

# Transition to International Financial Reporting Standards



## Restatement of financial information for the year ended 31 December 2004 and the six months ended 30 June 2004 under International Financial Reporting Standards ("IFRS")

### INTRODUCTION

For the year ended 31 December 2004 the Nedbank group ("the group") prepared its financial statements under South African Statements of Generally Accepted Accounting Practice ("SA GAAP") as effective at that date. In accordance with the JSE Securities Exchange South Africa ("JSE") Listing Requirements the group will be required to prepare its consolidated financial statements in accordance with IFRS (and revised SA GAAP effective for financial periods commencing on or after 1 January 2005) for the year ending 31 December 2005. IFRS refers to the application of International Accounting Standards ("IAS") and IFRSs.

This requirement applies to financial reporting for all companies with listed securities for financial reporting periods beginning on or after 1 January 2005 and, consequently, Nedbank's first published IFRS results will be its interim results for the six months ending 30 June 2005. The group's first published financial statements under IFRS will be for the year ending 31 December 2005. As the group publishes comparative information for one year in its financial statements, the date for transition to IFRS is 1 January 2004, which represents the start of the earliest period of comparative information presented.

In order to explain how Nedbank's reported performance and financial position are impacted by IFRS, the group has restated information previously published under SA GAAP to the equivalent basis under IFRS. This restatement follows the guidelines set out in IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1").

The adoption of IFRS has resulted in certain income statement adjustments that may not be repeated in future reporting periods.

It is important to note that this financial information has been prepared in accordance with IFRS statements that are expected to be effective at 31 December 2005. These are subject to ongoing review and possible amendment by interpretive guidance from the International Accounting Standards Board ("IASB") and may therefore be subject to change. It should further be noted that the ultimate presentation, and income statement and balance sheet captions, could also change.

Nedcor Limited ("Nedcor"), Nedbank's holding company is also required to report under IFRS and a similar Nedcor announcement was also released today. Old Mutual plc, Nedbank's ultimate holding company, is required to prepare its financial statements in accordance with IFRS as endorsed by the European Union ("EU"). The EU has not endorsed the full version of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") and has instead endorsed a "carved out" version. The "carve out" requires financial liabilities previously designated as fair value through profit or loss to be valued on an amortised cost basis. The "carve out" does not apply to the South African reported information and Nedbank has retained the fair value designation for local reporting, but reports to Old Mutual plc in line with the "carve out".

### BASIS OF PREPARATION

The group has prepared the consolidated preliminary balance sheet at 31 December 2004 and the consolidated preliminary income statement for the year then ended, in accordance with IFRS ("the preliminary financial information") to establish the financial position and results of operations of the group necessary to provide the comparative information expected to be included in the group's first set of IFRS financial statements for the year ending 31 December 2005.

The board acknowledges its responsibility for the preparation of the preliminary financial information which has been prepared in accordance with IFRS and policies expected to be adopted when the board prepares the group's first set of IFRS financial statements for the year ending 31 December 2005. The board has approved the preliminary financial information.

The preliminary financial information does not reflect any changes in respect of any possible amendments to IAS 39 restricting the use of the fair value option. Proposals to restrict the fair value option are being considered by the IASB and Nedbank will continue to monitor industry developments in this area.

There have been no material adjustments to the cash flow statement in respect of cash utilised by operating activities before taxation, cash flows from investment activities and cash flows from financing activities as a result of the adoption of IFRS.

### TRANSITIONAL ARRANGEMENTS

The date of transition to IFRS for the group is 1 January 2004 and therefore as required by IFRS 1, the group's opening balance sheet at 1 January 2004 has been restated to reflect all existing IFRS statements expected to be applicable at 31 December 2005. However, IFRS 1 allows a number of exemptions to this retrospective application principle upon adoption of IFRS. The group has utilised the following transitional arrangements on a consistent basis with its holding company Nedcor and its ultimate holding company, Old Mutual plc:

- Cumulative translation differences: the group has elected that the cumulative translation differences for foreign operations are deemed to be zero at the date of transition.
- Business combinations: the group has elected not to retrospectively apply the requirements of IFRS 3, Business Combinations ("IFRS 3") for business combinations that occurred prior to 31 March 2004 and consequently no adjustment has been made for historical business combinations.
- Property, plant and equipment: the group has elected to measure individual items of property, plant and equipment at fair value at the date of transition to IFRS, hence fair value is deemed to be cost at that date.
- Employee benefits: the group has elected to recognise all cumulative actuarial gains and losses on defined benefit post-retirement schemes in equity at the date of transition.

