IFRS Presentation

International Financial Reporting Standards ("IFRS")

Investor Briefing – 6 May 2005

Mike Brown

NEDCOR

Notes

Agenda

- Overview & key financial highlights
- Understanding the major impacts
- Impact of IFRS on BEE transaction
- Summary

Notes

Overview & key financial highlights

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Overview

- First major South African bank to announce IFRS impacts
- Large project in conjunction with Old Mutual plc
- No changes to fundamental economics or risks of business
- Based on IFRSs expected to be effective at 31 December 2005
- Positive impact on earnings & equity in 2004, but increased volatility going forward
- Accounting for BEE transaction impacted by IFRS
- 2007 targets more challenging – review in second half 2005

... moving to "best practice"

Notes

Key financial indicators – 2004

Year ended 31 December 2004		IFRS	Previously reported	% ch
Attributable earnings	Rm	**1 527**	974	56,8
Attributable EPS	cents	**423**	270	56,7
Headline earnings	Rm	**1 742**	1 447	20,4
Headline EPS	cents	**483**	401	20,5
Shareholders' equity	Rm	**21 948**	21 586	1,7
ROE	%	**11,0**	9,2	
ROA	%	**0,54**	0,45	
Margin	%	**3,13**	3,13	
Efficiency ratio	%	**74,8**	76,3	

Notes

What is driving the change?

- IFRS 1: First-time adoption of IFRS
- IAS 39: Financial instruments (AC 133)
- IFRS 3: Business combinations (AC 140)
- IFRS 2: Share-based payments (AC 139)
- IAS 18: Revenue recognition (AC 111)
- IAS 21: Foreign exchange (AC 112)
- IAS19: Employee benefits (AC 116)
- IAS 16 & IAS 40: Property (AC123 & AC 135)

Notes

Reconciliation of attributable earnings

Profit attributable to shareholders (Rm)	Dec 2004	June 2004
As previously reported	**974**	**380**
Adjustments for	553	430
- Credit impairment	140	216
- Goodwill	281	127
- Share-based payments	(15)	(4)
- Revenue recognition & acquisition costs	(31)	(14)
- Foreign exchange	91	116
- Post-employment benefits	131	-
- Property	(44)	(11)
As reported under IFRS	**1 527**	**810**
% change	56,8	113,2

Notes

Reconciliation of headline earnings

Headline earnings (Rm)	Dec 2004	June 2004
As previously reported	**1 447**	**500**
Adjustments for	295	302
- Credit impairment	140	216
- Goodwill	-	-
- Share-based payments	(15)	(4)
- Revenue recognition & acquisition costs	(31)	(14)
- Foreign exchange	91	115
- Post-employment benefits	131	-
- Property	(21)	(11)
As reported under IFRS	**1 742**	**802**
% change	20,4	60,4

Notes

Reconciliation of equity

Equity (Rm)	Dec 04	June 04	Jan 04
As previously reported	**21 586**	**20 932**	**15 101**
Adjustments for	362	180	(135)
- Credit impairment	107	185	(33)
- Goodwill	281	127	-
- Share-based payments	18	8	7
- Revenue recognition & acquisition costs	(176)	(156)	(135)
- Foreign exchange	-	-	-
- Post-employment benefits	(88)	(219)	(219)
- Property	220	235	245
As reported under IFRS	**21 948**	**21 112**	**14 966**
% change	1,7	0,9	(0,9)

Notes

Technical impacts

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IFRS 1 – first-time adoption elections

- Foreign exchange – cumulative translation differences held in the foreign currency translation reserve ("FCTR") transferred to retained income
- Business combinations – no retrospective application of IFRS 3 prior to 31 March 2004
- Property – fair value at date of transition (deemed cost at that date)
- Employee benefits – cumulative actuarial gains & losses recognised in retained income
- Share-based payments – IFRS not applied to Nedcor's awards granted on or before 7 November 2002, or awards granted after that date but which vested before 1 January 2005

Notes

IAS 39 – credit impairment

As previously reported

- Provisions calculated on "expected loss" basis, using historical data & trends
- Discount rate included a credit spread

IFRS

- Provisions calculated on "incurred loss" basis
- Provision established when there is objective evidence of impairment, based on one or more past events
- Provision for incurred but not reported ("IBNR") losses – latent losses within a portfolio which have not been individually evidenced
- Discount rate excludes credit spread

