



# **IMPERIAL BANK**

**PRE-LISTING STATEMENT**

**21 JUNE 2006**



IMPERIAL BANK

## Imperial Bank Limited

(Incorporated in the Republic of South Africa)  
(Registration number 1995/012641/06)  
Preference share code: IBLP ISIN: ZAE000081675  
("Imperial Bank" or "the Company")

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## Pre-listing statement

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This Pre-listing statement is not an invitation to the public to subscribe for securities, but is issued in compliance with the Listings Requirements for the purpose of providing information to the public with regards to the Company, relating to a private placing and subsequent listing of 3 000 000 non-redeemable, non-cumulative, non-participating preference shares. This Pre-listing statement is for the use of investors participating in the private placing and prospective investors post listing.

*The definitions and interpretations commencing on page 3 of the Pre-listing statement apply to this cover page.*

Subscriptions in terms of the private placing may only be made for a minimum amount of R100 000 per single addressee acting as principal.

At the date of listing, the authorised share capital of Imperial Bank will comprise 500 000 000 ordinary shares with a par value of R0.01 each and 8 000 000 preference shares with a par value of R0.0005 each and the issued share capital will comprise 358 934 487 ordinary shares of R0.01 each and 3 000 000 preference shares of R0.0005 each.

The preference shares will rank *pari passu* with one another. The JSE has granted Imperial Bank a listing of 3 000 000 preference shares, on the Preference Shares – "Preference Shares" sector of the JSE list with the abbreviated name "IBL Pref", JSE preference share code IBLP and ISIN ZAE000081675. It is anticipated that the listing will be effective as from the commencement of business on Thursday, 22 June 2006.

Preference shares will only be traded in electronic form and as such all preference shareholders who elect to receive certificated preference shares will have to dematerialise their certificated preference shares should they wish to trade therein.

The directors, whose names are provided in paragraph 4.1 of the Pre-listing statement, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the Pre-listing statement contains all information required by law and the Listings Requirements.

The investment bank and joint sponsor, corporate law advisers, lead sponsor, independent reporting accountants and auditors, and transfer secretaries, whose names are included in the Pre-listing statement, have consented in writing to act in the capacities stated and to their names being included in the Pre-listing statement and have not withdrawn their consents prior to the publication of the Pre-listing statement. The independent reporting accountants and auditors have consented to the inclusion of their reports in the form and context in which these appear and have not withdrawn such consent prior to the publication of the Pre-listing statement.

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Investment bank and joint sponsor



Corporate law advisers



Independent reporting accountants  
and auditors



Lead sponsor



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## CORPORATE INFORMATION RELATING TO IMPERIAL BANK

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### Secretary and registered office

Pavel Hassim BA (Law) LLB  
Post Graduate Certificate in Advanced Taxation  
24 Achter Road  
Paulshof  
Sunninghill, 2191  
(PO Box 6093, Rivonia, 2128)

### Investment bank and joint sponsor

Nedbank Capital  
A division of Nedbank Limited  
(Registration number 1951/000009/06)  
135 Rivonia Road  
Sandown, Sandton, 2196  
(PO Box 1144, Johannesburg, 2000)

### Corporate law advisers

Edward Nathan (Proprietary) Limited  
(Registration number 2004/005665/07)  
150 West Street  
Sandown  
Sandton, 2196  
(PO Box 783447, Sandton, 2146)

### Lead Sponsor

Deloitte & Touche Sponsor Services (Proprietary) Limited  
(Registration number 1996/000034/07)  
Building 2  
Deloitte Place  
The Woodlands  
20 Woodlands Drive  
Woodmead  
Sandton, 2196  
(Private Bag X6, Gallo Manor, 2052)

### Independent reporting accountants and auditors

Deloitte & Touche  
Registered Auditors  
Deloitte Place, The Woodlands  
20 Woodlands Drive  
Woodmead  
Sandton, 2196  
(Private Bag X6, Gallo Manor, 2052)

### Transfer secretaries

Computershare Investor Services 2004  
(Proprietary) Limited  
(Registration number 2004/003647/07)  
Ground Floor  
70 Marshall Street  
Johannesburg, 2001  
(PO Box 61051, Marshalltown, 2107)

### Bankers

Nedbank Corporate,  
A division of Nedbank Limited  
(Registration number 1951/000009/06)  
135 Rivonia Road  
Sandown, Sandton, 2196  
(PO Box 1144, Johannesburg, 2000)

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## DEFINITIONS AND INTERPRETATIONS

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In the Pre-listing statement, unless otherwise stated or the context otherwise indicates, the words in the first column shall have the meanings stated opposite them in the second column and words in the singular shall include the plural and *vice versa*. Words importing natural persons shall include corporations and associations of persons and *vice versa* and an expression denoting any gender shall include the other genders:

"Banks Act"	the Banks Act, 1990 (Act 94 of 1990), as amended;
"Basel II"	the new Basel Capital Accord of the Bank for International Settlements is an improved capital adequacy framework accomplished by closely aligning banks' capital requirements with improved modern risk management practices and sophisticated risk assessment capabilities. It further ensures the risk sensitivity of the minimum capital requirements by including supervisory reviews and market discipline through enhanced disclosure;
"business day"	any day other than a Saturday, Sunday or official public holiday in South Africa;
"common monetary area"	South Africa, the Republic of Namibia and the Kingdoms of Swaziland and Lesotho;
"Companies Act"	the Companies Act, 1973 (Act 61 of 1973), as amended;
"Computershare " or "the transfer secretaries"	Computershare Investor Services 2004 (Proprietary) Limited (Registration number 2004/003647/07), a private company incorporated in South Africa;
"CEO"	Chief Executive Officer;
"CSDP"	a Central Securities Depository Participant appointed for the purpose of and regarding dematerialisation in terms of the Securities Services Act, 2004 (Act 36 of 2004);
"Deloitte & Touche" or "independent reporting accountants and auditors"	Deloitte & Touche, Registered Auditors;
"Deloitte & Touche Sponsor Services" or "lead sponsor"	Deloitte & Touche Sponsor Services (Proprietary) Limited (Registration number 1996/000034/07), a private company incorporated in South Africa;
"deemed value"	the reference value of each preference share, for purpose only of calculation of the dividend in respect of each preference share, being a nominal amount of R100.00;
"dematerialise"	the process by which paper share certificates or other documents of title are replaced with electronic records of ownership under STRATE with a duly appointed CSDP or broker, as the case may be;
"dematerialised shares"	Imperial Bank's shares in respect of which paper share certificates or other documents of title have been replaced with electronic records of ownership under STRATE with a duly appointed CSDP or broker, as the case may be;
"directors" or "the board"	the directors of Imperial Bank;
"Edward Nathan" or "corporate law advisers"	Edward Nathan (Proprietary) Limited (Registration number 2004/005665/07), a private company incorporated in South Africa;

"EPS"	earnings per ordinary share;
"GAAP"	Generally Accepted Accounting Practice;
"group"	Imperial Bank and its subsidiaries from time to time;
"HEPS"	headline earnings per ordinary share;
"IFRS"	International Financial Reporting Standards, which comprise standards and interpretations approved by the International Accounting Standards Board, International Financial Reporting Interpretations Committee and International Accounting Standards, and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee;
"Imperial Bank", "the Company" or "the Bank"	Imperial Bank Limited (Registration number 1995/012641/06), a public company incorporated in South Africa and a subsidiary of Nedbank, with Nedbank holding 51,1% of Imperial Bank's ordinary shares and Imperial Holdings holding 49,9% of Imperial Bank's ordinary shares;
"Imperial Holdings"	Imperial Holdings Limited (Registration number 1946/021048/06), a public company incorporated in South Africa and listed on the JSE whose registered address is situated at Imperial Place, Jeppe Quondam, 79 Boeing Road East, Bedfordview, 2008 and whose postal address is PO Box 3013, Edenvale, 1610;
"Imperial Financial Holdings"	Imperial Financial Holdings Limited (Registration number 1995/012640/06), a public company incorporated in South Africa and a wholly-owned subsidiary of Imperial Holdings;
"Imperial Bank preference shares" or "preference shares"	non-redeemable, non-cumulative, non-participating preference shares of R0.0005 each, the terms of which are set out in Article 41 of Imperial's articles of association, an extract of which is set out in Annexure 7 to the Pre-listing statement;
"Income Tax Act"	the Income Tax Act, 1962 (Act 58 of 1962), as amended;
"investment bank and joint sponsor" or "Nedbank Capital"	Nedbank Capital, a division of Nedbank;
"issue price" or "subscription price"	the issue price or subscription price of each new preference share of R100.00 each, equivalent to a par value of R0.0005 and a premium of R99.9995 per preference share;
"JSE"	JSE Limited (Registration number 2005/022939/06) formerly the JSE Securities Exchange South Africa, a company duly registered and incorporated with limited liability under the company laws of South Africa and licensed as an exchange under the Securities Services Act, 2004 (Act 36 of 2004);
"last practicable date"	the last practicable date prior to the finalisation of the Pre-listing statement, being Friday, 9 June 2006;
"listing"	the proposed listing of 3 000 000 Imperial Bank preference shares on the JSE in the Preference Shares – "Preference Shares" sector under the abbreviated name "IBL Pref", with effect from the commencement of business on Thursday, 22 June 2006;
"Listings Requirements"	the JSE Listings Requirements, as amended from time to time;
"memorandum of understanding" or "MOU"	the memorandum of understanding between Nedbank, Imperial Bank, Imperial Financial Holdings (formerly Imperial Bank Holdings Limited) and Imperial Holdings dated 14 December 2000;

"NAV"	net asset value per ordinary share;
"Nedbank"	Nedbank Limited (formerly Nedcor Bank Limited) (Registration number 1951/000009/06), a public company incorporated in South Africa and a wholly-owned subsidiary of Nedbank Group whose registered office is situated at 135 Rivonia Road, Sandown, 2196 and whose postal address is PO Box 1144, Johannesburg, 2000;
"Nedbank Group"	Nedbank Group Limited (formerly Nedcor Limited) (Registration number 1966/010630/06), a public company incorporated in South Africa and listed on the JSE whose registered office is situated at 135 Rivonia Road, Sandown, 2196 and whose postal address is PO Box 1144, Johannesburg, 2000;
"NRB"	NRB Risk Solutions Limited (formerly New Republic Bank Limited) (Registration number 1997/002364/06), a private company incorporated in the South Africa and a wholly-owned subsidiary of Imperial Bank;
"NTAV"	net tangible asset value per ordinary share;
"ordinary shares"	ordinary shares with a par value of R0.01 each in the capital of Imperial Bank;
"ordinary shareholder"	the registered holder of ordinary shares;
"Pre-listing statement"	this Pre-listing statement, and its annexures dated Tuesday, 13 June 2006, and issued on Wednesday, 21 June 2006, which has been prepared in compliance with the Listings Requirements;
"preference shareholder"	the holder of preference shares;
"prime"	the publicly quoted basic rate per annum calculated on a 365 day year factor (irrespective of whether or not the year is a leap year) ruling from time to time, quoted by Nedbank as being its prime overdraft rate;
"private placing"	an offer for subscription by way of the placement of 3 000 000 preference shares to selected institutions at the subscription price;
"Registrar"	the Registrar of Companies in South Africa;
"SARB"	South African Reserve Bank;
"shares"	collectively, ordinary shares and preference shares;
"SENS"	the Securities Exchange News Service of the JSE;
"South Africa" or "SA"	the Republic of South Africa; and
"STRATE"	STRATE Limited (Registration number 1998/022242/06), a company incorporated in South Africa and the electronic clearing and settlement system used by the JSE to settle trades.

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## SALIENT FEATURES

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This summary contains the salient features of the private placing and the listing of the Imperial Bank preference shares on the JSE as set out in the Pre-listing statement. For a full appreciation of the Pre-listing statement it should be read in its entirety. The definitions provided on pages 3 to 5 of the Pre-listing statement apply *mutatis mutandis* to the salient features.

### 1. INTRODUCTION AND PURPOSE

The preference shares are being issued as part of a capital optimisation programme whereby Imperial Bank seeks to optimise the efficiency of its capital structure, and hence enhance return on capital for its shareholders, within the regulatory capital constraints as detailed in the Banks Act and regulations thereto. As part of this programme, preference shares will be issued and the proceeds used to repurchase ordinary share capital. Further details of the proposed repurchase are set out in paragraph 6.4 of the Pre-listing statement.

The purpose of the Pre-listing statement is to:

- provide investors and the market with information relating to Imperial Bank, its business and directors and senior management;
- enable Imperial Bank to issue 3 000 000 preference shares to selected investors by way of a private placing and to bring about the listing of such preference shares; and
- set out the salient features of the preference shares and the private placing.

### 2. DETAILS OF THE PRIVATE PLACING AND LISTING

#### 2.1 Details of the private placing

Prior to the issue of the Pre-listing statement, selected investors gave irrevocable commitments to subscribe for 3 000 000 preference shares at a subscription price of R100.00 per preference share details of which are set out below:

Issue price and subscription price per preference share	R100.00
Number of preference shares offered	3 000 000
Minimum Rand value of subscription per subscriber acting as principal	R100 000
Amount raised in terms of the private placing	R300 000 000

#### 2.2 Details of the listing

The JSE has granted Imperial Bank a listing of 3 000 000 preference shares, in the Preference Shares – “Preference Shares” sector of the JSE list with the abbreviated name “IBL Pref”, JSE preference share code IBLP and ISIN ZAE000081675. It is anticipated that the listing will be effective from the commencement of business on Thursday, 22 June 2006.

#### 2.3 Requisite approvals

All requisite regulatory approvals regarding the issue and listing of the preference shares, including SARB approval, have been obtained.

### 3. SALIENT FEATURES OF THE PREFERENCE SHARES

The preference shares are non-redeemable, non-participating and non-cumulative. Dividends, if declared, at the sole discretion of the directors, will be payable on the earlier of a date at least seven business days prior to the date on which the Company pays its ordinary dividends, if any, in respect of the same period and a date not later than 120 business days after 30 June and 31 December of each year. Notwithstanding the foregoing, the first preference dividend period shall be the period commencing from the date of the issue and ending on 31 December 2006, and accordingly the preference dividend for that period, if declared, shall be paid within 120 days after 31 December 2006, but in any event not later than 7 business days prior to dates upon which the ordinary dividend declared in respect of the same period is paid.

### 3.1 Voting rights

Preference shareholders shall not be entitled to vote, either in person or by proxy, at any general meeting of the Company, by virtue of or in respect of the preference shares, unless either or both of the following circumstances prevail at the date of the meeting:

- 3.1.1 during any period determined as provided for in section 194(2) of the Companies Act in which any dividend or any part of any dividend on such preference shares remains in arrear and unpaid; and/or;
- 3.1.2 a resolution of the Company is proposed (in which event the preference shareholders shall be entitled to vote only on such resolution) which directly affects the rights attached to the preference shares or the interests of the holders thereof, including a resolution for the winding-up of the Company or for the reduction of its capital.

### 3.2 Entitlements to dividends

Preference shareholders will be entitled to receive out of the profits of the Company that it determines to distribute, in priority to any payment of dividends to the holders of any other class of shares in the capital of the Company not ranking prior to the preference shares, a non-cumulative preference cash dividend equivalent to 70% of prime multiplied by the deemed value of the preference shares held by a preference shareholder. The dividend will not compound, and, if declared, will accrue, initially in respect of the period calculated from the date of issue to the period ending 31 December 2006, and thereafter in respect of the periods from 1 January to 30 June and 1 July to 31 December. Preference shares that may be issued in future will be entitled to a *pro rata* portion of any dividend declared for the first period in which they were issued. An ordinary dividend will not be declared by Imperial Bank in respect of any dividend period unless the preference share dividend for that same dividend period has been declared in full.

## 4. SALIENT TIMES AND DATES

	2006*
Publication of abridged Pre-listing statement on SENS on	Tuesday, 20 June
Publication of abridged Pre-listing statement in the press and Pre-listing statement available on	Wednesday, 21 June
Listing of the preference shares on	Thursday, 22 June

*\*The abovementioned times and dates are South African times and dates and are subject to amendment. Any such amendment will be released on SENS and published in the press.*

## 5. FURTHER COPIES OF THE PRE-LISTING STATEMENT

The Pre-listing statement is available in English and further copies may be obtained during normal business hours from Wednesday, 21 June 2006 to Friday, 14 July 2006 from Imperial Bank's registered offices, Nedbank Capital and the transfer secretaries, details of which are set out in the "Corporate information relating to Imperial Bank" section of the Pre-listing statement.



**IMPERIAL BANK**  
**Imperial Bank Limited**  
(Incorporated in the Republic of South Africa)  
(Registration number 1995/012641/06)  
Preference share code: IBLP ISIN: ZAE000081675  
("Imperial Bank" or "the Company")

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## PRE-LISTING STATEMENT

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### 1. INTRODUCTION AND PURPOSE

The preference shares are being issued as part of a capital optimisation programme whereby Imperial Bank seeks to optimise the efficiency of its capital structure, and hence enhance return on capital for its shareholders, within the regulatory capital constraints as detailed in the Banks Act and regulations thereto. As part of this programme preference shares will be issued and the proceeds used to repurchase ordinary share capital. Further details of the proposed repurchase of share capital is set out in paragraph 6.4 below.

The purpose of the Pre-listing statement is to:

- provide investors and the market with information relating to Imperial Bank, its business and directors and senior management;
- enable Imperial Bank to issue 3 000 000 preference shares to selected investors by way of a private placing and to bring about the listing of such preference shares; and
- set out the salient features of the preference shares and the private placing.

### 2. INCORPORATION AND HISTORY

#### 2.1 Incorporation

The Company was incorporated in South Africa on 23 November 1995.

#### 2.2 History

Imperial Bank was initially established as a wholly-owned bank subsidiary of Imperial Holdings with an initial focus on lending to high net worth individuals and selected car finance business sourced from Imperial Holdings' dealerships. During 2000, the Motor Finance Corporation Division was formed as a specialist dealer-based retail finance division. In January 2001, Nedbank acquired a 50.1% controlling stake in Imperial Bank, as part of a strategic joint venture agreement with Imperial Holdings. In 2002, Imperial Bank acquired the entire issued share capital of New Republic Bank Limited inclusive of asset based receivables, for R670 million from the receiver of Saambou Bank Limited which was in liquidation.

#### 2.3 Nature of business

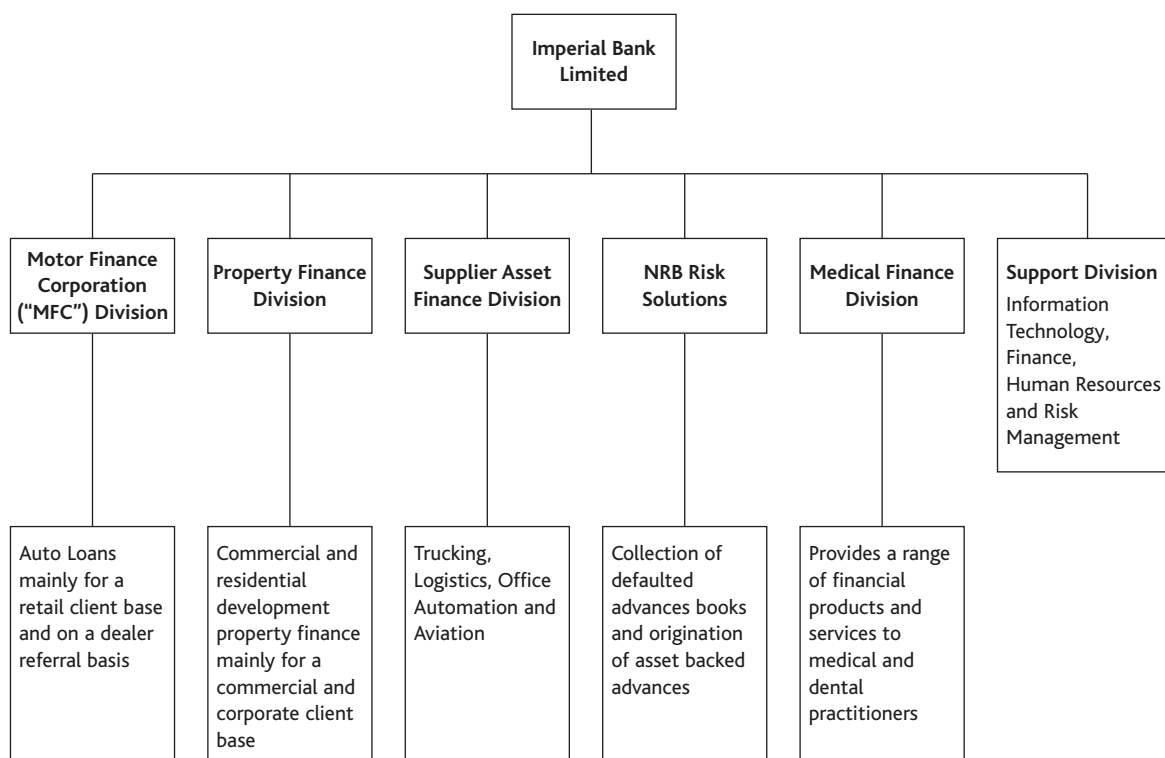
Imperial Bank is a regulated bank with two major shareholders, namely Nedbank and Imperial Holdings. Imperial Bank is a niche player primarily engaged in asset based financing and relies strongly on its shareholders for support. Nedbank provides the vast majority of the funding and risk management support while Imperial Holdings directs business to Imperial Bank through its extensive motor franchises.

Imperial Bank's strategy has the following objectives to:

- operate in selected niche markets where it has proven expertise and in which it has built strong relationships;
- access these niche markets by leveraging off the Imperial Holdings footprint;
- contain costs such that a cost to income ratio below a 40% threshold is achieved;

- ensure sound risk management; and
- ensure clear accountability.

The operational structure of Imperial Bank is set out below:



### Motor Finance Corporation ("MFC")

Imperial Bank's motor finance operations operate under the "MFC" brand. Deal origination in the division is highly automated and has the ability to process larger volumes through modular increases in infrastructure.

Much attention is focused on product development, market share gains within the existing dealer base and the establishment of a presence in the broader (non-Imperial Group) motor retailing sector.

MFC's business model rests on four pillars: business volumes, credit quality, consistent and fast processing of applications, and an efficient collections department. MFC aims to increase its market share in both the areas of new and used passenger cars.

MFC enjoys support from all Imperial Group dealers, who represented in excess of 10% of all vehicle dealer retail sales in South Africa as at 31 December 2005. MFC views the dealer as its primary client, and marketing strategies are orientated to ensure client ownership and retention together with maximised value-added products sales through this 'partnership' with the dealer. A risk-based dealer incentive system combined with a dealer management system, used to monitor volumes and quality of business from dealerships, assist in a forward and targeted approach. At 31 December 2005, MFC had access to almost 1 500 motor dealers and MFC's share of these dealers' business is increasing steadily.

MFC's acceptance in the market is enhanced by the fact that there are few true dealer banks operating in South Africa and dealers have welcomed Imperial Bank as an additional player. Secondly, the division's credit assessment process is based on scorecard technology developed in conjunction with international experts. MFC's scorecard, which is recalibrated regularly for changing market conditions and enhanced scoring variables, tends to approve applications in slightly different market segments to Imperial Bank's competitors. This offers motor dealers deeper penetration into their markets.

Gross advances reached R12,2 billion in December 2005. Growth in this book is important in order to achieve further critical mass. Imperial Bank believes, however, that the growth being pursued in this division is not being achieved at the expense of credit quality. Firstly, Imperial Bank tracks book quality daily through the statistical tools presented by the motor finance credit scorecard, in addition to detailed arrears statistics. Secondly, book growth comes from entering new markets, namely non-Imperial Group dealers, thereby broadening the target client base without compromising on existing credit criteria.

Monthly applications have grown by 64.5% compounded per annum since the beginning of 1999, and the book size by 44.3% (although off a relatively low base). The book grew by 50.8% in the 2005 financial year. The rapid growth came as a result of the utilisation of efficient processing systems and successful market penetration outside Imperial Holdings and its subsidiaries on the back of a very buoyant vehicle market in recent years.

MFC finances both new and used vehicles with just over half of the turnover being used vehicles. The used market traditionally offers higher margins but corresponding higher bad debts. Non-interest revenue (NIR) is generated through deal administration fees and the sale of value-added products such as insurance and maintenance warranties. Cost control is closely monitored with MFC enjoying a cost-to-income ratio consistently lower than 40%.

MFC opened a second processing hub in Pretoria during 2005, which supports higher transaction volumes and ensures business continuity and data recovery backup facilities.

### **Property Finance Division**

The Property Finance Division operates in the major metropolitan areas of South Africa focusing on long-term commercial mortgage finance and short-term residential property development finance.

While long-term mortgage finance comprises 51% of the property finance book of R3.5 billion (December 2005), the bulk of activity and growth has taken place in residential development finance.

Short-term residential property development finance is entered into with selected, pre-approved developers in selected geographical areas. Finance is granted in respect of developments of either residential security complexes (residential zoning, sectional and full title developments), or land and services (residential zoning 1) or land only transactions. Dependent on risk assessment, the division requires all sites to be pre-sold prior to financing. These deals range in duration from six to twelve months.

While the market for residential development is fast growing, the division recognises the potential volatility in the property market and uses credit assessment methods and operational procedures to pre-empt adverse cyclical swings in the market. Following the recent slow-down in the higher end of the market, the division now focuses on developments catering to the middle and lower end of the residential property market.

The division follows a business model, which entails extensive involvement with the entire professional team, consisting of the developer, estate agent, attorney, architect, quantity surveyor and project engineer. Because the credit approval process takes account of technical, marketing, legal and statutory matters, the activities of all parties need to be co-ordinated to ensure that all the controls and protections built into the transaction are adhered to and that timeous pay-out of draw downs takes place. With this level of involvement, Imperial Bank earns significant fee income (36.5% of the division's gross income in 2005).

Commercial Property Finance operates in the following niche markets:

- owner occupied buildings typically with a maximum 80% loan to value;
- small portfolio investors;
- industrial light commercial (e.g. assembly, distribution, storage, mini-factories); and
- small retail shopping centres (neighbourhood and convenience typically up to 10 000m<sup>2</sup>). Finance is ordinarily only provided to prospective landlords on a pre-let basis.

Deal terms are ordinarily 120 months.

Recognising the eventual slow down in residential development, the division's longer-term strategy seeks to maintain the residential development book at approximately the same level. The division aims to expand its presence in the long-term commercial mortgage market.

### **Supplier Asset Finance Division ("SAF")**

With effect from June 2005, the three complementary business lines of Aviation, Corporate Asset Finance ("CAF") and Supplier Finance were merged into one division being SAF. This business unit seeks to establish long-term relationships with core suppliers of movable goods as a basis for writing asset based finance business. The relationships with the businesses in the Imperial Holdings Group are seen as key to the success of this strategy. SAF's booksize at the end of December 2005 was in excess of R1.55 billion.

Aviation Finance serves the general and charter contract sector. The aviation sector has experienced several years of turbulence as the strengthening Rand eroded Rand equity in U.S. Dollar based assets. The market stabilised during 2005 and Imperial Bank continues to provide finance on a selected basis.

Business in the previous CAF and Supplier Finance areas is directed at smaller to medium sized companies requiring finance for assets used in logistics, yellow metal, trucking and related functions. Through established relationships and assisted by incentive programmes, SAF will target the supplier in order to place business with Imperial Bank.

The rental finance office focuses on office automation equipment through pre-determined suppliers.

#### **NRB Risk Solutions ("NRB")**

This division, housed in NRB, has been engaged in specialist debt collection since 1999, when Saambou Bank Limited acquired it. During Imperial Bank's acquisition of the assets, with a face value of R917 million, from Saambou in 2002, it also acquired the shares in NRB. The handing back of New Republic Bank Limited's banking license to SARB at the end of January 2004 necessitated a name change to NRB Risk Solutions Limited. The division is collecting the originally purchased assets and continues to buy distressed books of business as the opportunities arise.

The specialist skills of the division have also been deployed to collect the debts of other divisions within Imperial Bank, where the collections team has achieved considerable success.

Since 2005, advances originated in this division are discounted with Imperial Bank.

#### **Medical Finance Division**

The Medical Finance division was established in 2003 and provides niche asset based financial products to the medical and dental markets in South Africa.

Medical Finance provides finance for residential properties, motor vehicles, equipment, practice needs and project finance for large medical installations and facilities by way of mortgage loans, instalment sale banking facilities and loans. The division offers high levels of service through knowledgeable and professional staff, thus creating a client preference.

The medical finance market, although affected by many external influences including changing legislation and failing medical services, has proved resilient and the business potential of the market remains good.

Solid attention to risk management during this start-up phase resulted in a significant growth in advances without compromising the credit quality of the book. Bad debt charges are low. Margins continue to be under pressure as the Medical Finance division operates in a rate sensitive market.

The division's target market includes all economically active medical and dental practitioners, specialists and general practitioners, in both private and public practice together with allied professionals such as optometrists, physiotherapists etc. Medical Finance is also active with the corporate medical market, e.g. private hospital groups, large radiology installations and group practices.

The division was started with an experienced staff complement, facilitating a swift move to an acceptable level of advances growth. The division became profitable in 2005. The business exceeded R2 billion in advances during November 2005. It is expected that the division will reach a mature booksize, delivering acceptable returns by the end of 2008.

## **2.4 Group prospects**

The outlook for 2006 is positive. Imperial Bank is well positioned to continue benefitting from the favourable market conditions and expects another year of strong advances growth.

The growth of the last two years has required additional capital, with shareholders contributing R215m in 2005. Further capital will be required during 2006 to support the expected growth. Although the shareholders are committed to supporting the bank, the capital structures are being reviewed in order to optimise the mix of primary and secondary capital.

Having reduced the cost base in 2005, it is expected that the cost to income ratio in 2006 will drop below 40%.

The Motor Finance Division will continue to focus on expanding its motor dealership network and will be looking for opportunities to further leverage the infrastructure and technology that it has developed.

Property Finance will maintain levels of activity in residential development finance. Although there has been a slowing down in demand for the more expensive residential units, there continues to be strong demand for units in the middle to lower segment of the market, which is where the Property Finance division focuses its activities. The division will focus on growing its commercial property loan book in order to increase annuity income, which will shield the division when the residential development market ultimately slows down.

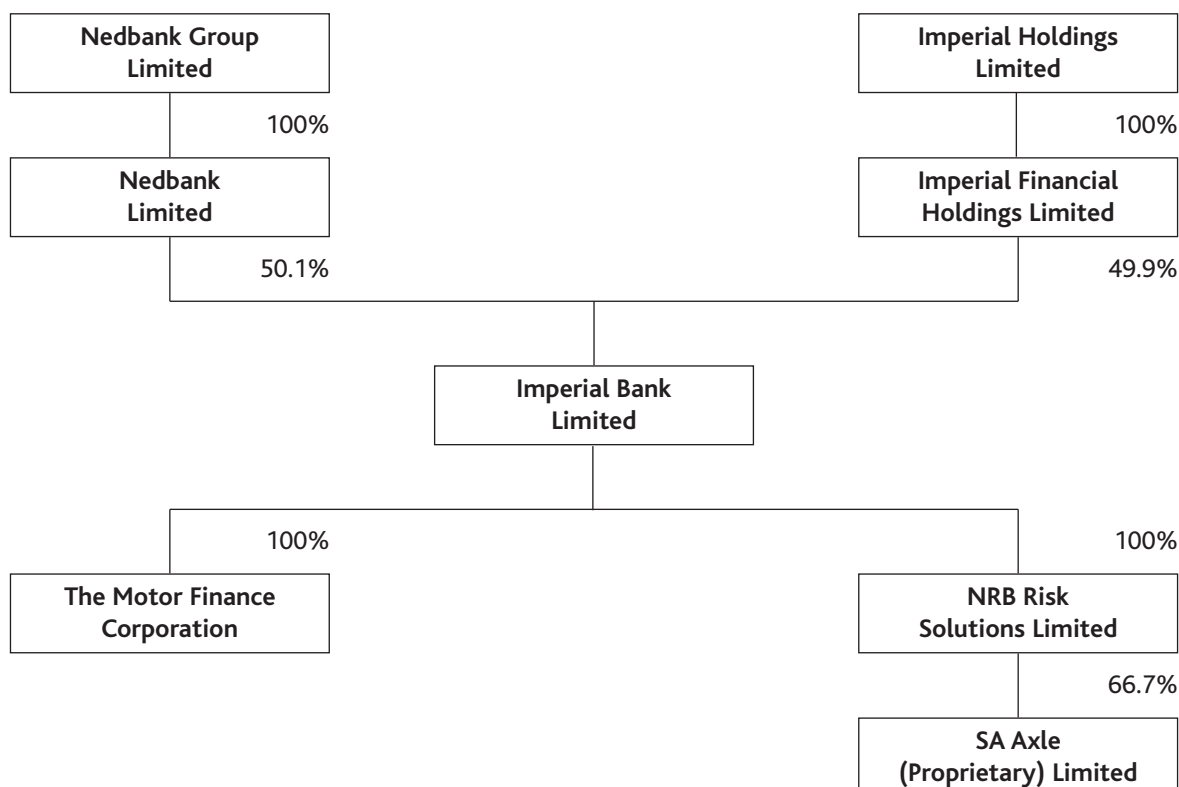
Medical Finance intends taking advantage of the current favourable environment to continue its strong growth, while Supplier Asset Finance will focus on developing sound relationships with the Imperial group companies as well as other major suppliers in its selected markets.

With continued assistance from Nedbank, the risk management structures, processes and procedures are sound, which enables the Bank to grow its business within acceptable risk parameters. Good progress has been made with regard to Basel II implementation and it is expected that the Bank will meet the implementation deadlines.

### 3. GROUP STRUCTURE

#### 3.1 The corporate structure of Imperial Bank

The corporate structure of Imperial Bank is outlined in the diagram below:



#### 3.2 Major shareholders

##### 3.2.1 Major ordinary shareholders

The shareholders who beneficially held 5% or more of the issued ordinary shares at the last practicable date were as follows:

Shareholder	Percentage of ordinary shares in issue <sup>1</sup>
Nedbank	50.1
Imperial Holdings	49.9
<b>Total</b>	<b>100.0</b>

**Notes:**

1. Based on 358 934 487 shares in issue at the last practicable date.
2. There will be no change in the above shareholding as a result of the issue of the preference shares.

### 3.2.2 Major preference shareholders

The preference shareholders who will hold 5% or more of the preference shares to be issued in terms of the private placing are as follows:

Shareholder	Percentage of ordinary shares in issue <sup>(1)</sup>
SMK Nominees	33.83
FRM & Partners	20.00
BoE Stockbrokers (Proprietary) Limited	8.93
Mutual & Federal Insurance Company Limited	6.67
Marriott Asset Management	6.27
<b>Total</b>	<b>75.70</b>

Note:

1. Based on 3 000 000 preference shares to be in issue on listing.

## 4. DIRECTORS AND SENIOR MANAGEMENT OF IMPERIAL BANK

### 4.1 Directors

The name, age, qualification, nationality, business address, occupation and function and a short CV of each of the directors of Imperial Bank are outlined below:

Name, age, qualification and nationality	Business address	Occupation and function
<b>Executive directors</b>		
R van Wyk (50) CA(SA), AMP (Insead) (South African)	24 Achter Road Paulshof Sunninghill, 2191	CEO
P C W Hibbit (57) CA(SA), H.Dip Tax, AMP (Harvard) (South African)	24 Achter Road Paulshof Sunninghill, 2191	Chief Financial Officer
<b>Non-executive directors</b>		
W G Lynch (62) (Irish)	Imperial Place, Jeppe Quondam 79 Boeing Road East Bedfordview, 2008	Non-executive chairman of Imperial Bank; CEO of Imperial Holdings
C J W Ball (66) Dip Luris, MA (Cantab) (South African)	4 Gardenia Lane Constantia, 7800	Non-executive director; director of Nedbank
R G Cottrell (70) CA(SA), FCA, FCP (Stanford) (South African)	Primegro Place 18 Rivonia Road (corner Boundary Road) Illovo, 2196	Non-executive director; director of Nedbank
P A Wessels (48) CA(SA), Dip Adv Bank Law, SAISB (South African)	135 Rivonia Road Sandton, 2196	Non-executive director; Chief Risk Officer of Nedbank
M J Croucamp (60) IAC, AEP, AMP (Insead) (South African)	9 Rory Byrne Close Bedfordview, 2008	Independent non-executive director
O S Arbee (46) CA(SA), Dip Tax, IMB (Switzerland) (South African)	Imperial Place, Jeppe Quondam 79 Boeing Road East Bedfordview, 2008	Non-executive director, member of Imperial Holdings' executive committee

<b>Name, age, qualification and nationality</b>	<b>Business address</b>	<b>Occupation and function</b>
H R Brody (41) CA(SA) (South African)	Imperial Place, Jeppe Quondam 79 Boeing Road East Bedfordview, 2008	Non-executive director, member of Imperial Holdings' executive committee
M A Enus-Brey (51) CA(SA) (South African)	1st Floor, Slade House Boundary Terraces 1 Mariendahl Lane Newlands, 7700	Non-executive director, director of Nedbank

***Mr René van Wyk***

René joined Nedcor during January 1993, prior to which he was a partner at KPMG. He joined Imperial Bank on 15 September 2004 in an Acting CEO capacity whilst retaining certain responsibilities at Nedcor. René was subsequently appointed as Imperial Bank's fulltime CEO in April 2005.

