Conference Call Transcript

15 September 2017

PRE-CLOSE BRIEFING

Stephen Koseff

Good morning everybody. Welcome to our pre-close briefing. I think if we look at the operating environment clearly we are in two geographies where there is quite a lot of uncertainty and I think that in the UK obviously there is a lot of uncertainty around Brexit. Inflation has been rising and there is a bit of a squeeze on household spending. So we expect lower growth. I'm not an economist, but I listen to my colleague here, Philip Shaw. And then I think the South African economy came out of recession in the second quarter but business and consumer confidence are very low. That is really because we have a very challenging political environment at this point in time. On the other hand we've had supportive stock markets and I think that would have helped the overall results. We also had the supportive currency.

If we look at an overview of the six months I think our Wealth & Investment business is expected to report results comfortably ahead of the prior period while the Asset Management business is expected to report results in line with the prior period. I will give you a little colour as to why in a moment. But both divisions have benefited from higher funds under management and obviously the favourable equity markets as well. Both have benefited from sound net inflows. I think the Specialist Banking business is expected to report results ahead of the prior year, South Africa well ahead of eth prior year, UK well behind the prior year. And I will give you a little bit of colour on that in a moment. So a little bit mixed. We have had support from the currency. We do expect revenue to be ahead of the prior year. Our recurring income will be about 75% of our total income. Expenses are growing in line as a consequence of quite a lot of planned investment which we spoke about at the year end with regard to banking infrastructure and building our client franchise businesses. And as well we have double rent in this particular period which we didn't have in the same period last year which has affected the UK bank results in particular. Overall we expect our operating profit to be comfortably ahead of the prior year.

If we look at our key earnings drivers I think third party assets under management have increased 6.1% to £160 million. That was at the end of August. Clearly we've still got a few weeks to go and that could still be affected by both markets and the exchange rate. But that's an annualised growth of just under 15%. Customer deposits are up 1.3% to £29.5 million. Again we have been managing our excess liquidity to try and bring our cost of funds down, and we are seeing some benefit on that front. And then core loans and advances, 4.5%, that's just under 11% annualised growth. And that comes from at this point in time primarily the South African business with a bit of growth in the UK business. But we are expecting reasonable growth for the half year to £23.7 billion.

The balance sheet that we're talking about at the end of August exchange rate had very little effect on the balance sheet as the Rand Pound exchange rate was almost identical at March and August. It has since weakened in the last week. But who knows. It is volatile, so we don't know where it lands up. If we look at liquidity I think we've continued to maintain sound liquidity levels. Our cost of funds in the UK has continued to decline, and that is a planned strategy and we're making good traction on that.

Advances a positive 79% so we have let go some of our liquidity as mentioned earlier to try and improve our cost of funds.

On the capital front Investec Ltd is still slightly below our target of 10% while Investec Plc is well ahead of our target. We're not worried about Investec Ltd because we are on a migration to the advanced method AIV, and we put in our application in August last year and we're in the process with central bank. So we do expect AIV to be implemented sometime in 2018 calendar year, whether it is 1st April or whether it is 1st July, sometime during that period and that will add quite a lot of surplus capital because our risk weights will go up anywhere between 1.5% to 1.7%. So that will be the improvement in our capital ratio. Our leverage ratios are still well ahead of our target of 6% and that's on a fully loaded basis. So we are very comfortable with our liquidity and capital position.

On impairments we do expect our impairments to be ahead of the prior period. I think our legacy portfolio is slightly ahead of the prior period, and that's because we are anticipating acceleration of clearing of some of that book. And hopefully we will see a lot of progress on that in the next six months. I think impairments in South Africa are expected to be ahead of the prior year and in the ongoing business, although the ratio is still at the very low end of our long-term range. So we expect the credit loss charge to be 0.52% to 0.55% during this period.

