Stephen Koseff Good morning everybody. Welcome to our interim results presentation. I think we're on Summit as well, so welcome to the people who are on Summit. We've got a few people still to [unclear].

I think if we look at the last six months it was a fairly difficult operating period. We had very volatile equity markets. In fact you can see they only started running from the middle of September. Up until then they were just bouncing all over the show with the sovereign debt issues and the stop-start economies of the world. We clearly had stronger credit markets, and I think that the credit markets are opening up and have been opening up for some time now, but are gaining momentum and are starting to normalise. Maybe it's the new normal, but still normalise.

In South Africa we had a very strong Rand, and that obviously impacts some sectors of the South African economy negatively, others positively, but overall quite a difficult space for a lot of our manufacturers. And then we've had low interest rates around the world. I think only in Australia where we operate have we seen interest rates rise. The rest of the markets they have either been coming down or have been flat. And I'm sure we're going to get another rate cut in South Africa today. I don't want to pre-empt the Monetary Policy Committee, but I'd be very surprised if we don't get one.

I think we've been talking for the past 18 months about our strategy to build non-lending revenues. We believe that that is starting to bear fruit. I think in this period we have acquired the balance of Rensburg, we have seen very strong inflows into our asset management business, £6.6 billion since April 2009 – I think £1.9 billion in the past six months. And we've seen third party assets under management with help from the markets rise 59.4% to just under £78 billion.

The profits from these sources were up in this interim period by about 59%, predominantly by asset management who were up by 69%. Wealth and investment was up by 33%, but I'll talk about that in a moment. So overall we did deliver very strong operational performance. I think operating earnings were up about 34% even though our overall earnings were only up at an earnings level about 5%, but I'll talk about that in a moment.

So we have maintained a strong base of recurring revenue.

And we've seen our recurring revenue rise in this environment to 63% of total revenue, at a level back to where we were in 2008. Why it dropped off a bit is assets under management dropped off in the crisis and we got a bit of an interest rate squeeze which is abating right now, although we still have some of that in the system. If you just took our operating businesses across them they were up 49%.

Again I've mentioned assets under management and I don't have to carry on there, but if we look at core loans and advances they've been relatively flat. They're up 1%, which is really nothing, and that's reflective of low demand for credit around the world and not an unwillingness of banks to lend. We try to lend every single day; it's just not a lot of people want to borrow. People are saving and people are nervous, and that's really part of the low levels of activity that one is encountering. We're seeing a pick up in that area, but not at the kinds of levels where you can start growing your books properly.

Impairments are improving but still high, and I think that's a consequence of the uncertain pace of recovery. And we have seen the impairment charge come off from £134 million to £123 million, but we're still seeing defaults pick up. Now, what's important to note is 6.6% of our loans make up 46.5% of our defaults. Now, a traditional private client and capital market business clients are not defaulting. Where we have picked up defaults is in a space that we operated in in the boom years that perhaps ten or 15 years ago we wouldn't touch, residential development in terms of townships, land beneficiation. What happened was when the crisis hit sales stopped and that was the end of the exit, so now we get stuck with the default. And it will take us a good few years to work this out. We really need a recovery in the residential market segment. There we got hit in South Africa and Australia, 23% of our defaults, 2.8% of our total book.

We also have some commercial land that we financed of which £78 million is in default. Also a high default rate of 19% but only makes up 7.3% of our defaults. And then we have a very small banking business in Ireland. We stopped writing business there a couple of years back, but as you read in the newspaper Ireland makes up 1.6% of our book. It's 15.8% of our defaults. So that's why we believe it is very well contained and isolated to a few areas where we're actually not writing new business in. Other than commercial land we probably won't write new business in those areas going forward.

The rest of our book has about a 3.3% default rate, which is pretty normal for the kind of environment that we have just been through. That’s 93% of our book is actually performing fairly well. So we think that as I said before the charge would have peaked. It will come down slowly. But when you move a year or two on it will normalise, and it normalises probably a third to half of this kind of level.

Overall that resulted in our operating profit before our debt buy-back rising 34%. If you compare it just to the headline number last year it’s up 5.6%, and our very bottom line attributable earnings up 1.7%. So very much in line with what we told you at the trading update, there would be a moderate rise in the operating profit, which is exactly what we have delivered here. We did say at the trading update adjusted earnings per share would be down. We didn’t say by how much because we didn’t really know at that point, but we know it would be down. It is down by 7.9%. We decided to maintain our dividend at the current level because it was within our cover range. So we declare a dividend of 8p which is the same as last year.

