Mercantile Bank Holdings Limited

Member of CGD Group
Reg No. 1989/000164/06

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Mercantile Group

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

Mercantile Bank Holdings Limited ("the Company") is a registered bank controlling company and 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

at 22 February 2008

Board of Directors

J A S de Andrade Campos *†	(*Chairman*)
D J Brown #	(*Chief Executive Officer*)
G P de Kock †	
L Hyne †	
A T Ikalafeng †	
J P M Lopes *#	
S Rapeti †	

Administration

Group Secretary

R van Rensburg

Transfer secretaries

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

Postal address

P O Box 61051
Marshalltown
2107 South Africa

Registered office

1st Floor
Mercantile Bank
142 West Street
Sandown
2196

Postal address

P O Box 782699
Sandton
2146

* Portuguese
\# Executive
† Independent Non-Executive

Five-year financial performance of the Group

	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000
ASSETS					
Intangible assets	12 711	6 801	7 020	11 551	**23 569**
Property and equipment	84 651	85 028	91 305	94 956	**96 969**
Investment properties	800	770	350	–	**–**
Taxation	3 567	3 616	3 698	29	**–**
Other accounts receivable	82 430	33 148	14 887	145 291	**23 639**
Interest in associated company	2 951	3 236	3 323	3 626	**4 251**
Other investments	3 965	3 556	2 365	7 209	**228**
Loans and advances	1 178 788	975 611	1 458 677	2 066 432	**2 814 743**
Derivative financial instruments	7 610	90 162	36 757	31 134	**43 814**
Negotiable securities	273 090	370 279	379 028	405 016	**275 577**
Cash and cash equivalents	574 930	1 148 861	1 408 972	1 683 974	**1 422 994**
Total assets	2 225 493	2 721 068	3 406 382	4 449 218	**4 705 784**
EQUITY AND LIABILITIES					
Share capital and share premium	866 865	1 208 642	1 207 032	1 207 046	**1 207 422**
Capital redemption reserve fund	3 788	3 788	3 788	3 788	**3 788**
Share-based payments reserve	–	123	847	3 025	**7 019**
General reserve	7 478	7 478	7 478	7 478	**7 478**
Property revaluation reserve	28 376	31 273	36 476	45 588	**53 705**
Available-for-sale reserve	(742)	(955)	(76)	5 216	**(48)**
General credit-risk reserve	31 212	31 668	10 835	13 954	**19 403**
Accumulated loss	(773 078)	(781 078)	(716 201)	(618 677)	**(458 853)**
Shareholders' equity	163 899	500 939	550 179	667 418	**839 914**
Long-term liabilities	5 287	–	–	–	**–**
Deposits	1 946 752	2 112 569	2 636 547	3 539 147	**3 768 183**
Derivative financial instruments	32 115	35 210	38 531	29 189	**15 356**
Provisions	36 066	39 168	31 647	38 994	**42 435**
Other accounts payable	40 437	33 138	149 478	174 435	**39 780**
Taxation	937	44	–	35	**116**
Total equity and liabilities	2 225 493	2 721 068	3 406 382	4 449 218	**4 705 784**
Contingent liabilities and commitments	463 690	191 774	309 270	560 830	**642 454**
Profit/(Loss) after taxation	(58 888)	(213 016)*	66 996	100 643	**165 273**
Headline earnings/(loss)	(56 471)	(213 756)	68 025	100 643	**159 684**
Earnings/(Loss) per ordinary share (cents)	(6.9)	(11.6)	1.71	2.56	**4.21**
Headline earnings/(loss) per ordinary share (cents)	(6.6)	(11.7)	1.73	2.56	**4.07**
KEY RATIOS					
(Comparatives for 2003 and 2004 are not shown due to losses incurred in those years)					
Return on average equity (%)			12.7	16.5	**21.9**
Return on average assets (%)			2.2	2.6	**3.6**
Cost to income (%)			91.0	71.7	**59.4**
Net asset value per share (cents)			14.0	17.0	**21.4**

* In the reporting period December 2002 profit after taxation included 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 loss after taxation would have been R40 million in December 2004.

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 114th 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–	September 2007
Moody's	P–1	Aa1	October 2007
Standard & Poor's	A–1	A+	September 2007

Moody's Investors Service, in their first time rating of the Bank, assigned the following national scale issuer ratings to the Bank in February 2008:

Short term	P-1.za
Long term	A2.za

Business focus

The Group's strategy remains unchanged, namely:

- to grow 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, primarily in the areas of card and payment products.

Financial review

The Group has again recorded a strong growth in profit after taxation, which increased by 64.2% for the 2007 financial year compared to the 2006 financial year. Headline earnings per share increased by 59.0%. These increases are largely attributable to:

- an increase in net interest income (after credit losses) of 24.9% as a result of higher capital due to profit retention, the higher interest rate environment and growth in lending of 36.2%;
- growth in recurring non-interest income of 19.2% from core business activities with strong contributions from card and treasury; and
- non-recurring income of R15 million pertaining to legacy business.

Costs increased year on year by 8.8% of which 5.0% relates directly to costs incurred in generating increased fee income. Efficiency continues to improve with the overall cost to income ratio reducing from 71.7% in December 2006 to the current ratio of 59.4%.

Return on average equity ("ROE") improved to 21.9% (December 2006: 16.5%) whilst return on average assets ("ROA") was at 3.6% (December 2006: 2.6%). These performance ratios benefited from the non-recurring income mentioned above – adjusting for this non-recurring income, the ratios would be cost to income 61.7%, ROE 19.9% and ROA 3.3%, all of which still reflect significant improvements since December 2006.

Total balance sheet growth was constrained due to fluctuations in wholesale treasury activities, which reflected a decrease in wholesale deposits as at December 2007 of approximately R300 million compared to the end of December 2006.

Group review (continued)

Directorate

Manuel Figueira, a CGD secondee, resigned from the Board effective 28 February 2007 in order to return to Portugal.

Magid Osman, a non-executive Director, resigned with effect from 21 November 2007. This followed his resignation as the Chairman of BCI Fomento, a bank in Mozambique, which is also a subsidiary of CGD.

We thank the Board of Directors ("the Board") for their valuable contribution and support during the year.

Financial Sector Charter

The Group remains fully committed to achieving the targets (as applicable to the Group's strategy) set out in the charter and plans are in place to deliver on these targets. Good progress has been made in this respect in the key areas of procurement, financing of black businesses and the diversity of the Group's Board. Employment equity targets remain a challenge and the Group is behind in terms of achieving these targets. In the area of empowerment at shareholder level, CGD continue to explore opportunities in this regard.

New banking system

The Board has approved a project involving both the replacement of our core retail banking systems and the enhancement/upgrade of our current systems architecture at an estimated cost of circa R130 million, which includes expenditure on hardware at an estimated level of approximately R19 million. The balance of the expenditure will largely consist of software, development and implementation costs. Costs incurred to date on this project amount to R19 million. The increase in estimated cost since December 2006 is mainly due to an expanded scope in terms of upgrading/enhancing the current systems architecture of the Bank. The cost estimates remain preliminary calculations and could change once the implementation planning together with the various contract negotiations have been finalised. These negotiations will include payment terms but it is anticipated that the project will be funded from cash resources over the period of the project against agreed deliverables.

The *pro forma* effect of the transaction on the tangible net asset value per share of the Group, based on the above cost estimates, is expected to be a decrease of approximately three cents.

The rationale for this project is based on creating a new systems platform to support the growth of the Group in line with our strategic objectives – the project will result in a more flexible and integrated systems environment enhancing our risk management and controls whilst providing us with greater capacity to compete in the market in the areas of product and service. No profits can be directly attributed to this project but the project drivers outlined above are expected to provide a positive benefit to the Group over time. The project is expected to be completed by the third quarter of 2009.

Outlook

Whilst the prevailing tighter monetary conditions are impacting on the rate of credit growth in the market, the improvement in the Group's core performance is expected to continue.

We thank all our staff for their commitment and dedication during the year under review 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

22 February 2008

D J Brown
Chief Executive Officer

22 February 2008

Annual financial statements

Contents

Directors' responsibility

In terms of the Companies Act of South Africa, 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 controls. The Board has ultimate responsibility for this system of internal controls and reviews the effectiveness of its operations, primarily through the Group Audit Committee and other risk monitoring committees and functions.

The internal 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 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 Company and Group annual financial statements.

The Company and Group 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 Company and Group 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 Board believes 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 63, 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

22 February 2008

D J Brown
Chief Executive Officer

22 February 2008

Certificate from the Company Secretary

In terms of section 268G(d) of the Companies Act, No. 61 of 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 2007 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.

R van Rensburg
Company Secretary

22 February 2008

Independent auditor's report

to the members of Mercanntile Bank Holdings Limited

Report on the financial statements

We have audited the Company and Group annual financial statements, which comprise the Directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2007, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity and the cash flow statement and the consolidated cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages 10 to 63.

Directors' responsibility for the financial statements

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2007, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche.

Per **Riaan Eksteen**
Partner

22 February 2008

Building 8, Deloitte Place, The Woodlands,
Woodmead Drive, Sandton, 2196

National Executive:

GG Gelink Chief Executive, AE Swiegers Chief Operating Officer, GM Pinnock Audit, DL Kennedy Tax, L Geeringh Consulting, L Bam Strategy, CR Beukman Finance, TJ Brown Clients & Markets, NT Mtoba Chairman of the Board, J Rhynes Deputy Chairman of the Board

A full list of partners and directors is available on request

Empowerdex rating: AA (Level 3 B-BBEE Contributor)

Directors' report

for the year ended 31 December 2007

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 2007.

