Investec
Trading Update
2008-09-18

Stephen Koseff	All right. Good morning everybody. Welcome to our pre-September close trading update. Cleary we talk to the market quite regularly and we issued a trading update at the end of July, and this is a further update for the period since the end of June. I think obviously we're all aware of the operating environment. There is no need to harp on it. It is a difficult operating environment. It has continued to be difficult right throughout this trading period. When you look at these levels of equity markets, interest rates and currencies you wouldn't believe that the market is as choppy as it is, but the reality is that we are in tough conditions, and there's no need to actually harp on that. I think if you look at where we are up to date and where we expect to be for the end of September I think we can term it as stable and consistent performance. I think we have continued as an organisation to benefit from our recurring revenue base and our geographical and operational diversity. We have seen continued growth in core loans and advances, customer deposits and third party assets under management. Obviously the Rand was much stronger at the end of August, being at R14 as opposed to R16.17 at the end of March. And that would have had some impact on that, so you could really halve the numbers. So we haven't really grown dramatically but there has been some growth in all those key lines. And although the reporting period has not yet ended, we do expect that our normalised operating profit – we've adjusted for minorities because they cause a lot of confusion – to be in line with the prior year. The South African operations have performed well. The UK operations have seen some growth in operating profit, and Australia has seen a decline in operating profit similar to what we said to you at the end of July. So all in all a stable and consistent performance thus far. If we look at each division we have had a higher average level of advances in the private bank, and again that has also been affected by the Rand, so the actual growth is about half in stable currency as we're depicting here. And that has given us a good growth in interest income. We have widened our margins, and obviously we're not trying to grow book for the sake of growing book. We are quite selective in terms of how we price our loans, and we'd rather lose deals than price them at the wrong price. The majority of our specialisations in South Africa performed well, so the South African business has maintained some of its momentum from the past. We have seen lower levels of activity in the UK and Australia. Those economies, although the South African economy is slowing, are obviously slowing quite a lot faster, particularly the UK. And therefore we have seen lower levels of activity which means less origination of loans and less redemptions. And the weaker economic conditions have resulted in a higher level of impairment. Our impairments as we said to you at the end of July will be less than the second half of last year, but certainly a lot greater than the first half of last year as a consequence of the weaker economic conditions. We're seeing continued growth in our private client deposit base as well as our funds under advice. But obviously the Rand has had an impact on that. Our private client portfolio management stock broking, I can't comment on Rensburg Sheppard because obviously they're a public company and they give their own trading updates. And they did give one recently which said that they were performing reasonably. In South African obviously we're seeing decreased market volumes. Reduced market value of portfolios in our home currency and a weaker performance from alternative products, and therefore we expect this unit to have a weaker performance for the first half

of this year compared to the first half of last year. Although it won't be that dramatic, but it will be weaker.

Our capital markets business, obviously last year the capital markets business experienced a significant write-off in its US structured credit portfolio. We wrote off £36 million at the half year, and then we wrote off £49 million for the full year to date. We have very less left of our sub-prime assets. I think there is £8 million left out of a face value of over £60 million. So we do not expect and I don't think we will have significant write-downs in that particular space because most of it was written down previously and we have seen some cash flow from some of those instruments, which obviously has been marked against the value of the book as opposed to building to revenue.

We have had a mixed performance from some business performing well and others being negatively impacted by the current environment, but overall if we strip out the £36 million we expect the division to be slightly behind the prior year's performance. But that's stripping out the £36 million. If you leave the £36 million in then it will obviously be year on year significantly higher than the previous year.

Just an update on Kensington because I know you guys like to ask. We'll just tell you before you ask. I think we have had a stable performance from Kensington. It will be included obviously for the full six months. We have reduced, as we said to you before, head count quite significantly. Our bad debt provision is based on house price decline of about 35%, which is 15% in 2008 calendar year, 10% in 2009 and an extra 10% trash [?] factor to reflect a full sale discount for those that you repossess. This is similar to what we did in March. In March we were also 35%, but the mix was different. We have adopted the Fitch model here because that's the model that they've been using and we thought it was more appropriate to adopt that model. But it does give u similar outcomes.