The group has not elected to apply the exemption within IFRS 1 that allows comparative information presented in the first year of adoption of IFRS not to comply with IAS 32, Financial Instruments: Disclosure and Presentation ("IAS 32") and IAS 39.

Where estimates have previously been made under SA GAAP, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made under the same date on transition to IFRS.

### MATERIAL ADJUSTMENTS

The basis of the material adjustments, net of the associated tax impact, as shown in the tables for: Reconciliation of assets, liabilities and equity, Reconciliation of income statement and Reconciliation of changes in shareholders' equity are noted below:

#### Note 1: Credit impairment

Previously the group calculated its impairment losses on loans and advances on an "expected loss" basis. Credit impairments were calculated using historical data and trends. The discount rate used to calculate the recoverable amount included an allowance for a credit spread.

Under IFRS the group has moved to an "incurred loss" basis. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more past events that have occurred since initial recognition. IFRS also allows for the creation of a credit impairment for incurred but not reported ("IBNR") losses in order to provide for latent losses in a portfolio of loans that have not yet been individually evidenced. The discount rate used to calculate the recoverable amount now excludes any allowance for a credit spread.

#### Note 2: Revenue recognition and deferred acquisition costs

Previously fees charged and certain related acquisition costs for originating loans were recognised as incurred in the income statement.

In accordance with IFRS, fees charged for loans are recognised as revenue as the services are provided. Initial fees, which relate to the future provision of services, are deferred and amortised over the anticipated period in which the services will be provided.

Similarly costs that are directly attributable to securing a loan are deferred as an asset and amortised as the related revenue is recognised.

#### Note 3: Goodwill

Previously, the group recognised acquired goodwill at cost and amortised it on a straight-line basis over its expected useful life. Goodwill was subject to review for indications of impairment and any impairment losses were recognised in the income statement.

IFRS requires that goodwill is not amortised but is subject to impairment reviews, both annually and when there are indications that the carrying value may not be recoverable. Negative goodwill is no longer recognised on the balance sheet but recognised in the income statement as it arises.

The 2004 goodwill amortisation previously recognised in the income statement has been reversed, resulting in a corresponding increase in equity. All goodwill has been tested for impairment at 1 January 2004, 30 June 2004, and 31 December 2004 in accordance with IFRS with no further impairment being recognised on transition. Negative goodwill that was previously held on the balance sheet at the transition date was released to reserves.

#### Note 4: Foreign exchange

Previously the group classified the assets and liabilities of all foreign subsidiaries and branches as either foreign entities or integrated operations. The foreign currency adjustments arising from the translation of foreign entities were recognised directly in equity, in the Foreign Currency Translation Reserve ("FCTR"), while those of the integrated operations were recognised in the income statement.

IFRS requires the group to determine the "functional currency" for all entities and the distinction between foreign entities and integrated operations has been removed. An entity, which has a non-rand functional currency, is translated at the closing exchange rate and the differences arising are reported directly to equity, whilst all other entities classified as having a rand functional currency report foreign currency translation differences in the income statement.

The group has elected to apply the exemption afforded to it by IFRS 1 and reset the balance of the FCTR to zero at the date of transition to IFRS.

#### Note 5: Share-based payments

The group grants share options to employees under employee share incentive schemes. Previously the costs incurred in administering the schemes, and the expense incurred, representing the difference between the exercise price and the market price of such options, were accounted for in the income statement of Nedbank.

In accordance with the requirements of IFRS, the group has recognised an expense in the income statement, with a corresponding liability, representing the fair value of outstanding employee share options with regard to its cash settled scheme. The options are measured at fair value at each reporting date. The fair value is recognised over the vesting period and is re-measured until the underlying liability is settled. Any changes to fair value are recognised in the income statement.

#### Note 6: Post-employment benefits

Previously the group elected to use the corridor method for the recognition of actuarial gains and losses. Only cumulative actuarial gains or losses in excess of 10% of the surplus or deficit in the fund were amortised in the income statement. Cumulative gains or losses inside this corridor were carried on the balance sheet and recognised over the expected remaining working lives of the employees.

