Investec

Conference Call Transcript

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ANNUAL RESULTS

Fani Titi

Ladies and gentlemen, good morning. I hope you enjoyed that little gallop of the zebras. I'm sure all of you know that a herd of zebras is called a dazzle. That is a bit of a dazzle there for us. Just before we start, I would like to take a little moment to obviously recognise the fact that we are going into a very difficult period in terms of the slowdown in the global economy, and we know how much pressure there is on ordinary families and businesses are preparing for a pretty hard time. Even though the outlook is as concerning as that, we remain optimistic as a business that we have the strength to face this period. And we think there will be opportunities that will be available for us to take advantage of. That's why we have put up this quote from Winston Churchill.

That said, I'm going to go into the results. We've tried to characterise the results over a three-year period because we've been on a journey of disciplined strategic execution. In February 2019 we presented a set of objectives to the market that we wanted to pursue. So, as we emerge out of this COVID environment, clearly, we've had some recovery post the lockdowns. But we've also had a strong commitment by our colleagues to support our clients. And as a consequence, we can see over the last three years or so a strong recovery in performance.

Nishlan will talk about the numbers later today in more detail, but I would like to confirm that our business is strong, strategically well positioned, very clearly positioned, strong balance sheet, strong liquidity. We have an asset quality that you will see as you go through the numbers that is particularly attractive as we go forward. And our clients also have come through COVID particularly strongly. So, as we go into the next period, we believe that both from a business perspective as Investec and from our clients' perspective there is an ability to navigate the period that is coming. By that I do not mean that our clients will not be affected, nor do I mean that Investec will not be affected. But we are as well positioned going into this tough environment as we ever have been. Nishlan will go through the numbers.

Secondly, we would like to give you a sense of how very unique our positioning is in the market. I talked a little earlier about our strategic positioning. We do not serve the mass market like most high tech banks do. We have select client bases, and that places us in a position to be quite resilient in times like the ones we are going to. Over the last three years we have shrunk our strategic canvas to two core geographies, the UK and South Africa, obviously supported by a number of geographies. We also have shrunk our business into specialist banking and wealth management.

And in these businesses, we have a level of specialisation driven by entrepreneurial culture and driven by our absolute commitment to client-centricity. So that specialisation has given us the ability over the last year to

grow our funds under management by 9.2% to £63.8 billion and our advances by 13%. As we go forward that level of specialisation will be important because we will stay close to our clients even as times go hard. We do believe that we will have the ability to continue to support them.

Thirdly, over the last three years or so we have demonstrated the ability to generate capital to support our growth ambitions. When we presented three years ago there was a level of doubt as to whether we would be able to generate the level of capital that would support our growth plans, first and foremost, because we were demerging the asset management business, now Ninety One. A lot of people thought that the banks were essentially dependent on the cash flows from the asset management business.

I'm really pleased that we've been able to generate significant capital. That has allowed us to support growth and importantly also to pay generous dividends. You will see in these results that we were able to declare 14p, bringing the dividend for the year to 25p. And in fact, we also will be distributing at the end of this month 15% of Ninety One, bringing to our shareholders a total distribution of just under £1.7 billion, in Rand terms about R32 billion. That is significant capital return to our shareholders.

If you look at the trajectory of our returns, I would like to point out specifically that given the level of capital both in the UK and South Africa you will see that our capital ratios have gone up. But specifically, in South Africa we have a level of excess capital. Our capital ratio would have printed at 14%. If we take in AIRB that we are on a parallel run with at the moment, that capital ratio gets to 16%. So, there is a level of optionality to return some capital to our shareholders over the next two years.

So, when we look at the returns, being the last point that I want to talk about on this slide, we see that there has been a strong recovery in returns. Each of our businesses is generating returns in excess of the cost of capital. But we have excess capital in the middle that we have to deal with. We have an investment portfolio that we said we wanted to reduce over the last three years. So, we've seen both from the momentum of the businesses as we go forward, given the support we give to our clients, and our ability to management capital better, that we will be able to get to our medium-term targets in 2024. At the moment we printed an ROE of 11.4%. we will hope for an improvement in the coming year. And in 2024 we hope to be well inside of that range. You will see that with respect to cost to income ratio we are already at 63.3% versus our medium-term target of 63%. So, we've made significant progress and we have a level of confidence as we continue to execute with discipline our strategic path.