***Mr Peter Charles Wenham Hibbit***

Peter Hibbit was a partner at Pim Goldby from 1979 to 1986, whereafter he joined the SA Permanent Building Society as the General Manager of Finance and Accounting. He then went on to join Nedbank and was appointed as a divisional director in 1999. Peter joined Imperial Bank in 2005 as the Chief Financial Officer.

***Mr William Gerald Lynch***

Bill Lynch is Chief Executive of Imperial Holdings, a transportation and mobility group. He joined the Imperial group 33 years ago, became joint managing director in 1987 and has served as Executive Chairman from 1990 to June 2001, when the board reorganised in line with the requirements of the King report on Corporate Governance, and the roles of chairman and chief executive were separated. Bill was recently named Ernst & Young 2006 World Entrepreneur of the Year.

***Mr Christopher John Watkins Ball***

Chris Ball worked at Barclays banking group in various positions including group CEO of Barclays National Bank (which became First National Bank) until 1989. Thereafter Chris occupied banking positions in Europe prior to returning to South Africa to be executive chairman of the SA Housing Trust and CEO of Cape Town's 2004 Olympic Bid. He was previously a director of BOE Bank and is now a director of Nedbank and Nedbank Group.

***Mr Richard Gray Cottrell***

Rick Cottrell is a former Chairman and Managing Partner of Coopers & Lybrand, South Africa, a predecessor firm of PricewaterhouseCoopers. He is Past President of the Institute of Chartered Accountants, Chairman of the Accounting Practices Committee and one of the two South African representatives of the then International Accounting Standards Committee. After retiring from practice, he became Executive Officer of the Financial Services Board, South Africa's non-banking financial services regulator. He is now a director of several companies including Glenrand MIB Limited, Nedbank, Nedbank Group, STRATE Limited and Munich Reinsurance Company of Africa Limited. Rick is also Chairman of the Accounting Standards Board which sets public sector accounting standards for South African public entities.

***Mr Philippus Arnoldus Wessels***

Philip Wessels was a partner at Deloitte & Touche until 1995. He was then appointed as the Managing Director of BoE Securities and in 1998 he was appointed as CEO of BoE International. In 2001, Philip was appointed as a director of BoE Limited. In 2003, he became a divisional director at Nedbank Business Banking and Nedbank Corporate prior to being appointed as the Chief Risk Officer and a member of the Executive Committee of Nedbank in 2004.

***Mr Marthinus Johannes Croucamp***

Martin has spent his entire working career in the Banking sector. He joined Citibank of SA in 1966 progressing to Managing Director of MLS Bank Limited and as such being a member of Absa's Executive staff as well as the Absa ERM Committee. Martin served as an Exco member of Bankorp and Absa Bank for the last 24 years of his career and attended Divisional Board meetings for the last 15 years, of which the last 7 years were in the capacity of a full executive director. He retired from Absa in 2003.

### **Mr Osman Suluman Arbee**

Osman Arbee has spent 23 years of his working career employed by Deloitte & Touche in various senior managerial positions and as a partner. Osman left Deloitte & Touche in 2004 and joined Imperial Holdings as a divisional director.

### **Mr Hubert René Brody**

Hubert Brody joined Imperial Bank as the Head of IT and Finance, after working for Absa (General Manager of Contact Centres) and First National Bank in the treasury and international finance division. He is currently the CEO of Motor Dealership Divisions at Imperial Holdings, as well as being an Executive board member responsible for Treasury, Imperial On-line, and the Auto parts businesses in South Africa and the United Kingdom.

### **Mr Mustaq Ahmed Enus-Brey**

Mustaq Enus-Brey spent the lion's share of his career building the largest black auditing practice in South Africa, KMMT Brey. In 1995 he co-founded Brimstone Investment Corporation Limited which listed on the JSE in 1998. He is currently director of various companies including Brimstone Investment Corporation Limited, MICC Property Fund Limited, Oceana Group Limited, Nedbank Group and Nedbank.

## **4.2 Senior management**

The name, age, business address and a short CV of each of the management who are members of Imperial Bank's executive committee are set out below:

<b>Name, age, qualification and nationality</b>	<b>Business address</b>	<b>Short CV</b>
G C Cloete, (57) Head of Medical Finance (South African)	24 Achter Road Paulshof Sunninghill, 2191	Joined Imperial Bank during 2003 and started the Medical Finance division. He has 30 years general banking experience with particular emphasis on the Medical and Dental Markets including 18 years with MLS Bank Limited where he was appointed an Executive Director during November 1995 before leaving in 2003.
D M van der Linde (49) BComm (Acc), MBA Head of Motor Finance Corporation (South African)	24 Achter Road, Paulshof, Sunninghill, 2191	Daan joined Imperial Bank in 1996 as head of credit and risk and moved to head MFC in 1999. Prior to this, he worked at MLS Bank Limited and Absa Bank in corporate banking services.
P C I Swanepoel, (44) BComm, AMP Head of Property Finance (South African)	24 Achter Road Paulshof Sunninghill, 2191	Piet joined Imperial Bank in 2003 as Head of Special Projects. Prior to this, Piet worked as an executive director of MLS Bank Limited overseeing credit risk management.
J A Vetter, (37) HRM Dip Head of Human Resources (South African)	24 Achter Road Paulshof Sunninghill, 2191	Julie has headed up Human Resources since April 2000. Julie was previously employed at Standard Bank as a training manager.
J G Venter (47) BComm (Hons), MComm, (CA)SA Director of NRB and Head of Supplier Asset Finance (South African)	24 Achter Road Paulshof Sunninghill, 2191	Jan was the CEO of Saambou Corporate Banking prior to joining Imperial Bank in September 2002. Jan started his commercial career at Bankorp, later joining a stockbroking firm before moving to Transnet. He occupied various positions in Transnet ultimately being part of the Executive Committee before joining Super Group Limited as an executive director. Jan joined Saambou in December 1999.

Name, age, qualification and nationality	Business address	Short CV
D Vheru-Vela (34) BSC (Information Systems), MBA (Finance) Head of Information Systems (South African)	24 Achter Road Paulshof Sunninghill, 2191	Doug joined Imperial Bank in 2003. Prior to this, Doug worked as a Senior Manager in IT Audit at Standard Bank and as an Audit Manager at Nedbank.

#### 4.3 Qualifications, borrowing powers and appointment of directors

The relevant provisions of the Articles of Association of Imperial Bank governing the appointment, qualification, remuneration and borrowing powers of directors are set out in Annexure 7 to the Pre-listing statement.

According to the Schedule 21 declarations completed by the directors, in terms of the Listings Requirements, none of the following clauses apply to any of the directors listed in paragraph 4.1 above: bankruptcies or individual voluntary arrangements, receiverships or compulsory liquidations, partnership voluntary arrangements, receivership of an asset of a partnership, public criticism or disqualification in court by way of statutory or recognised bodies or any offence involving dishonesty.

The directors of Imperial Bank have not exceeded their borrowing powers during the past 3 years.

#### 4.4 Remuneration of directors

Remuneration of directors for the year ended 31 December 2005 is set out below:

Director	Salary R'000	Bonus R'000	Retirement fund contribution R'000	Benefits R'000	Director fees R'000	Total R'000
R van Wyk	1 267	1 500	219	14	–	3 000
P C W Hibbit <sup>(1)</sup>	599	400	84	7	–	1 090
D Van Der Linde <sup>(2)</sup>	998	1 200	159	37	–	2 394
Z Banchetti <sup>(2)</sup>	–	–	–	–	136	136
C J W Ball	–	–	–	–	143	143
H R Brody <sup>(3)</sup>	–	–	–	–	98	98
R G Cottrell	–	–	–	–	190	190
W G Lynch <sup>(3)</sup>	–	–	–	–	158	158
R Shuter <sup>(2) &amp; (3)</sup>	–	–	–	–	60	60
P A Wessels <sup>(3)</sup>	–	–	–	–	136	136
O S Arbee <sup>(3)</sup>	–	–	–	–	98	98
M J Croucamp	–	–	–	–	218	218
<b>Total</b>	<b>2 864</b>	<b>3 100</b>	<b>462</b>	<b>58</b>	<b>1 237</b>	<b>7 721</b>

##### Notes:

1. Appointed 1 June 2005.
2. Resigned 19 April 2006.
3. Director's fees do not accrue to the individual but to either Imperial Holdings or Nedbank.

The directors' remuneration will not vary as a result of the listing.

#### 4.5 Directors' interests in securities and transactions

None of the directors held ordinary shares in Imperial Bank at the last practicable date and none of the directors participated in the private placing.

The directors of Imperial Bank have not had any material beneficial interests, whether direct or indirect, in transactions that were effected by Imperial Bank during the current or immediately preceding financial year. Further to this, they have had no material beneficial interest in a transaction during an earlier financial year that remains in any respect outstanding or unperformed.

## 4.6 Directors' service contracts and term of office

### 4.6.1 Executive directors

P Hibbit and R van Wyk have entered into secondment agreements with Nedbank and Imperial Bank in terms of which they have been seconded as employees of Nedbank to Imperial Bank from 1 June 2005 to 30 April 2008. The secondment may be extended for a further period by mutual agreement between the parties. During the secondment period Imperial Bank will act as employer to P Hibbit and R van Wyk and will bear the cost of their employment.

### 4.6.2 Non-executive directors

The non-executive directors retire by rotation as provided for in the Articles of Association, directors extracts of which are set out in Annexure 7 to the Pre-listing statement.

## 4.7 Other directorships held by Imperial Bank directors

Annexure 8 sets out the names of all companies of which the Imperial Bank directors are or have been directors in the past five years.

## 4.8 Loans granted to senior management and directors

As at the last practicable date, no loans had been granted by the group to the directors. Details of loans granted by the group to senior management referred to in paragraph 4.2 above, have been set out in Annexure 14, to the Pre-listing statement.

## 5. ASSETS, LIABILITIES AND OTHER FINANCIAL INFORMATION

### 5.1 Historical financial information

Imperial Bank's historical financial information prepared in terms of IFRS for the years ended 31 December 2005 and 2004 as well as the independent reporting accountants' report thereon, are contained in Annexures 2 and 1 respectively of the Pre-listing statement. Further to this Imperial Bank's historical financial information prepared in terms of GAAP for the years ended 31 December 2004 and 2003 as well as the independent reporting accountants' report thereon, are contained in Annexures 4 and 3 respectively of the Pre-listing statement.

### 5.2 Pro forma financial information

Based on the consolidated audited results of Imperial Bank for the year ended 31 December 2005, the unaudited *pro forma* financial effects of the private placing and share repurchase, on Imperial Bank's EPS, HEPS, NAV and NTAV are set out below. This unaudited *pro forma* financial information, being the responsibility of Imperial Bank's directors, has been prepared for illustrative purposes only and because of its nature may not fairly present Imperial Bank's financial position and results of operations, nor the effect and impact of the private placing and share repurchase going forward.

Per Imperial Bank ordinary share (cents)	Before the private placing and share repurchase <sup>(1)</sup>	After the private placing and share repurchase <sup>(2)</sup>	Change (%)
EPS	88.5	103.5 <sup>(3)</sup>	17.0
HEPS	87.1	101.9 <sup>(3)</sup>	17.0
NAV and NTAV	424.3	423.5 <sup>(3)</sup>	(0.2)
Weighted average number of shares used to calculate EPS and HEPS ('000)	332 935	262 223	
Number of shares used to calculate NAV and NTAV ('000)	358 934	288 223	

#### Notes:

1. Based on Imperial Bank's audited consolidated results for the year ended 31 December 2005.
2. Based on the assumption that the private placing took place on 1 January 2005 for income statement purposes and 31 December 2005 for balance sheet purposes.
3. After taking into account the issue of 3 000 000 preference shares in terms of the private placing and the effect of the share repurchase further details of which are set out in paragraph 6.4 below.

The text of the independent reporting accountants' report on the above unaudited *pro forma* financial effects as set out above, the unaudited *pro forma* income statement and balance sheet and notes thereto as contained in Annexure 6, is contained in Annexure 5 to the Pre-listing statement.

### **5.3 Material changes**

In terms of a programme memorandum dated 13 March 2006 Imperial Bank has a R2.5 billion Domestic Medium Term Note Programme under which Imperial Bank may issue notes from time to time. On 30 March 2006, Imperial Bank issued R500 million of Subordinated Unsecured Callable Notes (IPB2) under their R2.5 billion Domestic Medium Term Note Programme. These notes have a final maturity of 30 December 2015, but are callable on 30 December 2010. These notes were issued for general capital purposes and were part of an Imperial Bank's initiative to more efficiently manage its capital structure.

Save for the information disclosed in the Pre-listing statement, there have been no material changes in the affairs or the financial position of Imperial Bank and its subsidiaries since the last audited annual financial statements as at 31 December 2005 and the last practicable date.

### **5.4 Advances, loan capital and borrowings**

Details of material advances and borrowings are set out in Annexure 2 to the Pre-listing statement and details of inter company balances with shareholders and other related parties are set out in note 31.3 of Annexure 2 to the Pre-Listing statement.

### **5.5 Capital commitments, lease payments and contingent liabilities**

Details of capital commitments, lease payments and contingent liabilities as at 31 December 2005 are set out in Annexure 2 to the Pre-listing statement.

### **5.6 Subsidiary companies and inter-company loans**

Details of Imperial Bank's subsidiary companies and inter-company loans are set out in Annexure 12 to the Pre-listing statement.

### **5.7 Immovable property**

#### ***5.7.1 Property acquired***

A Paulshof property, Stands 744 to 747 Paulshof Extension township, was purchased on 10 June 2005 from the Tiber Property Group (Proprietary) Limited and Stands 744 to 747 Paulshof Shareblock (Proprietary) Limited for R64.5 million. No goodwill was recorded on the acquisition of the property and the acquisition was financed by loans from Nedbank and Imperial Holdings.

#### ***5.7.2 Disposal of property***

A Rivonia property (Remaining extent of Portion 5 (a portion of portion 2) of 15 Edenburg township and Portion 12 (a portion of Portion 5) of Erf 15 Edenburg township was sold on 19 August 2005 to Gazelle Investments (Proprietary) Limited for R17 million. The only valuation previously obtained on the building valued it at R14 million at 31 October 2004.

## 6. SHARE CAPITAL

Details of Imperial Bank's share capital before the private placing, after the private placing and before the share repurchase and after the private placing and share repurchase are set out below.

### 6.1 Authorised and issued share capital

	R'000
<b>Before the private placing</b>	
<i>Authorised</i>	
500 000 000 ordinary shares of R0.01 each	5 000
<i>Issued</i>	
358 934 487 ordinary shares of R0.01 each	3 589
Share premium	648 285
<b>Total</b>	<b>651 874</b>
<b>After the private placing and before the share repurchase</b>	
<i>Authorised</i>	
500 000 000 ordinary shares of R0.01 each	5 000
8 000 000 preference shares of R0.0005 each	4
<i>Issued</i>	
358 934 487 ordinary shares of R0.01 each	3 589
3 000 000 preference shares of R0.0005 each	1.5
Share premium	946 083 <sup>(2)</sup>
<b>Total</b>	<b>949 673.5</b>
<b>After the private placing and share repurchase<sup>(3)</sup></b>	
<i>Authorised</i>	
500 000 000 ordinary shares of R0.01 each	5 000
8 000 000 preference shares of R0.0005 each	4
<i>Issued</i>	
288 222 599 ordinary shares of R0.01 each	2 882
3 000 000 preference shares of R0.0005 each	1.5
Share premium	646 790 <sup>(2)</sup>
<b>Total</b>	<b>649 673.5</b>

#### Notes:

1. The authorised and unissued shares of the Company are under the control of the directors of the Company subject to the provision of section 221 of the Companies Act and the Listings Requirements.
2. After taking into account the estimated costs of the issue of the preference shares of R2.2 million, which have been offset against share premium account.
3. It is intended that upon receipt, the proceeds from the preference shares will be used to redeem ordinary share capital further details of which are set out in paragraph 6.4 below.

After the private placing all of the preference shares issued will be listed on the JSE and are of one class, namely non-redeemable, non-participating non-cumulative preference shares of R0,0005 each and will rank *pari passu* with each other in all respects.

The preference shares have been created and issued in terms of the Articles of Association of Imperial Bank extracts of which are set out in Annexure 7, to the Pre-listing statement.

Variations to the rights attaching to the ordinary shares will require a special resolution of the ordinary shareholders. Details of variations of rights attaching to the preference shares are set out in Annexure 7 to this Pre-listing statement.

### 6.2 Alterations to share capital

Alterations to Imperial Bank's share capital in the past 3 years are set out in Annexure 11 to the Pre-listing statement.

Details of resolutions passed prior to the listing of the preference shares are set out in Annexure 10 of the Pre-listing statement.

### **6.3 Rights attaching to preference shares**

The preference shares are non-redeemable, non-participating and non-cumulative. Dividends if declared, at the sole discretion of the directors, will be payable on the earlier of a date at least seven business days prior to the date on which the Company pays its ordinary dividends, if any, in respect of the same period and a date not later than 120 business days after 30 June and 31 December of each year. Notwithstanding the foregoing, the first preference dividend period shall be the period commencing from the date of the issue and ending on 31 December 2006, and accordingly the preference dividend for that period, if declared, shall be paid within 120 days after 31 December 2006, but in any event not later than 7 business days prior to dates upon which the ordinary dividend declared in respect of the same period is paid.

#### **6.3.1 Voting rights**

Preference shareholders shall not be entitled to vote, either in person or by proxy, at any general meeting of the Company, by virtue of or in respect of the preference shares, unless either or both of the following circumstances prevail at the date of the meeting –

- 6.3.1.1 during any period determined as provided for in section 194(2) of the Companies Act in which any dividend or any part of any dividend on such preference shares remains in arrear and unpaid; and/or
- 6.3.1.2 a resolution of the Company is proposed (in which event the preference shareholders shall be entitled to vote only on such resolution) which directly affects the rights attached to the preference shares or the interests of the holders thereof, including a resolution for the winding-up of the Company or for the reduction of its capital.

#### **6.3.2 Entitlements to dividends**

Preference shareholders will be entitled to receive out of the profits of the Company that it determines to distribute, in priority to any payment of dividends to the holders of any other class of shares in the capital of the Company not ranking prior to the preference shares, a non-cumulative preference cash dividend equivalent to 70% of prime multiplied by the deemed value of the preference shares held by a preference shareholder. The dividend will not compound, and, if declared, will accrue initially in respect of the period calculated from the date of issue to the period ending 31 December 2006, and thereafter, in respect of the periods from 1 January to 30 June and 1 July to 31 December. Preference shares that may be issued in future will be entitled to a *pro rata* portion of any dividend declared for the first period in which they were issued. An ordinary dividend will not be declared by Imperial Bank in respect of any dividend period unless the preference share dividend for that same dividend period has been declared in full.

#### **6.3.3 Changes to tax status**

If there is an amendment (or amendments) to the Income Tax Act, which results in the preference dividends being taxable in the hands of the preference shareholders and which results in payment of the preference dividends becoming a deductible expense for the Company, then (provided such amendment is uniformly applicable to all corporate tax payers and not only because of the particular circumstances of the company or any preference shareholder) the percentage of prime payable as a dividend shall be increased by the Company. The extent of such increase shall be limited to such an increase that the Company does incur savings in the costs of servicing the preference shares, which savings it would not have incurred but for such amendments to the Income Tax Act. If such amendments to the Income Tax Act do not result in the Company incurring lesser costs in servicing the preference shares, then, notwithstanding that such amendment may result in a decrease in the returns of any preference shareholder on its preference share investment, no amendment shall be made to the percentage of prime payable as dividend. Preference shareholders will bear all other risk due to changes in laws or regulations.

The entire terms and conditions of the preference shares, as set out in the Articles of Association of Imperial Bank, have been included in Annexure 7 to the Pre-listing statement.

## 6.4 The share repurchase

It is intended that upon receipt, the proceeds from the preference shares will be used to repurchase ordinary shares in the issued share capital of the Company in terms of section 85 of the Companies Act. The acquisition of such ordinary shares will be *pro rata* from each of the existing ordinary shareholders and will result in the reduction in the share premium account in the amount of R299 292 881 in terms of section 85(7) of the Companies Act. The share repurchase is contemplated on the basis that the Company will, after the payment, be able to pay its debts as they become due in the ordinary course of business and the consolidated assets of the Company fairly valued would, after the payment, exceed the consolidated liabilities of the Company.

## 7. DETAILS OF THE PRIVATE PLACING

### 7.1 Details of the private placing

Prior to the issue of the Pre-listing statement, selected investors gave irrevocable commitments to subscribe for 3 000 000 preference shares at a subscription price of R100.00 per preference share, details of which are set out below:

Issue and subscription price per preference share	R100.00
Number of preference shares offered	3 000 000
Minimum Rand value of subscription per subscriber acting as principal	R100 000
Amount raised in terms of the private placing	R300 000 000

### 7.2 Salient times and dates

	2006*
Publication of abridged Pre-listing statement on SENS on	Tuesday, 20 June
Publication of abridged Pre-listing statement in the press on	Wednesday, 21 June
Listing of the preference shares commences at 09:00 on	Thursday, 22 June

*\*The abovementioned times and dates are South African times and dates and are subject to amendment. Any such amendment will be released on SENS and published in the press*

### 7.3 Requisite approvals

All requisite regulatory approvals regarding the issue and listing of the preference shares, including SARB approval, have been obtained.

### 7.4 Applicable law

The private placing will be exclusively governed by the laws of South Africa and each applicant will be deemed, by applying for Imperial Bank preference shares, to have consented and submitted to the jurisdiction of the courts of South Africa in relation to all matters arising out of or in connection with the private placing.

### 7.5 Minimum subscription

Subscriptions in terms of the private placing were only permitted to be made for a minimum amount of R100 000 per single addressee acting as principal.

### 7.6 Exchange Control Regulations

The following summary is intended as a guide only and is therefore not comprehensive. If you are in any doubt in regard hereto, please consult your professional adviser.

#### 7.6.1 South African Exchange Control Regulations

In terms of the South African Exchange Control Regulations:

- a former resident of the common monetary area who has emigrated may use emigrant blocked funds to subscribe for preference shares in terms of the Pre-listing statement;
- all payments in respect of subscriptions for preference shares by an emigrant using emigrant blocked funds must be made through the authorised dealer in foreign exchange controlling the blocked assets;

- any preference share certificates that might be issued pursuant to the use of emigrant blocked fund will be endorsed “non-resident” and will be sent to the authorised dealer in foreign exchange through whom the payment was made; and
- if applicable, refund monies payable in respect of unsuccessful applications or partly successful applications, as the case may be, for preference shares in terms of the Pre-listing statement emanating from emigrant blocked accounts will be returned to the authorised dealer in foreign exchange through whom the payments were made, for credit to such applicant’s blocked accounts. Applicants resident outside the common monetary area should note that, where share certificates are in fact issued, such preference share certificates will be endorsed “non-resident” in terms of the Exchange Control Regulations.

#### **7.6.2 Applicants resident outside the common monetary area**

- In terms of the Exchange Control Regulations of South Africa, non-residents, excluding former residents of the common monetary area, will be allowed to subscribe for preference shares in terms of the private placing or purchase preference shares pursuant to the listing provided payment is received either through normal banking channels from abroad or from a non-resident account. All applications by non-residents must be made through an authorised dealer in foreign exchange.
- A person who is not resident in the common monetary area should obtain advice as to whether any governmental and/or legal consent is required and/or whether any other formality must be observed to enable a subscription to be made in terms of the private placing.
- The Pre-listing statement is not an offer in any area of jurisdiction in which it is illegal to make such an offer. In such circumstances, the Pre-listing statement is sent for information purposes only.

### **8. BROKERAGES AND COMMISSIONS**

On 30 March 2006, Imperial Bank issued R500 million of Subordinated Unsecured Callable Notes (“IPB2”) under their R2.5 billion Domestic Medium Term Note Programme. These notes have a final maturity of 30 December 2015, but are callable on 30 December 2010. These notes were issued for general capital purposes and were part of an Imperial Bank’s initiative to more efficiently manage its capital structure. Nedbank Capital was paid an arranging fee of R1.5 million on the IPB2 bond issue.

Save for the above, no commission or consideration has been paid by Imperial Bank in respect of the allotment or issue of shares during the three years preceding the date of the Pre-listing statement. No commission was/shall be paid in respect of the allotment or issue of the preference shares to be issued in terms of this Pre-listing statement.

### **9. GOVERNMENT PROTECTION AND INVESTMENT ENCOURAGEMENT LAW**

There is no Government protection or any investment encouragement law pertaining to any of the businesses operated in the group.

### **10. ROYALTIES**

No royalties or items of a similar nature are payable by the group.

### **11. LITIGATION STATEMENT**

There are no legal or arbitration proceedings outside the ordinary course of business, nor are the directors of Imperial Bank aware of any proceedings which are pending or threatened which may have or have had, in the 12 month period preceding the last practicable date, a material effect on Imperial Bank’s financial position.

### **12. DIRECTORS’ RESPONSIBILITY STATEMENT**

The directors of Imperial Bank, whose names are given in paragraph 4.1 above:

- have considered all statements of fact and opinion in the Pre-listing statement;
- collectively and individually accept full responsibility for the accuracy of the information given;
- certify that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement false or misleading;

- have made all reasonable enquiries in this regard; and
- certify that, to the best of their knowledge and belief, the Pre-listing statement contains all information required by the Listings Requirements.

### 13. CODE OF CORPORATE PRACTICE AND CONDUCT

The statement by Imperial Bank in support of the King Report on Corporate Governance in South Africa is set out in Annexure 9 of the Pre-listing statement.

### 14. MATERIAL CONTRACTS

In November 2000, the memorandum of understanding was entered into and was ratified by SARB in July 2001. In terms of the memorandum of understanding, Imperial Holdings will provide financing opportunities to Imperial Bank for the moveable assets sold by its subsidiary companies and operated in its logistics networks, and Nedbank will assist with banking expertise as well as provide funding. Further to this, Imperial Holdings and Nedbank will contribute the capital required by the bank for capital adequacy purposes. The terms of the memorandum of understanding are to be revisited on 1 January 2011.

Save for the memorandum of understanding, neither Imperial Bank nor its subsidiaries have entered into any material contracts, either verbally or in writing, during the three years preceding the date of issue of this Pre-listing statement, other than in the ordinary course of the group's business. Further to this, no material contracts other than in the ordinary course of business have been entered into, containing an obligation or settlement that is material to Imperial Bank or its subsidiaries at the last practicable date.

### 15. EXPENSES OF THE PRIVATE PLACING AND THE LISTING

The expenses relating to the private placing and the listing are estimated to be R2 200 000, details of which are set out below.

	Rand
Printing costs (including publication and distribution)	60 000
Investment bank and joint sponsor (acting under a joint mandate)	1 500 000
Independent reporting accountants and auditors	60 000
Lead sponsor	50 000
JSE listing fee	98 351
STRATE	20 000
Transfer secretaries	15 000
Corporate law advisers	200 000
Contingency	145 805
JSE inspection fees	50 844
<b>Total</b>	<b>2 200 000</b>

### 16. ADVISERS' INTERESTS

The investment bank and joint sponsor, Nedbank Capital is a division of Nedbank which owns 50.1% of the ordinary share capital of Imperial Bank. The corporate law advisers, the lead sponsor and independent reporting accountants and auditors did not have an interest in the issued shares as at the last practicable date.

### 17. LISTING ON OTHER STOCK EXCHANGES

Neither the ordinary shares nor the preference shares are listed on any other stock exchange, nor is it intended at this stage to apply for a listing of ordinary or preference shares on any other stock exchange. The IPB1 and IPB2 bonds are listed on the Bond Exchange of South Africa.

### 18. EXPERTS' CONSENTS

Each of the investment bank and joint sponsor, the corporate law advisers, the lead sponsor, the independent reporting accountants and auditors and transfer secretaries, have consented in writing to act in the capacities stated and to their names being stated in the Pre-listing statement and have not withdrawn their consent prior to its publication.

The reporting accountants and auditors have consented to the inclusion of their reports in the form and context in which they are included in the Pre-listing statement, which consents have not been withdrawn prior to the publication of the Pre-listing statement.

#### 19. DOCUMENTATION AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Imperial Bank's registered office during business hours from the date of issue of the Pre-listing statement up to and including Friday, 14 July 2006:

- the Memorandum and Articles of Association;
- the letters of consent received from Nedbank Capital, Edward Nathan, Deloitte & Touche, Deloitte & Touche Sponsor Services and the transfer secretaries with regard to the publication of their names in the form and context in which they appear in the Pre-listing statement;
- the memorandum of understanding;
- copies of the secondment agreements referred to in paragraph 4.6.1 above;
- the audited annual financial statements of Imperial Bank for the years ended 31 December 2005, 2004 and 2003;
- the signed independent reporting accountants' report on the reports of historical financial information, the text of which has been attached as Annexures 1 and 3 to this Pre-listing statement;
- the signed independent reporting accountants' report on unaudited *pro forma* financial information, the text of which has been attached as Annexure 5 to this Pre-listing statement; and
- a signed copy of the Pre-listing statement.

Signed at Sunninghill on behalf of all the directors of the Company in terms of powers of attorney granted on 12 June 2006.

R van Wyk

P C W Hibbit

Tuesday, 13 June 2006

#### Registered office

24 Achter Road  
Paulshof  
Sunninghill  
2191  
(PO Box 6093, Rivonia, 2128)

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INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE REPORT OF  
HISTORICAL FINANCIAL INFORMATION FOR THE FINANCIAL YEARS  
ENDED 31 DECEMBER 2005 AND 2004

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"13 June 2006

The Directors  
Imperial Bank Limited  
24 Achter Road  
Paulshof  
Sunninghill  
2191

Dear Sirs

**INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION**

**Introduction**

At your request and for the purposes of the Pre-listing statement of Imperial Bank Limited, to be dated on or about 13 June 2006, we present our report on the historical financial information in respect of the preference share issue, as set out in Annexure 2 of this Pre-listing statement, in compliance with the Listings Requirements of the JSE Limited (JSE).

The compilation, contents and presentation of the Pre-listing statement is the responsibility of the directors. Our responsibility is to express an opinion on the historical financial information included as Annexure 2 of this Pre-listing statement.

We have audited the historical financial information of Imperial Bank Limited for the years ended 31 December 2005 and 31 December 2004.

**Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the historical financial information relating to the years ended 31 December 2005 and 31 December 2004 are free of material misstatement.

An audit includes, examining, on a test basis, evidence supporting the amounts and disclosures of the abovementioned financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall historical financial statement presentation. We believe that our audit provides a reasonable basis for our audit opinion.

**Audit opinion**

In our opinion, the historical financial information for the years ended 31 December 2005 and 31 December 2004 presents fairly, in all material respects, the financial position at those dates, and the results of the operations and cash flows for the years then ended in accordance with International Financial Reporting Standards, and the Listings Requirements.

**Financial commentary**

The financial commentary set out in note 35 of Annexure 2 does not form part of the independent reporting accountants' report on historical information and is presented as additional information. Accordingly we do not express an opinion on this information.

## **Consent**

We consent to the inclusion of this report, which will form part of the Pre-listing statement to shareholders of Imperial Bank Limited, to be dated on or about 13 June 2006, in the form and context in which it appears.

## **Deloitte & Touche**

Per H Klopper  
Partner"

Building 8, Deloitte Place  
The Woodlands, Woodmead Drive  
Sandton

**National Executive:** G G Gelink Chief Executive, A E Swiegers Chief Operating Officer, G M Pinnock Audit, D L Kennedy Tax, L Geeringh Consulting, M G Crisp Financial Advisory, L Bam Strategy, C R Beukman Finance, T J Brown Clients & Markets, S J C Sibisi Public Sector and Corporate Social Responsibility, N T Mtoba Chairman of the Board, J Rhynes Deputy Chairman of the Board

A full list of partners and directors is available on request

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**REPORT OF HISTORICAL FINANCIAL INFORMATION REGARDING  
IMPERIAL BANK FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2005  
AND 2004 PREPARED IN TERMS OF IFRS**

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The definitions and interpretations commencing on page 3 of the Pre-listing statement have been used in this report.

The historical financial information relating to the Imperial Bank Group, presented herein, has been extracted and compiled from the financial statements of the Imperial Bank Group for the year ended 31 December 2005.

Deloitte & Touche acted as auditors to Imperial for the years ended 31 December 2005 and 2004 and reported without qualification on the financial statements issued for these periods.

**GROUP INCOME STATEMENT  
for the year ended 31 December 2005**

	Note	2005 R'000	2004* R'000
Interest and similar income	4	2 438 341	2 230 184
Interest expense and similar charges	5	(1 634 177)	(1 588 543)
<b>Net interest income</b>		<b>804 164</b>	<b>641 641</b>
Impairment losses on loans and advances	16	(114 589)	(243 391)
<b>Income from lending activities</b>		<b>689 575</b>	<b>398 250</b>
Non-interest income	6	50 668	84 933
<b>Total income</b>		<b>740 243</b>	<b>483 183</b>
Operating expenses	7	(352 637)	(311 549)
Indirect taxes	8	(14 099)	(7 682)
<b>Profit from operations before direct taxation</b>		<b>373 507</b>	<b>163 952</b>
Direct taxes	9	(79 024)	(16 538)
<b>Net profit for the year</b>		<b>294 483</b>	<b>147 414</b>

\* Restated as per note 3.

**GROUP BALANCE SHEET**  
as at 31 December 2005

	Note	2005 R'000	2004* R'000
<b>Assets</b>			
Cash and cash equivalents	10	11 189	2 447
Other short-term securities	11	569 465	218 424
Derivative financial instruments	12	217 177	263 480
Government and other securities	14	450 356	533 035
Loans and advances to customers	15 & 16	19 697 107	15 219 570
Other assets	17	239 166	175 263
Current taxation	18	–	2 555
Investment securities	19	8 693	31 183
Non-current assets held for sale	20	13 395	–
Deferred taxation	21	9 643	27 263
Property and equipment	22	134 512	68 208
Mandatory deposits with central bank	10	463 296	364 263
<b>Total assets</b>		<b>21 813 999</b>	<b>16 905 691</b>
<b>Equity and liabilities</b>			
Share capital	24	3 589	3 020
Share premium		648 285	434 205
Reserves		870 930	576 447
<b>Total equity</b>		<b>1 522 804</b>	<b>1 013 672</b>
<b>Total liabilities</b>		<b>20 291 195</b>	<b>15 892 019</b>
Derivative financial instruments	12	219 120	257 808
Amounts owed to depositors	25	19 229 181	14 874 857
Other liabilities	26	209 293	166 779
Current taxation	18	53 119	–
Long-term debt instruments	27	580 482	592 575
<b>Total equity and liabilities</b>		<b>21 813 999</b>	<b>16 905 691</b>
<b>Guarantees on behalf of customers excluded from assets</b>	29	<b>868 765</b>	<b>675 267</b>

\* Restated as per note 3.

**GROUP CASH FLOW STATEMENT**  
for the year ended 31 December 2005

	Note	2005 R'000	2004* R'000
<b>Cash flows from operating activities</b>	28.1	457 132	369 223
Cash received from clients	28.2	2 409 602	2 248 536
Cash paid to clients, staff and suppliers	28.3	(1 965 145)	(1 882 179)
Dividends received		3 458	–
Recoveries on loans previously written off		9 217	2 866
<b>Change in funds for operating activities</b>		(446 426)	(270 043)
Increase in operating assets	28.4	(4 864 913)	(4 090 754)
Increase in operating liabilities	28.5	4 418 487	3 820 711
<b>Net cash from operating activities before taxation</b>		10 706	99 180
Taxation paid	28.6	(19 731)	(18 227)
<b>Cash flows from operating activities</b>		(9 025)	80 953
<b>Cash flows from investing activities</b>		(97 848)	(31 261)
Acquisition of property and equipment		(108 037)	(33 350)
Proceeds on disposal of property and equipment		10 188	2 089
<b>Cash flows from financing activities</b>		214 649	–
Proceeds from issue of ordinary shares		214 649	–
<b>Net increase in cash and cash equivalents</b>		107 775	49 692
Cash and cash equivalents at the beginning of the year		366 710	317 018
<b>Cash and cash equivalents at the end of the year</b>	10	474 485	366 710

\* Restated as per note 3.