The total book obviously is a run down book because we're not originating any new loans to securitize because at this point in time you can't securitize. So the book is obviously come off by about 10% during this trading period, and this situation will obviously continue unless capital markets return. And that could be obviously some time to come. We have seen an increase in arrears as the book becomes more seasoned, and that's always a trend in this business. The arrears kick up as the book becomes more seasoned. It doesn't mean to say you're going to lose your money because you're getting higher arrears, but we do recognise that some people who actually go into arrears do end up defaulting. Some actually repay. So the average loans and advances have kicked up from about 69% to 72%, and that's obviously as a consequence of house price deflation.

If we look at our investment banking business clearly this type of business is in the eye of the storm. In the UK our agency and advisory business has performed quite well in the first half of this year. In South Africa we've had reasonable levels of activity and pipelines but few deals closed, and have had reduced broking volumes. And then in Australia, although very active very few deals, if any, have closed in this period. That market has been particularly tough.

On the principle investment side South African principle investments should be slightly ahead of last year, and that's because most of our investments are in an infrastructural space where there continues to be good underlying performance and levels of activity for those types of businesses. In the UK and Australia they have been impacted by the weaker performance from some of the underlying investments, and we've had to have some fair value adjustments recognising the very difficult market conditions in those parts of the world.

Asset management. You have seen quite strong in-flows but mainly in the institutional space. I think we are starting to be successful outside of South Africa through our African fund and various products that we offer outside of South Africa. But clearly in the mutual fund space the earnings growth will be under pressure as the mutual fund environment is a lot tougher and the retail investor is withdrawing or not investing. So we have seen as a consequence a shift more to the institutional side. We do expect the environment to remain quite challenging as equity markets are under pressure and this business does have some exposure to the levels of equity markets, although it also has quite a lot of fixed income exposure. And then clearly we have much weaker property fundamentals. We have benefitted from transactions that were completed during this particular trading period, and a reasonable performance from our investment portfolio. And overall we are performing in line with the previous year as a consequence of that.

On our central funding you will see a much stronger performance from South Africa, driven by higher levels of interest rates and much higher surplus cash holdings. Remember we sold Growthpoint and a whole lot of other things and we retained quite a lot of revenue from the end of last year. So that all helps to add together with the fact that interests rates are quite a lot higher than they were last year adds to the earnings in central funding. And then on the central cost front we've been marginally up on the previous year. So there won't be a significant jump on that front.

So other information, our tax rate is expected to be between 25% and 26%, and the weighted number of shares in issue is expected to be about 629 million for the period to the end of September 2008. If we look at capital we expect our capital ratios in Plc to be 15.8% with a tier one ratio of 9.5%, and in Limited of around 14% with a tier one ratio of just over 10%. And if you exclude capital for operating risk, which is a new bar requirements, capital for operating risk would be 17.9% and 10.7%, in Limited 15.6% and 11.2%, which is the comparative for previous years.

On the liquidity front we've continued to focus on maintaining a high level of readily available liquid assets, clearly well in excess of regulatory requirements and in line with our own requirements to manage our business. As at 15th September – these figures wouldn't have changed that much between then and now, which was a couple of days ago – South Africa had just under R52 billion. The UK and Europe had £1.9 billion and Australia had about A$1 billion, which is more than we had as a similar period in March this year. So we still maintained our liquidity levels at a very decent level.

I think on asset quality clearly we are seeing an increase in impairment and default in light of the weak conditions, and we do expect those defaults as a percentage of loans and advances to continue to rise. At the end of March they were about 1.7%, and losses were fully covered by provisions. And we expect that probably to move towards the 2% mark for this particular trading period.

So I think in conclusion it's important to re-look at our business model and to emphasise what we are as an organisation. We are a specialist bank. Some people think that we are an investment bank. We're not an investment bank; we have an investment banking division. We generally originate loans to hold on our balance sheet, and we generally finance them with customer deposits. And you can see that our loans and our customer deposits are