Just looking at the numbers very briefly, we've had a 91% increase in adjusted earnings per share to 55.1p, slightly ahead of guidance that we had provided. And we're really pleased that the driver behind these results is revenue growth. Over the last year or two most banks have had fantastic results driven largely out of impairment releases. So, we've seen 21% growth in revenues. Second, we have had significant cost control. Costs are up 6%, but fixed costs were contained to a growth of 1.1%. If you look at our pre-provision operating income, that is up 50%. So, this is a performance driven off activity with our clients, not just impairments. Obviously, we serve a select client base, and the asset quality is good and better than our competitors through the cycle.

The next number I would like to highlight is the adjusted operating profit at £687.4 million. That is 82% ahead of last year, as I said, driven off revenue growth. What is really pleasing for these results is that of that £687.4 million, £300 million of that has been generated by our business in the Plc. You will know that over time there have been some people who have doubted the capability of this business to generate substantial growth. Nishlan will report that this business in the UK increased earnings by 138% or so, a fantastic performance. The £300 million represents about 44% of our total adjusted operating profit.

The second item I would like to highlight is that of the revenue of just under £2 billion that supports this adjusted operating profit number, just over £1 billion, just over half is non-interest revenue. So, both from a geography perspective, Plc / Ltd, ad from a source of revenue or kind of revenue, net interest versus non-interest revenue, we see a balanced business model that gives us the ability to go through difficult periods because of that level of diversity. Our cost to income ratio I've spoken about. The jaws are opening. Increasing revenues, well contained cost, leading to the crocodile's jaws opening a lot wider.

The credit loss ratio at 8 bps is obviously at a historical low, and that is a consequence of three things. First, we have seen very low impairments in the period. Second, we have seen recoveries in our South African business. And I would like to point thirdly that we have retained significant overlays as we move substantially out of the lockdowns. As we said, with inflationary pressures on the outlook, there obviously is uncertainty and downside. So, we have had to retain a different character of overlay, but significantly we have retained our overlays.

Our business, as I said, is highly niche, so the quality of our client base is really particularly good. Therefore, the asset quality of our books is also good. Getting to return on equity, at 11.4% we have increased from 6.6%. So, that is a pleasing increase. Look at the return on equity from our UK business at 11.2%. that is a fantastic return. If you look at the return on tangible equity for that business, it is at 12.9%. You may be surprised that the return on equity of the South African business prints at 11.7%.

That's a consequence of the high level of capital that we have. I talked about a 16% CET1 ratio on AIRB. And I said there is a level of capital optionality to deal with a level of excess capital. Also, the tax rate for the South African business in these numbers is at about 29%. Obviously going forward that tax rate will normalise closer to around the 20s. So, capital management and the strength of our underlying business and the momentum we have, gives us the confidence that we can reach the targets that we have set.

We've generated significant value for our shareholders as evidenced in this particular reporting period by a double digit growth in net asset value per share to 510p. On the back of that, as I said, we are pleased to have declared a dividend in the second period of 14p, taking us to 25p and a pay-out ratio of 45%, at the upper end of our 30% to 50% guided pay-out ratio. And I've spoken about the special distribution of 15% of Ninety One. So, it has been good times in terms of returns for our shareholders. Hopefully Nishlan, Richard and the team can do a lot more in terms of dealing with the excess capital in the South African business to increase the returns to our shareholders.

We run the business for the long term. While the profit numbers look impressive, our purpose is to create enduring worth for our clients, for our colleagues, for the communities in which we operate, and obviously we

want to do so in a manner that protects the environment. So, we have ingrained and made sustainability a core element of our business as opposed to a separate consideration, whether it be in the lending that we do or in the investing that we do. I will not go through the different measurement points that we have on this slide. I am really pleased that we continue to live true to living in society and not of it. I'm going to ask Nishlan to go through the numbers. I gave you a high level view of the results. Nishlan, it's all up to you now.

Nishlan Samujh

Thanks, Fani, and good morning to everyone. It's really a privilege to be up here to present to all of you. I think if I get into the results, let's not forget that the context of March 2022 is actually an improving context with a strong recovery from a COVID environment in both geographies which we operated in. I think if we look forward the South African GDP at the end of this period was still about 1.8% behind where it was from a pre-COVID environment, and there is still economic pressure overall. From a UK perspective I think we've seen an impressive recovery from a COVID environment over this period. And we understand that there are pressures as we experience and work through the impact of the Ukraine war, as we work through the impact of inflationary pressure, and as we work through the actions that are taken across the globe by the various regulatory bodies.