**OPERATIONAL AND SEGMENTAL REPORTING**  
for the year ended 31 December 2005

BALANCE SHEET	MFC		Property		Medical		SAFD		Treasury, Central Management and Eliminations		Imperial Bank	
	2005 Rbn	2004 Rbn	2005 Rbn	2004 Rbn	2005 Rbn	2004 Rbn	2005 Rbn	2004 Rbn	2005 Rbn	2004 Rbn	2005 Rbn	2004 Rbn
<b>Assets</b>												
Cash on hand	–	–	–	–	–	–	–	–	0.5	0.4	0.5	0.4
Liquid Assets	–	–	–	–	–	–	–	–	1.0	0.7	1.0	0.7
Loans and Advances	11.9	7.9	3.3	3.6	2.0	1.2	2.9	2.6	(0.4)	(0.1)	19.7	15.2
Other Assets	0.2	0.2	–	–	–	–	–	–	0.3	0.3	0.5	0.5
Fixed Assets	–	–	–	–	–	–	–	–	0.1	0.1	0.1	0.1
	12.1	8.1	3.3	3.6	2.0	1.2	2.9	2.6	1.5	1.4	21.8	16.9
<b>Equity and liabilities</b>												
Deposits	10.9	7.6	3.0	3.3	1.9	1.1	2.2	2.1	1.2	0.7	19.2	14.8
Other Liabilities	0.1	–	–	–	–	–	0.5	–	(0.1)	0.5	0.5	0.5
Allocated Capital	1.1	0.5	0.3	0.3	0.1	0.1	0.2	0.5	(0.2)	(0.4)	1.5	1.0
Secondary Loan Capital	–	–	–	–	–	–	–	–	0.6	0.6	0.6	0.6
	12.1	8.1	3.3	3.6	2.0	1.2	2.9	2.6	1.5	1.4	21.8	16.9

INCOME STATEMENT	MFC		Property		Medical		SAFD		Treasury, Central Management and Eliminations		Imperial Bank	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Net interest income	453.4	268.3	177.4	114.8	41.8	18.0	133.8	161.5	(2.2)	79.0	804.2	641.6
Impairment losses on loans and advances	118.7	105.3	(31.8)	31.1	1.3	0.7	26.5	107.2	(0.1)	(0.9)	114.6	243.4
Income from lending activities	334.7	163.0	209.2	83.7	40.5	17.3	107.3	54.3	(2.1)	79.9	689.6	398.2
Non-interest income	24.9	58.4	0.3	72.4	2.6	2.0	17.8	12.4	5.0	(60.3)	50.6	84.9
Total income	359.6	221.4	209.5	156.1	43.1	19.3	125.1	66.7	2.9	19.6	740.2	483.1
Operating expenses	184.7	132.6	70.1	67.9	38.9	30.0	64.8	60.4	8.2	28.3	366.7	319.2
Profit from operations	174.9	88.8	139.4	88.2	4.2	(10.7)	60.3	6.3	(5.3)	(8.7)	373.5	163.9
Direct taxes	50.7	25.7	40.4	25.6	1.2	-	17.5	1.8	(30.9)	(36.6)	79.0	16.5
Net profit for the year	124.2	63.1	99.0	62.6	3.0	(10.7)	42.8	4.5	25.6	27.9	294.5	147.4

## GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 31 December 2005

	Number of ordinary shares	Share capital R'000	Share premium R'000	Revaluation reserve R'000	General risk reserve + R'000	Accumulated profit R'000	Total shareholders' equity R'000
Balance as at 31 December 2003 in accordance with SA GAAP	301 998 332	3 020	434 205	-	57 638	414 952	909 815
IFRS transitional adjustment				2 902		(46 459)	(43 557)
Restated balance at 31 December 2003 in accordance with IFRS	301 998 332	3 020	434 205	2 902	57 638	368 493	866 258
Net income recognised directly in equity		-	-	(39)	13 188	(13 149)	-
Transfer (to)/from reserves				(39)	13 188	(13 149)	-
Net profit for the year						147 414	147 414
Balance at 31 December 2004	301 998 332	3 020	434 205	2 863	70 826	502 758	1 013 672
Net income recognised directly in equity		-	-	(40)	26 785	(26 745)	-
Transfer (to)/ from reserves				(40)	26 785	(26 745)	-
Net profit for the year						294 483	294 483
Share issues	56 936 155	569	214 431				215 000
Share issue expenses			(351)				(351)
Balance at 31 December 2005	358 934 487	3 589	648 285	2 823	97 611	770 496	1 522 804

+ Represents non-distributable reserves transferred from other distributable reserves in order to comply with the Bank's Act, 1990.

**GROUP BALANCE SHEET – CLASSIFICATIONS OF FINANCIAL INSTRUMENTS**  
as at 31 December 2005

	At fair value through profit or loss							
	2005 R'000	Held for trading Rm	Designated Rm	Held-to- maturity invest- ments Rm	Loans and receivables Rm	Available- for-sale financial assets Rm	Financial liabilities at amortised cost Rm	Non- financial assets and liabilities Rm
<b>ASSETS</b>								
Cash and cash equivalents	11 189				11 189			
Other short-term securities	569 465				569 465			
Derivative financial instruments	217 177	217 177						
Government and other securities	450 356		450 356					
Loans and advances to customers	19 697 107				19 697 107			
Other assets	239 166				239 166			
Current taxation								
Investment securities	8 693		8 693					
Non-current assets held for sale	13 395							13 395
Deferred taxation	9 643							9 643
Property and equipment	134 512							134 512
Mandatory deposits with central bank	463 296				463 296			
<b>Total assets</b>	<b>21 813 999</b>	<b>217 177</b>	<b>459 049</b>		<b>- 20 980 223</b>	<b>-</b>	<b>-</b>	<b>157 550</b>
<b>EQUITY AND LIABILITIES</b>								
Share capital	3 589							3 589
Share premium	648 285							648 285
Reserves	870 930							870 930
<b>Total equity</b>	<b>1 522 804</b>							<b>1 522 804</b>
<b>Total liabilities</b>	<b>20 291 195</b>	<b>219 120</b>	<b>580 482</b>					<b>19 491 593</b>
Derivative financial instruments	219 120	219 120						
Amounts owed to depositors	19 229 181							19 229 181
Other liabilities	209 293							209 293
Current taxation	53 119							53 119
Long-term debt instruments	580 482		580 482					
<b>Total equity and liabilities</b>	<b>21 813 999</b>	<b>219 120</b>	<b>580 482</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>- 21 014 397</b>

**GROUP BALANCE SHEET – CLASSIFICATIONS OF FINANCIAL INSTRUMENTS**  
as at 31 December 2004

	At fair value through profit or loss							
	2004* R'000	Held for trading Rm	Designated Rm	Held-to- maturity invest- ments Rm	Loans and receivables Rm	Available- for-sale financial assets Rm	Financial liabilities at amortised cost Rm	Non- financial assets and liabilities Rm
<b>ASSETS</b>								
Cash and cash equivalents	2 447				2 447			
Other short-term securities	218 424				218 424			
Derivative financial instruments	263 480	263 480						
Government and other securities	533 035		533 035					
Loans and advances to customers	15 219 570				15 219 570			
Other assets	175 263				175 263			
Current taxation	2 555				2 555			
Investment securities	31 183		31 183					
Non-current assets held for sale								
Deferred taxation	27 263							27 263
Property and equipment	68 208							68 208
Mandatory deposits with central bank	364 263				364 263			
<b>Total assets</b>	<b>16 905 691</b>	<b>263 480</b>	<b>564 218</b>	<b>–</b>	<b>15 982 522</b>	<b>–</b>	<b>–</b>	<b>95 471</b>
<b>EQUITY AND LIABILITIES</b>								
Share capital	3 020							3 020
Share premium	434 205							434 205
Reserves	576 447							576 447
<b>Total equity</b>	<b>1 013 672</b>							<b>1 013 672</b>
<b>Total liabilities</b>	<b>15 892 019</b>	<b>257 808</b>	<b>592 575</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>15 041 636</b>
Derivative financial instruments	257 808	257 808						
Amounts owed to depositors	14 874 857							14 874 857
Other liabilities	166 779							166 779
Current taxation								
Long-term debt instruments	592 575		592 575					
<b>Total equity and liabilities</b>	<b>16 905 691</b>	<b>257 808</b>	<b>592 575</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>16 055 308</b>

\* Restated as per note 3.

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
**for the year ended 31 December 2005**

**Reconciliation of restated profit attributable to ordinary shareholders**

	Note	Pre tax effect R'000	Taxation effect R'000	Attributable profit R'000
As previously reported under SA GAAP – 31 December 2004		197 039	(31 850)	165 189
Restatement for accounting corrections:				
– Operating leases	A	(923)	277	(646)
Transitional adjustments for the first time adoption of IFRS:				
– Credit impairment	B	1 484	(446)	1 038
– Revenue recognition and deferred acquisition costs	C	(25 913)	7 783	(18 130)
– Property and equipment	D	(53)	16	(37)
As reported under IFRS		171 634	(24 220)	147 414

**Reconciliation of restated assets, liabilities and equity**

	Note	Assets R'000	Liabilities R'000	Equity R'000
As previously reported under SA GAAP – 31 December 2004		16 878 807	15 803 803	1 075 004
Restatement for accounting corrections:				
– Operating leases	A	571	1 903	(1 332)
Transitional adjustments for the first time adoption of IFRS:				
– Credit impairment	B	(8 805)		(8 805)
– Revenue recognition and deferred acquisition costs	C	32 253	86 313	(54 060)
– Property and equipment	D	2 865		2 865
As reported under IFRS		16 905 691	15 892 019	1 013 672

## Reconciliation of restated statement of changes in shareholders' equity

	Note	Share capital R'000	Share premium R'000	Reserves R'000	Total R'000
<b>As at 1 January 2004</b>					
As previously reported under SA GAAP		3 020	434 205	472 590	909 815
Reserve movements as a result of accounting corrections:					
– Operating leases	A			(686)	(686)
Reserve movements as a result of first time adoption of IFRS:					
– Credit impairment	B			(9 844)	(9 844)
– Revenue recognition and deferred acquisition costs	C			(35 929)	(35 929)
– Property and equipment	D			2 902	2 902
As reported under IFRS		3 020	434 205	429 033	866 258
<b>As at 31 December 2004</b>					
As previously reported under SA GAAP		3 020	434 205	637 779	1 075 004
Income statement movements as a result of accounting corrections:					
– Operating leases	A			(1 332)	(1 332)
Income statement movements as a result of first time adoption of IFRS:					
– Credit impairment	B			(8 805)	(8 805)
– Revenue recognition and deferred acquisition costs	C			(54 060)	(54 060)
– Property and equipment	D			2 865	2 865
As reported under IFRS		3 020	434 205	576 447	1 013 672
<b>Restatements for accounting corrections</b>					
<i>Affected line items in the income statement</i>					<b>Operating leases R'000</b>
	A				
Operating expenses					(923)
Direct taxation					277
Profit for the year					(646)
<i>Affected line items in the balance sheet</i>					
<b>ASSETS</b>					
Deferred taxation asset					(571)
Reserves					(1 332)
– Effect on 1 January 2004					(686)
– Effect on 31 December 2004					(646)
<b>LIABILITIES</b>					
Operating leases accelerated					1 903

**Notes to the group financial statements  
for the year ended 31 December 2005**

**MATERIAL ADJUSTMENTS**

The basis of the material adjustments, as shown in the tables for Reconciliation of restated profit attributable to ordinary shareholders and Reconciliation of restated statement of changes in shareholders' equity are noted below:

**RESTATEMENTS FOR ACCOUNTING CORRECTIONS**

***Note A: Accounting for operating leases***

Many South Africa entities, including Imperial Bank Limited, followed the practice of recognising operating lease income and expenses on a basis that reflects the cash flows during the period, unless there were obvious indications that this did not represent the economic benefits attributable to the leased asset in that period. In the case of front end and rear end loaded leases, or in the case of a rental holiday, adjustments have been made to smooth the lease payment over the lease period. In the case of fixed escalations, which are not contingent, Imperial Bank has now adjusted for all material changes.

The change in the manner of recognising lease payments arises as a result of a change in interpretation of IAS 17 by South African entities in order to align the South African practice with that applied internationally. The required adjustment has been made as required by IAS 8 with the necessary restatement of comparative figures.

**ADJUSTMENTS FOR THE FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

***Note B: Credit impairment***

Previously Imperial Bank 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 Imperial Bank 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 C: 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 D: Property 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.

## Notes to the group financial statements for the year ended 31 December 2005

### 1. ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently in dealing with items that are considered material in relation to the Group's financial statements.

#### 1.1 Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and the requirements of the Financial Reporting Standards Council for public interest companies, as set out in Section 440S of the South African Companies Act. These are the Group's first consolidated financial statements prepared in accordance with IFRS. In the prior years the Group prepared its consolidated financial statements in accordance with South African Generally Accepted Accounting Practice (SA GAAP). The Group has restated its opening balance sheet as at 1 January 2004 applying IFRS retrospectively, except with regard to the following items, which IFRS 1 *First-time Adoption of International Financial Reporting Standards* either permits, prohibits or modifies the retrospective application of IFRS:

- The fair value of owner occupied property at 1 January 2004 is treated as the property's deemed cost at that date.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 3.

The financial statements are presented in South African Rands (ZAR) and unless otherwise stated, are rounded to the nearest thousand Rand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value:

- Derivative financial instruments;
- Financial assets and financial liabilities classified as held for trading;
- Financial assets and financial liabilities designated at fair value through profit or loss;
- Financial assets classified as available-for-sale; and
- Investment property and owner-occupied properties.

Non-current assets held for sale are stated at the lower of its carrying amount and fair value less costs to sell.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRS.

As at balance sheet date IFRS 7 had been issued but was not yet effective for the group. It is not however, expected to have a material effect on the group's results.

The accounting policies have been applied consistently by Group entities.

#### 1.2 Foreign currency transactions

Transactions in foreign currencies are converted into the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the Group at rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency of the Group at foreign exchange rates ruling at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at cost are converted into the functional currency of the Group at the rate of exchange ruling at the date of the initial recognition and are not subsequently retranslated.

## Notes to the group financial statements for the year ended 31 December 2005

Exchange gains and losses on the translation and settlement of foreign currency monetary assets and liabilities during the period are recognised in the income statement. Exchange differences for non-monetary items, for example equity instruments, are recognised in equity when the changes in the fair value of the non-monetary item is recognised in equity, and in profit or loss if the changes in fair value of the non-monetary item is recognised in profit or loss.

### 1.3 Group accounting

#### (i) *Subsidiary undertakings*

Subsidiary undertakings are those enterprises controlled by the Group.

Control is deemed to exist when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The Group accounts include the assets, liabilities and results of the company and subsidiary undertakings controlled by the Group from date of acquisition to date of disposal.

Intragroup balances and transactions, and profits and losses arising from intragroup transactions, are eliminated in the preparation of the Group financial statements. Unrealised losses are not eliminated to the extent that they provide evidence of impairment.

#### (ii) *Joint ventures*

Joint ventures are those entities over which the Group has joint control in terms of a contractual agreement. Joint ventures are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

Where an entity within the Group transacts with a joint venture of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture. When the Group's share of losses exceeds the carrying amount of the joint venture, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred or guaranteed obligations in respect of the joint venture.

### 1.4 Financial instruments

Financial instruments as reflected on the balance sheet include all financial assets and financial liabilities, including derivative instruments, but exclude investments in subsidiaries, associated companies and joint ventures, employee benefit plans, property and equipment, deferred taxation, taxation payable, intangible assets and goodwill. Financial Instruments are accounted for under IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

#### (i) *Initial recognition*

Financial instruments are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases) are recognised at trade date, which is the date that the Group commits to purchase the asset. Financial liabilities are recognised on trade date, which is when the Group becomes a party to the contractual provisions of the financial instrument.

Transactions that are not considered regular way are treated as derivatives until settlement occurs.

#### (ii) *Initial measurement*

Financial instruments are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental to the Group and directly attributable to the acquisition or issue of the financial asset or financial liability.

#### (iii) *Subsequent measurement*

Subsequent to initial measurement, financial instruments are either measured at fair value or amortised cost, depending on their classification:

**Notes to the group financial statements  
for the year ended 31 December 2005**

*Financial assets and financial liabilities at fair value through profit or loss*

Financial instruments at fair value through profit or loss comprise trading instruments and instruments where the Group has elected, on initial recognition date, to designate as fair value through profit or loss.

Trading instruments are financial assets or financial liabilities that were acquired or incurred principally for the purpose of sale or repurchase in the near term, form part of a portfolio with a recent actual pattern of short-term profit-taking or are derivatives that do not form part of designated and effective hedging relationship. The Group's derivative transactions comprise of interest rate swaps.

Financial assets and financial liabilities that the Group has elected, on initial recognition date, to designate as at fair value through profit or loss are those that meet any one of the following criteria:

- Where the fair value through profit or loss designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from using different bases to measure and recognise the gains and losses on financial assets and financial liabilities; or
- The instrument forms part of a group of financial instruments that is managed, evaluated and reported using a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, which significantly modifies the cash flows of the host contract or where the embedded derivative would clearly require separation.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, with fair value gains and losses (excluding impairment losses, interest income and interest expense calculated on the amortised cost basis relating to those interest-bearing instruments that have been designated as at fair value through profit or loss) reported in non-interest revenue as they arise. Impairment losses calculated on the amortised cost basis are reported in impairment losses on loans and advances. Interest income and interest expense calculated on the amortised cost basis are reported in interest income and expense.

*Non-trading financial liabilities*

All financial liabilities, other than those at fair value through profit or loss, are classified as non-trading financial liabilities and are measured at amortised cost.

*Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity, other than those that meet the definition of loans and receivables or those that were designated as at fair value through profit or loss or available-for-sale. Held-to-maturity financial assets are measured at amortised cost, with interest revenue recognised in the income statement.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Group as at fair value through profit or loss or available-for-sale. Financial assets classified as loans and receivables are carried at amortised cost, with interest revenue recognised in the income statement. The majority of the Group's advances are included in the loans and receivables category.

*Available-for-sale financial assets*

Financial assets are classified as available-for-sale where the intention with regard to the instrument and its origination and designation do not fall within the ambit of the other financial asset classifications. Available-for-sale instruments are typically assets that are held for a longer period and in respect of which short-term fluctuations in value do not affect the Group's hold or sell decision.

**Notes to the group financial statements  
for the year ended 31 December 2005**

Available-for-sale financial assets are measured at fair value, with fair-value gains and losses recognised directly in equity along with the associated deferred taxation. Any foreign exchange gains or losses or interest revenue, measured on an effective yield basis, are removed from equity to the income statement as they arise. When available-for-sale equity instruments are determined to be impaired to the extent that the fair value declines below its original cost, the resultant losses are recognised in profit or loss. When available-for-sale equity instruments are disposed of the amounts recognised in equity are realised through the income statement.

**(iv) Embedded derivatives**

Certain derivatives embedded in other financial and non-financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives and recognised on a stand alone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in profit or loss.

If it is not possible to determine the fair value of the embedded derivative, the entire hybrid instrument is categorised as at fair value through profit or loss and measured at fair value.

**(v) Measurement of financial instruments**

*Amortised cost*

Amortised cost financial assets and financial liabilities are measured at initial recognition value, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, less any cumulative impairment losses.

*Fair value*

Direct and incremental transaction costs are included in the initial fair value of financial assets and financial liabilities, other than those at fair value through profit or loss. The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions in the same instrument or based on a valuation technique whose variables include only market observable data.

Where quoted market prices or rates are available, such market data is used to determine the fair value of financial assets and financial liabilities that are measured at fair value. The bid price is used to measure financial assets held and the offer price is used to measure the fair value of financial liabilities. Mid-market prices are used to measure fair value only to the extent that the Group has assets and liabilities with offsetting risk positions (refer note 1.4(viii)).

If quoted bid prices are unavailable, the fair value of financial assets and financial liabilities is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the balance sheet date.

The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. In cases where the fair value of financial liabilities cannot be reliably determined, these liabilities are recorded at the amount due.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are not measured at fair value but at cost. Fair value is considered reliably measurable if:

- The variability in the range of reasonable fair value estimates is not significant for that instrument; or
- The probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

**Notes to the group financial statements  
for the year ended 31 December 2005**

**(vi) Derecognition**

All financial assets and financial liabilities are derecognised on trade date, which is when the Group commits to selling a financial asset or redeeming a financial liability.

The Group derecognises a financial asset when and only when:

- The contractual rights to the cash flows arising from the financial assets have expired or have been forfeited by the Group; or
- It transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- It transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss for the period.

**(vii) Impairment of financial assets**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- It becoming probable that the borrower will become insolvent or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - Adverse changes in the payment status of borrowers in the group; or
  - National or local economic conditions that correlate with defaults on the assets in the group.

*Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

**Notes to the group financial statements  
for the year ended 31 December 2005**

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

*Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

*Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

**(viii) Offsetting financial instruments and related income**

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off and there is intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the balance sheet, with the exception of those relating to hedges, which are disclosed in accordance with the profit or loss effect of the hedged item.

**1.5 Revenue recognition**

**(i) Interest income and expense**

Interest income and expense is recognised in profit or loss using the effective interest method taking into account the expected timing and amount of cash flows. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest earned whilst holding investment and trading securities (including those classified as available-for-sale) is reported as interest income.

**Notes to the group financial statements  
for the year ended 31 December 2005**

**(ii) Fees and commission**

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans that are probable of being drawn down, are deferred (together with related direct costs) and recognised either as an adjustment to the effective interest rate on the advance or over the amortised period of the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction, unless it forms an integral part of the effective interest rate of the underlying financial instruments.

**(iii) Other**

Revenue other than interest, fees and commission, which includes dividends from investments, is recognised in profit or loss when the amount of revenue from the transaction or service can be measured reliably, it is probable that the economic benefits of the transaction or service will flow to the Group and the costs associated with the transaction or service can be measured reliably.

Fair value gains or losses on financial instruments at fair value through profit or loss, including derivatives that are not designated as hedges for hedge accounting purposes are included in investment income. These fair value gains or losses are after deducting the interest component, which is separately recognised in interest income and expense.

Gains or losses on derecognition of any financial assets or financial liabilities are included in non-interest revenue.

Dividends receivable are included separately in dividend income, within non interest income when a dividend is declared.

**1.6 Tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

**(i) Current tax**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Secondary Tax on Companies that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

**(ii) Deferred tax**

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred taxation is charged to profit or loss except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition. The effect on deferred taxation of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which the unutilised tax losses and deductible temporary differences can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

**Notes to the group financial statements  
for the year ended 31 December 2005**

**1.7 Impairment (all assets other than financial instruments)**

The Group assesses all assets for indications of an impairment loss or the reversal of a previously recognised impairment at each balance sheet date. Should there be indications of impairment, the assets' recoverable amounts are estimated. These impairments (where the carrying value of the asset exceeds its recoverable amount) or the reversal of a previously recognised impairment are recognised in profit or loss for the period.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The fair value less cost to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing value-in-use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

A previously recognised impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

**1.8 Property and equipment**

**(i) Owned assets**

Owner-occupied property is stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses. An external valuation is performed every three years on a rotation basis. Internal valuations are done annually.

Property and equipment, principally computer equipment, motor vehicles and fixtures and furniture are stated at cost less accumulated depreciation and impairment.

Certain items of property, plant and equipment that had been revalued to fair value on 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

**(ii) Subsequent expenditure**

Subsequent expenditure is capitalised when it is measurable and will result in probable future economic benefits. Expenditure incurred to replace a component of an item of owner occupied property or equipment is capitalised to the cost of the item of owner occupied property and equipment and the part replaced is derecognised. All other expenditure is recognised in profit or loss as an expense when incurred.

**(iii) Revaluation of owner-occupied property**

Owner-occupied property is valued at fair value. External valuations are obtained once every three years on a rotational basis. In the event of a material change in market conditions between the valuation date and balance sheet date an internal valuation is performed and adjustments made to reflect any material changes in value.

The valuation methodology adopted is dependent upon the nature of the property. Income generating assets are valued using discounted cash flows. Vacant land, land holdings and residential flats are valued according to sales of comparable properties. Near vacant properties are valued at land value less the estimated cost of demolition.

**Notes to the group financial statements  
for the year ended 31 December 2005**

When an individual property is revalued, any increase in its carrying amount (as a result of the revaluation) is transferred to a revaluation reserve, except to the extent that it reverses a revaluation decrease of the same property previously recognised as an expense in profit or loss.

When the value of an individual property is decreased as a result of a revaluation, the decrease is charged against any related credit balance in the revaluation reserve in respect of that property. However, to the extent that it exceeds any surplus, it is recognised as an expense in profit or loss.

**(iv) Derecognition**

On derecognition of an owner-occupied property, or item of plant or equipment, any gain or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of the derecognition. In the case of owner-occupied property, any surplus in the revaluation reserve in respect of the individual property is transferred directly to retained earnings.

**(v) Depreciation**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of items of owner-occupied property and equipment that are accounted for separately. Useful lives and residual values are assessed on an annual basis.

In the case of owner-occupied property, on revaluation any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the property concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised.

Land is not depreciated.

The maximum estimated useful lives are as follows:

– Computer equipment	5 years
– Computer software	3 years
– Motor vehicles	6 years
– Fixtures and furniture	10 years
– Leasehold property	lower of 20 years or the lease period
– Significant leasehold property components	lower of 10 years or the lease period
– Freehold property	50 years
– Significant freehold property components	5 years

**1.9 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of those assets. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

All other borrowing costs are expensed in the period in which they are incurred.

Details of borrowing costs capitalised are disclosed in the notes to the accounts by fixed-asset category and are calculated at the Group's average funding cost, except to the extent those funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings is capitalised.

**1.10 Pension plans and post retirement-benefits**

**(i) Defined contribution plans**

Contributions in respect of defined contribution schemes are recognised as an expense in profit or loss as incurred.

**Notes to the group financial statements  
for the year ended 31 December 2005**

**1.11 Leases**

**(i) *The Group as lessee***

Leases where the Group bears substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the lease property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve an effective rate of interest on the balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

**(ii) *The Group as lessor***

Where assets are leased out under a finance lease arrangement, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and unearned finance income is presented in the balance sheet. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Assets leased out under operating leases are included under property and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

**(iii) *Recognition of lease of land***

Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. However, when a single lease covers both land and building, the minimum lease payments at the inception of the lease (including any up-front payments) are allocated between the land and the building in proportion to the relative fair values of the respective leasehold interests. Any up-front premium allocated to the land element that is normally classified as an operating lease represents pre-paid lease payments. These payments are amortised over the lease term in accordance with the time pattern of benefits provided. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases.

**1.12 Cash and cash equivalents**

Cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances with central banks and amounts due from other banks.

**1.13 Other provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted and the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## Notes to the group financial statements for the year ended 31 December 2005

### 1.14 Segmental reporting

The Group's segmental reporting is by line of business and loans and advances are disclosed by geography. The segmental disclosure by geography is determined by the origin of business transacted.

### 1.15 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as 'held for sale' when their carrying value will be recovered principally through sale within 12 months rather than use, are measured at the lower of carrying amount and fair value less cost to sell and are not depreciated.

### 1.16 Share capital

Share capital issued by the company is recorded at the proceeds received, net of direct issue cost.

Ordinary share capital is classified as equity. An equity instrument is a residual interest in the assets of an entity after deducting all of its liabilities.

## 2. KEY ASSUMPTIONS CONCERNING THE FUTURE, AND KEY SOURCES OF ESTIMATION

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards adopted by the International Accounting Standards Board. In the preparation of the financial statements the bank has recorded various assets and liabilities on the presumption that the bank is an ongoing business and as such, certain key sources of estimation have been assumed.

### 2.1 Credit impairment

The bank adopted an incurred loss approach to impairment. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more past events that occurred since initial recognition. This necessitates the establishment of "impairment triggers" on the occurrence of which an impairment loss is recognised.

Credit impairment is based on discounted estimated future cash flows on an asset or group of assets, where such objective evidence of impairment exists. The discount rate used to calculate the recoverable amount excludes consideration of any anticipated future credit losses.

The Bank has also created a provision for incurred but not reported ("IBNR") losses. The purpose of the IBNR reserve is to allow for latent losses on a portfolio of loans and advances that have not yet been individually evidenced. Generally, a period of time will elapse between the occurrence of an impairment event and objective evidence of the impairment becoming evident, which is known as the "emergence period". The IBNR reserve is based on the probability that loans that are ostensibly performing at the calculation date are impaired, and objective evidence of that impairment becomes evident during the emergence period.

The implementation of these principles are at a divisional level and will be specific to the nature of their individual loan portfolios and the loan loss data available to that division.

### 2.2 Deferred-tax asset

The deferred-tax asset recognises the probability that sufficient future taxable profits will be available to realise the asset carried for assessed losses within a three to five year horizon. The forecast of future taxable profits is based on the comprehensive three year business plan to 2008 adopted by the board.

For further information reference should be made to the Accounting Policies Note 1.6 (ii) on page 42.

## 3. RESTATEMENT OF COMPARATIVES

The following restatements have been made to the 31 December 2004 comparative financial statements:

### 3.1 Restatement of financial information for the year ended 31 December 2004 under International Financial Reporting Standards ("IFRS")

## Notes to the group financial statements for the year ended 31 December 2005

For the year ended 31 December 2004 Imperial Bank Limited 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, applicable to Imperial Bank's holding company, Imperial Bank is 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 listed companies for financial reporting periods beginning on or after 1 January 2005 and, consequently, Imperial Bank's first published annual report under IFRS is for the year ended 31 December 2005. As Imperial Bank publishes comparative information for one year in its annual report, 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 Imperial Bank Limited'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 IFRSs that are effective for the year ending 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.

### 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 IFRSs 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. Imperial Bank has utilised the following transitional arrangements on a consistent basis with its holding company, Nedbank Limited:

- Property and equipment: the group has elected to measure individual items of property and equipment at fair value at the date of transition to IFRS, hence fair value is deemed to be cost at that date. Imperial Bank has not taken advantage of 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.

### Basis of preparation

Previously the group fair valued certain assets and liabilities, with the intention of eliminating any mismatch. These instruments were designated as Held For Trading on transition or inception and could not be reclassified. The new amendments have changed the criteria. One or both of the following conditions need to be met in order to designate a financial instrument as at fair value through profit or loss ("FVTPL"):

- Accounting mismatch – eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising gains or losses on such assets using a different basis; and/or;
- Documented risk management or investment strategy – where a group of financial assets and liabilities is managed and performance is evaluated on a fair value basis and this is documented and reported internally on this basis.

Notwithstanding the above, derivatives are still to be fair valued.

The group has now decided to restate from 31 December 2004 (and therefore restate comparatives from 1 January 2004) and has de-designated all assets and liabilities that do not meet the criteria. In addition, the group has reviewed all previously designated assets and liabilities, which were classified as Held for Trading.

Notes to the group financial statements  
for the year ended 31 December 2005

	2005 R'000	2004* R'000
<b>4. INTEREST AND SIMILAR INCOME</b>		
Mortgage loans	482 543	432 342
Lease and instalment debtors	1 388 237	1 143 388
– Interest earned	1 318 436	1 093 562
– Deferred revenue and acquisition costs	69 801	49 826
Term loans and other	493 718	592 771
Government and public sector securities	62 949	53 049
Preference shares	10 894	8 634
	<b>2 438 341</b>	<b>2 230 184</b>
<b>5. INTEREST EXPENSE AND SIMILAR CHARGES</b>		
Deposit and loan accounts	1 114 551	988 529
Derivative instruments	66 702	66 170
Long-term debt instruments	452 924	533 844
	<b>1 634 177</b>	<b>1 588 543</b>
<b>6. NON-INTEREST INCOME</b>		
Commission and fee income	29 630	38 501
– Insurance commission	26 570	18 687
– Guarantees	373	235
– Fees	2 687	19 579
Fair value adjustments through profit and loss	5 144	16 527
Other income	15 894	29 905
– Rent received	11 106	5 875
– Profit on disposal of property and equipment	1 004	228
– Other	3 784	23 802
	<b>50 668</b>	<b>84 933</b>

\* Restated as per note 3.

**Notes to the group financial statements  
for the year ended 31 December 2005**

	2005 R'000	2004* R'000
<b>7. OPERATING EXPENSES</b>		
Staff costs **	218 471	186 024
– Salaries and wages	218 471	186 024
Computer processing	24 631	27 206
– Depreciation for computer equipment	11 055	7 232
– Operating lease charges for computer equipment		10 008
– Other computer processing expenses	13 576	9 966
Communication and travel		
Occupation and accommodation	17 325	15 375
– Depreciation for owner occupied buildings	906	303
– Operating lease charges for land and buildings	10 910	10 484
– Other occupation and accommodation expenses	5 509	4 588
Marketing and public relations		
Fees and insurances	14 685	16 593
– Auditors' remuneration	5 632	5 884
– Audit fees – current year	5 233	4 814
– Audit fees – prior year		(946)
– Other services	399	2 016
– Other fees and insurances	9 053	10 709
Office equipment and consumables	24 952	23 860
– Depreciation for furniture and other equipment	3 414	2 771
– Depreciation for vehicles	3 778	4 081
– Operating lease charges for furniture and other equipment		60
– Other office equipment and consumables	17 760	16 948
Sundry expenses	43 295	32 632
Fees to alliance partners	9 278	9 859
<b>Total operating expenses</b>	<b>352 637</b>	<b>311 549</b>

\*\* Refer note 31 on related parties for a detailed break down of directors' remuneration.

Certain expenses incurred by the company on behalf of subsidiary companies are recovered from subsidiary companies.

**8. INDIRECT TAXES**

VAT	9 950	4 197
RSC levies	4 149	3 485
	<b>14 099</b>	<b>7 682</b>

Value Added Tax comprises that portion which is irrecoverable as a result of the interest earned in the banking sector.

\* Restated as per note 3.

Notes to the group financial statements  
for the year ended 31 December 2005

	2005 R'000	2004* R'000
<b>9. DIRECT TAXES</b>		
<b>9.1 Charge for the year</b>		
South African normal taxation		
– Current	61 404	10 027
– Deferred	18 510	7 868
– Change due to tax rate decreasing from 30% to 29%	(890)	–
Current and deferred taxation on income	79 024	17 895
Prior year under provision – current tax	–	(1 357)
	<b>79 024</b>	<b>16 538</b>
<b>9.2 Taxation rate reconciliation</b>		
	2005 %	2004 %
Standard rate of South African normal taxation	29	30
Non-taxable dividend income	(1)	(1)
Effect of tax losses utilised	(7)	(17)
Other	–	(2)
Total taxation on income as percentage of profit before taxation	21	10
	2005 R'000	2004* R'000
<b>9.3 Future taxation relief</b>		
A subsidiary company, NRB Risk Solutions (Pty) Ltd has an estimated assessable loss calculated as follows:		
Assessed loss up to and including March 2002 financial year	823,7	823,7
Net (reduction)/increase in estimated tax loss for the period 1 April 2002 to 31 December	(94,7)	109,5
	729,0	933,2
Net cumulative originating timing differences	(67,4)	(219,8)
Unprovided portion of assessed tax losses	661,6	713,4
Estimated tax effect of the unprovided for portion of the estimated assessed loss	191,9	214,02

The group has neither raised a deferred tax asset nor a normal tax liability and has accounted for no income tax.

\* Restated as per note 3.

**Notes to the group financial statements  
for the year ended 31 December 2005**

	2005 R'000	2004* R'000
<b>10. CASH AND CASH EQUIVALENTS</b>		
Coin and bank notes	25	22
Money at call and short notice	10 914	2 175
Balances with central bank – other than mandatory deposits	250	250
Cash and cash equivalents excluding mandatory deposits with central bank	11 189	2 447
Mandatory deposits with central bank	463 296	364 263
	<b>474 485</b>	<b>366 710</b>

Money at call and short notice constitutes amounts withdrawable in 32 days or less. Mandatory reserve deposits are not available for use in the Group's day-to-day operations. Cash in hand, balances with central bank and mandatory deposits are non-interest bearing.

**11. OTHER SHORT-TERM SECURITIES**

**11.1 Analysis**

Treasury bills	518 932	218 424
SARB debentures	50 533	
	<b>569 465</b>	<b>218 424</b>

**11.2 Sectoral analysis**

Government and public sector	569 465	218 424
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A register of treasury bills and debentures is available for inspection at the registered office of the company.

\* Restated as per note 3.

**12. DERIVATIVE FINANCIAL INSTRUMENTS**

These transactions have been entered into in the normal course of business and no material losses are anticipated other than those for which provision has been made in the income statement. There are no commitments or contingent commitments under derivative instruments that are settled other than with cash. The principal types of derivative contracts into which the group enters are described below.