1. Nature of business

The Company is a registered bank controlling company and investment holding company incorporated in the Republic of South Africa. Through its 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 Company and Group financial results are set out on pages 12 to 63 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 during the year (2006: nil).

The authorised and issued share capital of the Company and Group is detailed in note 14 to the annual financial statements.

5. Directors, Company Secretary and registered addresses

The Directors of the Company during the year were as follows:

J A S de Andrade Campos*† (*Chairman*)
D J Brown # (*Chief Executive Officer*)
G P de Kock †
M J M Figueira *# (resigned effective 28 February 2007)
L Hyne †
A T Ikalafeng †
J P M Lopes *#
A M Osman ^+ (resigned effective 21 November 2007)
S Rapeti †

The Directors of the Company as at 22 February 2008 are shown on page 3.

The Company Secretary is R van Rensburg and the registered addresses of the Company are:

Postal:	**Head office:**
P O Box 782699	1st Floor
SANDTON	Mercantile Bank
2146	142 West Street
	SANDOWN
	2196

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

6. Dividends

No dividend was declared during the year under review (2006: nil).

7. Subsidiary companies and companies not consolidated

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 R169.3 million (2006: R105.1 million) and aggregate losses amounted to R3.2 million (2006: R3.5 million).

Directors' report

for the year ended 31 December 2007 (continued)

7. Subsidiary companies and companies not consolidated (continued)

The principal consolidated subsidiary companies are as follows:

Company name	Issued share capital R'000	Effective holding %	Nature of business ^	Shares at cost 2007 R'000	Shares at cost 2006 R'000	Owing to subsidiaries 2007 R'000	Owing to subsidiaries 2006 R'000
LSM (Troyeville) Properties (Pty) Limited	–	100	1	**140**	140	–	–
Mercantile Bank Limited	124 969	100	2	**1 485 448**	1 485 448	**(9 825)**	(12 901)
Mercantile Insurance Brokers (Pty) Limited	250	100	3	**294**	294	–	–
Mercantile Nominees (Pty) Limited	–	100	4	–	–	–	–
Mercantile Registrars Limited	100	100	5	–	–	–	–
Portion 2 of Lot 8 Sandown (Pty) Limited	–	100	1	**8 832**	8 832	–	–
						(9 825)	(12 901)

Notes:

^ Nature of business

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

Mercantile Matrix Finance (Pty) Limited and Mercantile E-Bureau (Pty) Limited have not been consolidated into the Group's results, the impact being insignificant.

8. Going concern

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

9. Special resolutions

A special resolution was approved by shareholders at the Annual General Meeting held on 24 May 2007 and registered on 30 May 2007 which related to changes to the articles of association of the Company. These changes related to:

- alignment of certain provisions to the Banks Act, JSE Limited Listings requirements and other Corporate Governance practices;
- allowing Directors who reach the age of 70 not to vacate his/her office subject to the Board approving such; and
- allowing for meetings to be held by teleconference or electronic means.

10. 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 2007

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

1. Basis of presentation

The Company and Group annual financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations ("IFRS") issued by the International Accounting Standards Board, using the historical cost convention as modified by the revaluation of certain financial assets, liabilities and properties.

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 de-consolidated 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.

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 possible 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 financial 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.

The Group derecognises a financial asset when:

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

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

The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in income.

4.1 Derivative financial instruments

Derivative financial assets and liabilities are classified as 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.

Accounting policies

for the year ended 31 December 2007 (continued)

4. Financial instruments (continued)

4.1 Derivative financial instruments (continued)

Derivative financial instruments ("derivatives") 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 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 income.

A derivative's notional principal reflects the value 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.

Financial assets at fair value through profit and loss

Where the Group acquires loans and receivables with fixed interest rates, corporate bonds and derivatives that are not effective hedging instruments, these financial assets are classified at fair value through profit and loss. Financial assets are designated at fair value through profit and loss, primarily to eliminate or significantly reduce the accounting mismatch. The Group seeks to demonstrate that by applying the fair value option, it significantly reduces measurement inconsistency that would otherwise arise from measuring derivatives at fair value with gains and losses in profit and loss, and the loans and receivables and corporate bonds at amortised cost.

Available-for-sale

Available-for-sale financial assets are those non-derivatives that are designated as available-for-sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit and loss.

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 loans and receivables and are measured at amortised cost.

Other investments

Investments consist of unlisted equity investments. Other investments have been designated as available-for-sale. These assets are measured at fair value, at each reporting date, 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.

Negotiable securities

Negotiable securities consist of government stock, corporate bonds, Treasury bills, Landbank bills and debentures.

Government stock has been designated as available-for-sale. These assets are measured at fair value, at each reporting date, 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.

Corporate bonds are designated at fair value through profit and loss.

All other negotiable securities are classified as loans and receivables and are carried at amortised cost subject to impairment.

Accounting policies

for the year ended 31 December 2007 (continued)

4. Financial instruments (continued)

4.2 Financial assets (continued)

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 through profit and loss with resultant gains and losses being included in income. Variable rate loans and advances have been designated as loans and receivables and are measured at amortised cost.

Other accounts receivable

Other accounts receivable comprise items in transit, prepayments and deposits and other receivables. These assets have been designated as 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 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 by the Group, the current bid price is used as a measure of fair value. In the case of a 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, termination cost and net asset values of underlying investees 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.

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. A direct reduction of an impaired financial asset occurs when the Group writes off an impaired account. The Groups write-off policy sets out the criteria for write-offs, which involves an assessment of the likelihood of commercially viable recovery of the carrying amount of impaired financial asset. Both the specific and portfolio impairments raised during the year less the recoveries of advances previously written off, are charged to income.

Interest for non-performing loans and advances is not recognised to income but is suspended. In certain instances, interest is also suspended where portfolio impairments are raised.

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.

Accounting policies

for the year ended 31 December 2007 (continued)

4. **Financial instruments** (continued)

4.6 **Impairments** (continued)

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.

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 each reporting date. 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 income.

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 valuations by independent registered professional valuators at each balance sheet date. 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.

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 calculated using the straight-line method 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.

Accounting policies
for the year ended 31 December 2007 (continued)

9. Property and equipment (continued)

9.2 Equipment

All equipment is stated at historical cost less accumulated depreciation and subsequent accumulated impairment losses. 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 income 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 than 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	5 –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 income.

10. Intangible assets

Computer software

Costs associated with developing or maintaining computer software programs and the acquisition of software licenses are recognised as an expense as incurred. However, costs that are directly associated with an identifiable and unique system controlled by the Group, and are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include external software development and consultancy fees.

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 for indication of impairment and is written down when the carrying amount exceeds the recoverable amount.

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.

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. Expected 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 unutilised tax losses are available for use against taxable profits in the foreseeable future.

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 investments with the proceeds recognised in cash and cash equivalents and the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits, or deposits due to 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.

Accounting policies

for the year ended 31 December 2007 (continued)

13. Sale and repurchase agreements and lending of securities (continued)

Securities purchased under agreements to resell ("reverse repos") are recorded as cash and cash equivalents. 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 income 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 income for all interest-bearing instruments 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 shareholder's rights to receive payment have been established.

17. Retirement funds

The Group operates defined contribution funds, the assets of which are held in separate trustee-administered funds. 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 accrued.

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 who elected to retain the benefits in 2005 and are based on these 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 income 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 annually.

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 Remuneration Committee and approved by the Board of the Company. The Share Incentive Trust's financial position and results are consolidated. The Group has applied the requirements of IFRS 2 to share-based payments.

Accounting policies

for the year ended 31 December 2007 (continued)

19. Equity compensation plans (continued)

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 business segment is a distinguishable component of the Group that is engaged in providing specific products or services whilst a geographical segment provides products or services in a particular economic environment.

21. General credit-risk reserve

Banks Act circular 21/2004 requires that a general credit-risk reserve be recognised within Shareholders' equity for any shortfall between total impairments raised in terms of IAS 39 and the provisions required in terms of Regulation 28 of the Regulations relating to Banks. Such reserve is maintained through an appropriation of distributable reserves to a general credit-risk reserve.

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.

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 income, 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, operational and financing cash flows.

Accounting policies
for the year ended 31 December 2007 (continued)

22. Critical accounting estimates and judgements (continued)

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. Recent accounting developments

There are standards and interpretations in issue that are not yet effective. These include the following standards and interpretations that could be applicable to the business of the Group and may have an impact on future financial statements. The impact of initial application has not been assessed as at the date of authorisation of the annual financial statements.

IFRS 8 (Operating segments) was issued during November 2006 but is only effective for annual periods beginning on or after 1 January 2009. The Group will apply IFRS 8 from the year ending 31 December 2009.

IFRIC 11 (IFRS 2: Group and treasury share transactions) was issued during November 2006 but is only effective for annual periods beginning on or after 1 March 2007. The Group will apply IFRIC 11 from the year ending 31 December 2008.

IFRIC 12 (Service concession arrangements) was issued during November 2006 but is only effective for annual periods beginning on or after 1 January 2008. The Group will apply IFRIC 12 from the year ending 31 December 2008.

IFRIC 13 (Customer loyalty programmes) was issued during June 2007 but is only effective for annual periods beginning on or after 1 July 2008. The Group will apply IFRIC 13 from the year ending 31 December 2009.

IFRIC 14 (IAS 19: The limit on a defined benefit asset, minimum funding requirements and their interaction) was issued during July 2007 but is only effective for annual periods beginning on or after 1 January 2008. The Group will apply IFRIC 14 from the year ending 31 December 2008.