Again, supportive markets over the period. Now, we did see some pullback at the end of March, so to some extent the funds that we would have reported at the end of December are a little lower, but still strongly above where we were in the prior year. And similarly, exchange rates have also strengthened over the period, so the contribution of the Rand earnings from South Africa are more material in terms of the GBP conversion.

Global interest rates have been on the up. I think we're all watching the steepness of those curves. I think a point to note is that particularly in South Africa we are still not at the 2019 interest rate levels. We anticipate that the increase in interest rates anticipating over this while will get us to those levels, not materially above those levels. From a UK perspective, obviously, we are a bit higher, but again not at all-time highs. And I think the key point for us is that from a client perspective we have operated through cycles which clients have experienced higher interest rates.

If I simply unpack the earnings per share over this period, again we have compared to March 2019. The relevance of that period is it's a pre-COVID period. It's a period in which we did not have the drag from the financial product losses that we experienced in March 2020 and March 2021 as well. One of the points that I will raise is that we operated with an effective tax rate in March 2019 of 9.5%. That effective tax rate has now normalised towards 22%, albeit different in our geographies where it's a bit lower in the UK from a normalised rate and higher in South Africa from a normalised rate.

What we've attempted to do on this chart is also to highlight the contribution from our 25% interest that we hold in Ninety One. As you are aware, about two-thirds of that contribution is being distributed to shareholders. That is anticipated to rebase as we move into the next financial year.

Looking at the underlying contribution, an 82% growth in operating profit from £377.6 million to £687.4 million. A point to stress is that the pre-provision adjusted operating profit increased by 50.1% in the period to £716.2 million. So yes, there are lower impairment charges in this period. As we've reiterated, some of the balance

sheet protection that has built up over the period remains on balance sheet. But there is a very fundamental story around revenue. And yes, if you look at the UK bank there is about £87 million delta with regard to the financial product losses that we experienced last year against the current year. But the underlying growth of £332 million you will see has strongly come through in the net interest income line, representing the fundamental growth in client acquisition in that market.

But broadly speaking, if we look at the two big areas, the South African and the UK business, strength is being reflected within those particular markets that we operate in. And if we look across the businesses, whether that is the banking businesses or the wealth businesses or the investment portfolio that we hold across the group, all of these have positively contributed across this period. I will unpack each of those as we get into the detail just now.

But at a high level, our wealth business in the UK has achieved record FUM at £44 billion, growing from £41.7 billion with net inflows of £1.2 billion over the period. We have disclosed that some of the inflows over the period have arisen from our integrated approach against our private client businesses. And about £437 million of the £1.2 billion represents funds under management gathered from that particular portfolio within this period. Adjusted operating profit is up by 17.9% to £87.7 million.

The wealth business in South Africa achieved overall growth of funds under management of just over £13 billion, of which £12.1 billion was discretionary, and effectively record levels of new funds under management gathered in the period. We will unpack the reasons, but a strong performance with a 30% increase in operating profit to £720 million.

The specialist bank in the UK, I think the core aspect around this is our private client strategies as well as our strategies across the corporate book. Whilst we did have lower M&A activity over the period, you still saw strong growth in underlying revenue underpinned by loan book growth of 17% over the period and the overall loan book growing to £14.4 billion and adjusted operating profit substantially higher year on year.

The South African specialist bank operated in an environment where there is still subdued business confidence. In that context it has grown the loan book by about 4%, a significant portion of that coming from our private client lending books. And our corporate book to the extent that we did experience loan growth during the period there were also higher repayments, resulting in a much lower contribution to overall growth levels in the period. Adjusted operating profit in that context grew by 45% to R7.1 billion. Our group investments portfolio is valued at just over £1 billion at this point in time, of which around a third of that is being distributed to shareholders.

Now, coming back to a point that Fani raised earlier. I think if we look at the mix from a geographic perspective, the UK generates around 55% of the revenue for the group and just under 45% of the operating profit for the group, South Africa contributing 56% to the operating profit of the group. And from a business perspective, 72% of our revenue is coming from the specialist bank. You will see when we report annuity income that we report around 76% annuity income for the group. So, there is a high component as well within the specialist bank that

we see as recurring income with 23% coming from our wealth businesses and around 5% contribution from the group investments portfolio.