If you compare our net tangible assets to September last year it’s up by 7%, but if you compare it to March 2010 it’s down a bit. Now, that’s really as a consequence of the Rensburg acquisition. So Henry, when you want to work out your number – Henry Hall, Citibank, because I know you love that number and you’re going to shout – come to us and we’ll explain it to you. And then core loans and advances I’ve said up 4.6%, but part of that is really a little bit of currency and a little bit of growth in the private bank in South Africa and a bit of growth in the professional finance business in Australia.

On financial targets, ROE really down for a number of reasons. One, we’ve got a lot of capital, two, we bought Rensburg and that added a lot of so-called non-intangible NAV to our balance sheet, and we earn very little on surplus cash. We earn 0.5% in the UK, maybe 6% in South Africa and 4% in Australia. So you’re not earning a hell of a lot on surplus cash compared to 5% in the UK and 12% in South Africa if you go back a year or two.

Our cost to income ratio also ticked up, and I’ll explain where that came from in a moment. At 61.4% still within our target range. We never brought our target range down because our strategy is to build non-banking revenues, and if you build non-banking revenues you’re going to have a higher ratio because they’re not financial leverage businesses, they’re operating leverage businesses. So you will see that number live around this kind of place.

Dividend cover 2.8, similar to last year, and capital adequacy has built a bit further since the trading update. It came out a bit better than we expected because our book growth wasn't as high as we expected. So Investec Ltd up 60.2% and Investec Plc up to 60.7% overall. So we're in a relatively comfortable position.

I think we've analysed the Basel III requirements. We had very little addition risk-rated assets from Basel III. I think if you look at some of the international banks, European banks in particular, some of them will have risk-rated assets rise by 50% to 80% as a consequence of Basel III. And that's because they held banking-type business in trading books, and trading books are being normalised from a risk-rated point of view with banking books. Obviously there is still uncertainty around Basel III as to in particular what instruments are going to qualify as capital.

The Basel Committee issued a paper on 12th September and one a little bit earlier in August of this year where they spoke about non-equity capital instruments must have loss-absorbent characteristics. Now they've got these things called CoCos. They've only issued them twice. One was Lloyds which was really a government deal, and I don't know which other bank around the world issued them. And I'm not sure that the debt capital markets are going to buy CoCo. So I think they're a little bit at the drawing board, but we will live with uncertainty at this point in time. And that's why as a board we've taken the decision to remain with excess capital until such time as we have absolute clarity under how life is going forward. But still a reasonably comfortable position.

I think our funding sources, what we concentrate on, you saw a rise in customer deposits from £21.9 million to £23 million. I think this has been a success story because a lot of the increase in customer deposits has been retail around the world, and we've not relied much on wholesale deposits, although the wholesale markets are open again. They were closed during the crisis, and for a period beyond the crisis you remember major banks around the world could not issue a bond without a government guarantee if you went back 18 months ago. That has started to alleviate and the bond markets are starting to function normally. But still we concentrate on diversifying our deposit base, and we slowed down the intake of deposits because it's expensive to carry the extra money, but we are still seeing some growth in terms of that diversification.

Then we move to our operating entities. You can see that we still have a very diversified portfolio of businesses. I think the business that suffered during this crisis primarily is the private bank. I'll talk about that in a moment. And we had very strong performance from our capital market business because this is a season that is quite good for them and has not been a season good for the private bank. If you look at the bottom you can see there is the bigger contribution from asset management and wealth management is going to be on an annualised basis almost 30% of our operating profit if we move forward and are successful in all our implementations.

So if we look at the asset management business I think they're at their highest level in terms of funds under management, £49.5 million. They grew by 69%, and I think they've done a pretty good job and established themselves as a global asset manager. They distribute their products right around the globe, and have distribution on all the continents of this world and have about seven focus areas of business. And they have continued to see good net inflows into their various products and a continuation of the success they had last year. The cost to income ratio is normal for this type of business, between 65% and 70%. And I think that they have had a strong long-term performance which is why they're attractive to institutions and pension fund advisors and the like.

