



DETERMINATION OF MERGER NOTIFICATION M/07/035 -

Investec/Kensington

Section 21 of the Competition Act 2002

Proposed acquisition by Investec plc of Kensington Group plc

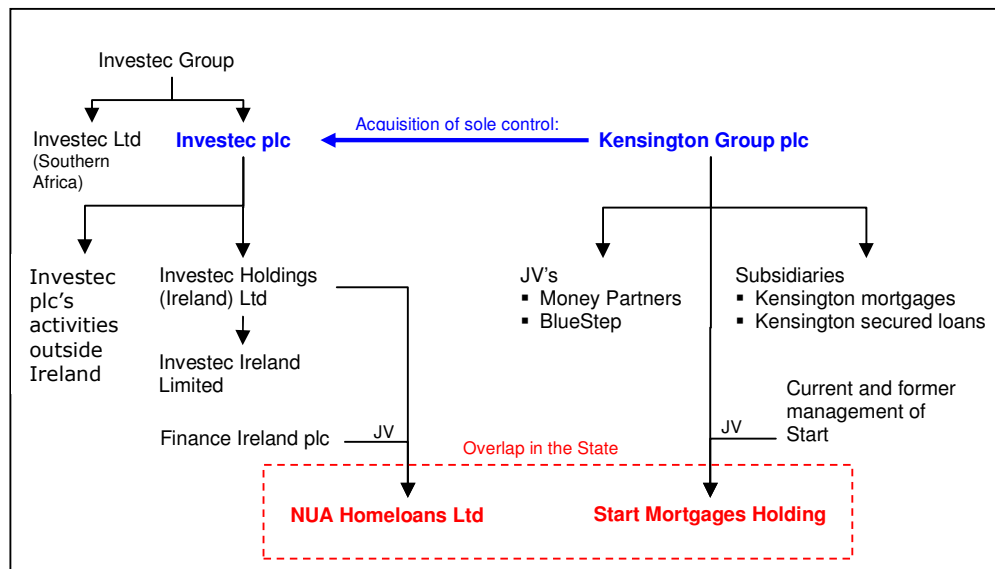
Dated 25/07/07

Introduction

1. On 28 June 2007 the Competition Authority, in accordance with Section 18(1) of the Competition Act, 2002 ("the Act") was notified, on a mandatory basis, of a proposed acquisition by Investec plc ("Investec") of Kensington Group plc ("Kensington").
2. Investec will acquire, through a scheme of arrangement under UK law, the entire issued and to be issued share capital of Kensington. After completion of the proposed acquisition, Investec will acquire sole control over Kensington.

The Undertakings Involved

Figure 1: The Proposed Transaction



The Acquirer

3. The Investec Group operates under a dual-listed company structure, which separates the company into two financial holding companies, Investec plc ("Investec") and Investec Limited, which are connected by contract and common senior management. Investec is based in the UK and owns the Investec-branded operations outside Southern Africa. Investec is listed on the London Stock Exchange and has a secondary

listing on the Johannesburg stock exchange. Investec Limited is based in South Africa and owns the Investec-branded operation in Southern Africa and is listed on the Johannesburg Stock Exchange.

4. Investec is an international specialist banking group that provides a diverse range of financial products and services to niche clients in three principal geographic regions: the United Kingdom, Australia and South Africa as well as certain other countries/regions. Worldwide Investec's core operations focus on specialised international banking activities, property lending and insurance products for borrowers with special requirements.
5. In Ireland, Investec's operations are conducted through its operating division Investec Ireland which is active in savings and investments, commercial lending, treasury and specialised finance.
6. Investec also operates in Ireland through an indirect wholly owned subsidiary NUA Homeloans Limited ("NUA"). Investec, through a joint venture with Finance Ireland plc, indirectly controls NUA.¹ NUA provides specialist mortgages to customers who have had trouble securing a mortgage in the past; for example customers who do not conform to the criteria of traditional lenders, such as the self-employed, contractors, older borrowers, temporary employees and those with an adverse credit history. Investec does not engage in residential mortgage provision outside the State.
7. In the financial year ending 31 March 2007 Investec's turnover in the State was approximately €[.]. NUA commenced operations on 4 April 2007 and according to the parties its turnover in the State since its inception is [.]

The Target

8. Kensington, is a publicly traded company incorporated under the laws of England & Wales, with its shares listed on the London Stock Exchange.
9. Kensington is an independent specialist lender; the group includes two wholly owned subsidiaries which trade as Kensington Mortgages and Kensington Secured Loans and three joint ventures, which trade as Money Partners, Start Mortgages and Bluestep.
10. Kensington provides specialist mortgages to borrowers who do not conform to the criteria of traditional lenders, such as the self-employed, contractors, older borrowers, temporary employees, borrowers who require larger loans and those with an adverse credit history.
11. Kensington's subsidiary Start Mortgages Holding Limited ("Start")² offers finance to people in the State who have been unsuccessful in

¹ Investec owns [.] of the issued and outstanding shares of NUA. Finance Ireland plc, formerly Ardent plc, is the holding company for SHIP plc. SHIP provides lifetime mortgages to older homeowners which enable them to access the value of their homes without having to sell or meet loan repayments. SHIP also provides home reversion products which allow older home owners to sell a portion of their home to SHIP in return for a lump sum.

