Mercantile Bank Holdings Limited

Member of CGD Group
Reg No. 1989/000164/06
An authorised financial services provider

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Mercantile Bank Holdings Limited and its subsidiaries ("Mercantile" or "the Group")

Mercantile Bank Holdings Limited ("the Company") is a registered bank controlling company and an investment holding company. Its holding company is Caixa Geral de Depósitos S.A. ("CGD"), a company registered in Portugal. Its two principal operating subsidiaries comprise:

Mercantile Bank Limited ("the Bank") provides a full range of international and domestic banking services. It operates in selected retail, commercial, corporate and alliance banking niches to which it offers banking, financial and investment services. It is a wholly-owned subsidiary of Mercantile Bank Holdings Limited.

Mercantile Insurance Brokers (Proprietary) Limited offers life assurance and short-term broking services to the Group and external parties through third party agreements. Its products encompass the full range available in the market including short-term insurance, pension, health benefits and life assurance. It is a wholly-owned subsidiary of Mercantile Bank Holdings Limited.

Board of directors and administration

Board of directors at 21 February 2006

Mercantile Bank Holdings Limited

Directors

J A S de Andrade Campos*† (*Chairman*)
D J Brown# (*Chief Executive Officer*)
G P de Kock‡
M J M Figueira*#
L Hyne‡
A T Ikalafeng‡
J P M Lopes*#
K B Motshabi‡
A M Osman^†
S Rapeti‡

Administration

Group secretary

F Vicente Coelho*

Transfer secretaries

Computershare Investor Services 2004 (Proprietary) Limited
70 Marshall Street
Johannesburg
2001 South Africa

Postal address

PO Box 61051
Marshalltown
2107 South Africa

Registered office

1st Floor
Mercantile Bank
142 West Street
Sandown
2196

Postal address

PO Box 782699
Sandton
2146

* Portuguese
^ Mozambican
# Executive
† Non-Executive
‡ Independent Non-Executive

Five-year financial performance

Mercantile Bank Holdings Limited and its subsidiaries

	March 2002 R'000	December 2002* R'000	December 2003 R'000	December 2004 R'000 (restated)	December 2005 R'000
ASSETS					
Intangible assets	22,284	14,696	12,711	6,801	**7,020**
Property and equipment	99,548	88,723	84,651	85,028	**91,305**
Investment properties	–	800	800	770	**350**
Taxation	–	3,396	3,567	3,616	**3,698**
Other accounts receivable	233,531	127,534	82,430	33,148	**14,887**
Interest in associated companies	3,246	1,879	2,951	3,236	**3,323**
Other investments	19,560	7,302	3,965	3,556	**2,365**
Loans and advances	1,475,609	1,313,292	1,178,788	975,611	**1,458,677**
Derivative financial instruments	–	8,124	7,610	90,162	**36,757**
Negotiable securities	242,997	155,588	273,090	370,279	**379,028**
Cash and cash equivalents	212,047	454,778	574,930	1,148,861	**1,408,972**
Total assets	2,308,822	2,176,112	2,225,493	2,721,068	**3,406,382**
EQUITY AND LIABILITIES					
Share capital and share premium	866,865	866,865	866,865	1,208,642	**1,207,032**
Capital redemption reserve fund	3,788	3,788	3,788	3,788	**3,788**
Share-based payments reserve	–	–	–	123	**847**
General reserve	7,478	7,478	7,478	7,478	**7,478**
Property revaluation reserve	21,182	20,997	28,376	31,273	**36,476**
Available-for-sale reserve	–	–	(742)	(955)	**(76)**
General credit-risk reserve	–	–	31,212	31,668	**10,835**
Accumulated loss	(883,396)	(715,628)	(773,078)	(781,078)	**(716,201)**
Shareholders' equity	15,917	183,500	163,899	500,939	**550,179**
Long-term liabilities	–	8,335	5,287	–	**–**
Deposits	2,085,712	1,912,979	1,946,752	2,112,569	**2,636,547**
Derivative financial instruments	–	4,001	32,115	35,210	**38,531**
Provisions	29,399	27,404	36,066	39,168	**31,647**
Other accounts payable	174,042	38,387	40,437	33,138	**149,478**
Taxation	3,752	1,506	937	44	**–**
Total equity and liabilities	2,308,822	2,176,112	2,225,493	2,721,068	**3,406,382**
Contingent liabilities and commitments	1,452,726	752,668	463,690	191,774	**309,270**
Attributable profit/(loss) after taxation**	(646,763)	167,768	(58,888)	(213,016)	**66,996**
Headline earnings/(loss)	(681,758)	184,350	(56,471)	(213,756)	**68,025**
Earnings/(Loss) per ordinary share (cents)	(151.5)	19.6	(6.9)	(11.6)	**1.7**
Headline earnings/(loss) per ordinary share (cents)	(159.7)	21.6	(6.6)	(11.7)	**1.7**

* For a nine-month period.

** In the reporting period December 2002 the attributable profit/(loss) after taxation includes a decrease in credit impairments of R265 million due to guarantees received from CGD. In the reporting year December 2004 these guarantees were cancelled, resulting in the raising of credit impairments of R173 million. Excluding these transactions related to the CGD guarantees, the attributable (loss) after taxation would have been (R97) million in December 2002 and (R40) million in December 2004.

Notes: (1) AC 133 (Financial Instruments: Recognition and Measurement), was adopted with effect 1 January 2003. As this is a prospective accounting standard, comparatives were not restated.

(2) The Group adopted International Financial Reporting Standards ("IFRS") in 2005. Detailed information on the adoption and transitional elections relating to IFRS are set out in Note 1 of the accounting policies on page 12. The financial impact on the adoption of IFRS is reflected in Note 30 on pages 49 and 50. Where applicable, the 2004 comparatives have been restated, while all prior periods have not been restated.

Group review

CGD, which is wholly owned by the Portuguese state, remains the Group's holding company with a shareholding of 91.75%.

CGD is ranked as the world's 120th largest banking institution by assets in a current issue of "The Banker's Almanac". Its short- and long-term financial liability ratings were confirmed by the three leading international rating agencies – Fitch Ratings, Moody's and Standard & Poor's, as follows:

	Short term	Long term	Date
Fitch Ratings	F1+	AA–	December 2004
Moody's	Prime–1/B	Aa3	December 2005
Standard & Poor's	A–1	A+	April 2005

Mercantile Bank Holdings Limited in turn received confirmation of its credit rating by CA Ratings:

	Short term	Long term	Date
CA Ratings	zaA1	zaA	February 2006

Business focus

The Group's strategy remains unchanged, namely:

- to grow our enterprise banking business by offering products and services to small and mid-sized businesses across the South African spectrum whilst retaining a key segment focus on Portuguese customers; and
- to grow existing and seek out new opportunities in the alliance banking arena of card and payment products.

Financial review

The Group achieved its primary objectives of returning to profitability and growth in income earning assets during the year under review. The results achieved are largely attributable to:

- an increase in funds profit generated by the recapitalisation which was completed in September 2004 together with growth in lending (net of impairments) of 49.5%. Overall asset growth amounted to 25.2%;
- non-interest income growth of 16.3%, largely in the areas of transactional banking and foreign exchange services;
- continued recoveries of impaired and written-off legacy debt;
- exceptional recoveries of R23,1 million (refer to Note 9) being amounts impaired/written off in 2004 following the release of CGD guarantees, which was a condition attached to the recapitalisation of the Group; and
- cost containment in operating expenses – costs for the 12 months ended 31 December 2004 benefited from a write-back in suspense account provisions of R5,4 million. Excluding this item costs for the 12 months ended 31 December 2005 did not increase.

Directorate

Sharoda Rapeti was appointed as an independent non-executive director on 29 July 2005 whilst Julio Lopes was appointed as an executive director on 9 November 2005. Background information on these directors is provided in the brief *curriculum vitae* of directors standing for re-election.

We thank the Board of Directors ("the Board") for their valuable contribution and support over the past year and we welcome Ms Rapeti and Mr Lopes to the Board.

Financial Sector Charter

The Group remains fully committed to achieving the targets (as applicable) set out in the charter and plans are in place to deliver on these targets. Progress in this respect will form part of an industry communication being co-ordinated by the Banking Association.

Outlook

Whilst the overall level of recoveries on legacy debt is expected to decline going forward, an ongoing write-back of impairments is anticipated in 2006.

Evaluations are currently underway for the replacement of our core banking system at an estimated cost of approximately R40 – R50 million. These cost estimates are preliminary desktop calculations and a detailed analysis has now commenced. The project (which is subject to final Board approval) is expected to have a duration of 2 – 3 years. Furthermore, additional systems spend to further enhance our alliance banking service offering, in order to generate increased fee income in future years, is under discussion with certain of our alliance partners – the extent of this spend is yet to be estimated and agreed with these partners.

Group review (continued)

Economic conditions remain favourable for the banking sector and the improvement in the Group's core performance is expected to continue.

We thank all our staff for their commitment and dedication over the past year and to our clients and shareholders we convey our appreciation for your trust and support. We also thank the South African Reserve Bank and our professional advisors for their sound guidance.

J A S de Andrade Campos
Chairman

21 February 2006

D J Brown
Chief Executive Officer

21 February 2006

Annual financial statements

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Directors' responsibility

In terms of the Companies Act, 1973, as amended, the directors are required to maintain adequate accounting records, and to prepare annual financial statements that fairly present the financial position at year-end and the results and cash flows for the year of the Company and the Group.

To enable the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal financial controls. The Board has ultimate responsibility for this system of internal financial controls and reviews the effectiveness of its operations, primarily through the Group Audit Committee and other risk monitoring committees and functions.

The internal financial controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with sound business practices and the Group's written policies and procedures. These controls are implemented by trained and skilled staff, with clearly defined lines of accountability and appropriate segregation of duties. The controls are monitored by management and include a budgeting and reporting system operating within strict deadlines and an appropriate control framework. As part of the system of internal financial controls the Group's internal audit function conducts inspections, financial and specific audits and co-ordinates audit coverage with the external auditors.

The external auditors are responsible for reporting on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and incorporate responsible disclosures in line with the accounting policies of the Group. The annual financial statements are based on appropriate accounting policies consistently applied, except as otherwise stated and supported by reasonable and prudent judgements and estimates. The directors believe that the Group will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the annual financial statements.

These annual financial statements, set out on pages 10 to 54, have been approved by the Board of Mercantile Bank Holdings Limited and are signed on their behalf by:

J A S de Andrade Campos
Chairman

21 February 2006

D J Brown
Chief Executive Officer

21 February 2006

Certificate from the Company Secretary

In terms of section 268G(d) of the Companies Act, 1973, as amended ("the Act"), I certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies for the financial year ended 31 December 2005 all such returns as are required of a public company in terms of the Act, and that all such returns are true, correct and up-to-date.

F Vicente Coelho
Company Secretary

21 February 2006

Report of the independent auditors

To the members of Mercantile Bank Holdings Limited

We have audited the company and group annual financial statements, set out on pages 10 to 54, for the year ended 31 December 2005. These annual financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these annual financial statements based on our audit.

Scope

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 annual financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statements presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion the annual financial statements fairly present, in all material respects, the financial position of the Company and the Group as at 31 December 2005 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1973, in South Africa.

Deloitte & Touche

Chartered Accountants (SA)
Registered Accountants and Auditors

Johannesburg
21 February 2006

Directors' report for the year ended 31 December 2005

The directors have pleasure in presenting their report, which forms part of the audited annual financial statements of the Company and the Group for the year ended 31 December 2005.

1. Nature of business

The Company is a registered bank controlling company and an investment holding company incorporated in the Republic of South Africa. Through various subsidiaries, the Company is involved in the full spectrum of domestic and international banking and financial services to the retail, commercial, corporate and alliance banking niche markets.

2. Holding company

The majority shareholder of the Company (91.75%) is CGD, a company registered in Portugal.

3. Financial results

An overview of the financial results is set out in the Group Review commencing on page 5 of the Annual Report. Details of the financial results are set out on pages 12 to 54 and in the opinion of the directors require no further comment.

4. Share capital

There were no changes to the authorised and issued share capital of the Company and the Group.

The authorised and issued share capital of the Company and Group is detailed in Note 13 to the annual financial statements.

5. Directors, Company Secretary and registered addresses

The directors of the Company at 31 December 2005 were as follows:

J A S de Andrade Campos*+ (*Chairman*)
D J Brown# (*Chief Executive Officer*)
G P de Kock‡
M J M Figueira*#
L Hyne‡
A T Ikalafeng‡
J P M Lopes*#
K B Motshabi‡
A M Osman^†
S Rapeti‡

Appointments during the period under review:

S Rapeti‡	29 July 2005
J P M Lopes*#	9 November 2005

There were no resignations during the period under review.

The Company Secretary is Francisco Vicente Coelho* and the registered addresses are:

Postal:	**Head office:**
PO Box 782699	1st Floor
Sandton	Mercantile Bank
2146	142 West Street
	Sandown
	2196

Change of Company Secretary

Ms Ronell van Rensburg has been appointed as Company Secretary with effect from 23 March 2006. Mr Francisco Vicente Coelho will retire as Company Secretary with effect from the same date. The directors wish to thank Mr Vicente Coelho for his commitment, support, guidance and professionalism throughout his many years of service.

* Portuguese, ^ Mozambican, # Executive,
† Non-Executive, ‡Independent Non-Executive

6. Dividends

No dividend was declared during the year under review (December 2004: nil).

7. Litigation

Three previous employees of the Bank have lodged a claim against the Bank amounting to approximately R26 million. The directors are of the opinion, based on advice of legal counsel that these claims are unlikely to succeed.

8. Subsidiary companies

All subsidiary companies are incorporated in South Africa. A register containing details of all non-trading companies is available for inspection at the registered office of the Company.

Aggregate income after taxation earned by subsidiaries amounted to R70,6 million (2004: R4,3 million) and aggregate losses amounted to R3,0 million (2004: R210,2 million).

Directors' report
for the year ended 31 December 2005 (continued)

8. Subsidiary companies (continued)

The principal consolidated subsidiary companies are as follows:

Company name	Issued share capital R'000	Effective holding %	Nature of business†	Shares, at cost 2005 R'000	Shares, at cost 2004 R'000	Owing to subsidiaries 2005 R'000	Owing to subsidiaries 2004 R'000 (restated)
Lisabank Corporate Finance Limited*	15	100	1	**15**	15	–	–
LSM (Troyeville) Properties (Pty) Limited	–	100	1	**140**	140	–	–
Mercantile Bank Limited	124,969	100	2	**1,485,448**	1,485,448	**(13,754)**	(14,401)
Mercantile Finance Limited	–	100	3	–	–	–	(57)
Mercantile Insurance Brokers (Pty) Limited	250	100	4	**294**	294	–	–
Mercantile Nominees (Pty) Limited	–	100	5	–	–	–	–
Portion 2 of Lot 8 Sandown (Pty) Limited	–	100	1	**8,832**	8,832	–	–
Weskor Beleggings (Pty) Limited	–	100	1	–	–	–	–
Loans from non-trading subsidiaries						–	(16)
						(13,754)	(14,474)

Notes:

† Nature of business:

1. Property holding
2. Banking
3. Investment holding
4. Insurance brokers
5. Nominee company

* Sold effective 1 March 2006.

9. Going concern

The annual financial statements have been prepared on the going concern basis.

10. Special resolutions

On 11 April 2005 a special resolution relating to the change of name of the Company from "Mercantile Lisbon Bank Holdings Limited" to "Mercantile Bank Holdings Limited", was registered.

11. Post-balance sheet events

No material events have occurred between the accounting date and the date of this report.

Accounting policies for the year ended 31 December 2005

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

1. Basis of presentation

The annual financial statements have been prepared for the first time in accordance with International Financial Reporting Standards ("IFRS"), using the historical cost convention as modified by the revaluation of certain financial assets, liabilities and properties. The revised IFRS policies have been consistently applied to both years presented, unless otherwise stated. IFRS 1 – First-time Adoption of IFRS, requires full retrospective application of IFRS, except for the requirement to restate comparatives under IAS 32 – Financial Instruments: Disclosure and Presentation, and IAS 39 – Financial Instruments: Recognition and Measurement. However, this statement also provides exemptions from retrospective application in certain instances due to cost and practical considerations. The Group's transitional elections are set out below:

Elections applicable 1 January 2004

- **Property and equipment:** A first time adopter may elect to use the fair value of individual property and equipment at transition date as the deemed cost. The Group is not making use of this transitional exemption and elects to measure individual items of property and equipment at fair value or depreciated cost determined in accordance with IFRS.
- **Employee benefits:** The Group is electing to apply the exemption to account for all deferred actuarial gains or losses, including a 10% tolerance limit for differences in actuarial assumptions, in opening equity as at 1 January 2004. This exemption is elected as the Group's accounting for employee benefits under previous South African Generally Accepted Accounting Practice was already substantially in compliance with IAS 19 – Employee Benefits.
- **Share-based payments:** The Group is electing not to apply the provisions of IFRS 2 – Share-based Payments to equity-settled share-based payments granted on or before 7 November 2002, or to awards granted after that date but which had vested prior to 1 January 2005.

Elections applicable 1 January 2005

- **Comparative numbers not restated for financial instruments:** The Group is electing the exemption not to restate its comparatives for IAS 32 and IAS 39. The Group has therefore applied South African Generally Accepted Accounting Practice applicable as at 31 December 2004 to financial instruments in its 2004 numbers disclosed as comparatives for the 2005 IFRS results.
- **Designation of financial assets and financial liabilities in terms of IAS 39:** In terms of the transitional arrangements the Group is not electing the option to reclassify financial assets and liabilities.

2. Group accounts

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. Recognition of assets and liabilities

3.1 Assets

The Group recognises assets when it obtains control of a resource as a result of past events and from which future economic benefits are expected to flow to the Group.