ROE, you can see the ROE now coming up, 59.7%. It wasn't long ago when I stood here and we got criticised as a group for the low level of ROE in asset management. Why didn't we sell asset management in the UK? And thank God we don't always listen to you guys. Sometimes we hear you and sometimes we listen, but we don't always have to listen. And this is exactly a typical business where you were shouting at us, and now look at the results because we stuck to our task. So the momentum in this business is positive and our strategy in this business remains unchanged. It's an organic business. We're building the business organically and obviously we're trying to manage our client money to the highest possible standard.

I think the business that is going through a lot of change is private wealth or private client portfolio management. They went through a process, the new team which includes the Rensburg people, and they said they like the word wealth and investment. So we don't want them to work under a banner they don't like, so we changed the name to Wealth and Investment. I think the important part of this season is we completed the acquisition of Rensburg. You're all well aware of that. I think I need to comment a little bit about that now.

We also today made an announcement that we sold the unit trust business inside Rensburg for £45 million. And that's quite a big recovery of goodwill and the purchase price that we actually paid. And the reason why we sold it is we've got an existing established unit trust business in London. If we try and integrate those two businesses we could destroy value, and therefore we felt it is better for us to sell the business, recover some of the goodwill we paid for Rensburg and reduce our overall price. Now, if we work out what we've paid for our whole private client business over the years – and why ROE is sometimes not a good indicator, I'll go through that when I get to the ROE numbers.

So we are concentrating right now on integrating the wealth management business in the private bank with our private client portfolio business, which has absorbed the wealth business in the private bank into a single platform. And in the UK Rensburg is absorbing the wealth management business of the private bank into a single platform. And that is a process that is currently being bedded down.

If we look at the earnings they're up 36%, and obviously there are costs in there that down the line will probably not be repeated as we integrate those businesses. And I think in particular the 70% cost to income ratio reflects that the ratio should get down to below 70% once we've finished everything.

The ROE obviously has dropped down dramatically because of the way we had to account for Rensburg in our books. I think we're carrying it in our books at £340 million, even though if you add up what we paid for old Shepherd Henderson Crosthwaite and Rensburg itself and the balanced of shares it adds up to about £140 million once we've stripped out the £45 million we just sold the other business for.

So this is worked on a number of £340 million when we only paid around £140 million for those businesses. That's why we're showing you the ROE on intangibles which really tells you about the operating performance irrespective of goodwill. You can see that's very high at 80%.

The funds under management went up marginally, and I think that's a consequence of the inward looking approach at the moment. We're not out on the street. We're busy bedding down what we have internally. And we need to start getting out on the streets, and I think that's the key thing. The funds under management in the Rand business are up by 5.9%, again having just been concentrating on bedding down what they're doing. So I think we are close to completion of the integration, and they will soon be able to start getting out there and building the various earnings drivers.

It is a fairly good season for property in South Africa. I think you just have to look at growth point share price to understand there is quite a lot of demand for that asset class in investment properties, which maybe is different to other parts of the world. But clearly it is an asset class that is of desire in this country. We have seen an improvement in the performance of our investment property portfolio and earnings are up as a consequence about 39%. Very low cost to income ratio because we've got few people and big assets. And ROE at about 25%, which is a good number for this business.

I think the main intent over the next while is to launch a new listed property fund in South Africa, and we're busy working on it at the moment. I can't say exactly when that would take place, but that is something that is on our agenda that we're working on at the moment. We're obviously looking to build our property asset management business globally. So those are the things that we're really trying to do in this business.

If we move to the private bank and look at the performance it's obviously the area of our group that is battling at the moment. And it's battling because of the history and the bubble that one had in certain segments of what it does up until 2007, 2008. And right now we are moving through that cycle and that's why we feel one is getting to the other side of the river now. I think in these results we had to restructure our trust business so we consolidated the Guernsey and Jersey businesses into a single business. That's cost us about £5 million so far. There is a bit to go, but I think that will be that. The activity levels are still low as I said right at the beginning. We're battling to lend money where demand for credit is quite low. And the private bank suffered from the increased impairments where capital markets had quite a big drop-off in impairments.

The South African business overall showed an improved performance and was up quite a bit on last year which you can see from the tables you've got there. So I think we are seeing an improvement in conditions, but it will still be affected by the next six months to a year by elevated levels of impairment. But that is not long term, that is just short term, and I think after that we're going to start seeing an improved flow of activity and improved performance.

