

# 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 Nedcor 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") Listings 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 IFRS.

This requirement applies to financial reporting for all listed companies for financial reporting periods beginning on or after 1 January 2005 and, consequently, Nedcor'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 Nedcor'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 effect of IFRS, in particular the changes to the accounting treatment for goodwill, which is no longer amortised, and share-based payments (including the BEE deal), which are now expensed through the income statement, make Nedcor's published 2007 targets more challenging. These targets will be revisited during the annual budgeting and three-year forecasting process, which takes place in the second half of the year.

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.

Old Mutual plc, Nedcor'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 it 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 Nedcor 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 that restrict the use of the fair value option. Proposals to restrict the fair value option are being considered by the IASB and Nedcor 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 adopted the following transitional arrangements on a consistent basis with 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.
- Share-based payments: the group has elected not to apply the provisions of IFRS 2, Share-based Payments ("IFRS 2") to equity-settled awards granted on or before 7 November 2002, or to awards granted after the date but which had vested prior to 1 January 2005.

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 for 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 immediately 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 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. Other than costs incurred in administering the schemes, which were expensed as incurred, the schemes did not result in any expense to the group, other than a dilution in earnings per share when the shares were issued.

Financial highlights	as at	Reviewed		Reviewed	
		As reported under IFRS	30 June 2004	As previously reported	30 June 2004
<b>Share statistics</b>					
Number of shares in issue	m	394,2	392,9	394,2	392,9
Weighted average number shares	m	360,9	327,8	360,9	327,8
Fully diluted weighted average					
number of shares	m	361,8	330,1	361,8	330,1
Headline earnings per share	cents	483	245	401	153
Fully diluted headline earnings per share	cents	481	243	400	151
Attributable earnings per share	cents	423	247	270	116
Fully diluted attributable earnings per share	cents	422	245	269	115
Dividends declared per share	cents	120	44	120	44
Dividend cover	times	4,0	5,6	3,3	3,5
Net asset value per share					
(Investments at market value)	cents	4 692	4 499	4 590	4 444
Tangible net asset value per share					
(Investments at market value)	cents	3 400	3 162	3 357	3 132
<b>Key ratios</b>					
Return on ordinary shareholders' equity	%	11,0	11,7	9,2	7,3
Return on total assets	%	0,54	0,53	0,45	0,33
Net-interest income to interest-earning assets	%	3,13	3,06	3,13	3,05
Non-interest revenue to total income	%	50,2	48,6	50,8	48,7
Impairments to total advances	%	2,9	3,2	2,9	3,3
Efficiency ratio	%	74,8	79,0	76,3	79,9

In accordance with the requirements of IFRS, the group has recognised an expense in the income statement, with a corresponding credit to equity, representing the fair value of outstanding employee share options with regard to its equity settled schemes. The fair value at the date of granting the options is charged to income over the relevant option vesting periods, adjusted to reflect actual and expected levels of vesting.

#### 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 applied 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.

Income statement	Reviewed	Reviewed	Reviewed
Prepared in accordance with IFRS	2004	2004	2004
	For the	For the	For the
	year ended	six months ended	six months ended
Rm	31 December 2004	30 June 2004	30 June 2004
Interest and similar income	23 904	11 744	8 149
Interest expense and similar charges	16 322	8 149	8 149
Net interest income	7 582	3 595	3 595
Non-interest revenue	7 936	3 495	3 495
Foreign currency translation losses	(280)	(98)	(98)
Total income after foreign currency translation losses	15 238	6 992	6 992
Impairment losses on loans and advances	1 217	409	409
Income after impairment losses on loans and advances	14 021	6 583	6 583
Total expenses	11 404	5 524	5 524
Operating expenses	10 709	5 113	5 113
Fees due to alliance partners	70	83	83
Recovery programme expenses	379	234	234
Merger expenses	246	94	94
Profit from operations before non trading and capital items	2 617	1 059	1 059
Non-trading and capital items	(254)	(9)	(9)
Impairment of goodwill	(87)	(91)	(91)
(Loss)/Profit on sale of subsidiaries, investments and property and equipment	(74)	137	137
Net impairment of investments, property and equipment and capitalised development costs	(93)	(55)	(55)
Profit from operations	2 363	1 050	1 050
Share of profits of associates and joint ventures	147	80	80
Profit before taxation	2 510	1 130	1 130
Taxation	668	159	159
Taxation on non-trading and capital items	(39)	(17)	(17)
Profit after taxation	1 881	988	988
Minority interest income attributable to ordinary shareholders	(125)	(68)	(68)
Minority interest income attributable to preference shareholders	(229)	(110)	(110)
<b>Profit attributable to shareholders for the period</b>	<b>1 527</b>	<b>810</b>	<b>810</b>