Balance sheets

at 31 December 2007

		Group		Company	
		2007	2006	2007	2006
	Note	R'000	R'000	R'000	R'000
ASSETS					
Intangible assets	2	23 569	11 551	–	–
Property and equipment	3	96 969	94 956	–	–
Investment properties	4	–	–	–	–
Taxation	5	–	29	–	29
Other accounts receivable	6	23 639	145 291	19	4
Interest in subsidiaries	7	–	–	844 168	670 355
Interest in associated company	8	4 251	3 626	–	–
Other investments	9	228	7 209	20	20
Loans and advances	10	2 814 743	2 066 432	–	–
Derivative financial instruments	11	43 814	31 134	–	–
Negotiable securities	12	275 577	405 016	–	–
Cash and cash equivalents	13	1 422 994	1 683 974	197	138
Total assets		4 705 784	4 449 218	844 404	670 546
EQUITY AND LIABILITIES					
Shareholders' equity		839 914	667 418	844 371	670 515
Share capital and share premium	14	1 207 422	1 207 046	1 210 143	1 210 143
Capital redemption reserve fund		3 788	3 788	3 788	3 788
Share-based payments reserve		7 019	3 025	7 019	3 025
General reserve		7 478	7 478	–	–
Property revaluation reserve		53 705	45 588	–	–
Available-for-sale reserve		(48)	5 216	276 748	106 011
General credit-risk reserve		19 403	13 954	–	–
Accumulated loss		(458 853)	(618 677)	(653 327)	(652 452)
Liabilities		3 865 870	3 781 800	33	31
Deposits	15	3 768 183	3 539 147	–	–
Derivative financial instruments	11	15 356	29 189	–	–
Provisions	16	42 435	38 994	–	–
Other accounts payable	18	39 780	174 435	33	31
Taxation	5	116	35	–	–
Total equity and liabilities		4 705 784	4 449 218	844 404	670 546

Income statements
for the year ended 31 December 2007

		Group		Company	
		2007	2006	2007	2006
	Note	R'000	R'000	R'000	R'000
Interest income	21	467 247	357 163	–	–
Interest expenditure	22	(250 012)	(189 044)	–	–
Net interest income		217 235	168 119	–	–
Net (charge for)/recovery of credit losses	10	(5 358)	1 520	–	–
Net interest income after credit losses/recoveries		211 877	169 639	–	–
Net gain/(loss) on disposal and revaluation of available-for-sale investments		5 602	(347)	–	–
Non-interest income	23	190 871	147 520	–	266
Recurring		175 796	147 520	–	266
Non-recurring		15 075	–	–	–
Net interest and non-interest income		408 350	316 812	–	266
Operating expenditure	24	(245 819)	(226 040)	(846)	(1 273)
Operating profit before exceptional item		162 531	90 772	(846)	(1 007)
Recovery of amounts previously written off in respect of the release of the CGD guarantee	10	–	8 602	–	–
Operating profit		162 531	99 374	(846)	(1 007)
Share of income from associated company		2 771	1 269	–	–
Profit/(Loss) before taxation		165 302	100 643	(846)	(1 007)
Taxation	25	(29)	–	(29)	–
Profit/(Loss) after taxation		165 273	100 643	(875)	(1 007)
Earnings per ordinary share (cents)	26.1	4.21	2.56		
Diluted earnings per ordinary share (cents)	26.2	4.21	2.56		
Dividends per share (cents)		–	–		

Statements of changes in equity

for the year ended 31 December 2007

	Share capital and share premium R'000	Capital redemption reserve fund R'000	Share-based payments reserve R'000	General reserve R'000	Property re-valuation reserve R'000	Available-for-sale reserve R'000	General credit-risk reserve R'000	Accu-mulated loss R'000	Total R'000
Group									
Shareholders' equity at 1 January 2006	1 207 032	3 788	847	7 478	36 476	(76)	10 835	(716 201)	550 179
Net movement for the year	14	–	2 178	–	9 112	5 292	3 119	97 524	117 239
Revaluation of owner-occupied property	–	–	–	–	9 112	–	–	–	9 112
Gains and losses on remeasurement to fair value	–	–	–	–	–	5 294	–	–	5 294
Release to income on disposal of available-for-sale financial assets	–	–	–	–	–	(2)	–	–	(2)
Increase in general credit-risk reserve	–	–	–	–	–	–	3 119	(3 119)	–
Reduction of treasury shares held within the Group	14	–	–	–	–	–	–	–	14
Share-based payments expense	–	–	2 178	–	–	–	–	–	2 178
Profit after taxation	–	–	–	–	–	–	–	100 643	100 643
Shareholders' equity at 31 December 2006	**1 207 046**	**3 788**	**3 025**	**7 478**	**45 588**	**5 216**	**13 954**	**(618 677)**	**667 418**
Net movement for the year	**376**	**–**	**3 994**	**–**	**8 117**	**(5 264)**	**5 449**	**159 824**	**172 496**
Revaluation of owner-occupied property	**–**	**–**	**–**	**–**	**8 117**	**–**	**–**	**–**	**8 117**
Gains and losses on remeasurement to fair value	**–**	**–**	**–**	**–**	**–**	**338**	**–**	**–**	**338**
Release to income on disposal of available-for-sale financial assets	**–**	**–**	**–**	**–**	**–**	**(5 602)**	**–**	**–**	**(5 602)**
Increase in general credit-risk reserve	**–**	**–**	**–**	**–**	**–**	**–**	**5 449**	**(5 449)**	**–**
Reduction of treasury shares held within the Group	**376**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**376**
Share-based payments expense	**–**	**–**	**3 994**	**–**	**–**	**–**	**–**	**–**	**3 994**
Profit after taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**165 273**	**165 273**
Shareholders' equity at 31 December 2007	**1 207 422**	**3 788**	**7 019**	**7 478**	**53 705**	**(48)**	**19 403**	**(458 853)**	**839 914**

Statements of changes in equity

for the year ended 31 December 2007 (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	Accu-mulated loss R'000	Total R'000
Company						
Shareholders' equity at 1 January 2006	1 210 143	3 788	847	(10 043)	(651 445)	553 290
Net movement for the year	–	–	2 178	116 054	(1 007)	117 225
Gains and losses on remeasurement to fair value	–	–	–	116 054	–	116 054
Share-based payments expense	–	–	2 178	–	–	2 178
Loss after taxation	–	–	–	–	(1 007)	(1 007)
Shareholders' equity at 31 December 2006	**1 210 143**	**3 788**	**3 025**	**106 011**	**(652 452)**	**670 515**
Net movement for the year	–	–	3 994	170 737	(875)	173 856
Gains and losses on remeasurement to fair value	–	–	–	170 737	–	170 737
Share-based payments expense	–	–	3 994	–	–	3 994
Loss after taxation	–	–	–	–	(875)	(875)
Shareholders' equity at 31 December 2007	**1 210 143**	**3 788**	**7 019**	**276 748**	**(653 327)**	**844 371**

Cash flow statements

for the year ended 31 December 2007

		Group		Company	
		2007	2006	**2007**	2006
	Note	**R'000**	R'000	**R'000**	R'000
Operating activities					
Cash receipts from customers	27.1	**626 780**	518 278	**–**	266
Cash paid to suppliers and employees	27.2	**(474 363)**	(391 429)	**(846)**	(1 273)
Dividends received		**21**	7	**–**	–
Taxation recovered	27.3	**81**	3 704	**–**	–
Net (increase) in income earning assets	27.4	**(619 426)**	(640 942)	**–**	–
Net increase in deposits and other accounts	27.5	**216 409**	797 517	**905**	1 058
Net cash (outflow)/inflow from operating activities		**(250 498)**	287 135	**59**	51
Investing activities					
Purchase of property, equipment and intangible assets		**(20 000)**	(13 239)	**–**	–
Proceeds on sale of property, equipment and intangible assets		**53**	39	**–**	–
Proceeds on disposal of investments		**7 319**	101	**–**	–
Dividends received from associated company		**2 146**	966	**–**	–
Net cash (outflow) from investing activities		**(10 482)**	(12 133)	**–**	–
Net cash (outflow)/inflow for year		**(260 980)**	275 002	**59**	51
Cash and cash equivalents at beginning of year		**1 683 974**	1 408 972	**138**	87
Cash and cash equivalents at end of year	13	**1 422 994**	1 683 974	**197**	138

Notes to the financial statements

for the year ended 31 December 2007

	Group 2007 Fair value R'000	Group 2007 Carrying amount R'000	Group 2006 Fair value R'000	Group 2006 Carrying amount R'000
1. Categories and fair values of financial instruments				
Assets				
Available-for-sale	6 802	6 802	7 209	7 209
Other investments	228	228	7 209	7 209
Negotiable securities – Government stock	6 574	6 574	–	–
Loans and receivables	4 347 904	4 348 231	3 967 089	3 967 417
Current accounts	730 740	730 740	408 134	408 134
Credit card	15 184	15 184	16 286	16 286
Mortgage loans	1 196 363	1 196 363	694 983	694 983
Instalment sales and leases	276 746	276 746	268 159	268 159
Other advances	444 362	444 362	530 050	530 050
Negotiable securities – Treasury and Landbank bills	203 880	204 010	194 183	194 406
Negotiable securities – Debentures	33 996	34 193	26 000	26 105
Cash and cash equivalents	1 422 994	1 422 994	1 683 974	1 683 974
Taxation	–	–	29	29
Other accounts receivable	23 639	23 639	145 291	145 291
Loans and receivables designated at fair value through profit and loss	182 148	182 148	333 325	333 325
Mortgage loans	40 902	40 902	12 074	12 074
Instalment sales and leases	26 971	26 971	25 116	25 116
Other advances	83 475	83 475	111 630	111 630
Corporate bonds	30 800	30 800	184 505	184 505
Held-for-trading	43 814	43 814	31 134	31 134
Derivative financial instruments	43 814	43 814	31 134	31 134
	4 580 668	4 580 995	4 338 757	4 339 085
Liabilities				
Held-for-trading	15 356	15 356	29 189	29 189
Derivative financial instruments	15 356	15 356	29 189	29 189
Other financial liabilities	3 808 079	3 808 079	3 713 617	3 713 617
Deposits	3 768 183	3 768 183	3 539 147	3 539 147
Taxation	116	116	35	35
Other accounts payable	39 780	39 780	174 435	174 435
	3 823 435	3 823 435	3 742 806	3 742 806