**Swaps**

These are over-the-counter (OTC) agreements between two parties to exchange periodic payments of interest, or related index, over a set period based on notional principal amounts. The group enters into swap transactions in several markets. Interest rate swaps exchange fixed rates for floating rates of interest-based on notional amounts. Basis swaps exchange floating or fixed interest calculated using different bases. Cross-currency swaps are the exchange of interest based on notional values of different currencies.

**Risk monitoring**

Details of the group's risk management structure, policies and methods are noted on pages 123 to 126 and the interest rate risk analysis is detailed on pages 68 and 69.

Notes to the group financial statements  
for the year ended 31 December 2005

12.1 Total carrying amount of derivative financial instruments

	2005 R'000	2004* R'000
Gross carrying amount of assets	217 177	263 480
Gross carrying amount of liabilities	(219 120)	(257 808)
Net carrying amount	(1 943)	5 672

A detailed breakdown of the carrying amount, notional principal and fair value of the various types of derivative financial instruments held by the group is presented in the following tables.

12.2 Notional principal of derivative financial instruments

This represents the gross notional amounts of all outstanding contracts at year-end. This gross notional amount is the sum of the absolute amount of all purchases and sales of derivative instruments. The notional amounts do not represent amounts exchanged by the parties and therefore represent only the measure of involvement by the group in derivative contracts and not its exposure to market or credit risks arising from such contracts. The amounts actually exchanged are calculated on the basis of the notional amounts and other terms of the derivative, which relate to interest rates, exchange rates, securities prices or financial and other indices.

	Notional principal R'000	2005 Positive value R'000	Negative value R'000	Notional principal R'000	2004 * Positive value R'000	Negative value R'000
<b>Trading derivatives</b>						
Interest rate swaps	3 114 019	1 565 010	1 549 010	3 605 114	1 810 557	1 794 557
<b>Banking derivatives</b>						
Interest rate swaps	1 800 698	903 255	897 442	1 824 238	906 312	917 926
<b>Total notional principal</b>	<b>4 914 717</b>	<b>2 468 265</b>	<b>2 446 452</b>	<b>5 429 352</b>	<b>2 716 869</b>	<b>2 712 483</b>

12.3 Carrying amount of derivative financial instruments

The amounts disclosed represent the value of all derivative instruments held at 31 December 2005. The fair value of a derivative financial instrument is the amount at which it could be exchanged in a current transaction between willing parties, other than a forced liquidation or sale. Fair values are obtained from quoted market prices and discounted cash flow models. When it is not practicable, owing to constraints of timeliness or cost, to determine the fair value of a derivative instrument with sufficient reliability, such derivative is included in the following table at a value calculated on an accrual basis. In terms of that basis a value is obtained by taking into account the original cost of the derivative and only the realised gains or losses in respect of the instrument.

	Net carrying amount R'000	2005 Carrying amount of assets R'000	Carrying amount of liabilities R'000	Net carrying amount R'000	2004 * Carrying amount of assets R'000	Carrying amount of liabilities R'000
<b>Trading derivatives</b>						
Interest rate swaps	(2 820)	142 844	145 664	(3 669)	179 187	182 856
<b>Banking derivatives</b>						
Interest rate swaps	877	74 333	73 456	9 341	84 293	74 952
<b>Total carrying amount</b>	<b>(1 943)</b>	<b>217 177</b>	<b>219 120</b>	<b>5 672</b>	<b>263 480</b>	<b>257 808</b>

\* Restated as per note 3.

Notes to the group financial statements  
for the year ended 31 December 2005

**13. FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS**

The group has satisfied the criteria for designation of an instrument as at fair value through profit or loss in terms of the accounting policy as stipulated in the annual financial statements.

Various fixed rate instruments are entered into by the bank. The overall interest-rate risk of the bank is then hedged by the ALCO ('Asset and Liability Committee') by way of an interest rate swap thus having the interest rate risk passed out to the market.

The swaps meet the definition of 'derivatives', and are therefore held at fair value in terms of IAS 39. The fixed rate instruments however do not meet this definition. Therefore, to avoid an accounting mismatch by holding the fixed rate instrument at amortised cost and the balance of the hedging schemes instruments at fair value, the fixed rate instruments are designated as at fair value through profit and loss and are therefore held at fair value.

Various instruments are designated as at fair value through profit and loss consistent with the relevant entity's documented risk management or investment strategy.

In these investment strategies, the fair value is the instrument attribute that is managed and reviewed on a regular basis. Business strategies, operating mandates and/or investment strategies are aligned with the fair value of the instruments.

The risk of the portfolio is measured and monitored on a fair value basis. Performance measurement is directly aligned to the fair value, and is reported to key management personnel on a regular basis.

**13.1 Financial assets designated as at fair value through profit or loss**

**Maximum exposure to credit risk**

	2005 R'000	2004* R'000
Government and other securities	450 356	533 035
Investment securities	8 566	31 056
	<b>458 922</b>	<b>564 091</b>

**13.2 Financial liabilities designated as at fair value through profit or loss**

2005	Fair value R'000	Contractually payable at maturity R'000	Difference R'000
Long-term debt instruments	580 482	515 000	65 482
2004*	Fair value R'000	Contractually payable at maturity R'000	Difference R'000
Long-term debt instruments	592 575	515 000	77 575

\* Restated as per note 3.

Notes to the group financial statements  
for the year ended 31 December 2005

	2005 R'000	2004* R'000
<b>14. GOVERNMENT AND OTHER SECURITIES</b>		
<b>14.1 Analysis</b>		
Government and government-guaranteed securities	450 356	533 035
<b>14.2 Sectoral analysis</b>		
Government and public sector	450 356	533 035
<b>14.3 Valuation</b>		
Listed securities		
– Carrying amount	450 356	533 035
– Market value	450 356	533 035

**15. LOANS AND ADVANCES TO CUSTOMERS**

The group operates in selected niche markets concentrating on asset based finance. Advances made are mostly in the form of instalment credit to individuals and mortgage lending to property developers, corporate borrowers and individuals.

	2005 R'000	2004* R'000
<b>15.1 Category analysis</b>		
Homeloans	681 547	551 062
Commercial mortgages	4 196 228	4 048 422
Properties in possession	12 243	15 984
Other loans to clients	527 594	638 312
Net investment in instalment sale agreements	14 891 495	10 769 754
Preference shares	118 086	122 863
	20 427 193	16 146 397
Impairment of loans and advances (note 16)	(730 086)	(926 827)
	19 697 107	15 219 570

The preference shares have a nominal value of R110 million and earn interest at a fixed rate of 9,4%. They are redeemable in three equal annual tranches beginning 8 December 2009.

**15.2 Sectoral analysis**

Individuals	12 952 299	8 769 535
Financial services, insurance and real estate	222 113	228 646
Manufacturing	102 998	133 452
Building and property development	3 181 142	3 991 931
Transport, storage and communication	968 827	854 636
Retailers, catering and accommodation	109 494	95 920
Wholesale and trade	36 864	70 595
Mining and quarrying	58 538	61 323
Agriculture, forestry and fishing	16 194	16 244
Government and public sector	927	18 256
Other services	2 777 797	1 908 034
	20 427 193	16 148 572

\* Restated as per note 3.

Notes to the group financial statements  
for the year ended 31 December 2005

	2005 R'000	2004* R'000
<b>15.3 Geographical analysis</b>		
South Africa	20 427 193	16 148 572
Northern Province	8 975	23 204
Gauteng	15 801 638	12 693 153
Northern Cape	8 656	22 319
Western Cape	2 072 348	1 742 416
Eastern Cape	281 784	283 516
Kwazulu-Natal	1 454 952	831 401
Free State	739 674	502 332
North West	17 055	29 727
Mpumalanga	42 111	20 504
	<b>20 427 193</b>	<b>16 148 572</b>
		<b>Specific impairment</b>
	<b>2005</b>	<b>2004*</b>
	<b>R'000</b>	<b>R'000</b>
<b>16. IMPAIRMENT OF LOANS AND ADVANCES</b>		
<b>16.1 Impairment of loans and advances</b>		
Balance at beginning of year	926 827	713 725
Impairment losses on loans and advances – income statement charge	114 589	243 391
Unwind of discount allowance	(33 002)	(60 707)
Amounts written off against the impairment	(223 250)	(84 396)
Recoveries of amounts previously written off against the impairment	9 217	2 866
Other	(64 295)	111 948
Impairment of loans and advances	<b>730 086</b>	<b>926 827</b>
<b>16.2 Impairments of loans and advances by Category</b>		
Homeloans	20 907	115 957
Commercial mortgages	50 433	95 976
Other loans to clients	154 987	75 001
Net investment in instalment sale agreements	503 759	639 893
Impairment at end of year	<b>730 086</b>	<b>926 827</b>
<b>16.3 Sectoral analysis</b>		
Individuals	435 358	298 421
Financial services, insurance and real estate	83 367	183 222
Manufacturing	14 862	40 010
Building and property development	28 120	109 496
Transport, storage and communication	109 718	195 486
Retailers, catering and accommodation	26 649	14 286
Wholesale and trade	185	33 142
Mining and quarrying	1 324	8 454
Agriculture, forestry and fishing	1 017	1 614
Government and public sector	450	4 600
Other services	29 036	38 096
	<b>730 086</b>	<b>926 827</b>

\* Restated as per note 3.

Notes to the group financial statements  
for the year ended 31 December 2005

	Specific impairment	
	2005	2004*
	R'000	R'000
<b>16.4 Geographical analysis</b>		
South Africa	730 086	926 827
Northern Province	6 061	6 283
Gauteng	531 169	760 253
Northern Cape	5 845	6 028
Western Cape	34 492	59 050
Eastern Cape	7 534	32 651
Kwazulu – Natal	85 890	27 251
Free State	19 144	21 730
North West	11 516	8 028
Mpumalanga	28 435	5 553
	<b>730 086</b>	<b>926 827</b>
<b>16.5 Ratio of impairments</b>		
Impairment of advances at end of year	730 086	926 827
Total advances	20 427 193	16 146 397
Ratio (%)	3,6	5,7
<b>17. OTHER ASSETS</b>		
17.1 Sundry receivables	42 223	36 247
Deferred acquisition costs	196 943	139 016
	<b>239 166</b>	<b>175 263</b>
<b>18. CURRENT TAXATION</b>		
Normal South African taxation		
– Current taxation prepaid	–	2 555
– Current taxation liability	53 119	–
	<b>53 119</b>	<b>2 555</b>
<b>19. INVESTMENT SECURITIES</b>		
<b>19.1 Carrying amount</b>		
<i>Listed investments</i>		
Eagle Bonds	8 566	8 978
Supergroup Bonds	–	22 078
<i>Unlisted investments</i>		
Option purchased	127	127
	<b>8 693</b>	<b>31 183</b>
<b>19.2 Valuation</b>		
Listed at market value	8 566	31 056
Unlisted at directors' valuation	127	127
	<b>8 693</b>	<b>31 183</b>

\* Restated as per note 3.

**Notes to the group financial statements  
for the year ended 31 December 2005**

The Eagle Bonds were issued on 10 June 2003 at a nominal value of R10 million bearing a coupon of 9.956%. Interest payments and instalments are received on a quarterly basis and the bond matures on 31 July 2012.

The Supergroup Bonds were issued on 25 June 2004 at a nominal value of R20 million and bearing a coupon rate of 12.5%.

The directors' valuation for the unlisted investments is at cost due to there being no active market for such an investment.

**20. NON-CURRENT ASSETS HELD FOR SALE**

	Previously part of:	Net carrying amount R'000
<b>2005</b>		
Properties sold not yet transferred	Owner occupied properties	13 395
The above property is situated on 318 Rivonia Boulevard, erf 15 Edenburg.		
The above net carrying amount includes an amount of R2.9 million recognised directly in equity.		
The bank has entered into an agreement to dispose of the property for an amount of R16.6 million. At year-end transfer to the purchaser had not been effected. Transfer is expected to take place within the first quarter of 2006.		
There were no non-current assets held for sale as at 31 December 2004.		
		2005 R'000
		2004* R'000

**21. DEFERRED TAXATION**

**21.1 Reconciliation of deferred taxation balance**

*Deferred tax asset*

Opening balance as reported under SA GAAP	966	16 464
IFRS Adjustments	26 297	18 667
Current year temporary differences	(17 620)	(7 868)
– Fixed assets, leases and other assets	36 273	(545)
– Impairment	(35 114)	15 777
– Income and expenditure accruals deducted	(22 144)	(24 694)
– Other	3 365	1 594
Balance at end of year	9 643	27 263

**21.2 Analysis of deferred taxation**

*Deferred tax asset*

Fixed assets, leases and other assets	33 735	(2 537)
Impairment	5 059	40 173
Income and expenditure accruals	(32 651)	(10 508)
Taxation losses	1 969	
Other	1 531	135
	9 643	27 263

The statutory tax rate changed for the 2005 financial year from 30% to 29%. Refer to note 9.1 on page 50 for the tax rate change effect.

\* Restated as per note 3.

Notes to the group financial statements  
for the year ended 31 December 2005

22. PROPERTY AND EQUIPMENT

	Land and buildings		Computer equipment		Furniture and other equipment		Vehicles		Total	
	2005 R'000	2004* R'000	2005 R'000	2004 R'000	2005 R'000	2004* R'000	2005 R'000	2004* R'000	2005 R'000	2004* R'000
<b>Gross carrying amount</b>										
Restated balance at 1 January	14 104	10 000	43 426	21 220	18 409	14 285	22 150	18 424	98 089	63 929
Acquisitions	78 350		16 341	22 232	10 793	4 138	2 552	6 953	108 037	33 323
Increase arising from revaluation		4 104								4 104
Transfers to assets held for sale	(14 104)								(14 104)	
Disposals			(2 960)	(26)	(172)	(14)	(11 808)	(3 227)	(14 940)	(3 267)
Balance at 31 December	78 350	14 104	56 807	43 426	29 030	18 409	12 894	22 150	177 082	98 089
<b>Accumulated depreciation and impairment losses</b>										
Restated balance at 1 January	407	104	15 386	8 167	7 252	4 490	6 836	4 089	29 881	16 850
Depreciation charge for the year	906	303	11 055	7 232	3 414	2 770	3 778	4 082	19 153	14 387
Disposals	(709)		(115)	(13)	(98)	(8)	(5 543)	(1 335)	(6 465)	(1 356)
Balance at 31 December	604	407	26 326	15 386	10 568	7 252	5 071	6 836	42 569	29 881
<b>Carrying amount</b>										
At 1 January	13 697	9 896	28 040	13 053	11 157	9 795	15 314	14 335	68 208	47 079
At 31 December	77 746	13 697	30 481	28 040	18 462	11 157	7 823	15 314	134 512	68 208

22.1 Registers providing the information regarding land and buildings, as required in terms of Schedule 4 to the Companies Act of 1973, are available for inspection at the registered office of the company.

22.2 Previously, property 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 on conversion to IFRS in January 2004, 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 to accumulated profit over the remaining useful life of the property.

23. POST-EMPLOYMENT EMPLOYEE BENEFITS

All eligible employees are members of the Imperial Group Pension Fund or the Imperial Bank Provident Fund, financed by company and employee contributions. These funds are defined contribution plans and are governed by the Pension Funds Act of 1956. There are no further post retirement benefit obligations.

	2005 R'000	2004* R'000
Pension fund contributions expensed	17 318	16 453

24. SHARE CAPITAL

**Authorised:**

500 000 000 (2004: 500 000 000) ordinary shares of R0,01 each 5 000 5 000

**Issued:**

358 934 487 (2004: 301 998 332) fully paid ordinary shares of R0,01 each 3 589 3 020

Subject to the restrictions imposed by the Companies Act of 1973, the unissued shares are under the control of the directors until the forthcoming annual general meeting.

\* Restated as per note 3.

**Notes to the group financial statements  
for the year ended 31 December 2005**

	2005	2004*
<b>Shareholders' analysis</b>		
Nedbank Limited	50,1%	50,1%
Imperial Holdings Limited	49,9%	49,9%
	<b>100,0%</b>	<b>100,0%</b>
The ultimate controlling shareholder is Old Mutual plc, listed on the London Stock Exchange.		
	2005	2004*
	R'000	R'000
<b>25. AMOUNTS OWED TO DEPOSITORS</b>		
<b>25.1 Analysis</b>		
Deposits and loan accounts		
– Call and Term Deposits	19 192 197	14 836 196
– Fixed Deposits	36 984	38 661
	<b>19 229 181</b>	<b>14 874 857</b>
Comprises:		
– Amounts owed to depositors	237 993	213 998
– Amounts owed to banks	18 991 188	14 660 859
	<b>19 229 181</b>	<b>14 874 857</b>
Deposit products include call, notice deposits and fixed deposits.		
<b>25.2 Sectoral analysis</b>		
Banks	18 991 188	14 660 859
Government and public sector	1 065	2 806
Individuals	433	790
Business sector	236 495	210 402
	<b>19 229 181</b>	<b>14 874 857</b>
<b>25.3 Geographical analysis</b>		
South Africa		
Gauteng	19 229 181	14 874 857
<b>26. OTHER LIABILITIES</b>		
Creditors and other liabilities	173 733	133 532
Leave pay accrual (note 26.1)	9 480	7 318
Deferred revenue	23 823	24 026
Operating leases accelerated	2 257	1 903
	<b>209 293</b>	<b>166 779</b>
<b>26.1 Leave pay accrual</b>		
Balance at beginning of year	7 318	4 715
Movement for year	2 162	2 603
	<b>9 480</b>	<b>7 318</b>

\* Restated as per note 3.

Notes to the group financial statements  
for the year ended 31 December 2005

	2005 R'000	2004* R'000
<b>27. LONG-TERM DEBT INSTRUMENTS</b>		
<i>Rand-denominated</i>		
R515 million bonds repayable on 4 December 2013	580 482	592 575
The above bond is subordinated, unsecured and callable on 4 December 2008. The rate is fixed at 13.5% and converts to a floating rate subsequent to the callable date. The floating rate will be 4% above the three-month deposit rate.		
<b>28. CASH FLOW INFORMATION</b>		
<b>28.1 Reconciliation of profit from operations to cash generated by operations</b>		
Profit from operations	373 507	163 952
<i>Adjusted for:</i>		
– Indirect taxes	14 099	7 682
– Depreciation (note 7)	19 153	14 387
– Movement in leave-pay provision	2 162	2 603
– Operating lease deferrals	354	923
– Movement in impairment of advances	123 806	246 257
– Profit on disposal of property and equipment	(1 004)	(228)
– Fair value adjustments through profit and loss	(5 144)	(16 527)
– Deferred revenue/Deferred acquisition costs	(69 801)	(49 826)
Cash flows from operating activities	457 132	369 223
<b>28.2 Cash received from clients</b>		
Interest income and dividends from finance facilities (note 4)	2 368 540	2 180 358
Commission and fees (note 6)	29 630	38 501
Other income	11 432	29 677
	2 409 602	2 248 536
<b>28.3 Cash paid to clients, staff and suppliers</b>		
Interest expense (note 5)	(1 634 177)	(1 588 543)
Staff costs (note 7)	(218 471)	(186 024)
Other operating expenses	(112 497)	(107 612)
	(1 965 145)	(1 882 179)
<b>28.4 Increase in operating assets</b>		
Other short-term securities	(351 041)	(168 328)
Government and public sector securities	82 679	(62 424)
Advances and other accounts	(4 596 551)	(3 860 002)
	(4 864 913)	(4 090 754)
<b>28.5 Increase in operating liabilities</b>		
Other deposits	4 354 324	3 779 588
Creditors and other liabilities	64 163	41 123
	4 418 487	3 820 711

\* Restated as per note 3.

Notes to the group financial statements  
for the year ended 31 December 2005

	2005 R'000	2004* R'000
<b>28.6 Taxation paid</b>		
Amounts prepaid at beginning of year	2 555	680
Income statement charge (excluding deferred tax)	(61 404)	(8 670)
Total indirect taxes	(14 099)	(7 682)
Other movements	98	–
Amounts due/(prepaid) at end of year	53 119	(2 555)
	<b>(19 731)</b>	<b>(18 227)</b>

**29. CONTINGENT LIABILITIES**

Liabilities under guarantees	868 765	675 267
Unutilised facilities and other	929 593	942 436
	<b>1 798 358</b>	<b>1 617 703</b>

The group in the ordinary course of business enters into transactions which expose the group to tax, legal and business risks. Provisions are made for known liabilities which are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made or it is considered improbable that an outflow would result, are noted as a contingent liability. This is in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

In addition in recent years Imperial Bank Limited has entered into structured finance transactions with third parties using the tax base of the bank. Pursuant to the terms of the majority of these transactions, the underlying third party has contractually agreed to accept the risk of any tax being imposed by the South African Revenue Service, although the obligation to pay in the first instance may rest with Imperial Bank Limited. The South African Revenue Services has recently begun to examine the tax aspects of some of these types of structures.

In limited cases a provision is made where for example, the credit quality of a client becomes doubtful, or where the client has specifically contracted out of the re-pricing of additional taxes, that the recovery from a client could be less than a contingent liability to the South African Revenue Service.

	2005 R'000	2004* R'000
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**30. COMMITMENTS**

**30.1 Capital expenditure approved by directors**

Contracted	–	703
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Funds to meet capital expenditure commitments will be provided from group resources. In addition, capital expenditure is incurred in the normal course of business throughout the year.

**30.2 Operating lease commitments**

Companies in the group have entered into leases over fixed property, furniture and other equipment for varying periods. The charges will increase in future in line with negotiated escalations and expansions. The following are the minimum lease payments under non-cancellable leases.

	2010 and beyond R'000	2009 R'000	2008 R'000	2007 R'000	2006 R'000
Land and buildings		2 772	6 166	7 265	6 672

**30.3 Commitments under derivative instruments**

The group enters into interest rate swap agreements and other financial agreements in the normal course of business and accounts for them at transaction date.

\* Restated as per notes 3.

Notes to the group financial statements  
for the year ended 31 December 2005

31. RELATED PARTIES

31.1 Relationships between parent and subsidiaries

The parent company of Imperial Bank Limited is Nedbank Limited, which hold 50.1% of the company's ordinary shares. The ultimate controlling party is Old Mutual plc, incorporated in the United Kingdom.

Material subsidiaries of the Group are identified on page 132.

31.2 Key management personnel compensation

31.2.1 Directors' compensation

Compensation paid to the board of directors is aggregated below, together with the aggregate compensation paid to the executive directors:

	2005 R'000	2004* R'000
<b>Executive directors</b>		
Salary, allowances and contributions	6 484	5 600
R van Wyk	3 000	–
– Salary	1 267	–
– Bonus	1 500	–
– Retirement fund contributions	219	–
– Benefits	14	–
P Hibbit	1 090	–
– Salary	599	–
– Bonus	400	–
– Retirement fund contributions	84	–
– Benefits	7	–
D Van Der Linde	2 394	1 932
– Salary	998	934
– Bonus	1 200	795
– Retirement fund contributions	159	157
– Benefits	37	46
R L Hiemstra ***	–	2 177
– Salary	–	1 908
– Retirement fund contributions	–	215
– Benefits	–	54
E Kotze **	–	1 491
– Salary	–	1 314
– Retirement fund contributions	–	144
– Benefits	–	33

\*\* Dismissed in 2005

\*\*\*Resigned in 2004

R van Wyk was appointed Chief Executive Officer in April 2005.

P Hibbit was appointed Chief Financial Officer in June 2005.

The bonus payments are accrued and paid in the following year.

\* Restated as per note 3

**Notes to the group financial statements  
for the year ended 31 December 2005**

	2005 R'000	2004* R'000
<b>Non-executive directors</b>		
Fees:	1 237	614
Z Banchetti	136	83
C Ball	143	64
H Brody **	98	45
R Cottrell	190	138
B Lynch **	158	113
E Molobi **		38
S Morris **		42
R van Wyk **		68
G van Niekerk		42
R Shuter **	60	23
P Wessels **	136	23
O Arbee	98	8
M Croukamp	218	183
Reversal out prior year accrual		(256)
<b>Total</b>	<b>7 721</b>	<b>6 214</b>

\*\* Directors' fees marked with an asterisk do not accrue to the individuals but to either Imperial Group Limited or Nedbank Limited.

**31.2.2 Other executive staff compensation**

Short-term incentives	16 316 215	20 216 481
Retirement funding	870 191	1 144 123
	<b>17 186 406</b>	<b>21 360 604</b>

\* Restated as per note 3.

**Notes to the group financial statements  
for the year ended 31 December 2005**

**31.3 Identity of related parties with whom material transactions have occurred**

Imperial Bank Limited and its subsidiaries, in the ordinary course of business, enter into various financial services transactions with associates, joint ventures and other related parties within the greater Nedbank, Imperial Holdings and Old Mutual group. The following material transactions occurred between related parties:

2005

Balance sheet information	Balance due from/(to) R'000	Terms and conditions	Guarantees issued on behalf of related party	Impairment provision	Impairment during the year
<b>Parent – Nedbank Limited</b>					
Type of transaction					
Deposit	(19 014 047)	No fixed terms of payment at the Nedbank prime replicating portfolio rate			
Current Account	10 853	Current account at general public rates			
<b>Entities with significant influence over the company</b>					
Deposits	(66 385)	Term and Fixed deposits			
Derivative financial instruments	(80 688)	Interest rate swap			
<b>Subsidiaries *</b>					
Ned Insurance Company	(22 330)	Term and Fixed deposits			
Old Mutual Life Assurance Co Sa	(102 815)	Bonds			
Old Mutual Specialised Fin (Om)	(58 685)	Bonds			
Omut Gx Balanced-Coron	(4 700)	Bonds			
Omut Old Mutual Income	(16 800)	Bonds			
Sbsaitf Old Mut En Inc	(13 000)	Bonds			
<b>Associated companies †</b>					
Dream World Investments	116 836	Preference Shares			
AMH – JV Partner	(46 791)	Term and fixed deposits			
Eagle Bonds One	(8 031)	Term and fixed deposits			
Highway Carriers Car	(2)	Term and fixed deposits			
National User Depart	(1 059)	Term and fixed deposits			
Regent Insurance Com	(17 653)	Term and fixed deposits			
Regent Life Assurance	(16 534)	Term and fixed deposits			
Safair	8 014	Swaps			
Regent Life Assur Co Annuities	(24 000)	Bonds			
Regent Life Assur Co Iph Fund	(7 000)	Bonds			
Regent Life Assur Co Sinking	(5 000)	Bonds			
Regent Insurance Company Limited	(35 000)	Bonds			
Regent Life Assur Co Corp Fund	(14 500)	Bonds			

\* Subsidiaries and fellow subsidiaries within the ultimate holding company, Old Mutual plc, listed on the London Stock Exchange.

† Companies within the Imperial Holdings Group.

**Notes to the group financial statements  
for the year ended 31 December 2005**

Income statement information	Interest received/(paid) R'000	Ordinary dividends received/(paid)	Insurance fees received/(paid)	Lease and rentals received/(paid)	Other amounts received/(paid)
<b>Parent – Nedbank Limited</b>					
Deposit	(1 099 709)				
Current Account	1 070				
<b>Entities with significant influence over the company</b>					
Deposits	(2 205)				
Derivative financial instruments	(36 316)				
<b>Subsidiaries *</b>					
Ned Insurance Company	(1 803)				
Nedcor Group Internal Audit					(2 764)
Old Mutual Life Assurance Co Sa	(27 521)				
Old Mutual Specialised Fin (Om)	(15 709)				
Omut Gx Balanced-Coron	(1 258)				
Omut Old Mutual Income	(4 457)				
Sbsaitf Old Mut En Inc	(3 278)				
<b>Associated companies †</b>					
Dream World Investments		11 202			
AMH – JV Partner	(3 473)				
Eagle Bonds One (Pty)	(2 587)				
Highway Carriers Car	(0)				
National User Depart	(96)				
Regent Insurance Com	(1 104)				
Regent Life Assurance	(1 567)				
Safair	1 936				
Regent Life Assur Co Annuities	(6 424)				
Regent Life Assur Co Iph Fund	(1 874)				
Regent Life Assur Co Sinking	(1 338)				
Regent Insurance Company Limited	(9 369)				
Regent Life Assur Co Corp Fund	(3 679)				

\* Subsidiaries and fellow subsidiaries within the ultimate holding company, Old Mutual plc, listed on the London Stock Exchange.

† Companies within the Imperial Holdings Group.

**Notes to the group financial statements  
for the year ended 31 December 2005**

2004

Balance sheet information	Balance due from/(to) R'000	Terms and conditions	Guarantees issued on behalf of related party	Impairment provision	Impairment during the year
<b>Parent – Nedbank Limited</b>					
Type of transaction					
Deposit	(14 544 000)	No fixed terms of payment at the Nedbank internal settlement rate			
Current Account	810				
<b>Entities with significant influence over the company</b>					
Deposits	(33 234)	Term and fixed deposits			
Derivative financial instruments	(107 077)	Interest Rate swaps			
<b>Subsidiaries *</b>					
Ned Insurance Company	(23 523)	Term and fixed deposits			
Bonds Held by fellow subsidiary companies	(210 000)	Bonds			
<b>Associated companies †</b>					
Dream World Investments	(110 000)	Preference Shares			
AMH – JV Partner	(30 095)	Term and fixed deposits			
Eagle Bonds One	(8 031)	Term and fixed deposits			
Highway Carriers Car	(2)	Term and fixed deposits			
National User Depart	(2 797)	Term and fixed deposits			
Regent Insurance Com	(15 290)	Term and fixed deposits			
Regent Life Assurance	(54 443)	Term and fixed deposits			
Safair	8 271	Swaps			

\* Subsidiaries and fellow subsidiaries within the ultimate holding company, Old Mutual plc, listed on the London Stock Exchange.

† Companies within the Imperial Holdings Group.

**Notes to the group financial statements  
for the year ended 31 December 2005**

Income statement information	Interest received/(paid) R'000	Ordinary dividends received/(paid) R'000	Insurance fees received/(paid)	Lease and rentals received/(paid)	Other amounts received/(paid)
<b>Parent – Nedbank Limited</b>					
Deposit	(944 089)				
Derivative financial instruments	(29 668)				
<b>Entities with significant influence over the company</b>					
Deposits	(1 930)				
Derivative financial instruments	(29 668)				
<b>Subsidiaries *</b>					
Ned Insurance Company	(1 198)				
Interest on bonds held by fellow subsidiary companies	(27 300)				
<b>Associated companies †</b>					
Dream World Investments		(679)			
AMH – JV Partner	(239)				
Eagle Bonds One	(678)				
National User Depart	(105)				
Regent Insurance Com	(1 964)				
Regent Life Assurance	(2 385)				
Safair	8 856				

\* Subsidiaries and fellow subsidiaries within the ultimate holding company, Old Mutual plc, listed on the London Stock Exchange.

† Companies within the Imperial Holdings Group.

Notes to the group financial statements  
for the year ended 31 December 2005

Group interest rate risk analysis  
as at 31 December 2005

	2005 R'000	Interest rate sensitive					Trading and non-rate sensitive
		<3 months	3 months < 6 months	6 months < 1 year	1 year < 5 years	> 5 years	
<b>ASSETS</b>							
Cash and cash equivalents	11 189						11 189
Other short-term securities	569 465	569 465					
Derivative financial instruments	217 177				74 333		142 844
Government and other securities	450 356	43 718		26 376	380 262		
Loans and advances to customers	19 697 107	18 614 021	15 580	9 827	948 516	109 163	
Other assets	239 166						239 166
Current taxation receivable	–						
Investment securities	8 693						8 693
Non-current assets held for sale	13 395						13 395
Deferred taxation	9 643						9 643
Property and equipment	134 512						134 512
Mandatory deposits with central bank	463 296						463 296
<b>Total assets</b>	<b>21 813 999</b>	<b>19 227 204</b>	<b>15 580</b>	<b>36 203</b>	<b>1 403 111</b>	<b>109 163</b>	<b>1 022 738</b>
<b>EQUITY AND LIABILITIES</b>							
Share capital	3 589						3 589
Share premium	648 285						648 285
Reserves	870 930						870 930
<b>Total equity</b>	<b>1 522 804</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 522 804</b>
<b>Total liabilities</b>	<b>20 291 195</b>	<b>19 229 683</b>	<b>–</b>	<b>698</b>	<b>644 526</b>	<b>8 212</b>	<b>408 076</b>
Derivative financial instruments	219 120	502		698	64 044	8 212	145 664
Amounts owed to depositors	19 229 181	19 229 181					
Other liabilities	209 293						209 293
Current taxation liabilities	53 119						53 119
Long-term debt instruments	580 482				580 482		
<b>Total equity and liabilities</b>	<b>21 813 999</b>	<b>19 229 683</b>	<b>–</b>	<b>698</b>	<b>644 526</b>	<b>8 212</b>	<b>1 930 880</b>
Derivatives*		483 572	(526 450)	(26 000)	207 293	(138 415)	
Interest rate sensitivity gap	–	481 093	(510 870)	9 505	965 878	(37 464)	(908 142)
<b>Cumulative gap</b>	<b>–</b>	<b>481 093</b>	<b>(29 777)</b>	<b>(20 272)</b>	<b>945 606</b>	<b>908 142</b>	<b>–</b>

\* Notional value of interest rate risk management derivatives.

Notes to the group financial statements  
for the year ended 31 December 2005

Group interest rate risk analysis  
as at 31 December 2004

	2004* R'000	Interest rate sensitive					Trading and non-rate sensitive
		<3 months	3 months < 6 months	6 months < 1 year	1 year < 5 years	> 5 years	
<b>ASSETS</b>							
Cash and cash equivalents	2 447						2 447
Other short-term securities	218 424	218 424					
Derivative financial instruments	263 480				84 293		179 187
Government and other securities	533 035		44 120		128 407	360 508	
Loans and advances to customers	15 219 570	14 372 336	4 572	774 049	68 613		
Other assets	175 263						175 263
Current taxation receivable	2 555						2 555
Investment securities	31 183		31 056				127
Non-current assets held for sale	–						
Deferred taxation	27 263						27 263
Property and equipment	68 208						68 208
Mandatory deposits with central bank	364 263						364 263
<b>Total assets</b>	<b>16 905 691</b>	<b>14 590 760</b>	<b>79 748</b>	<b>774 049</b>	<b>281 313</b>	<b>360 508</b>	<b>819 313</b>
<b>EQUITY AND LIABILITIES</b>							
Share capital	3 020						3 020
Share premium	434 205						434 205
Reserves	576 447						576 447
<b>Total equity</b>	<b>1 013 672</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 013 672</b>
<b>Total liabilities</b>	<b>15 892 019</b>	<b>14 860 005</b>	<b>–</b>	<b>1 317</b>	<b>674 661</b>	<b>6 400</b>	<b>349 636</b>
Derivative financial instruments	257 808	973		1 317	66 261	6 400	182 857
Amounts owed to depositors	14 874 857	14 859 032			15 825		
Other liabilities	166 779						166 779
Current taxation liabilities	–						
Long-term debt instruments	592 575				592 575		
<b>Total equity and liabilities</b>	<b>16 905 691</b>	<b>14 860 005</b>	<b>–</b>	<b>1 317</b>	<b>674 661</b>	<b>6 400</b>	<b>1 363 308</b>
Derivatives†		472 441	(526 450)	(26 000)	214 831	(134 822)	
Interest rate sensitivity gap	–	203 196	(446 702)	746 732	(178 517)	219 286	(543 995)
<b>Cumulative gap</b>	<b>–</b>	<b>203 196</b>	<b>(243 506)</b>	<b>503 226</b>	<b>324 709</b>	<b>543 995</b>	<b>–</b>

† Notional value of interest rate risk management derivatives.

\* Restated as per note 3.

