Investec

Speaker	Narrative
Stephen Koseff	Welcome everybody in Johannesburg and London, and I think Summit, and on the telephone conference. I think if we look at the period that we operated in over the past while I think it has been a very difficult operating period. Bernard, can you confirm you guys are connected before I start battling?
Bernard Kantor	We're connected.
Stephen Koseff	Okay. And we have seen a sharp fall-off in equity markets. We have continued to see very weak credit markets. We have seen very volatile exchange rates, and strangely enough, during the period we still had interest rates that had not come down yet, in particular if you look at [unclear]. If you look at [unclear] it increased in South Africa, and the Aussie base rate also had increased relative to the equivalent period of the previous reporting period. So very difficult operating circumstances. Because we've got a strong base of recurring income – and this is a slide that reflects our recurring income – 74% of our income during this trading period is of a recurring nature with strong risk and liquidity management, right throughout a very difficult period, as well as our operational and geographic diversity. Again, this chart reflects the fact that we have diverse revenues and diverse geographical positioning. You get to a point where we believe that we've delivered a very stable and consistent performance, with operating profit before tax after minorities – because minorities are very distorting – went down 1.1%. Attributable earnings were up 3%. Adjusted EPS was down 3.7%. These are exactly in line with the indication we gave you when we spoke of our results on 18th September. And then our dividend, we have taken a decision, and I'll talk about it in a moment, to widen our dividend cover. We believe it's better to conserve capital in this type of environment, and therefore we have widened our dividend cover, and therefore we have cut our dividend as a consequence by 30%, reducing our dividend to 8p. I think the board believes that that was prudent. I know when we were asked a question in September we had not come to that decision, but I think between September and now a lot has happened in financial markets, and we have seen significant government support for banks around the world and capital injections by government around the world. And we think that although we've always had high

capital ratios, we believe that we will build up our capital to new capital targets over the next 18 months. And I will deal with that in a moment.

On the customer deposit side we've had very stable customer deposits over the trading period, and they increased by 6% to £12.9 billion. And core loans and advances did increase by 13%, and the big reason for that is strong corporate and infrastructural demand in South Africa, where we have seen some international bank withdrawal leaving the large local banks, including ourselves, obviously having to foot the bill. The pricing for us has been very good in that market, and it is a very profitable business, and therefore we have seen that increase in demand. Assets under management are up marginally. Obviously equity markets affect this business. We did have quite good in-flows, but equity markets do affect the actual level of assets under management. And that's why we're seeing only that marginal increase, because we have had a decline in market values.

If we look at our financial objectives we have revised our capital equity targets. We've increased our minimum tier one target from nine to 11. It used to be ten under Basel 1. Clearly nine was equivalent to ten under Basel 1. Nine under Basel II was equivalent to ten under Basel 1. We believe that we should get this ratio up above 11 over the next period of time. You can see that most of our operating units have capital adequacy in excess of 10.3, except Investec Plc., which is 9.7. And Investec Bank UK is 10.4 and Australia is already above the target. So we believe it won't take us long to actually get this number up to the target, and clearly by managing our asset portfolio together with our revised dividend policy we believe we will get there within an 18 month period.

We haven't adjusted our return on equity target. We do say it's through a cycle. You can see we have been meeting this target over the last four years. This year we're marginally below the target, and I think that is a reflection of higher capital and flat results. So overall clearly Australia had a very difficult trading period. That market was badly beaten up by what happened in the global conditions. South Africa still has a high return on equity. Obviously it's the most high scale business that we have, and it has a lot of non-capital intensive businesses like our private client business and our asset management business. Therefore because it's a high scale it has a very high return on equity. UK and Europe are down at 13.5%,

which I think is slightly better than it was in the previous trading period.

Our cost to income ratio has held up well. I think that's because we have a lot more net interest income. I think we have been quite tight on head count. You've seen our head count actually come off during this trading period, and we will manage our head count very tightly. I think that is what we will do in this environment. We will look out for operational efficiencies and manage our head count tightly. Our revenue did grow faster than costs. Revenue grew by 11.8%, cost by 10.1%. If you look at our cost to income ratios by geography, again South Africa being the most scaled business has the lowest cost structure. The UK was at 66.8%, which is within its target range, and Australia is above its target range at this point in time because of the weaker performance.

