

NEDCOR INVESTMENT BANK

Interim report for the six months ended 30 June 2002

- **Headline earnings up 18% to R444 million**
- **Headline earnings per share up 16%**
- **Return on average equity 26%**
- **Expense-to-income ratio 32%**

COMMENTARY

After the events of late 2001 and the market volatility that followed, both the economic and financial environments improved in early 2002. Internationally, a strong recovery in the US in the first quarter raised hopes that the slowdown in 2001 would prove short-lived, and lower interest rates, fiscal stimulus and a turn in the inventory cycle helped to improve sentiment and forecasts for higher growth in the second half of the year. South Africa followed a similar path as consumers shrugged off higher interest rates and prices caused by the rand's fall and exporters benefited from improved competitiveness. However, as the second quarter progressed, global markets grew increasingly nervous on corporate governance issues – in the wake of Enron/WorldCom – as well as fears that structural problems would outweigh cyclical factors and cut short the recovery.

Nedcor Investment Bank Group (NIB) reported headline earnings growth of 18% to R444 million and headline earnings per share growth of 16% to 27 cents per share. The results benefited from the restructuring of a significant transaction in Capital Account and from the marking to market of equities now classified as trading investments. Earnings per share were diluted by the issuing of ordinary shares during the first six months to shareholders who exercised their right to subscribe for new shares in the company in terms of the dividend declared for the year ended 2001 and paid in April this year.

The return on average equity achieved was 26% (2001: 25%). The 32% ratio of operating expenses to total income (2001: 32%) reflects the continuation of the efficiencies that have been evident in past results.

As at 30 June 2002 shareholders' funds amounted to R3,7 billion. The group consolidated capital adequacy ratio of 11,8% (2001: 12,0%) exceeds the 10% statutory capital adequacy requirement. On a total basis balance sheet levels are consistent with those at the end of the last financial year, with the only major movements coming from fluctuations in trading asset levels.

OFFER TO MINORITY SHAREHOLDERS

Nedcor has announced its intention to restructure the group following its successful acquisition of BoE. Nedcor has further announced that, to facilitate the restructuring process, it intends to make an offer to the minority shareholders of NIB with a view to acquiring their shareholdings in NIB. Nedcor Limited has advised NIB that should the offer to NIB minorities be implemented, the consideration in respect of the offer will be Nedcor shares. The listing of NIB on the JSE Securities Exchange South Africa and the Namibian Stock Exchange will then be terminated. A subcommittee of the NIB board, consisting of independent non-executive directors, has appointed Deutsche Securities SA as an independent adviser in this regard. It is anticipated that the offer details will be announced shortly.

REVIEW OF DIVISIONAL OPERATIONS

Advisory Services

Corporate Finance

Merger and acquisition activity levels in South Africa have been and are expected to remain low for the year. During the first half of the year the Corporate Finance team secured mandates from several new clients, including Johnnic Communications, Ellertine Holdings, Altech, Servest, Namibian Breweries and African Legend. NIB has also been intensively involved in the BoE transaction and the R4 billion Nedcor secondary capital bond issue.

Edward Nathan & Friedland

Edward Nathan & Friedland (ENF) is continuing to pursue new infrastructure and privatisation opportunities in South and southern Africa. Other areas of activity over the past six months included the Nedcor/BoE deal, Pande Gas, Swisscard, the rand enquiry, the World Summit on Sustainable Development, and the Cricket World Cup 2003.

Capital Account

NIB continued to pursue opportunities in optimising the return from Capital Account. NIB's capital is managed so as to ensure that an appropriate balance between local and offshore assets is achieved and to minimise short-term earnings volatility, particularly in response to fluctuations in the rand.

During the last six months the capital structure of NIB's foreign operations has been increased by the deployment, with exchange control approval, of a further R500 million, to be utilised to grow NIB's offshore treasury capabilities.