As you can see the line book was up marginally by 0.2%, the deposit book was up by 3.3% and we're really trying to get the transactional flow business going again. As I've said there were pockets of the private bank that performed quite well. The Australian part performed well, but it was offset in impairments on the other side of the private bank. London private bank is performing quite well, offset by impairments in that small Irish book I've spoken about earlier. And South Africa had an improved performance as margins widened and we kept our book levels at a reasonable sort of level. They also grew slightly.

Moving on to the investment bank, here again we're seeing an improvement in trends and overall profits up 58%. We're seeing not quite reflected in this because most of the period we're trading under market conditions were difficult. The agency and advisory businesses battled for most of the period but still did better than last year, and they are very busy right now as we stand. If markets hold those businesses will do significantly better for the second six months. Principal activities up 56%, which again is reflective of an improving market overall. Things were not fine, but still an improving position relative to the similar period previous year.

So we are seeing an improved pipeline in our agency and advisory businesses. The institutional securities business was very tough from about June till end of August, middle of September, but is also starting to show some improvement. So a lot depends on how the world plays out here. If the Irish solve their problem by taking some of the bail out money that they don't want to take and that calms the world again, then interest markets with low interest rates we think are going to do quite well over the next while. As long as we get rid of all these bombs that are going to go off around us. I don't want to talk about bombs. Everyone asked me what happened with the bomb scare yesterday. We still don't know. And then I think the principle investment business we're quite comfortable with where it's performing and we think as long as the positive outlook for equities remains that business will do okay. If you've got a negative outlook for equities then you've got a different story.

I think the star performers of the group were between capital markets and asset management. Capital markets up 81%. I think a very strong performance from three areas, principle finance, which is really our credit business – other people call it fixed income – structured finance, which is all forms of finance, aircraft finance, a leasing business in the UK that we've been building up. We bought something in April called Lease Direct that forms part of that area. And we've got project finance. All actually quite busy and doing quite well.

And that is around the world. In fact South Africa the corporate lending business is still very muted. It's very competitive. You'd almost think that the guys forgot there was a crisis with where they're pricing things. And probably South Africa didn't really have a crisis, so maybe that makes them comfortable. And then our equity finance business we also did very well. And that's a very short dated equity structuring and finance business. Normally your money is out there for a day or two, and it has seasons.

So that side did very well. You can see ROE also up quite a lot from 16% to 24.5%. This is a capital intensive business. Even though you did very well at the top line it eats a fair amount of capital, but you don't use the capital for long. And I think that clearly the business has been a beneficiary of renewed confidence in credit markets and we have seen good levels of activity across all geographies.

And then here I think central funding did not have a great season, and I think there were three reasons. The one is lower levels of average interest rates would have cost us about £10 million in this period. We have some equities in a historic portfolio in the life fund and relative to the six months of the previous year we had a big rally in the listed equities. These things still went up, but didn't go up by the same amount. And then we had last year the big debt buyback, and that obviously was not repeated and will not be repeated probably. So that generated a loss and therefore overall that gave us an operating profit up about 34%.

If we look at other matters I think our effective tax rate went up from 18.2% to 20.2%, and that's just the change in mix. I think it's hard to guide you on where the long-term tax rate will be, but all I can say is the UK tax rates are coming down from 28% to 24%. The South African tax rates probably will stay where they are, and Aussie rates will probably stay where they are or come down a little bit. So we think that our long run tax rate is going to be between 21% and 24% depending on the year and depending on the mix of income. So slightly above this, but this 20% is not far off that.

I think the weighted shares in issue went up quite a lot as a consequence of the Rensburg Shepherd deal and that equity placement we did in August. There is a small goodwill impairment mainly on old Fedsure assets that are running down, and as they run down we have to impair the goodwill. And then we made this accounting gain on the acquisition of Rensburg of £73 million which to me is a nonsense thing, but it's there. And then got a loss on the write-down of a subsidiary held for sale which has now been sold. So that would make up all these other extraneous numbers including the loss attributable to minorities. That's again an accounting thing where we have to account on the operating line if forex goes in one direction and then the minority line. I know it just confuses all of us but we just have to keep doing it. And then we also had the same thing for some of these investments held in the private equity business division where we had to knock off minorities.

If we come back to our strategy and what we stand for I think the core purpose of Investec is to help create wealth and also help manage that wealth. You know we strive to be a specialist bank and asset manager. I think that's the kind of shift we've had over the last couple of years. There is a much greater emphasis on the asset management businesses as we see banking being a lower return business but an important business for us still to be in.

