

INVESTEC 

# ANALYST PRESENTATION 1999



# SUMMARY OF RESULTS





# Investec Summary of Results

	1999	1998	% Change
Headline Attributable Earnings (R'm)	857	572	49.8
Headline EPS (cents)			
Undiluted	1 077.5	790.1	36.4
Diluted	1 089.9	782.4	39.3
DPS (cents)	475	350	35.7
Assets Under Administration (R'm)	361 286	196 369	84.0



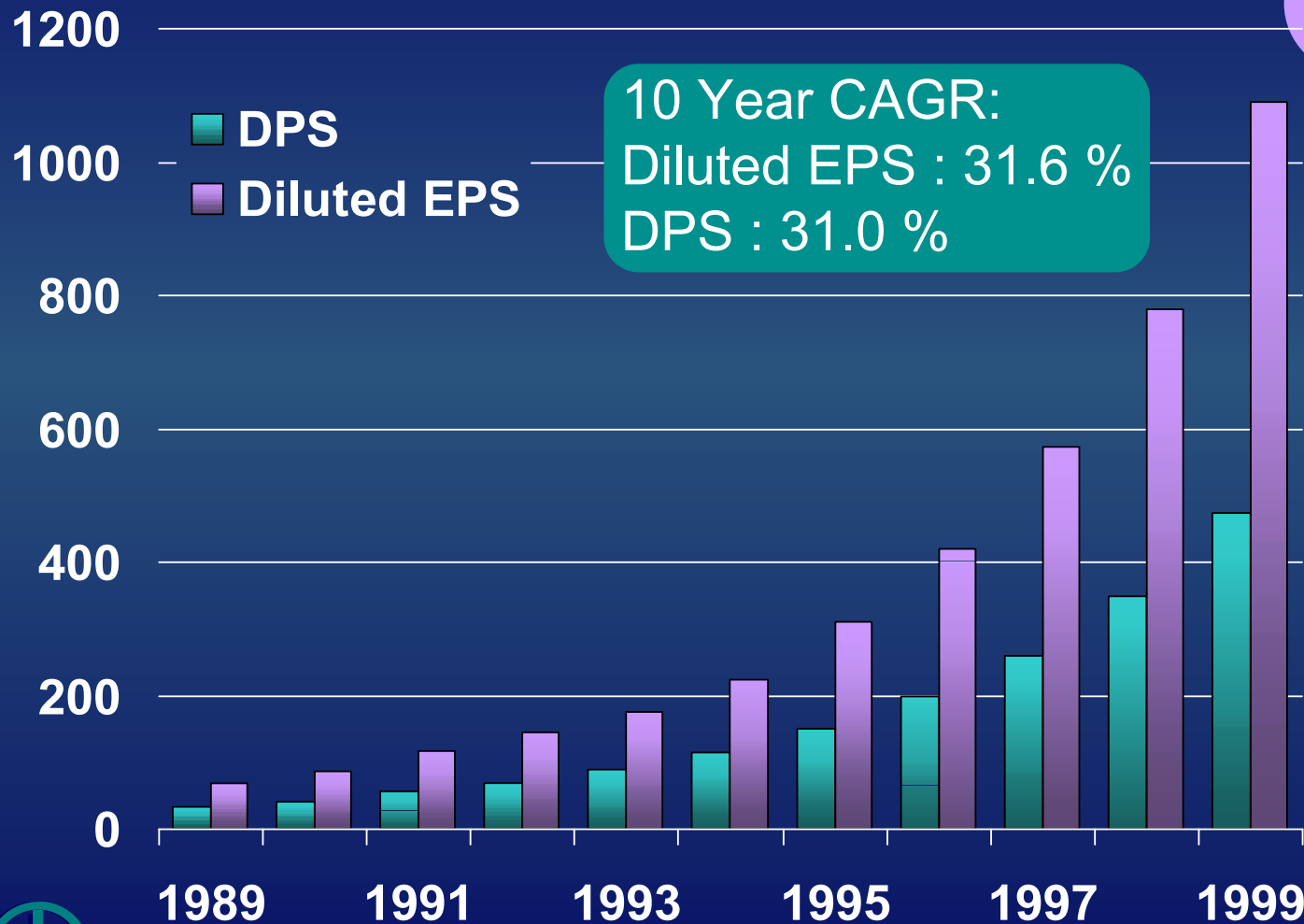
# Inhold Summary of Results

	1999	1998	% Change
Headline Attributable Earnings (R'm)	377	266	41.7
Headline EPS (cents)			
Undiluted	927.2	699.5	32.6
Diluted	994.5	677.0	46.9
DPS (cents)	425	300	41.7

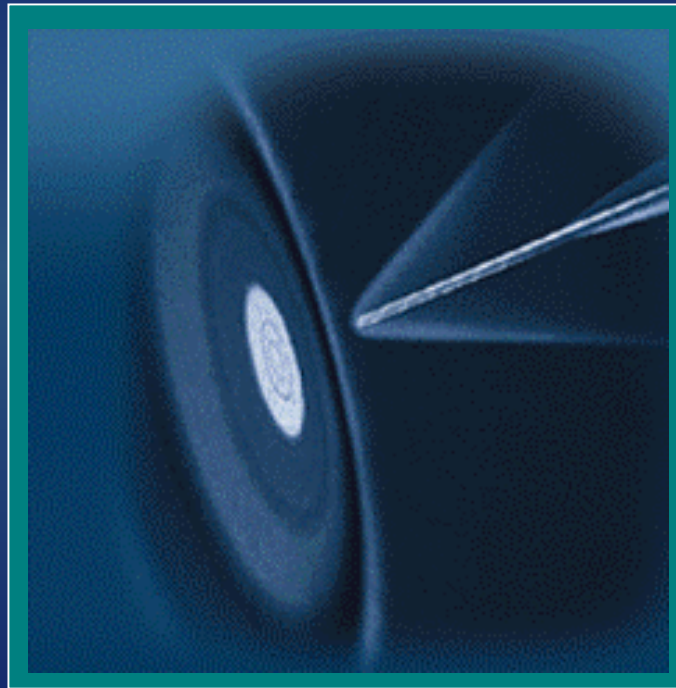


# Headline Earnings & Dividends

Cents



# INVESTEC IN PERSPECTIVE



# Financial Services Trends

## Changing Financial Landscape....

“Bankers have long sought a level playing field, and in one sense, they now have one: everyone is equally uncertain of what banking is evolving toward”

- *The Banking Journal*, Feb '99



# “The Age of the Mega Merger”

“As new banking giants come into being, they are receiving sharp reminders that size does not equate to invulnerability...size alone can't be viewed as the total answer for building competitiveness and shareholder value - especially in an era of market volatility”

- *Banking Strategies*, Nov/Dec '98





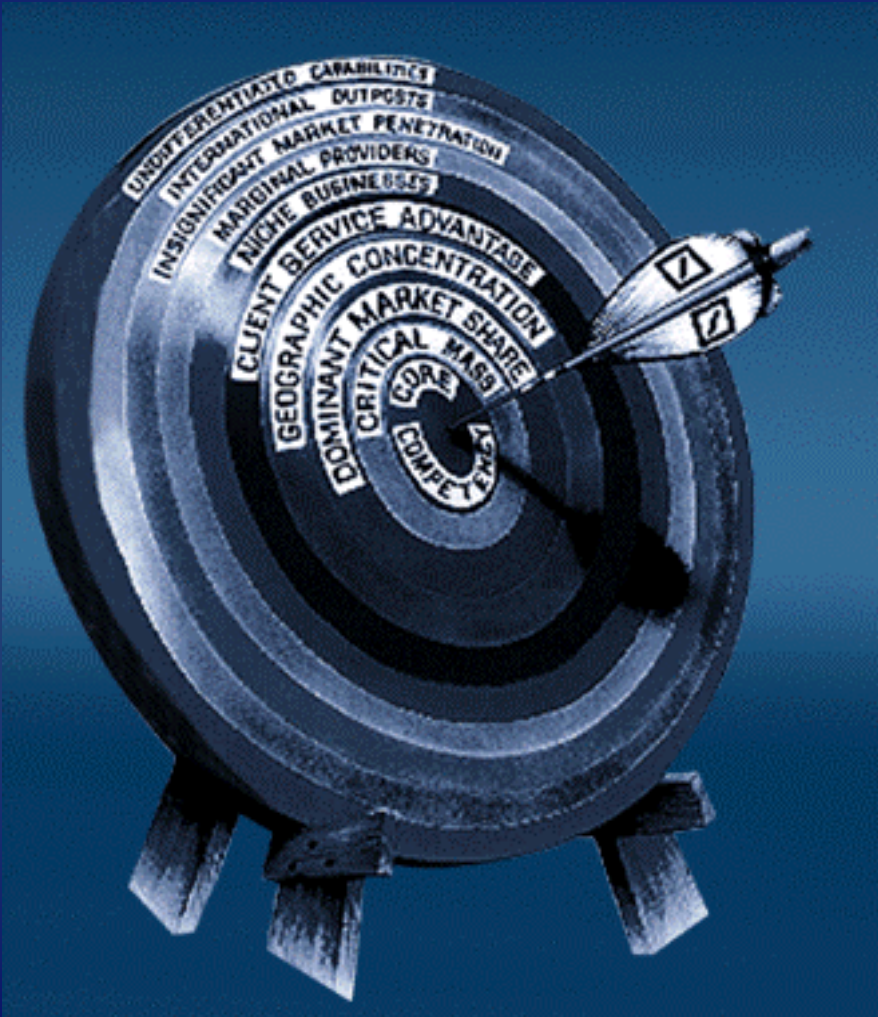
# Implications for Investec

“As banks get larger and treat more and more people identically, that should open the door for niche players”

- *The Banking Journal*, Feb '99



# Implications for Investec



Maintain sharp focus  
on core areas of  
strength



# Implications for Investec

- ⊕ Control Costs – avoid “niche revenues with bulge -bracket costs”
- ⊕ Highly selective in terms of geography and product range
- ⊕ Well managed



# Implications for Investec

- ⊕ Strong culture – retain staff
- ⊕ Tight rein on risk
- ⊕ Thorough local knowledge





*"You get bigger by being better.  
You don't get better by being bigger"*  
*- The Banking Journal, Feb '99*



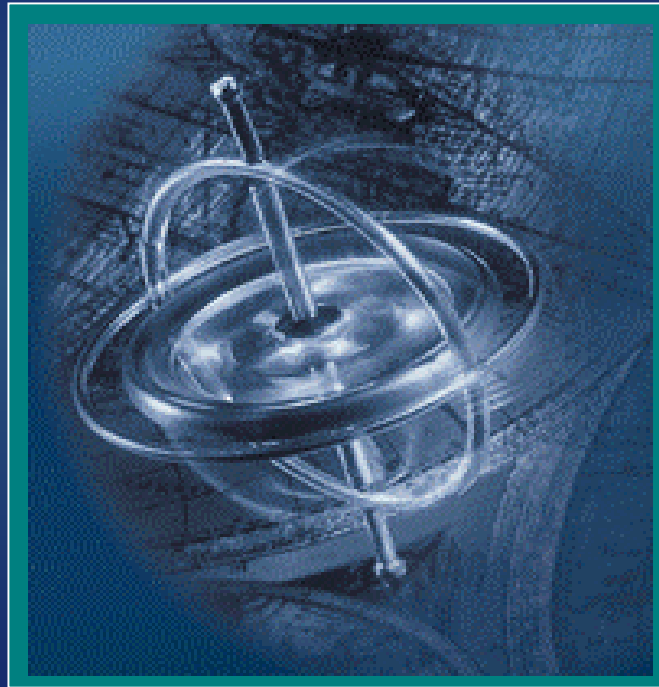
# Investec Strategic Focus

## Mission

We aspire to be one of the world's great specialist banking groups, driven by commitment to our core philosophies and values



# INTERNATIONAL EXPANSION



# International Strategy

“Arguably the most aggressive international strategy is that of Investec...this dynamic group has determined that stockholder value can best be obtained by a major shift in resources and earnings outside South Africa”

- *SA Banks: Strategy Games, NOMURA, Feb '99*



# Integration Challenges

“As a result of expansion over the past 7 years, Investec is well placed to develop an efficient and cohesive business on an international scale”

- *Moody's, Oct '98*



# Integration Challenges

Moody's Oct  
'98

2 Gresham Street, London



“Major challenge facing Investec – assimilation and integration of acquisitions”



# International Developments

- ⊕ Concluded Hambros PLC - August 1998
- ⊕ Obtained banking license in Botswana - September 1998
- ⊕ ACSIS - November 1998
- ⊕ Stuart Coleman & Co - January 1999



# Response to Developments

“Recent acquisitions raises the Group’s asset management and private banking profile considerably and could be beneficial in the long run”

- *Moody’s Oct ‘98*



# Combined Capability & Integration

## Private Banking

- ⊕ Integration of Guinness Mahon significantly enhances capability :
  - Merged private banking operations with IBUK
  - Support services and treasury operations absorbed to maximise synergies with existing IBUK infrastructure
  - Expanded geographic reach and product range



# Review of Investec's Private Banking Capability

	Today 1999	Yesterday 1997	Long Ago 1994
Loan Book (R'm)	11 209	8 610	3 360
Staff	679	487	286
No. of clients	54 185	35 880	16 239



# The Result...

Private  
Banking

One of a few South African financial services groups with a fully integrated private banking capability





# Combined Capability & Integration

Institutional Asset  
Management

Merged Investec Asset Management  
with Guinness Flight Hambro to create  
Investec Guinness Flight



# Review of Investec's Asset Management Capability

	Today 1999	Yesterday 1997	Long Ago 1994
Institutional Assets under Management (R'bn)	112.6	28.5	2.7
Staff	435	136	24
No. of clients (incl. unit trust funds)	1 627	442	300



# Review of Investec's Asset Management Capability

				Today 1999	Yesterday 1997	Long Ago 1994
<b>Number of Retail Investors:</b>						
South Africa				117 685	95 784	3 333
UK				37 000		
Offshore				25 000		
US				33 816		
<b>Jurisdictions:</b>						
1999				1997		1994
UK	Channel Islands	SA	Namibia	SA	Namibia	
USA	Hong Kong	Ireland	Botswana	Botswana	Ireland	SA



# Combined Capability & Integration

Private Client Asset  
Management

Combined Carr Sheppards and  
Henderson Crosthwaite to create  
Carr Sheppards Crosthwaite



# Review of Investec's Asset Management Capability

	Today 1999	Yesterday 1997	Long Ago 1994
Private Client Assets under Management (R'bn)	74.472	39.484	0.3
Staff	583	439	2
No. of clients	70 160	35 120	70





# The Result...

## Asset Management

- ⊕ One of S.A.'s first global fund managers
  - Among the top 25 UK non-life managers
  - Among the 100 largest non-US international fund management companies

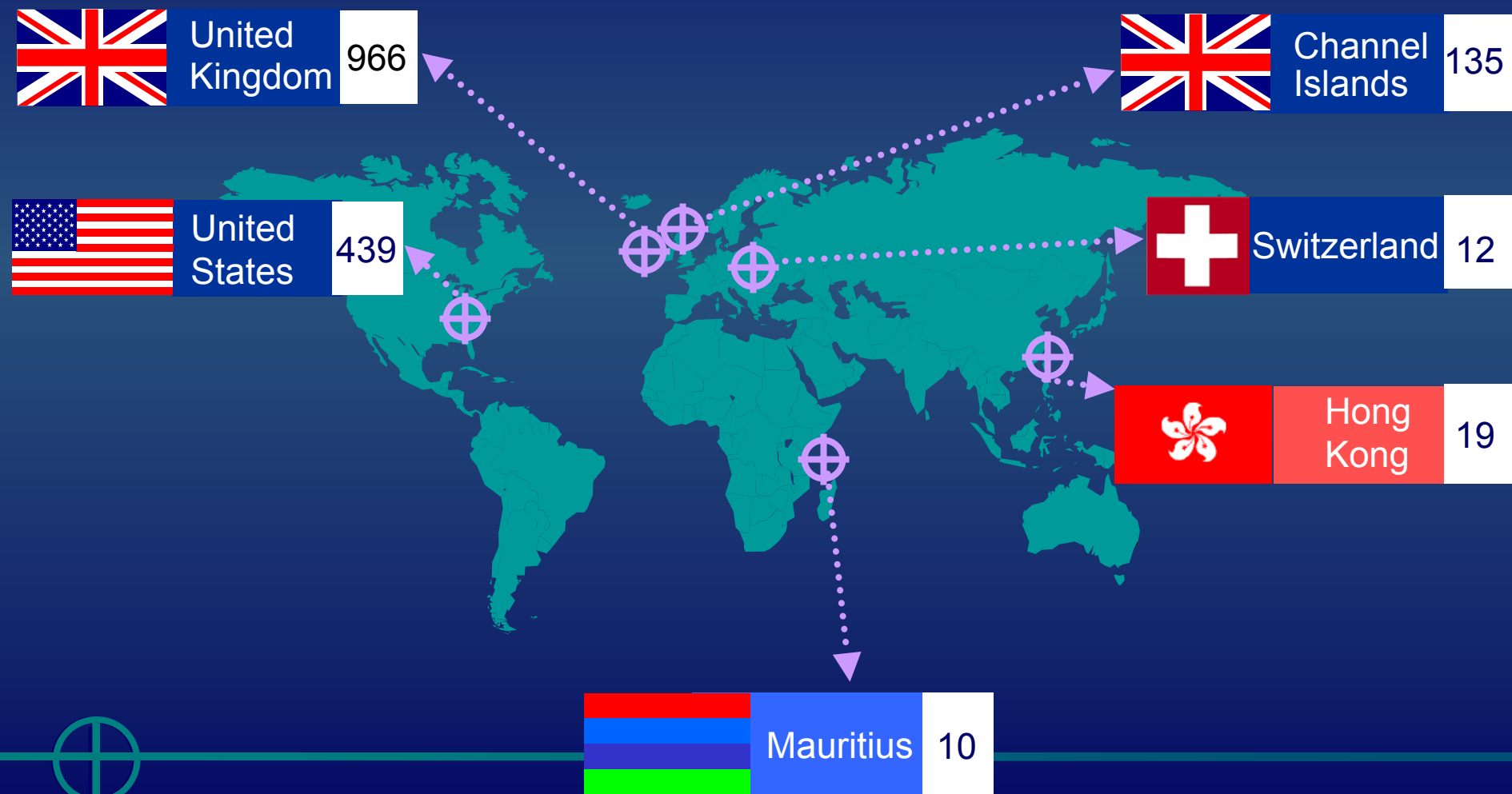


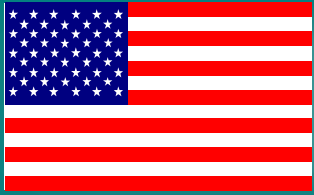
# Integration Overall

- ⊕ Undergone intensive integration processes with external consultants
- ⊕ Internationally - “all under one roof”
- ⊕ Co-operation and collaboration between major financial centres within each business unit
- ⊕ Management acting in concert