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Company 2007 Fair value R'000	Company 2007 Carrying amount R'000	Company 2006 Fair value R'000	Company 2006 Carrying amount R'000
1. Categories and fair values of financial instruments (continued)				
Assets				
Available-for-sale	**844 188**	**844 188**	670 375	670 375
Other investments	**20**	**20**	20	20
Interest in subsidiaries	**844 168**	**844 168**	670 355	670 355
Loans and receivables	**216**	**216**	171	171
Cash and cash equivalents	**197**	**197**	138	138
Taxation	**–**	**–**	29	29
Other accounts receivable	**19**	**19**	4	4
	844 404	**844 404**	670 546	670 546
Liabilities				
Other financial liabilities	**33**	**33**	31	31
Other accounts payable	**33**	**33**	31	31
	33	**33**	31	31

Cash and cash equivalents have short times to maturity. For this reason, the carrying amounts at the reporting date approximate the fair values.

Treasury and Landbank bills and debentures have short times to maturity and are carried at amortised cost. Fair value is based on quoted market values at balance sheet date.

Loans and advances that are carried at amortised cost, the values reported approximate the fair value as they bear variable rates of interest. In addition, fair value is approximated through the credit impairment models.

Deposits generally have short times to maturity, thus the values reported approximate the fair value.

The fair value of public traded derivatives, securities and investments is based on quoted market values at balance sheet date.

The fair value of other financial assets and financial liabilities, excluding derivatives, is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and adjusted by relevant market pricing.

The fair value of other investments and interest in subsidiaries which are unlisted, is determined by reference to the net asset value of the entity.

The fair value of loans and advances fair valued through profit and loss is calculated using the credit spread observed at origination. The fair values are adjusted for deterioration of credit quality through the application of the credit impairment models.

	Group/Company 2007 R'000	Group/Company 2006 R'000
Loans and receivables designated at fair value through profit and loss		
Cumulative changes in fair value attributable to credit risk	–	–
Changes in fair value attributable to changes in credit risk recognised during the period	–	–

At reporting date there are no significant concentrations of credit risk. The carrying amount reflected above represents the Company's and the Group's maximum exposure to credit risk for such loans and receivables.

To confirm the amount of the fair value attributable to change in credit risk, a review of those loans or receivables designated at fair value through profit and loss was conducted. The Group has no credit derivatives over loans and receivables designated at fair value through profit and loss.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group 2007 R'000	Group 2006 R'000
2. Intangible assets		
Computer software		
Cost at beginning of year	51 674	44 068
Additions	15 850	7 648
Transfer from property and equipment	424	–
Write-off of obsolete software	(6 654)	(42)
Cost at end of year	61 294	51 674
Accumulated amortisation and impairment losses at beginning of year	(40 123)	(37 048)
Amortisation	(3 716)	(3 108)
Transfer from property and equipment	(424)	–
Write-off of obsolete software	6 538	33
Accumulated amortisation and impairment losses at end of year	(37 725)	(40 123)
Net carrying amount at end of year	23 569	11 551

3. Property and equipment

	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
Group							
2007							
Open market value/cost at beginning of year	73 164	18 129	68 568	8 436	22 464	339	191 100
Revaluations	6 900	–	–	–	–	–	6 900
Additions	–	213	2 918	14	893	112	4 150
Transfer *	–	(17)	(893)	117	369	–	(424)
Disposals	–	–	–	–	(60)	(36)	(96)
Open market value/cost at end of year	80 064	18 325	70 593	8 567	23 666	415	201 630
Accumulated depreciation and impairment losses at beginning of year	–	(12 825)	(60 209)	(7 191)	(15 632)	(287)	(96 144)
Depreciation	(1 272)	(1 092)	(5 621)	(485)	(1 769)	(65)	(10 304)
Revaluation	1 272	–	–	–	–	–	1 272
Transfer *	–	9	934	(115)	(404)	–	424
Disposals	–	–	–	–	55	36	91
Accumulated depreciation and impairment losses at end of year	–	(13 908)	(64 896)	(7 791)	(17 750)	(316)	(104 661)
Net carrying amount at end of year	80 064	4 417	5 697	776	5 916	99	96 969

* Transfer between various categories of property and equipment and intangible assets.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

3. Property and equipment
(continued)

	Owner-occupied properties R'000	Leasehold improvements R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
Group							
2006							
Open market value/cost at beginning of year	65 164	17 166	67 162	8 472	20 290	422	178 676
Revaluations	8 000	–	–	–	–	–	8 000
Additions	–	963	2 049	49	2 530	–	5 591
Disposals	–	–	(643)	(85)	(356)	(83)	(1 167)
Open market value/cost at end of year	73 164	18 129	68 568	8 436	22 464	339	191 100
Accumulated depreciation and impairment losses at beginning of year	–	(11 550)	(54 981)	(6 638)	(13 872)	(330)	(87 371)
Depreciation	(1 112)	(1 275)	(5 862)	(633)	(2 098)	(40)	(11 020)
Revaluation	1 112	–	–	–	–	–	1 112
Disposals	–	–	634	80	338	83	1 135
Accumulated depreciation and impairment losses at end of year	–	(12 825)	(60 209)	(7 191)	(15 632)	(287)	(96 144)
Net carrying amount at end of year	73 164	5 304	8 359	1 245	6 832	52	94 956

	Group 2007 R'000	Group 2006 R'000
Historical cost of properties that have been revalued	**36 910**	36 910

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 2007.
2. A register containing details of owner-occupied properties and the revaluation thereof is available for inspection at the registered office of the Company.

4. Investment properties

	Group 2007 R'000	Group 2006 R'000
Open-market value at beginning of year	–	350
Disposals	–	(350)
Open-market value at end of year	–	–

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
5. Taxation				
South African Revenue Services				
Taxation overpaid by the Group/Company	–	29	–	29
Taxation owing by the Group	116	35	–	–
6. Other accounts receivable				
Items in transit	3 913	7 743	–	–
Prepayments and deposits	4 948	4 159	19	4
Other receivables	14 778	133 389	–	–
	23 639	145 291	19	4

	Company	
	2007 R'000	2006 R'000
7. Interest in subsidiaries		
Unlisted		
Shares at fair value	853 993	683 256
Loan – amount owing to subsidiary	(9 825)	(12 901)
	844 168	670 355

A list of principal subsidiary companies is contained in note 7 of the Directors' report. The loan is interest free and has no fixed terms of maturity.

	Group	
	2007 R'000	2006 R'000
8. Interest in associated company		
Statman Investments (Pty) Limited *		
Shares at cost	675	675
Accumulated share of post-acquisition profits	7 117	4 346
Dividends received	(3 541)	(1 395)
	4 251	3 626
Directors' valuation of the unlisted associated company	4 251	3 626

* The percentage shareholding of the Group in this company is 21.4%. The financial year-end is February.

Summarised financial information of the associated company is disclosed in note 28.4.

	Group		Company	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
9. Other investments				
Available-for-sale				
Unlisted equities	228	7 209	20	20
Directors' valuation of unlisted investments	228	7 209	20	20

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

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group	
	2007	2006
	R'000	R'000
10. Loans and advances		
Category analysis		
Amortised cost	2 755 878	2 016 058
Current accounts	780 463	448 290
Credit card	21 555	29 002
Mortgage loans	1 200 419	699 122
Instalment sales and leases	277 562	273 663
Other advances	475 879	565 981
Fair value through profit and loss	154 528	151 925
Mortgage loans	40 980	12 099
Instalment sales and leases	27 026	25 621
Other advances	86 522	114 205
	2 910 406	2 167 983*
Less: Impairments for credit losses	(57 187)	(64 394)*
Interest in suspense	(38 476)	(37 157)*
	2 814 743	2 066 432

* Effective 1 December 2006, legacy loans and advances of R377.4 million were sold to a third party. Specific impairments and interest in suspense of R214.6 million and R157.3 million, respectively, were utilised in writing off this debt.

R35.5 million of loans and advances that were reported as instalment sales and leases as at December 2006, are reported as other advances in 2007.

Certain loans and advances disclosed under the amortised category in the 2006 annual financial statements, have been disclosed under the fair value through profit and loss category for 2006 and 2007.

All loans and advances are denominated in South African Rand.