Accounting policies
for the year ended 31 December 2005 (continued)

3. Recognition of assets and liabilities (continued)

3.2 Liabilities

The Group recognises liabilities when it has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

3.3 Contingent liabilities

The Group discloses a contingent liability where it has a possible obligation as a result of past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

4. Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of that instrument. Regular way purchases or sales of financial assets are recognised using settlement date accounting. Initial recognition is at cost, including transaction costs.

4.1 Derivative financial instruments

Derivative financial assets and liabilities are deemed to be held for trading.

The Group uses the following derivative financial instruments to reduce its underlying financial risks:

- forward exchange contracts;
- foreign currency swaps; and
- interest rate swaps.

Derivative financial instruments are not entered into for trading or speculative purposes. All derivatives are recognised on the balance sheet. Derivative financial instruments are initially recorded at cost and are remeasured to fair value at each subsequent reporting date. Changes in the fair value of derivatives are recognised in the income statement within non-interest income.

Embedded derivatives are separated from the host contract and accounted for as a separate derivative when:

- the embedded derivative's economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value with changes in fair value reported in the income statement.

A derivative's notional principal reflects the volume of the Group's investment in derivative financial instruments and represents the amount to which a rate or price is applied to calculate the exchange of cash flows.

4.2 Financial assets

The Group's principal financial assets are cash and cash equivalents, loans and advances, investments, and other accounts receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held by the Group with the South African Reserve Bank, domestic banks and foreign banks as well as resale agreements. These financial assets have been designated as originated loans and are measured at amortised cost.

Investments

Investments comprise negotiable securities and other investments. Negotiable securities consist of government stock, treasury bills and debentures while other investments consist of listed and unlisted equity investments.

Investments with a fixed maturity, where management has both the intent and ability to hold to maturity, are designated as held-to-maturity. Held-to-maturity investments are carried at amortised cost, less any adjustment necessary for impairment.

Accounting policies
for the year ended 31 December 2005 (continued)

4. Financial instruments (continued)

4.2 Financial assets (continued)

Investments created by the Group by providing money, goods, or services to a debtor have been designated as loans and receivables originated by the Group. Variable-rate loans and receivables originated by the Group are measured at amortised cost.

Investments that were acquired for the purpose of generating a profit from short-term fluctuations in price have been designated as held-for-trading. These instruments are measured at fair value, and the resultant gains and losses are included in income.

Investments that are acquired with the intention to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, have been designated as available-for-sale. These assets are measured at fair value, at each reporting date and fair value is determined on net asset value with the resultant gains or losses being recognised in equity until the financial asset is sold, or otherwise disposed of, or found to be impaired. At that time the cumulative gains or losses previously recognised in equity are included in income.

In addition to these categories of financial assets, certain financial instruments have been designated as held at fair value. The resultant gains and losses have been included in income.

Loans and advances

Loans and advances principally comprise amounts advanced to third parties in terms of certain products. Fixed rate loans and advances have been designated at fair value with resultant gains and losses being included in income. Variable rate loans and advances have been designated as originated loans and receivables and are measured at amortised cost.

Other accounts receivable

Other accounts receivable comprise items in transit, pre-payments and deposits, properties in possession and other receivables. These assets have been designated as originated loans and receivables and are measured at amortised cost.

4.3 Financial liabilities

The Group's financial liabilities include deposits and other accounts payable consisting of loans receivable under repurchase agreements, accruals, product-related credits and sundry creditors. All financial liabilities, other than liabilities designated at fair value and derivative instruments, are measured at amortised cost. Financial liabilities designated at fair value and derivative instruments are measured at fair value, and the resultant gains and losses are included in income.

4.4 Fair value estimation

The fair value of publicly traded derivatives, securities and investments is based on quoted market values at the balance sheet date. In the case of an asset held or liability issued by the Group, the current bid price is used as a measure of fair value. In the case of an asset acquired or liability held, the current offer or asking price is used as a measure of fair value. Mid-market prices are used as a measure of fair value where there are matching asset and liability positions.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. Quoted market prices or dealer quotes for the same or similar instruments are used for the majority of securities, long-term investments and long-term debt. Other techniques, such as option pricing models, estimated discounted value of future cash flows, replacement cost and termination cost, are used to determine fair value for all remaining financial instruments.

4.5 Amortised cost

Amortised cost is determined using the effective interest rate method. The effective interest rate method is a way of calculating amortisation using the effective interest rate of a financial asset or financial liability. It is the rate that discounts the expected stream of future cash flows through maturity or the next market-based revaluation date to the current net carrying amount of the financial asset or financial liability.

Accounting policies
for the year ended 31 December 2005 (continued)

4. **Financial instruments** (continued)

4.6 Impairments

Specific impairments are made against identified doubtful advances. Portfolio impairments are maintained to cover potential losses which, although not specifically identified, may be present in the advances portfolio.

Advances, which are deemed uncollectible, are written-off against the specific impairments. Loans previously written-off which subsequently become fully performing are re-incorporated in the advances portfolio. Both the specific and portfolio impairments raised during the year less the recoveries of advances previously written-off, are charged to the income statement.

The Group reviews the carrying amounts of its advances to determine whether there is any indication that those advances have suffered an impairment loss. Where it is not possible to estimate the recoverable amount of an individual advance, the Group estimates the recoverable amount on a portfolio basis for a group of similar financial assets.

The recoverable amount is the sum of the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects the portfolio of advances' original effective interest rate.

If the recoverable amount of the advance is estimated to be less than the carrying amount, the carrying amount of the advance is reduced to its recoverable amount by raising a specific impairment which is recognised as an expense in the income statement.

Where the impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, subject to the increased carrying amount not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is recognised as income immediately.

5. **Foreign currency transactions**

Transactions in foreign currencies are converted into the functional currency at prevailing exchange rates on the transaction date. Monetary assets, liabilities and commitments in foreign currencies are translated into the functional currency using the rates of exchange ruling at the financial year-end. Gains and losses on foreign exchange are included in income.

6. **Subsidiaries**

Investments in subsidiaries, in the Company's annual financial statements, are designated as available-for-sale assets and are recognised at fair value. Fair value is estimated as the net asset value. All gains and losses on the sale of subsidiaries are recognised in the income statement.

7. **Associated companies**

Associated companies are those companies in which the Group exercises significant influence, but not control or joint control, over their financial and operating policies and holds between 20% and 50% interest therein. The carrying values of investments in associated companies represent the aggregate of the cost of the investments plus post-acquisition equity accounted income and reserves. These investments are accounted for using the equity method in the Group annual financial statements. This method is applied from the effective date on which the enterprise became an associated company, up to the date on which it ceases to be an associated company.

8. **Investment properties**

Investment properties are held to earn rentals and/or for capital appreciation. The Group carries investment properties in the balance sheet at open-market fair value based on regular valuations by independent registered professional valuators. The open-market fair value is based on the open market net rentals for each property. Fair value movements are included in income in the year in which they arise.

Accounting policies
for the year ended 31 December 2005 (continued)

9. Property and equipment

9.1 Owner-occupied properties

Owner-occupied properties are held for use in the supply of services or for administrative purposes and are stated in the balance sheet at open-market fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The open-market fair value is based on the open market net rentals for each property. Revaluations are performed annually by independent registered professional valuators.

Any revaluation increase, arising on the revaluation of owner-occupied properties, is credited to the non-distributable reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense. The increase is credited to income to the extent that an expense was previously charged to income. A decrease in carrying amount arising on the revaluation of owner-occupied properties is charged as an expense to the extent that it exceeds the balance, if any, held in the non-distributable reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the revaluation surplus, relating to that property, in the non-distributable reserve is transferred to distributable reserves. The properties residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

9.2 Equipment

All equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement as they are incurred.

Depreciation on equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Leasehold improvements are depreciated over the period of the lease or over such lesser period as is considered appropriate. The equipments' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater that its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

The estimated useful lives of property and equipment are as follows:

Leasehold improvements	5 – 10 years
Computer equipment	3 – 5 years
Furniture and fittings	10 years
Office equipment	10 years
Motor vehicles	5 years
Owner-occupied properties	50 years

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount and are recognised in the income statement.

10. Intangible assets

Computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licenses are recognised as an expense as incurred. Costs that are directly associated with an identifiable and unique system controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets, which is usually between three and five years, but where appropriate over a maximum of ten years and are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written-down when the carrying amount exceeds the recoverable amount.

Accounting policies for the year ended 31 December 2005 (continued)

11. Provisions

Provisions are recognised when the Group has 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. Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

12. Deferred income taxes

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax values of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

13. Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements ("repos") are reflected in the annual financial statements as cash and cash equivalents, when the transferee has the right to sell or repledge the collateral, and the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits, or deposits due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method. Securities lent to counterparties are also retained in the annual financial statements.

Securities borrowed are not recognised in the annual financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss being included in income. The obligation to return them is recorded at fair value in other accounts payable.

14. Instalment sales and leases

14.1 The Group as the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

14.2 The Group as the lessor

Leases and instalment sale agreements are regarded as financing transactions with rentals and instalments receivable, less unearned finance charges, being included in advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

15. Interest income and interest expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

16. Fee, commission and dividend income

Fees and commissions are recognised on an accrual basis. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Accounting policies
for the year ended 31 December 2005 (continued)

17. Retirement funds

The Group operates defined contribution funds, the assets of which are held in a separate trustee-administered fund. The retirement funds are funded by payments from employees and by the relevant Group companies. The Group contributions to the retirement funds are based on a percentage of the payroll and are charged to income as incurred.

18. Post-retirement medical benefits

The Group provides for post-retirement medical benefits to certain retired employees. These benefits are only applicable to employees who were members of the Group's medical aid scheme prior to May 2000 and are based on the employees remaining in service up to retirement age. The Group provides for the present value of the obligations in excess of the fair value of the plan assets which are intended to offset the expected costs relating to the post-retirement medical benefits. The costs of the defined benefit plan are assessed using the projected unit credit method. Under this method, the cost of providing post-retirement medical benefits is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who value the plans at least every three years.

Actuarial gains and losses, the effect of settlements on the liability and plan assets and the curtailment gain due to the change in the post-retirement subsidy of in-service members are recognised immediately. The Group's contributions to the post-retirement healthcare policy are charged to income in the year to which they relate.

19. Equity compensation plans

Share options in the Company are granted to employees of the Bank at the discretion of the Group Remuneration Committee. The Share Incentive Trust's financial position and results are consolidated. The Group has applied the requirements of IFRS 2 to share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were not vested as of 1 January 2005.

The equity-settled share-based payments are measured at fair value at the grant date and expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

20. Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, results or assets are 10 per cent or more of all the segments, are reported separately.

21. General credit-risk reserve

As recommended by The Banking Association of South Africa in their position paper on reporting on regulatory provisioning IAS 39, a general credit-risk reserve has been recognised within Shareholders' equity. The reserve recognised by the Group comprises the difference between the impairments calculated in terms of IAS 39 and the requirements of the Group's provisioning policy, which is more prudent than the statutory minimum provision requirements prescribed by the South African Reserve Bank.

22. Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Accounting policies for the year ended 31 December 2005 (continued)

22. Critical accounting estimates and judgements (continued)

22.1 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

22.2 Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

22.3 Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the normal volatility in share price. In addition impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

22.4 Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

23. Comparative figures

Where necessary, comparative figures are restated to be consistent with the disclosure in the current year. Details of restatements are provided in Note 30.

24. Recent accounting developments

A new standard IFRS 7 – Financial Instruments: Disclosures, was issued during June 2005 but is only effective for periods beginning on or after 1 January 2007. The Group is subject to this statement as this standard supersedes IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and complements the principles in IAS 32 and IAS 39. The Group will apply IFRS 7 from 1 January 2007. The impact of initial application has not been assessed as at the date of authorisation of the annual financial statements.

Balance sheets
at 31 December 2005

	Notes	Group 2005 R'000	Group 2004 R'000 (restated)	Company 2005 R'000	Company 2004 R'000 (restated)
ASSETS					
Intangible assets	1	**7,020**	6,801	**–**	–
Property and equipment	2	**91,305**	85,028	**–**	–
Investment properties	3	**350**	770	**–**	–
Taxation	4	**3,698**	3,616	**29**	29
Other accounts receivable	5	**14,887**	33,148	**3**	214
Interest in subsidiaries	6	**–**	–	**553,448**	501,738
Interest in associated companies	7	**3,323**	3,236	**–**	–
Other investments	8	**2,365**	3,556	**20**	559
Loans and advances	9	**1,458,677**	975,611	**–**	–
Derivative financial instruments	10	**36,757**	90,162	**–**	–
Negotiable securities	11	**379,028**	370,279	**–**	–
Cash and cash equivalents	12	**1,408,972**	1,148,861	**87**	336
Total assets		**3,406,382**	2,721,068	**553,587**	502,876
EQUITY AND LIABILITIES					
Shareholders' equity		**550,179**	500,939	**553,290**	502,563
Share capital and share premium	13	**1,207,032**	1,208,642	**1,210,143**	1,210,143
Capital redemption reserve fund		**3,788**	3,788	**3,788**	3,788
Share-based payments reserve		**847**	123	**847**	123
General reserve		**7,478**	7,478	**–**	–
Property revaluation reserve		**36,476**	31,273	**–**	–
Available-for-sale reserve		**(76)**	(955)	**(10,043)**	(60,607)
General credit-risk reserve		**10,835**	31,668	**–**	–
Accumulated loss		**(716,201)**	(781,078)	**(651,445)**	(650,884)
Liabilities		**2,856,203**	2,220,129	**297**	313
Deposits	14	**2,636,547**	2,112,569	**–**	–
Derivative financial instruments	10	**38,531**	35,210	**–**	–
Provisions	15	**31,647**	39,168	**–**	–
Other accounts payable	17	**149,478**	33,138	**297**	313
Taxation	4	**–**	44	**–**	–
Total equity and liabilities		**3,406,382**	2,721,068	**553,587**	502,876

Income statements
for the year ended 31 December 2005

	Notes	Group 2005 R'000	Group 2004 R'000 (restated)	Company 2005 R'000	Company 2004 R'000
Interest income	20	**248,290**	192,138	**–**	1,945
Interest expenditure	21	**(113,144)**	(107,036)	**–**	(1,945)
Net interest income before credit losses		**135,146**	85,102	**–**	–
Net recovery of/(charge for) credit losses	9	**21,287**	(4,367)	**–**	–
Net interest income after credit losses		**156,433**	80,735	**–**	–
Net (loss)/profit on disposal and revaluation of investments		**(498)**	1,891	**527**	(12)
Non-interest income	22	**117,903**	101,410	**–**	1,000
Net interest and non-interest income		**273,838**	184,036	**527**	988
Operating expenditure	23	**(230,477)**	(225,041)	**(1,088)**	(744)
Profit/(Loss) before income from associated companies		**43,361**	(41,005)	**(561)**	244
Share of income from associated companies		**516**	768	**–**	–
Profit/(Loss) before taxation and exceptional items		**43,877**	(40,237)	**(561)**	244
Impairments and provisions raised and write-off on release of CGD guarantee	9	**–**	(172,729)	**–**	–
Recovery of amounts previously written-off in respect of the release of the CGD guarantee	9	**23,119**	–	**–**	–
Profit/(Loss) before taxation		**66,996**	(212,966)	**(561)**	244
Taxation	24	**–**	(50)	**–**	–
Attributable profit/(loss) after taxation		**66,996**	(213,016)	**(561)**	244
Reconciliation between attributable profit/(loss) after taxation and headline earnings/(loss):					
Attributable profit/(loss) after taxation		**66,996**	(213,016)	**(561)**	244
Realisation of available-for-sale reserve on disposal of investments		**885**	(60)	**(431)**	–
Loss/(Profit) on disposal of property and equipment		**144**	(680)	**–**	–
Headline earnings/(loss)		**68,025**	(213,756)	**(992)**	244
Earnings/(Loss) per ordinary share (cents)	25.1	**1.7**	(11.6)		
Headline earnings/(loss) per ordinary share (cents)	25.2	**1.7**	(11.7)		
Diluted earnings/(loss) per ordinary share (cents)	25.3	**1.7**	(11.6)		
Diluted headline earnings/(loss) per ordinary share (cents)	25.4	**1.7**	(11.7)		
Dividends per share (cents)		**–**	–		

Statements of changes in equity for the year ended 31 December 2005

	Share capital and share premium R'000	Capital redemption reserve fund R'000	Share-based payments reserve R'000	General reserve R'000	Property revaluation reserve R'000	Available-for-sale reserve R'000	General credit-risk reserve R'000	Accumulated loss R'000	Total R'000
Group (restated)									
Shareholders' equity at 1 January 2004	**866,865**	**3,788**	**–**	**7,478**	**28,376**	**(742)**	**31,212**	**(773,078)**	**163,899**
Transfer to distributable reserves on sub-division of shares	(205,340)	–	–	–	–	–	–	205,340	–
Share capital issued	555,000	–	–	–	–	–	–	–	555,000
Share issue costs written-off against share premium	(6,382)	–	–	–	–	–	–	–	(6,382)
Revaluation of owner-occupied property	–	–	–	–	2,897	–	–	–	2,897
Gains and losses on remeasurement to fair value	–	–	–	–	–	(153)	–	–	(153)
Release to income on disposal of available-for-sale financial assets	–	–	–	–	–	(60)	–	–	(60)
Increase in general credit-risk reserve	–	–	–	–	–	–	456	(456)	–
Treasury shares on consolidation of share incentive trust	(1,501)	–	–	–	–	–	–	–	(1,501)
Loss after taxation	–	–	–	–	–	–	–	(213,016)	(213,016)
Share-based payments expense	–	–	123	–	–	–	–	–	123
Accumulated profit on consolidation of share incentive trust	–	–	–	–	–	–	–	132	132
Shareholders' equity at 31 December 2004	**1,208,642**	**3,788**	**123**	**7,478**	**31,273**	**(955)**	**31,668**	**(781,078)**	**500,939**
Change in accounting policy – IAS 32 and IAS 39 credit risk impairments	–	–	–	–	–	–	–	(22,952)	(22,952)
Release of general credit-risk reserve on adoption of IFRS in respect of credit risk impairments	–	–	–	–	–	–	(22,952)	22,952	–
Share-based payments expense	–	–	724	–	–	–	–	–	724
Revaluation of owner-occupied property	–	–	–	–	5,203	–	–	–	5,203
Gains and losses on remeasurement to fair value	–	–	–	–	–	(6)	–	–	(6)
Release to income on disposal of available-for-sale financial assets	–	–	–	–	–	885	–	–	885
Increase in general credit-risk reserve	–	–	–	–	–	–	2,119	(2,119)	–
Treasury shares on consolidation of share incentive trust	(1,610)	–	–	–	–	–	–	–	(1,610)
Profit after taxation	–	–	–	–	–	–	–	66,996	66,996
Shareholders' equity at 31 December 2005	**1,207,032**	**3,788**	**847**	**7,478**	**36,476**	**(76)**	**10,835**	**(716,201)**	**550,179**