Notes

IAS 39 – credit impairment

Rm	Attributable earnings 31 Dec 04	Equity 31 Dec 04	Equity 1 Jan 04
Net impact	**140**	**107**	**(33)**
Loan losses	199		
- Specific provisions	(170)		
- Portfolio / IBNR	369		
Tax impact	(60)		
Minority interest	1		

- Increased volatility due to impact of prevailing market conditions
- Basel II uses 'expected' model – in future is likely to create difference between regulatory & financial reporting

Notes

IFRS 3 – goodwill

As previously reported

- Acquired goodwill stated at cost & amortised on straight-line basis over expected useful life (20 years)
- Subject to review for indications of impairment, with impairment losses recognised in the income statement

IFRS

- Goodwill recorded at cost but not amortised
- Subject to impairment reviews, both annually & when there are indicators that carrying value may not be recoverable
- Impairments are tested for at "cash-generating unit" level
- Negative goodwill recognised immediately in income as it arises

Notes

IFRS 3 – goodwill

Rm	Attributable earnings 31 Dec 04	Equity 31 Dec 04	Equity 1 Jan 04
Net impact	**281**	**281**	-
Impairment of goodwill	287		
BoE	152		
Other subsidiaries	83		
Associates	46		
Loss on sale of subsidiaries	(6)		

- Amortisation charge for year ended 31 December 2004 reversed
- Negative goodwill written back
- Previously recognised balances brought forward at 1 January 2004 assessed for impairment & deemed as cost going forward
- Results in ROE dilution

Notes

IFRS3 – goodwill

Income statement impacts Rm	Amortisation	Impairment	Negative goodwill	Loss on sale	Total
As previously reported	**248**	**126**	**-**	**-**	**374**
Adjustments for	(248)	-	(39)	6	(281)
- Reversal of amortisation	(248)				(248)
- Negative goodwill			(39)		(39)
- Loss on sale				6	6
As reported under IFRS	**-**	**126**	**(39)**	**6**	**93**
Analysed in income as					
Impairment of goodwill	-	126	(39)	-	87
Loss on sale of subsidiaries	-	-	-	6	6
	-	**126**	**(39)**	**6**	**93**

Booklet only

Notes

IAS 18 – revenue recognition

As previously reported

- Initial & recurring fees recognised as income when received
- Certain acquisition costs expensed as incurred

IFRS

- Initial fees deferred over service period – creation of deferred revenue liability ("DRL")
- Related acquisition costs deferred over a corresponding period – creation of deferred acquisition cost asset ("DAC")
- Recurring fee income recognised when received

Notes

IAS 18 – revenue recognition

Rm	Attributable earnings 31 Dec 04	Equity 31 Dec 04	Equity 1 Jan 04
Net impact	**(31)**	**(176)**	**(135)**
Net interest income	15		
Non-interest revenue	(248)		
Operating expenses	173		
Tax	18		
Minority interests	11		

- Net deferral of profits to later periods
- Deferral period varies between products
  - Costs range from 4 to 5 years
  - Revenues up to 25 years

Notes

IFRS 2 – share-based payments

As previously reported

- No charge in income statement except for administration costs
- Scheme impact evidenced as earnings dilution

IFRS

- Schemes classified as 'equity-settled' or 'cash-settled'
- Nedcor schemes equity-settled – charge to income based on fair value of option at grant date, accrued over vesting period, with corresponding credit in equity (equity neutral)
- No subsequent re-measurement other than for leavers

Notes

IFRS 2 – share-based payments

Rm	Attributable earnings 31 Dec 04	Equity 31 Dec 04	Equity 1 Jan 04
Net impact	**(15)**	**18**	**7**
Operating expenses	(21)		
Tax	6		

- Grants made prior to 7 November 2002, or vested prior to 1 January 2005 excluded under IFRS 1 exemption leading to minimal impact on transition and in 2004
- Overall anticipate an increasingly negative impact on future profits as new grants accounted for under IFRS 2
- ROE dilution
- Efficiency ratio increases

Notes

IAS 21 – foreign exchange

As previously reported

- 'Foreign entities' – translation differences recognised in equity
- 'Integrated operations' – translation differences recognised in income