Just some detail in our wealth business in South Africa. Funds under management at R365 billion, growing from R333 billion, in other words 9.5% increase since March 2021. And again, stressing that you had around about 6.9% growth in discretionary FUM over the period with net inflows of just over R12 billion over the period. Market volatility and some of the pullback that we saw in the last quarter obviously dampened these growth levels to what we would have seen up to the third quarter of the year. Notwithstanding those pressures, operating profit growing by 30%, fundamentally underpinned by sustained inflows into our offshore product range which is a unique offering from a South African perspective, particularly taking the entire business that we have to offer to our international client base in South Africa as well.

We have gathered higher average annuity and discretionary FUM, which effectively again provides a very strong underpin to the business. And in this period, we had increased brokerage from increased trading activity undertaken by clients. The operating margin at 33.2% compares very strongly against the market, if not the leading level in the market. Now, in that context, operating costs have increased by 17.9%, which is much higher than the average as I will indicate from a group perspective. Some of that is variable, so it’s associated with the increased operating profit. But there remains sustained investment with regard to investment specialists, wealth managers and IT.

If I move over to the wealth business in the UK, here, as I’ve indicated, FUM increasing by 6.6% to £44.4 billion. Similar to South Africa, the impact of the quarter end markets and moving into the new quarter. Net organic growth of 2.9% with inflows of £1.2 billion over the period. We achieved an operating margin for the UK domestic business of about 27% and operating costs in this business increased by 5.8% with continued investment in technology, obviously variable remuneration associated with the increase in operating profit by 17.9% to £87.7 million. But as we’ve seen across the group, continued sustained widening of the jaws.

The South African specialist bank, I think we’ve seen strong deposit growth and we continue to focus on the diversification of our deposit base as well as the cost of that deposit base. And you will see when I get to net interest income that the net interest margin improved from about 184 basis points to about 207, so a significant improvement in the margin. That comes from twofold. One is the growth in the book and the other is really the reduction in the cost of deposits and sustained credit margins across our lending portfolios.

That brings me to the split of the earnings base. You see that net interest income in the South African business grew by 13.2%. Again, I will stress it was driven by reduced funding cost and overall average increase in loan books year on year. Net fees were supported by higher lending activity and higher turnover in the business as well as higher transactional volume from our private client base. And I think we’ve grown that private client base by just over 7% over the period.

Trading income was supported by increased client activity across the base, and that was a strong performance over this period. Now, the cost to income ratio improved to 51.1% with operating income increasing by 18.7%. Fixed costs were well managed with overall increases well below inflation in the South African market. And

we've seen that for a sustained period over three years with fixed costs increasing by just over 4.2% and operating costs in total increasing by 8.9%, but a strong widening again of the jaws in that particular market. Overall adjusted operating profit increasing by 45% to R7.1 billion.

From the specialist bank business in the UK, I think fundamental strong growth in the underlying core loans and advances from £12.3 billion to £14.4 billion. That is a significant component of the overall group's core loans and advances of £29.9 billion. That growth of 17% is around about 18.5% if we adjust for the fact that we have disclosed of a component, being the Australian portfolio, a year ago. And our private client lending is up around 35.1%. That is fundamentally driven by the strategy that we introduced to the market in February 2019 and focussed on our high net worth client base that we continue to build. And it's an area of focus in terms of integration with our overall wealth business as well.

Demand for corporate credit lending was strong over the period across several portfolios – again I'll unpack that for you a little later – growing by about 12% if I adjust for Australia. Again, deposits effectively being managed on the basis of achieving better overall cost of funds in the period. And again, when we get to unpack the revenue lines you can see that net interest income increased by 20.9% over the period. I forget the net interest margin, but I think it's about 2.16%.

There is an immaterial cost related to what we previously reported as structured product book. And it's an area that we're not really focussing on in these results because it has been well managed. The risk is significantly lower from where we have been. Whilst we have been in choppy markets, the overall cost for this period has been relatively immaterial. There have been lower net fees, and part of that is associated with the wind-down of Australia as well as a reduction in equity market activity off a high base in the prior year.

If we look at the cost to income ratio, significantly improving from 81.3% to 69.6% over the period, underpinned by strong growth in operating income and costs being managed effectively relatively flat. In that context, again you have had higher variable remuneration, so you see continued effects of the restructure that we initiated in the prior year having a material impact in bringing in the cost to income ratio for the underlying business. Adjusted operating profit increased by 332% to just under £194 million.