Statements of changes in equity for the year ended 31 December 2005 (continued)

	Share capital and share premium R'000	Capital redemption reserve fund R'000	Share-based payments reserve R'000	Available-for-sale reserve R'000	Accumulated loss R'000	Total R'000
Company (restated)						
Shareholders' equity at 1 January 2004	**866,865**	**3,788**	**–**	**149,714**	**(856,468)**	**163,899**
Transfer to distributable reserves on sub-division of shares	(205,340)	–	–	–	205,340	–
Share capital issued	555,000	–	–	–	–	555,000
Share issue costs written-off against share premium	(6,382)	–	–	–	–	(6,382)
Gains and losses on remeasurement to fair value	–	–	–	(210,333)	–	(210,333)
Release to income on disposal of available-for-sale financial assets	–	–	–	12	–	12
Share-based payments expense	–	–	123	–	–	123
Profit after taxation	–	–	–	–	244	244
Shareholders' equity at 31 December 2004	**1,210,143**	**3,788**	**123**	**(60,607)**	**(650,884)**	**502,563**
Share-based payments expense	–	–	724	–	–	724
Gains and losses on remeasurement to fair value	–	–	–	50,995	–	50,995
Release to income on disposal of available-for-sale financial assets	–	–	–	(431)	–	(431)
Loss after taxation	–	–	–	–	(561)	(561)
Shareholders' equity at 31 December 2005	**1,210,143**	**3,788**	**847**	**(10,043)**	**(651,445)**	**553,290**

Cash flow statements
for the year ended 31 December 2005

		Group		Company	
		2005	2004	**2005**	2004
	Notes	**R'000**	R'000 (restated)	**R'000**	R'000
Cash receipts from customers	26.1	**399,890**	308,824	**–**	1,945
Cash paid to suppliers and employees	26.2	**(333,443)**	(317,108)	**(1,088)**	(2,689)
Dividends received		**80**	142	**–**	1,000
Taxation paid	26.3	**(126)**	(992)	**–**	–
Net cash inflow/(outflow) from operating activities		**66,401**	(9,134)	**(1,088)**	256
Changes in banking activities					
Net increase in income earning assets	26.4	**(506,888)**	(39,511)	**–**	–
Net increase in deposits and other accounts	26.5	**716,861**	86,475	**195**	36
Net cash inflow from banking activities		**209,973**	46,964	**195**	36
Investing activities					
Purchase of property, equipment and intangible assets		**(18,652)**	(9,342)	**–**	–
Proceeds on sale of property, equipment and intangible assets		**384**	84	**–**	–
Proceeds on disposal of investments		**1,576**	150	**644**	40
Proceeds on disposal of associate company		**–**	1,851	**–**	–
Increase in investment in subsidiary		**–**	–	**–**	(555,000)
Decrease in loans with subsidiary and associated companies		**429**	483	**–**	6,384
Net cash (outflow)/inflow from investing activities		**(16,263)**	(6,774)	**644**	(548,576)
Financing activities					
Proceeds on issue of ordinary shares		**–**	555,000	**–**	555,000
Share issue costs		**–**	(6,382)	**–**	(6,382)
Finance lease payments		**–**	(5,743)	**–**	–
Net cash inflow from financing activities		**–**	542,875	**–**	548,618
Net cash inflow/(outflow) for year		**260,111**	573,931	**(249)**	334
Cash and cash equivalents at beginning of year		**1,148,861**	574,930	**336**	2
Cash and cash equivalents at end of year	12	**1,408,972**	1,148,861	**87**	336

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

1. Intangible assets

Group	Computer software 2005 R'000	2004 R'000
Cost at beginning of year	**39,051**	38,310
Additions	**5,017**	741
Cost at end of year	**44,068**	39,051
Accumulated amortisation and impairments at beginning of year	**(32,250)**	(25,599)
Amortisation	**(4,798)**	(6,651)
Accumulated amortisation and impairments at end of year	**(37,048)**	(32,250)
Net carrying amount at end of year	**7,020**	6,801

2. Property and equipment

Group	Owner-occupied properties R'000	Leasehold improve-ments R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
2005							
Open market value/cost at beginning of year	60,990	15,568	61,640	8,269	18,778	722	165,967
Revaluations	4,174	–	–	–	–	–	4,174
Additions	–	3,940	7,975	205	1,515	–	13,635
Disposals	–	(2,342)	(2,453)	(2)	(3)	(300)	(5,100)
Open market value/cost at end of year	**65,164**	**17,166**	**67,162**	**8,472**	**20,290**	**422**	**178,676**
Accumulated depreciation and impairment losses at beginning of year	–	(12,324)	(49,563)	(5,963)	(12,503)	(586)	(80,939)
Depreciation	(1,029)	(1,432)	(7,480)	(676)	(1,372)	(44)	(12,033)
Revaluation	1,029	–	–	–	–	–	1,029
Disposals	–	2,206	2,062	1	3	300	4,572
Accumulated depreciation and impairment losses at end of year	**–**	**(11,550)**	**(54,981)**	**(6,638)**	**(13,872)**	**(330)**	**(87,371)**
Net carrying amount at end of year	**65,164**	**5,616**	**12,181**	**1,834**	**6,418**	**92**	**91,305**

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

2. Property and equipment (continued)

Group	Owner-occupied properties R'000	Leasehold improve-ments R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
2004 (restated)							
Open market value/cost at beginning of year	59,000	15,493	57,770	8,490	18,507	770	160,030
Revaluations	1,990	–	–	–	–	–	1,990
Additions	–	134	7,992	35	440	–	8,601
Disposals	–	(59)	(4,122)	(256)	(169)	(48)	(4,654)
Open market value/cost at end of year	**60,990**	**15,568**	**61,640**	**8,269**	**18,778**	**722**	**165,967**
Accumulated depreciation and impairment losses at beginning of year	–	(10,988)	(46,463)	(5,760)	(11,582)	(586)	(75,379)
Depreciation	(907)	(1,380)	(7,366)	(701)	(1,315)	(48)	(11,717)
Revaluations	907	–	–	–	–	–	907
Impairments	–	–	161	285	260	–	706
Disposals	–	44	4,105	213	134	48	4,544
Accumulated depreciation and impairment losses at end of year	**–**	**(12,324)**	**(49,563)**	**(5,963)**	**(12,503)**	**(586)**	**(80,939)**
Net carrying amount at end of year	**60,990**	**3,244**	**12,077**	**2,306**	**6,275**	**136**	**85,028**

Notes:

1. G J van Zyl, a valuator with Van Zyl Valuers and a Member of The Institute of Valuers of South Africa, independently valued the properties at 31 December 2005.
2. A register containing details of property and the revaluation thereof is available for inspection at the registered office of the Company.

3. Investment properties

	Group 2005 R'000	Group 2004 R'000
Open-market value at beginning of year	**770**	800
Disposals	**(470)**	–
Revaluations	**50**	(30)
Open-market value at end of year	**350**	770

Notes:

1. G J van Zyl, a valuator with van Zyl Valuers and a Member of The Institute of Valuers of South Africa, independently valued the properties at 31 December 2005.
2. At 31 December 2005 the value of unlet investment properties for the Group amounted to R39 000 (December 2004: R129 000).
3. A register containing details of investment properties and the revaluation thereof is available for inspection at the registered office of the Company.
4. Refer to Note 22 for rental income earned on investment properties.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

4. Taxation

	Group		Company	
	2005	2004	**2005**	2004
	R'000	R'000	**R'000**	R'000
South African Revenue Services				
Taxation overpaid by the Group/Company	**3,698**	3,616	**29**	29
Taxation owing by the Group/Company	**–**	44	**–**	–

5. Other accounts receivable

Items in transit	**4,345**	4,675	**–**	–
Pre-payments and deposits	**3,721**	11,166	**3**	–
Properties in possession	**–**	203	**–**	–
Other receivables	**6,821**	17,104	**–**	214
	14,887	33,148	**3**	214

6. Interest in subsidiaries

	Company	
	2005	2004
	R'000	R'000
Unlisted		
Shares at fair value	**567,202**	516,212
Loans – net amount owing to subsidiaries	**(13,754)**	(14,474)
	553,448	501,738

A list of principal subsidiary companies is contained in Note 8 in the Directors' report.

The loans are interest free and have no fixed terms of maturity.

7. Interest in associated companies

	Group	
	2005	2004
	R'000	R'000
Unlisted		
Statman Investments (Pty) Limited*		
Shares, at cost	**675**	675
Accumulated share of post-acquisition profits	**3,077**	2,834
Dividends received from associated companies	**(429)**	(273)
	3,323	3,236
Directors' valuation of unlisted associated companies	**3,323**	3,236

*Financial year-end – February.

Summarised financial information of associated companies is disclosed in Note 28.4.

8. Other investments

	Group		Company	
	2005	2004	**2005**	2004
	R'000	R'000	**R'000**	R'000
Available-for-sale				
Listed	**–**	631	**–**	559
Unlisted	**2,365**	2,925	**20**	–
	2,365	3,556	**20**	559
Directors' valuation of unlisted investments	**2,365**	2,925	**20**	–

A register containing details of investments is available for inspection at the registered office of the Company.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

9. Loans and advances

	Group 2005 R'000	Group 2004 R'000
Category analysis		
Amortised cost	**1,758,930**	1,275,068
Current accounts	**318,177**	235,574
Credit cards	**137,638**	136,674
Mortgage loans	**529,247**	344,495
Instalment sales and leases	**209,642**	153,008
Other advances	**564,226**	405,317
Fair value:		
Other advances	**129,292**	136,342
	1,888,222	1,411,410
Less: Impairment for credit losses	**(268,665)**	(294,264)
Interest in suspense	**(160,880)**	(141,535)
	1,458,677	975,611
Maturity analysis		
Repayable on demand	**696,215**	605,769
Maturing within six months	**61,884**	69,089
Maturing after six months but within 12 months	**65,798**	61,850
Maturing after 12 months	**1,064,325**	674,702
	1,888,222	1,411,410
The maturity analysis is based on the remaining period to contractual maturity at year-end.		
Impairment for credit losses		
Balance at beginning of year	**294,264**	297,874
Movements for year:		
Credit losses written-off	**(39,826)**	(154,363)
Net impairments raised	**14,227**	150,753
Impairment raised on release of CGD guarantee	**–**	134,846
Creation of credit-risk impairments on adoption of IFRS	**22,952**	–
Other net impairments (released)/raised	**(8,725)**	15,907
Balance at end of year	**268,665**	294,264
Comprising:		
Portfolio impairment	**4,238**	5,439
Specific impairment	**264,427**	288,825
	268,665	294,264
Net recovery of/(charge for) credit losses		
Net impairments released/(raised)	**8,725**	(15,907)
Recoveries in respect of amounts previously written-off	**9,705**	8,643
Other credit risk related provisions released	**2,857**	2,897
	21,287	(4,367)
Exceptional items as per income statement		
Net impairments	**–**	(134,846)
Net provisions raised	**–**	(2,927)
Write-off of suspense account	**–**	(34,956)
Recovery of amounts previously written-off in respect of the release of the CGD guarantee	**23,119**	–
	23,119	(172,729)

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

9. Loans and advances (continued)

Non-performing loans

	Balance after interest in suspense R'000	Specific impairment R'000	Net balance R'000
2005			
Category analysis			
Current accounts	1,830	–	1,830
Credit cards	67,826	67,579	247
Mortgage loans	28,729	12,182	16,547
Instalment sales and leases	52,355	51,186	1,169
Other advances	145,220	133,480	11,740
Balance at 31 December 2005	295,960	264,427	31,533
2004			
Category analysis			
Current accounts	1,833	1,537	296
Credit card	76,514	70,138	6,376
Mortgage loans	35,175	12,750	22,425
Instalment sales and leases	62,611	53,774	8,837
Other advances	181,258	150,626	30,632
Balance at 31 December 2004	357,391	288,825	68,566

10. Derivative financial instruments

Group	Notional principal R'000	Fair value of assets R'000	Notional principal R'000	Fair value of liabilities R'000
2005				
Held-for-trading				
Foreign exchange contracts	1,118,646	36,757	401,219	8,937
Interest rate swaps	100,000	–	315,832	29,594
	1,218,646	36,757	717,051	38,531
2004				
Held-for-trading				
Foreign exchange contracts	1,018,421	89,970	214,869	3,183
Interest rate swaps	150,000	192	256,864	32,027
	1,168,421	90,162	471,733	35,210

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

11. Negotiable securities

	Group 2005 R'000	Group 2004 R'000
Loans and receivables		
Treasury bills	**129,509**	178,660
Debentures	**58,226**	30,104
Non-liquid bills and acceptances	**56**	83
Held-for-trading		
Corporate bonds	**191,237**	161,432
	379,028	370,279
Maturity analysis		
Repayable on demand	**153,175**	–
Maturing within six months	**34,616**	208,847
Maturing after 12 months but within five years	**191,237**	161,432
	379,028	370,279

The maturity analysis is based on the remaining period to contractual maturity at year-end.

12. Cash and cash equivalents

	Group 2005 R'000	Group 2004 R'000	Company 2005 R'000	Company 2004 R'000
Coin and bank notes	**19,946**	18,792	–	–
Central bank balances	**35,719**	33,336	–	–
Domestic bank balances	**151,785**	88,206	**87**	336
Foreign bank balances	**1,201,522**	1,008,527	–	–
	1,408,972	1,148,861	**87**	336

13. Share capital and share premium

13.1 Issued – Group

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
At 1 January 2004	**855,585,190**	**213,896**	**652,969**	**866,865**
Transfer to distributable reserve on sub-division of shares	–	(205,340)	–	(205,340)
Issue of ordinary shares of 1 cent each	3,083,333,334	30,833	524,167	555,000
Share issue costs	–	–	(6,382)	(6,382)
Treasury shares on consolidation of share incentive trust	(8,546,595)	(1,501)	–	(1,501)
At 31 December 2004	**3,930,371,929**	**37,888**	**1,170,754**	**1,208,642**
Treasury shares on consolidation of share incentive trust	(5,246,405)	(1,610)	–	(1,610)
At 31 December 2005	**3,925,125,524**	**36,278**	**1,170,754**	**1,207,032**

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

13. Share capital and share premium (continued)

13.2 Issued – Company

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
At 1 January 2004	**855,585,190**	**213,896**	**652,969**	**866,865**
Transfer to distributable reserve on subdivision of shares	–	(205,340)	–	(205,340)
Issue of ordinary shares of 1 cent each	3,083,333,334	30,833	524,167	555,000
Share issue costs	–	–	(6,382)	(6,382)
At 31 December 2004 and 31 December 2005	**3,938,918,524**	**39,389**	**1,170,754**	**1,210,143**

13.3 Authorised

The total authorised number of ordinary shares is 4,465,955,440 shares with a par value of 1 cent each (December 2004: 4,465,955,440 shares with a par value of 1 cent each), after the sub-division in terms of the scheme of arrangement approved by the High Court of South Africa (Witwatersrand Local Division) on 13 July 2004. The total authorised number of preference shares is 15,2 million shares (December 2004: 15,2 million shares) with a par value of 25 cents each.

13.4 Unissued

The unissued ordinary shares are under the control of the directors until the next Annual General Meeting.

13.5 Share incentive scheme

Options in issue at the beginning of the year amounted to 14,743,000 (2004: 6,643,000). During the year, a total of 1,600,000 (2004: 11,625,000) options were forfeited and a further 2,950,000 (2004: 8,100,000) options were granted to senior management as detailed below. No options were exercised during the year. The number of shares, which could be utilised for the purposes of the scheme at 31 December 2005, amounted to 787,783,705, which is 20% of the issued share capital of the Company at that date.