Notes to the group financial statements  
for the year ended 31 December 2005

Group liquidity analysis  
as at 31 December 2005

	2005 R'000	Term to maturity				
		Demand	1 – 12 months	1 – 5 years	Over 5 years	Other
<b>ASSETS</b>						
Cash and cash equivalents	11 189	11 189				
Other short-term securities	569 465		569 465			
Derivative financial instruments	217 177		998	149 863	66 316	
Government and other securities	450 356		70 094	380 262	0	
Loans and advances to customers	19 697 107	421	2 269 330	14 263 624	3 163 732	
Other assets	239 166		239 166			
Current taxation liabilities	–		0			
Investment securities	8 693					8 693
Non-current assets held for sale	13 395					13 395
Deferred taxation	9 643		9 643			
Property and equipment	134 512					134 512
Mandatory deposits with central bank	463 296	463 296				
<b>Total assets</b>	<b>21 813 999</b>	<b>474 906</b>	<b>3 158 696</b>	<b>14 793 749</b>	<b>3 230 048</b>	<b>156 600</b>
<b>EQUITY AND LIABILITIES</b>						
Share capital	3 589					3 589
Share premium	648 285					648 285
Reserves	870 930					870 930
<b>Total equity</b>	<b>1 522 804</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 522 804</b>
<b>Total liabilities</b>	<b>20 291 195</b>	<b>160 750</b>	<b>19 332 852</b>	<b>726 459</b>	<b>71 134</b>	<b>–</b>
Derivative financial instruments	219 120		2 009	145 977	71 134	
Amounts owed to depositors	19 229 181	160 750	19 068 431			
Other liabilities	209 293		209 293			
Current taxation	53 119		53 119			
Long-term debt instruments	580 482			580 482		
<b>Total equity and liabilities</b>	<b>21 813 999</b>	<b>160 750</b>	<b>19 332 852</b>	<b>726 459</b>	<b>71 134</b>	<b>1 522 804</b>

Notes to the group financial statements  
for the year ended 31 December 2005

Group liquidity analysis  
as at 31 December 2004

	2004* R'000	Term to maturity				Other
		Demand	1 – 12 months	1 – 5 years	Over 5 years	
<b>ASSETS</b>						
Cash and cash equivalents	2 447	2 447				
Other short-term securities	218 424		218 424			
Derivative financial instruments	263 480		7 810	183 831	71 839	
Government and other securities	533 035		43 993	128 407	360 635	
Loans and advances to customers	15 219 570	212 708	992 405	11 766 342	2 248 115	
Other assets	175 263		175 263			
Current taxation	2 555		2 555			
Investment securities	31 183					31 183
Non-current assets held for sale	–					–
Deferred taxation	27 263		27 263			
Property and equipment	68 208					68 208
Mandatory deposits with central bank	364 263	364 263				
<b>Total assets</b>	<b>16 905 691</b>	<b>579 418</b>	<b>1 467 713</b>	<b>12 078 580</b>	<b>2 680 589</b>	<b>99 391</b>
<b>EQUITY AND LIABILITIES</b>						
Share capital	3 020					3 020
Share premium	434 205					434 205
Reserves	576 447					576 447
<b>Total equity</b>	<b>1 013 672</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 013 672</b>
<b>Total liabilities</b>	<b>15 892 019</b>	<b>175 337</b>	<b>15 341 218</b>	<b>446 598</b>	<b>(71 134)</b>	<b>–</b>
Derivative financial instruments	257 808		474 919	(145 977)	(71 134)	
Amounts owed to depositors	14 874 857	175 337	14 699 520			
Other liabilities	166 779		166 779			
Current taxation	–		–			
Long-term debt instruments	592 575			592 575		
<b>Total equity and liabilities</b>	<b>16 905 692</b>	<b>175 337</b>	<b>15 341 218</b>	<b>446 598</b>	<b>(71 134)</b>	<b>1 013 672</b>

\* Restated as per note 3.

Notes to the group financial statements  
for the year ended 31 December 2005

Analysis of investments in subsidiaries

	Group				Company			
	Issued capital		Effective holding		Book value of investments		Net indebtedness	
	2005 R'000	2004* R'000	2005 %	2004* %	2005 R'000	2004* R'000	2005 R'000	2004* R'000
<i>Other companies</i>								
NRB Risk Solutions (Pty) Ltd	329	329	100	100	43 018	43 018	(394 549)	(40 215)
SMS Leasing and Finance Company (Pty) Ltd	1	1	100	100	1	1	-	-
Imperial Equity Finance (Pty) Ltd	0†	0†	100	100	0	0†	-	-
Motor Finance Corporation (Pty) Ltd	0†	0†	100	100	0†	0†	2 745	5 931
	330	330			43 019	43 019	(391 804)	(34 284)

Imperial Bank Limited holds 100% of the share holding and voting power of the above subsidiaries.

Net indebtedness arise with no fixed terms of repayment and are charged interest at a variable rate linked to prime.

The book value is carried at the directors valuation.

† Represents amounts less than R'000.

\* Restated as per note 3.

32. EARNINGS PER SHARE AND HEADLINE EARNINGS PER SHARE

Earnings per shares and headline earnings per shares are set out below:

	2005 cents	2004 cents
EPS	88.5	48.8
HEPS	87.1	44.9

The earnings per share was calculated based on an earnings of R294 million ( 2004: R147 million) and weighted average shares of 332 934 923 (2004: 301 998 332)

The head line earnings per share was calculated based on an earnings of R290 million ( 2004 R136 million) and weighted average shares of 332 934 923 (2004: 301 998 332)

	2005	2004
Profit attributable to equity holders	294 483 000	147 414 000
<i>Adjusted for:</i>		
Non trading and Capital Items	(6 148 000)	(16 755 000)
Taxation on Non trading and Capital Items	1 782 920	5 026 500
Adjusted Profit attributable to equity holders	290 117 920	135 685 500

33. NET ASSET VALUE PER SHARE AND NET TANGIBLE ASSET VALUE PER SHARE

	2005 cents	2004 cents
NAV	424.3	335.7
NTAV	424.3	335.7

The Net Asset Value per share was calculated based on assets of R1 523 million ( 2004: R1 014 million) and shares of 358 934 487 (2004: 301 998 332)

The Net Tangible Asset Value per share was calculated based on assets of R1 523 million ( 2004: R1 014 million) and shares of 358 934 487 (2004: 301 998 332)

#### **34. POST BALANCE SHEET EVENTS**

On 30 March 2006, Imperial Bank issued R500 million of Subordinated Unsecured Callable Notes (IPB2) under their R2,5bn Domestic Medium Term Note Programme. These notes have a final maturity of 30 December 2015, but are callable on 30 December 2010. These notes were issued for general capital purposes and were part of an Imperial Bank's initiative to more efficiently manage its capital structure.

Further to this, the directors of Imperial Bank are not aware of any material changes having taken place in the financial position or nature of the properties between 31 December 2005 and the date of this report, other than those arising in the normal course of business.

#### **35. COMMENTARY**

##### **35.1 Financial year ended 31 December 2004**

Results during 2004 were disappointing as it was the first year since inception that the bank has not shown earnings growth on the previous financial year with earnings dropping from R232m (ROE: 29%) to R165m (17%). Large bad debt provisions in Aviation Finance negatively affected performance.

MFC was the leading performer with a doubling of attributable pre-tax profit and Medical division, while still not making acceptable returns, made vast inroads into its niche market and was capturing 18% of new deals coming to the market by the end of the 2004 financial year. Property Finance had another excellent year on the residential development side but penetration into the commercial market was significantly below expectation. Credit losses experienced through the fraud of one significant client and ill-managed costs marred the division's results.

ABF experienced reasonable performances from CAF and Supplier Finance but suffered significant losses in the aviation arena. These losses were indirectly related to the weakening of the US\$ and the continued weakness in the global aviation market.

The majority of the book housed in NRB risk solutions had been collected by year-end, and the purchased discount substantially realised, over the previous two years. The earnings of NRB had been in line with expectation since its purchase and had declined as the book has run-off.

At the year end Motor Finance made up the majority of the advances (52%) followed by Property Finance (24%), Asset Based Finance (14%), Medical (7%) and NRB Risk Solutions (3%).

##### **35.2 Financial year ended 31 December 2005**

The bank produced pleasing results in 2005, with net profit after tax increasing by 99,8% from R147,4m to R294,5m and return on average equity improving from 15,3% to 23,2%.

MFC was the largest division in the bank representing 59% of advances at year-end. Favourable market conditions combined with increasing Motor Dealership support enabled the division to achieve outstanding results, growing loans and advances by some 50% and net profit after tax by 97%.

While Property Finance Division's book was fairly evenly split between commercial property and residential development finance, the majority of the income was derived from financing residential developments, which was a reflection of the buoyant residential property market. The favourable market conditions also enabled the division to realise far higher security values than originally anticipated for distressed loans and properties in possession. This resulted in a net recovery of bad debts, which contributed to the division reporting an increase in net profit after tax of 55% from R62,6m to R99m.

Medical Finance Division's book surpassed the R2bn mark by year-end. The Division moved into a monthly profit in the second half of the year and achieved a net profit after tax of R3,0m compared to a loss of R10,7m in the previous year.

The Supplier Asset Finance Division was formed through the merging of Corporate Asset Finance, Aviation Finance, Supplier Finance and NRB Risk Solutions into one division. Stabilisation of the Aviation Finance book enabled the division to increase net profit after tax from R4,5m in 2004 to R42,8m in 2005.

The costs for the year were well managed, increasing by 13,2%, well below growth in loans and advances. Although the efficiency ratio improved from 42,9% to 41,2%, the 2005 financial year included the costs of restructuring, so the full benefits will be evidenced in 2006 with the bank targeting an efficiency ratio below 40%.

Impairments for the year at 0,63% were well below the 1,52% of the previous year. Motor, Property and Medical Finance all benefited from the favourable market conditions of low rates and low inflation, while Supplier Asset Finance Division was able to stabilise the aviation book. Overall, the bank was able to achieve strong growth with an acceptable risk profile.

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INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE REPORT OF  
HISTORICAL FINANCIAL INFORMATION FOR THE FINANCIAL YEARS  
ENDED 31 DECEMBER 2004 AND 2003

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"13 June 2006

The Directors  
Imperial Bank Limited  
24 Achter Road  
Paulshof  
Sunninghill  
2191

Dear Sirs

**INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION**

**Introduction**

At your request and for the purposes of the Pre-listing statement of Imperial Bank Limited, to be dated on or about 13 June 2006, we present our report on the historical financial information in respect of the preference share issue, as set out in Annexure 4 of this Pre-listing statement, in compliance with the Listings Requirements of the JSE Limited (JSE).

The compilation, contents and presentation of the Pre-listing statement is the responsibility of the directors. Our responsibility is to express an opinion on the historical financial information included as Annexure 4 of this Pre-listing statement.

We have audited the historical financial information of Imperial Bank Limited for the years ended 31 December 2004 and 31 December 2003.

**Basis of opinion**

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the historical financial information relating to the years ended 31 December 2004 and 31 December 2003 are free of material misstatement.

An audit includes, examining, on a test basis, evidence supporting the amounts and disclosures of the abovementioned financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall historical financial statement presentation. We believe that our audit provides a reasonable basis for our audit opinion.

**Audit opinion**

In our opinion, the historical financial information for the years ended 31 December 2004 and 31 December 2003 fairly presents, in all material respects, the financial position at those dates, and the results of the operations and cash flows for the years then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and the Listings Requirements.

**Financial commentary**

The financial commentary set out in note 34 of Annexure 4 does not form part of the independent reporting accountants' report on historical information and is presented as additional information. Accordingly we do not express an opinion on this information.

## **Consent**

We consent to the inclusion of this report, which will form part of the Pre-listing statement to shareholders of Imperial Bank Limited, to be dated on or about 13 June 2006, in the form and context in which it appears.

## **Deloitte & Touche**

Per H Klopper  
Partner"

Building 8, Deloitte Place  
The Woodlands, Woodmead Drive  
Sandton

**National Executive:** G G Gelink Chief Executive, A E Swiegers Chief Operating Officer, G M Pinnock Audit, D L Kennedy Tax, L Geeringh Consulting, M G Crisp Financial Advisory, L Bam Strategy, C R Beukman Finance, T J Brown Clients & Markets, S J C Sibisi Public Sector and Corporate Social Responsibility, N T Mtoba Chairman of the Board, J Rhynes Deputy Chairman of the Board

A full list of partners and directors is available on request

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**REPORT OF HISTORICAL FINANCIAL INFORMATION REGARDING  
IMPERIAL BANK FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004  
AND 2003 PREPARED IN TERMS OF GAAP**

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The definitions and interpretations commencing on page 3 of the Pre-listing statement have been used in this report.

The historical financial information relating to the Imperial Bank Group, presented herein, has been extracted and compiled from the financial statements of the Imperial Bank Group for the year ended 31 December 2004.

Deloitte & Touche acted as joint auditors with KPMG Inc. to Imperial for the years ended 31 December 2004 and 2003 and reported without qualification on the financial statements issued for these periods.

**INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	Group 2004 R'000	Restated Group 2003 R'000
Interest income	2	2 129 126	2 173 552
Interest expense	2	(1 588 543)	(1 645 704)
<b>Net interest income</b>		540 583	527 848
Other operating income	2	189 988	183 678
Income from investment activities	2	19 454	16 485
<b>Income from operations</b>		750 025	728 011
Operating expenditure	2	(315 793)	(282 083)
Impairment of advances	9	(244 875)	(232 458)
<b>Net income before equity accounted earnings</b>		189 357	213 470
Equity accounted earnings of subsidiaries	2	-	-
<b>Net income before taxation</b>		189 357	213 470
Taxation	3	(24 168)	18 918
<b>Net income attributable to shareholders</b>		<b>165 189</b>	<b>232 388</b>

**BALANCE SHEETS AS AT 31 DECEMBER 2004**

	Note	Restated Group 2004 R'000	Group 2003 R'000
<b>ASSETS</b>			
Cash and balances with central bank	4	364 535	275 097
Investment securities	5	751 459	520 707
– Originated		218 424	50 096
– Held for trading		533 035	470 611
Derivative financial instruments	6	263 480	163 465
– Held for trading		263 480	163 465
Due from other banks	7	2 175	41 921
Investments	8	31 183	170 212
– Held for trading		31 183	170 212
Loans and advances to customers	9	15 232 149	11 500 379
– Originated		15 108 620	11 254 426
– Held for trading		123 529	245 953
Investment in subsidiary companies	11	–	–
Fixed assets	12	64 115	46 960
Deferred tax asset	17	966	16 464
Other assets	13	168 745	222 596
<b>Total assets</b>		<b>16 878 807</b>	<b>12 957 801</b>
<b>LIABILITIES</b>			
Subordinated debt instrument		592 575	574 811
– Held for trading	20	592 575	574 811
Due to other banks	14	14 660 859	10 766 881
Derivative financial instruments	6	257 808	145 641
– Held for trading		257 808	145 641
Other deposits	15	213 998	328 388
Other liabilities	16	78 563	232 265
<b>Total liabilities</b>		<b>15 803 803</b>	<b>12 047 986</b>
<b>SHAREHOLDERS' FUNDS</b>			
Ordinary shares	18	3 020	3 020
Share premium	19	434 205	434 205
General credit risk reserve		70 826	57 638
Accumulated funds		566 953	414 952
Shareholder's equity		1 075 004	909 815
<b>Total shareholders' funds</b>		<b>1 075 004</b>	<b>909 815</b>
<b>Total equity and liabilities</b>		<b>16 878 807</b>	<b>12 957 801</b>

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Group 2004 R'000	Restated Group 2003 R'000
<b>Operating activities</b>			
Cash generated from operations	22	456 933	476 250
<b>Changes in operating funds</b>			
		(366 135)	(785 958)
Net increase in income-earning and other assets	23	(4 083 358)	(3 960 283)
Increase in deposits and other liabilities	24	3 735 450	3 219 060
Taxation paid	25	(18 227)	(44 735)
Cash inflow/(outflow) from operating activities		90 798	(309 708)
<b>Investing activities</b>			
Disposal/(acquisition) of investments		158 483	(60 416)
Capital expenditure on equipment, furniture and vehicles			
– To maintain operations		(33 350)	(32 612)
Proceeds on disposal of fixed assets		2 089	2 384
Cash generated from/(utilised in) investing activities		127 222	(90 644)
<b>Financing activities</b>			
Increase in long term borrowings		–	185 255
Cash generated from financing activities		–	185 255
Net increase/(decrease) in cash and cash equivalents		218 020	(215 097)
Cash and cash equivalents at the beginning of the year		367 114	582 211
Cash and cash equivalents at the end of the year	26	585 134	367 114

**STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004**

Group	Share capital R'000	Share premium R'000	General credit risk reserve R'000	Accumulated funds R'000	Total R'000
<b>Balance at 31 December 2002 after adoption of AC133</b>	<b>3 020</b>	<b>434 205</b>	<b>41 059</b>	<b>199 143</b>	<b>677 427</b>
Net income for the year	–	–	–	232 388	232 388
Transfer to general credit risk reserve	–	–	16 579	(16 579)	–
<b>Balance at 31 December 2003</b>	<b>3 020</b>	<b>434 205</b>	<b>57 638</b>	<b>414 952</b>	<b>909 815</b>
Net income for the year	–	–	–	165 189	165 189
Transfer to general credit risk reserve	–	–	13 188	(13 188)	–
<b>Balance at 31 December 2004</b>	<b>3 020</b>	<b>434 205</b>	<b>70 826</b>	<b>566 953</b>	<b>1 075 004</b>

**INTEREST RATE MISMATCH EXPOSURE (31 DECEMBER 2004)**

The table below summarises the exposure to interest rate risks of the group. It includes the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand R'000	1 to 3 months R'000	4 to 12 months R'000	1 to 5 years R'000	Over 5 years R'000	Non-bearing interest R'000	Total R'000
<b>ASSETS</b>							
Cash and balances with the central bank	–	–	–	–	–	364 535	364 535
Treasury bills and other eligible bills	–	218 424	–	–	–	–	218 424
Government stocks	–	75 176	–	106 329	351 530	–	533 035
Derivative financial instruments	–	–	5 927	164 669	92 884	–	263 480
Due from other banks	2 175	–	–	–	–	–	2 175
Loans and advances to customers	–	14 384 915	4 572	774 049	68 613	–	15 232 149
Investments	–	–	–	22 078	8 978	127	31 183
Fixed assets	–	–	–	–	–	64 115	64 115
Deferred tax asset	–	–	–	–	–	966	966
Other assets	–	–	–	–	–	168 745	168 745
<b>Total assets</b>	<b>2 175</b>	<b>14 678 515</b>	<b>10 499</b>	<b>1 067 125</b>	<b>522 005</b>	<b>598 488</b>	<b>16 878 807</b>
<b>LIABILITIES AND EQUITY</b>							
Due to other banks	7 329 104	7 315 930	–	15 825	–	–	14 660 859
Other deposits	175 337	38 661	–	–	–	–	213 998
Subordinated debt	–	–	–	592 575	–	–	592 575
Derivative financial instruments	–	36	5 413	134 451	117 908	–	257 808
Other liabilities and equity	–	–	–	–	–	1 153 567	1 153 567
<b>Total liabilities and equity</b>	<b>7 504 441</b>	<b>7 354 627</b>	<b>5 413</b>	<b>742 851</b>	<b>117 908</b>	<b>1 153 567</b>	<b>16 878 807</b>
<b>On balance sheet interest sensitivity gap (7 502 266)</b>	<b>7 502 266</b>	<b>7 323 888</b>	<b>5 086</b>	<b>324 274</b>	<b>404 097</b>	<b>(555 079)</b>	<b>–</b>
<b>Cumulative interest rate gap</b>	<b>(7 502 266)</b>	<b>(178 378)</b>	<b>(173 292)</b>	<b>150 982</b>	<b>555 079</b>	<b>–</b>	<b>–</b>

## INTEREST RATE MISMATCH EXPOSURE (31 DECEMBER 2003)

The table below summarises the exposure to interest rate risks of the group. It includes the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand R'000	1 to 3 months R'000	4 to 12 months R'000	1 to 5 years R'000	Over 5 years R'000	Non-interest bearing R'000	Restated Total R'000
<b>ASSETS</b>							
Cash and balances with the central bank	–	–	–	–	–	275 097	275 097
Treasury bills and other eligible bills	–	50 096	–	–	–	–	50 096
Government stocks	–	–	–	130 261	340 350	–	470 611
Derivative financial instruments	–	–	3 132	119 463	40 870	–	163 465
Due from other banks	41 921	–	–	–	–	–	41 921
Loans and advances to customers	–	10 939 615	60 479	445 715	54 570	–	11 500 379
Investments	–	–	–	9 879	50 537	109 796	170 212
Investment in subsidiary companies	–	–	–	–	–	–	–
Fixed assets	–	–	–	–	–	46 960	46 960
Deferred tax asset	–	–	–	–	–	16 464	16 464
Other assets	–	–	–	–	–	222 596	222 596
<b>Total assets</b>	<b>41 921</b>	<b>10 989 711</b>	<b>63 611</b>	<b>705 318</b>	<b>486 327</b>	<b>670 913</b>	<b>12 957 801</b>
<b>LIABILITIES AND EQUITY</b>							
Due to other banks	5 308 229	5 308 293	130 989	19 370	–	–	10 766 881
Other deposits	164 185	103 910	60 293	–	–	–	328 388
Subordinated debt	–	–	–	–	574 811	–	574 811
Derivative financial instruments	–	–	3 394	103 091	39 156	–	145 641
Other liabilities and equity	–	–	–	–	–	1 142 080	1 142 080
<b>Total liabilities and equity</b>	<b>5 472 414</b>	<b>5 412 203</b>	<b>194 676</b>	<b>122 461</b>	<b>613 967</b>	<b>1 142 080</b>	<b>12 957 801</b>
<b>On balance sheet interest sensitivity gap</b> (5 430 493)	<b>5 577 508</b>	<b>(131 065)</b>	<b>582 857</b>	<b>(127 640)</b>	<b>(471 167)</b>	<b>–</b>	<b>–</b>
<b>Cumulative interest rate gap</b>	<b>(5 430 493)</b>	<b>147 015</b>	<b>15 950</b>	<b>598 807</b>	<b>471 167</b>	<b>–</b>	<b>–</b>

## LIQUIDITY RISK (31 DECEMBER 2004)

The table below summarises the assets and liabilities of the group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity or repayment date.

	Demand R'000	1 to 3 months R'000	4 to 12 months R'000	1 to 5 years R'000	Over 5 years R'000	Other R'000	Total R'000
<b>ASSETS</b>							
Cash and balances with the central bank	364 535	–	–	–	–	–	364 535
Treasury bills and other eligible bills	–	218 424	–	–	–	–	218 424
Government stocks	–	75 176	–	106 329	351 530	–	533 035
Due from other banks	2 175	–	–	–	–	–	2 175
Loans and advances to customers	212 708	125 108	879 876	11 766 342	2 248 115	–	15 232 149
Investments	–	–	–	22 078	9 105	–	31 183
Fixed assets	–	–	–	–	–	64 115	64 115
Derivative financial instruments	–	–	5 927	164 669	92 884	–	263 480
Deferred tax asset	–	–	–	966	–	–	966
Other assets	–	168 745	–	–	–	–	168 745
<b>Total assets</b>	<b>579 418</b>	<b>587 453</b>	<b>885 803</b>	<b>12 060 384</b>	<b>2 701 634</b>	<b>64 115</b>	<b>16 878 807</b>
<b>LIABILITIES AND EQUITY</b>							
Due to other banks	13 174	–	–	–	15 825	14 631 860	14 660 859
Other deposits	175 337	38 661	–	–	–	–	213 998
Subordinated debt	–	–	–	592 575	–	–	592 575
Derivative financial instruments	–	36	5 413	134 451	117 908	–	257 808
Other liabilities and equity	–	78 563	–	–	–	1 075 004	1 153 567
<b>Total liabilities and equity</b>	<b>188 511</b>	<b>117 260</b>	<b>5 413</b>	<b>727 026</b>	<b>133 733</b>	<b>15 706 864</b>	<b>16 878 807</b>
<b>Net liquidity gap (contractual)</b>	<b>390 907</b>	<b>470 193</b>	<b>880 390</b>	<b>11 333 358</b>	<b>2 567 901</b>	<b>(15 642 749)</b>	<b>–</b>
<b>Cumulative contractual liquidity gap</b>	<b>390 907</b>	<b>861 100</b>	<b>1 741 490</b>	<b>13 074 848</b>	<b>15 642 749</b>	<b>–</b>	<b>–</b>

The matching and controlled mismatching of the maturities and the interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates.

## LIQUIDITY RISK (31 DECEMBER 2003)

The table below summarises the assets and liabilities of the group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity or repayment date:

	Demand R'000	1 to 3 months R'000	4 to 12 months R'000	1 to 5 years R'000	Over 5 years R'000	Other R'000	Restated Total R'000
<b>ASSETS</b>							
Cash and balances with the central bank	275 097	–	–	–	–	–	275 097
Treasury bills and other eligible bills	–	50 096	–	–	–	–	50 096
Government stocks	–	–	–	130 261	340 350	–	470 611
Due from other banks	41 921	–	–	–	–	–	41 921
Loans and advances to customers	776 864	936 122	2 626 627	5 297 709	1 863 057	–	11 500 379
Investments	–	–	–	119 675	50 537	–	170 212
Fixed assets	–	–	–	–	–	46 960	46 960
Derivative financial instruments	–	–	3 132	119 463	40 870	–	163 465
Deferred tax asset	–	–	–	16 464	–	–	16 464
Other assets	–	18 129	91 797	112 670	–	–	222 596
<b>Total assets</b>	<b>1 093 882</b>	<b>1 004 347</b>	<b>2 721 556</b>	<b>5 796 242</b>	<b>2 294 814</b>	<b>46 960</b>	<b>12 957 801</b>
<b>LIABILITIES AND EQUITY</b>							
Due to other banks	–	–	130 989	19 370	10 616 522	–	10 766 881
Other deposits	114 185	153 910	60 293	–	–	–	328 388
Subordinated debt	–	–	–	–	574 811	–	574 811
Derivative financial instruments	–	–	3 394	103 091	39 156	–	145 641
Other liabilities and equity	–	154 886	109 159	–	–	878 035	1 142 080
<b>Total liabilities and equity</b>	<b>114 185</b>	<b>308 796</b>	<b>303 835</b>	<b>122 461</b>	<b>11 230 489</b>	<b>878 035</b>	<b>12 957 801</b>
<b>Net liquidity gap (contractual)</b>	<b>979 697</b>	<b>695 551</b>	<b>2 417 721</b>	<b>5 673 781</b>	<b>(8 935 675)</b>	<b>(831 075)</b>	<b>–</b>
<b>Cumulative contractual liquidity gap</b>	<b>979 697</b>	<b>1 675 248</b>	<b>4 092 969</b>	<b>9 766 750</b>	<b>831 075</b>	<b>–</b>	<b>–</b>

The matching and controlled mismatching of the maturities and the interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates.

The matching and controlled mismatching of the maturities and the interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates.

## SEGMENTAL REPORTING 31 December 2004

### SEGMENTAL REPORTING PER BUSINESS SEGMENT (31 DECEMBER 2004)

NOTE: The segmental analysis is based on the management accounts for the respective divisions and results are after the allocation of all head office and support charges

INCOME STATEMENT (R'000)	Motor finance	Property finance	Specialised finance	Asset based finance	Medical finance	NRB risk solutions	Other	Imperial Bank Limited
Net interest income	267 020	110 751	(16 001)	47 936	18 035	111 372	1 470	540 583
Non-interest income (incl fair value adjustments)	76 090	74 357	34 284	(3 548)	2 022	16 566	9 671	209 442
Operating expenditure	(134 127)	(70 357)	(12 490)	(24 227)	(30 769)	(36 722)	(7 101)	(315 793)
Impairment of advances	(105 614)	(29 068)	–	(113 279)	(683)	4 145	(376)	(244 875)
Taxation	(31 011)	(25 705)	(1 738)	27 935	3 419	–	2 932	(24 168)
<b>Net income after tax</b>	<b>72 358</b>	<b>59 978</b>	<b>4 055</b>	<b>(65 183)</b>	<b>(7 976)</b>	<b>95 361</b>	<b>6 596</b>	<b>165 189</b>
<b>BALANCE SHEET (R'000)</b>								
Total assets	8 157 914	3 659 545	307 785	1 817 805	1 202 603	363 483	1 369 672	16 878 807
Total advances	8 160 855	3 706 680	112 291	2 113 492	1 200 634	464 711	131 182	15 889 845
Total funding	7 707 629	3 391 911	45 372	1 651 703	1 171 497	(31 703)	1 317 025	15 253 434
<b>FINANCIAL PERFORMANCE</b>								
Return on average equity	16.20%	25.20%	8.48%	(40.70%)	(4.90%)	25.11%	N/a	16.47%
Return on average assets	1.10%	1.63%	N/a	(3.57%)	(1.00%)	26.24%	N/a	1.09%
Net interest margin	5.10%	3.00%	N/a	2.70%	2.30%	23.97%	N/a	3.86%
Impairments charge/Average advances	1.60%	0.80%	N/a	6.20%	0.10%	(0.89%)	N/a	1.75%
Cost to income ratio	39.50%	40.30%	68.31%	54.58%	166.40%	28.70%	N/a	42.10%

Secondary segmental reporting per Geographical Sector is not presented as the bank is only active in South Africa.

### SEGMENTAL REPORTING PER BUSINESS SEGMENT (31 DECEMBER 2003)

NOTE: These results are after the allocation of all head office and support charges.

#### RESTATED

INCOME STATEMENT (R'000)	Motor finance	Property finance	Specialised finance	Asset based finance	Medical finance	NRB risk solutions	Other	Imperial Bank Limited
Net interest income	178 681	97 807	(17 266)	64 197	1 126	198 849	4 454	527 848
Non interest income (incl fair value adjustments)	39 436	62 683	43 785	3 056	150	57 888	(6 835)	200 163
Operating expenditure	(108 351)	(58 381)	(14 363)	(21 794)	(11 650)	(49 522)	(18 022)	(282 083)
Impairment of advances	(86 717)	(41 202)	187	(102 535)	(2 330)	(14 749)	14 888	(232 458)
Taxation	(6 915)	(18 272)	(3 703)	17 123	3 811	14 290	12 584	18 918
<b>Net income after tax</b>	<b>16 134</b>	<b>42 635</b>	<b>8 640</b>	<b>(39 953)</b>	<b>(8 893)</b>	<b>206 756</b>	<b>7 069</b>	<b>232 388</b>
<b>BALANCE SHEET (R'000)</b>								
Total assets	5 396 546	3 460 270	516 142	1 760 317	299 765	1 479 924	44 837	12 957 801
Total advances	5 479 771	3 520 340	8 584	1 909 708	307 079	881 770	(58 232)	12 049 020
Total funding	4 802 951	3 066 323	174 607	1 442 467	306 605	1 106 359	442 380	11 341 692
<b>FINANCIAL PERFORMANCE</b>								
Return on average equity	5.00%	20.10%	16.07%	(30.80%)	226.68%	73.00%	N/a	29.45%
Return on average assets	0.40%	1.50%	N/a	(2.30%)	(2.97%)	13.97%	N/a	2.13%
Net interest margin	5.20%	3.50%	N/a	3.60%	0.37%	22.55%	N/a	4.59%
Impairments charge/Average advances	2.00%	1.50%	N/a	5.70%	0.76%	1.67%	N/a	2.26%
Cost to income ratio	49.70%	37.30%	54.16%	32.41%	913.01%	19.29%	N/a	36.96%

\* The medical finance division only started up in July 2003.

Secondary segmental reporting per Geographical Sector is not presented as the bank is only active in South Africa.

**Notes to the group financial statements  
for the year ended 31 December 2005**

**1. ACCOUNTING POLICIES**

**for the year ended 31 December 2004**

**1.1 BASIS OF PREPARATION**

The financial statements are prepared in accordance with and comply with South African Statements of Generally Accepted Accounting Practice. They are prepared on a going concern basis utilising the historical cost concept, except for certain financial assets and liabilities where the fair value basis of accounting is adopted. These financial assets and liabilities include:

- financial assets held for trading;
- derivative financial instruments;
- financial instruments elected to be carried at fair value through profit and loss; and
- short-term trading positions.

The principal accounting policies, which are consistent with those of the previous year, except where noted otherwise, are set out below.

**1.2 CONSOLIDATED FINANCIAL STATEMENTS**

The group financial statements incorporate the assets, liabilities and results of the company and its subsidiaries. Subsidiary companies are companies over which control is exercised at either equity or board level. The results of consolidated subsidiaries are dealt with from the effective dates of acquisition until the effective dates of disposal. All inter-company transactions and balances between group companies are eliminated on consolidation.

Special purpose entities ("SPE's") are consolidated when the substance of the relationship between the SPE and the group is such that the group controls or assumes the majority of the risk in the SPE.

**1.3 INVESTMENTS IN SUBSIDIARY COMPANIES**

In the accounts of the company investments in subsidiaries are equity accounted.

**1.4 JOINT VENTURES**

Joint ventures are those operations over which the group exercises joint control in terms of a contractual agreement. Joint ventures are proportionately consolidated, whereby the group's share of the joint venture assets, liabilities, income and expenses are combined with similar items, on a line-by-line basis, in the group financial statements.

**1.5 PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost less depreciation less accumulated impairment losses and are depreciated on the straight line basis over their estimated useful lives.

The expected useful lives are as follows:

- |                            |              |
|----------------------------|--------------|
| – Computer equipment:      | 3 to 5 years |
| – Motor vehicles:          | 5 years      |
| – Furniture and equipment: | 8 years      |
| – Property:                | 40 years     |

The group impairs an asset to its estimated recoverable amount where the carrying value of the asset exceeds its recoverable amount. The gain or loss arising on disposal or retirement of an asset is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in the income statement.

**Notes to the group financial statements  
for the year ended 31 December 2005**

**1.6 REVENUE RECOGNITION**

Income earned on instalment credit, leases and rentals is computed using the effective rate of interest inherent in the contracts and is credited to revenue in proportion to the capital balances outstanding. In the case of such advances residing in NRB at the date of purchase (1 September 2002), the income earned is computed using the internal rate of return as estimated at the date of purchase. This rate is significantly higher than the contractual rate as the book was purchased at a discount.

Costs incurred in concluding finance agreements are amortised over the period of the related advances in proportion to the related interest income, and debited to interest received to decrease the effective yield on the related advances.

Documentation fees and raising fees earned on the origination of certain deals are recognised upfront in non interest revenue.

When the recovery of an advance is considered doubtful, the accrual of contractual interest is suspended on the non-recoverable portion.

Revenue arising from the rendering of advisory services is recognised on the accrual basis when the relevant fees are due and payable to the company in accordance with the substance of the agreement.

Profits, losses and fair value adjustments on trading financial instruments, both realised and unrealised, are recognised in income as incurred.

**1.7 TAXATION**

**1.7.1 Current tax**

The current tax charge is based on net profit for the year and adjusted for non taxable and disallowed items. Taxation is calculated using tax rates that have been enacted at balance sheet date.

**1.7.2 Deferred tax**

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

The principal temporary differences arise from wear and tear on lease and rental assets, portfolio and general risk reserves, prepayments, revaluations of financial assets and liabilities and expected delays in the determination of tax obligations.

The amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient tax profits will be available to allow all or part of the asset to be recovered.

**1.8 INDIRECT TAXES**

Indirect taxes comprise other taxes paid to local and central governments, including regional services levies and value added tax.

Indirect taxes are recognised as part of operating expenses and not taxation in the income statement with effect from 2004, prior year numbers have been restated for comparative purposes.

An amount of R12 978 000 (Group) and R12 502 000 (Company) relating to indirect taxes in 2003 were reclassified from indirect taxation in the income statement to be included as part of operating expenditure.

**1.9 RETIREMENT BENEFITS**

It is the policy of the group to provide for the employees' retirement benefits through a defined contribution plan. The contributions are charged to the income statement in the year in which they are incurred.

**Notes to the group financial statements  
for the year ended 31 December 2005**

**1.10 CONTINGENCIES AND COMMITMENTS**

Transactions are classified as contingencies where the company's obligations depend on uncertain future events and principally comprise third party obligations irrevocably underwritten by the company. Commitments comprise transactions where the company has committed itself to a future transaction that will normally result in the acquisition of an asset.

**1.11 FINANCIAL INSTRUMENTS**

Financial instruments carried on the balance sheet include cash and balances with the central bank, treasury and other eligible bills, government stocks, amounts due from other banks and fellow subsidiaries, loans and advances to customers, investments, other assets, balances due to other banks, derivative financial instruments, other deposits and other liabilities. The particular recognition methods are disclosed in the individual policy statements associated with each item.

**Financial instruments: Recognition and measurement**

AC133, which was adopted by the group on 1 January 2003, requires certain financial assets and liabilities to be designated into one of four classes. Depending on the classification used, fair value changes are recognised in the income statement or directly in equity. The four asset classification categories are:

- Loans and receivables originated by the enterprise, these assets, created by providing money, goods or services directly to a debtor, are carried at amortised cost.
- Held to maturity assets, these financial assets, with fixed or determinable payments and fixed maturity that the group intends and is able to hold to maturity, are carried at amortised cost.
- Assets or liabilities held for trading, these are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin, and are carried at fair value.
- Available for sale assets, these assets are those that do not fall into any of the categories mentioned above and are carried at fair value. Unrealised fair value changes are reflected in equity.

The statement requires the designation of all financial instruments into the above categories on initial recognition and the designation is usually final. AC133 allows for any financial instruments to be classified as held for trading regardless of the classification categories above on initial recognition, with fair value changes being recognised through the income statement.

**1.11.1 Advances and impairments**

***Originated advances***

Advances provided directly to a borrower are classified as "assets originated by the enterprise" and are carried at amortised cost. Advances acquired through the acquisition of a business combination are classified as originated loans and also carried at amortised cost. The costs associated with concluding finance agreements are amortised over the period of the related advances.

