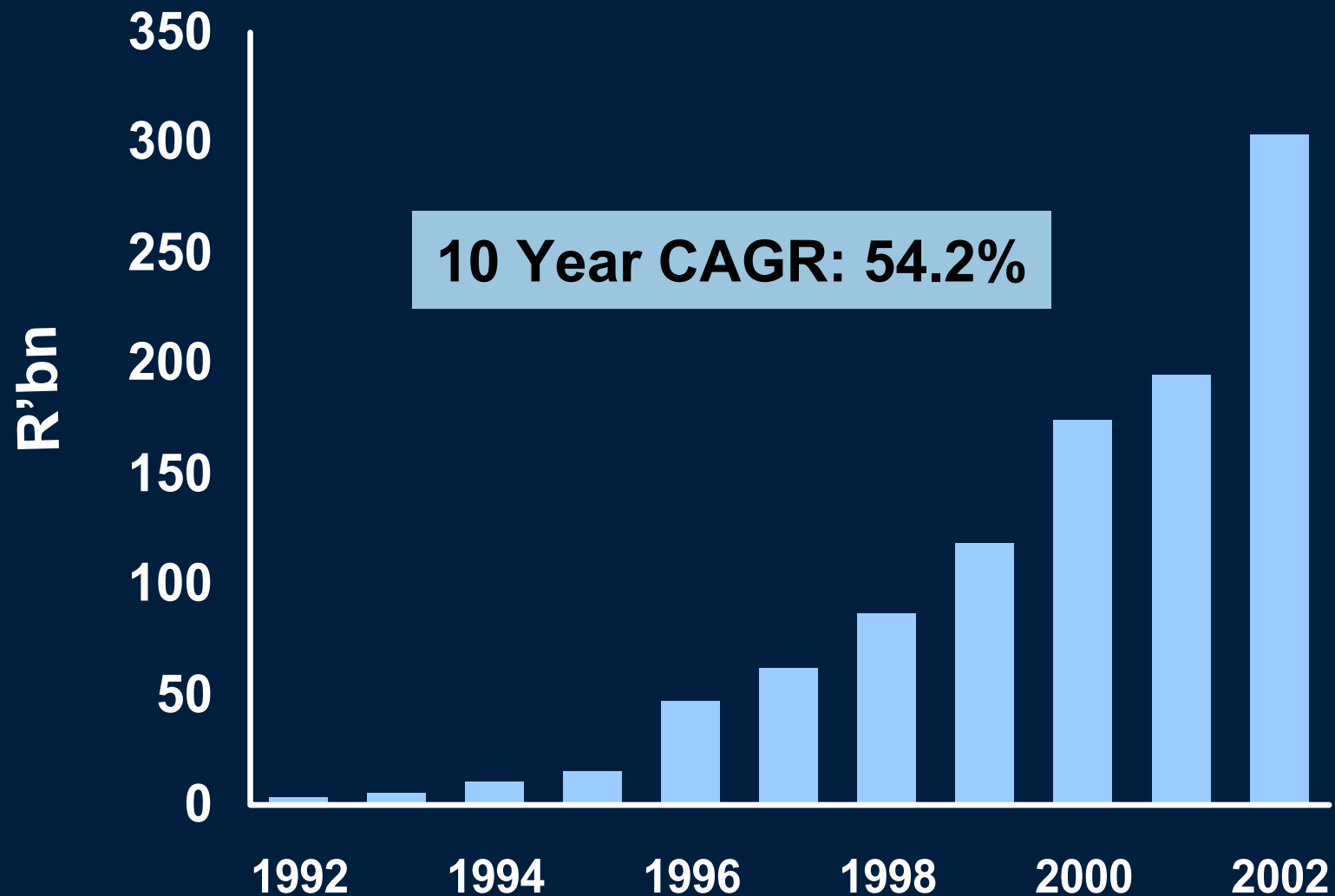
## Growth in net tangible asset value per share