Group investments is now a simple portfolio. When we refer to it, there are effectively four lines of which three are the most material. That's our 25% interest in Ninety One, our investment in Investec Property Fund, which reported strong results yesterday, and our investment in IEP where we have seen an improvement in our income yield to about 5.2% over the period. The overall return on equity on this portfolio is at about 9.8%. And as I've indicated, the most material impact that you will see over the next while is the reduction in our holding in Ninety One.

Now, bringing the picture back together, this again is a reference to overall Investec. I think with overall operating income at £1.99 billion we keenly wait to get over that £2 billion market. You can see again the contribution coming from net interest income, which we've unpacked on both of our specialist bank businesses, net fees and commissions really being underpinned by our wealth and our banking businesses with some lower contribution from M&A activity, investment income really driven by the underlying assets that I've identified,

and trading income, a reduction of the impact from financial products underpinned by strong activity across our trading activity across the businesses. And that really gives you a feel, focussing on the fact that annuity income at around 76.2% over the period is reasonably in line with where we have been.

Operating costs, I think I've given you a lot of detail on it. I think just a couple of snippets. Whilst our operating costs are up by 6%, fixed costs are up by 1.1% over the period. And within that context I think our overall technology spend including people cost is just over £230 million, of which about half of that is really reinvestment into new technology from a group perspective and technology spend growing by about 4%, so ahead of our underlying fixed cost base. We did benefit from the fact that we did not have a repeat of some of the once-off restructuring costs that we incurred in the prior year. I think again when Fani summarises at the end you will see that fixed costs significantly maintained or if not lower than where we started back in 2019.

From an earnings driver perspective I think a strong contribution across the portfolio. I know that sometimes we look at these in the singular geographies that we are in. But as a combined basis again the group's sustaining strong growth of just over 13.2% in core loans to £29.9 billion and FUM growing by 9.2% to £63.8 billion over this period.

Now, if we look at the loan books, I'm going to go through this relatively quickly because there's a lot of detail in the booklets for you. Again, just to provide some colour to the book, you will see in South Africa we had decent growth in our mortgage book in our high net worth and specialised lending areas offset by lower books in certain areas of our corporate lending book, some of that influenced by repayments over the period.

And from a UK perspective, yes, we did have strong growth in our mortgage book, but that is off a lower base and growing to just over £4.15 billion over this period. Again, lending is collateralised by property. High net worth and specialist lending as well as corporate and acquisition finance experiencing strong loan growth over this period. The majority of this is underpinned by client acquisition and targeted client acquisition.

From an EPL perspective you saw us build our provisions particularly over March 2020. The majority of those provisions that were raised were effectively from an outlook perspective, so driven by our models and driven by us raising overlays. And over this period, if I go across the periods, we continued to experience low levels of specific wite-offs across the portfolios. So, the asset quality is remaining relatively intact over the period.

You will see some migration between the staging but moving towards a better asset quality than what we experienced at the end of March 2021. So, whilst you see very low charges over the period, some of those impairments that have been built up are effectively carried on balance sheet for different risks than existed in those particular periods.

Our credit loss ratio is at about 8 basis points. I think the guidance that we're providing, we have reduced our guidance from 30 to 40 basis points to 25 to 35 basis points. That is based on the history that we've built up over a number of years across the two geographies. If I really unpack this into the geographies, in South Africa we experienced a credit loss ratio of close to 0%. There were higher recoveries as we experienced in the prior year as well. And we did release some of our overlays, reducing our overall overlay from £290 million to £219 million

over this period. But again, limited default experience, and as we stand here right now that experience remains similar. But the outlook points to the fact that we do anticipate a level of normalisation to our guided loan loss ratio of about 20 to 30 basis points for this particular book.

From a UK perspective we did have one or two specific impairments in the period. Whilst the overlays are actually higher than where they were at March 2021, they are slightly lower than what we had at the mid-term this year. And overall lower experienced impairments and lower propensity for new impairments, albeit that with the loan book growth of around 17% there are new impairments that arise on day one with those books in our models.

If we look at our balance sheet provisions, overall, I would say balance sheet provisions are relatively comparable year on year. There are some recoveries that will reduce overall provisions, but coverage ratios remain relatively in line with where we've seen them, and again, comparable from a market perspective taking into consideration the higher level of collateralisation that exists in our books. We have seen some migration between stage 3 and stage 2 over the period, a slightly different experience in both geographies.