***Purchased advances***

Purchased advances relate to those advances acquired after the original loan was provided and where the advances were acquired through the acquisition of an asset not qualifying as a business combination. These advances are classified as "held for trading" and are carried at fair value. Unrealised gains and losses arising as a result of changes in fair value are recognised in the income statement.

***Impairments***

Financial assets are impaired if their carrying amount exceeds their estimated recoverable value.

A specific impairment will be created if there is evidence that amounts due are not recoverable. The recoverable amount is calculated as the present value of expected future cash flows, including collateral held, discounted at the effective interest rate.

Portfolio impairments are created when components of a specific portfolio or the economy in which it operates indicates there may be probable losses which will only be identified in the future.

**Notes to the group financial statements  
for the year ended 31 December 2005**

The credit risk premium applied in charging interest to clients offsets future losses to the extent that risk pricing has been correctly applied. The group's credit risk model includes risk pricing and therefore to the extent that it appears that the credit risk premium is not enough to compensate for future losses inherent in the performing advances portfolio, or insufficient data exists to reliably determine whether such losses exist, a portfolio impairment is created.

A general credit risk reserve has been maintained, as a non distributable reserve, since 1 January 2003 in compliance with the requirements of the Banks Act's regulations.

Advances are written off when they are identified as irrecoverable. Write offs are set off against the impairment and recoveries are credited thereto.

***Properties in possession***

Unsold properties are included under advances and are valued at amortised cost.

**1.11.2 Other financial assets**

Investment securities may be held for investment or hedging purposes.

Investment securities held for investing purposes are stated at fair value. Unrealised profit or losses on these securities are recognised directly in income. As these instruments are designated as held for trading.

Short-term money market assets purchased on the primary market are designated as originated loans and receivables.

Dated securities designated as held for trading are reflected at fair value. Unrealised profits or losses on such securities are included in other income.

Undated securities held for investment purposes are carried at fair value, based on quoted prices.

Valuation represents quoted market value in the case of listed securities, the Public Investment Commissioner's valuation in the case of fixed dated unlisted securities and directors' valuation in the case of other unlisted securities. Unlisted securities are valued based on discounted cash flow models.

**1.11.3 Derivatives and hedging**

The group is party to financial instruments that reduce exposure to fluctuations in interest rate risk. These instruments include interest rate swaps, index swaps, currency swaps and other derivative instruments. These are initially recognised at cost in the balance sheet and re-measured to fair value subsequently.

Interest rate swap agreements protect the company from movements in interest rates. Any differential to be paid or received on an interest rate swap agreement is recognised as a component of interest revenue or expense over the period of the agreement. Gains and losses on early termination of interest swaps or on the repayment of the borrowings are taken to the income statement.

The fair values of publicly traded derivatives are based on quoted prices and non-traded derivatives based on discounted cash flow models. Derivatives are recognised as assets when the fair value is positive and liabilities when the fair value is negative.

Fair value changes of derivatives that meet the criteria for hedge accounting are recognised in the income statement along with the fair value change of the hedged asset or liability.

Hedge accounting is only applied when there is formal documentation identifying the hedging instrument, hedged asset, hedging strategy and hedging relationship, the documentation shows that the hedge is expected to be highly effective in setting off risk and that the hedge is effective.

**Notes to the group financial statements  
for the year ended 31 December 2005**

**1.12 OFFSETTING FINANCIAL INSTRUMENTS**

Financial assets and liabilities are offset, and the net balance reported, when there is a legal right to set-off, there is an intention to settle on a net basis, the maturity dates of the asset and liability are the same and the asset and liability are denominated in the same currency.

**1.13 CASH AND CASH EQUIVALENTS**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held on call with banks, and investment of three months or less in money market instruments from the date of acquisition, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

**1.14 OTHER ASSETS**

Other assets are carried at anticipated net realisable value. An estimate is made for impairment based on a review of all outstanding amounts at year-end and expected cash flows. Bad debts are written off during the year in which they are identified.

**1.15 OTHER LIABILITIES, INCLUDING CREDITORS AND ACCRUED EXPENSES**

Other liabilities, including creditors and accrued expenses, are recognised when there is an obligation to make future payments resulting from the purchase of goods or services.

**1.16 PROVISIONS**

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**1.17 COMPARATIVES**

Where necessary, comparative figures have been restated and reclassified to deal with a prior year adjustment and to conform with changes in presentation in the current year.

Notes to the group financial statements  
for the year ended 31 December 2005

1.18 RESTATEMENT AND RECLASSIFICATION OF PRIOR YEAR FIGURES

	Previously reported R'000	Restatement	
		Reclassified R'000	Restated R'000
<b>Income statement</b>			
Operating expenditure <sup>(1)</sup>	(269 105)	(12 978)	(282 083)
Indirect taxes <sup>(1)</sup>	(12 978)	12 978	–
<b>Balance sheet</b>			
Other assets <sup>(1)</sup>	219 835	2 761	222 596
Other liabilities <sup>(1)</sup>	229 504	2 761	232 265
<b>Cash flow statement</b>			
Net increase in income-earning and other assets <sup>(2)</sup>	(4 019 994)	59 711	(3 960 283)
Acquisition of investments <sup>(2)</sup>	–	(269 105)	(269 105)
<b>Interest rate mismatch exposure</b>			
Deferred tax asset <sup>(3)</sup>	–	16 464	16 464
Other assets <sup>(1) (3)</sup>	236 299	(13 703)	222 596
Other liabilities and equity <sup>(1)</sup>	1 139 319	2 761	1 142 080
<b>Liquidity risk</b>			
Deferred tax asset <sup>(3)</sup>	–	16 464	16 464
Other assets <sup>(1) (3)</sup>	236 299	(13 703)	222 596
Other liabilities and equity <sup>(1)</sup>	1 139 319	2 761	1 142 080

**Reclassifications:**

- (1) In the financial year ended 2003 the group disclosed indirect taxes as part of taxation and amounts owing as part of other liabilities. During the current year indirect taxes paid are disclosed as part of operating expenditure and amounts receivable as part of other assets.
- (2) In the financial year 2003 the group disclosed acquisitions of investments as part of the net increase in income-earning and other assets. During the current year it has been reclassified this to be shown separately under investing activities.
- (3) In the financial year 2003 the group did not show the deferred tax asset separately in the interest rate mismatch exposure. This has been separately disclosed in the current year.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>2. NET INCOME BEFORE TAXATION</b>		
<i>is stated after crediting:</i>		
<b>Interest income</b>		
<i>Income from advances</i>		
Interest received on advances	1 517 575	1 593 923
Originated loans	1 492 561	1 545 898
Held for trading	25 014	48 025
Dividends on preference shares	8 634	7 295
	<b>1 526 209</b>	<b>1 601 218</b>
<i>Included in income from advances:</i>		
Additional yield earned on NRB assets	60 707	130 737
<i>Other interest income</i>		
Money on call and with central bank	4 090	7 382
Investment securities	53 049	54 071
Originated		
Short-term money market assets	13 415	45 314
Held for trading		
Government stock	39 634	8 757
Interest received on derivative instruments	541 089	524 767
Other	4 689	(13 886)
	602 917	572 334
<b>Total interest income</b>	<b>2 129 126</b>	<b>2 173 552</b>
Interest received on advances has been debited with discount premiums of R78 057 875 (2003: R46 235 669). This premium is paid in respect of motor finance advances discounted by motor dealers and is written off over the life of instalment contracts.		
<b>Other operating income</b>		
Commissions and fees	163 010	186 788
Profit on disposal of fixed assets	228	274
Profit/(loss) on securities and derivative transactions	2 373	(10 621)
Fair value (losses)/gains	(5 072)	6 877
Other income	29 449	360
<b>Total operating income</b>	<b>189 988</b>	<b>183 678</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>2. NET INCOME BEFORE TAXATION (continued)</b>		
Profits on disposal of shares in associate companies		
Other operating income includes the following amounts received from related companies:		
– commissions and fees	8 561	9 789
<b>Income from investment activities</b>		
Income from investments	19 454	16 485
<b>Income from investment in subsidiaries</b>		
Equity accounted earnings of subsidiaries	–	–
<i>and charging:</i>		
<b>Interest expense</b>		
Call deposits	953 565	996 416
Negotiable certificates of deposit	–	–
Fixed and notice deposits	35 374	36 928
Unsecured loans	66 170	48 906
Interest paid on derivative instruments	533 844	536 235
Other	(410)	27 219
<b>Total interest expense</b>	<b>1 588 543</b>	<b>1 645 704</b>
Other operating income includes the following amounts received from and paid to related companies:		
– Interest received on call loan to fellow subsidiary		
– Interest received on advances/deposits with related companies	12 558	2 470
– Net Interest paid on deposits/overdrafts with related companies	(950 996)	(992 663)
– Interest paid on subordinated debt	(20 558)	(23 492)
– <b>Interest received on swap agreements</b>		
– Interest paid on swap agreements	(20 812)	(1 223)
<b>Net interest paid to related parties</b>	<b>(979 808)</b>	<b>(1 014 908)</b>
<b>Operating expenditure</b>		
<i>includes:</i>		
<b>Auditors' remuneration</b>		
Audit fees		
– over provision in respect of prior year	(946)	(671)
– for services in current year	4 814	3 017
Fees for other services	2 016	266
<b>Total</b>	<b>5 884</b>	<b>2 612</b>
<b>Depreciation of fixed assets</b>	<b>14 334</b>	<b>7 829</b>
<b>Staff costs</b>		
Salaries and wages	150 729	135 710
Contributions to pension, medical and other staff funds	26 108	18 770
Training and other costs	8 573	6 589
<b>Total</b>	<b>185 410</b>	<b>161 069</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>2. NET INCOME BEFORE TAXATION (continued)</b>		
<b>Operating lease charges</b>		
Computer equipment	10 008	15 569
Other equipment	60	27
Office premises	9 561	7 290
<b>Total</b>	<b>19 629</b>	<b>22 886</b>
<b>Other professional fees</b>	<b>3 497</b>	<b>5 578</b>
<b>Directors' emoluments</b>		
<b>Executive directors</b>		
Salaries, allowances and contributions: R L Hiemstra*	2 238	2 171
– Salaries	1 908	2 171
– Retirement fund contributions	215	–
– Benefits	54	–
– Share options exercised	61	–
H Brody**	–	889
– Salaries	–	889
– Retirement fund contributions	–	–
– Benefits	–	–
D Van Der Linde	1 824	–
– Salaries	1 298	–
– Retirement fund contributions	147	–
– Benefits	96	–
– Share options exercised	283	–
E Kotze	1 491	–
– Salaries	1 314	–
– Retirement fund contributions	144	–
– Benefits	33	–

\* Resigned in 2004.

\*\* Resigned in 2003.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>2. NET INCOME BEFORE TAXATION (continued)</b>		
<b>Non-executive directors</b>	614	520
Fees: Z Banchetti	83	75
C Ball	64	–
H Brody+	45	–
R Cottrell	138	125
B Lynch+	113	95
E Molobi+*	38	40
S Morris+*	42	75
R Van Wyk+	68	80
G Van Niekerk*	42	75
R Shuter+	23	–
P Wessels+	23	–
O Arbee	8	–
M Croukamp	183	45
Reversal out prior year accrual	(256)	(90)
<b>Total</b>	<b>6 167</b>	<b>3 580</b>
+ Directors' fees do not accrue to the individuals but to either Imperial Group Limited or Nedcor Limited.		
* Resigned in 2004.		
** Resigned in 2003.		
Other operating expenditure	80 872	78 529
<b>Total operating expenditure</b>	<b>315 793</b>	<b>282 083</b>
Operating expenditure includes the following amounts from transactions with related parties:		
– operating lease charges: computer equipment	9 868	15 472
– operating lease charges: office premises	1 843	1 411
– administration fees	–	1 058

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>3. TAXATION</b>		
<b>Taxation on income</b>		
South African normal tax:		
– current	10 027	6 958
– current on exceptional item		
– deferred current	15 498	(10 773)
– prior year over provision		
current tax	(1 357)	(64)
deferred tax	–	(168)
Reversal of NRB tax provision raised	–	(14 871)
<b>Total normal tax</b>	<b>24 168</b>	<b>(18 918)</b>

Normal tax includes amounts refundable to partnerships in respect of taxation.

Based on the provisional tax assessments of NRB Risk Solutions Limited for the years of assessment up to and including March 2002, NRB has an assessable tax loss of R823 749 638. Until the provisional tax assessments are confirmed, NRB has neither raised a deferred tax asset nor a normal tax liability and has accounted for no income tax other than that of its joint venture, SA Axle Finance (Pty) Ltd. An estimated R519 436 356 of the assessed loss was utilised during 2004 (an assessable R62 679 039 for 2003). The unutilised portion of the estimated assessable loss as at 31 December 2004 is R773 950 461 (the December 2003 assessable amount was R1 293 386 817). The estimated tax effect of the estimated assessable loss before being applied to reduce deferred tax is R232 185 138 (after deferred tax: R188 105 073). The corresponding amount for the prior year is R388 016 045 (R217 935 980 after deferred tax). The unprovided net timing difference was R146 933 551 (2003: R566 933 551).

	Group 2004 %	Restated Group 2003 %
<i>Reconciliation of tax rate</i>		
Statutory rate of taxation on income	30.0	30.0
Effect of prior year overprovision	3.1	(0.1)
Effect of prior year NRB tax reversal	–	(7.0)
Effect of no NRB tax provision	(15.5)	(27.1)
Effect of equity accounted earnings	–	–
Effect of other permanent differences	(4.3)	(3.2)
Tax on partnerships	0.0	(1.5)
Contribution to partnerships	(0.5)	(0.5)
<b>Effective rate of normal taxation on income net of other taxation</b>	<b>12.8</b>	<b>(8.9)</b>
<b>4. CASH AND BALANCES WITH CENTRAL BANK</b>		
	R'000	R'000
Coins and bank notes	22	24
Balances with central bank	364 513	275 073
<b>Total</b>	<b>364 535</b>	<b>275 097</b>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004**

	<b>Group 2004 R'000</b>	<b>Restated Group 2003 R'000</b>
<b>5. INVESTMENT SECURITIES</b>		
Originated:		
Treasury bills	218 424	50 096
Held for trading:		
Government stock	533 035	470 611
	<b>751 459</b>	<b>520 707</b>
<i>Maturity analysis</i>		
Maturing in under 1 year	293 600	50 096
Maturing between 1 and 5 years	106 329	130 261
Maturing after 5 years	351 530	340 350
Maturing after 3 years		
Total	<b>751 459</b>	<b>520 707</b>

The maturity analysis is based on the residual period to contractual maturity. A register of Treasury bills and Government stocks is available for inspection at the registered office of the company.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

The group has entered into interest rate swap agreements with an aggregate notional capital amount of R5 429 million (December 2003: R5 816 million).

The majority of swap commitments entered into are of a back-to-back in nature with no net open position. Certain swap agreements are however entered into as part of the interest rate risk management strategies of the group. The group enters into interest rate swap agreements for hedging purposes in order to reduce the risk faced due to fluctuations in interest rates. Hedge accounting is not currently applied to these instruments.

The following derivatives are used for trading or hedging purposes:

	Group 2004	
	Notional R'000	Fair value R'000
<b>ASSETS</b>		
<i>Held for trading</i>		
Interest rate swaps	2 716 869	263 480
<b>LIABILITIES</b>		
<i>Held for trading</i>		
Interest rate swaps	2 712 482	(257 808)
	<b>5 429 351</b>	<b>5 672</b>

	Group 2003	
	Notional R'000	Fair value R'000
<b>ASSETS</b>		
<i>Held for trading</i>		
Interest rate swaps	3 431 829	163 465
<b>LIABILITIES</b>		
<i>Held for trading</i>		
Interest rate swaps	2 384 819	(145 641)
	<b>5 816 648</b>	<b>17 824</b>

Related party agreements consist of an aggregate notional value of R1 988m (2003: R2 146m).

	Group 2004 R'000	Group 2003 R'000
<b>7. DUE FROM OTHER BANKS</b>		
Money on call		
– Interbank	2 175	41 921

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004**

	Group 2004 R'000	Restated Group 2003 R'000
<b>8. INVESTMENTS</b>		
Endowment policy	–	109 796
Investment in Imperial Holdings Bonds	–	50 537
Investment in Supergroup Bonds	22 078	–
Investment in Eagle Bonds	8 978	9 879
Investment in share options	127	–
<b>Total investments</b>	<b>31 183</b>	<b>170 212</b>

The investment in the endowment policy was linked to the value and performance of a facility granted to Safair (Proprietary) Limited and was yielding a return of approximately 16.6% per annum. This investment matured in December 2004. The Eagle Bonds were issued on 10 June 2003 at a nominal value of R10 million bearing a coupon rate of 9.956%. Interest payments and instalments are received on a quarterly basis. The Supergroup bonds were issued on 25 June 2004 at a nominal value of R20 million and bearing a coupon rate of 12.5%.

	Group 2004	
	Originated	Trading
<b>9. LOANS AND ADVANCES TO CUSTOMERS</b>		
<i>Category analysis</i>		
Instalment finance	10 601 039	83 234
Mortgages	4 590 016	19 296
Other	575 261	20 999
Accrued interest		
Total advances	15 766 316	123 529
Less: Impairment provisions	(657 696)	–
<b>Net advances</b>	<b>15 108 620</b>	<b>123 529</b>

	Group 2003	
	Originated	Trading
<i>Category analysis</i>		
Instalment finance	7 592 202	193 235
Mortgages	3 730 443	11 352
Other	480 422	41 366
Accrued interest		
Total advances	11 803 067	245 953
Less: Impairment provisions	(548 641)	–
<b>Net advances</b>	<b>11 254 426</b>	<b>245 953</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2004

	Group 2004 Total	Restated Group 2003 Total
<b>9. LOANS AND ADVANCES TO CUSTOMERS (continued)</b>		
<i>Sectoral analysis</i>		
Individuals	8 712 788	5 966 783
Manufacturing	104 299	135 876
Wholesale and Trade		
Wholesale and Trade	45 142	48 915
Retailers, catering and accommodation	84 405	74 467
Agriculture, hunting, forestry and fishing	15 014	16 930
Mining and quarrying	54 554	9 478
Banks	–	–
Financial services, insurance and real estate	207 934	328 718
Government and public sector	14 537	75 117
Building and property development	3 924 771	2 140 860
Transport, storage and communication	820 793	2 355 292
Other services	1 905 608	896 584
<b>Total advances</b>	<b>15 889 845</b>	<b>12 049 020</b>
<i>Maturity analysis</i>		
Up to 1 month	224 622	638 001
1 to 3 months	144 999	297 203
3 to 12 months	898 836	2 503 268
Maturing within 1 and 5 years	11 811 451	6 767 544
Maturing after 5 years	2 809 937	1 843 004
<b>Total advances</b>	<b>15 889 845</b>	<b>12 049 020</b>

The maturity analysis of advances is based on the residual period to contractual maturity, comprising only of South African advances. Advances are mostly repriced with changes in the prime overdraft rate.

	Group 2004 Total	Restated Group 2003 Total
<b>Total</b>		
<b>Non performing loans and advances</b>	<b>1 057 259</b>	<b>636 271</b>

Loans and advances to customers include the following balances with related companies:

– instalment sale, mortgage and other advances	144 262	20 805
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During the current year the policy changed with regards to the definition of non performing loans to become in line with Nedcor. All loans greater than 90 days in arrears have been classified as non performing. This would result in the non performing loans at 31 December 2003 being restated to R846 377 361 in comparison to that previously reported which comprised only legal accounts, in accordance with our previous policy.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>10. IMPAIRMENT OF ADVANCES</b>		
Balance at beginning of the year	548 641	495 137
Amounts written off during the year	(84 396)	(51 379)
	464 245	443 758
Present value adjustments relating to AC133 upon adoption	–	59 721
Impairments raised during the year	244 875	232 458
Additional yield earned on NRB assets credited to interest income	(60 707)	(130 737)
Creation of portfolio impairment upon adoption of AC133	–	9 514
Other increases/(decreases) in impairments	9 283	(3 580)
Release of general provision on adoption of AC133	–	(62 493)
<b>Balance at end of the year</b>	<b>657 696</b>	<b>548 641</b>
<i>Comprising:</i>		
Specific loan impairment	652 121	541 645
Portfolio impairment	5 575	6 996
<b>Total</b>	<b>657 696</b>	<b>548 641</b>

**11. INVESTMENT IN SUBSIDIARY COMPANIES**

Unlisted shares, at cost <sup>(1)</sup>	–	–
Equity accounted earnings of subsidiary companies	–	–
Loans from subsidiaries	–	–
Loans to subsidiaries	–	–
<b>Total investment in subsidiaries</b>	<b>–</b>	<b>–</b>
<b>Directors' valuation (excl. loans)</b>	<b>–</b>	<b>–</b>

All subsidiary companies are wholly owned and are used mainly for the provision of financing facilities to clients of the bank. New Republic Bank Limited is also active in the rendering of collection services within the financial industry.

(1) The following subsidiaries are held directly by the company:

	% held	No of shares	Cost of shares (R)
The Motor Finance Corporation (Pty) Ltd	100%	100	100
SMS Leasing and Finance Company (Pty) Ltd	100%	1 000	1 000
Imperial Equity Finance (Pty) Ltd	100%	100	100
NRB Risk Solutions Limited	100%	32 856 964	43 017 864
			<b>43 019 064</b>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004**

	Group 2004 R'000	Restated Group 2003 R'000
<b>12. FIXED ASSETS</b>		
<b>Computer equipment</b>		
Book value at beginning of the year	13 053	10 277
– cost	21 220	15 059
– accumulated depreciation	(8 167)	(4 782)
Additions	22 232	6 166
Disposals	(13)	–
Depreciation for the year	(7 232)	(3 390)
Book value at end of the year	28 040	13 053
– cost	43 426	21 220
– accumulated depreciation	(15 386)	(8 167)
<b>Motor vehicles</b>		
Book value at beginning of the year	14 256	9 298
– cost	18 345	11 579
– accumulated depreciation	(4 089)	(2 281)
Additions	6 980	9 959
Disposals	(1 842)	(2 105)
Depreciation for the year	(4 081)	(2 896)
Book value at end of the year	15 313	14 256
– cost	22 072	18 345
– accumulated depreciation	(6 759)	(4 089)
<b>Furniture and equipment</b>		
Book value at beginning of the year	9 797	4 712
– cost	14 286	7 811
– accumulated depreciation	(4 489)	(3 099)
Additions	4 138	6 487
Disposals	(6)	(5)
Depreciation for the year	(2 771)	(1 397)
Book value at end of the year	11 158	9 797
– cost	18 409	14 286
– accumulated depreciation	(7 251)	(4 489)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>12. FIXED ASSETS (continued)</b>		
<b>Owned Buildings</b>		
Book value at beginning of the year	9 854	–
– cost	10 000	–
– accumulated depreciation	(146)	–
Additions	–	10 000
Disposals	–	–
Depreciation for the year	(250)	(146)
Book value at end of the year	9 604	9 854
– cost	10 000	10 000
– accumulated depreciation	(396)	(146)
<b>Total fixed assets</b>		
Book value at beginning of the year	46 960	24 287
– cost	63 851	34 449
– accumulated depreciation	(16 891)	(10 162)
Additions	33 350	32 612
Disposals	(1 861)	(2 110)
Depreciation for the year	(14 334)	(7 829)
Book value at end of the year	64 115	46 960
– cost	91 853	63 851
– accumulated depreciation	(27 738)	(16 891)
<b>Land and buildings</b>		
Information regarding land and buildings as required in terms of Schedule 4 to the Companies Act is kept at the company's registered offices and is available for inspection.		
<b>13. OTHER ASSETS</b>		
Other indirect taxes	9 361	2 081
Current taxation	2 555	680
Debtors and prepayments	156 829	219 835
Debtors and prepayments		
Receiver of Revenue: value added tax		
Deferred income tax		
	<b>168 745</b>	<b>222 596</b>
Included in the above items are the following balances with related parties:		
– included in other assets	1 910	112 892

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>14. DUE TO OTHER BANKS</b>		
Repayable on demand	7 329 104	5 308 22
3 months or less but not repayable on demand	7 315 930	5 308 293
1 year or less but over 3 months	15 825	130 989
5 years or less but over 1 year	–	19 370
Over 5 years		
<b>Total</b>	<b>14 660 859</b>	<b>10 766 881</b>
Deposits from other banks include the following deposits from related companies:		
– call deposits	14 544 000	10 541 000
<b>15. OTHER DEPOSITS</b>		
Call deposits	175 337	164 185
Fixed and notice deposits	38 661	164 203
<b>Total</b>	<b>213 998</b>	<b>328 388</b>
<i>Maturity analysis</i>		
Repayable on demand	175 337	164 185
3 months or less but not repayable on demand	38 661	103 910
1 year or less but over 3 months	–	60 293
Over 5 years		
<b>Total</b>	<b>213 998</b>	<b>328 388</b>
Other deposits include the following deposits from related companies:		
– call deposits		
– fixed and notice deposits		
<b>Total</b>		
Other deposits include the following deposits from related companies:		
– call and fixed and notice deposits	159 378	102 362
<b>16. OTHER LIABILITIES</b>		
Creditors and other provisions	78 563	232 265
Included in creditors and other provisions are the following amounts related and due to related parties:		
	–	3 664

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>17. DEFERRED TAX ASSET</b>		
Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (December 2000: 30%). The movement on the deferred tax account is as follows:		
At the beginning of the period	16 464	(15 337)
Income statement charge	(15 498)	10 773
Effect of adopting AC133 (transitional adjustment)	–	5 989
Reversal of NRB tax provision raised	–	14 871
Prior year under provision	–	168
<b>At the end of the period</b>	<b>966</b>	<b>16 464</b>
<i>Deferred taxation analysis</i>		
Deferred taxation balance is made up of the following:		
– Provisions and prepayments	(32 459)	(2 466)
– Unutilised tax losses	–	20 773
– Fair value and impairments	35 753	2 167
– Fixed assets, leases and other assets	(3 108)	2 563
– Other timing differences	780	(6 573)
– tax loss carry forward		
<b>Deferred tax</b>	<b>966</b>	<b>16 464</b>

**18. ORDINARY SHARES**

*Authorised*

500 000 000 ordinary shares of R0,01 each	5 000	5 000
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*Issued*

301 998 332 (2002: 301 998 332) ordinary shares of R0,01 each	3 020	3 020
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*Unissued shares*

The unissued shares are under the control of the directors until the forthcoming annual general meeting.

**19. SHARE PREMIUM**

Balance at end of the year	434 205	434 205
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**20. SUBORDINATED DEBT INSTRUMENT**

Balance at end of the year	592 575	574 811
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The first tap of the debentures were issued on 4 June 2002 and are redeemable on 4 December 2008. The nominal value of the first tap is R350 000 000. The coupon is paid twice annually and accrues at the rate of 13.5% pa. The debentures are unsecured. A second tap was concluded on 3 December 2003 at a nominal value of R165 000 000. The debentures were issued under the same terms and conditions as the first issue. R160 million of the first tap and R50 million of the second tap are held by related parties to the group.

The issued debentures are designated as held for trading for AC133 purposes. An interest rate swap agreement has been entered into to reduce the effect of fluctuations in the fair value of the issued debentures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>21. JOINT VENTURE</b>		
<p>The group has a 66% interest in SA Axle (Pty) Ltd, which is engaged in providing finance to the trucking industry. There are no contingencies or capital commitments resulting from the group's participation in the joint venture at the year end.</p> <p>The summarised financial information relating to the groups share in the joint venture which is included in the group financial statements is as follows:</p>		
Current assets	475	764
Interest bearing assets	7 946	22 414
Current liabilities	(592)	–
Interest bearing debt: long term	(8 701)	(24 062)
	(872)	(884)
<b>Profit after tax</b>	<b>1 281</b>	<b>(1 034)</b>
<b>22. RECONCILIATION OF NET INCOME BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS</b>		
Net income before taxation	189 357	213 470
Adjusted for:		
– Indirect taxation	7 682	12 978
– Depreciation	14 334	7 829
– Income from investments	(19 454)	(16 485)
– Equity accounted earnings of subsidiaries	–	–
– Amortisation of bond issue costs, fair value adjustments and discount on issue	17 764	25 738
– Loss/(profit) on disposal of fixed assets	(228)	(274)
– Movement in leave pay provisions	2 603	536
– Charge for bad and doubtful debts	244 875	232 458
<b>Total</b>	<b>456 933</b>	<b>476 250</b>
<b>23. NET INCREASE IN INCOME-EARNING AND OTHER ASSETS</b>		
Advances	(3 976 645)	(3 391 236)
Government stocks	(62 424)	(411 036)
Loan to subsidiary	–	–
Movement in derivative assets	(100 015)	(97 242)
Indirect taxes	(7 280)	(705)
Other assets	63 006	(60 064)
<b>Total</b>	<b>(4 083 358)</b>	<b>(3 960 283)</b>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>24. INCREASE IN DEPOSITS AND OTHER LIABILITIES</b>		
Increase in holding company loan		
Due to other banks	3 893 978	2 993 822
Movement in other deposits	(114 390)	179 380
Movement in derivative liabilities	112 167	97 363
Loan from subsidiary	–	–
Other liabilities excluding taxation due	(156 305)	(51 505)
<b>Total</b>	<b>3 735 450</b>	<b>3 219 060</b>
<b>25. TAXATION PAID</b>		
Amount unpaid at beginning of the year	(680)	24 183
Taxation charged to the income statement	31 850	(5 940)
Tax effect of AC133 transitional adjustment	–	(5 989)
Reverse: change in deferred tax	(15 498)	31 801
	15 672	44 055
Amount recoverable at end of the period	2 555	680
<b>Total paid</b>	<b>(18 227)</b>	<b>(44 735)</b>
<b>26. CASH AND CASH EQUIVALENTS</b>		
For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with a residual to maturity of 90 days:		
– Cash and balances with central banks	364 535	275 097
– Treasury bills and other eligible bills	218 424	50 096
– Due from other banks	2 175	41 921
	<b>585 134</b>	<b>367 114</b>
<b>27. CONTINGENCIES AND COMMITMENTS</b>		
Guarantees	675 267	143 191
Capital commitments	703	–
Contingent legal claims	–	7 500
Unutilised facilities	942 436	683 472
	<b>1 618 406</b>	<b>834 163</b>
Included in contingencies and commitments are the following amounts in respect of related parties:		
– Guarantees	47 158	54 067

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2004

	Group 2004 R'000	Restated Group 2003 R'000
<b>28. OTHER COMMITMENTS</b>		
<i>Capital expenditure</i>		
Authorised but not contracted for	–	1 920
<i>Operating lease commitments</i>		
Less than one year	11 111	13 012
More than one year but less than five	23 498	26 846
More than five years	–	–
	<b>34 609</b>	<b>39 858</b>

**29. RETIREMENT BENEFIT INFORMATION**

All employees are members of the Imperial Group Pension Fund or the Imperial Bank Provident Fund. These funds are defined contribution plans and are subject to the Pension Funds Act, 1956.

Pension Fund contributions expensed	16 453	11 630
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**30. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The bank is controlled by Nedbank Limited which owns 50.1% of the bank's ordinary shares. Imperial Holdings Limited and its subsidiaries and Old Mutual plc are also related parties. Imperial Holdings Limited through Imperial Financial Holdings holds 49.9% of the ordinary shares of the bank.

A number of banking transactions are entered into with related parties in the normal course of business, including deposits. These transactions were carried out on commercial terms and conditions and at market related rates. The volumes of related party transactions, outstanding balances at the year end, and related expenses for the year are detailed in notes 2, 6, 7, 8, 13, 14, 15, 16, 20, 27 and 30.

**31. EARNINGS PER SHARE AND HEADLINE EARNINGS PER SHARE**

Earnings per shares and headline earnings per shares are set out below:

	2004 cents	2003 cents
EPS	54.70	76.95
HEPS	55.82	75.27

The earnings per share was calculated based on an earnings of R165 million ( 2003: R232 million) and weighted average shares of 301 998 332 (2003: 301 998 332).

The head line earnings per share was calculated based on an earnings of R169 million (2003 R227 million) and weighted average shares of 301 998 332 (2003: 301 998 332).

	2004	2003
Profit attributable to equity holders	165 189 000	232 388 000
<i>Adjusted for:</i>		
Non trading and Capital Items	4 844 000	(7 151 000)
Taxation on Non trading and Capital Items	(1 453 200)	2 073 790
Adjusted profit attributable to equity holders	168 579 800	227 310 790

### 32. NET ASSET VALUE PER SHARE AND NET TANGIBLE ASSET VALUE PER SHARE

	2004 cents	2003 cents
NAV	355.96	301.26
NTAV	355.96	301.26

The Net Asset Value per share was calculated based on assets of R1 075 million (2003: R910 million) and shares of 301 998 332 (2003: 301 998 332).

The Net Tangible Asset Value per share was calculated based on assets of R1 075 million ( 2005: R910 million) and shares of 301 998 332 (2003: 301 998 332).

### 33. POST BALANCE SHEET EVENTS

On 30 March, Imperial Bank Issued R500 million of Subordinated Unsecured Callable Notes (IPB2) under their R2,5bn Domestic Medium Term Note Programme. These notes have a final maturity of 30 December 2015, but are callable on 30 December 2010. These notes were issued for general capital purposes and were part of an Imperial Bank's initiative to more efficiently manage its capital structure.

Further to this, the directors of Imperial are not aware of any material changes having taken place in the financial position or nature of the properties between 31 December 2005 and the date of this report, other than those arising in the normal course of business.

### 34. COMMENTARY

#### 34.1 Financial year ended 31 December 2003

Results for the 2003 year saw headline earnings increasing by 62% to R232 million and advances growing by 30% to R11,5 billion while a return on equity of 29,4% was achieved.

These results were recorded amidst serious challenges to profitability, which included a sharp erosion of lending margins because of higher funding costs, and an unusually large charge to the bad debt line in the aviation finance division. The prime overdraft rate remained high during the first half of the year, but began a sharp decline in June and by December it had fallen from 17% to 11,5%. During this period, funding costs did not decline as rapidly as lending rates, which were predominantly prime linked. The resulting margin squeeze is estimated to have cost the bank in the region of R87 million (pre-tax).

The strengthening Rand had a significant negative impact on the aviation finance book of R1.4 billion, or 12% of total advances (December 2003). Most of the asset base of the industry, together with a major portion of its income is measured in US Dollars, while its debt is Rand denominated. The stronger Rand, coupled with high interest rates, forced several aviation clients into insolvency as their equity was wiped out by declining asset values while their debt levels remained unchanged. This necessitated the raising of bad debt provisions in excess of R87 million against the aviation book during the year.

On the positive side, New Republic Bank Limited's high yield on a parcel of assets acquired from Saambou Bank (under Receivership), primarily as a result of the collection of assets purchased at a discount, produced an exceptional result.

The Property division benefited from the extraordinary residential property market conditions to deliver excellent profits from interest and fee income.

MFC maintained its market share in the Imperial Bank group at around 30% of financeable business, but expanded its representation into a large number of independent franchised and used car dealerships.

Starting off a low base at the beginning of the year corporate asset finance division achieved advances of R500 million by year-end.

Medical division was established in August 2003 and was able to establish six branches with well-trained staff in a short time. In the last four months of the financial year, the division advanced money to more than 2 000 medical practitioners.

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## INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE *PRO FORMA* FINANCIAL INFORMATION

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"13 June 2006

The Directors  
Imperial Bank Limited  
24 Achter Road  
Paulshof  
Sunninghill  
2191

Dear Sirs

### INDEPENDENT REPORTING ACCOUNTANTS' LIMITED ASSURANCE REPORT TO THE DIRECTORS OF IMPERIAL BANK LIMITED ON THE UNAUDITED *PRO FORMA* FINANCIAL INFORMATION

The definitions commencing on page 3 of the Pre-listing statement have been used in this report.

We have performed our limited assurance engagement in respect of the unaudited *pro forma* financial effects, income statement and balance sheet (collectively "the unaudited *pro forma* information") of Imperial Bank set out in paragraph 5.2 and Annexure 6 of the Pre-listing statement dated on or about 13 June 2006, issued in connection with the listing of 3 000 000 preference shares on the Preference Shares – "Preference Shares" sector of the JSE list.

The unaudited *pro forma* financial information has been prepared in accordance with the requirements of the JSE, for illustrative purposes only, to provide information about how the private placing might have affected the reported historical financial information had the corporate action been undertaken on 1 January 2005 for income statement purposes and on 31 December 2005 for balance sheet purposes.

Because of its nature the unaudited *pro forma* financial information may not present a fair reflection of the financial position, changes in equity, results of operations or cash flows of the group, after the private placing.