Options may be exercised in respect of 33% of the option shares after the expiration of two years from the offer date, in respect of a further 33% after the expiration of three years from the offer date and the remaining option shares after the expiration of four years from the offer date. Such percentages are to be carried forward on a cumulative basis. Should the options not be exercised by the fifth anniversary date of the offer, the option holder is obliged to exercise the option in respect of at least 20% per annum of the shares in respect of which the options are exercisable, or the options in respect of that 20% will lapse.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

13. Share capital and share premium (continued)

13.5 Share incentive scheme (continued)

Grant date	Exercise price (cents)	Options at beginning of year	Granted during year	Forfeited during year	Options at end of year	Exercisable options at end of year	Relating to Directors[1]
2005							
20 November 2001	32	6,293,000	–	(950,000)	5,343,000	5,343,000	–
11 February 2002	32	350,000	–	(150,000)	200,000	133,333	–
5 October 2004	18	5,000,000	–	–	5,000,000	–	5,000,000
7 October 2004	17	3,100,000	–	(500,000)	2,600,000	–	–
3 January 2005	15	–	700,000	–	700,000	–	–
11 February 2005	20	–	500,000	–	500,000	–	–
1 April 2005	39	–	1,000,000	–	1,000,000	–	–
27 July 2005	32	–	750,000	–	750,000	–	–
		14,743,000	**2,950,000**	**(1,600,000)**	**16,093,000**	**5,476,333**	**5,000,000**
2004							
20 November 2001	32	17,918,000	–	(11,625,000)	6,293,000	4,195,333	–
11 February 2002	32	350,000	–	–	350,000	116,667	–
5 October 2004	18	–	5,000,000	–	5,000,000	–	5,000,000
7 October 2004	17	–	3,100,000	–	3,100,000	–	–
		18,268,000	**8,100,000**	**(11,625,000)**	**14,743,000**	**4,312,000**	**5,000,000**

(1) Refer to Note 28.3.

Inputs into the Black Scholes model in determining the charge for share-based payments are as follows:

	2005	2004
Weighted average share price	**31 cents**	18 cents
Weighted average exercise price	**28 cents**	18 cents
Expected volatility	**103.0% – 127.2%**	117.1% – 119.0%
Option life	**4 years**	4 years
Risk free rate	**6.7% – 7.3%**	7.2%
Expected dividends	**Nil**	Nil

Expected volatility was determined by calculating the historical volatility of the Group's share price over one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of R0,724 million (2004: R0,123 million) related to equity-settled share-based payments transactions.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

14. Deposits

	Group 2005 R'000	Group 2004 R'000
Call deposits and current accounts	**943,854**	752,947
Savings accounts	**155,853**	140,949
Term and notice deposits	**1,411,088**	1,133,009
Negotiable certificates of deposit	**35,472**	35,709
Foreign bank deposits and loans	**90,280**	49,955
	2,636,547	2,112,569
Maturity analysis		
Repayable on demand and within one month	**1,513,901**	1,163,031
Maturing after one month but within six months	**966,723**	822,164
Maturing after six months but within 12 months	**155,623**	127,374
Maturing after 12 months	**300**	–
	2,636,547	2,112,569

The maturity analysis is based on the remaining period to contractual maturity at year-end.

15. Provisions

Group	Audit fees R'000	Post-retirement medical benefits R'000	Leave pay R'000	Onerous lease contracts R'000	Other risks R'000	Staff incentives R'000	Total R'000
At 31 December 2003	**1,500**	**14,367**	**8,455**	**5,647**	**7,597**	**–**	**37,566**
Additional provision raised	2,400	1,582	4,812	–	291	4,000	13,085
Charged to provision	(1,500)	–	(5,207)	(1,766)	(410)	–	(8,883)
Unutilised provision reversed	–	–	–	–	(2,600)	–	(2,600)
At 31 December 2004	**2,400**	**15,949**	**8,060**	**3,881**	**4,878**	**4,000**	**39,168**
Additional provision raised	3,244	2,234	2,830	–	3,295	9,000	20,603
Charged to provision	(2,400)	(7,769)	(2,950)	(3,453)	(577)	(4,000)	(21,149)
Unutilised provision reversed	–	–	–	–	(6,975)	–	(6,975)
At 31 December 2005	**3,244**	**10,414**	**7,940**	**428**	**621**	**9,000**	**31,647**

Post-retirement medical benefits

Refer to Note 16 for detailed disclosure of this provision.

Leave pay

In terms of the Group policy, employees are entitled to accumulate leave not taken during the year, within certain limits.

Other risks

Consists of provisions that arose from the sale of the asset finance book, legal claims and other risks. At any time there are legal or potential claims made against the group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual basis or in aggregate. Provisions are raised for all liabilities, which are expected to materialise.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

16. Post-retirement medical benefits

The Group operates a partly funded post-retirement medical scheme. The assets of the funded plans are held independently of the Group's assets in a separate trustee-administered fund. Independent actuaries value this scheme at least every three years. The latest actuarial valuations were carried out at 31 December 2005.

A buy-out of members' post-retirement medical liability took place in 2005, during which some eligible members accepted the offer. Members that did not accept the offer remain eligible for post-retirement medical benefits.

	Group	
	2005	2004
	R'000	R'000
The amounts recognised in the balance sheet are as follows (refer Note 15):		
Present value of total service liabilities	**16,651**	26,257
Fair value of plan assets	**(6,237)**	(10,308)
Total liability in the balance sheet	**10,414**	15,949
The amounts recognised in the income statement are as follows:		
Current service cost	**414**	1,020
Interest costs	**1,659**	2,240
Expected return on plan assets	**(575)**	(986)
Actuarial loss/(gain)	**1,736**	(144)
Employer benefit payments	**(1,085)**	(1,088)
Payments from plan assets	**540**	540
Effect on curtailment	**(455)**	–
Total included in staff costs	**2,234**	1,582
Reconciliation of the movement in the net liability:		
At beginning of year	**15,949**	14,367
Current service cost	**414**	1,020
Interest costs	**1,659**	2,240
Expected return on plan assets	**(575)**	(986)
Actuarial loss/(gain)	**1,736**	(144)
Employer benefit payments	**(1,085)**	(1,088)
Payments from plan assets	**540**	540
Net effect of settlement	**(7,769)**	–
Effect of curtailment	**(455)**	–
At end of year	**10,414**	15,949

The principle actuarial assumptions used were as follows:

Discount rate	8.5% (2004: 9.5%) compounded annually
Investment return	6.5% (2004: 9.5%) compounded annually
Rate of medical inflation	7.0% (2004: 7.5%) compounded annually
Salary inflation	6.5% (2004: 6.5%) compounded annually

17. Other accounts payable

	Group		Company	
	2005	2004	**2005**	2004
	R'000	R'000	**R'000**	R'000
Loans received under repurchase agreements	**109,461**	–	**–**	–
Accruals	**6,218**	5,840	**10**	17
Product-related credits	**12,291**	16,147	**280**	280
Sundry creditors	**21,508**	11,151	**7**	16
	149,478	33,138	**297**	313

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

18. Contingent liabilities and commitments

	Group 2005 R'000	Group 2004 R'000
18.1 Conditional buy-back obligation		
In terms of the sale agreement, wherein the Group disposed of its asset finance book, the Group has an obligation to buy-back the credit agreement rights and obligations of customers that fail to meet their repayments. An amount of R0,3 million, included in provisions for other risks (refer to Note 15), has been provided against this obligation (December 2004: R4,0 million).		
Capital balance outstanding	7,707	42,685
18.2 Guarantees and letters of credit		
Guarantees	261,763	135,102
Lending related	34,860	37,805
Mortgage	70,173	27,705
Performance	156,730	69,592
Letters of credit	26,058	3,368
	287,821	138,470
18.3 Commitments under operating leases		
The total minimum future lease payments under operating leases are as follows:		
Property rentals:		
Due within one year	3,852	4,946
Due between one and five years	9,721	5,305
	13,573	10,251
Motor vehicle rentals:		
Due within one year	103	245
Due between one and five years	66	123
	169	368

A register containing details of the existence and terms of renewal and escalation clauses is available for inspection at the registered office of the company.

19. Deferred taxation

A deferred tax asset has not been recognised for the deductible temporary differences and unutilised calculated tax losses of R1,013.7 million (December 2004: R1,075.2 million) due to the uncertainty regarding the timing of the reversal of these losses and availability of future taxable income.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

	Group		Company	
	2005 R'000	2004 R'000	**2005 R'000**	2004 R'000
20. Interest income				
Interest on:				
Cash and cash equivalents	**82,325**	57,196	**–**	–
Negotiable securities	**27,957**	21,747	**–**	–
Loans and advances	**138,008**	113,195	**–**	–
Amortised cost	**128,316**	102,465	**–**	–
Fair value	**9,692**	10,730	**–**	–
Subordinated loan to the Bank	**–**	–	**–**	1,945
	248,290	192,138	**–**	1,945
21. Interest expenditure				
Interest on:				
Long-term liabilities	**–**	456	**–**	–
Deposits	**113,144**	104,635	**–**	–
Subordinated loan from CGD	**–**	1,945	**–**	1,945
	113,144	107,036	**–**	1,945
22. Non-interest income (restated)				
Transactional income	**88,172**	78,271	**–**	–
Fees and commission	**86,450**	75,908	**–**	–
Knowledge-based fees	**1,722**	2,363	**–**	–
Trading income	**29,186**	21,626	**–**	–
Foreign currency	**30,456**	23,978	**–**	–
Treasury operational loss	**(1,270)**	(2,352)	**–**	–
Investment income	**545**	1,385	**–**	1,000
Dividends	**80**	142	**–**	1,000
Rental income	**465**	1,243	**–**	–
Other income	**–**	128	**–**	–
	117,903	101,410	**–**	1,000

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

23. Operating expenditure

	Group		Company	
	2005 R'000	2004 R'000 (restated)	2005 R'000	2004 R'000
Auditors' remuneration				
Audit fees – current	5,163	4,000	–	–
– prior	200	1,200	–	–
Fees for other services	1,458	3,202	–	–
	6,821	8,402	–	–
Professional fees				
Consulting	14,420	12,478	53	–
Legal	1,657	1,950	69	–
Technical and other	19,184	21,637	–	–
	35,261	36,065	122	–
Depreciation and amortisation (refer Notes 1 and 2)	16,831	18,368	–	–
Lease charges				
Motor vehicles	37	624	–	–
Equipment	78	200	–	–
	115	824	–	–
Staff costs				
Salaries, wages and allowances	90,078	88,161	–	–
Post-retirement medical benefits	2,234	1,582	–	–
Contributions to retirement funds	5,763	5,307	–	–
Share-based payments excluding directors	413	45	–	–
Other	4,194	3,506	–	–
	102,682	98,601	–	–
Number of persons employed by the Group at year-end	415	437	–	–
Operating lease expenses – premises	7,987	8,861	–	–
Marketing and communication	7,740	7,499	494	468
Loss/(Profit) on sale of property and equipment				
Leasehold improvements	66	15	–	–
Computer equipment	80	(174)	–	–
Furniture and fittings	–	(262)	–	–
Office equipment	–	(229)	–	–
Motor vehicles	(2)	(30)	–	–
	144	(680)	–	–
Directors' emoluments (refer Note 28.3)				
Executive directors	5,899	4,461	–	–
Non-executive directors' fees	2,520	1,294	–	–
Share-based payments	311	78	–	–
	8,730	5,833	–	–
Indirect taxation				
Unclaimable Value-Added Tax	7,962	8,042	–	–
Skills development levy	417	173	–	–
Regional Services Council levies	980	816	3	3
	9,359	9,031	3	3
Direct operating expenses in respect of investment properties				
Let properties	294	250	–	–
Unlet properties	27	122	–	–
	321	372	–	–
Other operating costs	34,486	31,865	469	273
Total operating expenditure	230,477	225,041	1,088	744

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

24. Taxation

	Group		Company	
	2005	2004	**2005**	2004
	R'000	R'000	**R'000**	R'000
Direct taxation				
South African normal taxation:				
Current	**–**	–	**–**	–
Deferred	**–**	–	**–**	–
Prior period	**–**	50	**–**	–
	–	50	**–**	–
South African tax rate reconciliation:				
South African standard tax rate	**29.0%**	30.0%	**29.0%**	30.0%
Exempt income	**(0.8%)**	(0.8%)	**–**	(409.8%)
Tax losses raised/(utilised)	**192.8%**	1.6%	**(29.0%)**	379.8%
Deferred taxation not raised	**(221.0%)**	(31.8%)	**–**	–
Expenses not allowable	**–**	1.0%	**–**	–
Effective tax rate	**0.0%**	0.0%	**0.0%**	0.0%
Estimated tax losses available for set-off against future taxable income	**1,013,647**	1,075,178	**3,730**	2,607

25. Earnings/(Loss), headline earnings/(loss), diluted earnings/(loss) and diluted headline earnings/(loss) per ordinary share

25.1 Earnings/(Loss) per ordinary share

The calculation of earnings/(loss) per ordinary share is based on earnings of R67,0 million (December 2004: losses of R213,0 million) and a weighted average of 3,927,891,829 (December 2004: 1,830,341,178) ordinary shares in issue throughout the year. The weighted average number of ordinary shares in the Mercantile Share Incentive Trust have been eliminated against the ordinary shares in issue.

25.2 Headline earnings/(loss) per ordinary share

The calculation of headline earnings/(loss) per ordinary share is based on headline earnings of R68,0 million (December 2004: losses of R213,8 million) and a weighted average of 3,927,891,829 (December 2004: 1,830,341,178) ordinary shares in issue throughout the year. The weighted average number of ordinary shares in the Mercantile Share Incentive Trust have been eliminated against the ordinary shares in issue.

25.3 Diluted earnings/(loss) per ordinary share

The calculation of diluted earnings/(loss) per ordinary share is based on earnings of R67,0 million (December 2004: losses of R213,0 million) and a weighted average of 3,932,811,229 (December 2004: 1,830,349,172) ordinary shares in issue throughout the year. The weighted average number of ordinary shares in the Mercantile Share Incentive Trust have been eliminated against the ordinary shares in issue and adjusted with the dilution effect of the share options granted.

25.4 Diluted headline earnings/(loss) per ordinary share

The calculation of diluted headline earnings/(loss) per ordinary share is based on headline earnings of R68,0 million (December 2004: losses of R213,8 million) and a weighted average of 3,932,811,229 (December 2004: 1,830,349,172) ordinary shares in issue throughout the year. The weighted average number of ordinary shares in the Mercantile Share Incentive Trust have been eliminated against the ordinary shares in issue and adjusted with the dilution effect of the share options granted.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

26. Cash flow details

	Group 2005 R'000	Group 2004 R'000 (restated)	Company 2005 R'000	Company 2004 R'000
26.1 Cash receipts from customers				
Interest income	248,290	192,138	–	1,945
Non-interest income and profit on sale and revaluation of investments	117,405	103,301	527	988
Adjusted for: Dividends received	(80)	(142)	–	(1,000)
Net loss/(profit) on disposal and revaluation of investments	498	(1,891)	(527)	12
Revaluation of held-for-trading financial instruments	953	7,964	–	–
Recoveries of credit losses	32,824	7,454	–	–
Total cash receipts from customers	399,890	308,824	–	1,945
26.2 Cash paid to suppliers and employees				
Interest expenditure	(113,144)	(106,580)	–	(1,945)
Operating expenditure	(230,477)	(225,041)	(1,088)	(744)
Adjusted for: Depreciation and amortisation	16,831	18,368	–	–
Loss/(Profit) on disposal of property and equipment	144	(680)	–	–
Share-based payments	724	123	–	–
Release in provisions	(7,521)	(3,298)	–	–
Total cash paid to customers and employees	(333,443)	(317,108)	(1,088)	(2,689)
26.3 Taxation paid				
Amounts overpaid at beginning of year	3,572	2,630	29	29
Income statement charge	–	(50)	–	–
Less: Amounts overpaid at end of year	(3,698)	(3,572)	(29)	(29)
Total taxation paid	(126)	(992)	–	–
26.4 Changes in income earning assets				
Increase in negotiable securities	(8,749)	(97,189)	–	–
(Increase)/Decrease in loans and advances	(498,139)	57,678	–	–
Net increase in income earning assets	(506,888)	(39,511)	–	–
26.5 Changes in deposits and other accounts				
Increase in deposits	523,978	165,817	–	–
Increase/(Decrease) in other accounts	192,883	(79,342)	195	36
Net increase in deposits and other accounts	716,861	86,475	195	36

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

27. Financial risk management

27.1 Foreign currency risk management

The Group, in terms of approved policy limits, manages short-term foreign currency exposures relating to trade imports, exports and interest flows on foreign liabilities. The transaction exposures and material forward exchange contracts at year-end are summarised as follows:

Exposure in R'000 to:	US Dollar	Euro	Pound Sterling	Other	Total
2005					
Total foreign exchange assets	**1,133,799**	**61,959**	**26,848**	**2,708**	**1,225,314**
Total foreign exchange liabilities	**(17,685)**	**(49,082)**	**(22,324)**	**(1,057)**	**(90,148)**
Commitments to purchase foreign currency	**83,036**	**52,113**	**–**	**40,072**	**175,221**
Commitments to sell foreign currency	**(1,199,681)**	**(65,521)**	**(5,435)**	**(41,635)**	**(1,312,272)**
Year-end effective net open foreign currency positions	**(531)**	**(531)**	**(911)**	**88**	**(1,885)**
2004					
Total foreign exchange assets	958,519	14,001	34,889	1,118	1,008,527
Total foreign exchange liabilities	(12,439)	(5,853)	(30,832)	(831)	(49,955)
Commitments to purchase foreign currency	60,986	26,103	–	1,350	88,439
Commitments to sell foreign currency	(1,010,388)	(34,002)	(4,577)	(2,140)	(1,051,107)
Year-end effective net open foreign currency positions	(3,322)	249	(520)	(503)	(4,096)

The forward exchange contracts above have maturity dates within 12 months of the year-end. The highest and lowest rates inherent in the above contracts have been set out per foreign currency below:

	Highest rate		Lowest rate	
Foreign currency	**2005**	2004	**2005**	2004
US Dollar	**7.00**	6.94	**6.25**	5.58
Euro	**8.60**	8.40	**7.49**	7.71
Pound Sterling	**11.70**	12.20	**11.12**	10.88
Swiss Franc	**5.26**	5.39	**5.00**	5.01
Japanese Yen	**0.06**	0.06	**0.05**	0.06
Australian Dollar	**0.22**	–	**0.22**	–
Denmark Kronen	–	0.97	–	0.96
Hong Kong Dollar	–	1.33	–	1.27

27.2 Credit risk management

Potential concentrations of credit risk consist mainly of short-term cash, cash equivalent investments, advances and other receivables.