Now coming to ROE. I think Fani has touched on the essence of ROE from a South African perspective at 11.7% in the context of the 16% CET1 ratio. And from a UK perspective a 12.9% return on tangible equity is really representing the level of capital that's also invested in our wealth businesses. From a geographic split perspective, the overall capital base is pretty evenly employed between South Africa and the UK. And one of the nuances in these results is that you do have a higher tax rate in South Africa, a little lower tax rate in the UK, which one would have to adjust for in forward looking models, and at the end of the day, the level of not just surplus capital but excess capital that sits in the South African business.

So, we are fairly confident given the fact that the underlying businesses are operating well above or within the cost of capital. And maybe a final point that I would make on capital is when you do look in our detailed books, we reflect the return on equity for our businesses on the basis that each of those businesses are operating with that surplus and excess capital across both geographies, so it's on a fully absorbed basis.

The CET1 ratio from a Plc perspective has improved from 11.2% to 11.7%. I have to reiterate that that is on a standardised basis. So, when you do compare to market, note that. And a second differential between us and the market is the fact that we are not a GCIB [?] bank, so we do not have the levels of buffers that are required for GCIB banks, and our underlying regulatory minimum ratios are much lower than what you would see for the high street banks. Operating with a leverage ratio of 9.2% – and that is now a standardised industry calculation that we reflect. From a Limited perspective our CET1 ratio is at 14% and overall capital ratio at 17.5%. As we've indicated, under our full adoption of AIRB both of those ratios are about 2% higher than these. We do anticipate moving the remaining portfolios within this financial year.

Coming back to our targets that we've set for the group I think this is purely a scorecard. I'm not going to read through it but reiterating the point that we remain committed to those underlying targets. I think it's time now to hand over to Fani to wrap up. Before I get to you, Fani, I forgot about my last slide, which is the financial outlook. Maybe the headings say it all. We are very mindful of the uncertain environment that is out there and

very mindful of the potential slowdowns in economies and maybe some other effects that will come through. But again, we emphasise that the business is well positioned. We emphasise that we do have strength to take opportunities and to look at optionality around capital.

I think if we bring together the forward look, revenue outlook is underpinned by the fact that we have got rising interest rates, which is positive from an underlying earnings perspective, book growth, as well as increasing activity levels. We expect our cost to income ratios to come well below our target of 63%. And our normalised guidance of impairments is a counter to some of those benefits that we highlighted, and the fact that the distribution which places some of Ninety One in your hands means that we take it out of the earnings that we have. I think as you look at ROE, be conscious of the capital levels that we operate at. Yes, we do anticipate an improving return on equity in the next financial year, but really see ourselves getting to our targets in the FY24 year. Now, Fani, definitely over to you.

Fani Titi

Okay, Nish, let me take it home. Nishlan has obviously gone through a level of detail. He has taken twice the time that I took to open up. I'm going to try take it home much quicker. As I said in the beginning, we've been on a particular strategic journey from a business that was quite wide in terms of its coverage. And we have shrunk for better profitability, better relevance and better scale in the geographies where we operate. So, the journey has been interesting.

As I said earlier on, after the demerger now we are distributing further our holding in Ninety One. We have exited Australia, Hong Kong and a few other areas. So, in that process we have refined our risk appetite and granulised our loan book. So, as we go forward, we would expect a much lower-risk business but with a level of client engagement that is higher off the base of the franchises that we have. So, the work to simplify has come to a good end as we go, and as part of it our businesses are focussed quite sharply on serving the clients that we have chosen to serve.

Because we do not have the bulk bracket businesses, where we choose to compete, we really have to be exceptional. We take on people that are entrepreneurial. We have a mind-set of agility, which obviously is helpful in an environment where we are going into. And we've always been totally fascinated by the idea of being client-centric. One of the planks as we go forward is that we will look to serve our clients much more holistically.

As an example, the private bank served their clients with a high level of focus in terms of solutions but also in terms of service levels. There was not at the same time a level of coordination between the private bank and the wealth business. So, while those specialisations will continue, we will look to integrate those much better for better effect for our clients and also for better returns for the business.

Equally, operationally we will look to invest more into our platforms to serve the business holistically, increasing operating leverage and increasing the experience of our clients. Nishlan spoke about our investment into technology. As we move forward, we expect our technology spend to be a lot more oriented towards the

transformation of the business to support growth. So, this is where the idea of being highly focussed is really important to us.

Of the original goals that we set, we still need to trim our investment portfolio in South Africa, and we obviously have, as Nishlan said, to deal with the level of excess capital. The focus as we move forward is more on growing our businesses. We talk of client acquisition in the areas where we have chosen to play. In South Africa, for instance, there is a lot of work we are doing in the private client space both at the top end of the market and at what we would call the bottom end of the market, which is still a high level of client as opposed to a high street client.