² Kensington Group plc owns the majority of shares in Start (64%) with the remainder being spread among current and former management of Start.

getting a mortgage from the main banks and building societies. Start also securitises Mortgage Backed Securities.³

12. In the financial year ending 30 November 2006, Kensington achieved turnover in the State (through Start) of €[.].

Analysis

13. There is a horizontal overlap between Investec and Kensington in the State in the provision of mortgages through their subsidiaries NUA and Start, respectively.⁴
14. Both Investec (through NUA) and Kensington (through Start) distribute their respective mortgage products to the end-consumer through brokers/intermediaries. Accordingly, neither NUA nor Start have branch offices open to the public.
15. As noted customers of mortgages supplied by the parties are borrowers that have impaired credit histories and/or do not conform to the criteria of traditional lenders. In the UK this market is called the 'sub-prime' mortgage market.
16. The price of, or interest rates charged for, a specialist mortgage are generally higher than interest rates charged by traditional mortgage lenders. Interest rates are calculated on a case-by-case basis and depend on, among other things, the property value and the creditworthiness of the customer. Customers may also have to pay an arrangement/administration fee. Fees and charges must be approved by the Financial Regulator as required under Section 149 of the Consumer Credit Act, 1995.
17. Market participants estimate that it takes consumers approximately two years to improve their credit rating; at this point consumers may qualify or meet the criteria of a traditional lender and move to one of the main Banks or Building Societies. This will however depend on each customer's profile.

Competitive Effects⁵

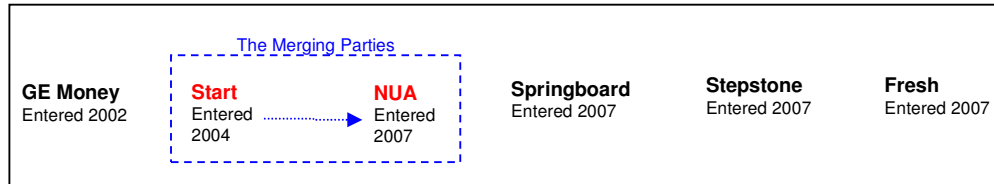
18. The supply of specialist mortgages is a relatively new and growing activity in the State (see Figure 2). Start was the second company to engage in the provision of specialist mortgages in the State commencing operations in 2004 (the first company to engage in this activity was GE Money in 2002).

³ Securitisation is the process of turning home loans into bonds that are subsequently sold to investors. The purpose of securitisation is to increase the volume of credit available to borrowers and improve the liquidity of the mortgage market.

⁴ Both parties also package mortgages in the form of mortgage-backed securities. Investec however do not currently execute an Irish residential mortgage-backed security. [.]

⁵ The competitive effects of the proposed transaction are assessed against the narrower 'sub-prime'/'specialist' mortgage market as opposed to the wider residential mortgage market. A merger that does not raise concerns against the narrowest possible market definition is unlikely to raise concerns under a broader market definition.

Figure 2: The Irish Sub-prime Mortgage Market



19. In 2007 four new entrants entered the Irish sub-prime/specialist mortgage market: NUA, Stepstone Mortgages, Springboard Mortgages and Fresh. These new entrants are backed by financially powerful firms with strong market reputations such as IIB, Lehman Brothers, Irish Life & Permanent, Merrill Lynch and Credit Suisse.
20. Market data is relatively scarce, however it is estimated that the market could grow to €4bn a year from an estimated €1bn in 2006.⁶ Davy Research has forecast a 75% growth in the Irish sub-prime market for 2007.⁷
21. The parties estimate that of the total 'sub-prime' residential mortgages originated in 2006 in the State, Start had a market share of [.] (GE Money's market share is estimated at [.]). NUA only started operations in the State in April 2007 and thus has a limited presence. Post-merger the accretion in market share will be negligible since Investec will simply replace Kensington in the market.
22. Post-completion, NUA and Start will continue to face strong competition from the recent entrants (and their strong backers) and the established incumbent, GE Money. In addition the evidence of recent entry suggests that barriers to entry are low and the Authority is aware of at least one other significant player who is planning to enter the market within the next year.
23. The Authority considers in light of the limited change in post-merger market share, the number of competitors in the market, the number of potential entrants, the low barriers to entry and the forecast growth in the market that the proposed transaction does not raise competition concerns in the State.

Determination

The Competition Authority, in accordance with Section 21(2)(a) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed acquisition by Investec plc of Kensington Group plc will not be to substantially lessen competition in markets for goods and services in the State and, accordingly, that the acquisition may be put into effect.

For the Competition Authority

Declan Purcell
Member of the Competition Authority

⁶ Kensington Group plc Annual report and accounts 2006.

⁷ Davy Research; *Starting Points*; April 12, 2007