I think we've also spoken about the realignment of the business model, and you can see that green line underneath. But the bottom line you can see that jump in revenue from non-banking, non-risk type business has risen quite a lot. And that will rise further as the full effects of the Rensburg deal and the growth in asset management comes through. And then you can see the proprietary business on the other side, which is our banking businesses where we're taking credit risk and our trading businesses where we are by and large acting on behalf of customers, but you still have a significant principle business notwithstanding the proposed BaCo [?] rule. I think you will still see a big principle line in all banks' revenue statements, notwithstanding the BaCo rule. There is a big difference between trading on your own account and having trading desks that look after clients. I'm still trying to work out the exact difference, but that's what they think.

If we look at costs, costs are up 24.8%. I'll break it down for you. £30 million is currency adjustments, £24 million is from the acquisition of Rensburg and Lease Direct, £23 million is variable remuneration – and that's up because of the much stronger operational performance. We don't pay variable remuneration on the £46 million last year – and then staff costs are up £25 million, and that really is as a consequence of in South Africa two years ago we never gave increases and this year we had to give increases. It does seem to catch up with you. And we have added head count in certain pockets like asset management, capital markets and in the centre to help with IT projects and those kinds of things which you always seem to do. So that's both increases and headcount.

Marketing, you can see we've been quite visible in marketing, and that's a conscious decision we took. There were lots of good opportunities like the Derby, like recently the Tottenham Hotspurs, the New Zealand leg of Tri Nations plus the New Zealand leg of the Super 15. These are all things we've undertaken over the last while and they do add to the marketing cost. If you strip out those additional costs and just say normal remuneration pre-variables, our costs were up 6% which is by and large increases and a bit of headcount, but not massive.

The jaws of the crocodile have closed a little bit. You can see the gap between the bottom and the top closed a little bit, but not dramatically. So they're still wide open. But they're obviously getting grumpy so we must make sure that they don't close too much.

I think there has been a very strong focus on building our brand and I think that has worked well for us in terms of recognition. Wherever we go in the world people know the name because of the kinds of activity that we've had and the focus of our brand building. And I think that does help us build our brand. We've had [unclear] at the quality of our balance sheet. It's getting a bit lazy now with our core loans to customer deposits at 72% and our loans to capital only at about 5% and our overall gearing at about 11%. So obviously we need to start making sure the balance sheet works a bit harder going forward, but we continue to watch some of the obstacles out there in our way. And obviously we've got to get through these regulatory hurdles.

We talked last year about getting onto the front foot and becoming forward focused. We're now talking about capturing opportunities because I think the organisation operationally is moving onto the front foot and has been successful in capturing internal opportunities. And we do see opportunities out there in our asset management and our wealth management space, asset management primarily organic, wealth a slow grow business so we will have to look at adding little pieces here and there.

I think we also see opportunities in the UK and Europe from dislocation. I think what you had with the prices was initial shock, then everyone got to grips with what they had, and now they're working out do we want to be in this business strategically now. Some people don't like a business that we may like, and we will continue to look for those kinds of opportunities as they realign themselves and as mainly the European banks de-gear. They all have to de-gear a lot, and we're relatively under-geared at this point in time. We think in our Australian business we're starting to see some of our business units gain traction and there are opportunities between our Australian business and what we're trying to do in Asia.

And then South Africa clearly is the gateway to Africa. For Investec that was led by Investec Asset Management. They're now one of the biggest fund managers on the African continent and do have investors all over the show. We've always done a bit of capital markets business in Africa and investment banking business, and we intend to give this a much bigger push. On the private banking and wealth space we're now sure there is a hell of a lot for us to do because it's a continent that needs capital and you've got your big savings nations that are not part of Africa. Africa is going to need to spend.

And then we are going to increase our focus on bridging our various geographies, mainly with Africa, China and India. We see a lot of Chinese interest in South Africa and Australia. We also see a lot of Indian interest in South Africa and Australia as these countries start looking to procure commodities. They see a lot of opportunity in the African continent and it's not something we can ignore as a firm.

So if we get to our outlook I think our operational performance is reflective of our forward-focussed approach over the last year and ongoing efforts to build our brand throughout the financial crisis. A very interest article written by a Harvard professor by the name of Ranjay Gulati. He talks about roaring out of the recession. And he says that those firms that didn't cut big parts of their organisation out in the recession are much better off where they were selective in terms of how they reshaped their businesses. I mean I was reading an article yesterday that a certain bank cut 50,000 people but they rehired a lot of them. Different, but still. That thermometer kind of behaviour is not where we come from as a firm.