Maturity analysis

	2007	2006
Repayable on demand	900 360	696 353
Maturing within six months	136 671	105 259
Maturing after six months but within 12 months	158 547	119 327
Maturing after 12 months	1 714 828	1 247 044
	2 910 406	2 167 983

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

Notes to the financial statements

for the year ended 31 December 2007 (continued)

10. Loans and advances (continued)

Detailed category analysis of loans and advances

	Gross amount R'000	Interest in suspense R'000	Total impairments R'000	Net balance R'000
Group				
2007				
Current accounts	780 463	20 128	29 595	730 740
Credit card	21 555	1 568	4 803	15 184
Mortgage loans	1 241 399	1 768	2 366	1 237 265
Instalment sales and leases	304 588	256	615	303 717
Other advances	562 401	14 756	19 808	527 837
	2 910 406	38 476	57 187	2 814 743
2006				
Current accounts	448 290	7 089	33 067	408 134
Credit card	29 002	4 075	8 641	16 286
Mortgage loans	711 221	2 717	1 447	707 057
Instalment sales and leases	299 284	105	5 904	293 275
Other advances	680 186	23 171	15 335	641 680
	2 167 983	37 157	64 394	2 066 432

Impairments for credit losses

	Total R'000	Current accounts R'000	Credit card R'000	Mortgage loans R'000	Instalment sales and leases R'000	Other advances R'000
Group						
2007						
Balance at the beginning of the year	64 394	33 067	8 641	1 447	5 904	15 335
Movements for the year:						
Credit losses written-off	(17 556)	(240)	(3 483)	(683)	(5 646)	(7 504)
Net impairments raised	10 349	(3 232)	(355)	1 602	357	11 977
	57 187	29 595	4 803	2 366	615	19 808
2006						
Balance at the beginning of the year	268 665	3 517	67 616	12 725	51 327	133 480
Movements for the year:						
Credit losses written-off	(4 995)	–	(3 836)	–	–	(1 159)
Impairments utilised in writing off sold legacy loans and advances*	(214 578)	–	(59 302)	(9 335)	(45 066)	(100 875)
Net impairments raised	15 302	29 550	4 163	(1 943)	(357)	(16 111)
	64 394	33 067	8 641	1 447	5 904	15 335

* Effective 1 December 2006, legacy loans and advances of R377.4 million were sold to a third party. Specific impairments and interest in suspense of R214.6 million and R157.3 million, respectively, were utilised in writing off this debt.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group 2007 R'000	Group 2006 R'000
10. Loans and advances (continued)		
Impairments for credit losses consist of:		
Portfolio impairments	**32 663**	31 682
Specific impairments	**24 524**	32 712
Balance at end of year	**57 187**	64 394
Net (charge for)/recovery of credit losses		
Net impairments movement	**(7 207)**	(15 302)
Recoveries in respect of sold legacy loans and advances	**–**	7 345
Recoveries in respect of amounts previously written off	**1 849**	9 477
	(5 358)	1 520
Exceptional item as per income statement		
Recovery of amounts previously written off in respect of the release of the CGD guarantee	**–**	8 602

	Gross amount R'000	Interest in suspense R'000	Portfolio impairment R'000	Net balance R'000
Category analysis of performing loans and advances				
Group				
2007				
Current accounts	**779 056**	**19 918**	**29 170**	**729 968**
Credit card	**15 317**	**–**	**826**	**14 491**
Mortgage loans	**1 220 604**	**–**	**554**	**1 220 050**
Instalment sales and leases	**301 319**	**–**	**332**	**300 987**
Other advances	**521 718**	**–**	**1 781**	**519 937**
	2 838 014	**19 918**	**32 663**	**2 785 433**
2006				
Current accounts	439 131	7 089	27 108	404 934
Credit cards	18 339	–	2 195	16 144
Mortgage loans	704 247	–	313	703 934
Instalment sales and leases	292 442	–	266	292 176
Other advances	637 347	–	1 800	635 547
	2 091 506	7 089	31 682	2 052 735

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group 2007 R'000	Group 2006 R'000
10. Loans and advances (continued)		
Category analysis of performing loans and advances excluding loans and advances with renegotiated terms		
Current accounts	**779 056**	439 131
Credit card	**15 317**	18 339
Mortgage loans	**1 220 604**	704 247
Instalment sales and leases	**301 319**	292 442
Other advances	**520 963**	636 457
	2 837 259	2 090 616
Category analysis of loans and advances with renegotiated terms that would otherwise be past due or impaired		
Current accounts	**–**	–
Credit card	**–**	–
Mortgage loans	**–**	–
Instalment sales and leases	**–**	–
Other advances	**755**	890
	755	890

	Past due for: 0 – 30 days R'000	31 – 60 days R'000	61 – 90 days R'000	Total gross amount R'000	Fair value of collateral and other enhancements R'000
Category age analysis of loans that are past due but not impaired					
Group					
2007					
Current accounts	**–**	**–**	**–**	**–**	**–**
Credit card	**119**	**201**	**215**	**535**	**–**
Mortgage loans	**2 413**	**6 689**	**–**	**9 102**	**7 203**
Instalment sales and leases	**191**	**283**	**–**	**474**	**474**
Other advances	**1 284**	**245**	**–**	**1 529**	**1 279**
	4 007	**7 418**	**215**	**11 640**	**8 956**
2006					
Current accounts	–	–	–	–	–
Credit cards	903	291	280	1 474	–
Mortgage loans	9 850	3 230	–	13 080	12 762
Instalment sales and leases	195	–	–	195	195
Other advances	1 860	–	–	1 860	1 810
	12 808	3 521	280	16 609	14 767

Notes to the financial statements

for the year ended 31 December 2007 (continued)

10. Loans and advances (continued)

	Gross amount R'000	Inerest in suspense R'000	Specific impairment R'000	Net balance R'000	Fair value of collateral and other enhancements R'000
Category analysis of loans and advances that are individually impaired					
Group					
2007					
Current accounts	**1 407**	**210**	**425**	**772**	**219**
Credit card	**6 238**	**1 568**	**3 977**	**693**	**–**
Mortgage loans	**20 795**	**1 768**	**1 812**	**17 215**	**18 338**
Instalment sales and leases	**3 269**	**256**	**283**	**2 730**	**2 705**
Other advances	**40 683**	**14 756**	**18 027**	**7 900**	**9 016**
	72 392	**18 558**	**24 524**	**29 310**	**30 278**
2006					
Current accounts	9 159	–	5 959	3 200	265
Credit cards	10 663	4 075	6 446	142	–
Mortgage loans	6 974	2 717	1 134	3 123	4 124
Instalment sales and leases	6 842	105	5 638	1 099	755
Other advances	42 839	23 171	13 535	6 133	9 891
	76 477	30 068	32 712	13 697	15 035

Collateral held as security and other credit enhancements

All customers of the Bank are accorded a client risk grading. The risk grading of a client reflects, in broad terms, the client's creditworthiness and standing with the Bank. Specific criteria are applicable to the different risk grades. The risk grading of clients calls for judgement and continuing critical appraisal of the client's financial standing and forms an integral part of the Bank's assessment of the client concerned. Changes in the risk grades are automated based on arrears on an instalment debt account.

Description of collateral held as security and other credit enhancements	Method of valuation
Cession of debtors	15% – 60% of debtors repayable under 90 days and depending on debtor credit quality
Pledge of shares	% dependent on liquidity and credit quality of the shares pledged
Limited pledge and cession	variable depending on asset type and value
Cession of life and endowment policies	100% of surrender value
Pledge of call and savings accounts, fixed and notice deposits	90% – 100%
Vacant land	50% of professional valuation
Residential properties	80% of the professional valuation
Commercial and industrial properties	70% of professional valuation
Catering, industrial and office equipment	variable depending on asset type and depreciated value
Trucks	variable depending on asset type and depreciated value
Earth moving equipment	variable depending on asset type and depreciated value
Motor vehicles	variable depending on asset type and depreciated value

Notes to the financial statements

for the year ended 31 December 2007 (continued)

10. Loans and advances (continued)

All collateral held by the Bank in respect of an advance, will be realised in accordance with the terms of the agreement or facility conditions applicable thereto. Cash collateral and pledged assets that can be allocated in accordance with the terms of the pledge and cession or suretyship are applied in reduction of related exposures. Pledged assets, other than cash or cash equivalent collateral, and tangible security articles are appropriated and disposed of, where necessary, after legal action, in compliance with the applicable Court rules and directives.

A customer in default will be advised of the default and afforded an opportunity to regularise the arrears. Failing normalisation of the account legal action and repossession procedures will be followed and all attached assets disposed of in accordance with the applicable legislation. In the case of insolvent and deceased estates, the duly appointed Liquidator/Trustee disposes of all assets.

11. Derivative financial instruments

Group	Notional principal of assets R'000	Fair value of assets R'000	Notional principal of liabilities R'000	Fair value of liabilities R'000
2007				
Held-for-trading				
Foreign exchange contracts	**924 445**	**39 566**	**486 032**	**7 481**
Interest rate swaps	**31 500**	**4 248**	**152 658**	**7 875**
	955 945	**43 814**	**638 690**	**15 356**
2006				
Held-for-trading				
Foreign exchange contracts	1 022 312	30 402	461 355	13 350
Interest rate swaps	30 700	732	172 699	15 839
	1 053 012	31 134	634 054	29 189

	Group 2007 R'000	Group 2006 R'000
12. Negotiable securities		
Loans and receivables		
Treasury bills	**204 010**	184 539
Landbank bills	**–**	9 867
Debentures	**34 193**	26 105
Available-for-sale		
Government stock	**6 574**	–
Held at fair value through profit and loss		
Corporate bonds	**30 800**	184 505
	275 577	405 016
Maturity analysis		
Repayable within one month	**102 752**	56 061
Maturing within six months	**145 769**	164 450
Maturing after six months but within 12 months	**20 482**	152 607
Maturing after 12 months but within five years	**–**	31 898
Maturing after five years	**6 574**	–
	275 577	405 016

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

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group		Company	
	2007	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000
13. Cash and cash equivalents				
Cash and bank notes	**35 910**	28 350	**–**	–
Central Bank balances	**60 889**	49 325	**–**	–
Domestic bank balances	**315 080**	88 011	**197**	138
Foreign bank balances	**1 011 115**	1 518 288	**–**	–
	1 422 994	1 683 974	**197**	138

14. Share capital and share premium

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
14.1 Issued – Group				
Total shares in issue	3 925 125 524	36 278	1 170 754	1 207 032
Reduction of treasury shares held within the Group	82 500	14	–	14
At 31 December 2006	3 925 208 024	36 292	1 170 754	1 207 046
Reduction of treasury shares held within the Group	**1 330 000**	**376**	**–**	**376**
At 31 December 2007	**3 926 538 024**	**36 668**	**1 170 754**	**1 207 422**
14.2 Issued – Company				
At 31 December 2006 and 31 December 2007	**3 938 918 524**	**39 389**	**1 170 754**	**1 210 143**

14.3 Authorised

The total authorised number of ordinary shares is 4 465 955 440 shares (2006: 4 465 955 440 shares) with a par value of 1 cent each. The total authorised number of preference shares is 15 200 000 shares (2006: 15 200 000 shares) with a par value of 1 cent each.