Our adjusted EPS growth was -3.7%. Our mix of earnings, Plc was 35.4% and Investec Ltd 64.6%, marginally different from the previous trading period, but not that much. I think it's about 1.5% different. So basically the geographic spread of revenue was almost the same as it was in the previous trading period. Our five year compound annual growth rate in earnings per share is 20.4%, which is the number since setting our target, and that is obviously well above our target. It will be difficult to achieve our growth target. This is not a growth environment, as we all understand. It will be difficult to achieve that target over the next while.

If we look at risk I think what is less understood about Investec is we did adopt a standardised approach for Basel II because we didn't have a lot of the back-testing data to go advanced, and therefore our risk-rated assets would be higher as a percentage of total assets than a bank that is on advanced. But if you look at our overall level of gearing, our loan to capital ratio is only seven, or maybe 7.5 depending on how you calculate it. Our loans to deposits is 1.1. Obviously that depends on region. Our total gearing is 13.4.

We exclude the insurance assets in these numbers because they are not our assets. They are there just notionally from an accounting point of view. We have no risk in those assets. The assets are really asset management assets. If we exclude securitised assets of 12.2, you can argue that is the real gearing because of the pool of securitised assets the bulk of them belong to

Kensington, which is more like a running down book than a developing book. It's not part of your core activity.

If you look at asset quality I think we have seen a rise in default loans as one would expect in this environment. And we have therefore seen a significant rise in specific impairments. We did say in our trading update that they would be much higher than the equivalent period, but lower than the second half of last year, which is exactly the number that we've got. Obviously we are well-collateralised. All of our lending is secured, and we believe that our impairments are adequate.

Obviously conditions could worsen; they could get better. We have seen significant intervention by policy-makers. We have seen significant rate cuts. And I think those large rate cuts that we have seen both in Australia and in the UK will provide a lot of relief to borrowers going forward. Obviously the rate cut only took place the other day, so it will take time to filter through, but they will provide a lot of relief. As a consequence our percentage default as a percent of core loans and advances has gone up to 2.45% from 1.71% for our book right around the world.

I think on the liquidity side we've always had the philosophy of maintaining a lot of surplus clash. We have generally been a provider of liquidity to the inter-bank market in South Africa. It has always been our philosophy. We have concentrated during this very difficult period where you've seen a credit crunch actually witnessed on diversifying our funding sources, and have maintained a low reliance on inter-bank wholesale funding to fund our asset growth. We have seen our liquidity levels operate between £4.5 billion and £6.2 billion right throughout this trading period. And on the private client side we obviously have implemented a number of initiatives to increase our funding sources, and that's part of our overall strategy, although that will take time to come to effect. I think we have managed our liquidity pretty well right throughout a very difficult environment.

Just on the Kensington risks, I think the assets under management that are not securitised are £1.8 billion. I think that's down from around just under £2 billion at the end of September [sic], and securitised assets are £3.5 billion, down from just over £4 billion at the end of March. I think the weighted LTVs are based on current house price deflation, and we adjust these LTVs as house prices decline. In the warehouse book it's 77%. In the securitised

portfolio it's 69%. And we have £700 million of capital in arrears on that overall portfolio, which has ticked up since March. But as the book gets more seasoned, because we're not riding new business, we do expect that ratio to tick up.

The debt to income ratio of our clients is 24% and 26% in the cases of securitised portfolio. And the book is performing in accordance with expectations, and we are managing it quite well. We have not seen any significant change in that, notwithstanding difficult economic conditions. I think if you look at our exposure to warehouse lines, its £189 million. And our exposure to the securitised portfolio is £172 million, and we have a provision of £59 million against that. We have some direct funding where we carry the assets on our balance sheet which are not part of the warehouse lines, which are 68% LTV. So that's really the same picture that we have given you in the past on the risk side of Kensington. I will talk about the revenue side later on when I talk about capital markets.

US-structured credit investments. Our sub-prime residual exposure is now £6 million and our net exposure is £63 million. We did have some write-offs on mark to market in this particular period, not all on the sub-prime but also on CLOs as we've seen some movement in price on that front. And our net write-offs during the period were £8 million against £49 million for the full year March and £36 million for the period ended September 2007. So I think the problem with this book is now by and large dealt with.