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	almost matched. So going forward our loan growth will be managed. We're not looking to build our loan growth dramatically. We clearly have been pricing risk appropriately and we think we will continue to do that because we'd rather lose deals than price risk incorrectly. And we're concentrating very clearly on continuing to build our customer deposits.
Stephen Koseff	At the same time we want to continue to build our non-lending revenue, and that is revenue that comes from building third party assets under management and your advisory businesses. And if there are opportunities in our core geographies we will attempt to take advantage of those which we think suit our organisation. So in conclusion we know that conditions remain uncertain and volatile. We know that the current environment is not conducive to growth. We do have senior management maintain a very hands on culture and are actively involved in the business. Our focus does remain on building a diversified and balanced portfolio of businesses with strict risk and liquidity management at a senior level. We will attempt in these quieter times to make our operational efficiencies work very well, and contain costs, and we will continue to seek opportunities that make sense for us across all of the geographies that we operate in. I think that as a specialist bank concentrating on issues that we know and understand, we have a core level of sustainable earnings, and I think our results at the end of September will reflect that again. That will enable us to navigate through very difficult waters. And I think one thing we've always said to you is that our business model is a lot more defensive, and therefore when things turn down we do not go down as far as the others. And that was proved in 2002, and it hopefully will be proved now. So that's where we are. As I said, more or less in line with the previous trading period, and under very difficult conditions. We think that the business is functioning quite well, and hopefully you will see it in the same light. Thank you. We've now got questions. Shall we start off in Jo'burg? Anyone want to ask us any questions? Yes, Rubie.
Ruben [?]	[Inaudible segment] because of then describing defaults the word gross is used. To what extent would that percentage be reduced if it were net, and what is the offset between net and gross? How does that come about, please?
Stephen Koseff	Gross is the gross amount that people owe you. Net is your security. I haven't got the number to tell you what our security is. And then the rest would be covered by a provision. So by the time you get to net you end up with zero because you've covered it with a provision.
Ruben	That's the exact point I'm trying to get at. So is it correct to make too much play about defaults at all if they are in fact covered by security? Is it an issue even to consider?
Stephen Koseff	You know, clearly levels of defaults are important for monitoring how you're doing. And your security tells you how much you're going to recover in event of a default. So I think it is important for us to monitor our overall levels of default because they trend and they tell you what's going on in the world out there. So we are seeing a rise in impairments, which we will expect in a world where economic conditions are weakening.
Ruben	It seems the hedge funds have caused a lot of problems with shorting shares. Are your shares being shorted, and would you know if there were?

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Stephen Koseff	I think you know by how much script [?] is borrowed. So you know, I think shares have been shorted and we know that at one stage about 32% of our UK register was borrowed. But there are always shorts and longs, so it's not something that we watch. I watch our share price. We have to watch our business. We have to watch our clients. We have to make sure we're giving decent service. We have to make sure our business is operating effectively.
Ruben	Your UK register, is it still being shorted?
Stephen Koseff	I haven't seen lately. I'm giving you something that was some time back.
Ruben	And your UK business, how do you think that will be affected one way or another by the HBOS thing that has just happened?
Stephen Koseff	It's not really for me to comment on the HBOS. It was a positive thing for the UK banking system that you are seeing some form of consolidation. And consolidation at the end of the day is good for a system.
Male speaker	Hi Stephan. I just want to ask you about liquidity in the global environment. We've obviously seen a lot of fear at the moment. People are even taking their money out of money market funds and banks and just putting it in T-bills because they're just very scared. Have you guys seen this over the last few days, some people taking their money out and taking to T-bills and stuff? Or not to any great extent?
Male Speaker 2	We haven't seen it to any great extent. I think what you get is you know it gets recycled through the repo windows. That's why the repo windows and the widening of the repo windows are so important for the system, because the money flows to the government and then they recycle them through the repo windows. Stephan, I see your private banking deposit base declined slightly by about 2.6% in the UK. What has happened since August? So over the last two weeks have you seen any further declines in deposits?
Stephen Koseff	I think it's pretty stable. We haven't seen any change. I think some time back there was some diversification, and then people need money for different things. So you know the decline was actually marginal. But I think we saw some declines some time back at the beginning of this year, and it has since turned around.
Male Speaker 2	Okay, thanks.
Male Speaker 3	Stephan, can you just remind of when you need to roll your warehousing lines? And also just explain what happened at that point on the assumption that the funders give you notice if they don't want to roll it, more from a perspective of do you get to remark those loans at that point and take them back at a fair value as you see it now?
Stephen Koseff	The lines are accounted for, yet they're our loans. So we carry them as if they're our loans on an amortised cost basis, and we make debt provisions like any kind of loan portfolio. And we have turnout arrangements if they don't roll, so we've got probably 16 months to three years. And they're wrapped in securitized forms so you can always go to the discount windows with it if you have to.
Male Speaker 4	Thank you. I'm just looking on page 15. You have some statistics for Kensington. In there you're showing that you've got roughly capital in arrears of 90 days of roughly £692 million. Is that all the money that you're saying is fully provided for? And will you continue to operate a policy of 100%