# As a Result...International Capabilities





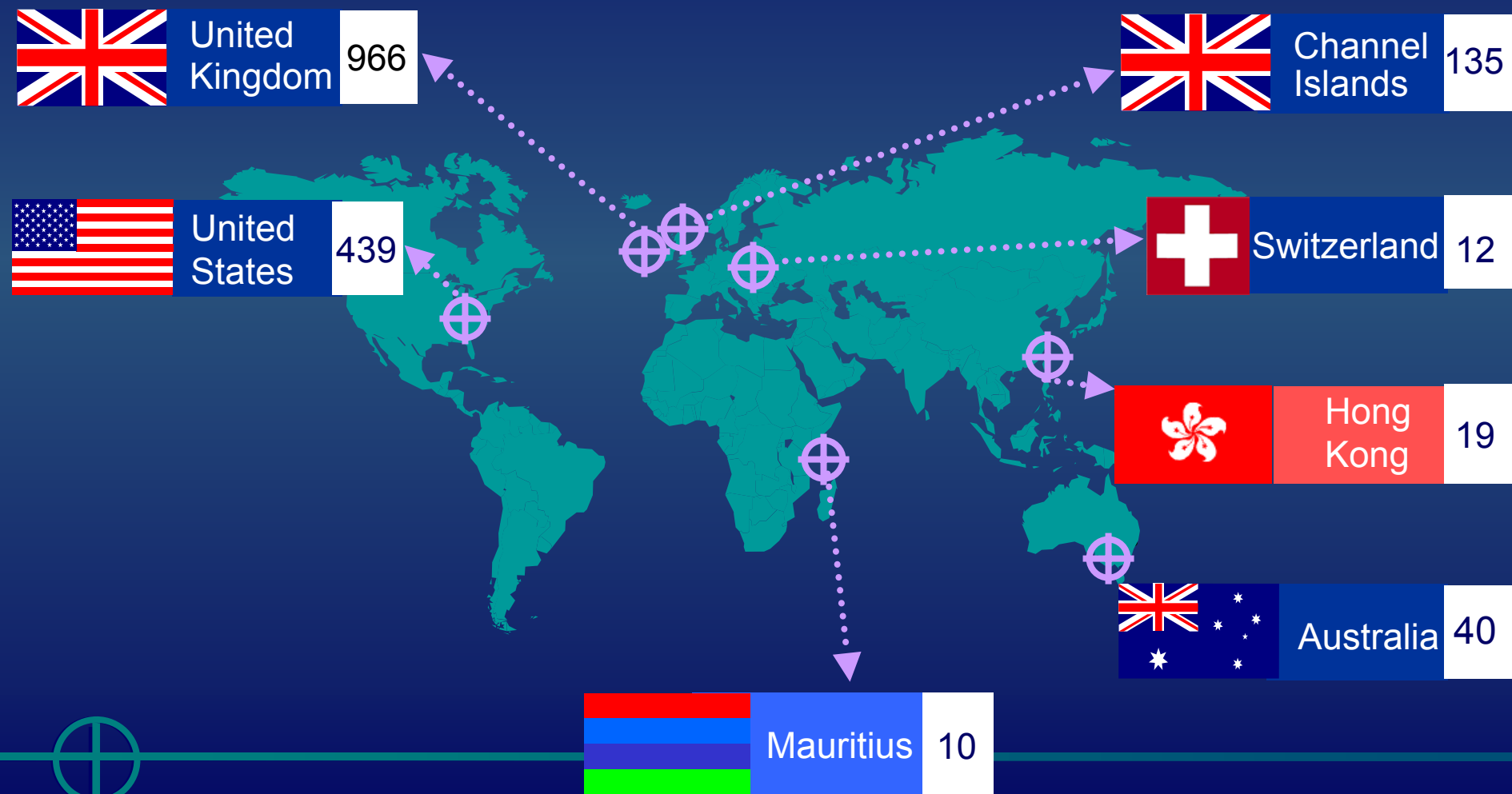
# United States

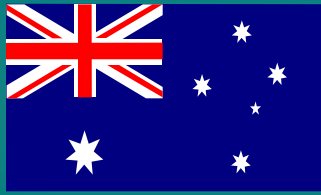
Stuart Coleman  
& Co

- ⊕ Establishes retail broking presence in the US
  - 17 000 active accounts
  - 140 brokers, represented in New York & Chicago
  - Non-discretionary funds under management of \$1bn
- ⊕ Mutually beneficial gains for Ernst and Stuart Coleman & Co
  - Clearing done by Ernst
  - Synergies already being realised  $\pm$ \$3m per annum



# As a Result...International Capabilities





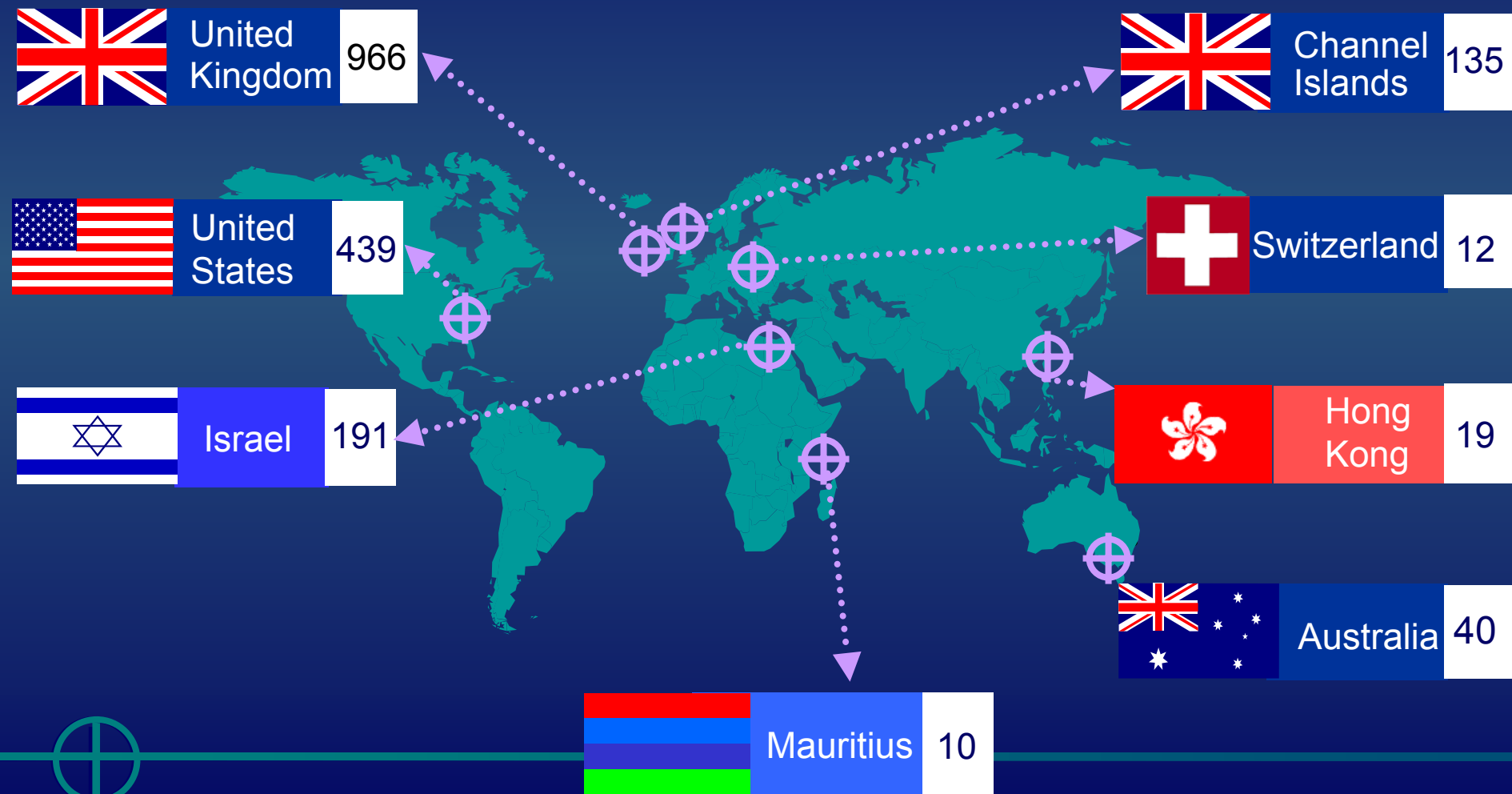
# Australia

ACSIS

- ⊕ Specialises in domestic and international superannuation and unit trust products as a fund of fund operation
- ⊕ Excellent performance record
- ⊕ Currently manages > A\$200 million
- ⊕ Represented in New South Wales, Victoria and South Australia



# As a Result...International Capabilities





# Israel

## ⊕ Financial Highlights(R'm)

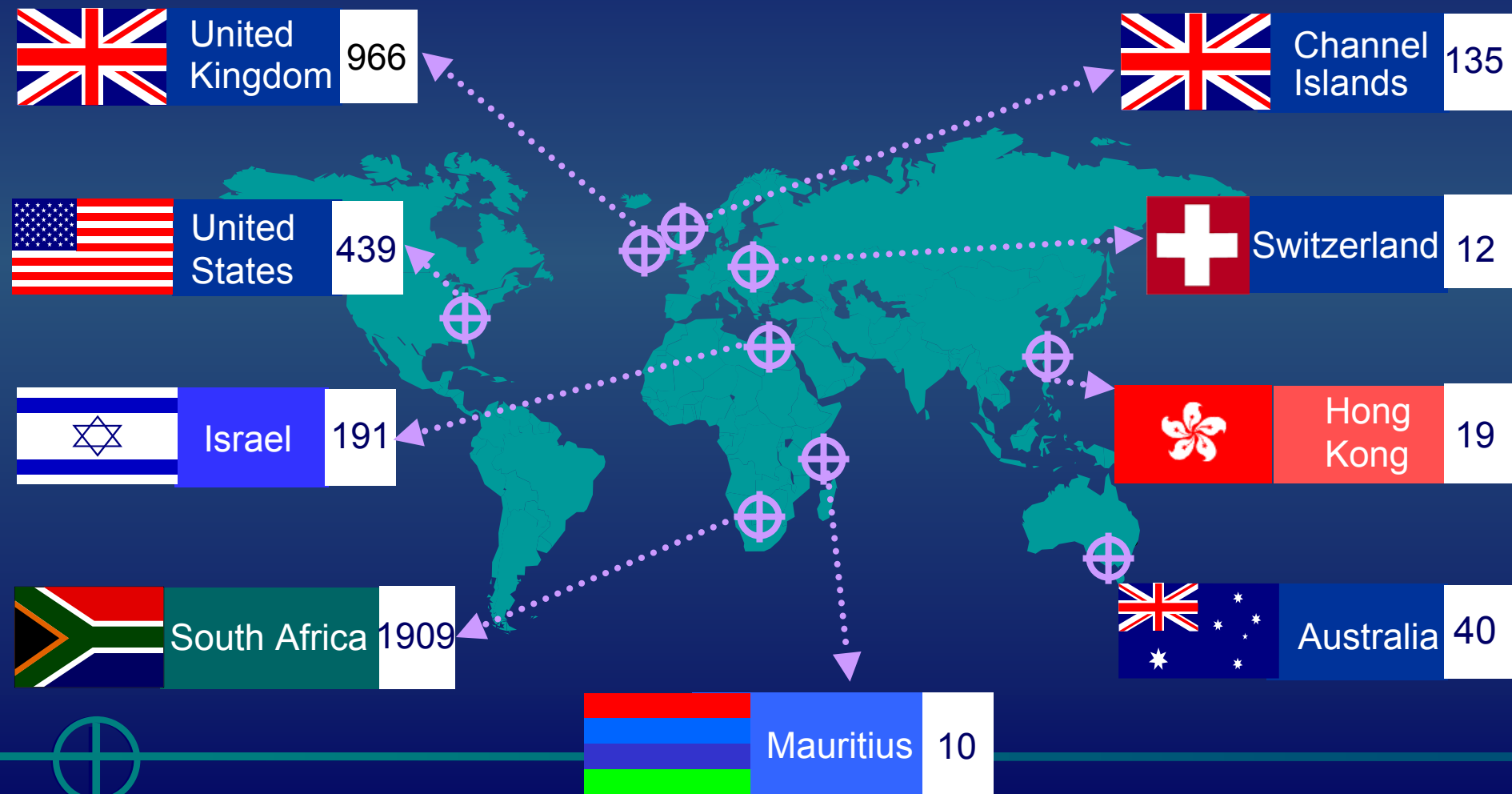
	1998	1997	% Change
NIBT	96.4	70.5	37%
Total Assets	6 132	5 124	20%

- ⊕ First Israeli bank to launch comprehensive internet banking facility, including securities trading system
- ⊕ Continued expansion into capital market activities
  - Elected onto TASE board, being one of the five largest traders on the TASE
- ⊕ Developed domestic research capability





# As a Result...International Capabilities





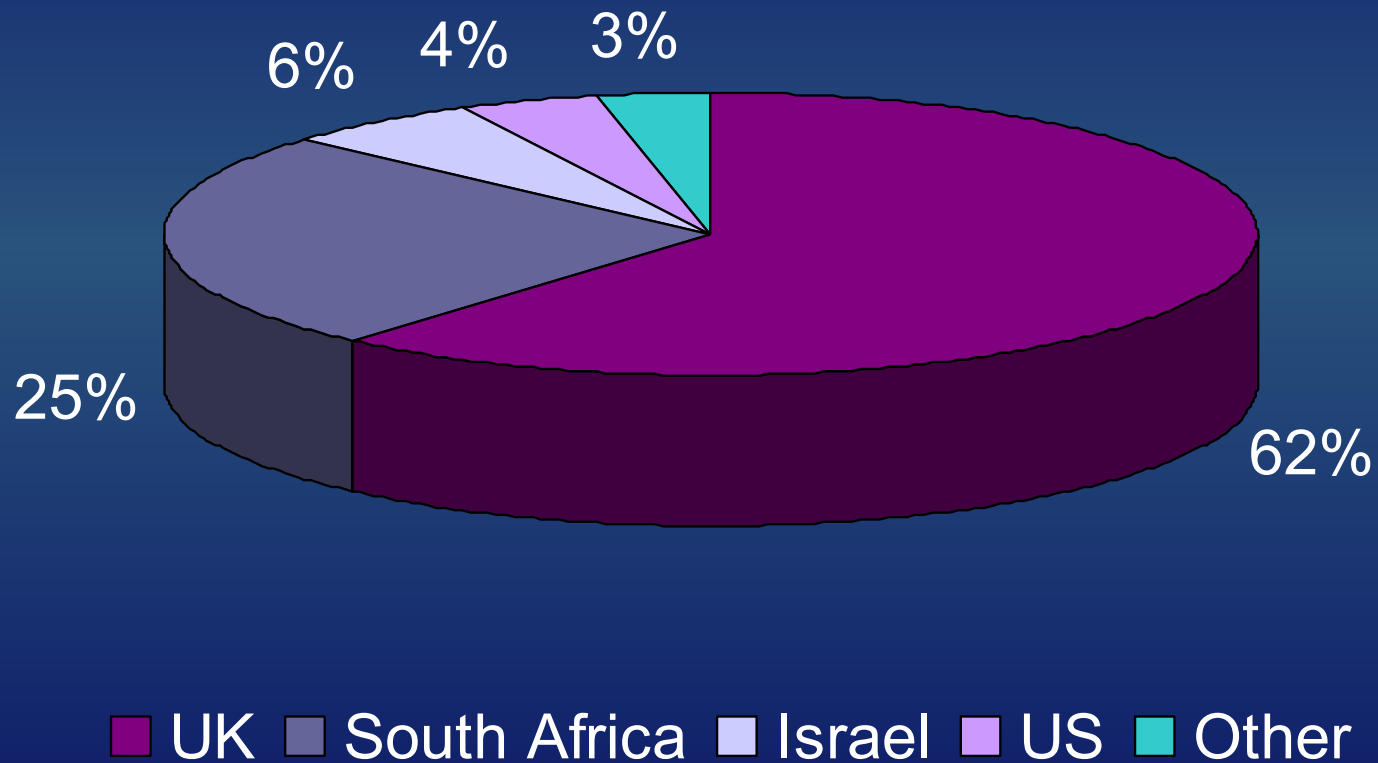
# South Africa

## Developments

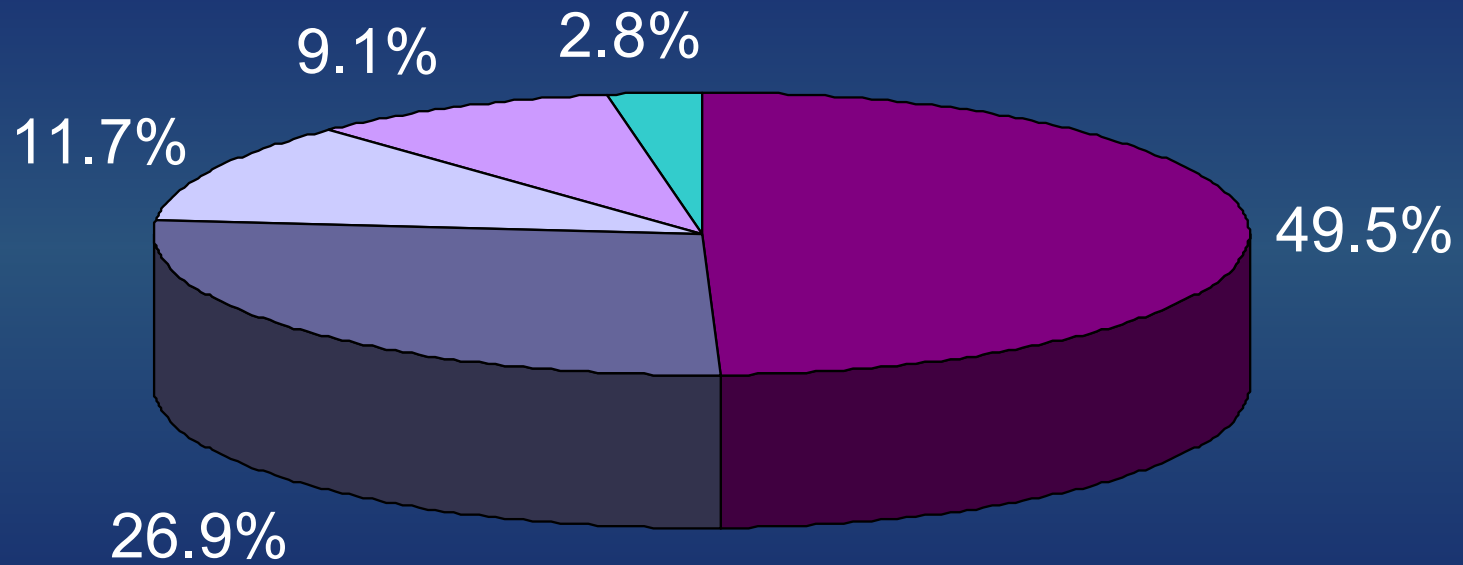
- ⊕ Continue to build core areas of focus
  - Acquisition of Johannesburg retail brokerage business of HSBC ↓ enhances domestic securities operations
- ⊕ Disinvestment from non-core activities
  - Sale of DSB to Cadiz in exchange for equity
  - Sale of SIB to SIB Holdings in exchange for equity