If we look at our operational review, again this wave chart gives you a flavour of the diversity of revenue from different sources. Obviously not all divisions bat well at the same time. Like any kind of cricket team you have some guys coming in and some guys battling a bit, and I think this slide does reflect the different seasons and the fact that we have revenue diversity that enables us to produce flat results in very, very difficult times. So I think this still holds. We've seen capital markets come in much stronger because it didn't have the write-offs of the previous year, and the private client business affected by greater degree of impairments over this particular trading period, which is what would expect in a very difficult economic environment.

I think if we look at the private client portfolio management business this is obviously a combination of Rensburg

Sheppard and Investec Securities in South Africa. I think the business in South Africa has been affected by lower market volumes and lack of performance fees on some of its investment products, and therefore we've seen a decline in earnings of about 8.6% in Sterling. In Rand the decline would be a bit less. The cost to income ratio is still at acceptable levels. I think it is a business that has good scale, and ROE is still particularly strong.

Funds under management in Sterling are flat, but the Rand did appreciate against Sterling on the balance sheet dates, so we did see funds under management drop off by 8%. But that is really the market having dropped off. I think the market dropped off by a much bigger number than that. I can't remember the number. I had it on the first slide. So overall I think the conditions for this type of business will remain challenging. I think our business is more defensive in that we have a lot of discretionary funds under management, and I think that could partially offset the lower brokerage that we will experience in a quieter market. So we expect this kind of business to be affected by the current conditions.

The private bank at an operational level had earnings up 9.9%, but operating profit was down 26%, and that was a consequence of the pick-up in impairments across all three geographies. I think that is something that one will live with over the next while. We think that our books are well-managed and we're able to deal with impairments effectively. And often you see sometimes we get recoveries because maybe we've been over-zealous on our provisioning, but certainly these are tough environments and we do expect a continuation of impairments at some level over this next while.

The South African business' levels of activity held up. I think they're going to drop off quite a lot now as economic conditions start to slow down in South Africa. I think the UK and Australia have experienced lower levels of activity, but also I guess lower levels of competition. You can write a lot of business if you're not careful in this environment, and you don't really want to write a lot of business because there is a shortage of available credit out there. So we will likewise be very vociferous on our pricing and tough on our so-called LTVs in whatever asset we're financing, which we have been doing for quite a while.

So we did see loan book growth. I think a lot of that would

have been in South Africa and the exchange rate, but it did grow. You know we also have a pipeline to deal with. We expect that to be flatter going forward. And then we did see some deposit book growth, mainly in South Africa. And we saw some fall-off in deposits in other parts of the world as those economies felt the heat, which is what we told you around September. But it was not dramatic and it has stabilised quite significantly since the middle of October. So funds under advice were affected by market conditions. Equity values are down, therefore funds under advice would go down with equity values going down.

So I think if we have an outlook for the private bank, market conditions will and have affected impairment and activity levels. The cost base is being aligned accordingly, and in the UK and Australia we still see diversification strategies supporting lower but stable operating income. And we will continue to focus on opportunistic deals that result from the stressed markets, and there are lots of them out there. I think in South Africa I don't believe that we have positive macro-fundamentals. We probably have more positives than outside of South Africa. Because we have infrastructural spending I don't think South Africa will dip down as far as the other markets, but we do believe that there is a reasonable level of sustainability.

I think in capital markets our advisory and structuring activities continue to perform well. Obviously the results are impacted by the fact that we don't have the write-offs, and Kensington falls into these results. And we have had Kensington for a full year, and that would have helped these results. But nevertheless I think the business still did well in the advisory instruction area and in the trading areas. We did have a stable performance from Kensington. Australia was impacted by some negative mark to market evaluations of the so-called embedded derivatives as equity markets collapsed. Every time they make a loan in a particular space they sometimes get an embedded derivative, and those things can fluctuate. So we did see the loan book grow by 14.8%, and as I said that was primarily in South Africa in the corporate space, where we have seen a lot of demand for credit.

So I think the outlook for this particular business I think you have seen a slowdown in deal volume. But there are a lot of opportunistic transactions that are out there. I think clearly the markets are uncertain, but uncertain markets do present a lot of opportunities. Performance will depend on liquidity and stability returning to markets, and I think

we do have a very strong platform in South Africa and a very good developing platform in the UK. Australia is still below scale, and that will impact it over the next while.