I think if we look at our divisions I think Asset Management had positive net inflows of £1.9 billion up to the end of August. I think earnings were supported by market levels. I think we had solid net inflows offset by lower performance fees in South Africa. I think that's really the reason why Asset Management will be flat overall because performance fees in South Africa were lower notwithstanding the fact that we've had quite good performance. Remember in the previous period the performance was a little bit weak there. It has turned around. So we are seeing very good long-term performance and quite a strong short-term performance in recent months. So they have broken the £100 billion mark. They are up 7.2% to £102 billion at the end of August.

I think on Wealth performance of the global business is well ahead of the prior year. We have seen higher average funds under management, inflows of just under £1 billion. I think earnings in South Africa have been impacted by lower activity level while the UK business has had a very strong performance. So you're seeing a different story in the two geographies. And I think South Africa is impacted by confidence levels. Click & Invest was successfully launched in June 2017. That is a defensive strategy. It will be a long road until we see a lot of benefit from it, but we have received a lot of positive input from all commentators. So funds under management at £57.1 billion at the end of August.

Going to the Specialist Bank I think as we said results are expected to be ahead of the prior year. Our net interest income is up supported by book growth, in the UK strongly up, in South Africa down slightly. And that is again always a bit of noise in net interest income. We also have had cost of foreign liabilities as a consequence of the downgrade affecting that number. So it won't be down much but it is down slightly. And UK also benefitting from the reduction in cost of funds. If we look at investment associates trading and other operating income that will be ahead of the prior year. Strong performance from the South African investment portfolio including our equity accounted earnings, Investec Equity Partners, impacted by less realisations in the UK investment portfolio. And the trading income from across the customer flow was down in this period as a consequence of lower levels of volatility. If you remember last year we had Brexit. July would have been an active month and there were quite good levels of activity relative to what we see in a much lower volatility environment.

On fees and commissions I think again a good performance from the South African corporate treasury and structuring businesses. In the UK we had a very strong first half last year in the investment bank so we're seeing less investment banking and securities activity off the back of a very strong period last year. There is still a reasonable amount of activity, but not quite as strong as the first half last year. And then on costs as I said we have a deliberate strategy of investing in infrastructure, building some of our franchises, in particular the building of the private client offering in the UK. And obviously we're moving to new premises in London. This would have had an impact on the cost line, although they are growing overall in line with revenue. In this part of the business the investment is still a little bit faster than revenue.

We get to legacy. We expect the legacy loss to be moderately ahead of the prior period off the back of anticipated acceleration of sales of a portion of the book. We are trying to accelerate getting this legacy down and hopefully you will see a lot of progress by the end of the year. So we are making good progress but we expect to really break the back of it either by the end of this year or by the end of next year. We expect the book to be £430 million or thereabouts by the end of September. Other information, our tax rate is down. We have provisions no longer required so we will have a lower tax rate. That is not a sustainable number. It is just in this particular period of 15%. Non-controlling interests of £32 million is related to minorities in the Asset Management business and the consolidation of our property fund. And we expect the number of shares in issue to be 924 million roughly.

So in conclusion I think the geopolitical environment has been challenging with a lot of uncertainty prevailing in our core geographies. I think you've got both from the complexity of Brexit as well as the South African political environment is very steady at the moment in the run-up to the December ruling party elections which have a lot of impact on the direction of the country. I think we have had some support from global markets and improved outlook for the global economy. We have had decent activity levels. Our client base has demonstrated a lot of resilience in the environment. We continue to see positive overall performance driven by our diverse revenue streams and very strong franchise businesses. I think we will continue to focus on execution of our strategic initiatives, mindful of the fact that we're in a very tough macro environment and there could be a lot of uncertainty in the second half. But overall we are very comfortable with where we are as a firm. We've always got work to do, but I think we're making a significant amount of progress. So that is a quick summary. I'm happy to take questions. We can start in South Africa. Nishlan.

Nishlan Samujh
Thanks Stephen. Are there any questions out here? Stephen, no questions.

Stephen Koseff
Nothing?

Nishlan Samujh
Nothing.

Stephen Koseff
What's wrong with them? London. Nothing. You want early tea. Is that it? Okay. Well, we'll see you in November. Thank you.

END OF TRANSCRIPT