## As a Result...Assets By Geography



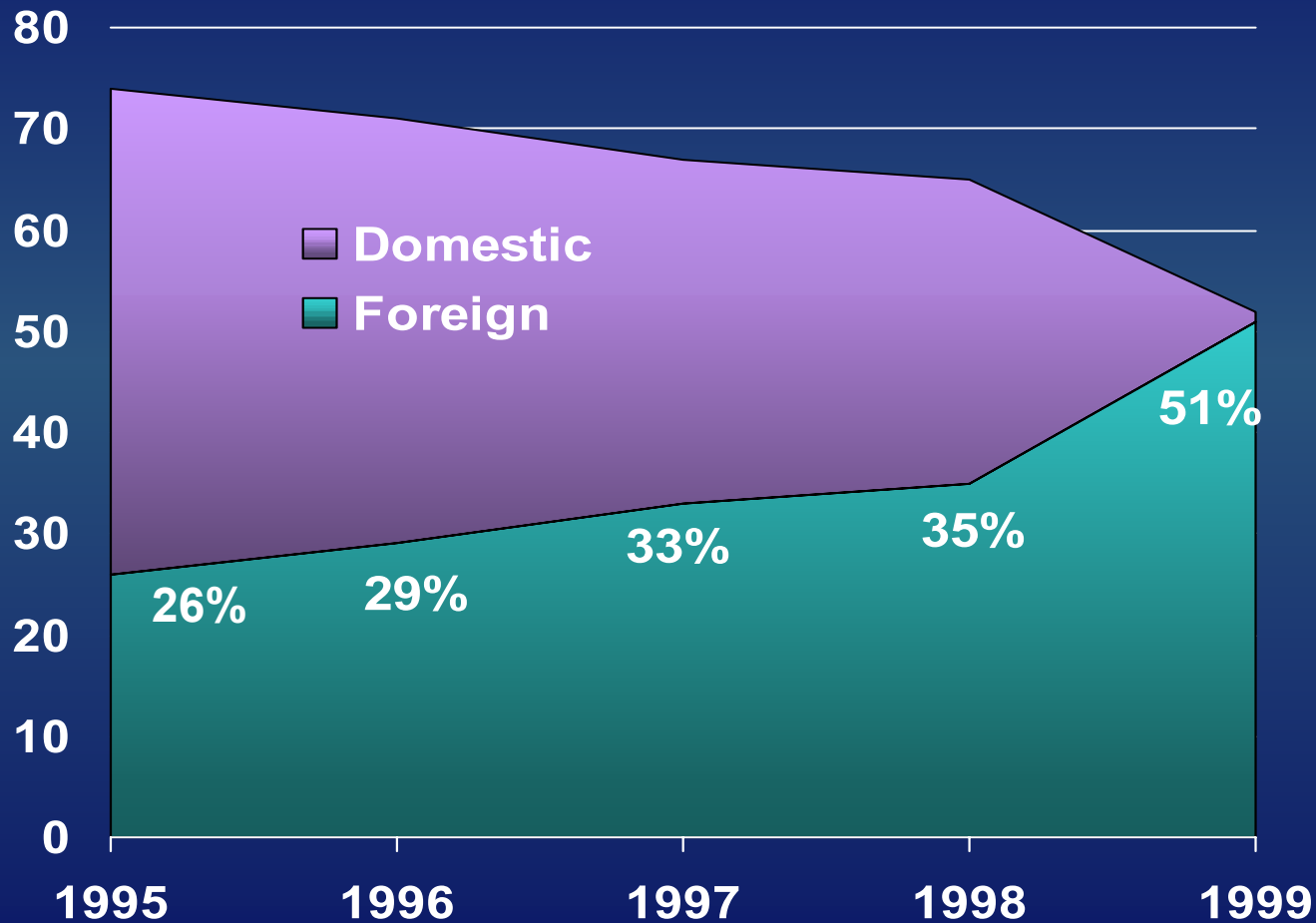
## As a Result...NIBT by Geography



■ South Africa ■ UK ■ Other ■ Israel ■ US



# As a Result...Foreign vs Domestic Income



# GROUP PERFORMANCE



# Salient Financial Information

	1999	1998
Market Capitalisation on a Diluted Basis	R21.18bn	R20.45bn
Interest Income / Total Income	37.1%	46.6%
Operating Expenses / Total Income	58.9%	54.7%
Return on Average Shareholders' Funds	18.8%	17.8%
Return on Core Capital Employed	28.4%	22.2%
Return on Risk Weighted Assets	2.5%	2.5%



# Salient Financial Features

Balance  
Sheet (R'm)

	31 March 1999	31 March 1998	% Increase
Total Shareholders' Funds	8 757	7 194	21.7
Total Assets	112 906	83 049	36.1
Advances	21 936	16 777	32.7





# Salient Financial Information

## Income Statement (R'm)

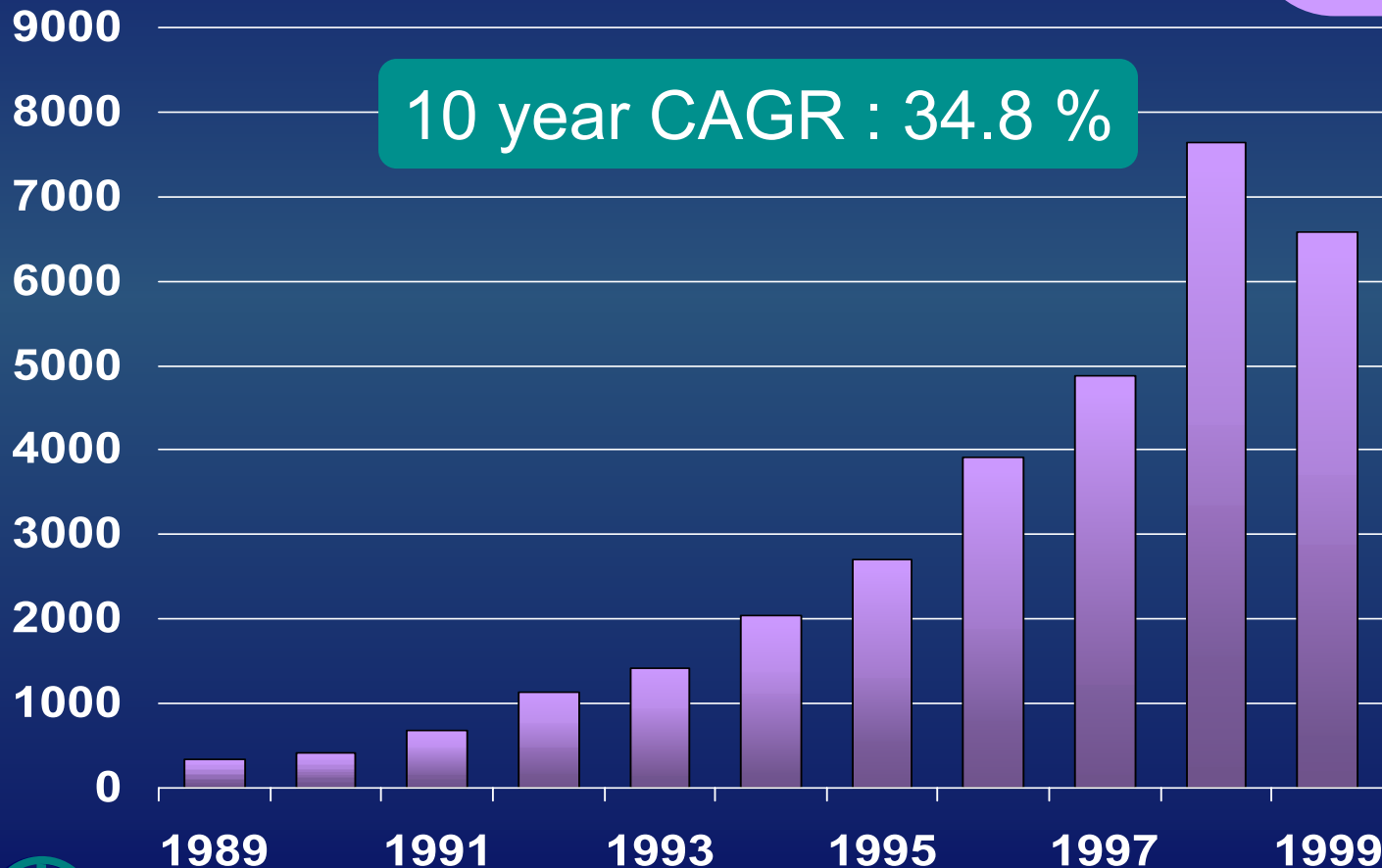
	31 March 1999	31 March 1998	% incr.
Net Interest Income	1 298	861	50.8
Provision for Bad & Doubtful Debts	223	104	114.4
Other Income	2 204	985	123.8
Operating Expenses	2 064	1 010	104.4
Net Income before Taxation	1 193	730	63.4
Attributable Earnings	835	570	46.5