If we look at Kensington specifically I think it's important that we highlight this because people do not understand it. We had total income of £73 million in the trading period. We had expenses of £25 million. Now, we have seen our expenses come down, but they will come down further because we have had redundancies in the earlier part of the year and still have to pick up the redundancy costs. So we will expect these expenses to come down quite significantly over the next while, and that gives us operating income of about £48 million. Our impairment losses specifically were £28 million, and that left £19 million of operating profit. So if we get our expenses down by another £10 million, which is what we expect to do, you can see that there is a big buffer for bad debts over and above the provision.

And what people forget about is that there is quite a big excess spread in a securitised portfolio that generates our net interest income, and therefore we have a big buffer to deal with potential losses to the extent that they arise. We did give you an update on 18th September about how we are provisioned for Kensington in terms of house price deflation, and we said that from the beginning of this calendar year we have 15% for this calendar year, 10% for the next calendar year and a further 10% trash factor for someone that goes into default, which is properly in line with market expectations, or maybe slightly harsher than average market expectations.

If we look at the investment bank, we did have a mixed performance across all the geographies. I think the investment bank results can be distorted by two investments that we have to consolidate. One of those investments is doing pretty well and in line with expectations. Although it is still loss making it is achieving more than its objectives. And the other is in a margin squeeze, and therefore we had losses in this particular period from profits in the previous period. If we look at the operating profit excluding those investments it was down 7.4%. The agency and advisory business was down 9.7%. Now, that was very low levels of activity in Australia, lower levels of activity in South Africa and a good performance from our London business in this particular period.

So I think that business has held up well. I think that what

we are seeing is that there is a reduction in competition. Many of our peer group that were in this game have either closed shop or they're no longer there. It is a much less competitive market to us in our particular niche space in the UK. On the principal investment side we were down 5.5%. I think we had a steady performance in South Africa. We had quite big dividends from some of our investments and we also had some markdowns to reflect market conditions. But overall the bulk of this income that we got from principle investments is in the form of dividends, and is therefore realised.

I think the investments that we consolidated we lost £9.2 million on, net of minorities against a profit of £4.3 million in the previous year. So overall the investment bank's results dropped by 36%. The cost to income ratio was 64%, and the ROE was pretty low because of the fact that those consolidated investments were haircut from a capital point of view. So therefore the investment is worth zero. So if we were to sell those two investments and get our cash back we would bolster our tier one ratio in the UK very close to the 11% that we're talking about. So it harsh depleted, but that's the regulatory treatment of that type of asset.

I think the outlook is we'll obviously continue to focus on diversifying earnings streams. I think as I said we believe that the competitive landscape after the storm – and I think the eye of the storm has passed – will be a lot lower than it was up till now. I think there is a core level of sustainable earnings that enable us to generate decent profits through bearing cycles, and our ability to outperform will depend on market conditions and taking advantage of opportunities. This is a volatile business as we've seen historically, and we always expect it to be volatile. But it is a business where we have historically done well over the years and through the cycles, and I think the opportunities are probably coming in the next cycle.

Our asset management business held up particularly well. Its earnings were down 7%, and that would have been impacted by weaker equity markets and a tougher mutual fund environment as you see withdrawal from mutual funds. As we told you at the trading update we received solid net inflows in the institutional space, which I think supported the business, and we have seen a shift in the mix of funds in the institutional portfolio. However, this kind of business will have a weaker performance when

markets are particularly weak, although this business is a good business and has received many accolades over the last while, including being runner-up CEO of an asset management business by quite a prominent journal, which I think is a significant achievement.

I think the ROE held up quite well at 43% cost to income ratio. This is a higher cost type of business and you will always have a higher cost to income ratio than you would have in a banking business where you would have financial leverage. So assets under management is basically up 3.1%. Some of that would be the Rand, but some of that would also be the fact that we did have good institutional inflows during this trading period.

I think what we've experienced over the last while will impact our assets under management sales and revenue in the short to medium term. I think there is investor uncertainty, and that means that the flows that we experienced in the first half will be difficult to repeat. I think our performance has been very good, but the mutual fund flows have weakened in this particular environment. But I think this is a business that has a very good platform and has opportunity to grow because I think its competitors have been worse affected by the environment.

We did have a stable performance in our property group. It was marginally down on the previous year. I think we did benefit from the fact that we had some projects that were in the pipeline last year that were completed this year and received quite good fees. We did have a reasonable performance from our investment portfolio, which is mainly in South Africa. I think there is a lot of opportunity for us within that investment portfolio. As we said to you previously, we bought that pretty well. You can't build these buildings today. It costs you about double what it cost for an existing building. And these are older buildings that we have a skill to refurb, so we think that we can still do reasonably okay in that particular space because we're carrying them at very moderate values.