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	provision going forward, even if that number continues to grow?
Stephen Koseff	Well, we have a division formula. So there is an expectation of how many people will go into arrears, and then we make a decision based on 15% decline this year, a 10% decline in house prices next year and a trash factor of 10%.
Male Speaker 4	So you'll continue a policy of 100% provision based on those statistics. You can cover that easily?
Stephen Koseff	Yes. You must remember that we have about £120 million of gross revenue in Kensington and £25 million of costs. So the balance is for profits and provisions.
Male Speaker 4	Thank you.
Louis Venter	Mr Koseff, Louis Venter from T-Sec. I want to congratulate you, you know. With all the banks folding and things, and you have even improved your liquidity. And banks are going for a song, financial institutions like [unclear] and Lehman and so on. Are you excited? Do you think there is some opportunity here?
Stephen Koseff	I don't think we must be excited about what is going on. I think it's quite a tragedy that the system is being restructured the way it is. In the long run probably the system will come out healthy, but I don't think we must be excited. But surely there are going to be opportunities. More questions? Okay, then if we can move to London. Brad, see if there are any questions in London.
Neil Welch	Hi Steve. Neil Walsh from [unclear]. I'm sure you won't want to make too much of a comment on this, but we've had one major bank cut its dividend today. Can we at least infer from your current capital position and liquidity that that's not something that you need to review particularly on the basis of the first half results at the moment?
Stephen Koseff	We haven't changed our dividend policy. It will stay as is, and that's obviously what we intend to do, is to maintain our dividend policy.
Neil Welch	The second point is you've shown us helpfully a piece of data from credit defaults going from 2004. If you looked at your financed book in South Africa, what does that look like through a longer cycle? What is the peak of the cycle?
Stephen Koseff	We have to go back a few years, but I would guess that last year our bad debt charge was 0.3% or 0.4% of our book, if you look at Kensington separately. I think that charge could move up as we get into the weaker cycles to 0.7% or 0.8% of the book at the peak of the cycle. And the arrears could probably go totally globally… I mean South Africa is quite low at the moment, but could switch to above 2% to 2.5%. That's the defaults.
Neil Welch	Sorry, just one last…
Stephen Koseff	They may not be in arrears, but if we think we need to make a provision then they need to be marked as default.
Neil Welch	Thank you. My final question is just whether you want to make some further comments on capital. We spend a lot of time now looking at the credit derivative swap market, which obviously has some liquidity problems right now. I just wondered whether you wanted to make some comments about

	the maturity of your liabilities, other than new deposits obviously. And additionally your existing capital base for the future relative to the existing problems that others have, because I think the point about shorting the shares is the concerns in the market at the moment about NAV, capital, tier one ratios and dividends. So I just wondered whether there was anything further you'd like to say while you have the opportunity.
Stephen Koseff	I'm not quite sure exactly what your question is, but clearly our capital market instruments have quite a long maturity profile. I can't remember offhand, but the shortest is a couple of years and the bulk of them are closer to nine to ten years. I'm talking about our capital market type instruments. Between five and ten years. But there are some that would mature within the next three years, but the bulk between five and ten years.
Neil Welch	In terms of your current cover ratios on your loan facilities, is there any element of stress that's appearing in your own balance sheet?
Stephen Koseff	No, we're not familiar with any stress. I think we tried to give you very clearly what kind of cash we have on hand and how we fund ourselves.
Bradley Tapnack	Steve, I think that's it in London.
Stephen Koseff	Any more questions?
Bradley Tapnack	I think that's it in London.
Stephen Koseff	Okay, can we move on to telephone conference? Anything from the telephone conference?
Operator	Our first question comes from Felicity Duncan of Moneyweb. Please go ahead.
Felicity Duncan	Hi. I got in a bit late so I missed any comments that were made, but I was just wondering if you had anything to say about the levels of exposure you may have to Lehman's [unclear] or cross party transactions [?] or anything like that.
Stephen Koseff	We have minimal exposure to Lehman's. In South Africa we had an exposure of R18 million. We owed them R11 million. If it's not offsettable, which we don't believe it is, there is R18 million of exposure to Lehman's. In London I think we had a net exposure of about $1 million.
Felicity Duncan	Thank you.
Stephen Koseff	Okay.
Operator	There are no further questions from the conference call.
Stephen Koseff	Any more questions? Otherwise we're going to close shop. Anyone who wants to ask anything else, they can ask afterwards. We will be around here for a while. Again, thank you all for attending and hopefully we've given you clarity on where we stand. Thank you.

END OF TRANSCRIPT