Under IFRS 1 the group has taken advantage of the option to eliminate its pension fund corridor against opening retained income at the date of transition. The asset has been eliminated, and the adjustment taken to retained earnings as at 1 January 2004.

Future actuarial gains or losses will continue to be recognised using the corridor method.

#### Note 7: Property, plant and equipment

Previously property, plant and equipment were measured at cost less accumulated depreciation and impairment losses. Under IFRS, equipment, (principally computer equipment, motor vehicles, fixtures and furniture), is still stated at cost less accumulated depreciation and impairment losses.

Owner-occupied property has been recognised at revalued amounts, being the fair value at the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses. Increases in valuation of the properties are taken to a revaluation reserve. This revaluation reserve is amortised over the remaining useful life of the property. Land is not depreciated.

Investment properties are stated at revalued amounts, being fair value at the date of revaluation less accumulated impairment losses. Increases or decreases in valuation are recognised in the income statement and investment properties are not depreciated.

### REVIEW OPINION

This restatement of financial information for the year ended 31 December 2004 and the six months ended 30 June 2004 has been reviewed by the group's auditors, KPMG Inc and Deloitte & Touche, and their review opinion is available for inspection at the group's registered office. Their report includes an emphasis of matter that the scope of their review did not include the presentation and disclosure aspects of IFRS and was limited to the recognition and measurement criteria of IFRS only. They further note that amendments to the interpretive guidance issued by the IASB, between the date of this announcement and the finalisation of the financial statements for the year ending 31 December 2005, may result in changes to the restatements published.

Sandton  
3 May 2005

**NEDBANK LIMITED**  
(Incorporated in the Republic of South Africa)  
Registration number: 1951/000009/06  
JSE share code: NBKP  
ISIN code: ZAE00043667  
(Nedbank)

**SPONSORS:**  
Investec Bank Limited  
Nedbank Capital

## Income statement

Prepared in accordance with IFRS

Rm	Reviewed 2004 For the year ended 31 December 2004	Reviewed 2004 For the six months ended 30 June 2004
Interest and similar income	22 886	12 726
Interest expense and similar charges	16 176	9 536
Net interest income	6 710	3 190
Non-interest revenue	7 418	3 281
Foreign currency translation losses	(434)	(96)
Total income after foreign currency translation losses	13 694	6 375
Impairment losses on loans and advances	1 358	405
Income after impairment losses on loans and advances	12 336	5 970
Total expenses	10 898	5 215
Operating expenses	10 203	4 804
Fees due to alliance partners	70	83
Recovery programme expenses	379	234
Merger expenses	246	94
Profit from operations before non-trading and capital items	1 438	755
Non-trading and capital items	(86)	(38)
Impairment of goodwill	(4)	2
Profit on sale of subsidiaries, investments and property and equipment	31	15
Net impairment of investments, property and equipment and capitalised development costs	(113)	(55)
Profit from operations	1 352	717
Attributable earnings of associates and joint ventures	121	58
Profit before taxation	1 473	775
Taxation	374	125
Taxation on non-trading and capital items	(39)	(17)
Profit after taxation	1 138	667
Minority interest income attributable to ordinary shareholders	(117)	(63)
<b>Profit attributable to ordinary shareholders for the period</b>	<b>1 021</b>	<b>604</b>

## Headline earnings reconciliation

Rm	Reviewed 2004 For the year ended 31 December 2004	Reviewed 2004 For the six months ended 30 June 2004
Profit attributable to ordinary shareholders for the period	1 021	604
Less: non-trading and capital items	(47)	(21)
Amortisation and impairment of goodwill	(4)	2
Profit on sale of subsidiaries, investments and property and equipment	31	15
Net impairment of investments, property and equipment and capitalised development costs	(113)	(55)
Taxation on above items	39	17
<b>Headline earnings</b>	<b>1 068</b>	<b>625</b>
<b>Headline earnings excluding foreign currency translation losses</b>	<b>1 502</b>	<b>721</b>

## Reconciliation of income statement

Rm	Note	Reviewed 2004 For the year ended 31 December 2004	Reviewed 2004 For the six months ended 30 June 2004
<b>As previously reported</b>		<b>628</b>	<b>280</b>
Adjustments for:			
Credit impairment	1	140	215
Revenue recognition and deferred acquisition costs	2	(31)	(14)
Goodwill	3	101	40
Foreign exchange	4	138	81
Share-based payments	5	(42)	11
Post-employment benefits	6	130	
Property, plant and equipment	7	(43)	(9)
<b>As reported under IFRS</b>		<b>1 021</b>	<b>604</b>