So, lots of work we are doing. We are doing a lot of work in the mid-market space in South Africa and in the UK. Similarly in the UK we have quite a significant level of client acquisition. Three years ago, we said that by this time we would get to 6,500 of these high net worth clients. We are now at about 6,900 or so. And we remain confident that we will reach our targets, and that the cooperation and collaboration between bank and wealth will deepen and increase. Nishlan talked about some of the referrals from the bank in this period, about £480 million of AUM. We are very excited about that opportunity.

We also will look to work much more closely between our private clients business in South Africa and our private clients business in the UK. An emerging market like South Africa loses both skills and capital. We obviously have to work with that environment. So, our business is strategically positioned to support our clients as they either emigrate physically or financially. So, we are well positioned at the top end of the market. There are a number of these growth opportunities that we are focussing on. Hopefully in November we can talk a bit more about it now that the simplify and focus element of our strategy is largely in place. So, growth becomes the area that we look at.

Obviously, the outlook, as Nishlan laid out, is a bit more challenging, but our specialisation and our client-centricity and our culture of entrepreneurship and agility does counteract the bulk of that negativity. Of course, we live in a neighbourhood, and we will be affected as such. Just taking stock, over these years we've obviously said we will substantially resize our operating platform.

As an example, if you look at our cost of operation, in particular in Ruth's business, you will find that over the last four years or so we've largely had the same level of cost base despite the fact that we are growing our business quite substantially. We've said, for instance, in this period that our fixed costs are up only 1.1%. that discipline continues as we go forward. In fact, between the bank in the UK and the bank in SA, we think there are certain benefits we can gain by doing certain things together. So, the drive for more efficiency will continue.

We had also said at the time that we will look to refine our risk appetite. I've spoken a bit about it. And you will see that in the impairment profile as we go forward. We also had committed at that time that we will not be issuing shares into the market, diluting shareholders. You are beginning to see the WANOS starting to reduce, the weighted average number of shares starting to reduce. As I said, there is a level of excess capital that we have to deal with. I'm not saying how we're going to do it, but we have to do it. So, you will see a number of these metrics continuing to improve.

We generate, as I said, significant levels of capital. You can see ordinary shareholders' equity increase over the period. Nishlan has spoken about the ROE and the capital levels. So, we are excited about where the business is positioned as we look forward. Nishlan, I'm not going to take 30 minutes. I'm trying to run through, so I won't go through this slide, but it re-emphasises our strategic positioning in the two geographies and in the businesses that we have chosen to pursue.

A level of scale would be represented by this particular slide. It's in the presentation pack. I won't go through it. Again, over the last three years or so we said we would pursue growth. Again, we will talk a bit more about this in the November results. We had said we will significantly manage our cost base. We had said we will allocate our capital with a level of discipline. We've made significant progress, but there is still more that we need to do there.

As we move forward, Lyndon, who heads our technology and digitalisation efforts, has a lot more work to do because as a specialist bank, technology can help us to overcome some of the disadvantages that we have, for instance with respect to deposit taking, because we don't have branches, and with respect to operations. As an example, one of the strategies we are pursuing is partnership with fintech. As opposed to us spending lots of money trying to develop certain of our platforms, we can go into plug and play kind of arrangements. As an example, we have a strategic partnership with Monese in certain areas of our business. So, this area is quite important to us. Connectivity refers to building of a client ecosystem and operating platform that services our clients. These disciplines will continue as we move forward.

So, finally, in conclusion – Nishlan, I'm not trying to take as much time as you did – we are a specialised business. We have over 45 years of a very rich heritage in the two businesses that we have spoken about, within the specialist bank private banking corporate banking, and investment banking. We have a number of specialisations within that like property management, for instance. And where we operate within wealth management, we again are specialists and have the scale. And as I said, there are opportunities between our two geographies. There are opportunities between private banking and wealth with us giving our clients a much more integrated private client offering.

We continue to be fundamentally dedicated to our purpose of making a positive impact to our clients, to our colleagues, to the societies within which we operate and to the environment. That remains core to us. And in everything we do we are guided by that north star. And in these tough times as we go forward, we will support our clients as they may get impacted by the environment. And we have supported our clients during COVID, supported our colleagues during COVID. And of course, as we go into this environment where, as we exit COVID, we have to work differently, we will continue to support our colleagues and support our culture.