IFRS

- Treatment determined by 'functional currency' rather than type of operation
- For entities with non-rand functional currency translation differences recognised on balance sheet in FCTR
- For entities with rand-demoninated functional currency translation differences recognised in income

Notes

IAS 21 – foreign exchange

Rm	Attributable earnings 31 Dec 04	Equity 31 Dec 04	Equity 1 Jan 04
Net impact	**91**	**-**	**-**
Foreign currency translation loss	91		

- Greater proportion of foreign currency translation differences reflected in FCTR & no impact on net equity
- Reduced income statement volatility

Notes

IAS 21 – foreign exchange

Analysis of translation losses	Post IFRS		Previously reported	
Rm	Dec 2004	June 2004	Dec 2004	June 2004
Total losses	**429**	**214**	**429**	**214**
Income statement	281	98	372	213
Balance sheet	148	116	57	1
% reflected in income	65,5	45,8	86,7	99,5

- Trend towards balance sheet treatment should continue with ongoing restructuring of off-shore subsidiaries

Notes

IAS 19 – employee benefits

Rm	Attributable earnings 31 Dec 04	Equity 31 Dec 04	Equity 1 Jan 04
Net impact	**131**	**(88)**	**(219)**
Operating expenses	187		
Tax	(56)		

- Section 15F surplus on pension scheme recognised in income in 2004 (previously capped by level of unrecognised actuarial losses)
- Advantage taken of IFRS 1 exemption – unrecognised actuarial losses reset to zero at 1 January 2004
- Reset of 'corridor' reduces volatility

Notes

IAS 16 & 40 – property

As previously reported

- Property split between freehold & leasehold
- Measured at cost less accumulated depreciation & impairment losses

IFRS

- Property split between investment (IAS 40) & owner-occupied (IAS 16)
- Investment property stated at revalued amounts, being fair value at date of revaluation less impairment losses – value changes recognised in income
- Owner-occupied property recognised at revalued amounts (fair value at date of revaluation) less subsequent accumulated depreciation & impairment losses – increases in value recognised in revaluation reserve in equity, depreciation in income, land not depreciated

Notes

IAS 16 & 40 – property

Rm	Attributable earnings 31 Dec 04	Equity 31 Dec 04	Equity 1 Jan 04
Net impact	**(44)**	**220**	**245**
Non-interest revenue	(13)		
Operating expenses	(7)		
Loss on sale of property	(25)		
Tax	2		
Minority interests	(1)		

- Earnings negatively impacted by increased depreciation charge on revalued owner-occupied property
- Revaluation gains on investment property recognised in income
- Property price volatility will impact in future
- Gains on owner-occupied property impact equity directly

Notes

Transitional & 'steady state' impacts

Statement	Transitional impact	'Steady-state' earnings
IAS 39	Equity uplift based on change in approach to credit impairment	Increased volatility under changing market conditions
IFRS 3	No transitional impact	No goodwill amortisation going forward, but goodwill reviewed for impairment
IFRS 2	Small transitional impact	Increasing expense as future grants and BEE transaction accounted for under new standard
IAS 18	Transitional decrease in equity due to net deferral of prior year fees (less expenses)	Strain on future profits in growing book of business
IAS 21	No transitional impact on net equity	Impact on income should decline as offshore business is restructured
IAS 19	Recognition of previously unrecognised losses reduces equity	Reset of 'corridor' reduces volatility Depends on change in underlying fund assets & liabilities
IAS 16 IAS 40	Gain on transition due to recognition of revaluation gains	Higher depreciation charges Property price volatility impacts earnings

Notes

Other IFRS changes still to emerge

- Areas of uncertainty / industry interpretation still evolving
  - 'Fair Value' option rules still to be finalised
  - Financial instruments disclosure being revised
  - Ongoing IASB improvement projects
- Final numbers may change as a result of these & other developments
- EU 'carve-out' creates GAAP difference with Old Mutual plc

Notes

Impact of IFRS on BEE transaction

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Financial effects of IFRS on BEE

Year ended 31 December 2004	Before transaction	After transaction	%ch
Attributable EPS (cps)	423	357	(15,5)
Headline EPS (cps)	483	417	(13,7)
Fully diluted headline EPS (cps)	481	392	(18,7)
Ordinary shareholders equity (Rm)	18 497	18 580	0,5
NAV per share (cps)	4 692	4 696	0,1
Tangible NAV per share (cps)	3 400	3 408	0,3