So we carried on trying to build but made sure that we made our balance sheet very strong and our liquidity very comfortable, and that's how we've navigated through the crisis. I mean we are in a world where economic recovery is varied depending on where you are, and the regulatory environment as I mentioned is very challenging. Regulators are taking a very tough stance and they probably will tend to go to one extreme until life normalises. But what we see is apart from the sovereign issues around the world the system has stabilised and activity levels are starting to improve.

So be believe as a firm we have strengthened our franchise, demonstrated our resilience and together with our strong balance sheet have the flexibly to support our existing businesses and capture opportunities that we think will come from the realignment of our industry. So that's me. I was a bit longer than normal I think. Louis. Okay, we will have questions in South Africa first then we will go to London.

Louis Mr Koseff.

Stephen Koseff Yes, Louis.

Louis Do you think it's on?

Stephen Koseff I think it's on. I can hear you.

Louis Great. From the start I've been a staunch supporter of Investec and I've never shouted at you.

Stephen Koseff Today you're going to shout?

Louis But two years ago you were the first to cut dividends. For this past two years I kept telling clients Investec is my best investment until I started almost getting death threats. So some time ago, a few months ago we decided to move our money, funds, everything to Coronation and some [unclear] because of the nice dividend yields there and good performance. And I did extremely well by taking money away from some asset managers. I mean the big thing is it's not apples and pears. I mean you're sitting with £10 billion, Mr Koseff, and now we have an unchanged dividend. I mean we've got to live, Mr Koseff. It's not only buying shares for our grandchildren.

Stephen Koseff We're very happy, Louis, one day to increase our dividend when we have regulatory clarity. At this point in time we don't have regulatory clarity and therefore we have to be conservative. If you think what happened to banks around the world, the one year they're doing buybacks, the next year they're going to governments saying give me cash. Now, we're not going to get cash if we need cash from the government. They're going to say, okay, we'll seize you. So we stay well away from them. When we get regulatory clarity then we can narrow some of the buffers we've got. But in the mean time, I'm sorry, Coronation will pay a better dividend than Investec. Rubie. Every dog has its day, Louis.

Rubie Sorry, when you called me and said every dog has its day?

Stephen Koseff Rubie, they think I plant you and Louis here because you guys grab the mic so fast.

Rubie Mr Koseff, private banking has got two lines on operating profit. The one is pre-impairments. Can I assume that the one without pre-impairments is reduced simply because of the impairments?

Stephen Koseff Yes.

Rubie Or are there other items?

Stephen Koseff No, that's impairments.

Rubie There is always a problem in my mind about impairments and write-offs. Is it possible to say how much of those pre-impairments are going to land up as a write-off?

Stephen Koseff Not yet. I think there will be some recoveries down the line, but not visible today. It might be something that could go bad that we haven't seen yet.

Rubie On the cost analysis there are two items totalling £48.4 million, being variable remuneration and staff costs. Is it too soon to judge internally whether there is a spin-off from these additional costs? In other words, are you producing more as a consequence of paying out this £48.4 million?

Stephen Koseff Some where just basic increases that never happened for two years. You know you've got competitive landscapes. Other banks maybe pay people more. You had to adjust your base. The variable side is because of the very strong operational performance by five out of the six divisions. So that's a question of fact. We have a risk-based model where we calculate variable remunerations pools from, and that's where the numbers land up.

Rubie Thank you.

Stephen Koseff It's very calm today. Who else? Stephan. Jacques, are you also going to ask a question?

Male speaker Just a question on the capital structure or capital position. You report a tier one ratio, where you focus on that it is roughly 12%. But I suppose under Basel III the core tier one ratio or the equity tier one is probably more important. Just to get a sense of where you're sitting there, and going forward in this Basel III environment where do you want to see that?

Stephen Koseff You're talking about by the time we get to 23%? Some of those instruments may phase out. The one we know will definitely phase out will drop the UK from 12% to 11%. The South African stuff and some of the UK stuff we're not sure whether it phases out yet. We're not sure what the treatment of that instrument is. Obviously that's something that may come. If they both get phased out I think we drop to 10.25%, maybe 10.5% if they both get phased out. But that's only in 2023, so it will move over time. That's some of the stuff that we haven't got clarity on, what are these instruments that are going to be acceptable that are non-common equity. If the regulator has his way he will say you only have common equity. But that's for too-big-to-fail banks. We don't know, so we sit with this uncertainty. And when we know then we can adjust our capital plan.