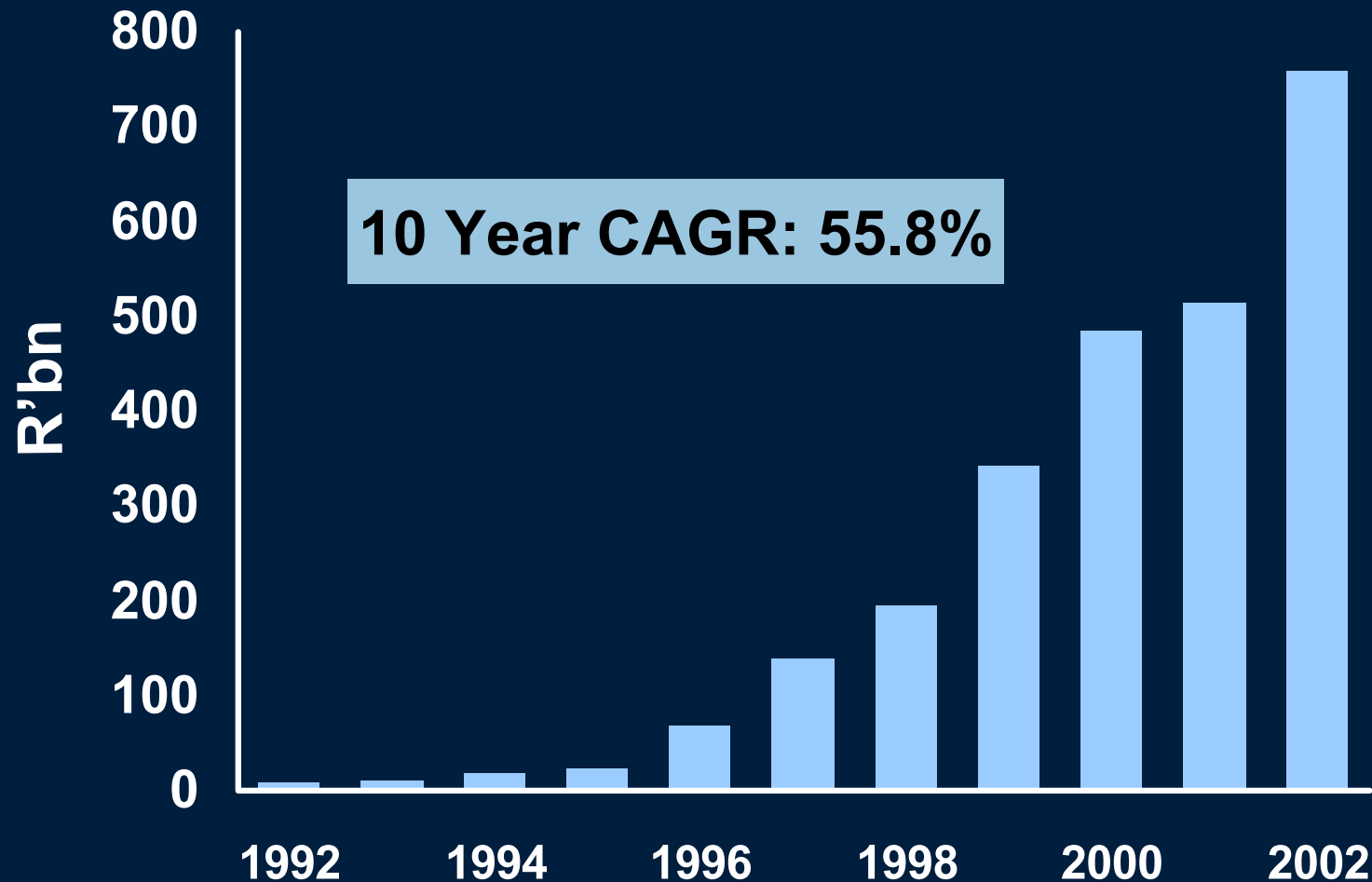
# Salient financial features

## Growth in total assets



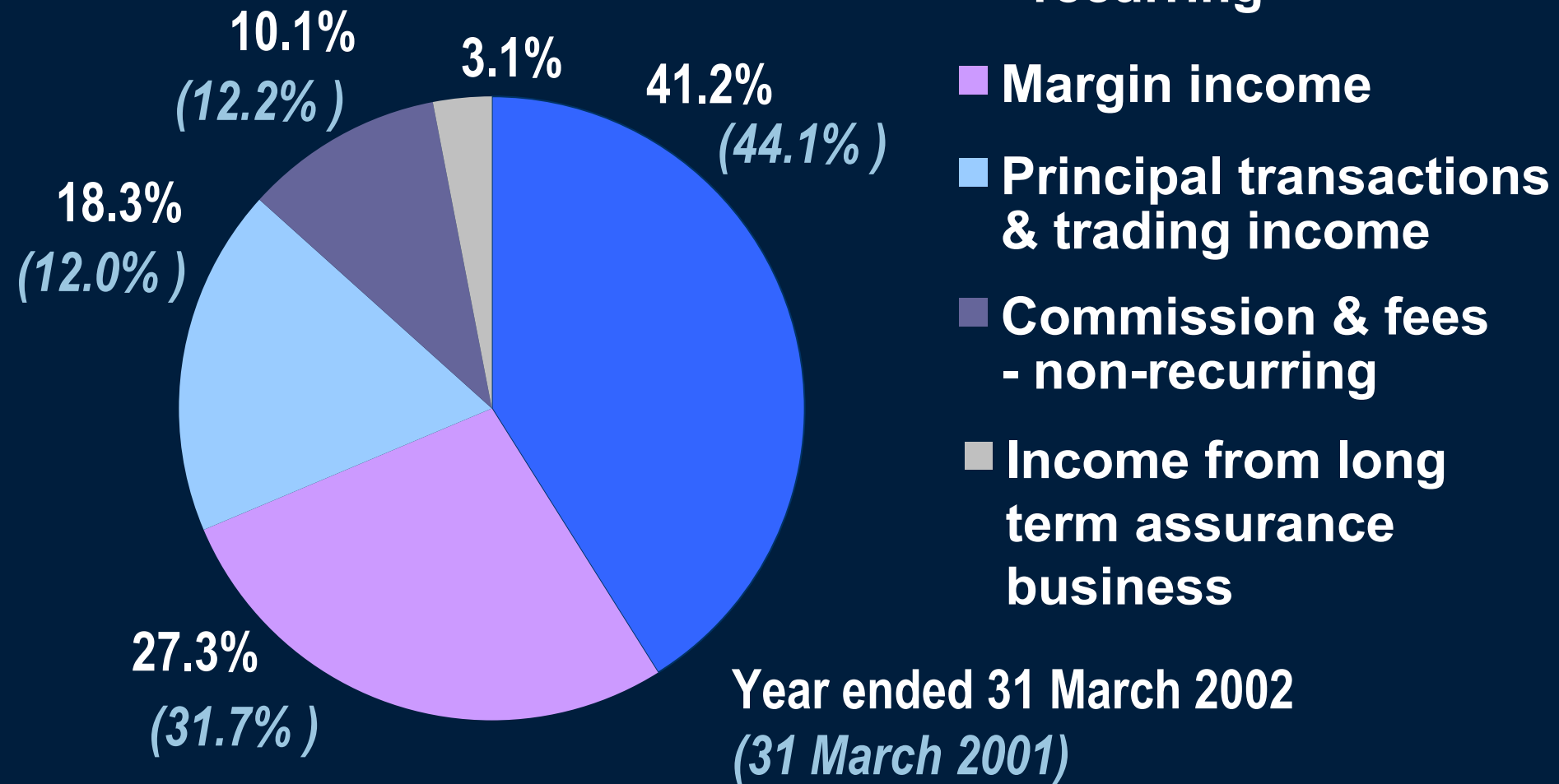
# Salient financial features

## Growth in assets under administration



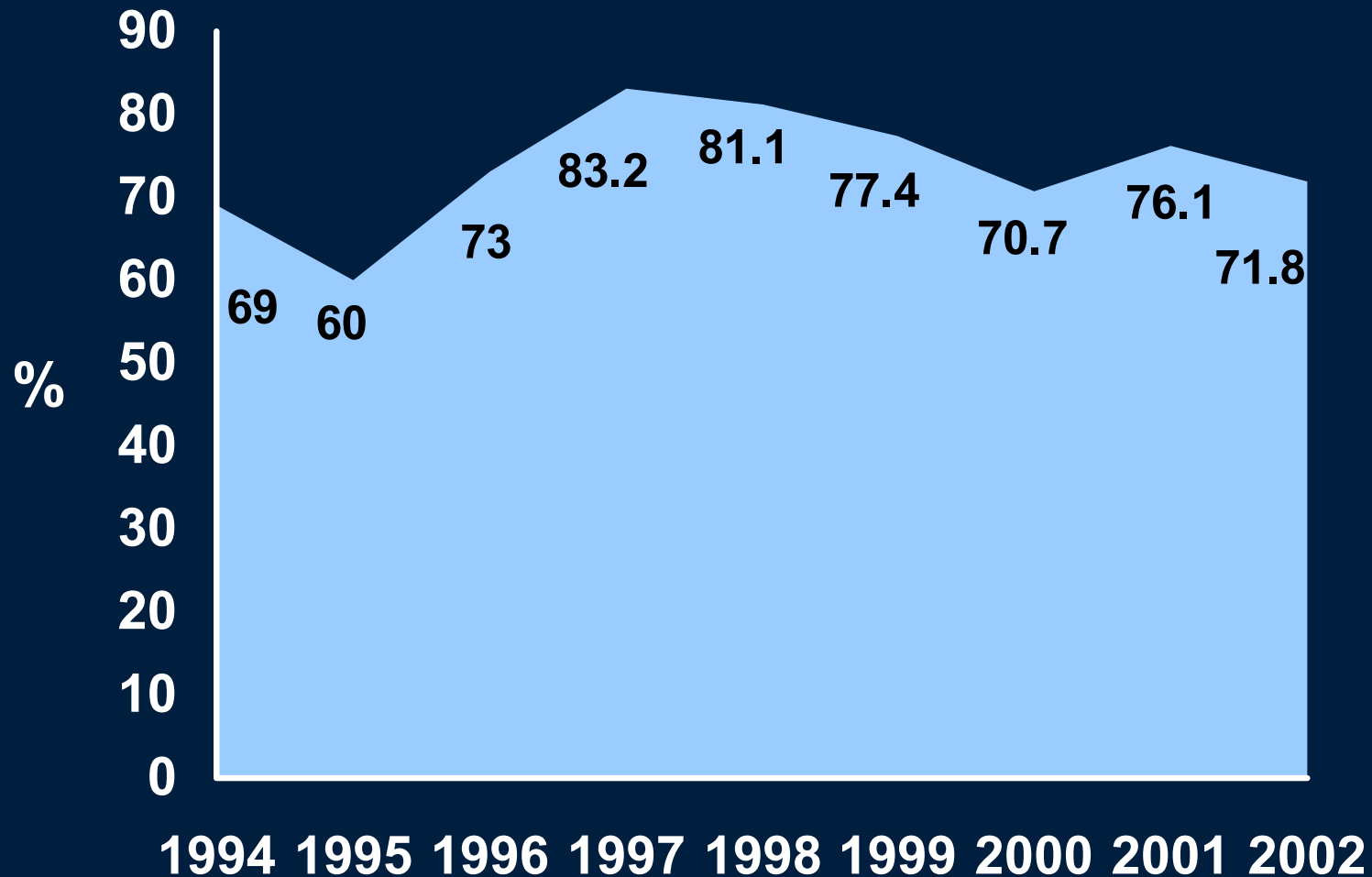