# Growth in Net Tangible Assets Per Share

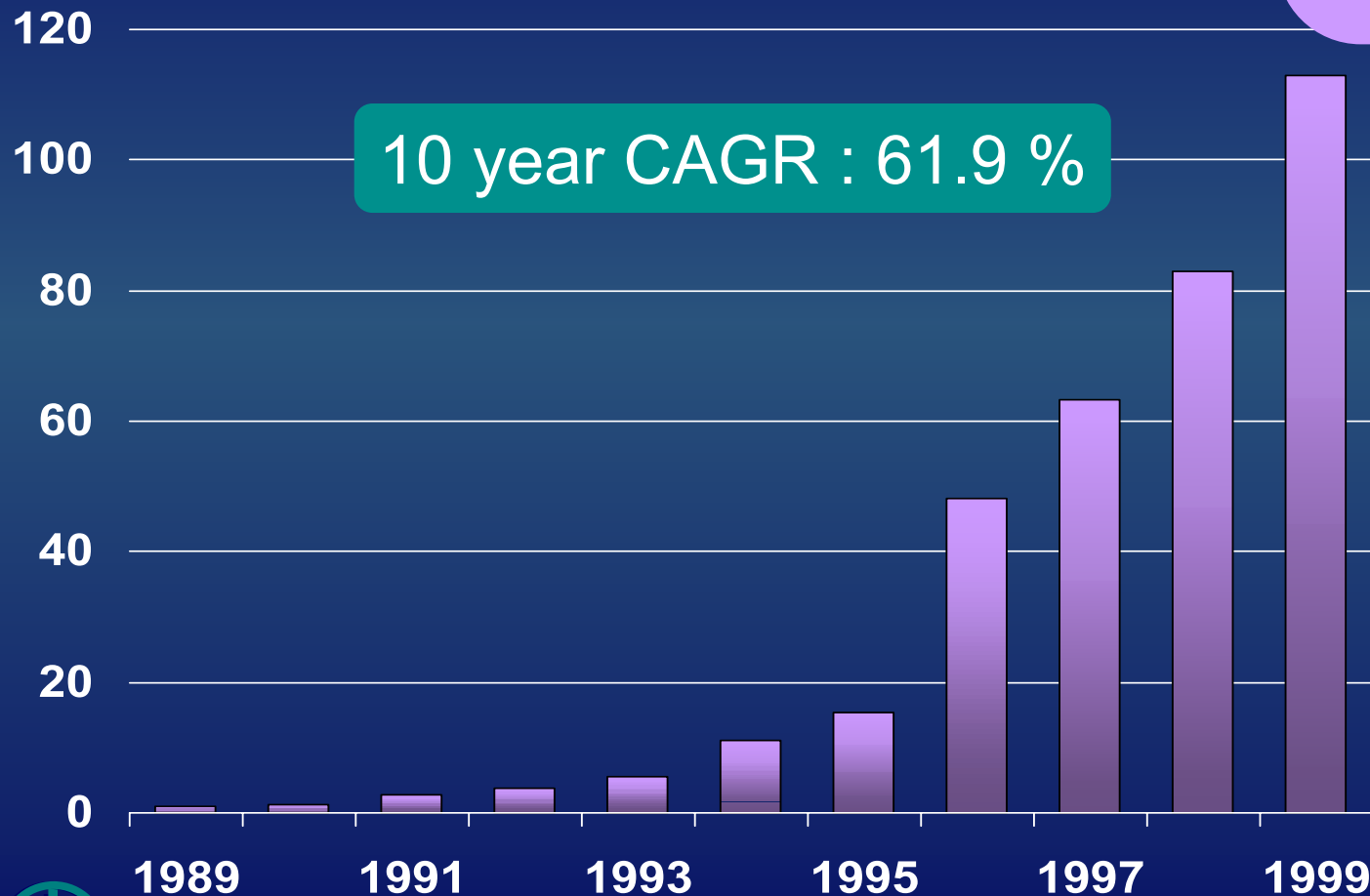
Cents

10 year CAGR : 34.8 %



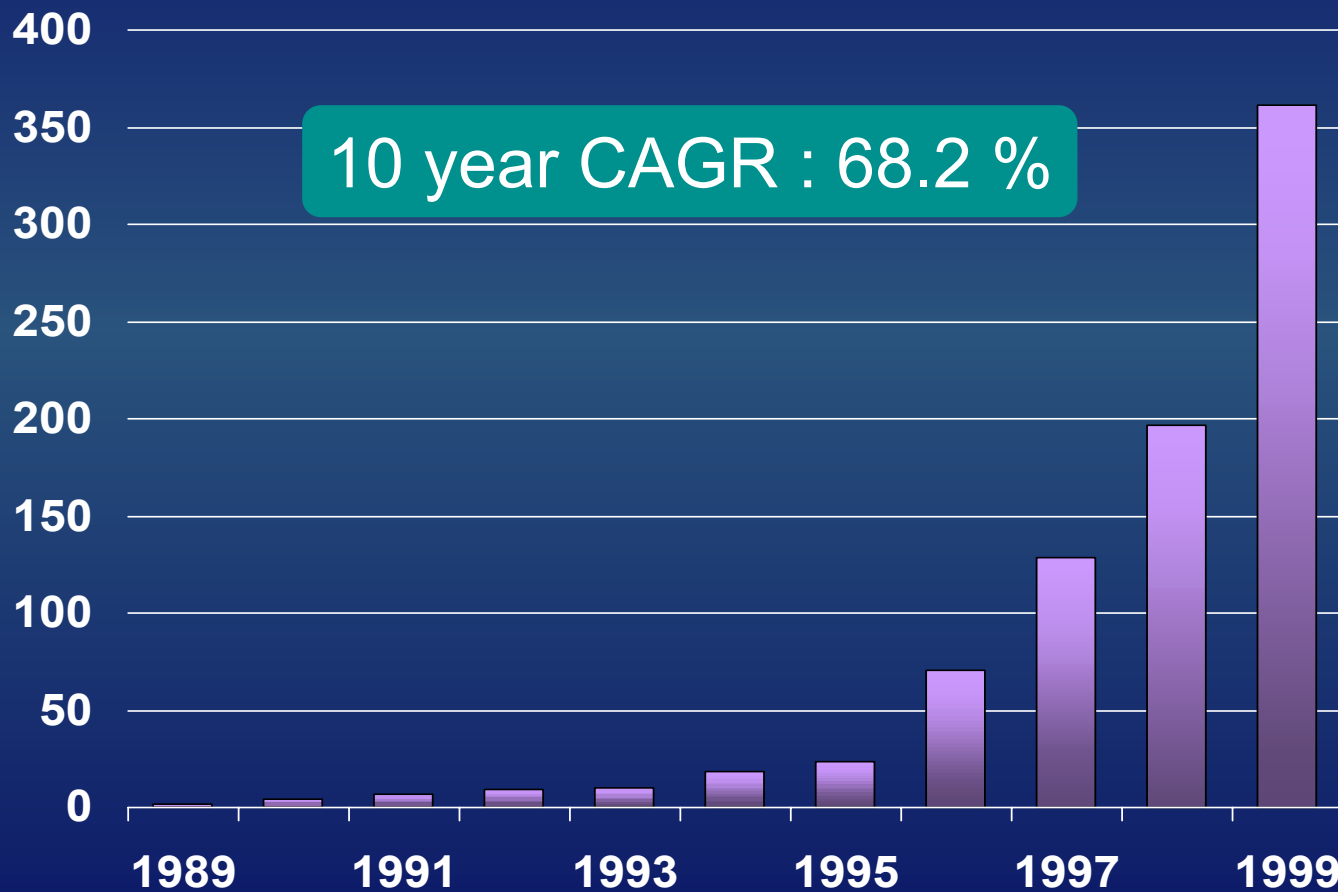
# Growth in Total Assets

R'bn



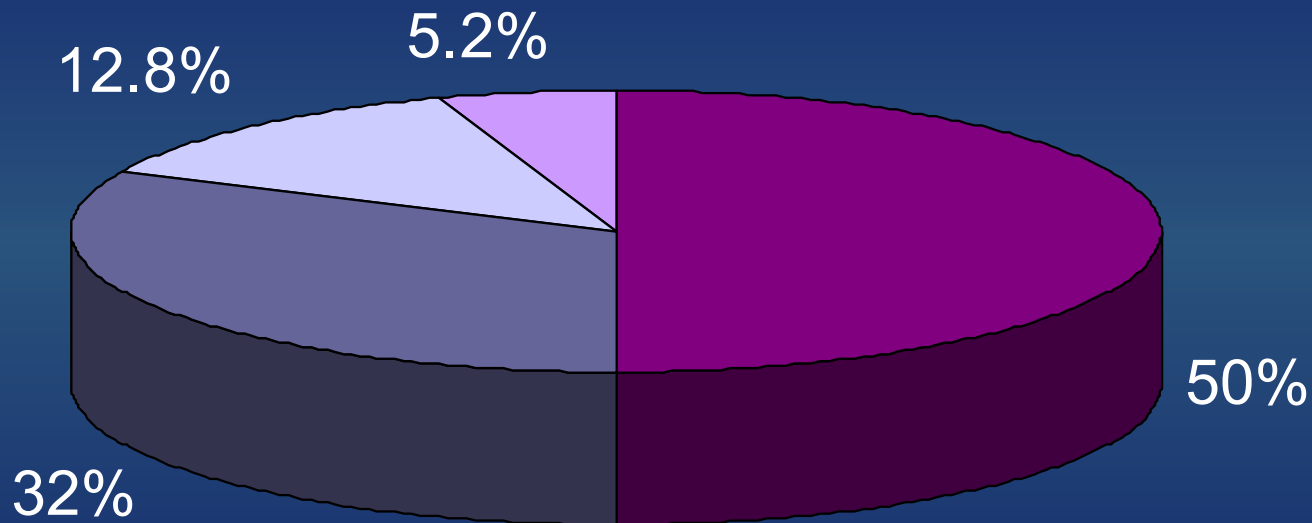
# Growth in Assets Under Management

R'bn



# Operating Income by Type

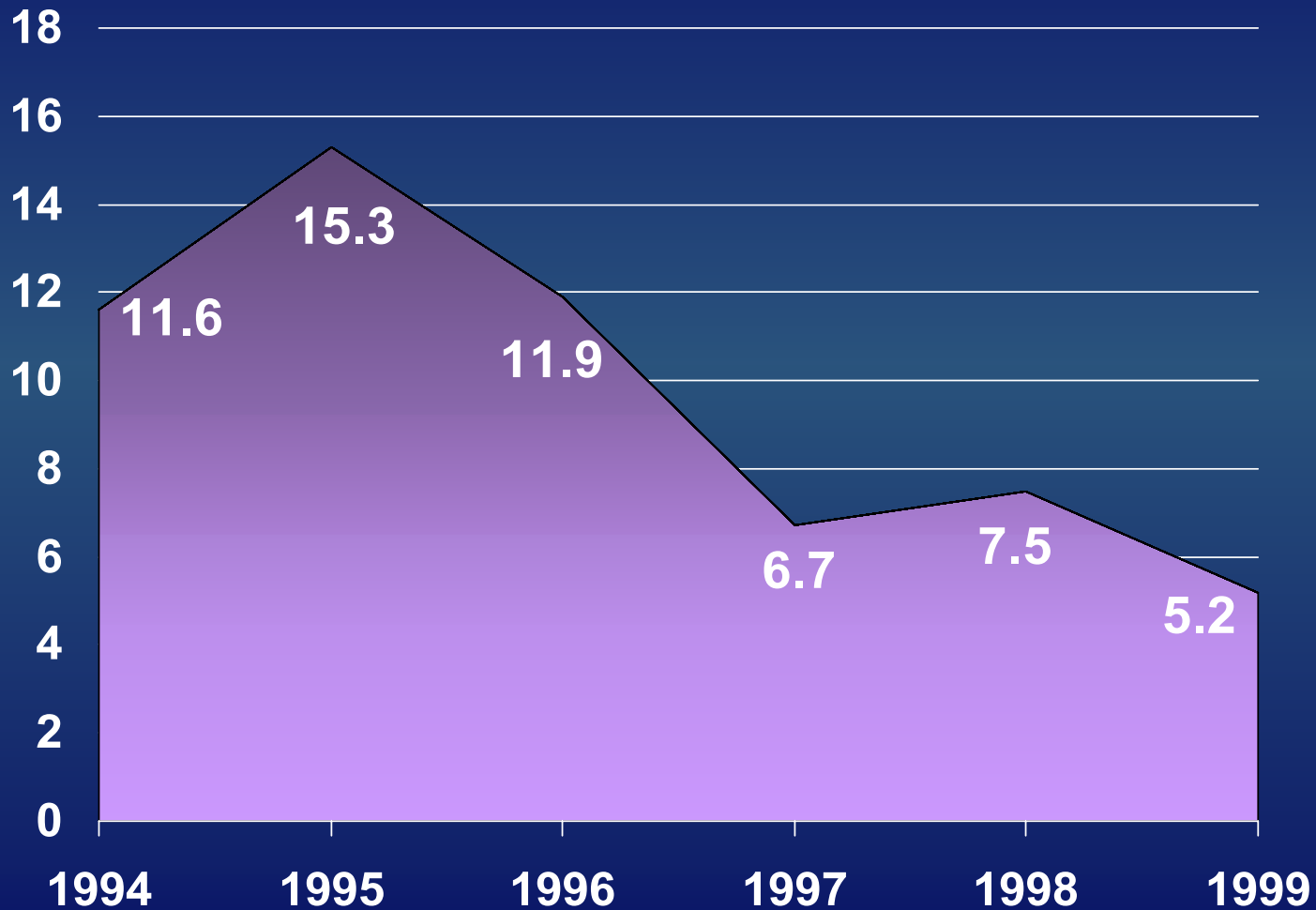
For the year ended  
31 Mar '99



■ Commission and Fees   ■ Margin  
■ Investment Income   ■ Trading



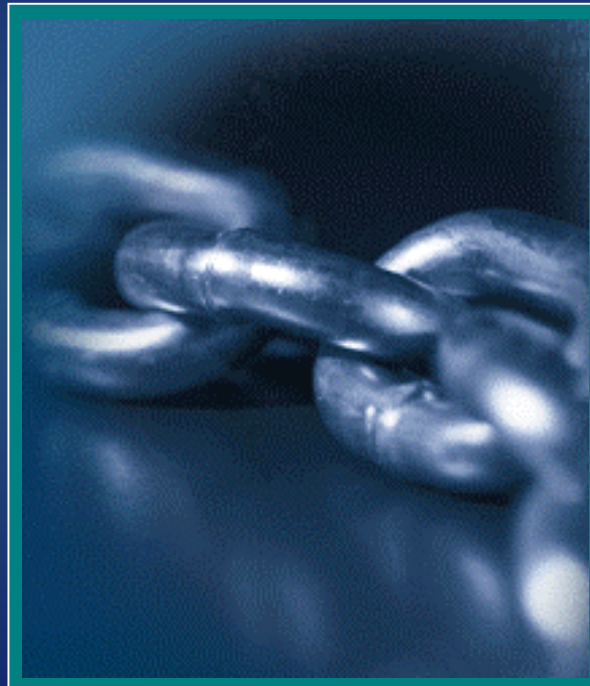
# Trading as a % of Total Income



# Annuity as a % of Total Income

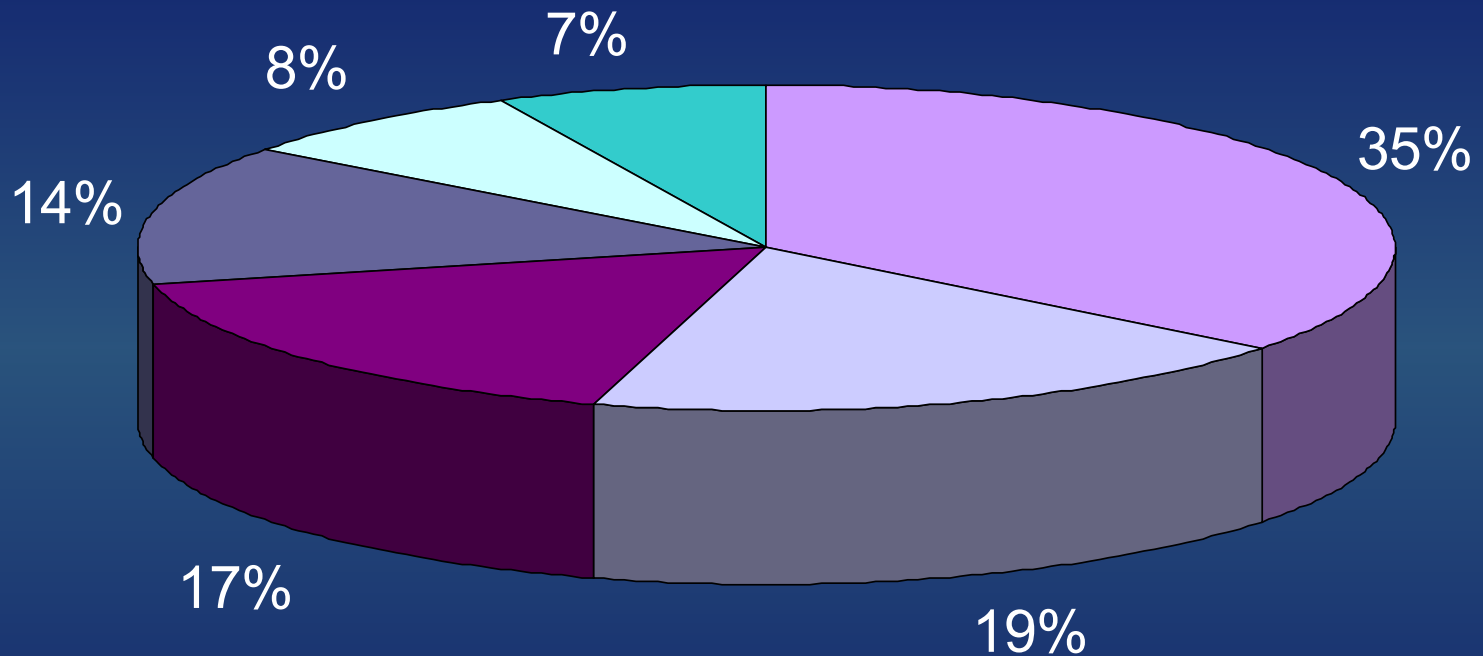


# DIVISIONAL PERFORMANCE





# Contribution Analysis



- Corporate and Investment Banking
- Private Banking
- Asset Management
- Group Services & Other Activities
- Securities Activities
- Insurance



# Corporate and Investment Banking

## Trends

- ⊕ Notwithstanding emerging market crisis, corporate activity buoyant following world-wide trend
- ⊕ Cross border activity increasing
- ⊕ Infrastructural development continues



# Corporate Finance

## Developments

### ⊕ Completed Transactions

#### South Africa - 109

- 20 Listings/Capital Raisings
- 62 M & A's
- 27 Unbundlings/Restructurings

#### United Kingdom - 40

- 22 IPO's/Capital Raisings
- 16 M & A's
- 2 Other



# Ernst & Young SA M&A League Tables

Investec's  
Positioning

	1998	1997	1996	1995	1994
Number of Transactions	56	46	24	16	7
Ranking	3	2	3	3	5
Value of transactions (R'm)	38 806	3 068	2 044	1 683	396
Ranking	2	4	7	7	8

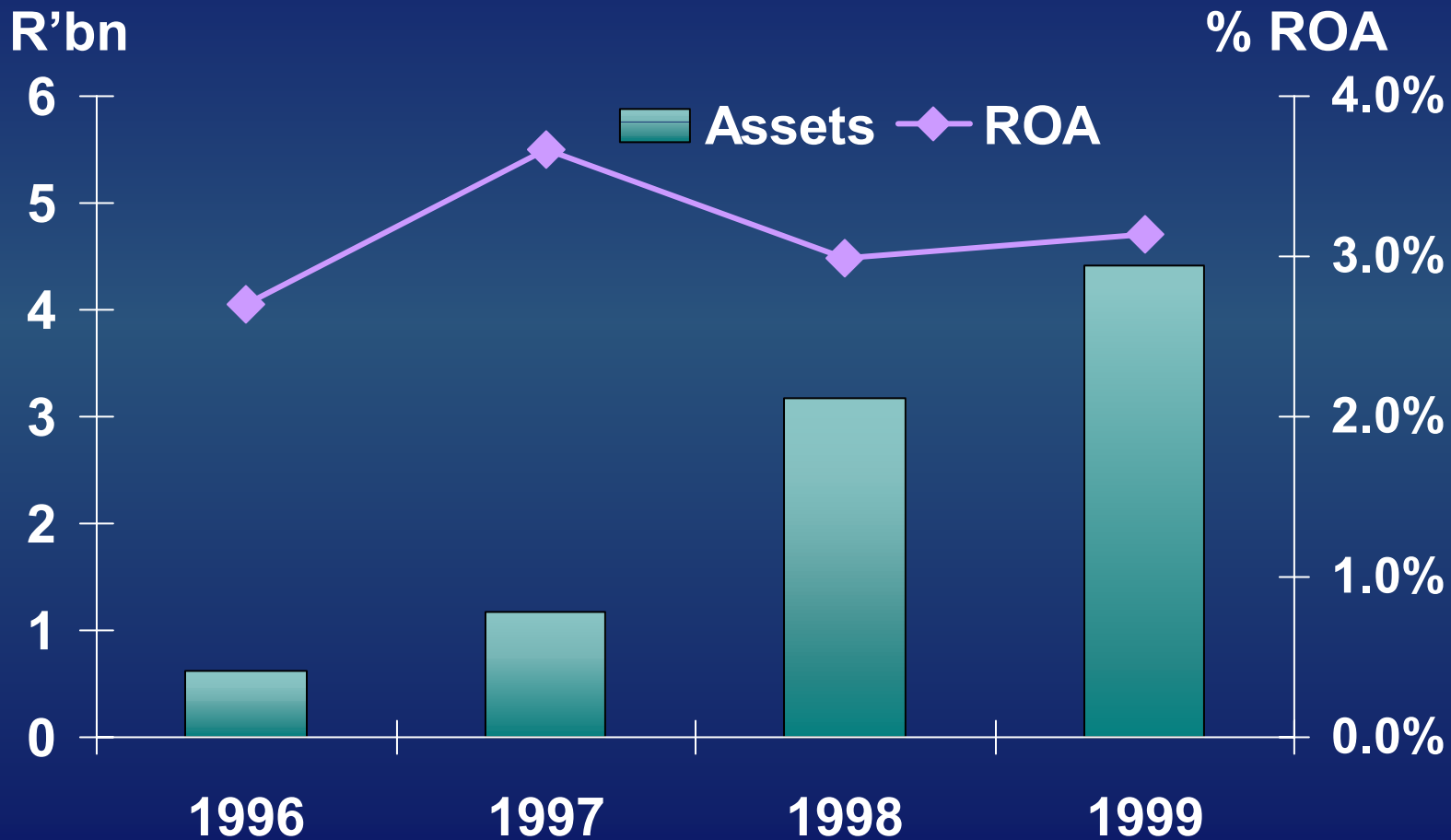


# Specialised Finance

- ⊕ Excellent profit performance
- ⊕ Cross border transactions a significant contributor to performance
- ⊕ Expansion of certain activities into the UK
- ⊕ Substantial market penetration into top 50 corporate market



# Growth in Specialised Finance Book



# Specialised Finance

- ⊕ Structured Finance transactions completed - R2,1bn
- ⊕ Public Sector Finance advisory mandates - R6bn
- ⊕ Appointed advisor to British Football Association for acquisition of Wembley Stadium
- ⊕ Awarded one of 25 Top Global Finance Teams - Global Finance, Oct '98
  - Rated no. 1 in Transportation Sector



# Treasury

## Developments

- ⊕ Solid performance from all trading areas
- ⊕ Restructure and consolidation of divisions
  - Synergies and significant cost savings
  - Enhancement of range of value-added specialist products
- ⊕ Launch of MarketMaker - first real time Internet Treasury desk





# Private Banking

## Trends

- ⊕ Industry highly fragmented, with all banks competing for piece of pie:
  - By 2000, global market: \$25 trillion
  - Annual average growth rate: 8%
- ⊕ Huge market not well served
  - Lack of a clear-cut strategy and disciplined product methodology



# Private Banking

- ⊕ Differentiation of Investec Private Banking offering through:
  - Consultant skills and emphasis on value added
  - Unique and innovative approach to advisory services - “integrated financial solutions”
  - Appropriate technology to facilitate offering - “Investec Connect”



# The Client...The Target



**What did your money do today?**



# Investment Management Services

## Developments

- ⊕ Return to profitability
  - Systems stabilised
  - Several new and innovative products
  - Recognised as one of the best linked product providers
- ⊕ Book value at 31 March 1999: ± R8bn
- ⊕ Strategy to continue concentrating on top end of the market



# Asset Management

## Trends

- ⊕ Consolidation continues
- ⊕ Global move towards defined contribution schemes
- ⊕ Market moving towards international standards
  - Need to be an international player, a priority