I think the outlook is negative in the short-term because of the property fundamentals that we're seeing. I mean we're not buying anything at the moment. We're just dealing with our stock and our pipeline and fixing things up, because I think that's really where the opportunities are. I think there will come a time where there are distressed opportunities for our group, but at the moment we're standing back. We know that new developments are just

not viable because it costs too much money to put them up because of commodity inflation. That may start coming down now, we don't know, but we have seen commodity prices collapse and developments are still very expensive to put back up there.

I think in the UK we have a fund which has got €375 million to invest. We have only invested €75 million, so I think there is going to be a lot of opportunity for our fund there. Likewise in Australia I think about a third or half is probably invested of $116 million. It is still small but there is going to be a lot of opportunity for us to invest that money over the next while.

I think if you look at overall group services, international trade finance continued to do quite well. Insurance activities made a slight loss. And we've still got a tail of traded endowments, which is a business that we've closed but we deal with the tail and it generates a bit of revenue because we probably wrote it down too far historically. In central funding we had a big jump, and I think we told you before that the key reasons for that was the fact that we have a higher retention of profits, mainly in South Africa last year with the sale of growth point. And then you have higher interest rates, and therefore we're earning a lot more money on our surplus cash that we haven't allocated to any of the divisions. So central costs have remained flat, up 3.7%, giving you an overall increase of 121% in our central funding line.

I think our tax rate is down to 23.8%. There are two key reasons for that. One is the fact that we did have a tax reduction in South Africa, and the other reason is that some of our income is subject to capital gains tax or some of our income is in the form of dividends, which is tax free. So that's why the rate is slightly lower than we originally anticipated and where it was last year this time.

I think the attributable minorities are very confusing accounting phenomena. One is the private equity we consolidate but we only own about 40%, and therefore the rest has to come out of the minority line. For the investment bank results we have netted that off. And then for the preference shares that we've issued that were n Euros that we hedged back into Pounds, depending on what happens to the Sterling rate the one comes into the operating line and the other comes into the minority line. In our absolute number we have eliminated both of these things because they just make havoc with the numbers,

but those are the facts. If you look at the top-down income statement you will see this minority thing, and that's an explanation of it. Last year it was a profit because it just depends where life goes.

So I think if we look at outlook I think equity markets have deteriorated further. We've seen the FTSE come down 19% since September. The Aussie has come down 15% and the JSE has come down 14% since September. I mean they have come down more but they've since had a bounce, and we don't know which way this thing is going. One would believe that it's bottoming out, but one can't tell yet. There has been a lot of policy intervention, as we said earlier, and that has to start having a bottoming out effect. And the global system actually de-leverages.

Interest rates, you've seen in South Africa the governor hasn't cut rates yet and hasn't even alluded to cutting rates, although I think that day is coming quite soon. We have seen very strong policy in the UK with a 200 point cut, which is massive in the context of that environment. You've see libel [?] now come down from 650 to 450. Obviously the whole cut hasn't yet been absorbed in libel, but still it's a big shift. You've seen the Aussie base rate come down from 7.34 to 5. That is massive. And we've seen [unclear] go up slightly. I think the market is still not expecting a cut, but I can't see that we'll hold out and keep our interest rates where they are when the world is falling off a cliff.

So I think this is going to have some positive impact on the global economy, but it takes time to filter through and I think that's what we can experience. I think you've got to understand what we are. We are a specialist bank. We're not an investment bank. We've never had a pure investment banking model. I think we have to repeat this a thousand times. We've always been regulated as a bank right around the world, and so we've behaved as a bank although we have an investment banking unit which does investment banking type transactions. So I think I just need to make that point a thousand times.

Our current focus is on moderating our loan growth and shifting our emphasis to increasing the proportion of non-lending revenue. I think that has been our philosophy for a while, certainly over the last six months. And hopefully we will be able to implement on that philosophy as we move forward. I think it's maintaining credit quality. As we know, everything's a lie [?] of our loan portfolios and everyone

that has difficult and everyone that doesn't have difficulty, and we're onto it every single day of our lives. We always have been as an organisation. And hopefully we will be able to manage through a very tough period with moderate impairments, although we still expect impairments.