14.4 Unissued

The unissued ordinary and preference shares are under the control of the shareholders until the next Annual General Meeting.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

14. Share capital and share premium (continued)

14.5 Share incentive scheme

Effective 18 July 2007, options could be exercised in respect of 33% of the option shares after the expiration of three years from the offer date, in respect of a further 33% after the expiration of four years from the offer date and the remaining option shares after the expiration of five years from the offer date. Options granted prior to this date, 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% of the options in question by the sixth anniversary date of the offer or else the said 20% of the options will lapse. The same rule applies for the seventh, eighth, ninth and tenth anniversary of the offer date until the options in question have either lapsed or been exercised.

Subsequent to year end, the Board approved the removal of the expiry condition from the sixth anniversary date. All unexpired options will now lapse after ten years from the date of issue.

The number of shares, which could be utilised for the purposes of the scheme are 393 891 852 (2006: 393 891 852), which is 10% (2006: 10%) of the issued share capital of the Company at year end. The number of scheme shares that may be issued to a single participant is 59 083 778, or 1.5% of the total number of issued shares. The table below sets out the movements in the options.

Refer to the shareholder spread on page 73 for information relating to the shares held by the Bank as an agent of the Mercantile Share Incentive Trust.

	Exercise price (cents)	Options at beginning of year	Granted during year	Forfeited during year	Exercised during year	Options at end of year	Exercisable options at end of year	Relating to directors[1]
Grant date								
2007								
20 November 2001	32	3 943 000	–	(1 988 600)	(1 000 000)	954 400	954 400	–
11 February 2002	32	200 000	–	–	–	200 000	200 000	–
5 October 2004	18	5 000 000	–	–	–	5 000 000	3 300 000	5 000 000
7 October 2004	17	2 000 000	–	–	(1 000 000)	1 000 000	660 000	–
3 January 2005	15	700 000	–	–	–	700 000	231 000	–
11 February 2005	20	500 000	–	–	–	500 000	165 000	–
1 April 2005	39	1 000 000	–	(1 000 000)	–	–	–	–
27 July 2005	32	750 000	–	–	–	750 000	247 500	–
2 December 2005	31	350 000	–	–	–	350 000	115 500	–
9 February 2006	41	750 000	–	–	–	750 000	–	–
3 March 2006	38	500 000	–	–	–	500 000	–	–
22 March 2006	40	14 800 000	–	(2 300 000)	–	12 500 000	–	7 000 000
26 February 2007	34	–	24 000 000	(2 750 000)	–	21 250 000	–	8 000 000
1 June 2007	36	–	500 000	–	–	500 000	–	–
1 December 2007	36	–	1 000 000	–	–	1 000 000	–	–
		30 493 000	**25 500 000**	**(8 038 600)**	**(2 000 000)**	**45 954 400**	**5 873 400**	**20 000 000**

Notes to the financial statements

for the year ended 31 December 2007 (continued)

14. Share capital and share premium (continued)

14.5 Share incentive scheme (continued)

	Exercise price (cents)	Options at beginning of year	Granted during year	Forfeited during year	Exercised during year	Options at end of year	Exercisable options at end of year	Relating to directors[1]
2006								
20 November 2001	32	5 343 000	–	(1 400 000)	–	3 943 000	3 943 000	–
11 February 2002	32	200 000	–	–	–	200 000	200 000	–
5 October 2004	18	5 000 000	–	–	–	5 000 000	1 650 000	5 000 000
7 October 2004	17	2 600 000	–	(100 000)	(500 000)	2 000 000	660 000	–
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	–	–
2 December 2005	31	–	350 000	–	–	350 000	–	–
9 February 2006	41	–	750 000	–	–	750 000	–	–
3 March 2006	38	–	500 000	–	–	500 000	–	–
22 March 2006	40	–	16 200 000	(1 400 000)	–	14 800 000	–	7 000 000
		16 093 000	17 800 000	(2 900 000)	(500 000)	30 493 000	6 453 000	12 000 000

[1] Refer to note 28.3

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

	2007	2006
Weighted average fair value share price at grant date	**34 cents**	38 cents
Weighted average exercise price	**34 cents**	40 cents
Expected volatility	**82.1%**	92.3% – 98.7%
Option life	**6 – 10 years**	6 – 10 years
Risk free rate	**7.58%**	7.30%
Expected dividends	**Nil**	Nil

Expected volatility was determined by calculating the historical volatility of the Mercantile Bank Holdings Limited share price from September 2004 to the grant date of each option. 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 R4.0 million (2006: R2.2 million) related to equity-settled share-based payment transactions.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group 2007 R'000	Group 2006 R'000
15. Deposits		
Call deposits and current accounts	**1 386 951**	1 480 150
Savings accounts	**174 714**	158 521
Term and notice deposits	**2 066 671**	1 817 336
Negotiable certificates of deposit	**39 695**	25 151
Foreign bank deposits and loans	**100 152**	57 989
	3 768 183	3 539 147
Maturity analysis		
Repayable on demand and within one month	**2 069 725**	2 103 915
Maturing after one month but within six months	**1 267 181**	1 205 089
Maturing after six months but within 12 months	**284 187**	216 378
Maturing after 12 months	**147 090**	13 765
	3 768 183	3 539 147

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

16. Provisions

	Staff incentives R'000	Audit fees R'000	Post-retirement medical benefits R'000	Leave pay R'000	Onerous lease contracts R'000	Other risks R'000	Total R'000
Group							
At 31 December 2005	9 000	3 244	10 414	7 940	428	621	31 647
Additional provision raised	9 553	2 100	2 439	2 553	–	5 000	21 645
Charged to provision	(8 171)	(3 244)	–	(2 164)	–	–	(13 579)
Unutilised provision reversed	–	–	–	–	(428)	(291)	(719)
At 31 December 2006	**10 382**	**2 100**	**12 853**	**8 329**	**–**	**5 330**	**38 994**
Additional provision raised	**14 976**	**4 880**	**1 490**	**3 073**	**–**	**2 100**	**26 519**
Charged to provision	**(12 356)**	**(3 790)**	**–**	**(2 738)**	**–**	**(4 194)**	**(23 078)**
At 31 December 2007	**13 002**	**3 190**	**14 343**	**8 664**	**–**	**3 236**	**42 435**

Post-retirement medical benefits

Refer to note 17 for detailed disclosure of this provision.

Leave pay

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

Other risks

Consists of provisions for 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 that are expected to materialise.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

17. Post-retirement medical benefits

The Bank 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 last actuarial valuations were carried out at 31 December 2007. The actuary's opinion is that the plan is in a sound financial position.

	Group		
	2007 R'000	2006 R'000	2005 R'000
The amounts recognised in the balance sheet are as follows (refer to note 16):			
Present value of total service liabilities	**20 223**	18 989	16 651
Fair value of plan assets	**(5 880)**	(6 136)	(6 237)
– Provident fund	**(838)**	(1 457)	(1 624)
– Endowment bond	**(3 446)**	(3 729)	(4 104)
– Annuities	**(1 596)**	(950)	(509)
Liability in the balance sheet	**14 343**	12 853	10 414
The amounts recognised in the income statement are as follows (refer to note 24):			
Current service cost	**116**	115	414
Interest costs	**1 539**	1 365	1 659
Expected return on plan assets	**(549)**	(396)	(575)
Actuarial loss	**936**	1 957	1 736
Employer benefit payments	**(1 202)**	(1 168)	(1 085)
Payments from plan assets	**650**	846	540
Effect on curtailment	**–**	(280)	(455)
Total included in staff costs	**1 490**	2 439	2 234
Reconciliation of the movement in the present value of total service liabilities:			
At the beginning of year	**18 989**	16 651	22 277
Current service cost	**116**	115	414
Interest costs	**1 539**	1 365	1 659
Actuarial loss	**781**	2 306	1 610
Employer benefit payments	**(1 202)**	(1 168)	(1 085)
Net effect of settlements	**–**	–	(7 769)
Effect of curtailment	**–**	(280)	(455)
At the end of the year	**20 223**	18 989	16 651
Reconciliation of the movement in the fair value of plan assets:			
At the beginning of year	**6 136**	6 237	6 328
Expected return on plan assets	**549**	396	575
Actuarial (loss)/gain	**(155)**	349	(126)
Payments from plan assets	**(650)**	(846)	(540)
At the end of the year	**5 880**	6 136	6 237

The principal actuarial assumptions used were as follows:

Discount rate	8.00% (2006: 8.25%) compounded annually
Investment return	9.00% (2006: 9.25%) compounded annually
Rate of medical inflation	7.25% (2006: 7.25%) compounded annually
Salary inflation	6.75% (2006: 6.75%) compounded annually

The effect of a 1% increase/decrease on the assumed rate of medical inflation would be an increase in the liability in an amount of R2.0 million and a decrease of R1.7 million, respectively.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group		Company	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
18. Other accounts payable				
Accruals	13 438	6 882	9	9
Repurchase agreements	–	126 343	–	–
Product-related credits	12 090	26 095	16	15
Sundry creditors	14 252	15 115	8	7
	39 780	174 435	33	31

	Group	
	2007	2006
	R'000	R'000
19. Contingent liabilities and commitments		
19.1 Guarantees, letters of credit and committed undrawn facilities		
Guarantees	391 335	269 402
Lending related	16 760	16 201
Mortgage	105 724	66 618
Performance	268 851	186 583
Letters of credit	19 937	11 662
Committed undrawn facilities	223 589	269 478
	634 861	550 542

19.2 Commitments under operating leases

The total minimum future lease payments under operating leases are as follows:

	2007 R'000	2006 R'000
Property rentals:		
Due within one year	3 304	4 042
Due between one and five years	4 289	6 191
	7 593	10 233
Motor vehicle rentals:		
Due within one year	–	55
Due between one and five years	–	–
	–	55

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.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

20. Deferred taxation

A deferred tax asset has not been recognised for the deductible temporary differences and unutilised estimated tax losses of R748.5 million (2006: R969.3 million) due to the uncertain timing of the reversal of these losses and probability of future taxable profits.