As I said, we have scale in the businesses we have chosen to be in, and we will continue to be selective as to who we serve, who we can be relevant to, who we can be competitive in servicing. We are not all things to all people, very clearly. We have strong levels of capital, strong levels of liquidity. The asset quality is fantastic, and we have clearly identified ambitions for growth as we go over the next little while.

The environment and the outlook are cloudy, but we are confident in the quality of our clients, how strongly they have emerged from the challenges of COVID, the strength of our culture and the fundamental strength of our business. We hope to continue to deliver shareholder value like we have done over the last while. Thank you very much. We are ready for questions. Thank you.

Thank you very much. I understand we'll take questions from here in the room, and then go to Johannesburg, then go to the Choruscall line, and then people that are joining us online. So, let's start here. Sometimes silence is good. Sometimes it is not. Going, going, gone. Okay, we'll come back here. Let's go to Johannesburg. Have we got our colleagues in Johannesburg? Any questions from Johannesburg? My predecessor, Stephen, said to me once, if there is no question, take it and move on because sometimes I continue to coax people into asking questions. Okay, no questions in Johannesburg. Any question on Choruscall?

Female speaker
There are no questions. Fani, I was just confirming there are no questions.

Fani Titi
Oh, thank you very much. Any questions from the online?

Tash de Saldanha
There is just one question from Kunal Kalyan [?]. And he says it is great to see significant improvement in sustainability disclosure. How does the group plan on furthering its contribution towards driving ESG forward in SA?

Fani Titi
Look, we've been a leader in ESG in South Africa. Our policy, for instance, on fossil fuels and on coal is on our website. We clearly have to go to Scope 3 analysis of our overall impact and the impact of our clients, and we continue to work on that. Over the last 45 years, even before sustainability and ESG was in vogue, we've always said we are long-term in our outlook on our impact on our clients and on society. That's why we have the phrase for 45 years: we live in society and not of it. So, in our lending we continue to deeply embed considerations of sustainability. In our investing we are doing so more and more. And we continue to subscribe to more stringent standards as we go.

I must be quite clear though that we are quite conscious of the need for a just transition. As an example, in South Africa while in general we will not support export coal, coal that goes into Eskom that supplies 95% of our electricity, that we continue to support in terms of what we do with Eskom. Those who are exposed to South Africa know that on a daily – not on a daily basis, but on a number of days, probably about a third of the year – you will have some level of load shedding. So, while we highly committed to making sure that we support the efforts to clean up, we also have to support the social side of that country in providing electricity to the population.

So, it's something that we've done for quite a long time. We're excited about it. Some will know that I serve on the Global Investors for Sustainable Development Alliance that was put together by the United Nations, the

Secretary General. And we continue to advocate for more sustainable lending and investing and for mobilising capital for sustainability. We are excited about it at Investec, excited about it at a personal level. And if you come from a country like ours, you know what impact sustainability can make. Of course, even in a country as developed as the UK, you do know what impact sustainability can make.

Tash de Saldanha
Fani, we have one more question. It's from Rajay from Excelsia Capital.

Fani Titi
Nishlan, this is probably yours. Let's see.

Tash de Saldanha
Please could you outline possible plans for the remaining Ninety One stake?

Fani Titi
All right. I think we said in 2019 / 2020 as we moved towards distributing what we held of Ninety One we had wanted to sell 10% of Ninety One at the time. I see Ed Squires is here, who was advising us on the demerger at the time. The markets were not supportive then. We decided not to sell at those levels. So, our strategic position on it was that we would like to have capital optionality in the UK for a period, and then we will decide what we do with the remaining 10%. As I said, we have returned just under 1.7 billion of Ninety One, taking the price at March 16th, I think. So, I think we've done well by our shareholders. We will retain the optionality on that stake, and if anything changes, we will let you know.

Tash de Saldanha
I think that's it, Fani. No more questions.

Fani Titi
Okay, we're back to London. Despite Stephen's advice to me, I will offer an opportunity for one last question. Well, there is no question in the room. Thank you for your attendance. As you can see, the work that we have been doing has borne some fruit. We are excited about our positioning in the market. We are fanatical about our clients and our ability to support them. And as we move forward in this tough environment, we are grateful that our business is strong both in terms of capital, liquidity, asset quality, culture despite the disruption that we've had from COVID. And we remain fundamentally hungry for more progress and more growth. Thank you very much.

END OF TRANSCRIPT