The Group limits its counterparty exposures to its money market investment operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any one counterparty is managed by setting transaction/exposure limits, which are reviewed by the Group Risk Management Committee.

Advances and other receivables comprise a large number of customers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these advances and other receivables. Advances and other receivables are presented net of impairment for credit losses.

Counterparties to derivatives expose the Group to credit-related losses in the event of non-performance. The counterparties to these contracts are financial institutions. The Group continually monitors its positions and the credit ratings of its counterparties and limits the amount of contracts it enters into with any one party.

At year-end, the Group did not consider there to be any significant concentration of risk, which had not been insured or adequately provided for. There were no material credit exposures in advances made to foreign entities at year-end, except for the deposits with CGD as disclosed in Note 28.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

27. Financial risk management (continued)

27.3 Liquidity risk management

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Group maintains cash resources to cover these exposures. The table below summarises assets and liabilities at balance sheet date of the Group into relevant maturity groupings, based on the remaining period to the contractual maturity date:

	Assets R'000	Liabilities R'000	Total mismatch R'000
2005			
Maturing up to one month	**1,472,282**	**1,711,069**	**(238,787)**
Maturing between one and three months	**500,391**	**688,265**	**(187,874)**
Maturing between three and six months	**310,798**	**280,868**	**29,930**
Maturing between six months and one year	**130,699**	**158,515**	**(27,816)**
Maturing after one year	**992,212**	**17,486**	**974,726**
	3,406,382	**2,856,203**	**550,179**
2004 (restated)			
Maturing up to one month	1,313,500	1,232,394	81,106
Maturing between one and three months	541,329	576,184	(34,855)
Maturing between three and six months	192,691	249,484	(56,793)
Maturing between six months and one year	103,583	130,575	(26,992)
Maturing after one year	569,965	31,492	538,473
	2,721,068	2,220,129	500,939

27.4 Fair value of financial instruments

All financial instruments have been recognised in the balance sheet at fair value, other than assets classified as loans and receivables as well as liabilities that are not derivatives. Such assets and liabilities are carried at amortised cost.

27.5 Interest rate risk management

The Group takes on exposures that are subject to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Mismatches of interest rate repricing are monitored regularly by ALCO. The table below summarises the Group's exposure to interest rate risks. Assets and liabilities are included at carrying amounts, categorised by the earlier of contractual repricing or maturity dates and also indicate their weighted effective interest rates at year-end:

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

27. Financial risk management (continued)

27.5 Interest rate risk management (continued)

2005	Up to 1 month R'000	1 – 3 months R'000	3 – 12 months R'000	1 – 5 years R'000	Over 5 years R'000	Non-interest bearing R'000	Total R'000	Weighted effective interest rate %
Assets								
Intangible assets	–	–	–	–	–	7,020	7,020	–
Property and equipment	–	–	–	–	–	91,305	91,305	–
Investment properties	–	–	–	–	–	350	350	–
Taxation	–	–	–	–	–	3,698	3,698	–
Other accounts receivable	–	–	–	–	–	14,887	14,887	–
Interest in associated companies	–	–	–	–	–	3,323	3,323	–
Other investments	–	–	–	–	–	2,365	2,365	–
Loans and advances	1,331,406	2,784	12,805	–	111,682	–	1,458,677	9.75
Derivative financial instruments	–	–	–	–	–	36,757	36,757	–
Negotiable securities	153,175	34,560	56	–	191,237	–	379,028	6.96
Cash and cash equivalents	580,162	440,032	335,293	–	–	53,485	1,408,972	6.51
Total assets	2,064,743	477,376	348,154	–	302,919	213,190	3,406,382	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	550,179	550,179	–
Deposits	1,693,510	507,693	435,044	300	–	–	2,636,547	4.58
Derivative financial instruments	–	–	–	–	–	38,531	38,531	–
Provisions	–	–	–	–	–	31,647	31,647	–
Other accounts payable	–	–	–	–	–	149,478	149,478	–
Total equity and liabilities	1,693,510	507,693	435,044	300	–	769,835	3,406,382	
On balance sheet interest sensitivity gap	371,233	(30,317)	(86,890)	(300)	302,919			

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

27. Financial risk management (continued)

27.5 Interest rate risk management (continued)

2004	Up to 1 month R'000	1 – 3 months R'000	3 – 12 months R'000	1 – 5 years R'000	Over 5 years R'000	Non-interest bearing R'000	Total R'000	Weighted effective interest rate %
Assets								
Intangible assets	–	–	–	–	–	6,801	6,801	–
Property and equipment	–	–	–	–	–	85,028	85,028	–
Investment properties	–	–	–	–	–	770	770	–
Taxation	–	–	–	–	–	3,616	3,616	–
Other accounts receivable	7,618	–	–	–	–	25,530	33,148	1.65
Interest in associated companies	–	–	–	–	–	3,236	3,236	–
Other investments	–	–	–	–	–	3,556	3,556	–
Loans and advances	793,491	1,991	8,436	67,074	32,753	71,866	975,611	7.48
Derivative financial instruments	–	–	–	–	–	90,162	90,162	–
Negotiable securities	143,329	65,435	–	–	161,432	83	370,279	7.40
Cash and cash equivalents	96,505	508,769	494,024	–	–	49,563	1,148,861	6.98
Total assets	1,040,943	576,195	502,460	67,074	194,185	340,211	2,721,068	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	500,939	500,939	–
Deposits	1,060,119	410,716	373,736	–	–	267,998	2,112,569	4.90
Derivative financial instruments	–	–	–	–	–	35,210	35,210	–
Provisions	–	–	–	–	–	39,168	39,168	–
Other accounts payable	–	–	–	–	–	33,138	33,138	–
Taxation	–	–	–	–	–	44	44	–
Total equity and liabilities	1,060,119	410,716	373,736	–	–	876,497	2,721,068	
On balance sheet interest sensitivity gap	**(19,176)**	**165,479**	**128,724**	**67,704**	**194,185**			

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

28. Related-party information

28.1 Identity of related parties with whom material transactions have occurred

The holding company and material subsidiaries of the Group are identified on page 10 to 11 in the Directors' report and the associated companies are disclosed in Note 7 to the annual financial statements. All of these entities and the directors are related parties. There are no other related parties with whom material transactions have taken place, other than as listed below.

28.2 Material related-party balances and transactions

Mercantile Bank Holdings Limited and its Subsidiaries, in the ordinary course of business, enter into various financial services transactions with the holding company and its subsidiaries, other entities within the Group and associated companies. These transactions are governed by terms no less favourable than those arranged with third parties. For loans to and from subsidiaries, see Note 8 in the Directors' report and for loans to and from associated companies see Note 7 to the annual financial statements. Other transactions are detailed hereafter.

Balances and transactions

With the holding company (CGD):	2005 R'000	2004 R'000
Caixa Geral de Depósitos – Lisbon (Branch of CGD)	**1,144,962**	978,623
Nostro accounts	**917**	642
Vostro accounts	**(8,722)**	(2,996)
Deposit accounts	**1,152,767**	980,977
Caixa Geral de Depósitos – Paris (Branch of CGD)	**525**	274
Nostro accounts	**536**	280
Vostro accounts	**(11)**	(6)
Caixa Geral de Depósitos – London (Branch of CGD)		
Vostro accounts	**(19)**	(184)
Caixa Geral de Depósitos (CGD)	**1,145,468**	978,713
Banco Comercial e de Investimentos (BCI) – Mozambique (Subsidiary of CGD)	**(62,487)**	(38,500)
Vostro accounts	**(23)**	(78)
Call and notice deposits	**(62,464)**	(53,118)
Deposits at BCI	**–**	14,696
	1,082,981	940,213

Interest was paid to BCI – Mozambique amounting to R3,0 million (2004: R2,9 million) and CGD amounting to nil (2004: R2,3 million) in respect of the above balances during the year. Interest received from BCI – Mozambique and CGD in respect of above balances during the year amounted to R0,1 million (2004: R0,1 million) and R35,0 million (2004: R2,9 million), respectively.

Guarantees

Mercantile Bank has issued a guarantee in favour of BCI – Mozambique amounting to R14,9 million (2004: Nil).

Post-retirement medical plan

Details of the post-retirement medical plan are disclosed in Note 16.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

28. Related-party information (continued)

28.3 Director and director-related activities

No loans were made to directors during the year under review. There were no material transactions with directors, other than the following:

Director	Directors' fees R'000	Salary R'000	Fringe benefits R'000	Retirement funds and medical aid contri-butions R'000	Bonus* R'000	Share-based payments R'000	Total R'000
2005							
J A S de Andrade Campos	**888**	–	–	–	–	–	**888**
D J Brown	–	**1,891**	–	**151**	**1,881**	**311**	**4,234**
G P de Kock	**335**	–	–	–	–	–	**335**
M J M Figueira	–	**1,432**	**41**	–	**300**	–	**1,773**
L Hyne	**377**	–	–	–	–	–	**377**
A T Ikalafeng	**287**	–	–	–	–	–	**287**
J P M Lopes (appointed 9 November 2005)	–	**203**	–	–	–	–	**203**
K B Motshabi	**348**	–	–	–	–	–	**348**
A M Osman	**213**	–	–	–	–	–	**213**
S Rapeti (appointed 29 July 2005)	**72**	–	–	–	–	–	**72**
	2,520	**3,526**	**41**	**151**	**2,181**	**311**	**8,730**
2004							(restated)
J A S de Andrade Campos	456	–	–	–	–	–	456
D J Brown (appointed 31 March 2004)	–	1,417	–	–	1,250	78	2,745
G P de Kock	236	–	–	–	–	–	236
M J M Figueira (appointed 26 May 2004)	–	872	27	–	200	–	1,099
L Hyne	282	–	–	–	–	–	282
A T Ikalafeng (appointed 16 November 2004)	30	–	–	–	–	–	30
J H Real Pereira (resigned 29 March 2004)	44	–	–	–	–	–	44
K B Motshabi (appointed 16 November 2004)	35	–	–	–	–	–	35
A M Osman	159	–	–	–	–	–	159
R M L de F N Ribas (resigned 7 September 2004)	52	661	19	15	–	–	747
	1,294	2,950	46	15	1,450	78	5,833

*The bonus relates to the current financial year but is only paid in the following financial year.

Amounts paid by CGD to:	2005 R'000	2004 R'000
M J M Figueira (appointed 26 May 2004)	**851**	505
J P M Lopes (appointed 9 November 2005)	**58**	–
	909	505

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

28. Related-party information (continued)

28.3 Director and director-related activities (continued)

Service agreements

D J Brown, *Chief Executive Officer*

Mr Brown's employment as Chief Executive Officer commenced on 31 March 2004 and is for a maximum period of five years. Mercantile may re-appoint Mr Brown at the expiry of the five-year period provided that agreement is reached on the terms and conditions for his re-appointment.

In consideration for the rendering of his services under the Service Agreement, Mr Brown is also entitled to payment of an annual incentive bonus calculated in accordance with a performance plan as agreed with the Board of Directors of Mercantile from time to time.

M J M Figueira, *Executive Director*

Mr Figueira has been seconded to Mercantile by CGD

Mr Figueira's employment in Mercantile commenced on 26 May 2004 and it will last for a period of three years. In terms of the service agreement Mr Figueira agreed to perform such duties, functions and services as are assigned to him from time to time by the Board of Directors and which are consistent and commensurate with his position as Executive Director.

J P M Lopes, *Executive Director*

Mr Lopes has been seconded to Mercantile by CGD

Mr Lopes's employment in Mercantile commenced on 9 November 2005 and it will last for a period of three years. In terms of the service agreement Mr Lopes agreed to perform such duties, functions and services as are assigned to him from time to time by the Board of Directors and which are consistent and commensurate with his position as Executive Director.

Share options

No options were granted to directors to purchase ordinary shares in the Company during the past financial year. On 5 October 2004, 5 000 000 share options were granted to D J Brown at an exercise price of 18 cents each (refer Note 13.5).

Directors' interests

No directors held beneficial and/or non-beneficial interests, directly or indirectly, in shares issued by the Company.

28.4 Summarised financial information of associated companies

	Statman Investments (Pty) Limited	
	2005 R'000	2004 R'000
Income statement		
Profit after taxation	**3,094**	2,373
Balance sheet		
Non-current assets	**13,996**	14,054
Current assets	**10,804**	12,039
Current liabilities	**(7,076)**	(8,739)
Non-current liabilities	**(2,204)**	(2,339)
Equity	**15,520**	15,015
Percentage held	**21.4**	21.4
Nature of business	Investment holding	
Place of incorporation	South Africa	

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

28. Related-party information (continued)

28.4 Summarised financial information of associated companies (continued)

The Group in applying the equity method of accounting uses the most recent audited annual financial statements of associated companies. These are not always drawn up to the same date as the annual financial statements of the Group. In instances where significant events occurred between the last financial statement date of an associated company and the financial statement date of the Group, the effect of such events are adjusted for.

29. Segment information

The primary business segments of the Group are as follows:

Business segment	Scope of products and services
Retail banking *	Banking, investment and other financial services offered to banking customers.
Treasury*	Managing internal liquidity as well as serving retail and alliance banking customers.
Alliance banking, MBL credit card and structured loans*	Card processing services and structured loans offered to banking customers.
Support and other services	Support services for the above segments as well as collections, specialised asset finance, insurance brokers, inter-group eliminations and IFRS adjustments.

* Excludes the allocation of attributable support costs.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

29. Segment information (continued)

The primary segments are as follows:

	Retail banking		Treasury		Alliance banking, MBL credit card and structured loans		Support and other services		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 (restated)
Segment results										
Segment revenue[1]	**138,968**	116,342	**31,999**	28,277	**39,559**	41,790	**87,445**	2,762	**297,971**	189,171
Segment expenditure[2]	**(58,424)**	(54,401)	**(23,548)**	(57,651)	**(24,820)**	(18,261)	**(124,183)**	(271,874)	**(230,975)**	(402,187)
Contribution/(Loss) before allocated costs	**80,544**	61,941	**8,451**	(29,374)	**14,739**	23,529	**(36,738)**	(269,112)	**66,996**	(213,016)
Other information										
Capital disposals/ (expenditure)	**1,449**	1,326	**(65)**	326	**10,736**	(661)	**6,004**	(10,223)	**18,124**	(9,232)
Depreciation and amortisation	**(2,676)**	(2,168)	**(1,186)**	(3,184)	**(5,809)**	(7,004)	**(7,160)**	(6,012)	**(16,831)**	(18,368)
Share of income from associated companies	**–**	–	**–**	–	**–**	–	**516**	768	**516**	768
Segment position										
Segment assets	**1,286,538**	757,499	**1,821,658**	1,592,907	**161,631**	172,485	**136,555**	198,177	**3,406,382**	2,721,068
Segment liabilities	**2,268,292**	1,885,785	**397,384**	227,373	**121,379**	19,878	**69,148**	87,093	**2,856,203**	2,220,129
Carrying amounts of segment assets include:										
Investments in associated companies	**–**	–	**–**	–	**–**	–	**3,323**	3,236	**3,323**	3,236

The secondary segments are as follows:

	Gauteng		Free State		KwaZulu-Natal		Western Cape		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
Segment revenue	**276,638**	169,834	**3,469**	3,534	**7,216**	5,007	**10,648**	10,796	**297,971**	189,171
Capital disposals/ (expenditure)	**17,668**	(9,280)	**173**	94	**630**	(228)	**(347)**	182	**18,124**	(9,232)
Segment assets	**3,184,950**	2,592,914	**54,073**	16,707	**132,744**	45,176	**34,615**	66,271	**3,406,382**	2,721,068

(1) Segment revenue consists of all income items on the income statement net of interest expenditure.

(2) Segment expenditure consists of all expense items on the income statement after net interest income.

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

30. IFRS Reconciliation and prior year restatement

- **IFRS reconciliation**

  This is the first year that the Group has presented its annual financial statements under IFRS. The following disclosures are required in the year of transition: The last annual financial statements under South African Generally Accepted Accounting Practice were for the year ended 31 December 2004 and the date of transition to IFRS was 1 January 2004, except for IAS 32 and IAS 39. Date of transition for IAS 32 and IAS 39 was 1 January 2005 in accordance with IFRS 1 transition provisions.

- **Prior year restatement**

  Non-interest income and operating expenditure in the income statement has been restated for 2004 in order to be consistent with the disclosure in the current year. See note (1) for details.

	Opening balance 1 January 2005 R'000	Closing balance 31 December 2004 R'000
Balance sheet		
Group		
Changes in shareholders' equity		
Balance as previously reported	500,939	500,939
Effect on reported results	65	65
– depreciation on property and equipment	188	188
– share-based payments expense	(123)	(123)
Transitional adjustment		
– creation of credit risk impairments	(22,952)	–
Movement in reserves		
– decrease in property revaluation reserve	(188)	(188)
– creation of share-based payments reserve	123	123
Restated shareholders' equity	477,987	500,939
Loans and advances		
Balance as previously reported	975,611	975,611
Transitional adjustment		
– creation of credit risk impairments	(22,952)	–
Restated loans and advances	952,659	975,611

	2004 R'000
Provisions	
Balance as previously reported	32,768
Non-IFRS restatement	
– reclassification from other accounts payable	6,400
Restated provisions	39,168
Other accounts payable	
Balance as previously reported	39,538
Non-IFRS restatement	
– reclassification to provisions	(6,400)
Restated other accounts payable	33,138

Notes to the annual financial statements for the year ended 31 December 2005 (continued)

30. IFRS Reconciliation and prior year restatement (continued)

	Opening balance 1 January 2005 R'000	Closing balance 31 December 2004 R'000
Balance sheet		
Company		
Changes in shareholders' equity		
Balance as previously reported	**502,440**	502,440
Creation of share-based payments reserve	**123**	123
Restated shareholders' equity	**502,563**	502,563
Interest in subsidiaries		
Balance as previously reported	**501,615**	501,615
Transitional adjustment		
– Creation of share-based payments reserve	**123**	123
Restated interest in subsidiaries	**501,738**	501,738

	2004 R'000
Income statement	
Group	
Operating expenditure	
Amount previously reported	**219,834**
IFRS adjustments:	
– depreciation on property and equipment	**(188)**
– share-based payments expense	**123**
Restated amount for IFRS	**219,769**
Non-IFRS restatement[(1)]	**5,272**
Restated operating expenditure	**225,041**
Non-interest income	
Amount previously reported	**96,138**
Non-IFRS restatement[(1)]	**5,272**
Restated non-interest income	**101,410**

Note:

(1) The foreign exchange and insurance broker commissions earned were previously disclosed net of commissions paid. The commissions paid are now disclosed separately as part of operating expenditure.