# Asset Management

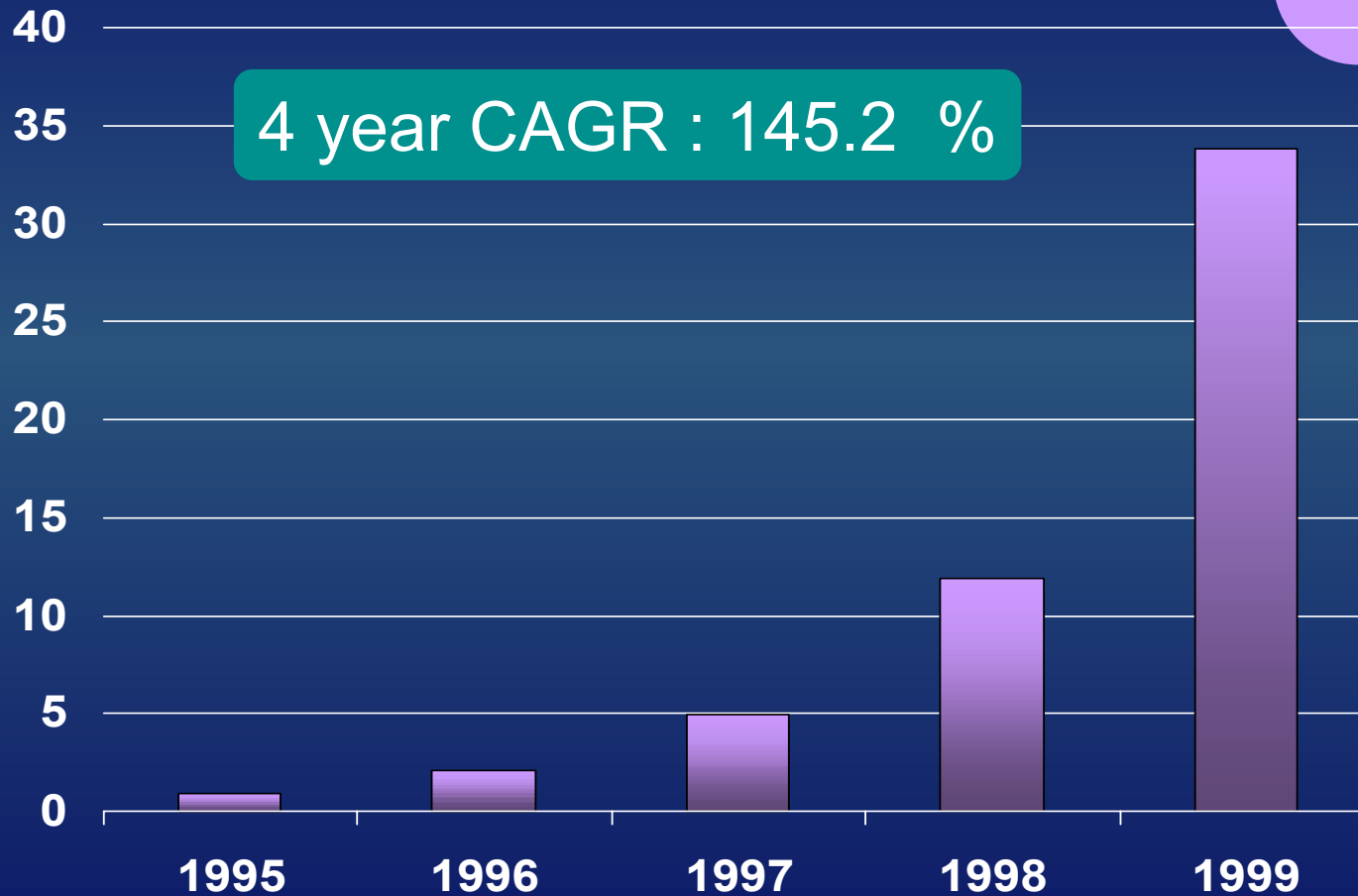
- ⊕ Redefined presence in market place
- ⊕ Global third party assets under management: £23bn
  - strong new institutional business inflows
- ⊕ Challenges going forward:
  - Continued growth in SA
  - Strengthen UK domestic presence
  - Expansion of pension market products and distribution arrangements



# Growth of Unit Trusts

R'bn

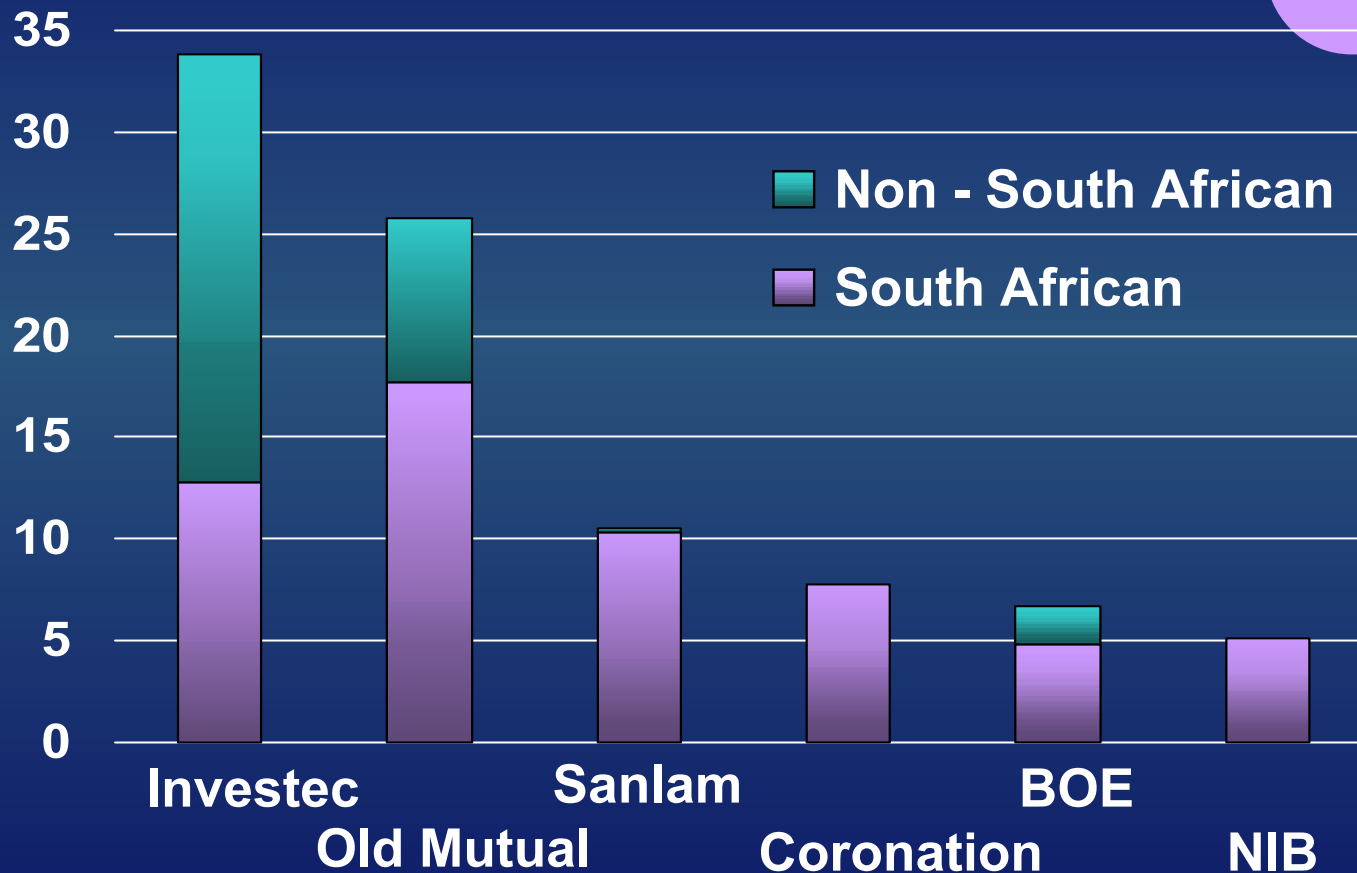
4 year CAGR : 145.2 %





# Comparative Unit Trust Market Value of Assets - March '99

R'bn



Source: Investec Securities



# Highlights of the Past Year

## Performance Highlights

- ⊕ SA Institutional:
  - Ranked 1st in 3 & 5yrs by Alexander Forbes Large Manager Watch (Mar '99)
- ⊕ SA Unit trusts:
  - 1yr - 3 funds in top 5 out of 151 funds
  - 3yr - 2 funds in top 5 out of 86 funds
- ⊕ Global Fixed Income & Currency Funds:
  - >70% of funds in upper quartiles



# Securities Activities

## Developments

- ⊕ Dramatic improvement of Investec's position in the equities market over the past year
- ⊕ Streamlined and restructured activities to derive greater focus:
  - Private Client Portfolio Management
    - ⇒ Private Banking
  - Institutional Broking and Research
    - ⇒ Stronger ties with Corporate Finance



# Securities Activities

## Financial Mail Ratings

	1999	1998	1997
Equities sector only – weighted by market capital	4	7	8
Best dealing – equities	7	10	-
Number of top rated analysts per sector	4	3	2
No. of analysts in top six across sectors	17	14	11



# Securities Activities

## International Developments

- ⊕ Further integration of the London team with Henderson Crosthwaite Institutional Broking
  - Enhances Investec's distribution capabilities in the UK and Europe
- ⊕ Conclusion of a distribution strategy at Ernst & Co for SA and Israeli Equities



# Property

## Developments

- ⊕ Negative impact of high interest rates, shrinking investor appetite and institutional overhang
  - Last quarter witnessed the return of investors to market
- ⊕ Remain a highly selective niche player seeking quality, limited risk property opportunities
- ⊕ Investment in Investec Property PLC increased to 100%



# Fedsure Investment

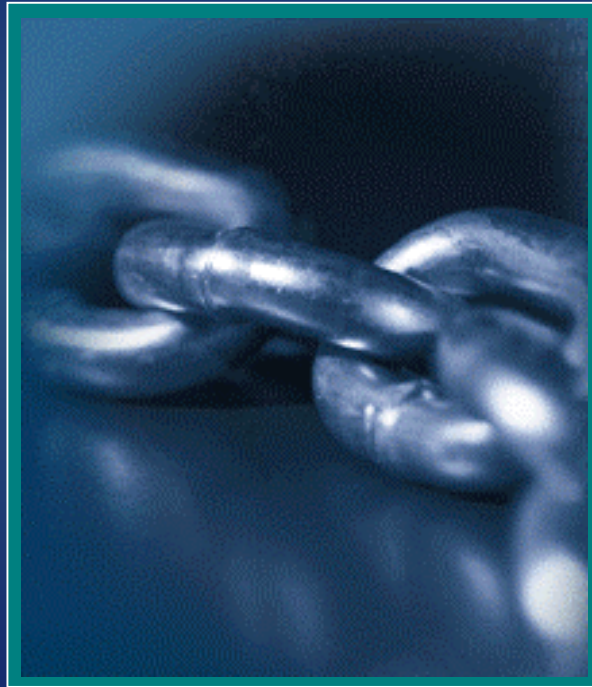
## ⊕ Salient Financial Information:

- Operational earnings per share      ↑ 38%
- Dividends per share                      ↑ 33%
- Share price                                      ↓ 40%

## ⊕ Continue historical relationship with each party remaining focused and niched despite proliferation of bancassurance trend



# ORGANIC vs PURCHASED GROWTH





# Argument for Acquisitions

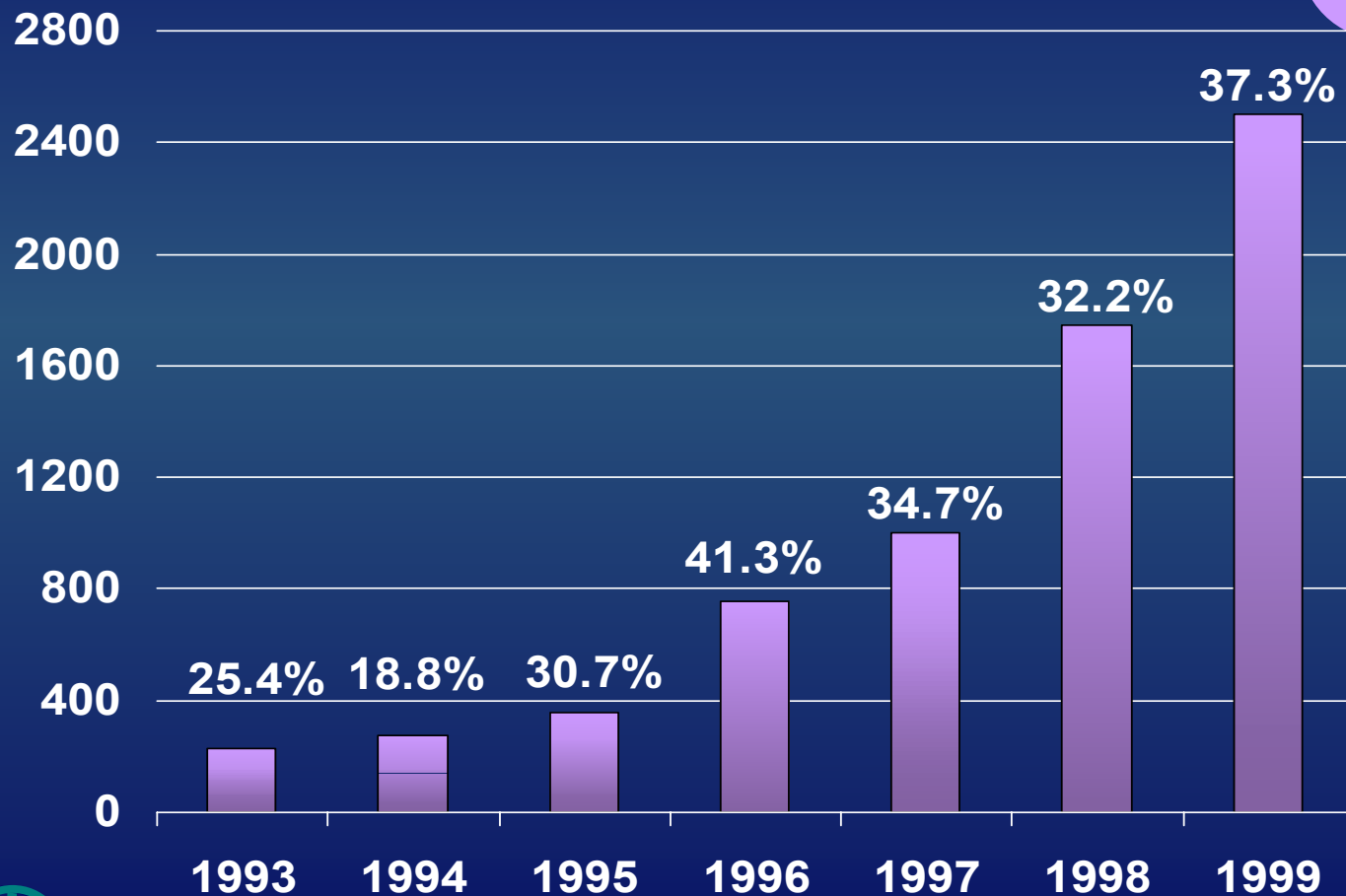
“A merger that supports the overall strategy of the acquirer strengthens its product portfolio, helps it establish local market power and builds up its dominance in strategic market segments”