# Salient financial features

## Operating income by type



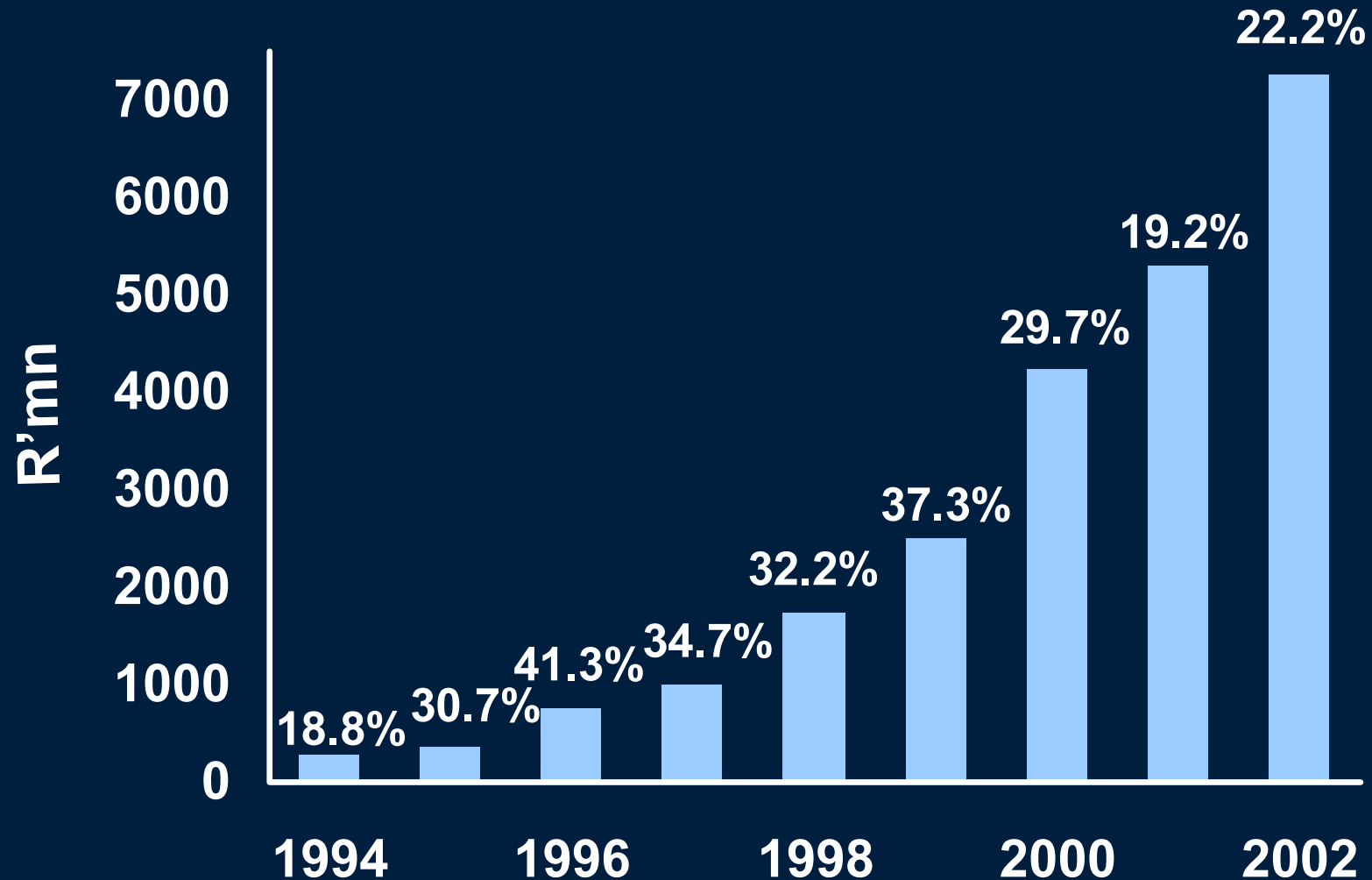
# Salient financial features

## Annuity income as a % of total income



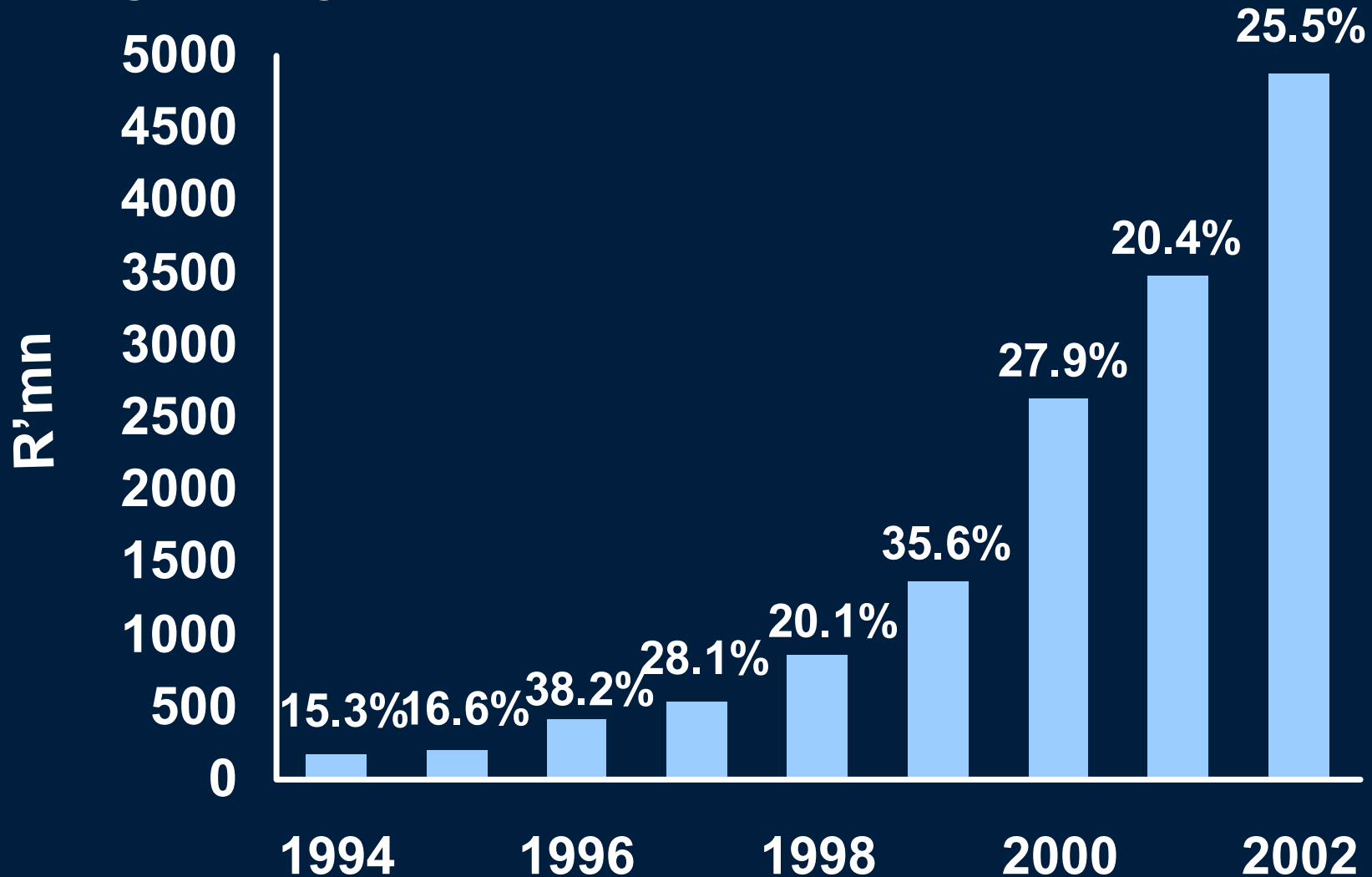
# Salient financial features

## Organic growth in income



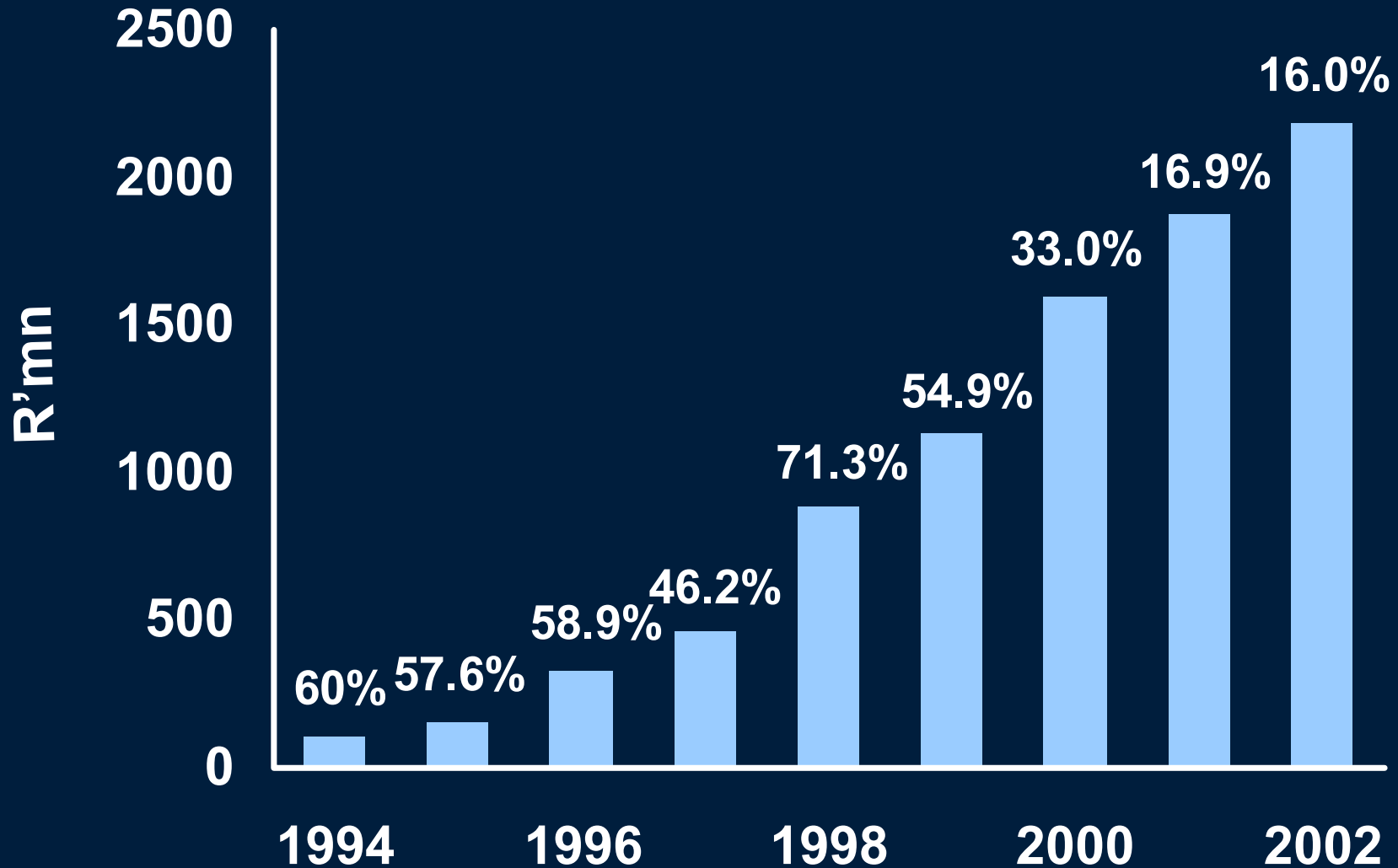
# Salient financial features

## Organic growth in expenses



# Salient financial features

## Organic growth in net income

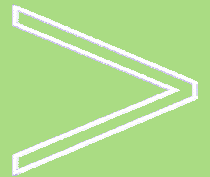


# Additional information

- Fedsure acquisition
- Foreign currency translation gains from integrated operations
- Employee share incentive schemes