Risk management and control

Group risk management philosophy

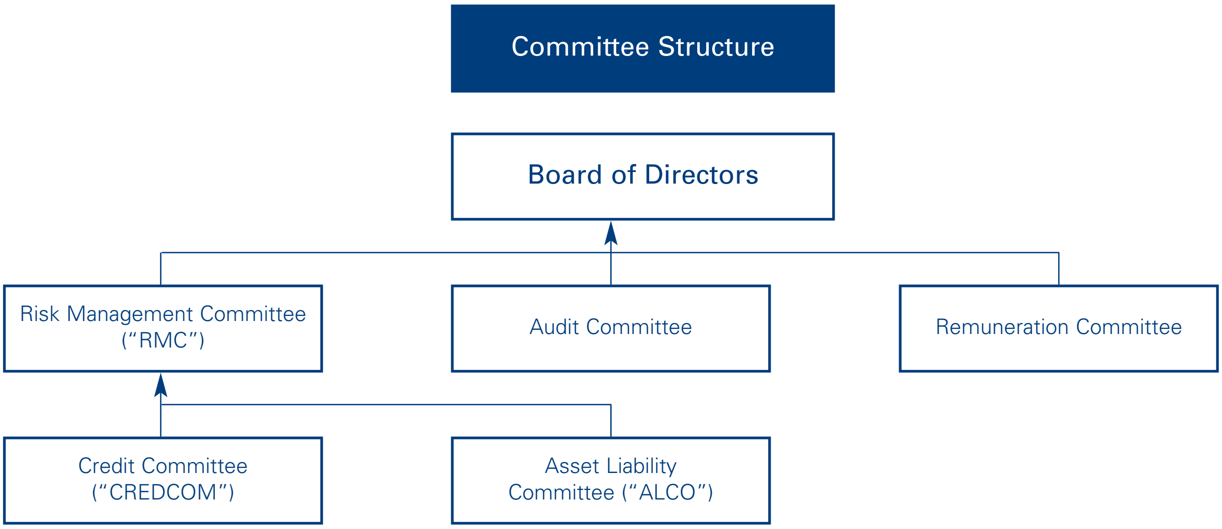
The Group recognises that the business of banking and financial services is conducted within an environment of complex inter-related risks. The Group operates in a dynamic environment where the past is not necessarily an acceptable guide to the future. In any economy there are sectors that are more vulnerable to cyclical downturn than others. Economic variances are monitored to assist in managing the Group's exposure to such sectors. In the Group's target market sectors the concentration of risk is managed to achieve a portfolio balance. In every risk sector it is the weaker counterparties that are at greatest risk of failure in an economic downturn. The Group will concentrate its business development efforts with the stronger companies and individuals, establishing policy criteria, which eliminate weaker credits or investments from the portfolio. A passive role in the face of potential or actual adverse conditions is not accepted.

A philosophy of enterprise-wide risk management within a Risk Management Monitoring and Control Framework has been established to ensure that all business and operational risks are managed effectively within acceptable risk profiles, policies and parameters and that the management of risk is an independent process from that of taking on/creating risk within the Group. Risk management policies are essentially conservative, with proper regard to the mix of risk and reward. The Group will take all necessary steps to safeguard its depositors' funds, its own asset base and shareholders' funds.

Enterprise-wide risk management

Risk dimensions will vary in importance based on the business activities of an organisation. The overall objective of enterprise-wide risk management is to ensure an integrated and effective risk management framework, where all risks are identified, quantified and managed in order to achieve an optimal risk reward profile. The presence of accurate measures of risk, makes risk-adjusted performance possible, creates the potential to generate increased shareholder returns and allows the risk-taking behaviour to be more closely aligned with our strategic objectives.

Risk management is performed on a Group wide basis involving the Board of Directors, credit management, senior management, independent risk management, business line management, finance and control, legal/compliance, treasury and operations, with significant support from internal audit and information technology.



Risk management and control (continued)

Enterprise-wide risk management (continued)

The Group continues to develop credit risk modelling analytical tools and is expanding on its information assessment to better understand and manage its credit risk portfolios.

Focus has also been increased on the overall improvement in the management of credit and counterparty risk through the ongoing development of a comprehensive Early Warning Risk Identification Process together with a Risk Assessment Decision Support Tool and a comprehensive Portfolio Review Report. These projects are scheduled for implementation during the first quarter of 2006.

Principal risk categories have been identified, defined and categorised into direct and indirect risks. This set of risk definition forms the basis of management and control relative to each division or subsidiary within the Group and will also form a consistent, common language for outside examiners and/or regulators to follow.

Board committees monitor various aspects of the different identified risks which include:

Direct Risks	Indirect Risks
Credit Risk	Strategic Risk
Counterparty Risk	Reputation Risk
Currency Risk	Legal Risk
Liquidity Risk	Fraud Risk
Interest Rate Risk	International Risk
Market (Position) Risk	Political Risk
Solvency Risk	Competitive Risk
Operational Risk	Pricing Risk
Technology Risk	Sensitivity Risk
Compliance Risk	

Direct risks are found in most banking transactions. They are quantifiable and can be clearly defined. The Group is able to evaluate these risks through examination of our databases, statistics and other records.

Indirect risks are considered to ensure that complete risk assessment is carried out. They are present in almost every decision made by management and the Board and thus impact on the Group's image and success. These decisions are usually intended to enhance the Group's long-term viability or success and therefore are difficult to quantify at a given point in time.

The responsibility for understanding the risks run by the Group and ensuring that they are appropriately managed, rests with the Board of Directors. Mercantile's Board approves risk management strategies, but delegates to the RMC the power to take decisions on risk and to implement strategies on risk management and control. Discretionary limits and authorities are in turn delegated to line heads and line managers within laid down parameters to enable them to execute the Group's strategic objectives within pre-defined risk management policies. Major risks are managed, controlled and reviewed by those who influence the risk to minimise the impact of adversity.

The Board fully recognises that they are accountable for the process of risk management and the system of internal control. Management reports regularly to the Board on the effectiveness of internal control systems and significant control weaknesses identified.

Operational controls have been expanded during the year thereby ensuring the ongoing effective management of operational risks. These include, *inter alia:*

- the establishment of a comprehensive and tested Disaster Recovery Site covering all core operational systems within the bank;
- a project for the establishment of a Business Continuity Planning site and operational manual for all key business and business support areas. This is currently underway and scheduled for completion during the first quarter of 2006; and
- the Bank's physical security measures were reviewed and further enhancements were implemented during the year.

Further enhancements have been made in the management of the Group's assets and liabilities with increased monitoring of liquidity and interest rate risk through sensitivity evaluation techniques. A new MIS system was implemented during the current year to improve the quality of internal reporting.

Risk management and control (continued)

Risk management life cycle/process

The four phases of the risk management life cycle can be defined as:

Risk identification (and comprehension)

Risk identification focuses on recognising and understanding existing risks or risks that may arise from positions taken and future business activity as a continuing practice;

Risk measurement (and evaluation using a range of analytical tools)

Once risks have been identified, they need to be measured. Certain risks will obviously lend themselves more easily to measurability than others, but it is necessary to ascertain the magnitude of each risk;

Risk management (as an independent function)

The Group's principal business focuses on the management of liabilities and assets in the balance sheet. Major risks are managed and reviewed by those who influence the risk. ALCO and RMC meet on a regular basis to collaborate on risk control, establish how much risk is acceptable and decide on how the Group will stay within targets and laid down thresholds;

Risk monitoring (and compliance with documented policies)

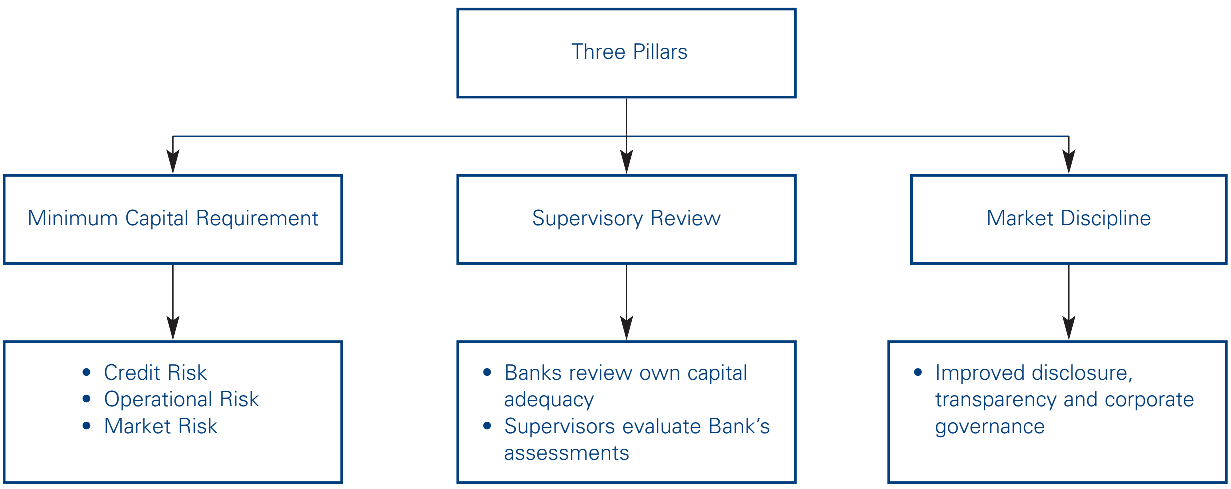
Open, two-way communication between the Group and the South African Reserve Bank ("SARB") is fundamental to the entire risk monitoring and supervisory process. To achieve this, responsible line heads are required to document conclusions and communicate findings to ALCO and RMC in the first instance and to the SARB via the Finance and Administration Division through DI returns and periodic meetings.

Basel II – influencing risk management developments at Mercantile Bank Limited ("the Bank")

The Basel Committee released the revised international Basel II Capital Accord in 2004. The Accord is designed to differentiate minimum regulatory capital requirements in a risk sensitive manner and encourage and recognise sound risk management, internal control and governance practices.

The new Accord provides a range of approaches that varies in levels of sophistication for the measurement of credit and operational risk to determine capital levels. It provides a flexible structure in which banks, subject to supervisory review, will adopt approaches that best fit their level of sophistication and their risk profile.

In today's complex environment, combining effective bank-level management with market discipline and regulatory supervision best attains systemic safety and soundness. Building on these principles, the new accord has far-reaching implications for banks in terms of minimum capital standards linked to risks, risk measurement systems and methods, risk management practices and public disclosure of risk profile information. Basel II was built around three pillars. These pillars can briefly be summarised by the following diagram:



Risk management and control (continued)

Basel II – influencing risk management developments at Mercantile (continued)

The Basel Capital Accord's objective is to more closely align capital adequacy assessment with the key elements of banking risks. It provides incentives for banks to enhance their risk measurement and management capabilities. This will ensure a more resilient, more stable and a better source for credit, risk intermediation and growth.

The Bank has participated in various Basel II committees and will continue to serve on these committees during 2006. During the current year, the Group participated in the fourth comprehensive quantitative impact study ("QIS4") conducted in South Africa by the SARB. An immediate capital saving is not expected since supervisors and banks will need to gather experience and confidence in the processes and practices that will need to be relied on, while avoiding capital dilution and supporting financial stability. Various other readiness assessments were also performed to assist in identifying implementation aspects. Supervisor (SARB) specific requirements, particularly in the area of national discretion, are beginning to emerge as supervisors consult and publish draft regulatory requirements. The Group's Basel II programme is on schedule to meet the regulatory implementation timeline, i.e. 2008.

The comprehensive, detailed and complex compliance criteria set by Basel II require substantial investments in data collection, information technology systems and business process changes. Projects to identify and define gaps and to address the implementation of enhancements required in respect of methodologies, systems and business processes across the areas of market, credit and operational risk management to satisfy the stringent criteria to be met for Basel II compliance are underway across the Group. The Bank recognises the significance of Basel II in aligning regulatory capital to risk and further entrenching risk-reward principles and practices in bank management and decision-making.

Corporate governance

The Board of Directors ("the Board") of Mercantile Bank Holdings Limited and its subsidiaries ("the Group") subscribes and is committed to complying with the principles and standards of corporate governance expressed in the King Report II on Corporate Governance.

The Board is satisfied that the Group complied with all material aspects of the King Code throughout the year under review. Towards the end of the year the Board evaluated the corporate governance objectives which had been set for the 2005 financial year and noted that all the objectives were either fully attained or in the final stages of being attained. Fresh objectives were then documented for the 2006 financial year.

Board of directors

The Group's Board and the Board of Mercantile Bank Limited ("the Bank") exercise effective control over the Group and meet regularly to define strategy and key policies; evaluate key risk areas and agree risk parameters; review the effectiveness of the Group's internal systems of control; approve budgets and monitor the implementation of approved strategies and policies. A special board meeting to formulate strategy was held during the year. The number of meetings held during the year under review and a record of attendance of each board member is set out in Appendix A.

The Chairman of the Boards of the Group and the Bank is a non-executive director.

The boards of directors comprise non-executive and executive directors with different skills, professional knowledge and experience, with the non-executive directors comprising the majority on the boards. The roles of the Chairman of the Board and of Chief Executive Officer ("CEO"), who is appointed by the Board, are separated, thereby ensuring a clear division of responsibilities at the head of the Group.

Non-executive directors offer independent judgement and, apart from their fees, there were no extraneous factors that could materially affect their judgement. If there is an actual or potential conflict of interest, the non-executive directors concerned, after declaring their interest in terms of the Companies Act, 1973, are excluded from the related decision-making process.

The process of the identification of suitable candidates to fill vacancies on the boards, to re-appoint directors on termination of their terms of office or the termination of the appointment of directors, is conducted by the Nominations Committee (see below). This Committee's nominations are submitted to the relevant boards of directors for approval, subject to the Registrar of Banks having no objections to the nominations. Any person appointed to fill a casual vacancy or as an addition to the boards of the Group and of the Bank will retain office only until the next Annual General Meeting unless the appointment is confirmed at that meeting.

A director is required to retire from the board at age 70. Until age 70 all non-executive, or executive directors without a contract of service, retire on a three-year rotational basis. If eligible for re-election, they can be re-elected at the Annual General Meeting.

The boards of the Group and of the Bank operate in terms of a charter which defines their duties, responsibilities and powers. The charter was revised during the year under review. The evaluation of the performance of the Board as a whole is conducted annually by means of a self-evaluation process. The performance of the Chairman is evaluated by all the other directors, while the assessment of the non-executive directors' performances are conducted on a bilateral basis between the Chairman and each director.

The Board currently comprises ten directors, of whom three are executive. Of the seven non-executive directors, five are classified as independent, one of whom is a woman. Four of the directors are classified as black in terms of the relevant legislation. The Board is satisfied that its composition reflects the demographic diversity of the South African population and that an appropriate balance between executive and non-executive directors is in place.

Group secretary

The appointment, removal and performance appraisal of the Group Secretary is a matter for consideration by the Board as a whole. The Group Secretary ensures that statutory and regulatory procedures are complied with. All directors of all companies in the Group have access to the advice and services of the Group Secretary. If necessary, directors are entitled to obtain independent professional advice at the Group's expense.

The Group Secretary provides a central source of advice and guidance on business ethics and compliance with good corporate governance, assisting the Board as a whole and its members individually with guidance as to how their duties, responsibilities and powers should be adequately discharged and exercised in the best interests of the Group.

The Group Secretary also maintains and regularly updates, a corporate governance manual, copies of which are distributed to all directors, and organises and conducts induction programmes to familiarise new non-executive directors with the Group's operations, their fiduciary duties and the Group's corporate governance processes. Briefings are also held for directors on new laws and regulations and changes in the business environment. Additional training to enhance the knowledge and skills of non-executive

Corporate governance (continued)

Group secretary (continued)

directors on subject-matters particularly related to the conduct of the business of the Bank is also arranged by the Group Secretary.

Board committees

To assist the boards of the Group and of the Bank in carrying out their duties and responsibilities, a number of Board Committees have been formed. These committees all operate in terms of an approved charter, which defines their roles. All the charters were revised during the period under review. The performance of the committees based on the duties and responsibilities as set out in the respective charters, is evaluated annually by means of a self-evaluation process, which is reviewed by the Board as a whole. Details of the Board Committees are provided below.

Group audit committee

This committee comprises two independent non-executive directors, one of whom acts as Chairman and the CEO. The members of the Committee at 31 December 2005 were:

L Hyne (Chairman)

D J Brown (CEO)

K B Motshabi

Group Audit Committee meetings are held at least three times annually. The number of meetings held during the year under review and a record of attendance of each member are set out in Appendix A. The meetings of the Committee are attended by the head of Internal Audit, the external auditors, the head of Risk, the head of Compliance, the head of Finance and the head of Corporate Services & Treasury. The head of Internal Audit, the head of Compliance and the external auditors have unrestricted access to the Chairman of the Committee. The Committee has a clear mandate. It assists the Boards of the Group and of the Bank to fulfil their responsibilities under the Banks Act, the Companies Act, the JSE Listings Requirements and other applicable statutory law and the common law.