We continue to manage our risk and our liquidity very strictly, and that has always been our philosophy, and I think it has held us in quite good stead in very tough markets. I think clearly on the cost side creating additional operating efficiencies in this operating environment is key, as well as containing cost is key. And that's an important step for us, and we have a natural rate of attrition, and as you've seen without any trauma we've managed to bring our head count down over the last while as we haven't hired as much as we've lost.

I think it's again about building depth and breadth. I think we learnt last time in a tough market that if you have too many on-scale businesses it becomes tough to manage those non-scale businesses. We narrowed our focus a lot in 2002 and 2003 after the downturn in equity markets, and I think that as a consequence we're go into this difficult period with a much lower cost to income ratio and much more recurring revenue. So our game is to continue to try and generate high-quality revenue through our diversified and sustainable revenue streams.

I think if we look at our model our mix of revenue was 57% from net interest and principle activity, 43% from third-party assets under management. You've seen since 2004, which is five periods ago but four years ago, we built our risk side of our business up quite a lot because we built our books and our net interest income because we were as an organisation below scale. We think that we now have an adequate size in that space and it's for us to build the third-party assets and narrow this gap of 311 to 412 over the next period of time. And that will be our core focus over the next while. I think activity levels are lower and we expect them to remain low for a while. That doesn't mean to say that there are no opportunities. I think that could impact on revenue generation. We don't know. It depends on how markets respond. Markets can start recovering and life can start normalising, although I think it will take longer than that to achieve it.

I think we have had strong policy-makers' response. I mentioned to you guys before that at the World Economic

	Forum they had a list of the biggest threats to the global economy, and there were 1,000 CEOs, heads of non-governmental organisations, leading government officials, and about two thirds of the people said policy-makers' response. Now, fortunately we have seen strong policy-makers' response. Perhaps it took them until early October to wake up to the fact that this was a systemic issue and not a single institutional issue. I think now that they have responded you could see some positive shift, although it will take time to get there. We do have a high level of recurring income that does support sustainability, albeit at lower levels. I think for us as an organisation by focussing on our core strength and applying our strategy as we've attempted to articulate, we really take advantage of selected opportunities and at the same time address the significant challenges that come from this type of environment. So I think that gives you an overview of these results. As I've said to you, we believe that they are a good set of results in a difficult environment, and hopefully we can continue on that path. Thank you. I think we're now at question time. I'm going to ask Jo'burg first. Let's see what we've got there in the back.
Oliver Chapman	Hi, it's Oliver Chapman of Standard Chartered Bank. There has been a lot of debate around the UK bank bailout scheme and guarantee package for banks. I was just wondering to what extent Investec UK will be able to benefit from this.
Stephen Koseff	I will give you the answer. We have established that we are an eligible UK institution to apply for medium-term funding guarantees under the UK treasury scheme. It's also understanding that our tier one as it currently stands is entirely adequate for access to medium-term guarantees and that we do not require any additional capital to participate. More questions?
Dave	Mr Koseff, it's Dave from [unclear] Assets. A little earlier on you said you were going to talk about the dividend cover. Would you like to just expand upon that a bit?
Stephen Koseff	I thought I spoke about it, but anyway I'll expand upon it. I think that in these times it's appropriate for an institution to conserve its capital because you've seen that when banks have gone to their shareholders for capital they haven't been given the capital, or they've had to give it away at a hell of a discount. Now, as we said we don't believe we

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	need more capital. We can build up our capital to our new ratios, which are still quite high relative to where they were historically and relative to other institutions. And we think we can build it up internally. So rather conserve a bit than actually pay everything out, because we've seen in this environment when you guys as shareholders have said give us buyback shares, give us cash back. And thank God we didn't do that, because when you go and ask for it back they think you've got a problem or you've got a big hole that you're trying to fill. Not everyone has got a hole. Some have got holes, but not everyone has got a hole. We have got no holes to fill. Yes, we've got impairment, but we haven't got holes. So I think that's really the answer. When it's raining that's when you need an umbrella. But that's when they take it away from you, so we don't want to get in that position. So we will just pay you out a little bit less.
Louis Venter	[Inaudible segment] know that you wouldn't cut, so I'm licking my wounds.
Stephen Koseff	I apologise, Louis. Still in Jo'burg. Yes, Michael.
Michael	Stephan, can you just chat to what's happening with your net interest margin. Obviously you potentially have to pay quite a bit for wholesale funding in this environment, and maybe we haven't seen the full impact on that yet. And also just looking at the growth in your property development lending in the UK, that was a little unexpected. One might have assumed that you were pulling your horns in a bit there. Can you maybe just chat to how you see advances growth going forward? You kind of alluded to potentially that going backwards over the next 18 months as part of your means of improving your capital ratios.
Stephen Koseff	Ja, you've also got assets that have full haircuts, so it's dealing with those. It's not only about advances. But just to answer your first question, I think what we did earlier on to the unhappiness of our frontline people was push rates up on the lending side early on in the cycle. And everyone thought Investec is not lending, Investec has gone mad. That was the feedback that we were getting. But we did take that step early on, and therefore I think that in some of our space we're actually getting better margin than we were, notwithstanding the fact that cost of wholesale money has gone up.