# Operational Issues



# Risk Management

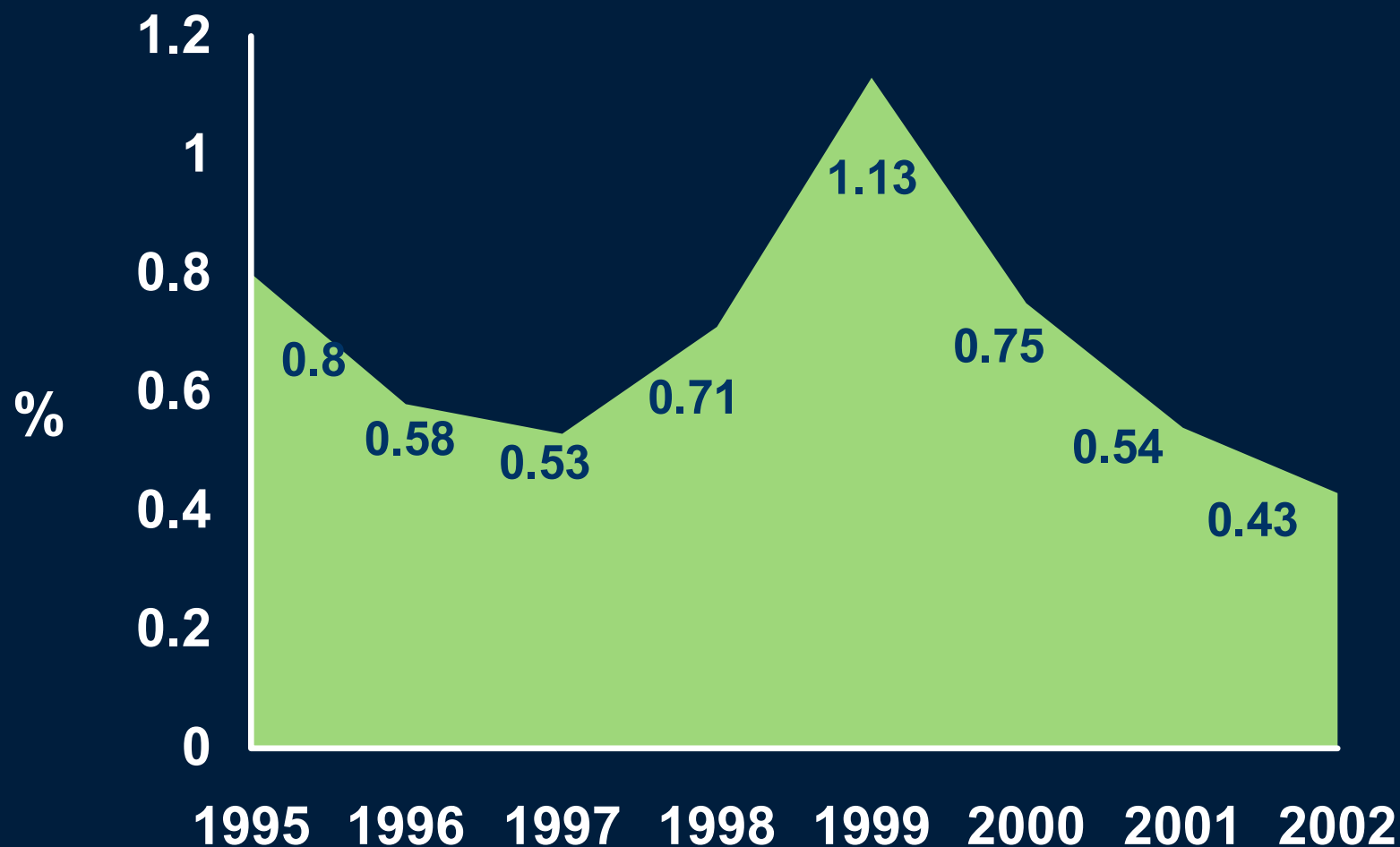


- Bradley Tapnack was appointed as the Global Head of Corporate Governance and Compliance
- Introduced a Global Risk Committee that supervises global risk as a sub-committee of the Board
- Developed Operational Risk Management as a separate discipline within the Group risk management function
- Continued to embed a culture of risk awareness, control and compliance