*- McKinsey Quarterly, No 1, '99*



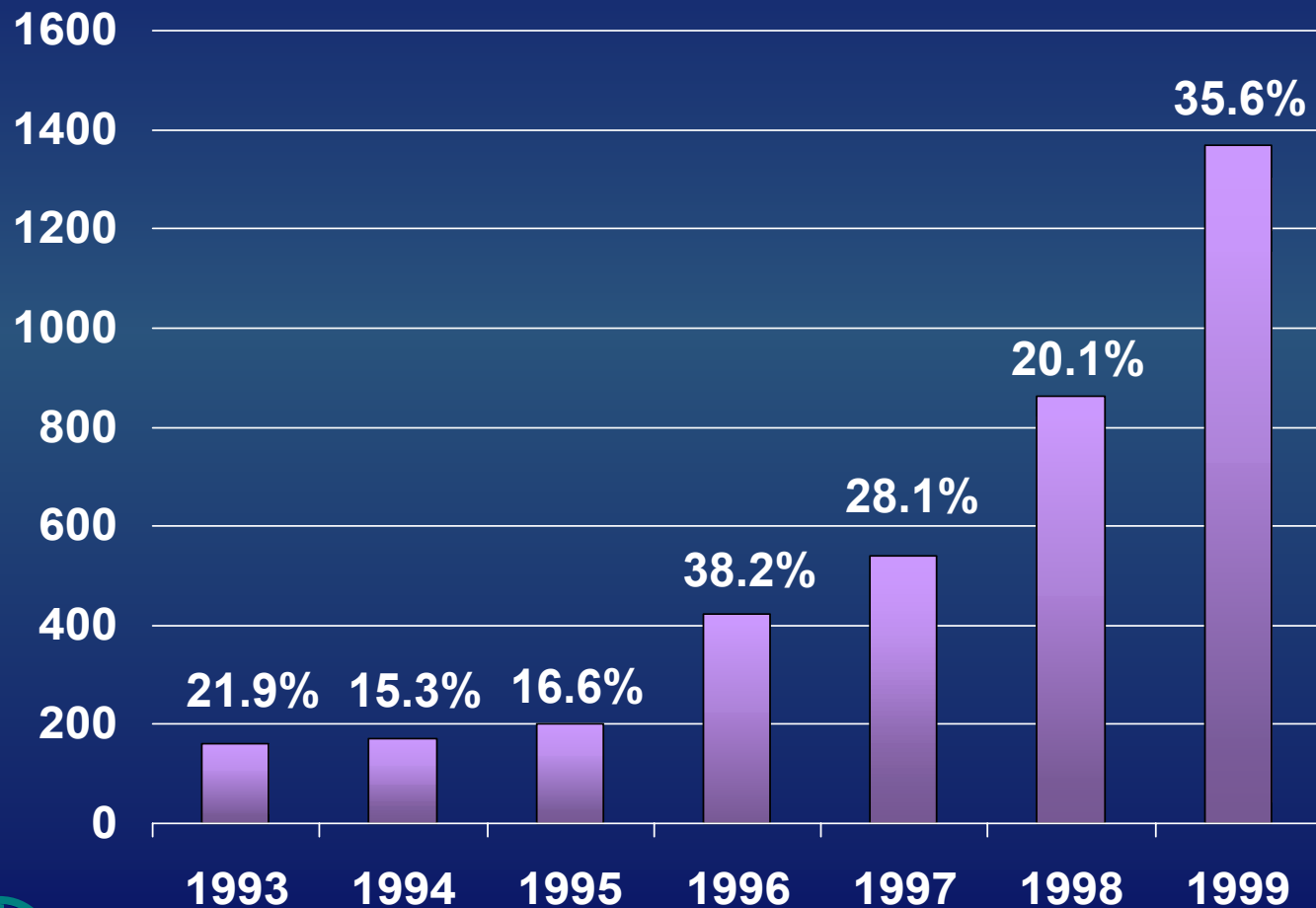
# Organic Growth in Income

R'm



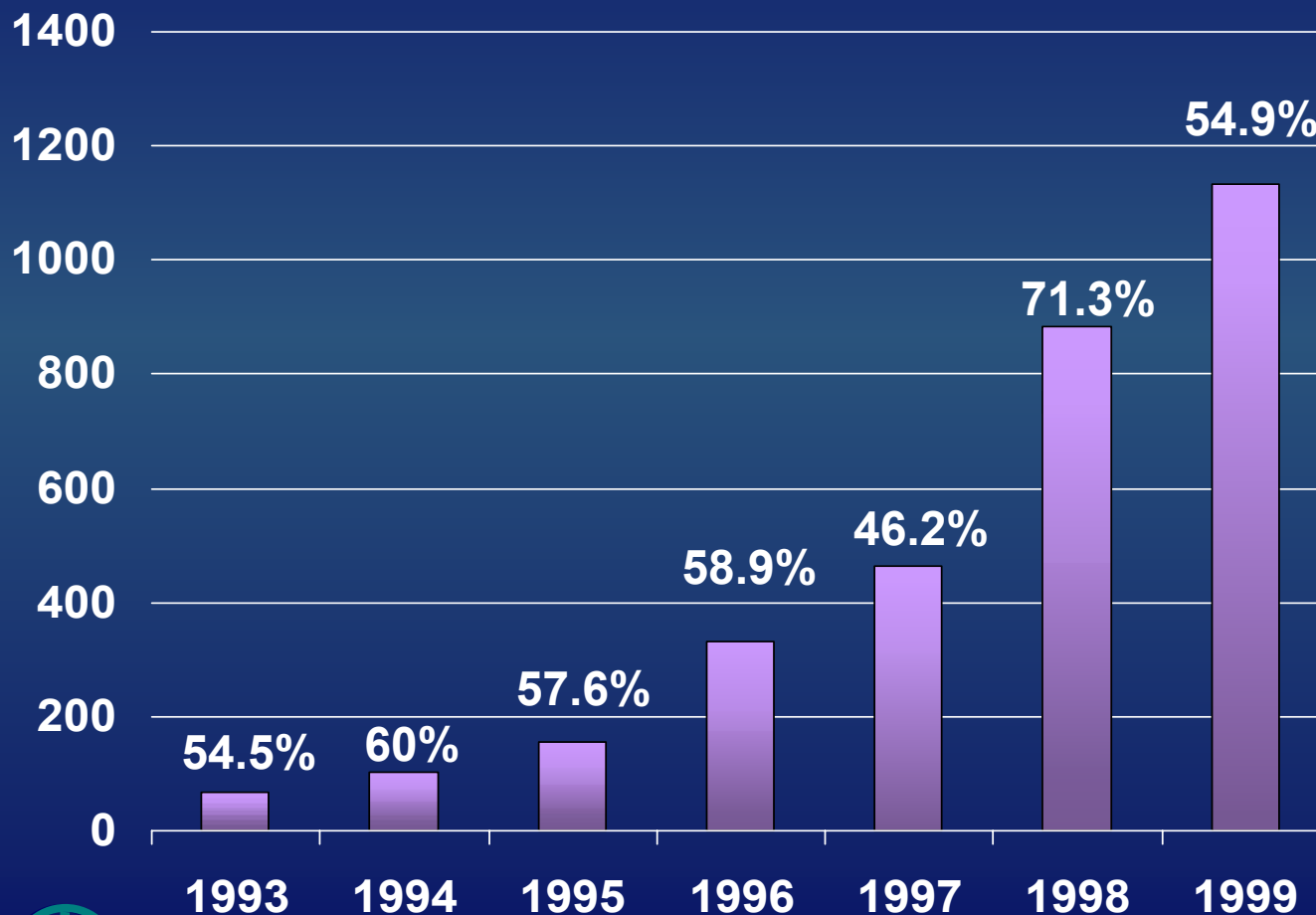
# Organic Growth in Expenses

R'm



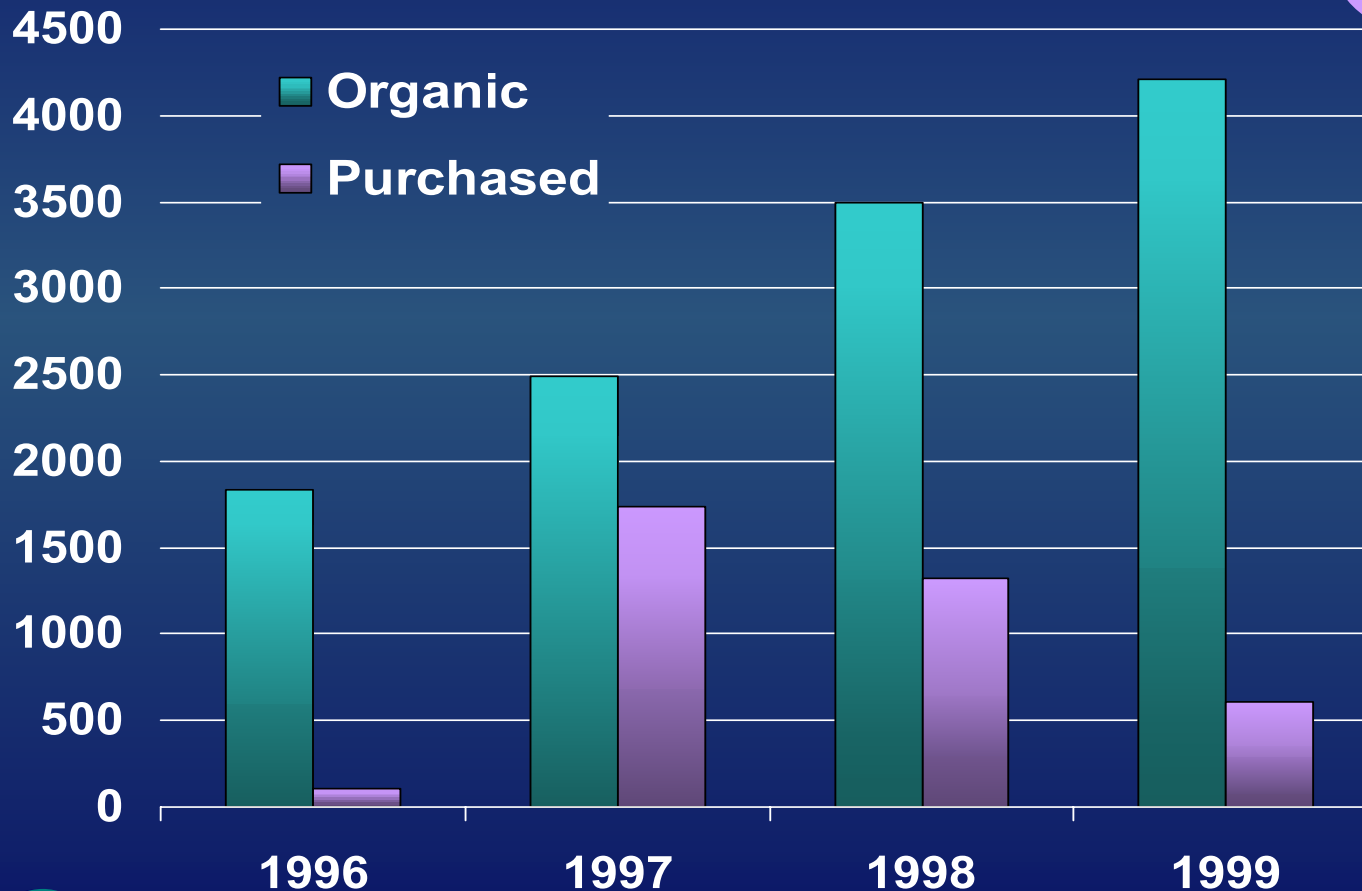
# Organic Growth in Net Income

R'm



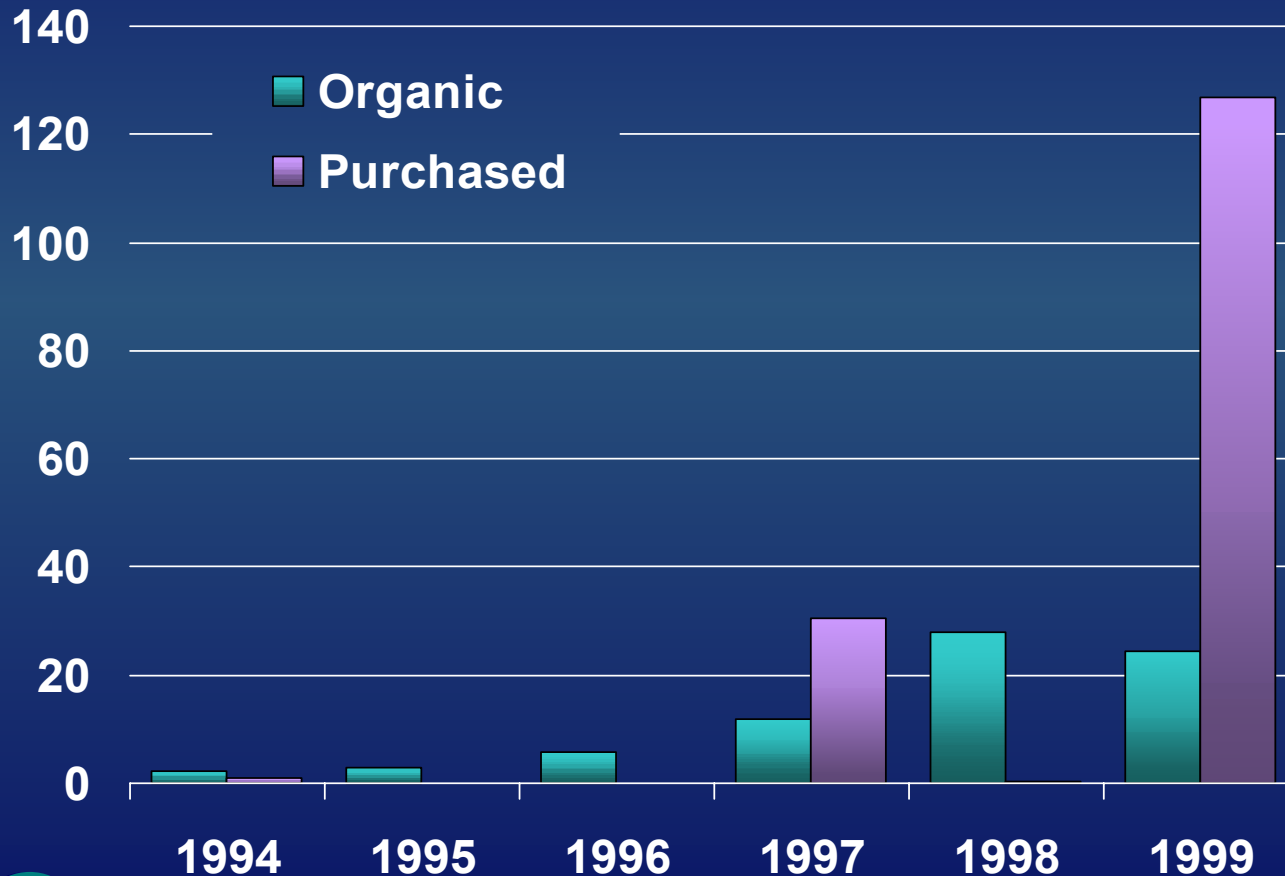
# Organic vs. Purchased Growth - Advances

R'm



# Organic vs. Purchased Growth - Asset Management

R'bn



# RISK MANAGEMENT/ASSET QUALITY





***“Move over buddy, before we crash”  
...said the Risk Manager to the Trader***



# Risk Management

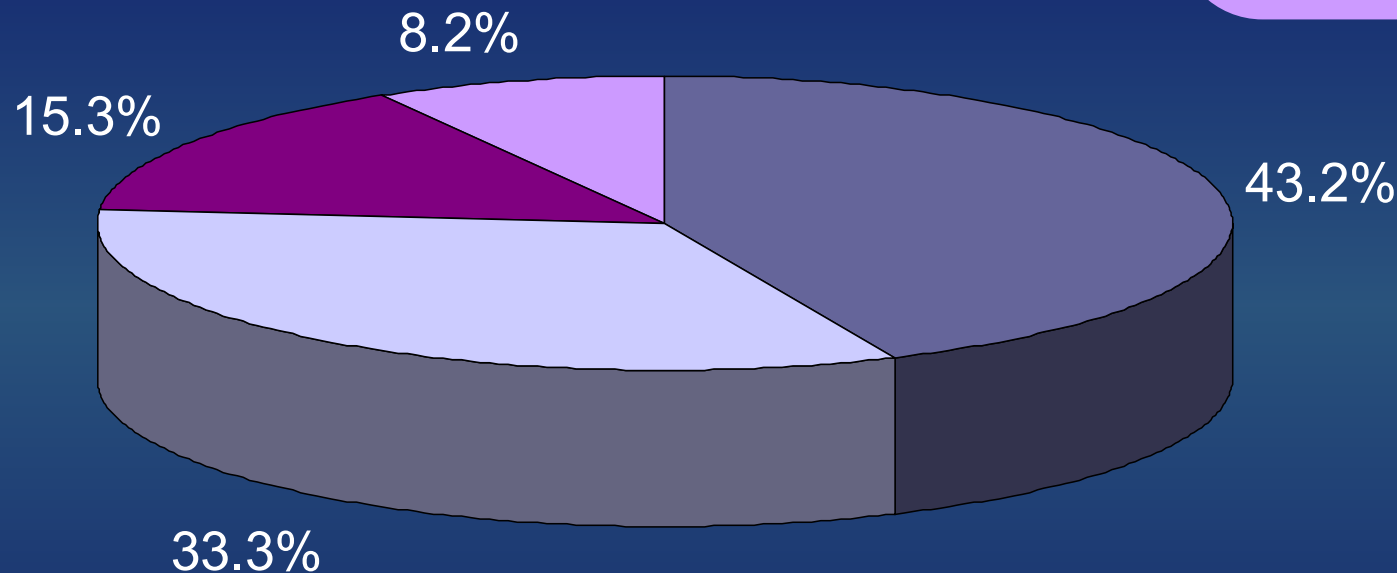
## Developments

- ⊕ Purchase of Ricos
  - First phase testing - implementation Sept '99
- ⊕ Implementation of RiskWatch on all major trading books
- ⊕ Value added risk management across all divisions