NIB actively hedges the currency risk on its offshore capital and this hedging strategy ensures that its earnings are protected from volatile exchange rate fluctuations. The realised currency gain on NIB's foreign capital structure for the six months was R133 million (2001: R120 million).

NIB took advantage of favourable market conditions to restructure an existing offshore asset and so release to income a net provision of R42 million, after allowing for attributable costs. This asset was originally created from a portfolio that included underperforming equity investments.

The contribution of R5 million (2001: R1 million) from strategic alliances has been included under Capital Account results.

Equity Investments

It was decided to merge the entire equity portfolio of Corporate Equities and Capital Account so as to combine all NIB private equity investments in one portfolio. Simultaneously, in anticipation of the introduction of Statement of Generally Accepted Accounting Practice AC133 – Financial Instruments: Recognition and Measurement, this portfolio was split between trading investments, strategic investments and mezzanine finance. The resulting trading investments portfolio has now been fully marked to market.

NIBi (previously Multimanager)

The adverse investment markets placed pressure on fund inflows. The business focus in the short term has been to enhance offshore distribution. In this regard NIBi has been appointed as one of the product providers of Gerrards plc. Three new products were launched during the last six months, namely an international private asset swap, a euro money market fund and South Africa's first retail absolute return fund, entitled NIBi/Horizon Inflation Beater.

Property

New business disbursements during the six months under review amounted to R1,4 billion, which is a satisfactory performance given the increase in interest rates, the state of the market and stringent credit standards. The total size of the book remained unchanged, notwithstanding the sale of a retail loan book with a value of R382 million that did not fit within the institutional focus of the division. Growth of R35 million in headline earnings is evidence of the widening margin, lower provisioning and increased operating efficiencies of the division.

The property-in-possession portfolio was on average lower in the current year than in the comparative period, but higher interest holding costs and reduced marketability have negated any potential benefit.

Structured and Project Finance

Structured and Project Finance has shown impressive growth in headline earnings in the first half of the year, despite competitive market conditions. Domestically, and in Namibia, Structured Finance has experienced an increased demand for funding. The business has continued to develop new debt origination products during this period. From an international structured-finance perspective, an attractive pipeline of projects involving exports to various African countries has been built up, including a number of agricultural commodity finance transactions. There is currently increased activity in the project finance market in South Africa. The Project Finance team has been active in bidding on major projects for the lead arranger and underwriter roles. Regionally, our mandates to arrange funding for the concession agreements in respect of the Komatiport-Maputo railway and the Zambian railway system are being finalised. NIB received the mandate as adviser and arranger on the Nacala corridor project in Mozambique during the six-month period.

Treasury

The first half of 2002 was a challenging period for Treasury, with profitability being negatively affected by the volatile trading conditions in both the rand and equity markets. In particular, an abnormal government bond yield curve, caused by a lack of liquidity on longer-dated gilts, and rapidly rising interest rates negatively impacted on Treasury's trading profits. During this volatile period NIB did not create abnormal exposures.

Treasury continues to explore ways of expanding its product suite in the areas of commodities, warrants, outsourcing and securitisation. An empowerment structure for the quantitative asset management business is currently being investigated.

ACCOUNTING POLICIES AND PRESENTATION

The interim consolidated financial statements are prepared in accordance with AC127 – Interim Financial Reporting. The accounting policies applied in the preparation of these interim consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2001.

As described under Equity Investments, certain investments have been reclassified as trading and are now marked to market. Had this change in classification been implemented in the prior year, the increase in 2001 earnings would have been R6,4 million before tax and R4,5 million after tax. The current year's income statement benefit amounts to R31,3 million before tax and R21,9 million after tax. As this change in classification is not material to the 2001 results, no restatement of comparatives has been made.

DIRECTORS

Mr N Dennis, Chief Executive of Tiger Brands Limited, was appointed as Non-executive Director on 11 March 2002. Mr SM Pityana (previously Director-General of Foreign Affairs in the South African government) was appointed as Executive Director of Development on 16 May 2002.