#### Directors' responsibility

The directors of Imperial Bank are responsible for the compilation, contents and presentation of the unaudited *pro forma* financial information contained in the Pre-listing statement and for the financial information from which it has been prepared. Their responsibility includes determining that the unaudited *pro forma* financial information has been properly compiled on the basis stated; the basis is consistent with the accounting policies of Imperial Bank; and the *pro forma* adjustments are appropriate for the purposes of the unaudited *pro forma* financial information disclosed in terms of the Listings Requirements.

#### Independent reporting accountants' responsibility

Our responsibility is to express our limited assurance conclusion on the unaudited *pro forma* financial information included in the Pre-listing statement to Imperial Bank Limited shareholders. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements applicable to Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and the Guide on Pro Forma Financial Information issued by the South African Institute of Chartered Accountants.

This standard requires us to obtain sufficient appropriate evidence on which to base our conclusion.

We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited *pro forma* financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

## Sources of information and work performed

Our procedures consisted primarily of comparing the unadjusted financial information of Imperial Bank with the source documents, considering the *pro forma* adjustments in light of the accounting policies of Imperial Bank, considering the evidence supporting the *pro forma* adjustments, and discussing the adjusted *pro forma* financial information with the directors of Imperial Bank.

In arriving at our conclusion, we have relied upon financial information prepared by the directors of Imperial Bank and other information from various public, financial and industry sources.

While our work performed has involved an analysis of the historical published audited financial information and other information provided to us, our limited assurance engagement does not constitute an audit or review of any of the underlying financial information conducted in accordance with International Standards on Auditing or International Standards on Review Engagements and accordingly, we do not express an audit or review opinion.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

## Conclusion

Based on our examination of the evidence obtained, nothing has come to our attention, which causes us to believe that:

- the *pro forma* financial information has not been properly compiled on the basis stated;
- such basis is inconsistent with the accounting policies of Imperial Bank; and
- the adjustments are not appropriate for the purposes of the unaudited *pro forma* financial information as disclosed in terms of the section 8.17 and 8.30 of the Listings Requirements.

## Consent

We consent to the inclusion of this report, which will form part of the Pre-listing statement to shareholders of Imperial Bank Limited, to be issued on or about 13 June 2006, in the form and context in which it appears.

## Deloitte & Touche

Per H Klopper  
Partner"

Building 8, Deloitte Place  
The Woodlands, Woodmead Drive  
Sandton

**National Executive:** G G Gelink Chief Executive, A E Swiegers Chief Operating Officer, G M Pinnock Audit, D L Kennedy Tax, L Geeringh Consulting, M G Crisp Financial Advisory, L Bam Strategy, C R Beukman Finance, T J Brown Clients & Markets, S J C Sibisi Public Sector and Corporate Social Responsibility, N T Mtoba Chairman of the Board, J Rhynes Deputy Chairman of the Board

A full list of partners and directors is available on request

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**PRO FORMA INCOME STATEMENT AND BALANCE SHEET**


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Based on the consolidated audited results of the Imperial Bank group for the year ended 31 December 2005, the unaudited *pro forma* financial effects of the private placing are set out below and in paragraph 5.2 of the Pre-listing statement. This unaudited *pro forma* financial information, being the responsibility of Imperial Bank's directors, has been prepared for illustrative purposes only and because of its nature may not fairly present the Imperial Bank group's financial position and results of operations, nor the effect and impact of the private placing and share repurchase on the Imperial Bank group going forward. The definitions and interpretations commencing on page 3 of this Pre-listing statement, apply to this Annexure 6.

**PRO FORMA INCOME STATEMENT**

	Before the private placing <sup>(1)</sup> R'000	Adjustments R'000	After the private placing and <sup>(2)</sup> share repurchase R'000
Interest and similar income	2 438 341		2 438 341
Interest expense and similar charges	(1 634 177)	(390) <sup>(3)</sup>	(1 634 567)
<b>Net interest income</b>	<b>804 164</b>	<b>(390)</b>	<b>803 774</b>
Impairment losses on loans and advances	(114 589)		(114 589)
<b>Income from lending activities</b>	<b>689 575</b>	<b>(390)</b>	<b>689 185</b>
Non-interest income	50 668		50 668
<b>Total income</b>	<b>740 243</b>	<b>(390)</b>	<b>739 853</b>
Operating expenses	(352 637)		(352 637)
Indirect taxes	(14 099)		(14 099)
<b>Profit from operations before direct taxation</b>	<b>373 507</b>	<b>(390)</b>	<b>373 117</b>
Direct taxes	(79 024)	113	(78 911)
<b>Net profit for the year</b>	<b>294 483</b>	<b>(277)</b>	<b>294 206</b>
<b>Net profit available for ordinary shareholders</b>	<b>294 483</b>	<b>(22 700)<sup>(4)</sup></b>	<b>271 506</b>
	<b>Cents</b>		<b>Cents</b>
Earnings per share	88.5		103.5
Headline earnings per share	87.1		101.9
Number of shares for EPS and HEPS ('000)	332 935		262 223

**Notes:**

1. Based on the consolidated audited results for the year ended 31 December 2005.
2. Based on the assumption that the private placing took place on 1 January 2005.
3. Based on the assumption that the proceeds of the private placing of R300 million were used to repurchase 70 711 888 ordinary shares, a deemed cost of funding the preference dividend paid at Imperial Bank's average deposit rate has been taken into account.
4. To take into account the preference share dividend that would have been payable on the assumption that the 3 000 000 preference shares were issued on 1 January 2005. It has been assumed the preference share dividend was payable at an interest amount of 70% of prime on the deemed value of R100.00 per preference share.

**PRO FORMA BALANCE SHEET**

	Before the private placing <sup>1)</sup> R'000	Adjustments regarding the preference share issue R'000	Adjustments regarding the share repurchase R'000	After the private placing <sup>2)</sup> R'000
<b>Assets</b>				
Cash and cash equivalents	11 189	297 800 <sup>3)</sup>	(300 000) <sup>3)</sup>	8 989
Other short-terms securities	569 465			569 465
Derivative financial instruments	217 177			217 177
Government and other securities	450 356			450 356
Loans and advances to customers	19697 107			19697 107
Other assets	239 166			239 166
Investment securities	8693			8693
Non-current assets held for sale	13 395			13 395
Deferred taxation	9 643			9 643
Property and equipment	134 512			134 512
Mandatory deposits with central bank	463 296			463 296
<b>Total assets</b>	<b>21 813 999</b>			<b>21 811 799</b>
<b>Equity and liabilities</b>				
Share capital	3 589		(707) <sup>4)</sup>	2 882
Preference share capital	–	2 <sup>5)</sup>		2
Share premium	648 285	297 798 <sup>6)</sup>	(299 293) <sup>6)</sup>	646 790
Reserves	870 930			870 930
<b>Total equity</b>	<b>1 522 804</b>			<b>1 520 604</b>
<b>Total liabilities</b>	<b>20 291 195</b>			<b>20 291 195</b>
Derivative financial instruments	219 120			219 120
Amounts owed to depositors	19 229 181			19 229 181
Other liabilities	209 293			209 293
Current taxation	53 119			53 119
Long-term debt instruments	580 482			580 482
<b>Total equity and liabilities</b>	<b>21 813 999</b>			<b>21 811 799</b>
NAV and NTAV	424.3			423.5
Number of shares for NAV and NTAV purposes ('000)	358 934			288 223

**Notes:**

1. Based on the consolidated audited results for the year ended 31 December 2005.
2. Based on the assumption that the private placing took place on 31 December 2005.
3. To take into account the cash received of R300 million less the anticipated expenses of the issuing of the preference shares of R2.2 million and the payment of R300 million in terms of the share repurchase.
4. To take into account the repurchase of 70 711 888 ordinary shares of R0.01 each.
5. To take into account the issue of 3 000 000 preference shares of R0.0005 each.
6. To take into account the increase in share premium of R297.79 million as result of the issue of 3 000 000 preference shares after offsetting the estimated costs of the issue of preference shares of R2.2 million against share premium and the subsequent decrease in share premium of R299.29 million as a result of the repurchase..

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## EXTRACTS FROM THE ARTICLES OF ASSOCIATION OF IMPERIAL BANK

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### 1. Borrowing Powers

"16.1 The directors may exercise all the powers of the company to borrow money and to mortgage or encumber its undertaking and property or any part thereof and to issue debentures or debenture stock (whether secured or unsecured) and other securities (with such special privileges, if any, as to allotment of shares or stock, attending and voting at general meetings, appointment of directors or otherwise as may be sanctioned by a general meeting) whether outright or as security for any debt, liability or obligation of the company or of any third party.

16.2 For the purpose of the provisions of Article 16.1 the borrowing powers of the company shall be unlimited."

### 2. Number of Directors

"17.1 Until the company in general meeting decides otherwise, the number of directors shall not be less than 4 (four) and not more than 18 (eighteen)."

### 3. Filling of casual vacancies on and additions to Board of Directors

"17.2 The directors shall have power at any time and from time to time to appoint any person as a director, either to fill a casual vacancy or as an addition to the board, but so that the total number of the directors shall not at any time exceed the maximum number fixed. Subject to the provisions of Article 19.2, any person appointed to fill a casual vacancy or as an addition to the board shall retain office only until the next following annual general meeting of the company and shall then retire and be eligible for re-election.

17.3 The appointment of a director shall take effect upon compliance with the requirements of the Statutes."

### 4. Qualifications of Directors

"17.4 The shareholding qualification for directors may be fixed, and from time to time varied, by the company at any meeting of members and unless and until so fixed no shareholding qualification shall be required.

17.5 A director shall retire at the first meeting subsequent to his birthday upon reaching the retirement age determined from time to time by the board."

### 5. Remuneration of Directors

"17.6 The fees of the directors shall from time to time be approved by the company in general meeting. Directors' fees shall be deemed to accrue from day to day.

17.7 The directors shall be paid all their travelling and other expenses properly and necessarily incurred by them in and about the business of the company, and in attending meetings of the directors or of committees thereof, and if any director shall be required to perform extra services or to go or to reside abroad or otherwise shall be specially occupied about the company's business, he shall be entitled to receive a remuneration to be fixed by a disinterested quorum of the directors which may be either in addition to or in substitution for the fees provided for in Article 17.6."

### 6. Disqualification of Directors

"17.9 A director shall cease to hold office as such –

17.9.1 if his employment contract with the company is terminated;

17.9.2 if he becomes insolvent, or assigns his estate for the benefit of his creditors, or suspends payment or files a petition for the liquidation of his affairs, or compounds generally with his creditors; or

17.9.3 if he becomes of unsound mind; or

- 17.9.4 if he is absent from meetings of the directors for 6 (six) consecutive months without leave of the directors and the directors resolve that the office be vacated: Provided that the directors shall have power to grant any director leave of absence for any or an indefinite period; or
- 17.9.5 if he is removed under Article 17.16; or
- 17.9.6 1 (one) month or, with the permission of the directors earlier, after he has given notice in writing of his intention to resign; or
- 17.9.7 if he shall, pursuant to the provisions of the Statutes or any other law, be disqualified or cease to hold office or be prohibited from acting as director; or
- 17.9.8 if a majority of his co-directors sign and deposit at the registered office of the company a written notice wherein he is requested to vacate his office (which shall become operative on deposit at the office) but without prejudice to any claim for damages;
- 17.9.9 if he is removed from office by a resolution of the company of which proper notice has been given in terms of the Companies Act (but without prejudice to any claim for damages)."

## 7. Removal of Directors

"17.16 Subject to any contract between the director and the company and the provisions of the Statutes, the company may by ordinary resolution remove any director before the expiration of his period of office and by ordinary resolution elect another person in his stead. The person so elected shall hold office until the next following annual meeting of the company and shall then retire and be eligible for re-election."

## 8. Rotation of Directors

- "18.1 At the annual general meeting held in each year after the first annual general meeting, 1/3 (one-third) of the directors, or if their number is not a multiple of 3 (three), then the number nearest to, but not less than 1/3 (one-third) shall retire from office: Provided that in determining the number of directors to retire no account shall be taken of any director who by reason of the provisions of Article 19.2 is not subject to retirement.
- 18.2 The directors to retire at each annual general meeting shall be firstly those retiring in terms of Article 17.2 and, secondly, those referred to in terms of Article 17.16 and lastly those who have been longest in office since their last election or appointment. As between directors of equal seniority, the directors to retire shall, in the absence of agreement, be selected from among them by lot: Provided that notwithstanding anything herein contained, if, at the date of any annual general meeting any director will have held office for a period of 3 (three) years since his last election or appointment he shall retire at such meeting, either as one of the directors to retire in pursuance of the foregoing or additionally thereto. A retiring director shall act as a director throughout the meeting at which he retires. The length of time a director has been in office shall, save in respect of directors appointed or elected in terms of the provisions of Articles 17.2 and 17.16, be computed from the date of his last election or appointment
- 18.3 Retiring directors shall be eligible for re-election. No person other than a director retiring at the meeting shall, unless recommended by the directors for election, be eligible for election to the office of director at any general meeting unless, not less than 7 (seven) days nor more than 14 (fourteen) days before the day appointed for the meeting, there shall have been given to the secretary notice in writing by some member duly qualified to be present and vote at the meeting for which such notice is given of the intention of such member to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.
- 18.4 Subject to Article 18.3, the company in general meeting may fill the vacated offices by electing a like number of persons to be directors and may fill any other vacancies.
- 18.5 If at any general meeting at which an election of directors ought to take place, the place of any retiring director is not filled, he shall, if willing to, continue in office until the dissolution of the general meeting in the next year, and so on from year to year until his place is filled, unless it shall be determined at such meeting not to fill such vacancy."

#### "41. Terms of the non-redeemable, non-cumulative, non-participating preference shares

The following are the rights, privileges, restrictions and conditions, which attach to the 8 000 000 (eight million) non-redeemable, non-cumulative, non-participating, preference shares in the capital of the Company (the "Preference Shares").

41.1 For the purpose of this Article 41 –

41.1.1 "Business Days" shall mean all days, excluding Saturdays, Sundays and official public holidays in the Republic of South Africa;

41.1.2 "Deemed Value" means an amount of R100,00 (one hundred rand) per Preference Share, notwithstanding the actual issue price of the Preference Share (being the par value of the Preference Share of R0,0005 (zero point zero zero zero five rands) plus a premium thereon) which may vary because of a difference in the premium at which the Preference Shares are issued from time to time;

41.1.3 "Dividend Period" means the same period(s) as are applicable to Nedbank Limited, from time to time, for the calculation and payment of dividends in respect of its issued ordinary share capital, at present the consecutive 6 (six) month periods commencing 1 January and ending 30 June, and commencing 1 July and ending 31 December of each and every calendar year;

41.1.4 "Income Tax Act" means the Income Tax Act, No. 58 of 1962, as amended or replaced from time to time;

41.1.5 "Prime Rate" means the publicly quoted basic rate per annum and calculated on a 365 (three hundred and sixty five) day year factor (irrespective of whether or not the year is a leap year) ruling from time to time, quoted by Nedbank Limited as being its prime overdraft rate. A certificate issued under the hand of any manager (whose authority and appointment it shall not be necessary to prove) of Nedbank Limited as to the Prime Rate from time to time shall, in the absence of manifest error, be final and binding upon the Company and the holder of a Preference Share;

41.1.6 "Preference Dividend Accrual Date" means 30 June and 31 December each year;

41.1.7 "Preference Dividend Payment Dates" means, if declared, the earlier of –

41.1.7.1 a date at least 7 (seven) Business Days prior to the date on which the Company pays its ordinary dividends, if any, in respect of the same period; and

41.1.7.2 a date not later than 120 (one hundred and twenty) Business Days after each relevant Preference Dividend Accrual Date.

41.2 Each Preference Share shall rank as regards dividends and a repayment of capital on the winding-up of the Company prior to the ordinary shares and any other class of shares in the capital of the Company not ranking prior to or *pari passu* with the Preference Shares. Each Preference Share shall confer on the holder the right to a return of capital on the winding-up of the Company, in priority to any payment in respect of any other class of shares in the Company's capital, of an amount equal to the issue price thereof, plus any accrued and unpaid dividends, and shall not confer upon any holder of a Preference Share any further rights to any participation in the assets or profits of the Company, other than as set out in this Article 41.

41.3 Each Preference Share shall confer upon the holder thereof the right to receive out of the profits of the Company which it shall determine to distribute, in priority to any payment of dividends to the holders of any other class of shares in the capital of the Company not ranking prior to or *pari passu* with the Preference Shares, a non-cumulative preference cash dividend. The rate of such preference dividend shall be 70% (seventy per cent) of the Prime Rate multiplied by the Deemed Value, calculated daily during the appropriate period referred to in Article 41.4, but never compounded.

41.4 The preference dividends shall, if declared at the sole discretion of the directors of the Company in respect of any Dividend Period, accrue half-yearly in arrear on the Preference Dividend Accrual Date immediately following the expiry of such Dividend Period and, if so declared, shall be payable by not later than the relevant Preference Dividend Payment Date immediately following the relevant Preference Dividend Accrual Date and, if so declared, failing payment by such relevant Preference Dividend Payment Date, shall be in arrear. Notwithstanding the foregoing, the first preference dividend on the Preference Shares issued prior to 31 December 2006 shall, if declared, accrue on 31 December 2006 and shall be calculated from the date on which the Preference Shares were issued until 31 December 2006 (both dates inclusive) and shall, if so declared, be paid on the immediately following Preference Dividend Payment Date and, if so declared, failing payment by the immediately following Preference Dividend Payment Date, shall be in arrear.

- 41.5 If a preference dividend is not declared by the Company in respect of the period to which such Preference Dividend Accrual Date relates, the preference dividend shall not accumulate and shall accordingly never become payable by the Company, whether in preference to payments to any other class of shares in the Company or otherwise. Notwithstanding the foregoing, the Company shall, in respect of any applicable Dividend Period where it has declared a preference dividend and having so declared, failed to pay such preference dividend, and for so long as such preference dividend remains unpaid –
- 41.5.1.1 not be entitled to pay dividends on any other class of share ranking either after or *pari passu* with the preference shares;
  - 41.5.1.2 not make any other distribution of any nature to the holders of any other class of share ranking either after or *pari passu* with the preference shares; and
  - 41.5.1.3 not repurchase any other class of share ranking either after or *pari passu* with the preference shares.
- 41.6 If there is an amendment (or amendments) to the Income Tax Act, which results in the preference dividends being taxable in the hands of the Preference Shareholders and which results in payment of the preference dividends becoming a deductible expense for the Company, then (provided such amendment is uniformly applicable to all corporate tax payers and not only because of the particular circumstances of the Company or any Preference Shareholder) the percentage of the Prime Rate referred to in Article 41.1.5 shall be increased by the Company. The extent of such increase shall be limited to such an increase that the Company does incur savings in the costs of servicing the Preference Shares, which savings it would not have incurred but for such amendments to the Income Tax Act. If such amendments to the Income Tax Act do not result in the Company incurring lesser costs in servicing the Preference Shares, then, notwithstanding that such amendment may result in a decrease in the returns of any Preference Shareholder on its Preference Share investment, no amendment shall be made to the percentage of the Prime Rate contemplated in Article 41.1.5. The Company shall be entitled to require its auditors to verify whether it is obliged to increase the percentage of the Prime Rate referred to in Article 41.1.5 in accordance with this Article 41.6. The auditors, in deciding whether such increase is required in terms of this Article 41.6 shall act as experts and not as arbitrators and their decision shall be final and binding on the Company and all Preference Shareholders. The costs of such auditors shall be borne and paid by the Company.
- 41.7 Save as set out in Articles 41.1 to 41.6 above, the Preference Shares shall not be entitled to any further participation in the profits or assets of the Company nor, on a winding-up, to any surplus assets of the Company.
- 41.8 The Company shall be obliged to give the preference shareholders notice, in terms of the statutes, of any meeting of preference shareholders. At every meeting of preference shareholders, the provisions of these articles relating to general meetings of ordinary meetings shall apply, *mutatis mutandis*, except that a quorum of any such class meeting shall be 3 (three) holders of Preference Shares entitled to vote, personally present, or if any such preference shareholder is a body corporate, represented at that meeting, provided that if at any adjournment of such meeting a quorum is not so present, the provisions of the articles relating to adjourned general meetings shall apply *mutatis mutandis*.
- 41.9 The holders of the Preference Shares shall not be entitled to vote, either in person or by proxy, at any general meeting of the Company, by virtue of or in respect of the Preference Shares, unless either or both of the following circumstances prevail at the date of the meeting –
- 41.9.1 during any period determined as provided for in section 194(2) of the Companies Act in which any dividend or any part of any dividend on such preference shares remains in arrear and unpaid; and/or;
  - 41.9.2 a resolution of the Company is proposed (in which event the Preference Shareholders shall be entitled to vote only on such resolution) which directly affects the rights attached to the Preference Shares or the interests of the holders thereof, including a resolution for the winding-up of the Company or for the reduction of its capital.
- 41.10 At every general meeting of the Company at which holders of Preference Shares as well as other classes of shares are present and entitled to vote a Preference Shareholder shall be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by him bear to the aggregate amount of the nominal value of all shares issued by the Company.
- 41.11 Notwithstanding the provisions set out in Article 41.2, no shares in the capital of the Company ranking, as regards rights to dividends or, on a winding-up, as regards return of capital, in priority to the Preference

Shares, shall be created or issued, without the prior sanction of a resolution passed at a separate class meeting of the holders of the Preference Shares in the same manner *mutatis mutandis* as a special resolution. At every meeting of the holders of the Preference Shares the provisions of these Articles relating to general meetings of ordinary members shall apply *mutatis mutandis*, except that a quorum at any such general meeting shall be any person or persons holding or representing by proxy at least 3 (three) of the Preference Shares, provided that, if at any adjournment of such meeting a quorum is not so present, the provisions of the Articles relating to adjourned general meetings shall apply *mutatis mutandis*.

- 41.12 A certificate issued by the auditors of the Company in the manner, *mutatis mutandis*, in accordance with the provisions as set out in Article 41.6, shall be *prima facie* proof of the amount of any preference dividend to be paid on any Preference Dividend Payment Date."

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## OTHER DIRECTORSHIPS HELD BY IMPERIAL BANK'S DIRECTORS

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The names of all companies of which the directors of Imperial Bank are or have been directors during the past five years are set out below.

### W G Lynch

#### Current directorships

African Car Hire Swaziland (Proprietary) Limited, Associated Motor Holdings (Proprietary) Limited, Auto Pedigree (Proprietary) Limited, Bargain Car Hire (Proprietary) Limited, Bentley SA (Proprietary) Limited, Boundlesstrade 154 (Proprietary) Limited, Brian Porter Holdings Limited, Cargo Africa (Proprietary) Limited, Cattle Egret Investment Holdings (Proprietary) Limited, Clay Springs Investments (Proprietary) Limited, Commercial Centre (Proprietary) Limited, Dolphin Car Hire (Proprietary) Limited, Faildearg (Proprietary) Limited, Fullimput 270 (Proprietary) Limited, Gold Reef Guides (Proprietary), Guest Assistance (Proprietary) Limited, Hyundai Automotive South Africa (Proprietary) Limited, Imperial Capital Limited, Imperial Car Imports (Proprietary) Limited, Imperial Car Rental (Proprietary) Limited, Imperial Car Rental Botswana (Proprietary) Limited, Imperial Car Rental Limited (UK company), Imperial Car Rental Namibia (Proprietary) Limited, Imperial Corporate Services (Proprietary) Limited, Imperial Daihatsu (Proprietary) Limited, Imperial Financial Holdings Limited, Imperial Financial Services (Proprietary) Limited, Imperial Fleet Services (Proprietary) Limited, Imperial Group (Proprietary) Limited, Imperial Holdings Limited, Imperial Management Services (Proprietary) Limited, Imperial Motors (Proprietary) Limited, Imperial Reinsurance Company (Limited), Imperial Transport Holdings (Proprietary) Limited, Imperial Truck Hire (Proprietary) Limited, Imperial Truck Systems (Proprietary) Limited, Intercity Benoni (Proprietary) Limited, Intercity Motors (Proprietary) Limited, Intercity Properties (Zululand) (Proprietary) Limited, Kagiso Motors Auckland Park (Proprietary) Limited, Kagiso Trust Investment Company (Proprietary) Limited, Kia Motors South Africa (Proprietary) Limited, Lereko Mobility (Proprietary) Limited, LSM Droste Park Properties (Proprietary) Limited, Lynch Senderwood Properties (Proprietary) Limited, MCC Contracts (Proprietary) Limited, Mercurius Motors (Proprietary) Limited, Multi Wesco (Proprietary) Limited, Murnau Auto Investments (Proprietary) Limited (t/a Vereeniging BMW), Murnau Auto Servicentre (Proprietary) Limited (t/a Auto Park), Murnau Autohaus Properties (Proprietary) Limited, Murnau Holdings (Proprietary) Limited, Murnau Motors (Proprietary) Limited (t/a Boulevard Motors), Murnau Properties (Proprietary) Limited, Murnau Vehicle Sales (Proprietary) Limited (t/a Vereeniging Delta), Mutual Construction Company (Proprietary) Limited, Nationwide Car Rental (Proprietary) Limited, Nationwide Car Rental Namibia (Proprietary) Limited, Newcastle Properties Share Block (Proprietary) Limited, NGF Auto (Proprietary) Limited (in liquidation), Normans Transport Lines (Proprietary) Limited, O'Loingsigh Investments (Proprietary) Limited, Oxrand Properties (Proprietary) Limited, Pacific Car and Truck Rentals (Proprietary) Limited, Pacific Car and Truck Rentals Holdings (Proprietary) Limited, Pacific Car and Truck Rentals (National) (Proprietary) Limited, Pacific Transport and Logistics (Proprietary) Limited (in liquidation), Pearl Automotive (Proprietary) Limited, Quattro Carriers (Proprietary) Limited, Razorbill Properties 75 (Proprietary) Limited, Regent Insurance Company Limited, Regent Life Assurance Company Limited, Rowmoor Investment No 80 (Proprietary) Limited, Rowmoor Investment No 81 (Proprietary) Limited, Safair (Proprietary) Limited, Safair Lease Finance (Proprietary) Limited, Saficon Industrial Equipment (Proprietary) Limited, Sani-Tech Services (Proprietary) Limited, Springbok Atlas (Proprietary) Limited, Springbok Touring of Namibia (Proprietary) Limited, Sunripe Limited, Synchrony Logistics (Proprietary) Limited, Tempest Car Hire (Proprietary) Limited, Tempest Car Hire Namibia (Proprietary) Limited, The Cold Chain (Proprietary) Limited, Tourism Investment Corporation Limited, Truckafrica Holdings (Proprietary) Limited, Tyco International (Proprietary) Limited, Van Zyl's Spring Works (Proprietary) Limited, WIP Motors (Proprietary) Limited, Worthytrade 110 (Proprietary) Limited.

#### Past directorships

Anvil Investments (Proprietary) Limited, Bill Lynch Family Holdings (Proprietary) Limited, Broderick Motor Distributors (Proprietary) Limited, Cooper Investments (Proprietary) Limited, Rahavannig Investments (Proprietary) Limited, Regent Insurance Botswana Limited (Inc. in Botswana), Regent Life Botswana Limited (Inc. in Botswana), Saficon Property Investments (Proprietary) Limited, Tanker Services Germiston Properties (Proprietary) Limited

## **P C W Hibbit**

### **Current directorships**

Cracker Investments (Proprietary) Limited, Motor Finance Corporation (Proprietary) Limited, Nedcor Insurance Company Limited, Nedcor Insurance Company Limited, Nedinsurance Company Limited, Nedinsurance Company Limited, Warthog Wallow Share Block (Proprietary) Limited

### **Past directorships**

African Diamond Centre (Proprietary) Limited, Alpine Heath (Proprietary) Limited, Bath Avenue Properties (Proprietary) Limited, Bene Inventa (Proprietary) Limited, Casarem Investment Company (Proprietary) Limited, Conference & Resort Suite Hotels (Proprietary) Limited, Construction Development Residential (Proprietary) Limited, Finansauer (Proprietary) Limited, First Venture (Proprietary) Limited, Framesby Investments (Proprietary) Limited, Germiston Investments (Proprietary) Limited, Glen Anil Finance Company (Proprietary) Limited, Greenway Woods Management (Proprietary) Limited, Hodeco (Proprietary) Limited, Hofmans Parkarama Holdings (Proprietary) Limited, Juris Properties Share Block (Proprietary) Limited, Kibve Place Beleggings (Eiendoms) Beperk, Lot 14753 Highridge (Proprietary) Limited, M H F Properties Limited, Megalink (Proprietary) Limited, Morened Limited, Mortgage Investment Corporation (Proprietary) Limited, N.H.S. Properties (Proprietary) Limited, NBS Properties (Proprietary) Limited, Nedbest Investments (Proprietary) Limited, Nedcor (SA) Insurance (Proprietary) Limited, Nedhof Limited, Nedlend Limited, Nedprop (Proprietary) Limited, One Hundred Main Street (Proprietary) Limited, Princhurch Investments (Proprietary) Limited, Property Finance & Investment Trust Limited, Pyraned Limited, Rosslyn Shopping Centre (Proprietary) Limited, Ruth Properties (Proprietary) Limited, Sabric (Proprietary) Limited, Standholders Finance (Proprietary) Limited, Syfrets Mortgage Nominees Limited, Syfrets Participation Bond Managers Limited, The Vineyard (Proprietary) Limited, Tigcloma Limited

## **P A Wessels**

### **Current directorships**

Bridge House Theatre Company

### **Past directorships**

BoE Financial Services Suppliers Limited, BoE Holdings Limited, BoE Limited, BoE Management Limited, BoE Ventures Limited

## **R van Wyk**

### **Current directorships**

Almond Acres Investments (Proprietary) Limited, Motor Finance Corporation (Proprietary) Limited, NRB Risk Solutions Limited, SA Axle Finance (Proprietary) Limited

## **R G Cottrell**

### **Current directorships**

Glenrand MIB Limited, Munich Reinsurance Company of Africa Limited, Nedbank Group, Nedbank, Nedcor Collective Investments Limited, STRATE Limited

### **Past directorships**

African Harvest Management Company (Proprietary) Limited, African Oxygen Limited, Afrox Healthcare Limited, BOE Unit Trust Management Company, FTNIB Management Company, Holbeck Estate Shareblock (Proprietary) Limited, Kitrigil Properties (Proprietary) Limited, Mittal Steel South Africa, Nedcor Investment 102 Limited, Nedcor Investment Holdings 101 Limited, Saldanha Steel (Proprietary) Limited, Xchange Solutions (Proprietary) Limited

## **O S Arbee**

### **Current directorships**

Amasondo Fleet Services (Proprietary) Limited, Distribution and Warehousing Network Limited, Dream World Investments 239 (Proprietary) Limited, Durand & Bowden (Proprietary) Limited, Executive Carports (Proprietary) Limited, Fuelogic (Proprietary) Limited, Giurichich Bros Construction (Proprietary) Limited, Ikaheng Human Resources Services (Proprietary) Limited, Imperial Reinsurance Company Limited, Mi-Net Data Management (Proprietary) Limited, Pandae Storage Systems (SA) (Proprietary) Limited, Proteam Panelbeaters (Proprietary) Limited, Proteam Properties (Proprietary) Limited, Safair Ukhamba (Proprietary) Limited, Tourism Investment Corporation Limited, Ukhamba Auto East (Proprietary) Limited, Ukhamba Holdings (Proprietary) Limited, Ukhamba Investments (Proprietary) Limited, Ukhamba Turf and Landscaping (Proprietary) Limited

## **H R Brody**

### **Current directorships**

IH Crick Property Company Limited, IH Mobility Holdings United Kingdom (UK), Imperial Capital Limited, Imperial Motors (Proprietary) Limited, Lex Multipart EURL, Lex Multipart IMS Limited, Lex Multipart Limited, Multipart Holdings Limited, Suprema Vier (Eiendoms) Beperk, Ukhamba Auto East (Proprietary) Limited

## **C J W Ball**

### **Current directorships**

Buitensig Consulting, Nedbank Group, Nedbank

### **Past directorships**

BOE Bank Limited, BOE Holdings Limited, BOE Management Limited, Canal Walk Limited, Century City Limited, Cape Theme Parks (Proprietary) Limited, CW Investor Solutions (Proprietary) Limited, Iliad Africa (Proprietary) Limited, Kgwerano Financial Services (Proprietary) Limited, National Cereal Holdings (Proprietary) Limited, National Cereal Investment (Proprietary) Limited, PG Bison Limited, PG Bison Holdings Limited, Premier Foods Limited, The Cape Town Olympic Bid

## **M A Enus-Brey**

### **Current directorships**

51 Wale Street (Proprietary) Limited, AON SA (Proprietary) Limited, Associated Automobile Distributors (Proprietary) Limited Trading as AAD Truck & Bus, Bilk Investments (Proprietary) Limited, Breyfin (Proprietary) Limited, Brimstone Clothing Corporation (Proprietary) Limited, Brimstone Commodities Trading (Proprietary) Limited, Brimstone Investment Corporation Limited, Brimstone Management Company (Proprietary) Limited, Brimstone Properties (Proprietary) Limited, Brimstone Securities (Proprietary) Limited, Brimstone Venture Investments No 790 (Proprietary) Limited, Brimstone Venture Investments No 813 (Proprietary) Limited, Brimstone Venture Investments No 863 (Proprietary) Limited, Brimstone Venture Investments No 931 (Proprietary) Limited, Cape Capital Investment and Finance Co. Limited, Commlife Claremont Consortium (Proprietary) Limited, H investments No 136 (Proprietary) Limited, H Investments No 157 (Proprietary) Limited, Kalab Investments (Proprietary) Limited, Kalab Investments Holdings Company (Proprietary) Limited, Lenco Holdings Limited, Life Healthcare Group (Proprietary) Limited, Life Impilo Limited, Lion of Africa Life Insurance Company Limited, Masibambane Investments (Proprietary) Limited, MBA Management Services (Proprietary) Limited, MICC Property Income Fund Limited, Nedbank Group, Nedbank, Newshelf 710 (Proprietary) Limited, Newshelf 778 (Proprietary) Limited, Oceana Group Limited, Ocfish Holding Co Limited, Power Edition Industries (Proprietary) Limited Trading as More Asphalt, Pro-Five Investments (Proprietary) Limited, Pro-One Investments (Proprietary) Limited, Pro-six Investments (Proprietary) Limited, Sea Harvest Corporation Limited, Septen Investments (Proprietary) Limited, Student Smart (Proprietary) Limited, T & B South Africa Company (Proprietary) Limited, The Lion of Africa Insurance Co Limited, The Lion of Africa Life Holdings Limited, The Oaks (Proprietary) Limited, The Scientific Group (Proprietary) Limited

## **M J Croucamp**

### **Past directorships**

Jannie Parsons Furniture Financials (Proprietary) Limited, Woodbook Finance Limited (previously MLS Bank Limited)

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## STATEMENT OF CORPORATE PRACTICE AND CONDUCT

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### 1. CORPORATE GOVERNANCE

During 2005, the SARB circulated the Report on Corporate Governance in small South African Banks. The results indicated that Imperial Bank conforms to the highest levels of corporate governance. Imperial Bank subscribes to the principles of sound corporate governance and is committed to the principles of transparency, integrity and accountability as set out in the King II Report on Corporate Governance and Conduct.

#### Compliance

The compliance officer reports directly to the chairman of the directors' affairs committee with an additional reporting line to the Nedbank compliance officer. The compliance officer attends audit committee, board risk committee, operational risk committee, divisional executive committee, Bank exco and board meetings *ex officio* and has access to the chairman of the board who acts as chairman of the directors' affairs committee.

The compliance function's primary objective is to ensure Imperial Bank manages its regulatory risk, i.e. the risk that Imperial Bank does not comply with applicable laws and regulations or supervisory requirements. To this end, the compliance department has been effective in monitoring Imperial Bank's implementation of a number of new regulations, notably the Financial Intelligence Centre Act, 2001 (FICA), Financial Advisory and Intermediary Services Act 2002 (FAIS) and electronic Communications and Transactions Act, 2002 (ECT).

#### Internal Controls

The directors are responsible for the systems of internal and financial controls and accounting and information systems aimed at providing reasonable but not absolute assurance that assets are safeguarded and risks of error, fraud or loss are reduced in a cost effective manner.

#### Financial Reporting

The Bank has a system for reporting comprehensive monthly financial results timeously, as well as relevant daily and weekly reports, detailed budgets and management information to the board.

#### Employment Equity and Practices

The Bank is committed to providing equal opportunities for employees regardless of their ethnic origin or gender. Structures have been set up with employee representatives to achieve good employer/employee relations through consultation and the identification and resolution of conflict.

The directors believe that affirmative action, structured in an economically viable and self-sustaining manner is an essential and integral part of corporate governance within the Bank. The Bank has formalised its employment equity policies and submitted plans to the Department of Labour. The progress against these plans is satisfactory.