### Headline earnings reconciliation

Profit attributable to ordinary shareholders for the period	1 527	810
Less: non-trading and capital items	(215)	8
Impairment of goodwill	(87)	(91)
(Loss)/Profit on sale of subsidiaries, investments and property and equipment	(74)	137
Net impairment of investments, property and equipment and capitalised development costs	(93)	(55)
Taxation on above items	39	17
<b>Headline earnings</b>	<b>1 742</b>	<b>802</b>
<b>Headline earnings excluding foreign currency translation losses</b>	<b>2 022</b>	<b>900</b>

### Reconciliation of income statement

Rm	Note	Profit attributable to ordinary shareholders	
		Reviewed	Reviewed
		For the	For the
		year ended	six months ended
		31 December	30 June
		2004	2004
<b>As previously reported</b>		<b>974</b>	<b>380</b>
Adjustments for:			
Credit impairment	1	140	215
Revenue recognition and deferred acquisition costs	2	(31)	(14)
Goodwill	3	281	127
Foreign exchange	4	91	116
Share-based payments	5	(15)	(4)
Post-employment benefits	6	131	7
Property, plant and equipment	7	(44)	(10)
<b>As reported under IFRS</b>		<b>1 527</b>	<b>810</b>

### Reconciliation of assets, liabilities and equity

Reviewed	31 December	Assets			Liabilities			Equity		
		31 December	30 June	1 January	31 December	30 June	1 January	31 December	30 June	1 January
	Note	2004	2004	2004	2004	2004	2004	2004	2004	2004
<b>As previously reported</b>		<b>327 238</b>	<b>300 353</b>	<b>313 113</b>	<b>305 652</b>	<b>279 421</b>	<b>298 012</b>	<b>21 586</b>	<b>20 932</b>	<b>15 101</b>
Adjustments for:										
Credit impairment	1	107	185	(33)				107	185	(33)
Revenue recognition and deferred acquisition costs	2	81	69	59	257	225	194	(176)	(156)	(135)
Goodwill	3	281	127					281	127	
Share-based payments	5	18	8	7				18	8	7
Post-employment benefits	6	(45)	(176)	(176)	43	43	43	(88)	(219)	(219)
Property, plant and equipment	7	220	235	245				220	235	245
<b>As reported under IFRS</b>		<b>327 900</b>	<b>300 801</b>	<b>313 215</b>	<b>305 952</b>	<b>279 689</b>	<b>298 249</b>	<b>21 948</b>	<b>21 112</b>	<b>14 966</b>

### Reconciliation of changes in shareholders' equity

Reviewed	Share capital	Share premium	Distributable reserves brought forward	Current distributable reserve movements after dividends	Share-based payments reserve	Property revaluation reserve	Foreign currency translation reserve	Available for sale reserves	Other reserves	Total ordinary shareholders' equity	Preference shareholders' equity	Minority shareholders' equity	Total
<b>As at 1 January 2004</b>													
<b>As previously reported</b>	275	4 801	6 667	-	-	-	(209)	-	113	11 647	2 802	652	15 101
Income statement movements:													
Credit impairment	1		(28)							(28)		(5)	(33)
Revenue recognition and deferred acquisition costs	2		(115)							(115)		(20)	(135)
Foreign exchange	4		(209)			209				-		-	-
Share-based payments	5		(2)	9						7		7	7
Post-employment benefits	6		(216)							(216)		(3)	(219)
Property, plant and equipment	7		(49)			296				247		(2)	245
<b>As reported under IFRS</b>	275	4 801	6 048	-	9	296	-	-	113	11 542	2 802	622	14 966
<b>As at 30 June 2004</b>													
<b>As previously reported</b>	393	9 832	6 667	(299)	-	-	(210)	416	664	17 463	2 770	699	20 932
Income statement movements:													
Credit impairment	1		(28)	215						187		(2)	185
Revenue recognition and deferred acquisition costs	2		(115)	(14)						(129)		(27)	(156)
Goodwill	3		127							127			127
Foreign exchange	4		(209)	116		93				-		-	-
Share-based payments	5		(2)	(4)	14					8		8	8
Post-employment benefits	6		(216)	(176)						(216)		(3)	(219)
Property, plant and equipment	7		(49)	(10)		296				237		(2)	235
Transfer of reserves				13		(13)				-		-	-
<b>As reported under IFRS</b>	393	9 832	6 048	144</									