	Group	
	2007	2006
	R'000	R'000
21. Interest income		
Interest on:		
Loans and receivables	**435 241**	320 538
Cash and cash equivalents	**142 501**	126 688
Negotiable securities	**18 776**	14 827
Loans and advances	**273 964**	179 023
Loans and receivables at fair value through profit and loss	**30 549**	34 487
Mortgage loans	**4 187**	208
Instalment sales and leases	**3 246**	1 799
Other advances	**13 410**	16 168
Corporate bonds	**9 706**	16 312
Held-for-trading		
Interest rate swaps	**1 457**	2 138
	467 247	357 163

22. Interest expenditure

Interest on:		
Deposits	**244 013**	169 803
Repurchase agreements	**2 095**	8 933
Held-for-trading		
Interest rate swaps	**3 904**	10 308
	250 012	189 044

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group		Company	
	2007	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000
23. Non-interest income				
Fee and commission income	**138 716**	108 481	**–**	266
Loans and receivables at fair value through profit and loss	**161**	115	**–**	–
Loans and receivables	**136 558**	106 632	**–**	–
Other	**1 997**	1 734	**–**	266
Trading income	**51 861**	38 736	**–**	–
Held-for-trading	**57 609**	44 902	**–**	–
Foreign currency	**42 516**	29 141	**–**	–
Foreign currency commissions	**8 540**	6 658	**–**	–
Derivative assets	**(583)**	(732)	**–**	–
Derivative liabilities	**7 136**	9 835	**–**	–
Loans and receivables at fair value through profit and loss	**(6 653)**	(6 479)	**–**	–
Loans and advances	**(7 482)**	(10 398)	**–**	–
Corporate bonds	**829**	3 919	**–**	–
Loans and receivables				
Profit on settlement	**905**	313	**–**	–
Investment income	**294**	303	**–**	–
Dividends	**21**	7	**–**	–
Rental income	**273**	296	**–**	–
	190 871	147 520	**–**	266

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group		Company	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
24. Operating expenditure				
Auditors' remuneration				
Audit fees – current year	5 825	5 250	–	–
– prior year	273	121	–	–
Fees for other services – taxation	427	597	–	–
– IFRS consulting	80	100	–	–
	6 605	6 068	–	–
Professional fees				
Collections	297	1 155	–	–
Consulting	19 547	15 196	54	46
Legal	853	1 182	–	271
Computer consulting and services	21 407	18 242	–	–
	42 104	35 775	54	317
Depreciation and amortisation (refer to notes 2 and 3)	14 020	14 128	–	–
Directors' emoluments (refer to note 28.3)				
Executive directors	7 737	8 499	–	–
Non-executive directors fees	3 071	3 044	–	–
Share-based payments	1 458	849	–	–
	12 266	12 392	–	–
Lease charges				
Motor vehicles	9	36	–	–
Equipment	104	38	–	–
	113	74	–	–
Staff costs				
Salaries, wages and allowances	88 803	90 159	–	–
Post-retirement medical benefits (refer to note 17)	1 490	2 439	–	–
Contributions to retirement funds	6 473	5 794	–	–
Share-based payments excluding directors	2 583	1 329	–	–
Other	5 750	4 882	–	–
	105 099	104 603	–	–
Impairment and loss on sale of property and equipment	13	2	–	–
Operating leases – premises	6 637	6 491	–	–
Marketing and communication	7 886	6 303	440	640
Indirect taxation				
Non-claimable Value-Added Tax	5 052	7 538	–	–
Skills development levy	931	348	–	–
Regional Services Council levies	–	562	–	–
	5 983	8 448	–	–
Other operating costs	45 093	31 756	352	316
Total operating expenditure	245 819	226 040	846	1 273
Number of persons employed by the Group at year-end	422	413		

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group		Company	
	2007	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000
25. Taxation				
Direct taxation				
South African normal taxation	**29**	–	**29**	–
South African tax rate reconciliation				
South African standard tax rate (%)	**29.0**	29.0	**29.0**	29.0
Exempt income (%)	**(0.4)**	(0.5)	**0.0**	0.0
Expenses not deductible for tax purposes (%)	**0.7**	0.0	**0.0**	0.0
Under provision prior year (%)	**0.0**	0.0	**3.4**	0.0
Deferred taxation not raised (%)	**4.2**	(8.8)	**0.0**	0.0
Tax losses raised/(utilised) (%)	**(33.5)**	(19.7)	**(29.0)**	(29.0)
Effective tax rate (%)	**0.0**	**0.0**	**3.4**	**0.0**
Estimated tax losses available for set-off against future taxable income	**748 480**	969 281	**5 558**	4 670

	Group	
	2007	2006
	R'000	R'000
26. Earnings, diluted earnings, headline earnings and diluted headline earnings per ordinary share		
26.1 Earnings per ordinary share		
Profit after taxation	**165 273**	100 643
Weighted number of ordinary shares in issue ('000)	**3 925 485**	3 925 145
Earnings per ordinary share (cents)	**4.21**	2.56
26.2 Diluted earnings per ordinary share		
Profit after taxation	**165 273**	100 643
Weighted diluted number of ordinary shares in issue ('000)	**3 925 485**	3 925 145
Earnings per ordinary share (cents)	**4.21**	2.56
26.3 Headline and diluted headline earnings per ordinary share		
Profit after taxation	**165 273**	100 643
Realisation of available-for-sale reserve on disposal of investments	**(5 602)**	(2)
Loss on disposal of property and equipment	**13**	2
Headline earnings	**159 684**	**100 643**
Headline earnings per ordinary share (cents)	**4.07**	2.56
Diluted headline earnings per ordinary share (cents)	**4.07**	2.56

Notes to the financial statements

for the year ended 31 December 2007 (continued)

	Group		Company	
	2007	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000
27. Cash flow notes				
27.1 Cash receipts from customers				
Interest income	**467 247**	357 163	**–**	–
Non-interest income and gain/loss on disposal and revaluation of available-for-sale sale investments	**196 473**	147 173	**–**	266
Adjusted for: Dividends received	**(21)**	(7)	**–**	–
Net (gain)/loss on disposal and revaluation of, available-for-sale investments	**(5 602)**	347	**–**	–
Revaluation of fair value financial instruments	**(33 166)**	(11 822)	**–**	–
Recoveries in respect of amounts previously written off	**1 849**	25 424	**–**	–
Total cash receipts from customers	**626 780**	518 278	**–**	266
27.2 Cash paid to suppliers and employees				
Interest expenditure	**(250 012)**	(189 044)	**–**	–
Operating expenditure	**(245 819)**	(226 040)	**(846)**	(1 273)
Adjusted for: Depreciation and amortisation	**14 020**	14 128	**–**	–
Loss on sale of property and equipment	**13**	2	**–**	–
Share-based payments	**3 994**	2 178	**–**	–
Increase in provisions	**3 441**	7 347	**–**	–
Total cash paid to suppliers and employees	**(474 363)**	(391 429)	**(846)**	(1 273)
27.3 Taxation recovered				
Amounts (unpaid)/overpaid at beginning of year	**(6)**	3 698	**29**	29
Income statement charge	**(29)**	–	**(29)**	–
Less: Amounts unpaid/(overpaid) at end of year	**116**	6	**–**	(29)
Total taxation recovered	**81**	3 704	**–**	–
27.4 Net increase in income earning assets				
Decrease/(Increase) in negotiable securities	**129 439**	(25 988)	**–**	–
(Increase) in loans and advances	**(748 865)**	(614 954)	**–**	–
Net (increase) in income earning assets	**(619 426)**	(640 942)	**–**	–
27.5 Net increase in deposits and other accounts				
Increase in deposits	**229 036**	902 600	**–**	–
(Decrease)/Increase in other accounts	**(12 627)**	(105 083)	**905**	1 058
Net increase in deposits and other accounts	**216 409**	797 517	**905**	1 058

Notes to the financial statements

for the year ended 31 December 2007 (continued)

28. Related-party information

28.1 Identity of related parties with whom transactions have occurred

The holding company and material subsidiaries of the Group are identified on pages 10 and 11 in the Directors' report and the associated company is disclosed in note 8 to the annual financial statements. All of these entities and the directors are related parties. There are no other related parties with whom transactions have taken place, other than as listed below.

28.2 Related-party balances and transactions

The Company, its subsidiaries and associated company, in the ordinary course of business, enter into various financial services transactions with the ultimate holding company and its subsidiaries, other entities within the Group and the associated company. These transactions are governed by terms no less favourable than those arranged with third parties.