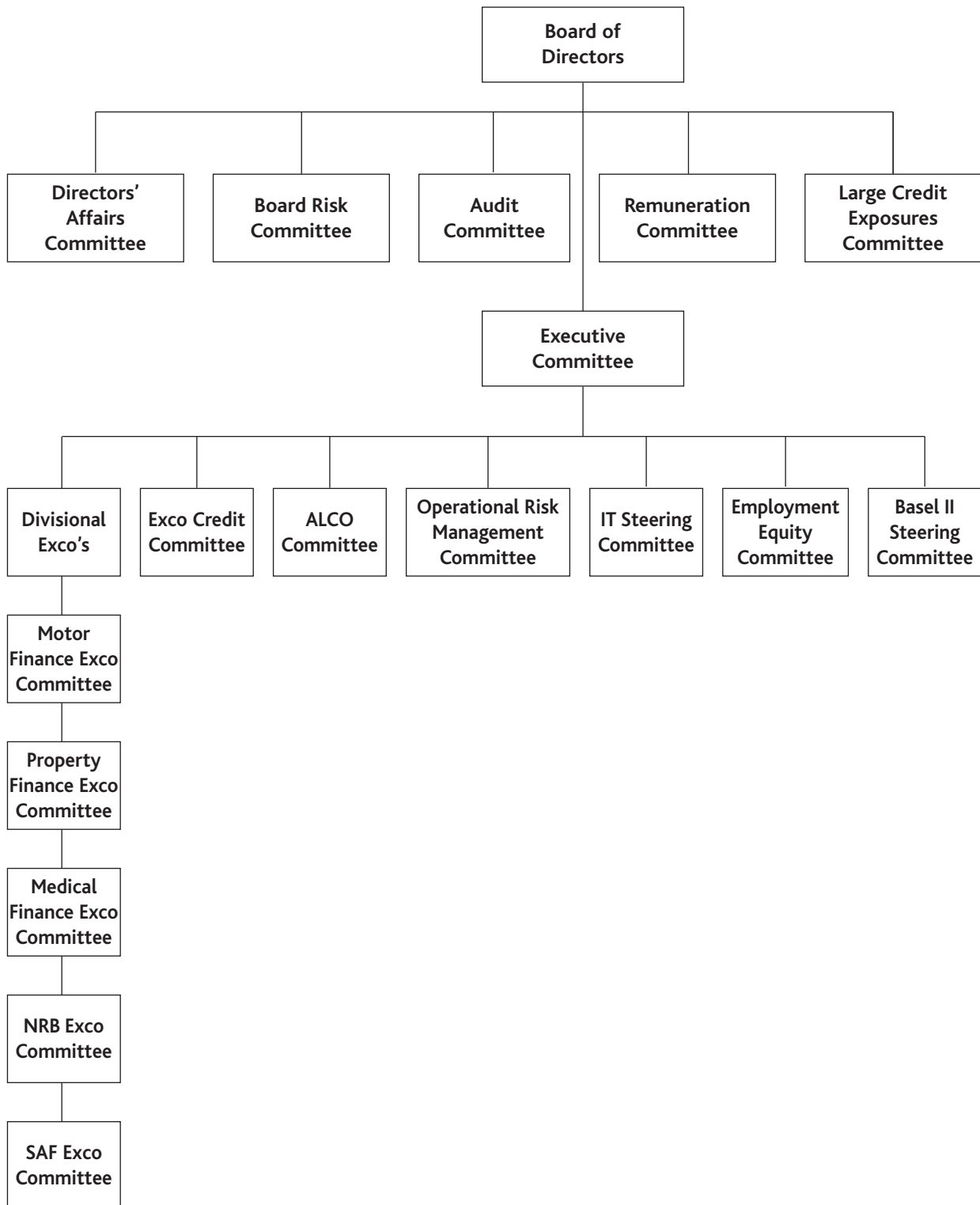
Imperial Bank is committed to the financial sector charter requirements and has a dedicated transformation programme in place.

#### Governance Structures

Imperial Bank strives to devolve responsibility, accountability and appropriate reward to the divisions of Imperial Bank. The committee structure is aimed at ensuring sound governance and internal control. The board of directors has assessed the effectiveness of the abovementioned corporate governance structures and has found them to represent an adequate framework or corporate governance in Imperial Bank.

The composition and functioning of the various committees in Imperial Bank are set out as below:

## Board structures



The directors are responsible for ensuring that an adequate and effective process of corporate governance exists and is maintained, which is consistent with the nature, complexity and risk inherent in Imperial Bank's on- and off-balance sheet activities and which responds to changes in Imperial Bank's environment and conditions.

The board of directors is chaired by a non-executive director of the Bank and is supported by six non-executive directors, two Nedbank-appointed executive directors and three executive directors. The two shareholders attempt to ensure that they have equal representation on the board.

The board of directors meets at least quarterly to evaluate performance, assess risk and review the strategic direction of the Bank. The board is supported by various sub-committees, which help it to execute its responsibilities.

All directors have access to management, including the company secretary and the compliance officer, and to such information as is needed to carry out their duties and responsibilities fully and effectively.

Feedback received at board meetings includes management information, divisional reports and reports on progress against strategies. The board approves the strategy and budgets for Imperial Bank in addition to risk management policies, frameworks and mandates. All meetings of the board of directors and the board sub-committees are minuted.

#### **Board Risk Committee**

The board risk committee consists of five directors, being three non-executive directors, a Nedbank-appointed executive director and one executive director, under the chairmanship of an independent non-executive director. The committee evaluates risks identified by management, allocates responsibility for their management and monitors compliance with laid down policies and procedures. The board risk committee also sets prudential limits for particular categories of business.

#### **Audit Committee**

The board audit committee consists of five directors, being four non-executive directors and one Nedbank-appointed executive director under the chairmanship of an independent non-executive director. The audit committee meets at least four times a year, with the internal and external auditors and members of Imperial Bank's executive management to review accounting, auditing, financial reporting and internal control matters. The terms of reference are revised annually. The audit committee conducts an annual self-assessment in terms of its effectiveness.

The internal audit function is independently performed by Nedbank Internal Audit (NIA). Internal audit's responsibility for evaluating the effectiveness of processes by which risks are identified, managed and controlled, is set out in its charter. Internal audit reports directly to the audit committee, the board risk committee and the chief financial officer on their activities, which include an assessment of the adequacy and effectiveness of the group risk management, controls and governance process.

#### **Remuneration Committee**

The remuneration committee is responsible for monitoring the human resources function of Imperial Bank and determining guidelines for remuneration and terms of employment. The committee meets at least once a year and from time to time on an ad hoc basis. The performance of executive management and directors is measured against predetermined objectives (both financial and non-financial). The policy for executive directors is consistent with executive management, while non-executive directors receive fees for their services provided as directors and members of board sub-committees. Salaries are reviewed annually and where appropriate performance related bonuses are made to employees, in view of the business unit's performance.

#### **Directors' Affairs Committee**

This committee assists the board in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structure and practices of Imperial Bank. It also establishes and maintains a board directorship continuity program. The directors' affairs committee also oversees the Bank compliance function. The committee meets at least four times a year.

#### **Large Credit Exposures Committee**

This committee oversees all credit granting in excess of 10% of the Bank's net qualifying capital. It consists of three non-executive directors, one Nedbank-appointed executive directors, two executive directors and the chief risk officer.

#### **Executive Structures:**

##### ***Executive Committee***

The Bank's executive committee is chaired by the chief executive officer and comprises nine executives of the Bank. This committee meets monthly and also on an ad hoc basis for urgent matters of business.

The function of the executive committee is to develop the Bank's strategy, business plan and policies and procedures for presentation to the board for approval, as well as to monitor the implementation of tasks delegated to it and track performance against budget.

##### ***Divisional Executive Committees***

Business units enjoy a large degree of autonomy and accountability. Divisional executive committees are responsible for the full spectrum of activities in each business unit.

## Ethics

Imperial Bank's key values as documented in its Code of Ethics are accountability, integrity, diligence, respect and people-centeredness. These values aim to encourage employee responsibility and a sound work ethic in an environment conducive to personal growth.

## 2. RISK MONITORING

In the ordinary course of business, the Bank manages a variety of risks. The major risks are credit and counterparty risk, interest rate risks, operational risk and solvency risk, liquidity risk of the Bank is low in view of an undertaking by Nedbank to fund its operations.

Risks are identified, measured and monitored through various control mechanisms across the Bank and in particular by the board risk committee. The board risk committee was established by the board of directors to carry out the expert monitoring of overall risk within the business of the Bank.

Creating shareholder value is the over-riding business objective of Imperial Bank. This implies a fundamentally long-term perspective as valuation is based primarily on future earnings streams. The shareholders' returns must be facilitated whilst considering regulatory assurance as to the soundness of Imperial Bank.

In light of these objectives, Imperial Bank's risk management strategy can be broken down into three categories:

- Risk is opportunity — objective is to maximise earnings potential.
- Risk is uncertainty — objective is to ensure earnings stability.
- Risk is threat — objective is to protect against unforeseen losses.

Imperial Bank accepts risk as being a core component of its business environment and hence seeks to optimise the risk/return relationship by understanding the risk, measuring it and accepting clear, unambiguous accountability for the risk taken.

### Enterprise-wide risk framework (ERM)

Imperial Bank has implemented a three-tier framework that is aligned with Old Mutual PLC and Nedbank's enterprise-wide risk management frameworks.

KEY RISK	FINANCIAL RISK	MARKET RISKS	OPERATIONAL RISK	CREDIT RISK	SOCIAL AND ENVIRONMENT RISK	IT RISK	PEOPLE RISK	
<b>LAYER 1 – THE RISK MANAGEMENT FORUMS AND RESPONSIBILITIES</b>								
BOARD OF DIRECTORS						<ul style="list-style-type: none"> <li>• SARB</li> <li>• FSB</li> <li>• NEDBANK</li> <li>• IMPERIAL HOLDINGS</li> <li>• EXTERNAL AUDIT</li> </ul>		
CHIEF EXECUIVE OFFICER								
INTERNAL AUDIT – NEDBANK		CHIEF RISK OFFICER/GROUP RISK			COMPLIANCE OFFICER			
<b>LAYER 2 – RISK MANAGEMENT AND CORPORATE GOVERNANCE COMMITTEES</b>								
COMMITTEES	BOARD	BOARD AUDIT COMMITTEE	BOARD RISK COMMITTEE			DIRECTORS AFFAIRS COMMITTEE	BOARD RISK CTE	BOARD REMUNERATION CTE (REMCO)
	EXECUTIVE	EXECUTIVE COMMITTEE/BASEL 2 CTE	ASSET AND LIABILITY COMMITTEE (ALCO)	OPERATIONAL RISK COMMITTEE (ORCO)	EXCO CREDIT CTE	EXECUTIVE COMMITTEE/ COMPLIANCE FORUM	IT STEERING CTE	HR COMMITTEE EE COMMITTEE
<b>LAYER 3 – EXECUTIVE MANAGEMENT RESPONSIBILITIES</b>								
	CHIEF FINANCIAL OFFICER	CHIEF RISK OFFICER	DIVISION HEADS	DIVISION HEADS	CHIEF EXECUTIVE OFFICER	HEAD: IT	HEAD: HR	

## **Credit and Counterparty Risk**

Credit and counterparty risk is the possibility that customers may default on their future cash flow obligations to Imperial Bank. The MOU entitled Nedbank to appoint the head of credit in the Bank, which they exercised. This function now forms part of Imperial Bank's enterprise-wide risk management structures.

The board approves the policies and procedures to measure and manage credit risk exposure and monitors the performance of credit risk management particularly relating to approval statistics and delinquency statistics on a quarterly basis. With the current rapid change in statute, legislation and industry practice Imperial Bank's credit policy is, by necessity, a dynamic document. The board risk committee and the executive committee perform a risk monitoring function on a regular basis.

The primary business of the Bank is asset-based finance. Loans are therefore secured by assets of which the Bank has a thorough knowledge and an ability to realise through established outlets and associates. The Bank's exposure to unsecured loans is less than 1% of total advances.

Credit is approved by two distinct methodologies, namely credit scoring and credit committees. Credit scoring is employed in appropriate circumstances where finance applications are of a standard repetitive nature. The scoring model used and the results produced by the model are assessed continuously by the board risk committee according to economic and industry circumstances. Credit committees, which include non-executive representation, have been established by the board, with the task of managing credit risk in instances where applications need to be individually assessed by virtue of the size and nature. Delegated levels of authority have been established in respect of the different types and duration of exposures. All credit or counterparty risk exposures require written authority at the appropriate level. Compliance with limits is measured daily and monitored both internally and independently by the board on a quarterly basis.

The quality of exposures is reviewed on a monthly basis and, where appropriate, a specific provision is raised. It is the Bank's policy to establish, through charges against profit in terms of accounting standard IAS 39, sufficient specific provisions to cover the estimated loss as soon as the recovery of an exposure is identified as doubtful. General provisions, as required in terms of the banking regulations, are raised monthly to cover losses which are judged to be present in loans and advances which have not been specifically identified as such.

## **Asset & Liability Management ("ALM") Risk**

Liquidity risk is defined as the risk of not being able to generate sufficient cash to meet the Bank's commitments to lenders, depositors and other creditors at a point in time.

The management of liquidity is primarily designed to ensure that depositors' funding requirements can be met. These include, for example, the replacement of existing funds as they mature or are withdrawn, or to fund the anticipated growth of the advances book.

The responsibility for liquidity rests with the Asset and Liability Committee ("ALCO") which includes a representative of Nedbank ALM unit. The funding strategies, which include the determination of the funding required, maintenance of an appropriate spread of depositors and a liquidity buffer to counter unexpected and short-term outflows, are monitored at the quarterly ALCO meetings. A sufficient reserve of liquid assets is maintained to protect the Bank against unforeseen cash flow volatility.

Due to the funding support provided to the Bank by Nedbank, in terms of the MOU between the two shareholders, the risk of unforeseen cash flow volatility has substantially decreased since 2001.

Interest rate risk is the impact which the re-pricing of the Bank's assets and liabilities may have on future cash flows and earnings. The ALCO sets and monitors the parameters within which interest rate risk and the mismatch between the Bank's lending and borrowing activities are to be managed. The flexibility of the Bank's assets and liabilities allows the Bank to quickly adapt to changing market conditions and the majority of assets and funding are at floating rates.

The Bank holds government stocks as part of its statutory liquid asset requirements, however Imperial Bank does not participate in trading activities for proprietary short-term gain in the value of assets. Hedging techniques, using interest rate swaps and forward rate agreements, are used to mitigate interest rate risk.

Imperial Bank does not have any foreign exchange risk (neither position risk nor translation risk) other than the indirect risks inherent in aviation collateral which are discussed in the SAF section.

## **Basel II**

The introduction of Basel II in South Africa on 1 January 2008 will change the way Banks calculate capital adequacy and will introduce additional risk and capital adequacy disclosure.

Imperial Bank aims to obtain SARB approval for the following approaches to Basel II implementation.

- Advanced internal ratings based (AIRB) approach for credit risk.
- Standardised approach (SA) for operational risk.

Under the current Banks Act, credit risk capital requirements are largely risk insensitive. Under Base II, capital requirements are better aligned to the credit risk of the underlying asset. The capital requirement is determined by measuring the probability of default (PD), exposure at default (EAD) and loss-given-default (LGD).

These Basel II credit risk parameters must be supported by historical bad debt experience and recovery rates. The Basel Accord introduces strict governance and data requirements to strengthen reliability of banks' estimations. Basel II further introduces the concept of the "Use Test" whereby the regulator will determine if the risk parameters are integrated into Imperial Bank's credit decisions and are not merely a parallel compliance data set.

Imperial Bank has divided its Basel II implementation into six sub-projects:

- Expected loss (credit risk).
- Operational risk.
- Pillar 2 – supervisory review, education and governance.
- Capital management.
- Reporting.
- Information Technology.

It is anticipated that Imperial Bank will meet the implementation deadlines.

Implementation of Basel II is a significant challenge that requires investment and dedication. The total anticipated cost is in the region of R15 million and will be incurred over three years up to implementation date. Effective implementation of the new capital accord will provide benefits in the form of improved risk management systems, risk based capital adequacy and the benefit of less vulnerability in the banking system.

### **Operational Risk**

Operational risk refers to potential losses resulting from inadequate systems, management failure, faulty controls, fraud or human error, including execution risk and any problems in back-office operations. An executive management committee has been established to identify and address operational risks and reports to the board risk committee.

Comprehensive systems of internal administrative controls, sound accounting methods and a code of conduct have been implemented to ensure that operational risk is minimised.

The Bank continually improves its disaster recovery procedures in line with new developments and technology, to ensure that essential business functions continue and normal operations are restored speedily in the event of business disruption. An information technology steering committee determines and implements information technology strategy and standards within Imperial Bank.

It is the policy of the Bank to insure all appropriate risks and to set insurance excesses at levels at which any occurrence would not significantly impact on profitability.

The operational risk management framework is currently being formalised for improved risk management purposes as well as in anticipation of the implementation of the Basel II Capital Accord ("BCA"). Key objectives to be attained to meet the requirements of the BCA are:

- Operational risk assessment and quantification.
- Identification of key risk indicators (KRI's),
- Collection of operational loss data.

Imperial Bank has introduced processes and procedures to track the resolution of audit, risk and regulatory issues.

### **Solvency Risk Capital Adequacy**

Capital adequacy is a measurement of Imperial Bank's qualifying capital as a percentage of risk weighted assets, including both on- and off-balance sheet transactions, to reflect their relative risk. The Banks Act specifies the minimum capital holding required in relation to risk-weighted assets,

The Bank's capital adequacy ratio as at 31 December 2005 was 10.20%, compared to the regulatory requirement of 10%. Capital adequacy at 31 March 2006 after the IBB02 bond issue, stood at 12.45%.

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## IMPORTANT RESOLUTIONS PASSED PRIOR TO LISTING

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Details of resolutions pertaining to the preference share issue and the repurchase which were passed on 12 June 2006, are set out below:

### SPECIAL RESOLUTION NUMBER 1

RESOLVED THAT the Company's articles of association be amended by the inclusion of and a new Article 10.1.3 to be inserted which reads as follows –

*"10.1.3 The authorised share capital of the Company may be increased by the creation of preference shares which may be issued (and existing shares may be converted into preference shares) on the basis that they are non-redeemable or that they are, or at the option of the Company, are liable to be redeemed on such terms and in such manner as shall be prescribed in these articles or the resolution authorising or effecting such issue or conversion."*

### SPECIAL RESOLUTION NUMBER 2

RESOLVED THAT the authorised share capital of the Company be increased by R4 000 (four thousand rand) from R5 000 000,00 (five million rand), comprising 500 000 000 (five hundred million) ordinary par value shares of R0,01 (one cent) each, to R5 004 000 (five million and four thousand rand) by the creation of 8 000 000 (eight million) non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,0005 (zero comma zero zero five rands) each, subject to and carrying the rights, restrictions, privileges and conditions set out in new Article 43 of the Company's articles of association.

### SPECIAL RESOLUTION NUMBER 3

RESOLVED THAT the following article 43 be inserted after existing Article 42 into the Company's articles of association:

#### "43. TERMS OF THE NON-REDEEMABLE, NON-CUMULATIVE, NON-PARTICIPATING PREFERENCE SHARES

The following are the rights, privileges, restrictions and conditions, which attach to the 8 000 000 (eight million) non-redeemable, non-cumulative, non-participating, preference shares in the capital of the Company (the "Preference Shares").

43.1 For the purpose of this Article 43 –

- 43.1.1 "Business Days" shall mean all days, excluding Saturdays, Sundays and official public holidays in the Republic of South Africa;
- 43.1.2 "Deemed Value" means an amount of R100,00 (one hundred rand) per Preference Share, notwithstanding the actual issue price of the Preference Share (being the par value of the Preference Share of R0.0005 (zero point zero zero five rands) plus a premium thereon) which may vary because of a difference in the premium at which the Preference Shares are issued from time to time;
- 43.1.3 "Dividend Period" means the same period(s) as are applicable to Nedbank Limited, from time to time, for the calculation and payment of dividends in respect of its issued ordinary share capital, at present the consecutive 6 (six) month periods commencing 1 January and ending 30 June, and commencing 1 July and ending 31 December of each and every calendar year;
- 43.1.4 "Income Tax Act" means the Income Tax Act, No. 58 of 1962, as amended or replaced from time to time;
- 43.1.5 "Prime Rate" means the publicly quoted basic rate *per annum* and calculated on a 365 (three hundred and sixty five) day year factor (irrespective of whether or not the year is a leap year) ruling from time to time, quoted by Nedbank Limited as being its prime overdraft rate. A certificate issued under the hand of any manager (whose authority and appointment it shall not be necessary to prove) of Nedbank Limited as to the Prime Rate from time to time shall, in the absence of manifest error, be final and binding upon the Company and the holder of a Preference Share;

- 43.1.6 "Preference Dividend Accrual Date" means 30 June and 31 December each year;
- 43.1.7 "Preference Dividend Payment Dates" means, if declared, the earlier of –
- 43.1.7.1 a date at least 7 (seven) Business Days prior to the date on which the Company pays its ordinary dividends, if any, in respect of the same period; and
  - 43.1.7.2 a date not later than 120 (one hundred and twenty) Business Days after each relevant Preference Dividend Accrual Date.
- 43.2 Each Preference Share shall rank as regards dividends and a repayment of capital on the winding-up of the Company prior to the ordinary shares and any other class of shares in the capital of the Company not ranking prior to or *pari passu* with the Preference Shares. Each Preference Share shall confer on the holder the right to a return of capital on the winding-up of the Company, in priority to any payment in respect of any other class of shares in the Company's capital, of an amount equal to the issue price thereof, plus any accrued and unpaid dividends, and shall not confer upon any holder of a Preference Share any further rights to any participation in the assets or profits of the Company, other than as set out in this Article 43.
- 43.3 Each Preference Share shall confer upon the holder thereof the right to receive out of the profits of the Company which it shall determine to distribute, in priority to any payment of dividends to the holders of any other class of shares in the capital of the Company not ranking prior to or *pari passu* with the Preference Shares, a non-cumulative preference cash dividend. The rate of such preference dividend shall be 70% (seventy per cent) of the Prime Rate multiplied by the Deemed Value, calculated daily during the appropriate period referred to in Article 43.4, but never compounded.
- 43.4 The preference dividends shall, if declared at the sole discretion of the directors of the Company in respect of any Dividend Period, accrue half-yearly in arrear on the Preference Dividend Accrual Date immediately following the expiry of such Dividend Period and, if so declared, shall be payable by not later than the relevant Preference Dividend Payment Date immediately following the relevant Preference Dividend Accrual Date and, if so declared, failing payment by such relevant Preference Dividend Payment Date, shall be in arrear. Notwithstanding the foregoing, the first preference dividend on the Preference Shares issued prior to 31 December 2006 shall, if declared, accrue on 31 December 2006 and shall be calculated from the date on which the Preference Shares were issued until 31 December 2006 (both dates inclusive) and shall, if so declared, be paid on the immediately following Preference Dividend Payment Date and, if so declared, failing payment by the immediately following Preference Dividend Payment Date, shall be in arrear.
- 43.5 If a preference dividend is not declared by the Company in respect of the period to which such Preference Dividend Accrual Date relates, the preference dividend shall not accumulate and shall accordingly never become payable by the Company, whether in preference to payments to any other class of shares in the Company or otherwise. Notwithstanding the foregoing, the Company shall, in respect of any applicable Dividend Period where it has declared a preference dividend and having so declared, failed to pay such preference dividend, and for so long as such preference dividend remains unpaid –
- 43.5.1 not be entitled to pay dividends on any other class of share ranking either after or *pari passu* with the preference shares;
  - 43.5.2 not make any other distribution of any nature to the holders of any other class of share ranking either after or *pari passu* with the preference shares; and
  - 43.5.3 not repurchase any other class of share ranking either after or *pari passu* with the preference shares.
- 43.6 If there is an amendment (or amendments) to the Income Tax Act, which results in the preference dividends being taxable in the hands of the Preference Shareholders and which results in payment of the preference dividends becoming a deductible expense for the Company, then (provided such amendment is uniformly applicable to all corporate tax payers and not only because of the particular circumstances of the Company or any Preference Shareholder) the percentage of the Prime Rate referred to in Article 43.1.5 shall be increased by the Company. The extent of such increase shall be limited to such an increase that the Company does incur savings in the costs of servicing the Preference Shares, which savings it would not have incurred but for such amendments to the Income Tax Act. If such amendments to the Income Tax Act do not result in the Company incurring lesser costs in servicing the Preference Shares, then, notwithstanding that such amendment may result in a decrease in the returns of any Preference Shareholder on its Preference Share investment, no amendment shall be made to the percentage of the Prime Rate contemplated in Article 43.1.5. The Company shall be entitled to require its auditors to verify

whether it is obliged to increase the percentage of the Prime Rate referred to in Article 43.1.5 in accordance with this Article 43.6. The auditors, in deciding whether such increase is required in terms of this Article 43.6, shall act as experts and not as arbitrators and their decision shall be final and binding on the Company and all Preference Shareholders. The costs of such auditors shall be borne and paid by the Company.

- 43.7 Save as set out in Articles 43.1 to 43.6 above, the Preference Shares shall not be entitled to any further participation in the profits or assets of the Company nor, on a winding-up, to any surplus assets of the Company.
- 43.8 The Company shall be obliged to give the preference shareholders notice, in terms of the statutes, of any meeting of preference shareholders. At every meeting of preference shareholders, the provisions of these articles relating to general meetings of ordinary meetings shall apply, *mutatis mutandis*, except that a *quorum* of any such class meeting shall be 3 (three) holders of Preference Shares entitled to vote, personally present, or if any such preference shareholder is a body corporate, represented at that meeting, provided that if at any adjournment of such meeting a *quorum* is not so present, the provisions of the articles relating to adjourned general meetings shall apply *mutatis mutandis*.
- 43.9 The holders of the Preference Shares shall not be entitled to vote, either in person or by proxy, at any general meeting of the Company, by virtue of or in respect of the Preference Shares, unless either or both of the following circumstances prevail at the date of the meeting –
- 43.9.1 during any period determined as provided for in section 194(2) of the Companies Act in which any dividend or any part of any dividend on such preference shares remains in arrear and unpaid; and/or;
- 43.9.2 resolution of the Company is proposed (in which event the Preference Shareholders shall be entitled to vote only on such resolution) which directly affects the rights attached to the Preference Shares or the interests of the holders thereof, including a resolution for the winding-up of the Company or for the reduction of its capital.
- 43.10 At every general meeting of the Company at which holders of Preference Shares as well as other classes of shares are present and entitled to vote a Preference Shareholder shall be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by him bear to the aggregate amount of the nominal value of all shares issued by the Company.
- 43.11 Notwithstanding the provisions of Article 43.2, no shares in the capital of the Company ranking, as regards rights to dividends or, on a winding-up, as regards return of capital, in priority to the Preference Shares, shall be created or issued, without the prior sanction of a resolution passed at a separate class meeting of the holders of the Preference Shares in the same manner *mutatis mutandis* as a special resolution. At every meeting of the holders of the Preference Shares the provisions of these Articles relating to general meetings of ordinary members shall apply *mutatis mutandis*, except that a *quorum* at any such general meeting shall be any person or persons holding or representing by proxy at least 3 (three) of the Preference Shares, provided that, if at any adjournment of such meeting a *quorum* is not so present, the provisions of the Articles relating to adjourned general meetings shall apply *mutatis mutandis*.
- 43.12 A certificate issued by the auditors of the Company in the manner, *mutatis mutandis*, in accordance with the provisions as set out in article 43.6, shall be *prima facie* proof of the amount of any preference dividend to be paid on any Preference Dividend Payment Date."

#### **SPECIAL RESOLUTION NUMBER 4**

RESOLVED THAT the Company replace the current articles of association in their entirety by the adoption of new articles of association in the form attached as Annexure A hereto, which shall be compliant with the rules of the JSE Limited and shall contain the rights, restriction, privileges and conditions attaching to the preference shares created in special resolutions 2 and 3 above.

#### **SPECIAL RESOLUTION NUMBER 5**

RESOLVED THAT the Company is hereby authorised by way of a specific authority, in accordance with section 85 of the Companies Act, 1973 (Act No. 61 of 1973), as amended (the "**Companies Act**") to, forthwith after the issue of 3 000 000 (three million) non-redeemable, non-cumulative, non-participating preference shares in terms of ordinary resolution number 1 below, reduce its issued share capital from R3 590 844.87 (three million five hundred and ninety

thousand eight hundred and forty four rand and eighty seven cents) comprising 358 934 487 (three hundred and fifty eight million nine hundred and thirty four thousand four hundred and eighty seven) ordinary par value shares of R0,01 (one cent) each, and 3 000 000 (three million) non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,0005 (zero comma zero zero zero five rands) to R2 883 725.99 (two million eight hundred and eighty three thousand seven hundred and twenty five rand and ninety nine cents) by the repurchase of 70 711 888 (seventy million seven hundred and eleven thousand eight hundred and eighty eight) ordinary par value shares of R0,01 (one cent) each in the share capital of the Company, from each of its shareholders *pro rata* to their existing holding of ordinary shares, and at a price equal to R4,24 (four rand and twenty four cents) per ordinary share. In terms of section 85(5) the issued share capital of the Company shall be decreased by an amount equal to the par value of the shares so acquired and in terms of section 85(7), the premium above the par value per ordinary share acquired shall be paid out of the share premium account which shall be reduced accordingly. In terms of section 85(8) the ordinary shares issued by the Company and acquired by the Company under this resolution shall be cancelled as issued shares and restored to the status of authorised shares forthwith. This authority is given on the basis that the Company will, after the payment required in terms of the aforesaid, be able to pay its debts as they become due in the ordinary course of business and the consolidated assets of the Company fairly valued would, after the payment exceed the consolidated liabilities of the Company.

#### **ORDINARY RESOLUTION NUMBER 1**

RESOLVED THAT the directors of the Company be and are hereby authorised in terms of section 221 of the Companies Act No. 61 of 1973 (the "Companies Act"), to allot and issue, for cash, all or any of the 8 000 000 (eight million) non-redeemable, non-cumulative, non-participating preference shares with a par value of R0,0005 (zero comma zero zero zero five rands) each, in the capital of the Company ("**Preference Shares**") to such persons who subscribe therefor pursuant to a private placing to be conducted by the Company and that all of the Preference Shares be and are hereby placed under the control of the directors for such allotment and issue, subject to the provisions of the Companies Act, the articles of association of the Company and the JSE Listings Requirements, where applicable;

#### **ORDINARY RESOLUTION NUMBER 2**

RESOLVED THAT each of Rene van Wyk and Peter Hibbit each with the power of substitution are hereby authorised to do all such things, sign all such documents, procure the doing of all such things and the signature of all such documents as may be necessary or incidental to give effect to all of the special resolutions and ordinary resolutions which are proposed and passed at the general meeting at which this ordinary resolution number 2 is proposed.

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## ALTERATIONS TO THE SHARE CAPITAL OF IMPERIAL BANK AND ISSUES OF SECURITIES

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### 1. BOND ISSUES

IPB1 Bonds were issued in December 2003 with a nominal amount of R165 million and a coupon of 13.5%, callable in December 2008.

IPB2 Bonds were issued at a nominal amount of R500 million on 30 March 2006, with a coupon of 8.38%, callable in December 2010.

### 2. ISSUES OF ORDINARY SHARES

The following ordinary shares have been issued by Imperial Bank in order to maintain overall capital above the 10% statutory limit. These are the only share issues since June 2002.

<b>Date</b>	<b>Number of ordinary shares</b>	<b>Share premium Rand</b>	<b>Share capital Rand</b>	<b>Total Rand</b>
31 March 2005	37 955 343	139 620 446	379 553	140 000 000
16 November 2005	18 980 812	74 810 191	189 808	75 000 000

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**DETAILS OF SUBSIDIARY COMPANIES AND INTER-COMPANY LOANS**


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The details of Imperial Bank's subsidiaries as at the last practicable date are set out below:

Name of subsidiary	Date and place of incorporation	Registration number	Percentage held by Imperial Bank <sup>(3)</sup>	Main business	Date on which entity became a subsidiary of Imperial Bank
NRB Risk Solutions (Proprietary) Limited	20-Feb-1997 South Africa	1997/002364/06	100%	Debt collecting and asset based finance	1 September 2002
Motor Finance Corporation (Proprietary) Limited	14-June-2001 South Africa	2001/012691/07	100%	Auxiliary financial intermediation	14 June 2001
SA Axle (Proprietary) Limited	2-July-1969 South Africa	1969/010213/07	66.67% <sup>(4)</sup>	Financing of industrial trailers	1 September 2002

**Notes:**

1. SMS Leasing and Finance Company (Proprietary) Limited, a wholly-owned subsidiary of Imperial Bank, was liquidated on 2 June 2004.
2. Imperial Equity Finance (Proprietary) Limited, a wholly-owned subsidiary of Imperial Bank, was sold during the first quarter of 2006.
3. None of the subsidiaries are listed on the JSE.
4. This is a subsidiary of NRB. A 66.67% share in this entity was acquired by NRB from a single vendor. At the time of the acquisition, the remaining shareholders wished to retain their 33.33% shareholding.

As at 31 December 2005 Imperial Bank was indebted to NRB in the amount of R394 549 000 while Motor Finance Corporation (Proprietary) Limited was indebted to Imperial Bank in the amount of R2 745 000. The indebtedness arose with no fixed terms of repayment and interest is charged at a variable rate linked to prime.

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**DETAILS OF LEASEHOLD PROPERTIES**


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Details of leasehold hold property in place within the group as at the last practicable date are set out below:

<b>Situation</b>	<b>Physical address</b>	<b>Gross rental per month (excl VAT) Rand</b>	<b>Escalation rate</b>	<b>Start date</b>	<b>Expiry date</b>	<b>Months remaining</b>
Bloemfontein MFC	Sovereign House, c/o Charles & First Avenues, Westdene, Bloemfontein	5 500	10%	1 April 2006	30 April 2009	35
Bloemfontein Medical	Unit 7, Office Park, corner Third and President Reitz Avenues, Westdene, Bloemfontein	7 370	10%	1 August 2003	31 July 2006	2
Brooklyn Medical	Ground Floor, Brooklyn Gardens, corner Middle & Veale Street, Brooklyn	32 690	10%	1 June 2005	31 May 2008	23
Cape Town Property	Imperial Bank Terraces, Carl Cronje Drive, Tyger Waterfront, Bellville	48 087	10%	1 November 2003	31 October 2008	28
Cape Town Property	Imperial Bank Terraces, Carl Cronje Drive, Tyger Waterfront, Bellville	45 964	10%	1 November 2003	31 October 2008	28
Cape Town MFC & Medical	Imperial Bank Terraces, Carl Cronje Drive, Tyger Waterfront, Bellville	39 849	10%	1 November 2003	31 October 2008	28
Durban Property	Block 4B, 100 on Armstrong, La Lucia, Durban	32 849	10%	1 June 2003	30 April 2008	22
Durban Medical	Block 1, 100 on Armstrong, La Lucia, Durban	30 163	10%	1 December 2003	31 May 2008	23
Durban MFC	100 on Armstrong, La Lucia, Durban	18 296	10%	1 January 2004	31 May 2008	23
Durban NRB	Block 1 – Unit 3A, 100 on Armstrong, La Lucia, Durban	8 796	10%	1 February 2004	31 January 2007	8
George Property	Nedbank Centre, 101 York Street, Office 302, George	6 691	8%	1 September 2002	31 August 2008	26
Hatfield MFC	Ground Floor, Pentagon House, 300 Grosvener Street, Hatfield, Pretoria	59 998	11%	1 September 2002	31 August 2008	26
Meadowdale MFC	Regent Life Building, 6E Herman Road, corner Corobrick & Herman Streets, Meadowdale	276 372	11%	1 September 1999	31 August 2009	38
Port Elizabeth Medical	Southern Life Gardens, 2nd Avenue, Newton Park, Port Elizabeth	8 331	10%	1 September 2003	31 August 2006	3

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## LOANS TO SENIOR MANAGEMENT

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As at the last practicable date, the following loans regarding property and vehicle finance had been granted to certain of the senior managers of Imperial Bank, referred to in paragraph 4.2 of the Pre-listing statement:

<b>Name</b>	<b>Limit amount Rand</b>	<b>Date loan granted</b>	<b>Interest rate<sup>(1)</sup></b>	<b>Maturity date</b>
J A Vetter	136 000	27 July 2005	8%	20 February 2010
D Vheru-Vela	599 293	13 December 2004	8%	20 December 2009
J A Vetter	75 000	30 July 2003	8%	20 July 2006
P C I Swanepoel	1 925 000	16 April 2004	8%	20 June 2024
D M van der Linde	1 020 000	22 July 2005	8%	20 August 2025

**Note:**

1. This rate is based on the official rate of interest as provided for in the Income Tax Act.