# Loan Portfolio 1999

By Client

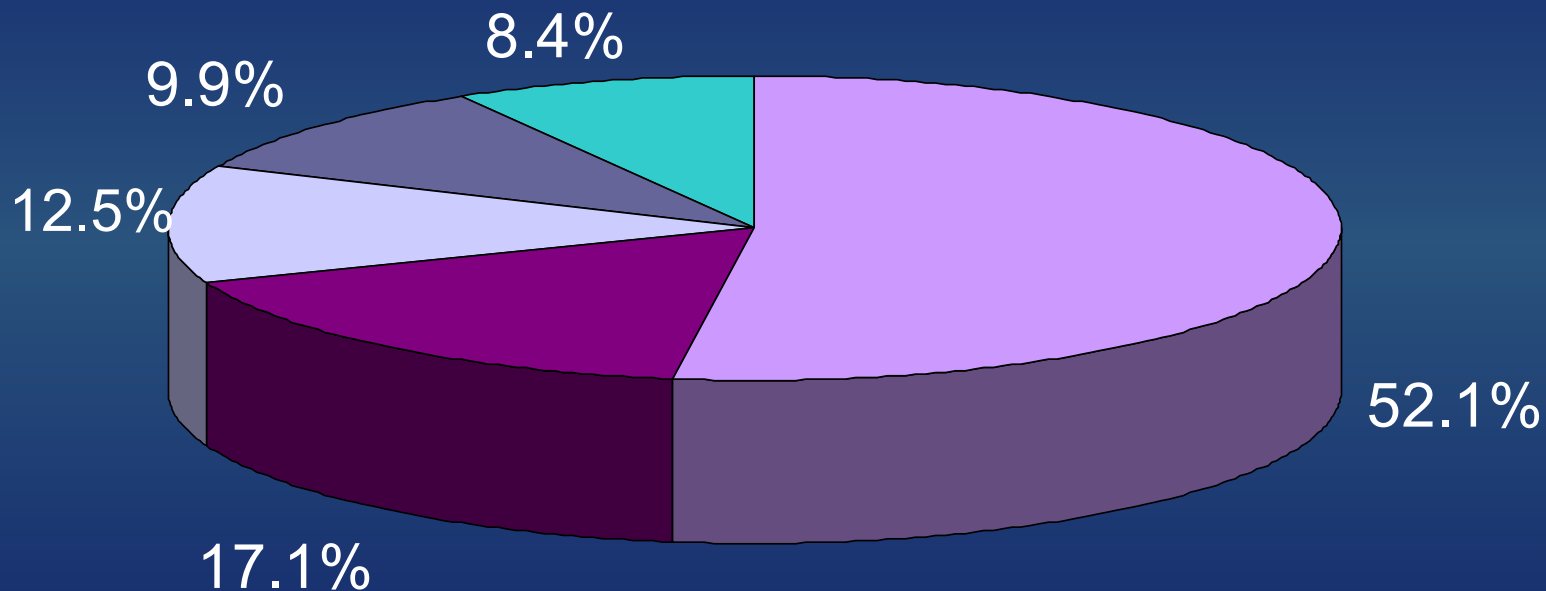


- Private Client and Medium Corporate
- Corporate
- Professional
- Other



# Loan Portfolio 1999

By  
Geography

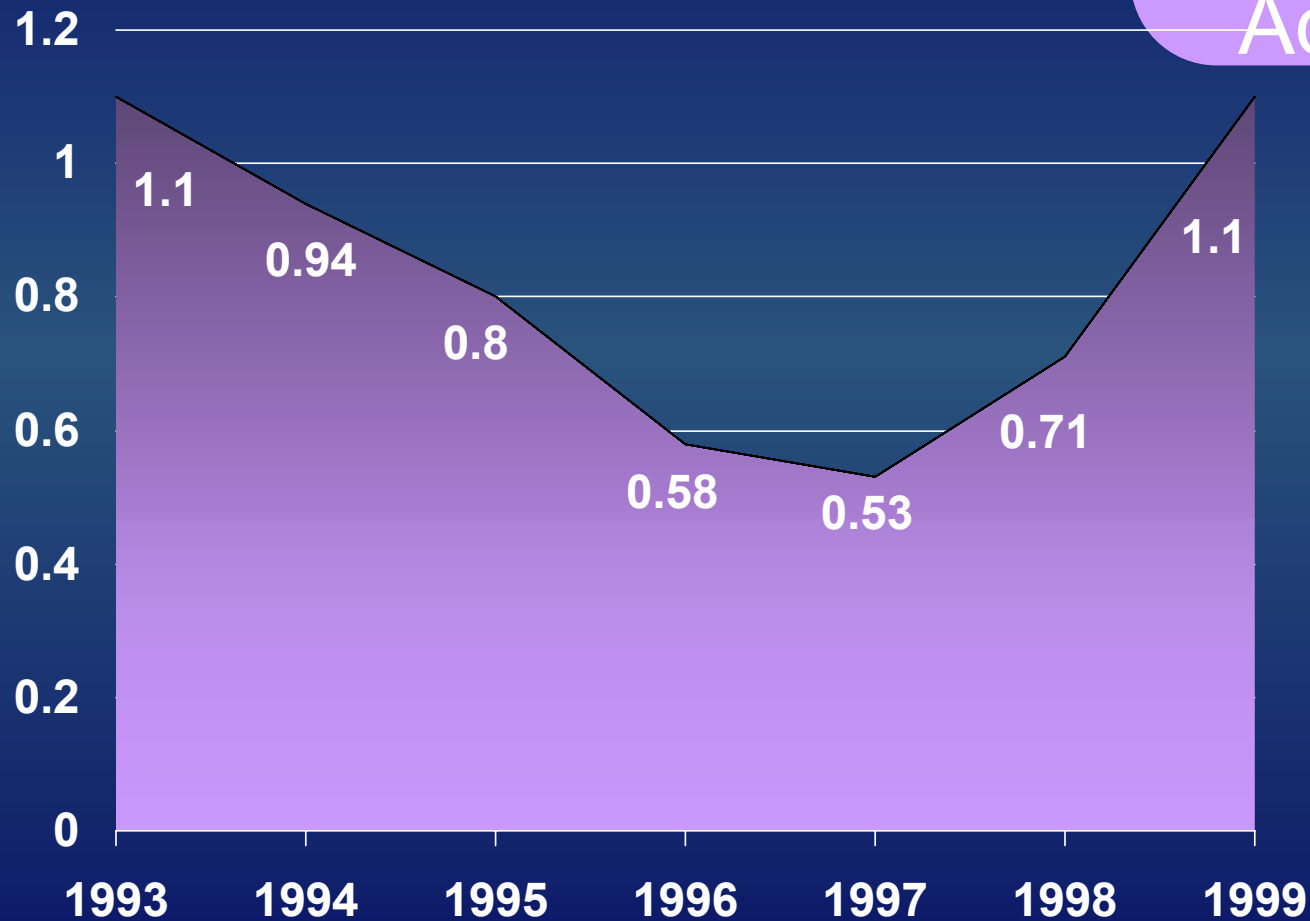


■ South Africa ■ UK ■ Other ■ Israel ■ USA

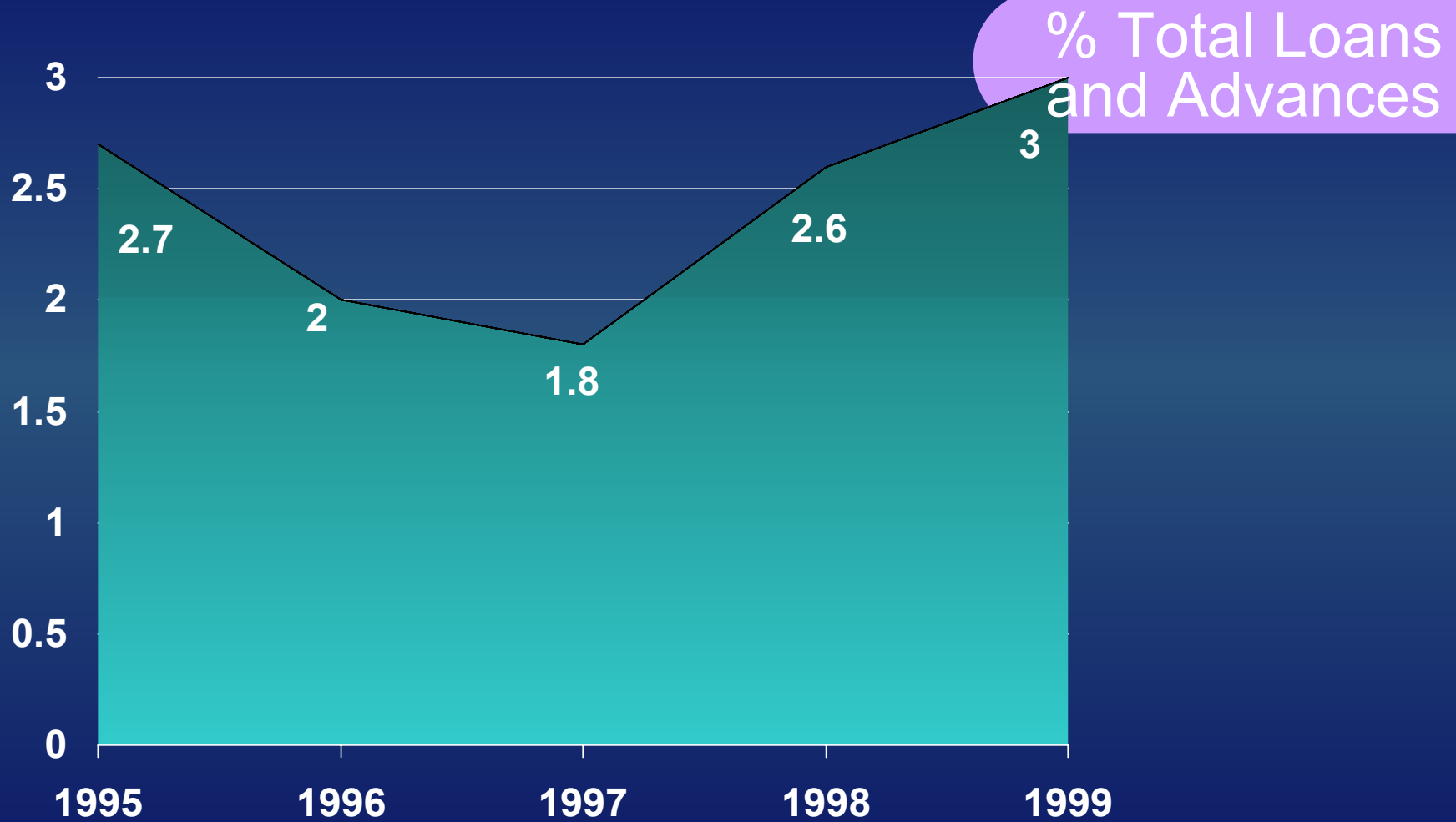


# Bad Debt Charge

% of Average  
Advances



# Total Non Performing Loans



# Specific Provisions

% Non Performing  
Loans



# Value at Risk

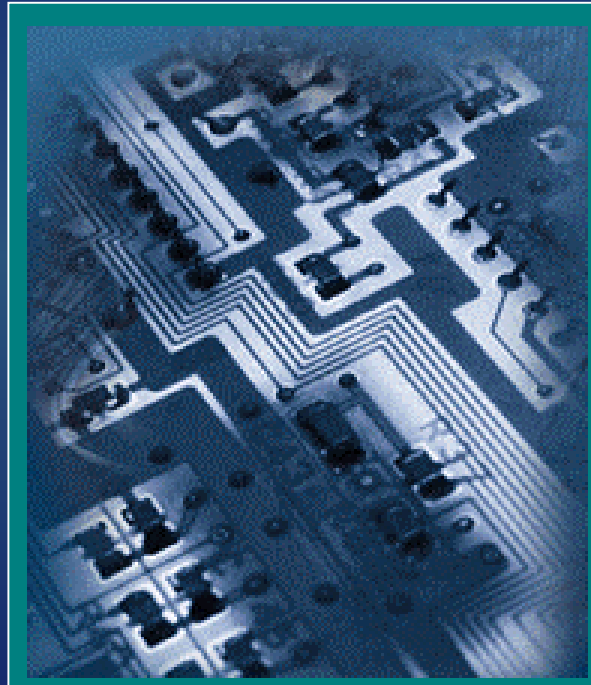
Rands

	Value at Risk	Limit
SA Operations	21 466 000	40 800 000
UK Operations	1 753 850	2 650 000
US Operations	4 402 678	5 300 000
Israeli Operations	478 876	985 000
	28 101 404	49 735 000

📖 Total Value at Risk - stress tested to 15 standard deviations: R163 706 126



# OPERATIONAL ISSUES





# Operational Gains

“Unlike past merger booms, however, this endgame is less about empire building and more about deploying capital productively, lowering costs and locking in continuous productivity gains ..... and increasing annuity revenue as a means to increase shareholder value”

- *National Association of Business Economics, Oct '98*



# Deploying Capital Productivity

## Overview

- ⊕ Shift in focus from strengthening capital base to more effective utilisation of capital
- ⊕ Emphasis on increasing ROE versus increasing nominal value



# Deploying Capital Productivity...

Capital Ratios	31 Mar '99	31 Mar '98	Targets
Return on Average Shareholders' Funds	18.8%	17.8%	25%
Return on Core Capital Employed	28.4%	22.2%	30%
Return on Risk Weighted Assets	2.5%	2.5%	2.5%



# Capital Adequacy

## Specifics

### ⊕ Risk Weighted Ratio :

	Rand Value (m)	Percentage
Tier One	4 886	14.4
Tier Two	283	0.9
Total	5 169	15.2



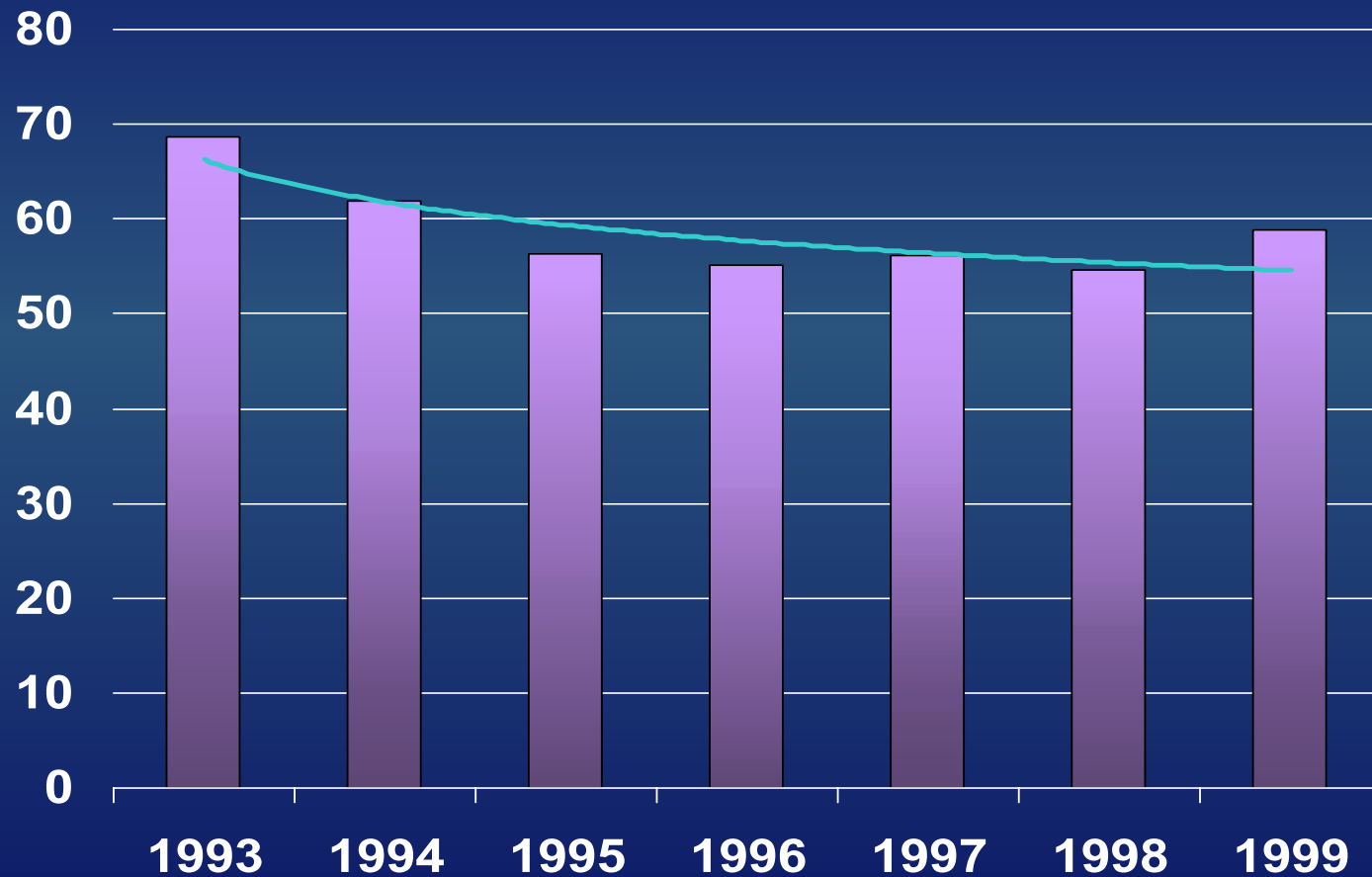
## Lowering Costs...

“Investec reports one of the best efficiency levels, with non-interest expense hovering around 55% for the last 5 years”  
- *Moody's, Oct '98*

- ⊕ Current Cost to Income higher than normal - will decrease as integration progresses
- ⊕ Target Cost to Income Ratios:
  - Domestic: 40%
  - International: 60%