DIVIDENDS

NIB's past practise has been not to pay an interim dividend. However, in view of the anticipated offer to Nedcor Investment Bank Holdings Limited minority shareholders by Nedcor Limited referred to above and the possible delisting of NIB prior to this year-end, the board has deemed it appropriate that an interim dividend should be paid to shareholders. Notice is hereby given that an interim dividend of 9 cents per ordinary share has been declared in respect of the six months ended 30 June 2002.

Trading in the STRATE environment requires settlement within five business days. In accordance with the settlement procedures of STRATE, NIB has determined the last day for trading to participate in the interim dividend to be Friday, 30 August 2002. The shares will commence trading ex dividend on Monday, 2 September 2002, and the record date will be Friday, 6 September 2002. Payment will be made on Monday, 9 September 2002.

Certificated shareholders may not dematerialise their shares between Monday, 2 September 2002, and Friday, 6 September 2002. Dividend payments will be made on Monday, 9 September 2002.

PROSPECTS

Despite prevailing economic conditions, the board believes that NIB's continued growth for the balance of the year is sustainable as a result of ongoing operating efficiencies and the benefits of future deal flow generated pursuant to its efforts in the first six-month period.


Prof MM Katz, Chairperson

Johannesburg
23 July 2002


Dr IJ Botha, Chief Executive

Johannesburg
23 July 2002

Transfer secretaries

Computershare Investor Services Limited, 11 Diagonal Street, Johannesburg, 2001
Transfer Secretaries (Pty) Limited, PO Box 2401, Windhoek, Namibia

Directors

Prof MM Katz *(Chairperson), Dr IJ Botha *(Chief Executive), JR Bestbier*, RG Cottrell, ML Davis, BE Davison, N Dennis, PG Joubert, PH Lane*, RCM Laubscher, CF Liebenberg, E Molobi, SG Morris, PF Nhleko, SM Pityana*, Dr LA Porter, GF Richardson, WC Ross*, AA Routledge, R van Wyk *(Executive Director)

Company Secretary

JS Eisenhammer

Financial highlights

	Unaudited 6 months ended 30 June		Change %	Audited Year ended 31 December 2001
	2002	2001		2001
Selected ratios				
Return on average equity (%)	25,8	24,5	5	23,1
Return on average total assets (%)	2,9	2,8	4	2,7
Non-interest revenue to total income (%)	73,6	77,5	(5)	76,3
Expense-to-income ratio (%)	31,8	32,1	1	32,6
Capital adequacy				
Shareholders' funds (Rm)	3 703	3 362	10	3 311
Total assets (Rm)	30 213	28 058	8	30 242
Group capital adequacy ratio (%)	11,8	12,0	(2)	11,1
Share statistics				
Headline earnings per share (cents)	27,0	23,4	16	46,1
Diluted headline earnings per share (cents)	25,4	22,3	14	43,3
Weighted average number of shares (m)	1 645	1 609	2	1 610
Shares in issue (m)	1 697	1 610	5	1 612
Share price (cents)	385	300	28	300
Market capitalisation (Rbn)	6,5	4,8	35	4,8

Group income statement

	Unaudited 6 months ended 30 June		Change %	Audited Year ended 31 December 2001
	2002 Rm	2001 Rm		2001 Rm
Interest income	1 503	1 257	20	2 546
Interest expense	1 295	1 102	17	2 223
Net interest income	208	155	34	323
Non-interest revenue	580	535	8	1 040
Operating income	788	690	14	1 363
Specific and general provisions	27	22	19	40
Net income	761	668	14	1 323
Operating expenditure	251	221	13	445
Net operating income before exceptional items	510	447	14	878
Share of amortised goodwill of associates	25	–	–	–
Net income before taxation	485	447	9	878
Taxation	71	72	–	144
Net income after taxation	414	375	10	734
Attributable earnings of associates	5	1	365	9
Income attributable to shareholders	419	376	11	743
Headline earnings				
Headline earnings	444	376	18	743
After excluding				
Share of amortised goodwill of associates	25	–	–	–