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	So one thinks that one can defend that margin, but every time a new rollover comes we'll re-price, again much to the upset of our frontline people who have to explain this to a client which doesn't quite understand, which is what has happened out there in life. What happens is the client says, no, we're going somewhere else, and then they come back. So we think that has now filtered through to the whole system. At the beginning we were early because we saw what happened in the UK, and people didn't accept it that quickly here. They were shouting war cries and what's the matter with you and all those kinds of things. Now that's calmed down. So I think that's how we've managed to protect our margin to some extent. I think the second question is that even though one slows down you've got a pipeline and you've got obligations to meet. You meet the obligations and help people through the cycle as opposed to just shooting from the hip. And I think that's why you still saw an up-kick. But I think it will start going down now in some of our jurisdictions, although you might still see growth here in the corporate side because there is quite a lot of demand and you know the agenda for infrastructural development etc. More questions here? Mike?
Mike Brown	Thank you. Mike Brown. In some press reports on retirement fund products that came out of the old Fedsure stable have you had to make any provisions or look at putting the capital providing against possible liabilities in this regard?
Stephen Koseff	You're talking about this court case? Well, firstly we're fully insured so we haven't needed to make provisions because we're fully covered by a proper international syndicate. So we haven't needed to make any provisions. And secondly we don't believe that we have any obligation, so I think there's the press and then there's reality. So I think the reality is that we are fully insured and we don't need to make any provisions. And we have some provisions to cover legal costs, which is what we have made. I mean on that particular case what people forget is that we stuck in R1.5 billion originally to bail Fedsure out, and that is why they got their guarantees. So what they lost was growth on the guarantees, which is what the big fuss is about. Or some growth, not all the growth. It's not for us to have that argument here, but I think that's the reality for us. More questions? We've finished questions in Jo'burg. Okay. I thought I saw Willem. You live nearer now, Willem. You don't have a far walk, hey? Okay,

	London auditorium.
James Hamilton	Thank you. It's James Hamilton from New Securities [?]. Are you planning on heavily restricting your loan book, particularly in the UK where residential property is still above the valuation it was at the peak of the '89 boom relative to household income? And if you are going to heavily restrict risk-rated assets in your book as a whole and the dividend has been cut, clearly it looks like you will quite quickly exceed the capital targets you've got. Do you think there are any modest additions to your portfolio you could make in a fee-generating business like asset management and wealth management?
Stephen Koseff	I think you've got to understand that a lot of our residential book is a running-down book, not a building-up book, and so it is naturally going to come down as we collect that book because it was built off the securitisation model, and the securitisation model just doesn't work. So we're not originating new loans because we're going to run them down. So I think in a sense you will automatically see a drop-off in that loan portfolio. Lending to our clients in the ordinary cores, I think there will be a lot of opportunities for us which we will hopefully take advantage of. I think you've got two factors. One is we'll look after our clients. The other is that residential mortgage book you will see naturally decline. It declined by £600 million in the last half year, and I think that it will continue to decline, albeit at a slower rate because until there is new lending available in the system people will hold onto those loans longer. So I think we obviously factor in the fact that we will get up to that new target quite quickly, and part of what you say is on the button. I think that on the wealth management side and the asset management side you're in for a tough season over the next while, but I think we are quite well-positioned to take advantage of a restructuring industry, which I think we're going to see. More questions?
Bernard Kantor	No, I think that's all. Okay, we go to the telephone conference. I don't know if there is anyone because Willem is here. Anybody on the telephone conference?
Operator	We have Lionel Trigelo.
Lionel Trigelo	It's Lionel from Insight. Regarding Kensington the assets under management, the mortgages, when down by £700