# Adequacy of provisions



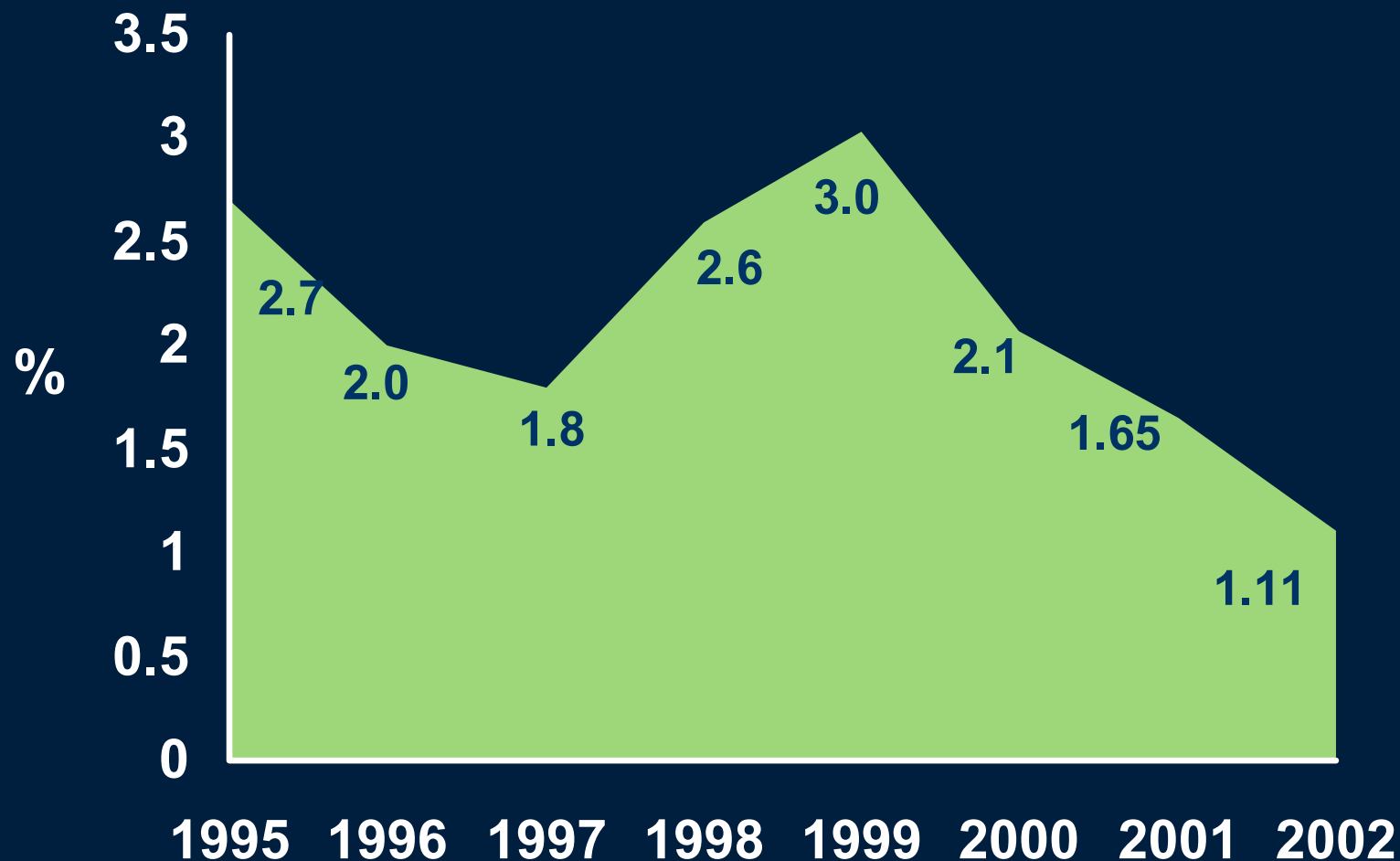
Bad debt charge as % of average advances



# Adequacy of provisions



Gross NPLs as a % of total loans and advances



# Capital resources



- Total capital resources increased by 42.5% to R16 016mn, attributable to:
  - > Net increase of R2 755mn in shares and debenture issues following the Fedsure acquisition and share buy-back
  - > Foreign currency translation reserve increased R1.6bn
  - > Issue of additional R300mn subordinated debt in SA market
- Risk weighted assets increased by 33% partly as a consequence of exchange rates and partly organic

# Capital adequacy



R'mn	31 March 2002	31 March 2001
Tier 1	12 109	7 378
Tier 2 - Permanent	2 915	2 676
Tier 2 - Redeemable	1 955	1 781
Total	16 979	11 835
Capital Reserved for Non-Banking Activities	(3 017)	(1 516)
Impairments	(5 544)	(2 955)
Capital available for Banking Activities	8 418	7 364
Risk Weighted Assets	63 826	48 034
Capital Adequacy Ratio	13.2%	15.3%

# Deploying capital productively



	<b>31 March 2002</b>	<b>31 March 2001</b>
<b>Return on Equity (%)</b>	<b>27.6</b>	<b>25.8</b>
<b>Return on Investment (%)</b>	<b>17.2</b>	<b>17.1</b>
<b>Return on RWA (%)</b>	<b>3.0</b>	<b>3.0</b>

# Cost Control



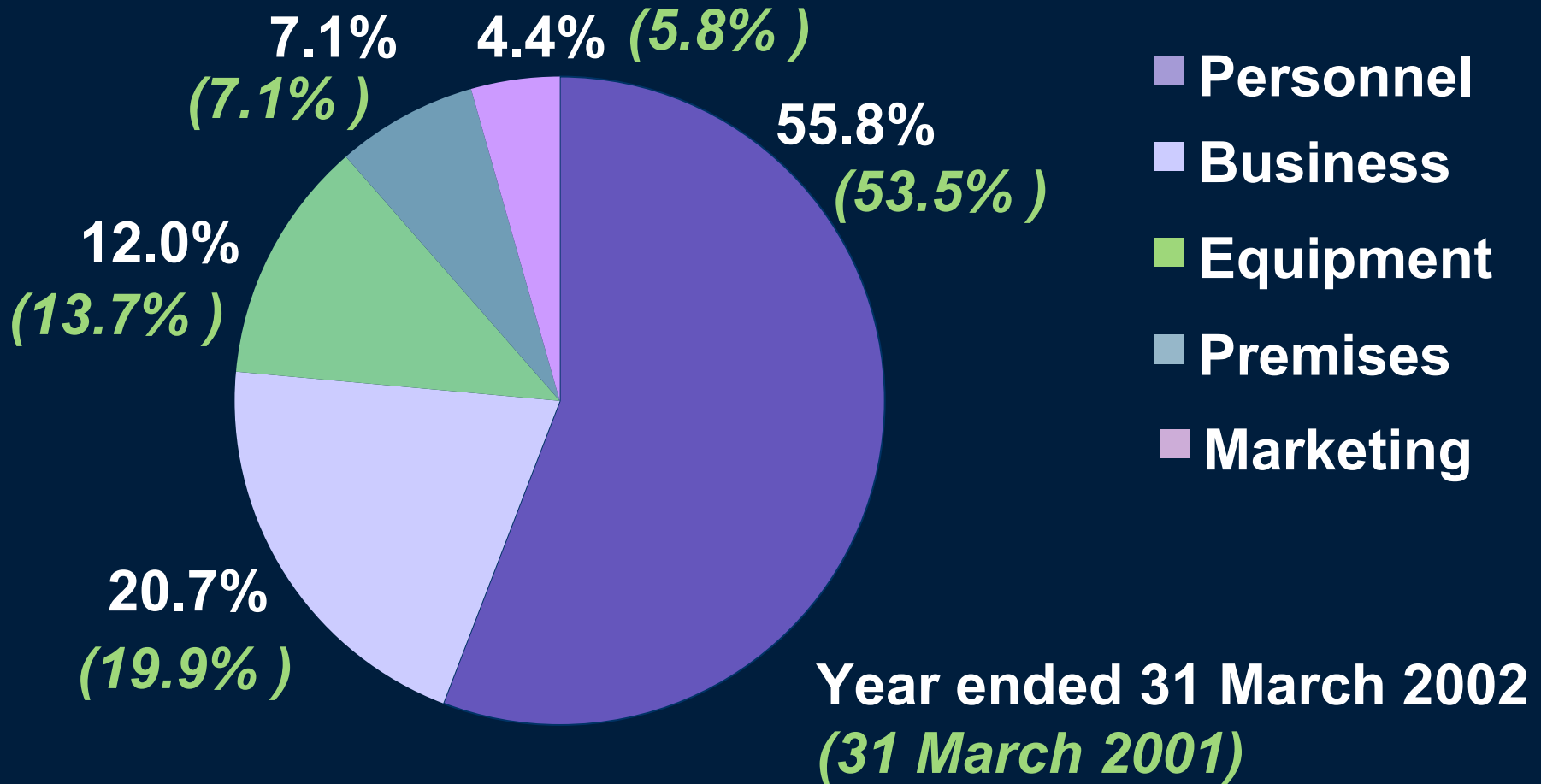
- Operating expenses increased 40.5%:
  - > Acquisitions included for the full period - 15%
  - > Devaluation of the Rand - 18.3%
  - > Underlying organic growth - 7.2%
- Cost to income ratio increased to 65.5% from 63.2%:
  - > Reflecting reduced revenues generated from the UK Investment Banking activities; and
  - > Capacity building in some of the offshore acquisitions