## Reconciliation of assets, liabilities and equity

Reviewed	Assets			Liabilities			Equity		
	31 December 2004	30 June 2004	1 January 2004	31 December 2004	30 June 2004	1 January 2004	31 December 2004	30 June 2004	1 January 2004
<b>As previously reported</b>	<b>320 644</b>	<b>295 787</b>	<b>306 351</b>	<b>300 517</b>	<b>276 602</b>	<b>290 303</b>	<b>20 127</b>	<b>19 185</b>	<b>16 048</b>
Adjustments for:									
Credit impairment	1	106	186	(33)			106	186	(33)
Revenue recognition and deferred acquisition costs	2	81	70	257	225	193	(176)	(156)	(135)
Goodwill	3	101	40	101	40		101	40	
Share-based payments	5	22	18	73	16	16	(51)	2	(9)
Post-employment benefits	6	(46)	(178)	40	38	38	(86)	(215)	(215)
Property, plant and equipment	7	223	239	248			223	239	248
<b>As reported under IFRS</b>	<b>321 131</b>	<b>296 162</b>	<b>306 454</b>	<b>300 887</b>	<b>276 881</b>	<b>290 550</b>	<b>20 244</b>	<b>19 281</b>	<b>15 904</b>

## Reconciliation of changes in shareholders' equity

Reviewed	Note	Share capital Rm	Share premium Rm	Distributable reserves brought forward Rm	Current distributable reserve after dividends Rm	Property revaluation reserve Rm	Foreign currency translation reserve Rm	Available for sale reserve Rm	Other reserves Rm	Total ordinary shareholders' equity Rm	Preference share capital and premium Rm	Preference shareholders' equity Rm	Minority shareholders' equity Rm	Total Rm
<b>As at 1 January 2004</b>														
<b>As previously reported</b>		27	10 054	2 219	-	-	41	-	97	12 438	2 802	122	686	16 048
Income statement movements:														
Credit impairment	1			(28)	215					187			(1)	186
Revenue recognition and deferred acquisition costs	2			(115)	(14)					(129)			(27)	(156)
Goodwill	3			41	40					40				40
Foreign exchange	4			(9)	81		(122)			-				-
Share-based payments	5			(9)	11					2				2
Post-employment benefits	6			(214)	(9)	296				(214)			(1)	(215)
Property, plant and equipment	7			(44)	(4)	(14)				243			(4)	239
Transfer of reserves					14					-				-
<b>As reported under IFRS</b>		27	10 054	1 850	-	295	-	-	97	12 323	2 802	122	657	15 904
<b>As at 30 June 2004</b>														
<b>As previously reported</b>		27	12 647	2 219	33	-	20	416	178	15 540	2 770	122	753	19 185
Income statement movements:														
Credit impairment	1			(28)	215					187			(1)	186
Revenue recognition and deferred acquisition costs	2			(115)	(14)					(129)			(27)	(156)
Goodwill	3			41	40					40				40
Foreign exchange	4			(9)	81		(122)			-				-
Share-based payments	5			(9)	11					2				2
Post-employment benefits	6			(214)	(9)	296				(214)			(1)	(215)
Property, plant and equipment	7			(44)	(4)	(14)				243			(4)	239
Transfer of reserves					14					-				-
<b>As reported under IFRS</b>		27	12 647	1 850	371	282	(102)	416	178	15 669	2 770	122	720	19 281
<b>As at 31 December 2004</b>														
<b>As previously reported</b>		27	13 945	2 219	(280)	-	(7)	446	162	16 512	2 770	245	600	20 127
Income statement movements:														
Credit impairment	1			(28)	140					112			(6)	106
Revenue recognition and deferred acquisition costs	2			(115)	(31)					(146)			(30)	(176)
Goodwill	3			101	101					101				101
Foreign exchange	4			(9)	138		(179)			-				-
Share-based payments	5			(9)	(42)					(51)				(51)
Post-employment benefits	6			(214)	(43)	313				(84)			(2)	(86)
Property, plant and equipment	7			(44)	(4)	(14)				226			(3)	223
Transfer of reserves					51					-				-
<b>As reported under IFRS</b>														