Speaker	Narrative
	million over the half. I wanted to know how you have managed to reduce that.
Stephen Koseff	I think the answer to that is that there is a natural movement because these were not long-dated mortgages in the first instance. So there is a natural movement in those mortgages. People naturally move homes, they change jobs, they move city and therefore they have to settle their mortgages. And so therefore there is a natural movement in those mortgages that you will have over a period of time. These were short-dated mortgages.
Lionel Trigelo	Okay. One question is on this balance of £5.4 billion [?]. How much of that will have to revert to some sort of standard variable rate as opposed to maybe teaser rates which were offered at the outset of the mortgage?
Stephen Koseff	I think very little would be left on teaser rates because there is some stuff that was perhaps written before the last year that would still be on teaser rates, but there would be some on fixed rates and about 40% to 50% of the book would be on a variable rate.
Lionel Trigelo	Okay. And then the other thing as well is at the same time the balance is reduced sharply your exposure in terms of capital exposure to the portfolio has gone up before your provisions by 27 million. Could you explain the mechanics of this increase in the view of the reduction of the overall balances, and how bad it could go?
Stephen Koseff	In some of our warehouse funding lines if arrears go beyond a point then we have to stick in more capital, but there is a floor of 80% advance rate in those. 80% to 85% advance rate. So it can't go on forever.
Lionel Trigelo	Okay. And the other thing regarding the funding and picking up on the question before about the UK bid-out scheme, would you plan to make it an issue of [unclear] debt at this stage?
Stephen Koseff	I think the first thing is just to get our eligibility sorted out, which I've given you an answer on. And then we'll have to see what circumstances are out there to see whether we do that or not.
Lionel Trigelo	How long will it take for the eligibility to be sorted out?
Stephen Koseff	Well, we know that we're eligible. This is a process, not an event.

Speaker	Narrative
Lionel Trigelo	All right. And in terms of the [inaudible segment] in respect to Plc in the UK and probably it will be minus in respect to Plc. What does it mean in terms of your [unclear] if you were [unclear]?
Stephen Koseff	There would be no impact on deposits. Nothing.
Lionel Trigelo	Okay, and what scheme are your deposits benefitting from in terms of guarantees?
Stephen Koseff	I don't understand your question. I gave you the answer on the guarantee scheme.
Lionel Trigelo	Is your funding coming from the UK or offshore?
Stephen Koseff	Our funding comes from all the jurisdictions in which we operate in, so our funding is diverse.
Lionel Trigelo	Even in the UK…
Stephen Koseff	Some countries have guarantee schemes, some countries don't.
Lionel Trigelo	What about the deposits in the UK for the UK institution?
Stephen Koseff	The normal UK guarantee scheme applies to our deposit base.
Lionel Trigelo	Okay. Even if those deposits are coming from offshore?
Stephen Koseff	I can't answer that question. I'm just saying the normal UK guarantee scheme applies to our whole deposit base in the UK.
Lionel Trigelo	Okay. All right. Thank you.
Stephen Koseff	Okay, thank you.
Lionel Trigelo	Thank you.
Stephen Koseff	Any more on the telephone?
Operator	Damian.
Damian	Good morning. Two questions please. The first one, do you have any significant re-financing needs in the next 12 months or so? I'm thinking about the UK operation specifically. And my second question is on deposits in the

	UK. Could you please give us a bit of colour on how deposits are moving up or down in the last few weeks knowing that there has been a lot of competition to raise deposits? Thank you.
Stephen Koseff	Deposits have been stable over the last while. I think in the first two weeks of October banks around the world felt their deposits decline, but they have been stable since then. I don't know what your other question was, sorry.
Damian	The other question was on re-financing needs in the UK. Any plan or any need to raise debt in the wholesale market in the next 12 months?
Stephen Koseff	We've never been active in wholesale markets. We have some bilateral relationships with certain banks that we've built up relationships over the last 15 years. We have never accessed other than sub-debt and innovative capital and that stuff, which has got a long, long time to run.
Damian	Right. And at the Kensington level my understanding is that the existing book is fully funded.
Stephen Koseff	Yes.
Operator	We have no further questions.
Stephen Koseff	Okay. Back in Johannesburg, any more questions? Okay, well that took a full hour. I think there is some tea and stuff for you. Thank you, London, and thank you for the telephone. Look after yourself. Thank you.

END OF TRANSCRIPT