# Cost Control



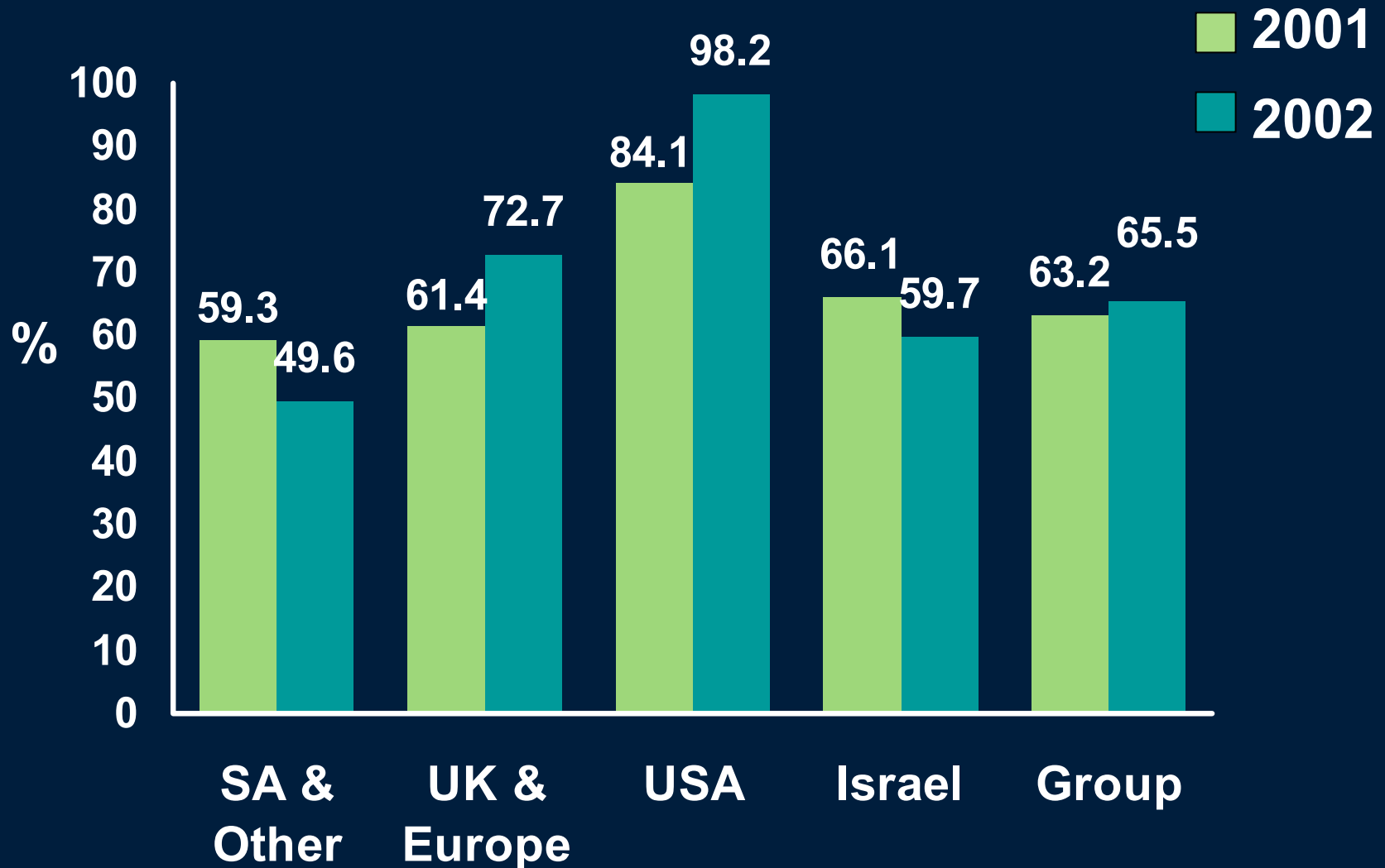
## Expenses by type



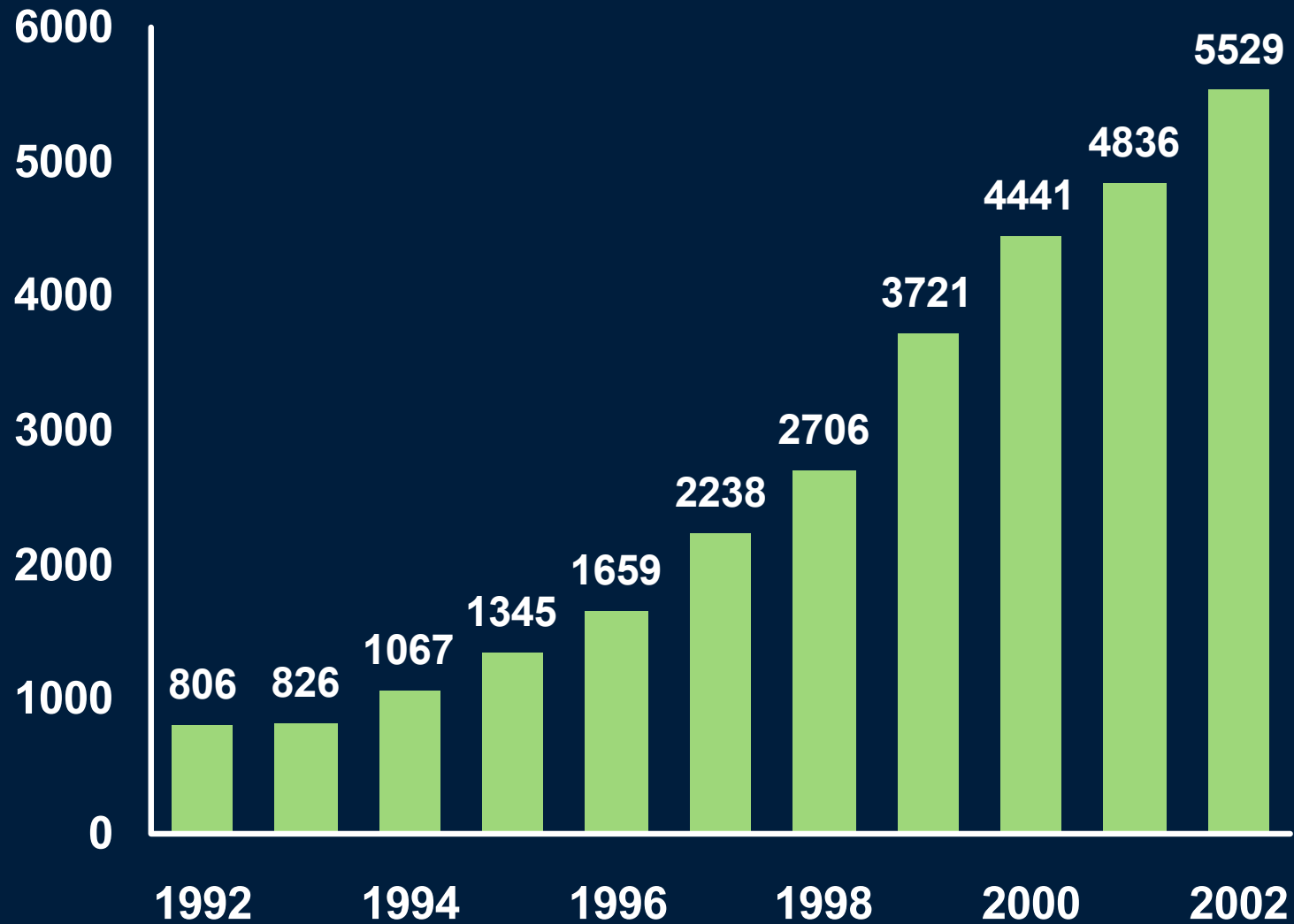
# Cost Control



## Cost to income by geography



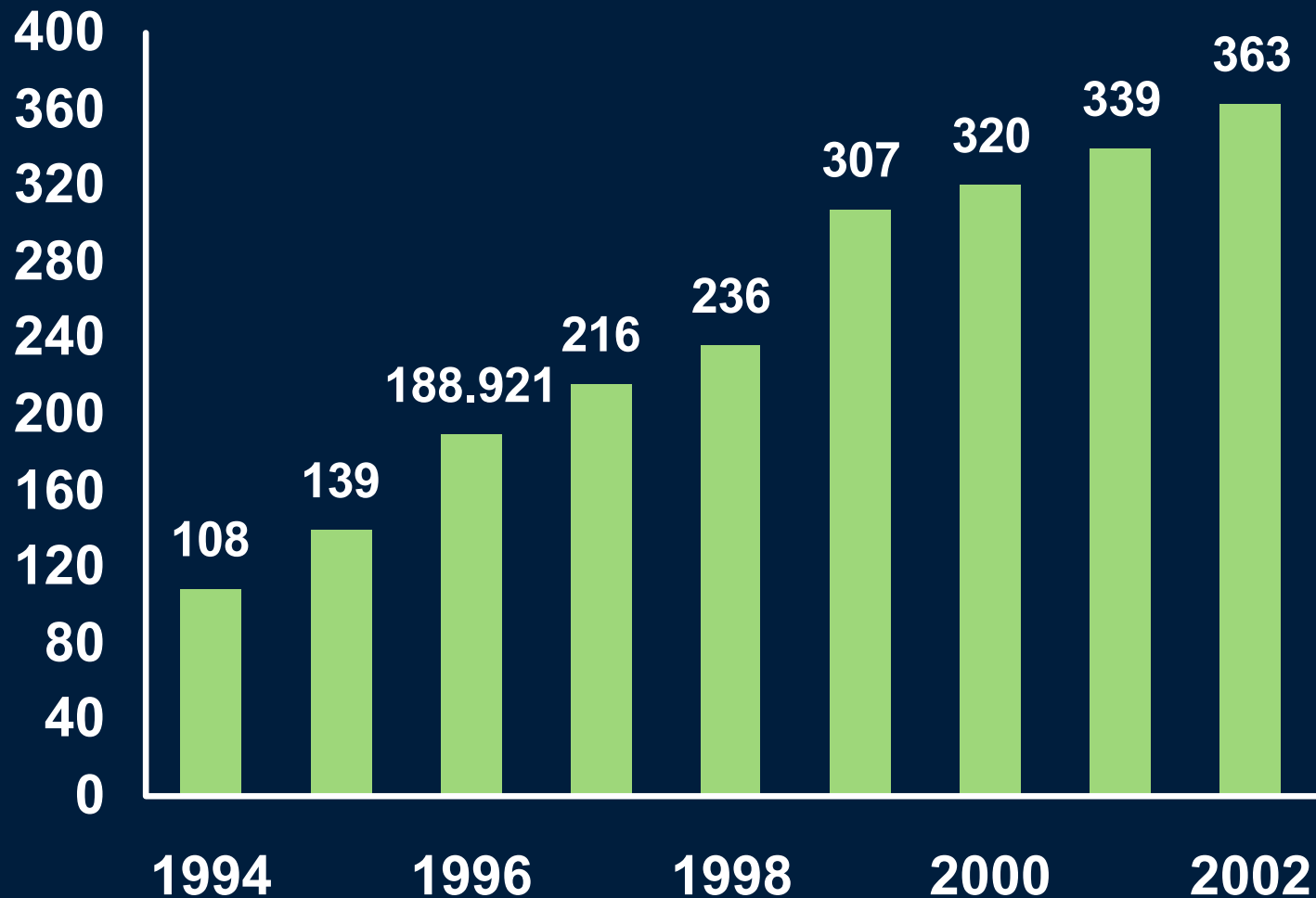
# People



# Headline earnings per employee



R'000



# Systems and Infrastructure



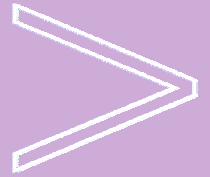
- Focused on aligning the IT Organisation with the Group Matrix
- Key issue is to cut down on diversity and duplication
- Global IT Management Committee in place to address these issues

# Corporate Citizenship



- Established a separate Social Investment Division
- Concentrate on entrepreneurial projects that are sustainable and empower people
- Entrepreneurial impact:
  - > Business Place
  - > Rural schools initiative
  - > CIDA City Campus
  - > The Cradle Project

# Looking Forward



# Looking Forward

Investec will continue to pursue its strategy to be one of the world's leading specialist banking groups through an emphasis on:

- > Reinforcing a specialised and focused approach
- > Pursuing growth opportunities
- > Leveraging group skills across product and geography
- > Perpetuation of Investec's culture





# **Investec Group Ltd**

## **Analyst Presentation 2002**