Male speaker Thank you.

Mike The sub prime mortgage on syndication that you've just done, that might be outside your reporting period, I mean sub prime is a sort of a black hole isn't it?

Stephen Koseff You've got to differentiate between US sub prime and a thing called non-conforming. You may be because you were a broker a non-conforming client because your income is variable. So anyone in their own business or income is variable is a non-conforming client. That's a big difference to someone who is sub prime who has got a default history. And I think you've got to distinguish between the two first and foremost. The newspaper would like to pull an article and say sub prime because it's the headline. No, we're not sub prime. That was not a sub prime securitisation. It was a non-conforming securitisation. All the clients were performing, and we felt it was important for us to see if the market would re-open. They have re-opened successfully; now we will see if the market gains traction. But there is a big, big difference between non-conforming and sub prime. Sub prime, they lent money to people who never had a job, who never had any income, who never had any assets, who owned the house for six months and then default. Then you couldn't even go after them personally in America. It's very different in other parts of the world. So I think you're confused, Mike.

Mike Thanks for that. And are you using that money? Is your book growing or are you just using it to retire other debt?

Stephen Koseff Well, it wasn't really for liquidity we did that. It's for getting the market to open. You know some things you don't do for liquidity. We've got enough liquidity; we've got £10 billion. I think we're one of the few banks in the UK that could meet the most extreme Basel III requirements if they actually bring them in right now. We can meet them both in the UK and Australia right now as we stand. Bring the most extreme one in, we meet those requirements. So we've got enough liquidity. That wasn't for liquidity. More questions in South Africa? Okay, we'll go to London. Dave? Normally James Hamilton comes in, or the other fellow from Macquarie.

Dave James is here again, Steve.

Stephen Koseff They think we plant you as well, James.

James Hamilton Well, the breakfast is very good.

Stephen Koseff Ja.

James Hamilton The first is you were talking about some liquidity. The last time we spoke you talking about getting your loans to deposits ratio to 80% and improving the asset side of the balance sheet. If your customers continue not to demand to borrow from you at acceptable rates would you consider seizing some of the liquidity that you have to improve your net interest income?

Stephen Koseff Well, if we can't grow our balance sheet, I mean our loans, then obviously we tighten up on our deposit rates. We already closed the high five for new people. No one can come into that product unless you already have an investment in that product. So we've already done that. We did that about five months ago to slow down the flows and are trying to diversify the deposit base. So those are the kinds of steps we're already taking. And we bought back in Australia some of the government-backed debt that we issued. So we are taking those kinds of measures to slow down the inflow, but we still want to build the customer base. So it's just getting that kind of balance. And there is a time when credit demand will come back. 80% is a comfortable number. 72% is just a bit lazy. So the strategy now would be diversify the deposit base and get the cost of money down. That would be the strategy. Are there any other last questions?

Male speaker Impairment within the private bank. Clearly the problem with the segments you've mentioned, 41% in default. Is it right to assume that there is not much more to go for in terms of default? I appreciate that the impairment charge on defaults could increase, but should we see that fall away quite quickly and can you assure us that the impairment charge in the private bank as well as the group as a whole now has peaked?

Stephen Koseff I can't assure anything in life because I don't know what life will bring. But I think that our sense is that it's at its peak. Our sense is that although there is probably stuff that can come at us that can bounce either way. This next six months I think we will still have the elevated number, and I'm not sure about the six months thereafter. I think it will start coming down at a faster pace. If the economies improve that's going to come off quite quickly, but still elevated this next six months. But we're certainly moving through the cycle. Some geographies we're clearing problem loans; others we've made big markdowns. So we're certainly moving through, but we're not there yet. You've seen a big drop-off in capital markets if you have a look at the numbers. I mean the impairment, in South Africa I think it's almost 0% and in the UK it's about 2%, the default. So you've already seen in those upper-end markets the numbers come down quite significantly. Any more questions in London? Where is the fellow from Macquarie who always asks the difficult questions?

Dave [Inaudible segment].

Stephen Koseff He used to be from Fox-Pitt. Has he moved on?

Dave I think there are no more questions from London.

Stephen Koseff Okay. Well, then thanks very much for attending and we look forward to seeing you at our interim trading update in March. Thank you.

END OF TRANSCRIPT