Group balance sheet

	Unaudited 30 June		Audited Year ended 31 December	
	2002 Rm	2001 Rm	2001 Rm	2001 Rm
Assets				
Cash and short-term funds	5 877	4 312	3 961	
Other short-term securities	1 691	1 646	2 389	
Government and public sector securities	2 546	2 314	3 689	
Advances and other accounts	18 486	18 609	18 624	
Associated companies	37	37	61	
Other investments	1 534	1 073	1 481	
Property and equipment	42	67	37	
Total assets	30 213	28 058	30 242	
Equity and liabilities				
Shareholders' funds	3 703	3 362	3 311	
Long-term debt	2	2	2	
Deposit, current and other accounts	26 508	24 694	26 929	
Capital, reserves and liabilities	30 213	28 058	30 242	

Consolidated statement of changes in equity

	Ordinary share capital	Share premium	Non-distributable reserves	Distributable reserves	Total
	Rm	Rm	Rm	Rm	Rm
Balance as at 1 January 2001	16	434	11	2 731	3 192
Issue of new share capital		4			4
Currency translation and other adjustments			12	(14)	(2)
Attributable earnings				376	376
Dividend – cash				(208)	(208)
Balance as at 30 June 2001	16	438	23	2 885	3 362
Issue of new share capital		5			5
Share issue expenses		(5)			(5)
Redemption of preference share capital		(400)			(400)
Transfers			14	(14)	–
Currency translation and other adjustments			(29)	11	(18)
Attributable earnings				367	367
Balance as at 31 December 2001	16	38	8	3 249	3 311
Issue of new share capital		1			249
Currency translation and other adjustments			9	(36)	(27)
Attributable earnings				419	419
Dividend – cash				(249)	(249)
Balance as at 30 June 2002	17	286	17	3 383	3 703

Consolidated cash flow statement

	Unaudited 6 months ended 30 June		Audited Year ended 31 December	
	2002 Rm	2001 Rm	2001 Rm	2001 Rm
Cash flows from operating activities	513	478	941	
Cash receipts from clients	1 994	1 729	3 475	
Cash payments to clients, staff and suppliers	(1 540)	(1 316)	(2 654)	
Dividends received on investments	59	65	120	
Changes in working funds	1 578	2 512	2 486	
Taxation paid	(87)	(70)	(49)	
Net cash utilised in investment activities	(64)	(92)	(478)	
Net cash utilised by financing activities	(24)	(184)	(607)	
Net cash generated	1 916	2 644	2 293	
Cash and short-term funds at beginning of period	3 961	1 668	1 668	
Cash and short-term funds at end of period	5 877	4 312	3 961	

Segmental analysis of headline earnings

	Unaudited 6 months ended 30 June		Change %	Audited Year ended 31 December 2001
	2002 Rm	2001 Rm		2001 Rm
By major business activity				
Advisory Services	10	16	(38)	36
Capital Account	237	174	36	378
NIBi	6	5	20	19
Equity Investments	9	17	(47)	(24)
Property	37	2	–	36
Structured and Project Finance	123	83	48	143
Treasury	22	79	(72)	155
	444	376	18	743
By geographic source				
Domestic earnings	220	178	24	400
Return on investment in offshore structure	133	120	11	172
International earnings	91	78	17	171
	444	376	18	743

Comparative figures are restated, where necessary, to afford a proper comparison. Percentages are calculated using actual numbers.

HARD THINKING. FLAWLESS EXECUTION. TANGIBLE RESULTS.

www.nib.co.za

Nedcor Investment Bank Holdings Limited

(Incorporated in the Republic of South Africa)

(Reg No 1963/003972/06)

Share code: NIB ISIN code: ZAE0000019030

Registered office

1 Newtown Avenue, Killarney, Johannesburg, 2193