In particular, the Committee reviews, *inter alia,* accounting policies and annual financial statements, internal and external auditors' reports, the adequacy and efficiency of internal control systems, the effectiveness of management information systems and the internal audit process.

The Group Audit Committee also assists the Board of the Bank regarding the Bank's continuing viability as a going concern.

The external auditors' appointment and remuneration are recommended by the Committee and approved at the Annual General Meeting. The principles for recommending the use of the external auditors for non-audit services are set by the Committee.

The Group Audit Committee has fulfilled its responsibilities in terms of its charter during the year under review.

The Group Audit Committee considers the annual financial statements of the Group and its subsidiaries to be a fair presentation of its financial position, and the results of operations and cash flows for the year ended 31 December 2005, in terms of International Financial Reporting Standards, the Companies Act, 61 of 1973, and JSE Listings Requirements.

Risk management committee

This Committee comprises the Chairman, who is a non-executive director, three independent non-executive directors, the CEO and an Executive Director.

The members of the Committee at 31 December 2005 were:

J A S de Andrade Campos (Chairman)

D J Brown (CEO)

M J M Figueira (Executive)

G P de Kock

L Hyne

K B Motshabi

According to the charter, Risk Management Committee meetings must be held at least four times annually. The number of meetings held during the year under review and a record of attendance of each member are set out in Appendix A.

The meetings of the Committee are attended by the head of Risk, the head of Risk Standards Policies and Supervision, the head of Finance, the head of Credit, the head of Asset and Liability Management and the head of Compliance.

The Committee operates in terms of a charter, which defines its duties and responsibilities.

The Committee's main objective is to assist the Board in designing, implementing and monitoring the Group's risk management processes and reviewing the effectiveness thereof. This process involves evaluating the significant risks impacting the business of the Group and the assessment of the effectiveness of the systems of internal control in managing these risks, which can materially affect the achievement of the Group's strategic objectives.

Corporate governance (continued)

Risk management committee (continued)

The Committee also serves as a forum for discussion and decision-taking relative to important business opportunities involving risk issues and approves all risk policies, limits and allocations of capital requirements.

Although they are not directors' committees, the important Asset and Liability Committee (ALCO) and the Credit Committee (CREDCOM) report directly to the Risk Management Committee.

Directors' affairs committee

This Committee comprises all the non-executive directors on the Board.

The members of the Committee at 31 December 2005 were:

J A S de Andrade Campos (Chairman)

G P de Kock

L Hyne

A T Ikalafeng

K B Motshabi

A M Osman

S Rapeti

Meetings of this Committee were held whenever meetings of the Board were held. The number of meetings held during the year under review and a record of attendance of each member is set out in Appendix A.

The Committee operates in terms of a charter, which defines its duties and responsibilities. Its primary objective is to assist the Board in its determination, evaluation and monitoring of the appropriateness and effectiveness of the corporate governance structures, processes and practices of the Group and the Bank in accordance with best practice.

Nominations committee

This Committee comprises all the non-executive directors on the Board.

The members of the Committee at 31 December 2005 were:

J A S Andrade Campos (Chairman)

G P de Kock

L Hyne

A T Ikalafeng

K B Motshabi

A M Osman

S Rapeti

Meetings of this Committee were held whenever meetings of the Board were held. The number of meetings held during the year under review and a record of attendance of each member is set out in Appendix A.

The Committee operates in terms of a charter, which defines its duties and responsibilities. Its primary objective is to lead the process for board nominations and appointments and make recommendations to the Board; and to provide support on succession planning, for appointments to the Board and to executive management.

Remuneration committee

This Committee comprises all the independent non-executive directors of the Board. The members of the Committee at 31 December 2005 were:

G P de Kock (Chairman)

L Hyne

A T Ikalafeng

K B Motshabi

S Rapeti

Meetings of this Committee were held whenever meetings of the Board were held. The number of meetings held during the year under review and a record of attendance of each member is set out in Appendix A.

The Committee operates in terms of a charter, which defines its duties and responsibilities. Its primary objective is to determine the broad policy and remuneration philosophy for the Group. The Committee reviews and recommends to the Board, the executive directors' and senior managements' remuneration and the fees for non-executive directors. In addition, the Committee evaluates the performance of the CEO and the other executive directors, in consultation with the Chairman of the Board, on an annual basis.

Transformation committee

The Group is fully committed to transformation and at its meeting on 26 May 2005, the Board of the Group approved the establishment of the Transformation Committee as well as its charter.

The Committee's primary objective is to assist the Board in its determination of the targets to be achieved and the monitoring of the progress towards achieving these targets in respect of the following key black economic empowerment ("BEE") initiatives as laid down in the Broad-Based Black Economic Empowerment Act and the Financial Sector Charter:

- employment equity targets for the various levels of management and other employees;

Corporate governance (continued)

Transformation committee (continued)

- skills development programmes to promote black skills;
- procurement from BEE accredited companies;
- corporate social investment;
- the total amount to be invested in BEE transaction financing and other transformation projects;
- the composition of the Board in relation to gender and black people; and
- the acquisition by black people of direct ownership in the Group.

The members of the Committee at 31 December 2005 were:

J A S de Andrade Campos (Chairman)

D J Brown (CEO)

A T Ikalafeng

K B Motshabi

Three meetings of the Committee were held during the year under review. A record of attendance of each member is set out in Appendix A.

The Employment Equity Committee, which is a management committee, reports directly to the Transformation Committee.

Management committees

A number of management committees have been formed to assist executive management and the Board in carrying out their duties and responsibilities. These are:

Assets and Liability Committee (ALCO)

Credit Committee

Employment Equity Committee

Executive Committee (Exco)

Human Resources Committee

IT Steering Committee

All these committees operate in terms of a charter, which defines their duties and responsibilities.

Non-executive directors may attend any management committee meeting.

Remuneration philosophy

The main purpose of the remuneration philosophy adopted in the Group is to promote performance-based and equitable remuneration practices.

In order to attract, motivate and retain staff the Bank ensures that remuneration practices are fair, equitable and competitive. The three main elements of remuneration are the following:

- The **total guaranteed package** concept gives all employees a certain degree of flexibility as they can structure their packages to include a 13th cheque, select the appropriate level of travel allowance (in accordance with SARS' regulations) and choose the appropriate medical aid plan. External equity is ensured by comparing packages to market levels through salary surveys. This is done at least once a year prior to annual salary review processes. Increases and movements in the pay scales are based on performance, levels of competence and current position/pay level against market. The market median pay level for the position is used as a guideline.
- **Short-term incentives** are important to support the pay for performance philosophy and forms an important component of variable pay. The incentive bonus scheme introduced in 2004 has been reviewed after benchmarking it against market practices.
- The third element of the remuneration mix is **long-term incentives**. The purpose of this element is to reward key staff members whose contribution within the next three to five years are viewed as critical and whose retention is regarded as a priority. Criteria for the allocation of share options to senior and middle management staff have been formulated. The current share options scheme is under review to be completed in 2006.

The policy on the remuneration of executive directors is consistent with that of senior management. Non-executive directors receive fees for their services as directors of the Group and the Bank and for services rendered as members of the various Board committees.

Internal audit function

The Internal Audit function forms part of the risk management process. The head of Internal Audit, who reports to the Group Audit Committee, performs a function independent from any other function in the Group. He has direct and unrestricted access to the Chairman of the Group Audit Committee, the CEO, the Chairman of the Risk Management Committee and the Chairman of the Board.

The Group Audit Committee must concur with any decision to appoint or dismiss the head of Internal Audit.

The Internal Audit Charter, which governs internal audit activity in the Group, was reviewed by the Board during the past year. The charter defines the role, objective, authority and responsibility of the Internal Audit function.

All significant operations, business activities and support functions are subject to internal audit review. The audit plan is risk based and is drawn up annually and approved by the Group Audit Committee.

Corporate governance (continued)

Internal audit function (continued)

Internal Audit audits the adequacy and effectiveness of control and governance processes throughout the Group. Any significant or material control weaknesses are reported to management, the Group Audit Committee and/or the Risk Management Committee for consideration and the necessary remedial action.

To complement the group internal audit function:

- the Bank has entered into a co-sourcing arrangement with KPMG, to provide specialist internal audit skills in the IT and Treasury environment; and
- CGD's Internal Audit Department carries out assignments in accordance with CGD's requirements.

External auditor's services: Outsourcing policy

The Group will not contract its external auditors on an outsourcing basis where such an engagement compromises their independence and, in particular, the following areas are specifically excluded from the services that are procured from the external auditors:

- bookkeeping or other services related to accounting records or annual financial statements;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions or contribution-in-kind reports for financial reporting purposes;
- actuarial services;
- internal audit outsourcing;
- performance of management functions;
- as staff-recruitment agent;
- broker-dealer, investment advisor or investment banking services; and
- legal services.

The CEO may approve non-auditing services projects up to R250 000.

Thereafter, pre-approval by the Group Audit Committee is required.

All non-auditing fees must be tabled at the appropriate Group Audit Committee meeting for ratification or approval.

Compliance function

The role of the independent compliance function is to identify, assess and monitor the statutory and regulatory risks faced by the Group and advise and report to senior management and the Board these risks. The compliance function is mandated to make board members aware of any procedural concerns that may lead to non-compliance; and alert members to incidents of non-compliance whilst taking remedial action to avert such incidents.

To ensure the independence of the compliance function from the business activities of the Group, the Board authorised the compliance function to:

- carry out its responsibilities on its own initiative in all areas of the Group in which regulatory risk may or may not exist;
- ensure it is provided with sufficient resources to enable it to carry out its responsibilities effectively;
- not have direct business line responsibilities;
- report directly to the Board or a committee of the Board, whenever necessary.

The Board approved a charter for the compliance function. At least once a year, the Board or a committee of the Board will review the charter and its ongoing implementation to assess the extent to which the Group is managing its regulatory risk effectively.

The compliance function keeps senior management and the Board informed about significant regulatory issues and any trends exhibited and identifies where urgent intervention is needed.

Reporting to the Board is in the form of a Level of Compliance Report to both the Risk Management Committee and the Group Audit Committee (the same report is also submitted to the South African Reserve Bank, once discussed by the Group Audit Committee).

No material incidents of non-compliance were reported during the year under review.

Dealing in securities of the Group

The Group's policy regarding dealings in the Group's securities by directors and the Group Secretary, complies with the Listings Requirements of JSE Limited ("the JSE"). Should any of these officers or their associates wish to trade in the Group's securities, held either directly or indirectly, beneficially or non-beneficially, written clearance must be obtained in advance from the Chairman of the Board or the designated director for this purpose.

The policy is implemented by the Group Secretary.

The Group Secretary is required to keep a written record of all such clearances and, as soon as the trade has been executed, to ensure that disclosure is released on SENS in terms of the JSE Listings Requirements.

Corporate governance (continued)

Dealing in securities of the Group (continued)

In addition, the policy stipulates that directors and employees are prohibited from dealing in the Group's securities from the last date of the financial year or interim period up to the announcement of the final or interim results on SENS. Directors and staff are timeously advised of closed periods.

The JSE Listings Requirements include shares, debentures, warrants and options in the definition of securities.

Code of banking practice

The Group subscribes to the Code of Banking Practice ("the Code") that provides valuable safeguards for its clients. The Group attempts to conduct its business with uncompromising integrity and fairness, so as to promote complete trust and confidence. In meeting this fundamental objective, the Group conducts its relationships with the regulatory authorities, clients, competitors, employees, shareholders, suppliers and the community at large, by striving for high service levels with integrity, and encourages its employees to acquaint themselves with the Code and honour its precepts.

Integrated sustainability reporting

- Ethical Standards

  The Group is committed to high moral, ethical and legal standards and expects all representatives of the Group to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities and to comply with all applicable laws, regulations and the Group's policies.

  The Group's commitment is clearly stated in the Group's Code of Ethics which contains a set of standards which the Group believes could contribute to the commercial success of the Group, as adherence thereto is a strategic business imperative and a source of competitive advantage.

- Safety, Health and Environmental Principles

  The Group is, on an ongoing basis, striving to improve security to protect the safety and well being of its employees during the execution of their duties and of persons who may enter any of its premises. Regular inspections of the workplace are carried out to identify potential hazards and the Group does not hesitate to take and enforce such measures that may be reasonably practicable, to eliminate or mitigate any hazard or potential hazard to the safety of its employees or other persons.

  Regarding the health of its employees, the Group acknowledges that employees with life threatening illnesses may wish to continue performing as many of their normal activities as their condition allows. In the case of HIV/AIDS, for example, the Group recognises the impact that this disease could have on its ability to achieve its business objectives. Accordingly, it has an established policy in terms of which the Group strives to provide a working environment where HIV-positive employees are protected from unfair discrimination; and that all employees have access to training, information and counselling relating to the disease.

  A Health, Safety and Reporting Policy has been put in place. In accordance with this policy, the required health and safety representatives, committees and emergency officials were appointed. This policy also caters for the reporting of related incidents and/or diseases.

  The Group acknowledges that the sound management of natural resources is a cornerstone of sustainable development, including justifiable social and economic development. In order to apply those environmental standards that are applicable to the Group's business operations and services, the Risk Management Committee approved an Environmental Risk Management Policy for managing environmental risks during the year under review.

- Transformation

  The Group is fully committed to social and economic transformation and regards it as a key business imperative. Initiatives are driven and directed by the Board and integrated into the Group's strategic business plans. As set out above, a Transformation Committee has been formed to spearhead and monitor the progress of transformation in the Group. The committee's charter stipulates how transformation will be implemented, monitored and integrated across the Group.

  The key elements of the charter, which is based on the Financial Sector Charter Scorecard requirements, are as follows:

  - *Employment equity*

    Transformation in the workplace is an important aspect of employment equity and skills development plans, and the Group strives to provide an environment that values and fosters diversity and equality. This includes developing a culture that supports mutual trust, respect and dignity.

    The adherence to the Employment Equity Act and associated Skills Development legislation is regarded as essential. The desired results of the implementation of the employment equity plan are to improve the representation of black people, women and people with disabilities towards reflecting the demographic profile of the country and prioritising the development and career advancement of the designated groups.

Corporate governance (continued)

- **Transformation** (continued)

  As employment equity is regarded as a key business imperative, it is included in each of the divisions' key result areas. Targets have been set through to 2008 and progress is monitored on a quarterly basis. Good progress has been made in the employment of black people in the skilled/junior management and semi-skilled categories.

  - *Skills development*

    A new performance management system and people development strategy is being implemented. The objective is to provide a framework and guidelines to enable and encourage staff to embark on continuous learning and enhance their own competency levels.

    The active implementation of selected training programmes, identification of talent pools and learnership programmes supporting the employment equity strategies detailed in the Employment Equity plan document has been initiated. A learning and development function was established and various training programmes were presented over the last year. The emphasis was on service excellence training, the implementation of the new brand and values, product knowledge and management training. As some of the initiatives were company-wide interventions, more than 90% of all staff attended training.

    A second group of learners from the Bankseta Letsema learnership programme targeted at unemployed people from previously disadvantaged groups were employed on a one-year contract.

  - *Corporate social investment*

    The Group is committed to the upliftment and transformation of communities and is in the process of developing a comprehensive Corporate Social Investment policy and plan. The historical financial performance of the Group has precluded an earlier conclusion of a comprehensive policy.

  - *Procurement*

    A targeted procurement strategy to enhance Black Economic Empowerment has been adopted. The objective is to actively promote the effective and efficient development and support of suppliers and contractors from historically disadvantaged South African enterprises. The principles are detailed in the Group's Procurement Policy.

  - *Enterprise development*

    Targets are in place and initiatives are underway aimed at identifying opportunities to provide financing within appropriate risk measures to enterprises owned or controlled by designated groups.

  - *Ownership and control*

    The Board is in discussion with CGD on a framework and approach to be used to consider the empowerment of the Group.

Annual financial statements

Accounting policies and the basis of accounting on which annual annual financial statements are prepared, are set out on pages 12 to 19 of this report.

Regulation

The South African Reserve Bank, the Financial Services Board and the JSE regulate the various activities of the Group.

Corporate governance (continued)

APPENDIX A

Attendance of meetings by directors

	Committees						
	Board	Group Audit	Risk Management	Directors' Affairs	Nominations	Remuneration	Transformation
Number of meetings held during the period under review	7	5	6	6	6	6	3
Director							
J A S de Andrade Campos	7/7	▲	6/6	6/6	6/6	▲	3/3
D J Brown	7/7	5/5	6/6	▲	▲	▲	3/3
G P de Kock	7/7	▲	6/6	6/6	6/6	6/6	▲
M J M Figueira	7/7	▲	6/6	▲	▲	▲	▲
L Hyne	7/7	5/5	6/6	6/6	6/6	6/6	▲
A T Ikalafeng	7/7	▲	▲	5/6	5/6	5/6	3/3
K B Motshabi	6/7	4/5	1/2	5/6	5/6	5/6	3/3
A M Osman	6/7	▲	▲	5/6	5/6	▲	▲
S Rapeti	2/2	▲	▲	2/2	2/2	2/2	▲

▲ Non-member of committee.