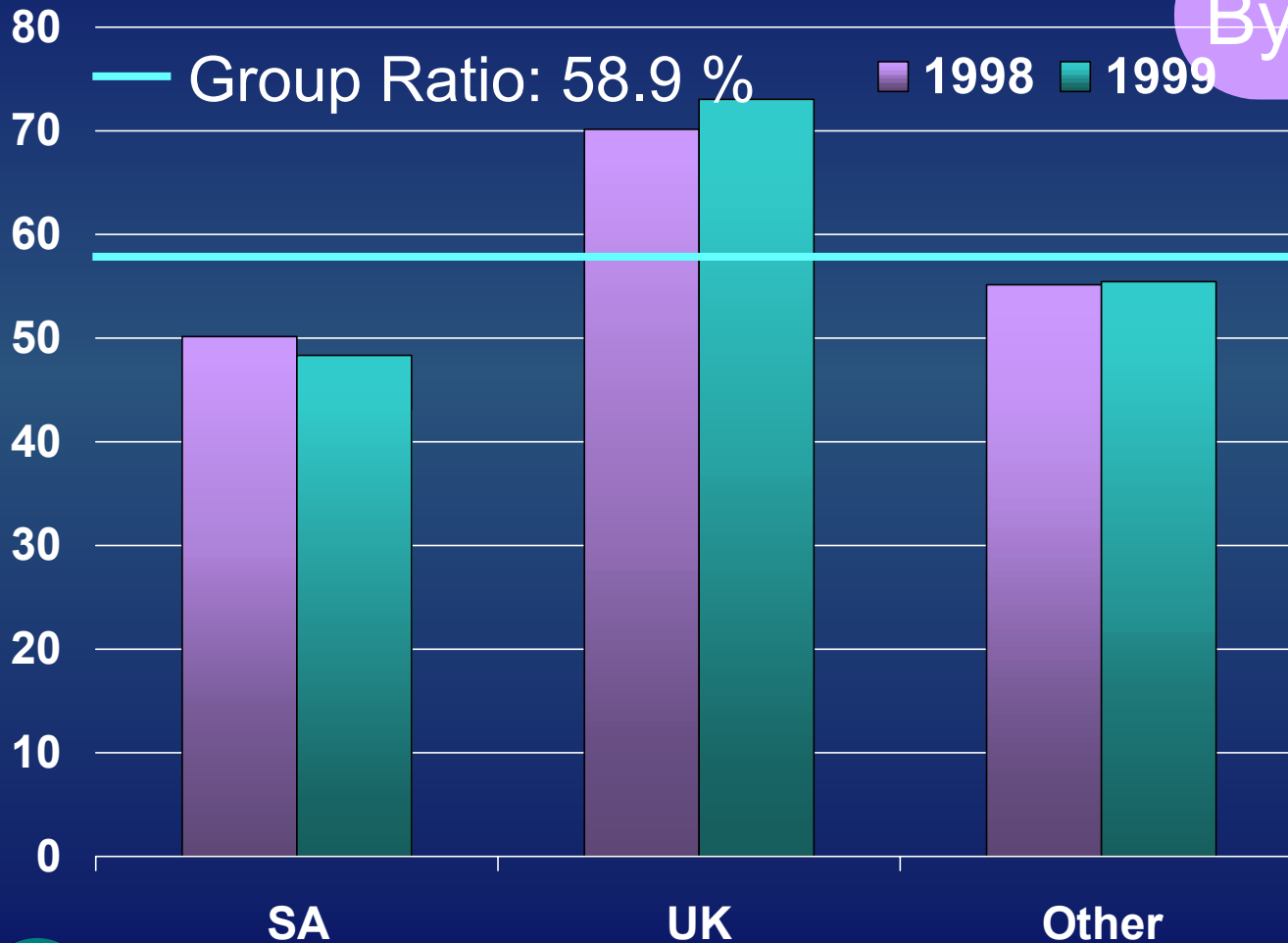


# Expenses as a % of Income



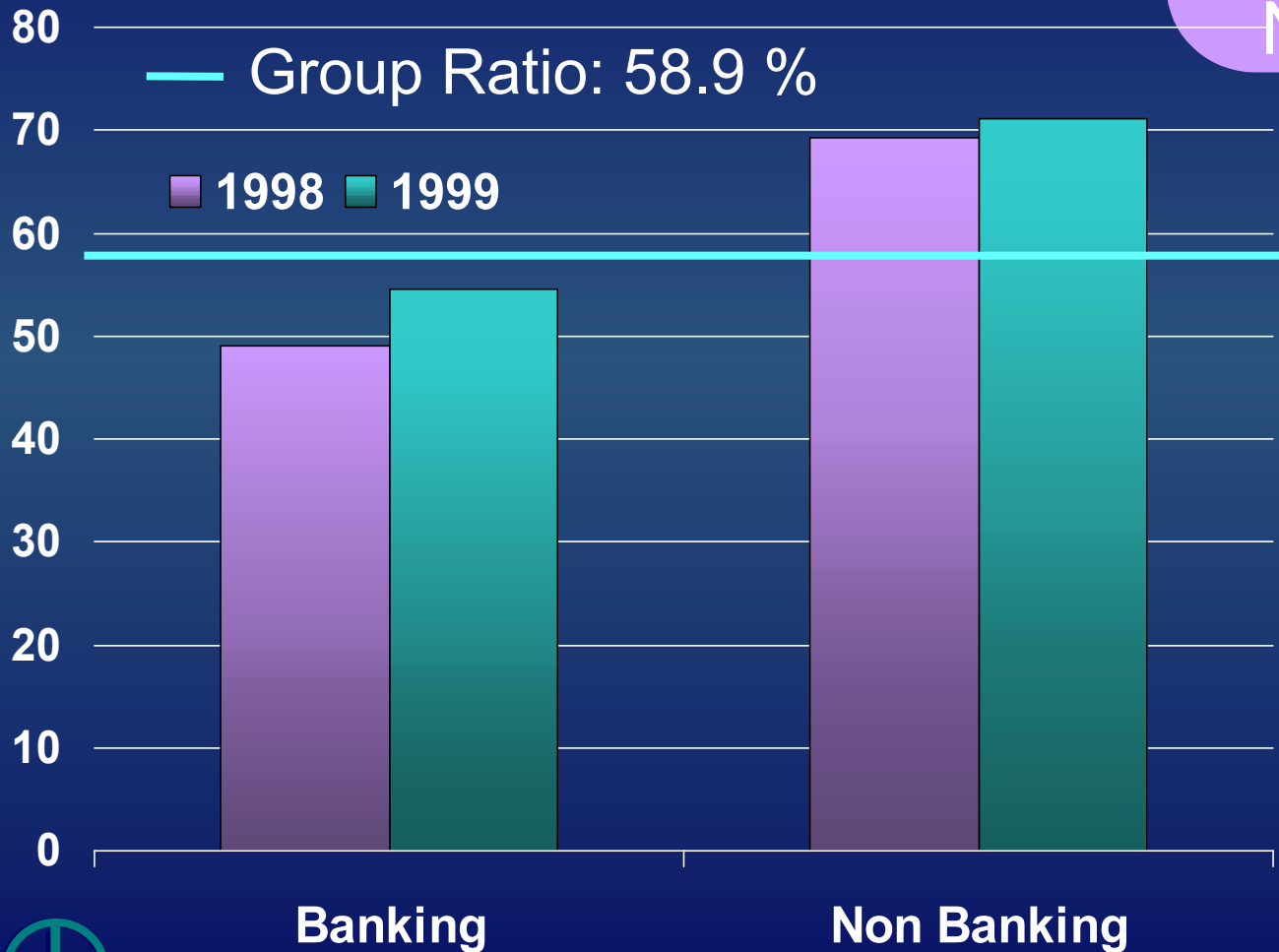
# Cost to Income Ratio (%)

By Geography



# Cost to Income Ratio (%)

Banking versus  
Non Banking





# Information Technology

## Developments

- ⊕ Philosophy to make IT a core competence within a strict cost control environment
  - Introduction of Spend and Risk Forum
- ⊕ Internationalisation of IT a priority
  - Global infrastructure designed
  - Roll out throughout the Group



# Y2K



***“Time for an Upgrade”***

# Y2K Situation

- ⊕ All Core Systems Complete
  - Except new systems being installed which are certified Y2K compliant
    - Project Installation Complete      July 1999
- ⊕ PC Testing
  - SA Complete
  - International Initiated      July 1999
- ⊕ All Critical Connectivity Tested



# Y2K Situation

## ⊕ Business Risk

- Ongoing Y2K assessment of all new transactions and existing exposures

## ⊕ Contingency Management Initiated

- Prime focus of Y2K Project from all aspects:
  - Internal = Systems and Facilities
  - External = Clients, Suppliers, Vendors, Counterparties

## ⊕ Total Y2K expenditure for year: R9m



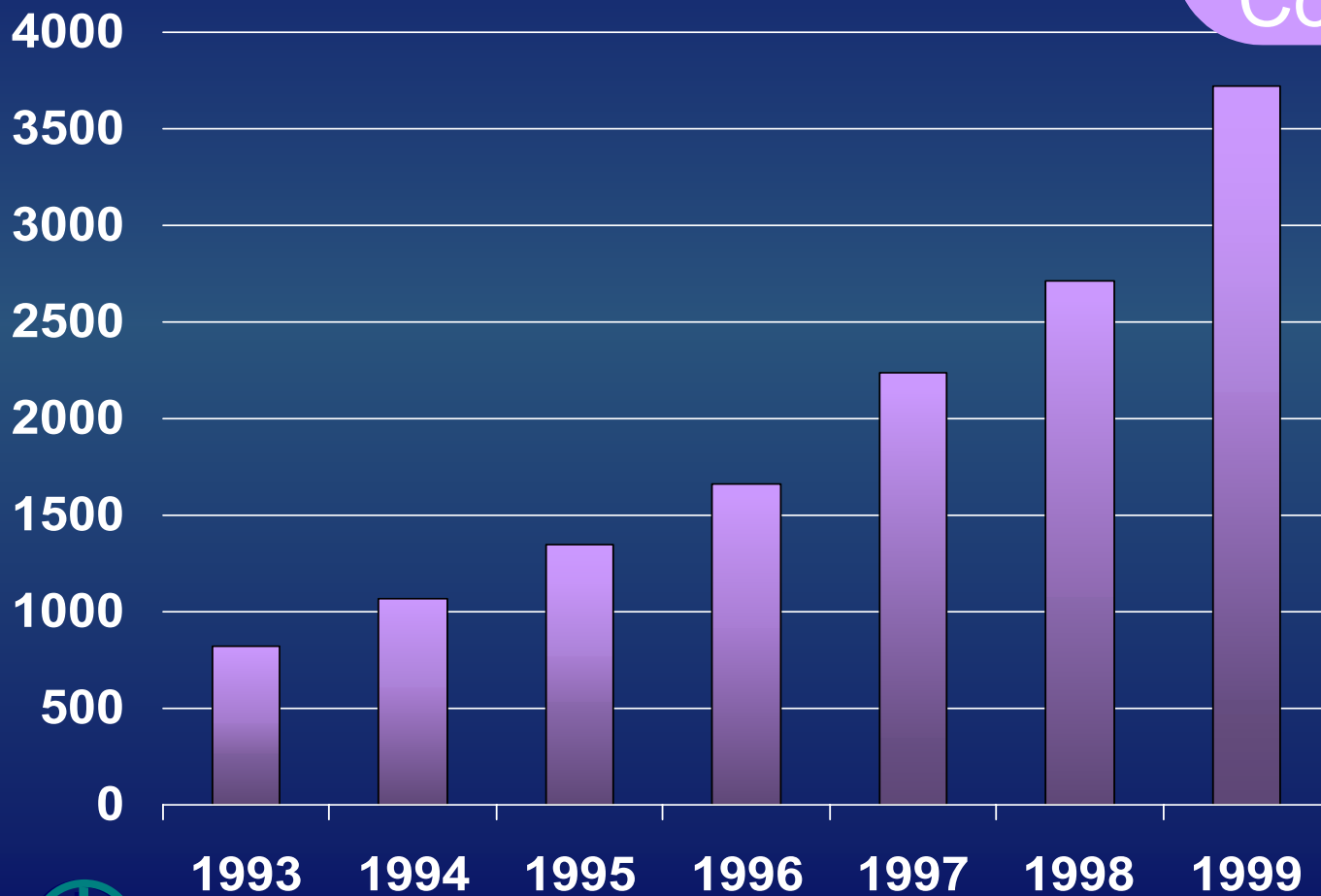
# Corporate Social Investment

- ⊕ Creation of a dedicated forum to oversee focused investment on:
  - Education
  - Business and entrepreneurial development
  - Crime Prevention
- ⊕ Percentage of SA post tax profits dedicated towards meaningful and relevant initiatives



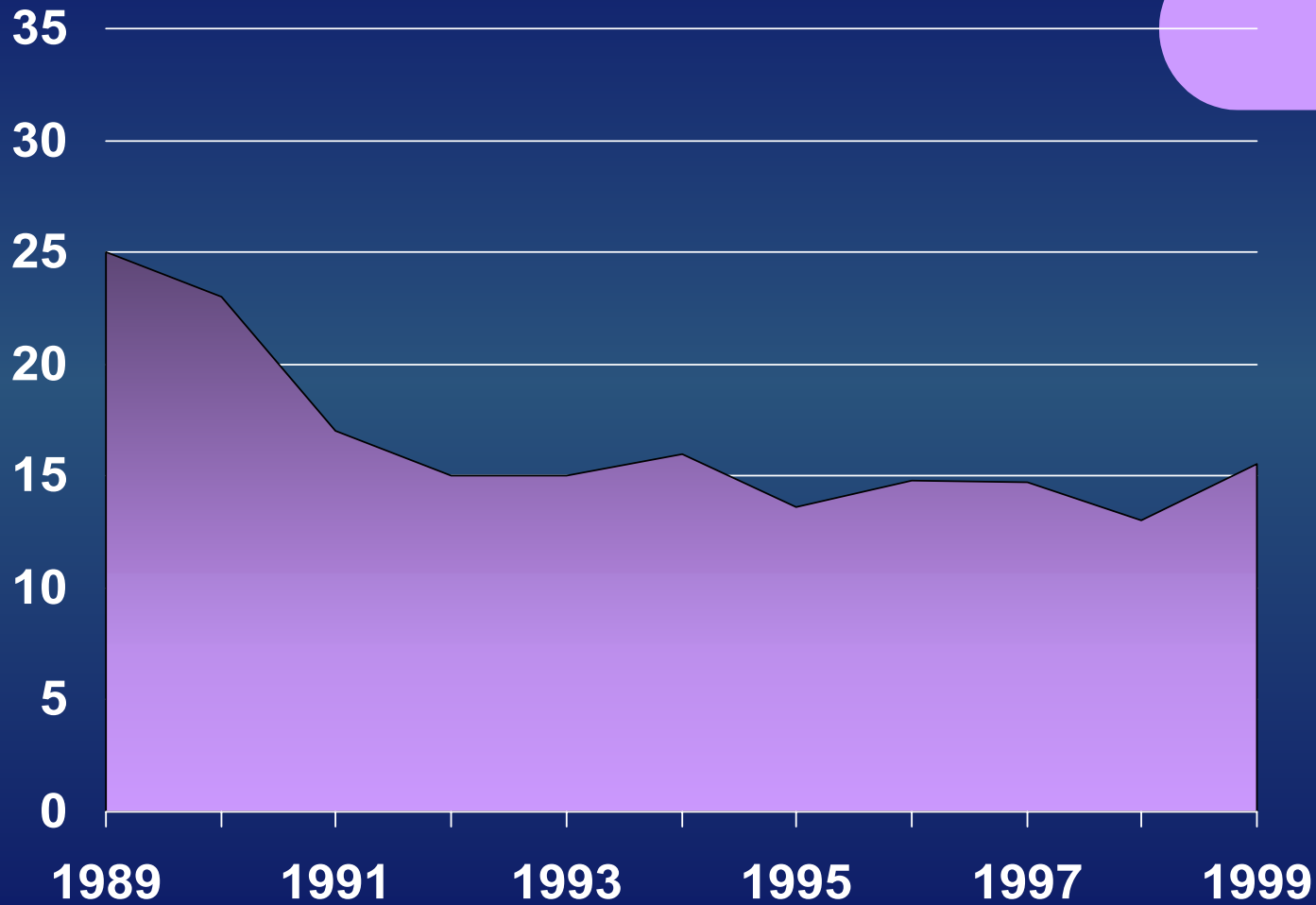
# People

Staff  
Complement



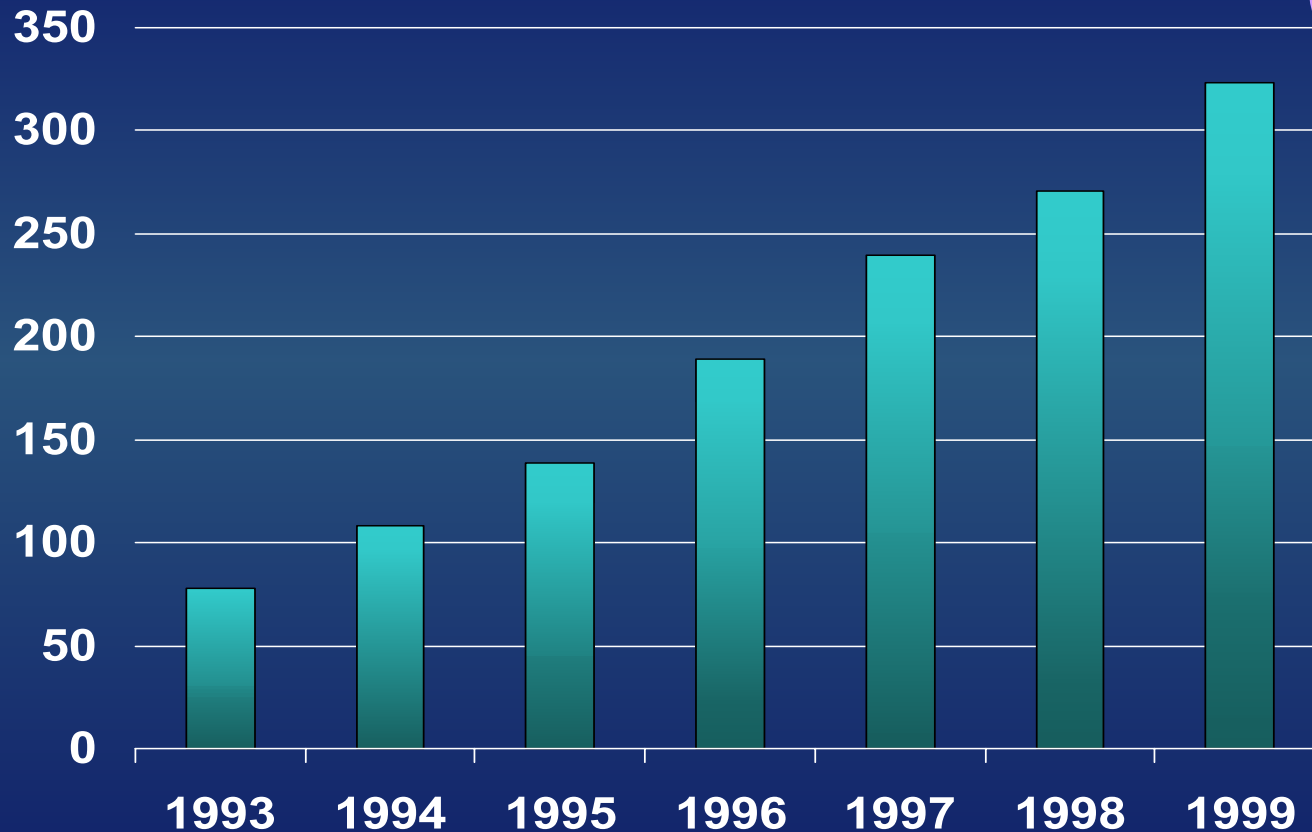
# Staff Turnover

Percent



# Contribution Per Employee

R'000

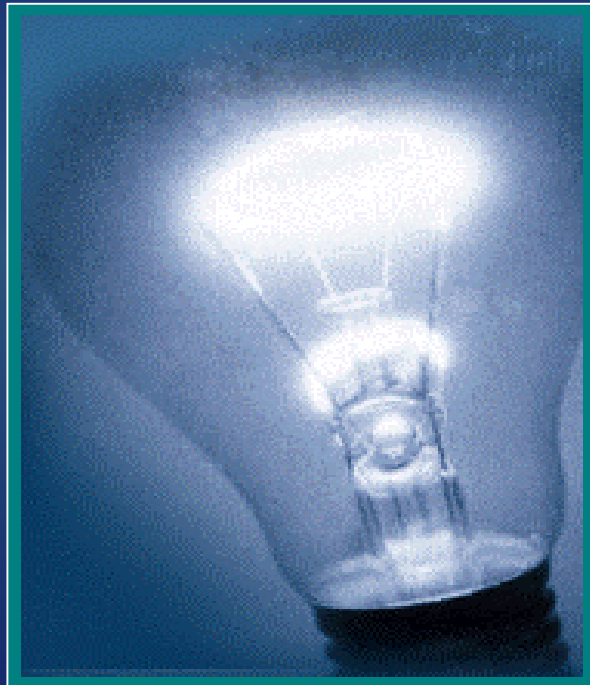


Based on income before minority interests and  
average number of employees





# LOOKING FORWARD



# 1999 Milestones

- ⊕ 1999 was a year in which substantial strategic developments took place:
  - Crystallised global asset management and private banking offering
  - Enhanced cross border investment banking capability
  - Well down the road of successful integration of acquisitions
  - Streamlined business operations, both domestically and internationally, to provide a meaningful and holistic offering to the client



## In Conclusion

“The companies that will prosper and outpace their competitors during the next two decades will be those that will be able to outthink their competitors strategically, not outmuscle them operationally”

- *Management Today*, May '98



# In Conclusion

“Investec’s strategy is an interesting useful example of successful strategic positioning”

- *SA Banks : Strategy Games, NOMURA, Feb ‘99*