- Impact exaggerated as 2004 earnings were low owing to being in early stages of 3 year recovery programme, together with 2004 recovery programme one-off costs

Notes

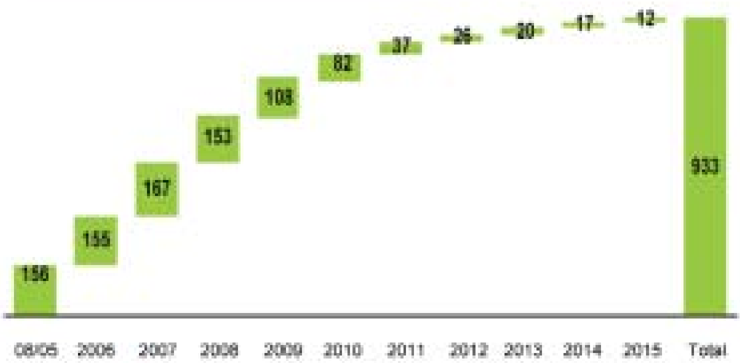
IFRS cost for BEE transaction

- Same as economic cost, except for:
  - "Evergreen schemes" which are not subject to IFRS 2
  - Tax benefit from certain schemes

BEE costs	Rm
Economic cost as disclosed on 19 April	968
- Empowerment / Community Trusts & other costs	(90)
- Tax benefit on grant portion of schemes	55
IFRS 2 share-based payments cost	**933**

Notes

IFRS2 – estimated cost phasing



- Dependent on vesting ratios & other assumptions
- No benefits factored into projections

Notes

Earnings dilution impacts

- 41m treasury shares issued upfront
- Only when they vest is dilution created
  - Dependent on vesting ratio for each scheme
- ROE will be negatively impacted

Notes

Summary

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Impact of IFRS on 2007 targets

2007 targets as previously published
ROE – 20%
Efficiency ratio (excluding forex) – 55%
Total income growth > expense growth by at least 9% (CAGR)

- The transition to IFRS, & BEE transaction, make targets more challenging
- Targets will be revisited in the second half of the year with budget & 3-year planning process

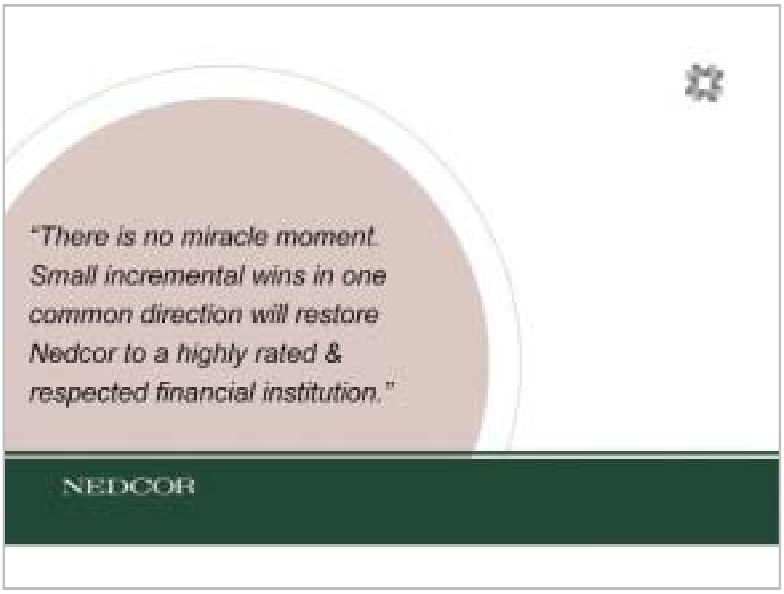
Notes

Summary

- IFRS embedded into monthly management & regulatory reporting processes
- No change in underlying economics of business
- Increased 2004 attributable earnings
- 2004 adjustments will not necessarily be repeated
- Possible future amendments to interpretive guidance
- IFRS, & accounting for BEE transaction under IFRS, make 2007 targets more challenging
- Earnings & equity will be more volatile in future

... moving to "best practice"

Notes



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