Capital adequacy statement at 31 December 2005

	Risk weighting	Average assets 31 December 2005 R'000	Risk-weighted assets 31 December 2005 R'000	Risk-weighted assets 31 December 2004 R'000
Mercantile Bank Limited				
Banking book				
Cash, off-balance sheet activities and central government transactions	0%	1,394,624	–	–
Landbank bonds	10%	147,257	14,726	
Letters of credit and other bank advances	20%	155,293	31,059	24,871
Residential mortgage loans and performance-related guarantees	50%	588,777	294,388	165,886
Other assets including counterparty risk exposure	100%	1,292,550	1,292,550	1,038,609
Large exposure impairment	100%	–	–	–
Other regulatory impairments	0%	22,142	–	–
		3,600,643	1,632,723	1,229,366
Primary capital			1,495,530	1,495,530
Secondary capital			21,001	17,553
Impairments			(952,984)	(1,030,723)
Net qualifying capital			563,547	482,360
Capital adequacy ratio (%)			34.5	39.2
Primary capital (%)			33.2	37.8
Secondary capital (%)			1.3	1.4

Analysis of shareholders at 31 December 2005

SHAREHOLDER SPREAD

	2005	2004
Number of public shareholders	6 857	6 819
Percentage of shares held by:		
Public	7.90	8.04
Non-public	92.10	91.96
Directors	–	–
Trustees of share incentive scheme	0.35	0.21
Holders of 10% or more of shares	91.75	91.75

MAJOR SHAREHOLDERS HOLDING IN EXCESS OF 5% OF THE COMPANY'S SHARE CAPITAL

	Number of shares	Percentage
2005		
Caixa Geral de Depósitos SA	3,614,018,195	91.75
2004		
Caixa Geral de Depósitos SA	3,614,018,195	91.75

PERFORMANCE ON THE JSE (year ended 31 December 2005)

	2005	2004
Number of shares issued	3,938,918,524	3,938,918,524
Share price (cents)		
Year-end	36	18
Highest	60	24
Lowest	16	11
Number of shares traded	115,504,164	46,175,285
Value of shares traded (R'000)	40,100	8,370
Average price (cents)	35	18
Market capitalisation (R'000)	1,418,010	709,005

Group addresses

Mercantile Bank Group

Head Office

Mercantile Bank
142 West Street, Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: (011) 302-0300
Fax: (011) 302-0729

Mercantile Bank

Boksburg

Shop 1, Park Place East,
Cnr NorthRand and
Wiek Roads, Bardene,
Boksburg, 1459
PO Box 31558, Braamfontein, 2017
Tel: (011) 918-5276
Fax: (011) 918-4159

Bruma

Portuguese House
11 Ernest Oppenheimer Boulevard,
Bruma, 2198
PO Box 31558, Braamfontein, 2017
Tel: (011) 622-0916
Fax: (011) 622-8833

Cape Town City

Ground Floor, M&B House,
Pier Place,
Foreshore, Cape Town, 8001
PO Box 51, Cape Town, 8000
Tel: (021) 419-9402
Fax: (021) 419-5929

Cape Town Tygerberg

Ground Floor, Tygerpoort Building,
7 Mispel Street, Belville, 7530
PO Box 5436, Tygerberg, 7536
Tel: (021) 419-9402
Fax: (021) 419-5929

Comaro Crossing

Shop FF9, Comaro Crossing Shopping
Centre, Cnr Orpen and Comaro Roads,
Oakdene
PO Box 31558, Braamfontein, 2017
Tel: (011) 435-0640
Fax: (011) 435-1586

Durban

Shop 6, 123 Cowey Road, Cowey Park,
Morningside, Durban, 4001
PO Box 4651, Durban, 4000
Tel: (031) 207-4255
Fax: (031) 207-4354

Germiston

The Lake Shopping Centre,
Corner William Hill.
and Lake Streets, Germiston, 1401
PO Box 31558, Braamfontein, 2017
Tel: (011) 824-5813
Fax: (011) 824-5823

Horizon

153 Ontdekkers Road, Block E,
Horizon, Roodepoort, 1724
PO Box 31558, Braamfontein, 2017
Tel: (011) 763-6000
Fax: (011) 763-8742

Pretoria

Pro-Equity Court, Cnr Pretorius
and Gordon Streets,
Hatfield, Pretoria, 0083
PO Box 31558, Braamfontein, 2017
Tel: (012) 342-1151
Fax: (012) 342-1191

Pretoria West

Shops 2 and 3,
477 Mitchell Street,
Pretoria West, 0183
PO Box 31558, Braamfontein, 2017
Tel: (012) 327-4671
Fax: (012) 327-4645

Sandton

142 West Street, Sandown, 2196
PO Box 31558, Braamfontein, 2017
Tel: (011) 302-0763
Fax: (011) 884-1821

Strijdom Park

Shop 2, Homeworld Centre,
Cnr Hans Strijdom Drive and
CR Swart Road, Strijdom Park, 2194
PO Box 31558, Braamfontein, 2017
Tel: (011) 791-0854
Fax: (011) 791-2387

Troyeville

77 Bezuidenhout Street,
Bertrams, 2094
PO Box 31558, Braamfontein, 2017
Tel: (011) 624-1450
Fax: (011) 614-9611

Vanderbijlpark

Shops 1 and 2, Russel Building,
54 President Kruger Street,
Vanderbijlpark, 1911
PO Box 31558, Braamfontein, 2017
Tel: (016) 981-4132
Fax: (016) 981-0767

Welkom

Tulbagh House, 11 Tulbagh Street,
Welkom, 9459
PO Box 2207, Welkom, 9460
Tel: (057) 357-3143
Fax: (057) 352-7879

Mercantile Treasury

Head Office

Mercantile Bank
142 West Street,
Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: (011) 302-0300
Fax: (011) 883-7756

Mercantile Insurance Brokers

Head Office

Mercantile Bank
142 West Street,
Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: (011) 302-0556/7/8
Fax: (011) 302-0752

Notice of Annual General Meeting

Mercantile Bank
Holdings Limited
Member of CGD Group

Reg No: 1989/000164/06
(Incorporated in the Republic of South Africa)
Share code: MTL ISIN: ZAE000056537
("Mercantile" or "the Company")

Notice is hereby given that an Annual General Meeting ("the meeting") of the members of the Company will be held at 11:00 on Wednesday, 22 March 2006 in the Boardroom, First Floor, Mercantile Bank, 142 West Street, Sandown, Sandton for the following purposes:

1. To receive and adopt the annual financial statements of the Company for the year ended 31 December 2005, together with the Directors' report and to approve the remuneration of the directors as reflected in those statements.

2. To elect directors in the place of directors who retire from office in terms of the Company's Articles of Association. These directors are:

   L Hyne and A M Osman who retire by rotation and, being eligible, offer themselves for re-election.

   S Rapeti, who was appointed to the Board on 29 July 2005 and J P M Lopes, who was appointed to the Board on 9 November 2005, retire at the end of this meeting but, being eligible, offer themselves for re-election.

   (A brief *curriculum vitae* of each director standing for re-election is attached to this Notice.)

3. To authorise the directors to determine the remuneration of the auditors and to re-appoint them for the ensuing year.

4. To place the unissued ordinary shares under the control of the directors in terms of the following ordinary resolution number 7:

Ordinary resolution number 7

"**RESOLVED** as an ordinary resolution that all the unissued shares in the authorised share capital of the Company be and are hereby placed under the control of the directors of the Company, who are authorised to allot and issue the same to such persons and on such terms and conditions as they may determine in their sole and absolute discretion, subject to the provisions of the Companies Act, No. 61 of 1973 (as amended), the provisions of the Banks Act, No. 94 of 1990 (as amended) and the Listings Requirements of JSE Limited."

The approval is given in the form of a general authority and accordingly:

– is only valid until the next Annual General Meeting of the Company; and

– may be varied or revoked by any general meeting of the Company prior to such Annual General Meeting.

5. To consider and, if deemed fit, to pass the following ordinary resolution number 8:

Ordinary resolution number 8

"**RESOLVED** that the directors be given the general authority to issue unissued shares of a class already in issue held under their control, for cash, when the directors consider it appropriate in the circumstances, subject to the provisions of the Companies Act, No. 61 of 1973 (as amended), the provisions of the Banks Act, No. 94 of 1990 (as amended), the Listings Requirements of JSE Limited and to the following limitations, that:

– the authority shall be valid until the next Annual General Meeting of the Company (provided it shall not extend beyond 15 months from the date of this resolution);

Notice of Annual General Meeting (continued)

- a paid press announcement giving full details, including the impact on net asset value, net tangible asset value, earnings and headline earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of shares in issue prior to such issue;
- issues for cash in any one financial year may not exceed 15% of the Company's issued share capital;
- the issues must be made to public shareholders as defined by the Listings Requirements of JSE Limited;
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% of the volume weighted average traded price as determined over the 30 business days prior to the date that the price of the issue is determined or agreed by the directors of the Company."

The approval of a 75% majority of the votes cast by shareholders present or represented by proxy at the meeting is required for this resolution to become effective.

6. To consider and, if deemed fit to amend the Trust Deed of the Mercantile Incentive Scheme in terms of the following ordinary resolution number 9:

The Company's shareholders at the Annual General Meeting held on 29 June 1999, approved, in terms of ordinary resolution number 9, the Mercantile Share Incentive Scheme ("the Scheme"). The number of unissued shares reserved for the Scheme was limited to 10% of the Company's total number of issued ordinary shares and it restricted the total number of Scheme shares that may be issued to a participant was restricted to 1.5% of the total number of issued ordinary shares of the Company. At the Company's Annual General Meeting held on 14 August 2001, the Company's shareholders approved a resolution to increase these limits to 20% and 3%, respectively.

The directors consider it appropriate to reduce these limits back to the percentages contained in the original Trust Deed. It is in this regard that the following ordinary resolution number 9 is proposed:

Ordinary resolution number 9

"RESOLVED as an ordinary resolution that the amendment of the Trust Deed constituting the Mercantile Share Incentive Scheme in the manner set out in the agreement between the trustees and the Company which was tabled at the meeting, and initialled by the Company Secretary for purposes of identification, be and is hereby approved."

The agreement referred to in ordinary resolution number 9 above amends the Trust Deed by restricting:

(i) the number of unissued shares reserved for the Mercantile Share Incentive Scheme and the shares already issued under the Mercantile Share Incentive Scheme to 393 891 852 Mercantile ordinary shares which, based on the number of issued Mercantile ordinary shares at 31 December 2005, represents 10% of the total number of issued ordinary shares of Mercantile as at that date, provided that the said number shall be increased or reduced in proportion to the increase or reduction of ordinary shares in Mercantile arising from any purchase by Mercantile or a subsidiary of Mercantile (which shall for that purpose be regarded as a reduction of the number of ordinary shares in issue) of ordinary shares in Mercantile, any consolidation or sub-division of ordinary shares in the issued share capital of Mercantile or any further issue of ordinary shares in Mercantile;

(ii) the number of scheme shares that may be issued in terms of the Mercantile Share Incentive Scheme to a participant to 59 083 778 Mercantile ordinary shares which, based on the number of issued Mercantile ordinary shares as at 31 December 2005, represents 1.5% of the total number of issued Mercantile ordinary shares as at that date, provided that the said number shall be increased or reduced in proportion to the increase or reduction of ordinary shares in Mercantile arising from any purchase by Mercantile or a subsidiary of Mercantile (which shall for this purpose be regarded as a reduction of the number of ordinary shares in issue) of ordinary shares in Mercantile, any consolidation or sub-division of Mercantile ordinary shares or any further issue of ordinary shares in Mercantile.

Voting and proxies

A member entitled to attend, speak and vote at the meeting is entitled to appoint a proxy (who need not be a member of the Company) to attend, vote and speak in his/her stead.

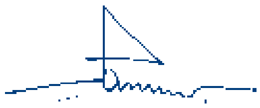
Members which are companies or other body corporates, may, in terms of section 188 (1) of the Companies Act, No. 61 of 1973 (as amended), by resolution of their directors or other governing body, authorise any person to act as its representative at the meeting.

Certificated shareholders and own-name dematerialised shareholders, who are unable to attend the meeting but wish to be represented thereat, must complete and return the attached form of proxy in accordance with the

Notice of Annual General Meeting (continued)

instructions contained therein and must be lodged at the Company's registered office, First Floor, Mercantile Bank, 142 West Street, Sandown, 2196 (PO Box 782699, Sandton, 2146) by no later than 14:00 on Friday, 17 March 2006.

Dematerialised shareholders, excluding own-name dematerialised shareholders, who wish to attend the meeting, must request their Central Securities Depository Participant ("CSDP") or broker to provide them with a Letter of Representation or must instruct their CSDP or broker to vote by proxy on their behalf in terms of the agreement entered into between the shareholder and their CSDP or broker.



F Vicente Coelho
Company Secretary

Sandton
28 February 2006

Registered office

First Floor
Mercantile Bank
142 West Street
Sandown, 2196
(PO Box 782699, Sandton, 2146)

Transfer Secretaries

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

Brief *curriculum vitae* of each director standing for re-election

L Hyne, age 62, is a Chartered Accountant (SA). He attended Executive Programmes at Witwatersrand Graduate School of Business and Stanford University in the U.S.A. He was admitted as a partner with Deloitte & Touche in 1970 and later became Chief Operating Officer and Deputy Chairman, from which position he retired in May 2003. He holds directorships with various companies.

J P M Lopes, age 40, holds a degree in law from the Lusiada University of Lisbon and a certificate in Corporate Finance from the London School of Business. He has been employed by CGD since 1991 and spent a number of years in London where he successfully managed the Derivative Products and Structured Products. His most recent appointment was Managing Director of Banco Interatlântico, which is an affiliated bank of CGD operating in the Republic of Cap Verde, focusing on Corporate Banking, Trade Financing and Private Banking.

A M Osman, age 61, holds a M.Sc degree in Economics and Finance (Public and International) from the University of Lisbon. He started his career as economist at CGD and later became National Director of Finance in Mozambique. From 1979 to 1992 he held various positions in the Mozambican Government, including Minister of Mineral Resources and Minister of Finance. He also spent three years with UNDP/ United Nations in New York as Director of Governance and Management Development.
A M Osman has been the Chairman of Banco Comercial e de Investimentos, SARL, Maputo since 1996.

S Rapeti, age 41, holds a Higher National Diploma in Electronic Engineering from ML Sultan Technikon and an MBA *(cum laude)* from the University of Wales. She served as the Vice-President of the Engineering Council of South Africa and Deputy Chairperson of the Council of the Built Environment from 2001 – 2005. She joined the SABC in 1988 and held various managerial positions in the organisation before being appointed Managing Director: Technology Division in 2001.

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Form of proxy

Mercantile Bank
Holdings Limited
Member of CGD Group

Reg No: 1989/000164/06
(Incorporated in the Republic of South Africa)
Share code: MTL ISIN: ZAE000056537
("Mercantile" or "the Company")

for use by certificated and own-name dematerialised ordinary shareholders at the Annual General Meeting of the Company to be held at 11:00 on Wednesday, 22 March 2006 ("the meeting") in the Boardroom, First Floor, Mercantile Bank, 142 West Street, Sandown, Sandton

I/We (please print) ______________________________

of (please print) ______________________________

being (a) member(s) of the Company, holding [ ] ordinary shares in the Company, hereby appoint:

1. ______________________________ or failing him/her,

2. ______________________________ or failing him/her,

3. the Chairman of the meeting,

as my/our proxy to attend, speak and vote on my/our behalf at the Annual General Meeting to be held at the registered office of the Company, in Sandton, on Wednesday, 22 March 2006 at 11:00 and at any adjournment thereof, and to vote or abstain from voting on the ordinary resolutions to be proposed at the meeting, as follows:

Ordinary shareholders	For	Against	Abstain
Ordinary resolution number 1: Adoption of annual financial statements and approval of directors' remuneration			
Ordinary resolution number 2: Re-election of director – L Hyne			
Ordinary resolution number 3: Re-election of director – A M Osman			
Ordinary resolution number 4: Re-election of director – S Rapeti			
Ordinary resolution number 5: Re-election of director – J P M Lopes			
Ordinary resolution number 6: Remuneration and re-appointment of auditors			
Ordinary resolution number 7: Unissued shares under directors' control			
Ordinary resolution number 8: General authority to issue unissued shares for cash			
Ordinary resolution number 9: Amendment to Trust Deed of the Mercantile Share Incentive Trust			

Signed this ______________ day of ______________ 2006

Signature of member(s) ______________________________

Assisted by me (where applicable) ______________________________

Please read the notes and instructions on the reverse hereof.

Form of proxy (continued)

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

2. Every person present and entitled to vote at the meeting as a member or as a proxy or as a representative of a body corporate shall, on a show of hands, have one vote only, irrespective of the number of shares such person holds or represents, but in the event of a poll, a member 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/her/it bears to the aggregate amount of the nominal value of all the shares issued by the Company.

3. Please insert the relevant number of shares/votes in the appropriate spaces on the face hereof and how you wish your votes to be cast. If you return this form of proxy duly signed without any specific directions, the proxy will vote or abstain from voting at his/her/its discretion.

Instructions on signing and lodging this form of proxy:

1. A deletion of any printed matter and the completion of any blank spaces need not be signed or initialled. Any alteration or correction must be initialled by the authorised signatory/ies.

2. The Chairman shall be entitled to decline or accept the authority of a person signing this form of proxy:

   (a) under a power of attorney; or

   (b) on behalf of a company,

   unless that person's power of attorney or authority is deposited at the registered office of the Company not later than 14:00 on Friday, 17 March 2006.

3. You may insert the name of any person(s) whom you wish to appoint as your proxy in the blank space(s) provided for that purpose.

4. When there are joint holders of shares, all joint shareholders must sign this form of proxy.

5. The completion and lodging of this form of proxy will not preclude the member who grants this proxy from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such member wish to do so.

6. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the transfer secretaries of the Company or waived by the Chairman of the meeting. The Chairman of the meeting may reject any form of proxy not completed and/or received in accordance with these notes and/or instructions, or with the Articles of Association of the Company.

7. **Completed forms of proxy should be returned to the Company's registered office, First Floor, Mercantile Bank, 142 West Street, Sandown, 2196 (PO Box 782699, Sandton, 2146) or faxed to the Company Secretary (fax number +27 11 302 0729) by no later than 14:00 on Friday, 17 March 2006.**