	2007 R'000	2006 R'000
Balances between the ultimate holding company (CGD) and Mercantile Bank Limited:		
Caixa Geral de Depósitos – Lisbon (Branch of CGD)	897 628	1 455 338
Nostro accounts	1 763	3 721
Vostro accounts	(2 994)	(4 734)
Deposit accounts	898 859	1 456 351
Caixa Geral de Depósitos – Paris (Branch of CGD)	152	429
Nostro accounts	174	440
Vostro accounts	(22)	(11)
Caixa Geral de Depósitos – London (Branch of CGD)		
Vostro accounts	(18)	(19)
Caixa Geral de Depósitos (CGD)	897 762	1 455 748
Banco Comercial e de Investimentos (BCI) – Mozambique (Subsidiary of CGD)	(37 928)	(117 288)
Vostro accounts	(142)	(1 118)
Fixed deposits	(37 327)	(114 427)
Call and notice deposits	(459)	(1 743)
	859 834	1 338 460

Interest was paid to BCI – Mozambique amounting to R7.9 million (2006: R7.8 million).
Interest received from CGD in respect of the above balances during the year amounted to R73.1 million (2006: R80.4 million).

Notes to the financial statements

for the year ended 31 December 2007 (continued)

28. Related-party information (continued)

28.2 Related-party balances and transactions (continued)

		2007 R'000	2006 R'000
Balances with the company, its subsidiaries and associated company:			
Loan to:	**Loan from:**		
Mercantile Bank Holdings Limited	Mercantile Bank Limited	9 825	12 901
Portion 2 of Lot 8 Sandown (Pty) Limited	Mercantile Bank Limited	43 987	45 719
LSM (Troyeville) Properties (Pty) Limited	Mercantile Bank Limited	5 931	5 827
Mercantile Insurance Brokers (Pty) Limited	Mercantile Bank Limited	162	622
Mercantile Registrars Limited	Mercantile Bank Limited	3 042	3 045
Mercantile Bank Limited	Mercantile Nominees (Pty) Limited	31	189
Statman Investments (Pty) Limited	Mercantile Bank Limited	695	533
Deposit with:	**Deposit by:**		
Mercantile Bank Limited	Mercantile Insurance Brokers (Pty) Limited	1 621	1 986
Mercantile Bank Limited	Mercantile Nominees (Pty) Limited	799	752
Mercantile Bank Limited	Mercantile Bank Holdings Limited	197	138
Mercantile Bank Limited	Mercantile Registrars Limited	–	7
Transactions with the company, its subsidiaries and associated company:			
Interest received by:	**Interest paid by:**		
Mercantile Bank Limited	Portion 2 of Lot 8 Sandown (Pty) Limited	5 862	5 175
Mercantile Bank Limited	LSM (Troyeville) Properties (Pty) Limited	765	638
Mercantile Bank Limited	Weskor Beleggings (Pty) Limited	–	21
Mercantile Insurance Brokers (Pty) Limited	Mercantile Bank Limited	81	99
Mercantile Bank Limited	Statman Investments (Pty) Limited	40	38
Non-interest income earned by:	**Operating expenditure paid by:**		
Portion 2 of Lot 8 Sandown (Pty) Limited	Mercantile Bank Limited	9 251	8 594
LSM (Troyeville) Properties (Pty) Limited	Mercantile Bank Limited	1 011	938
Mercantile Bank Limited	Mercantile Insurance Brokers (Pty) Limited	68	247
Portion 2 of Lot 8 Sandown (Pty) Limited	Mercantile Insurance Brokers (Pty) Limited	112	–

Other

Post-retirement medical plan

Details of the post-retirement medical plan are disclosed in note 17.

Notes to the financial statements

for the year ended 31 December 2007 (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:

	Directors' fees R'000	Salary R'000	Fringe benefits R'000	Retirement funds and medical aid contributions R'000	Incentive R'000	Share-based payments R'000	Total R'000
Director							
2007							
J A S de Andrade Campos	**1 100**	–	–	–	–	–	**1 100**
D J Brown	–	**2 146**	–	**236**	**2 681**	**1 458**	**6 521**
G P de Kock	**498**	–	–	–	–	–	**498**
M J M Figueira (resigned 28 February 2007)	–	**259**	**59**	–	–	–	**318**
L Hyne	**452**	–	–	–	–	–	**452**
A T Ikalafeng	**347**	–	–	–	–	–	**347**
J P M Lopes	–	**1 429**	**383**	**44**	**500**	–	**2 356**
A M Osman (resigned 21 November 2007)	**226**	–	–	–	–	–	**226**
S Rapeti	**448**	–	–	–	–	–	**448**
	3 071	**3 834**	**442**	**280**	**3 181**	**1 458**	**12 266**
2006							
J A S de Andrade Campos	1 014	–	–	–	–	–	1 014
D J Brown	–	1 973	–	211	2 215	849	5 248
G P de Kock	392	–	–	–	–	–	392
M J M Figueira	–	1 533	265	–	300	–	2 098
L Hyne	403	–	–	–	–	–	403
A T Ikalafeng	318	–	–	–	–	–	318
J P M Lopes	–	1 363	302	37	300	–	2 002
K B Motshabi (resigned 10 November 2006)	352	–	–	–	–	–	352
A M Osman	228	–	–	–	–	–	228
S Rapeti	337	–	–	–	–	–	337
	3 044	4 869	567	248	2 815	849	12 392

	2007 R'000	2006 R'000
Amounts paid by CGD to:		
M J M Figueira (resigned 28 February 2007)	**124**	845
J P M Lopes	**560**	381
	684	1 226

Notes to the financial statements

for the year ended 31 December 2007 (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 Mercantile from time to time.

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 and which are consistent and commensurate with his position as Executive Director.

Share options

The following share options in the Company have been granted to Mr Brown (refer to note 14.5):

– on 5 October 2004, 5 000 000 at an exercise price of 18 cents each;

– on 22 March 2006, 7 000 000 at an exercise price of 40 cents each; and

– on 26 February 2007, 8 000 000 at an exercise price of 34 cents each.

Directors' interests

No Directors held beneficial and/or non-beneficial interests, directly or indirectly, in shares issued by the Company (2006: nil).

28.4 Summarised financial information of the associated company

	Statman Investments (Pty) Limited	
	2007	2006
	R'000	R'000
Income statement		
Profit after taxation	**7 242**	4 666
Balance sheet		
Non-current assets	**12 623**	13 128
Current assets	**19 573**	14 257
Current liabilities	**(7 271)**	(8 454)
Non-current liabilities	**(701)**	(1 989)
Equity	**24 224**	16 942
Percentage held	**21.4**	21.4
Nature of business	Investment holding	
Place of incorporation	South Africa	

The Group's share of profit and losses is determined by reference to the management accounts of the associated company at 30 November 2007, which is the date for which the most recent management accounts are available.

Notes to the financial statements

for the year ended 31 December 2007 (continued)

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, foreign exchange services as well as serving retail and alliance banking customers.
Alliance banking, MBL credit card and structured loans*	Card processing services, electronic banking and structured loans offered to banking customers.
Support and other services	Support services for the above segments, insurance brokers, associate income, exceptional income and inter-group eliminations.

* Excludes the allocation of attributable support costs.

The primary segments are as follows:

	Retail banking		Treasury		Alliance banking, MBL credit card, electronic banking and structured loans		Support and other services		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
Segment results										
Segment revenue[1]	**236 656**	180 975	**58 415**	43 093	**68 730**	44 098	**49 907**	47 126	**413 708**	315 292
Segment expenditure	**(58 439)**	(51 482)	**(34 729)**	(28 693)	**(32 746)**	(10 485)	**(119 905)**	(135 380)	**(245 819)**	(226 040)
Contribution/(Loss) before allocated costs	**175 631**	103 687	**23 686**	14 400	**27 340**	31 693	**(61 384)**	(49 137)	**165 273**	100 643
Other information										
Net capital expenditure	**997**	1 234	**325**	(144)	**13 727**	(9)	**(1 799)**	10 949	**13 250**	12 030
Depreciation and amortisation	**(2 445)**	(2 547)	**(247)**	(412)	**(5 604)**	(1 688)	**(5 724)**	(9 481)	**(14 020)**	(14 128)
Other non-cash operating expenditure	**–**	–	**–**	–	**–**	–	**7 448**	9 527	**7 448**	9 527
Share of income from associated companies	**–**	–	**–**	–	**–**	–	**2 771**	1 269	**2 771**	1 269
Segment position										
Segment assets	**2 741 890**	1 948 333	**1 703 613**	2 090 757	**136 824**	276 669	**123 457**	133 459	**4 705 784**	4 449 218
Segment liabilities	**3 303 778**	2 673 095	**325 143**	795 335	**186 045**	203 822	**50 904**	109 548	**3 865 870**	3 781 800
Carrying amounts of segment assets include:										
Investments in associated company	**–**	–	**–**	–	**–**	–	**4 251**	3 626	**4 251**	3 626

The secondary segments are as follows:

	Gauteng		Other provinces		Total	
	2007	2006	**2007**	2006	**2007**	2006
	R'000	R'000	**R'000**	R'000	**R'000**	R'000
Segment revenue[1]	**379 231**	289 722	**34 477**	25 570	**413 708**	315 292
Net capital expenditure	**13 141**	11 887	**109**	143	**13 250**	12 030
Segment assets	**4 244 890**	4 123 303	**460 894**	325 915	**4 705 784**	4 449 218

[1] Segment revenue consists of net interest income, net profit/(loss) on disposal and revaluation of assets and non-interest income

The lower contribution before allocated costs profit from Alliance banking is mainly due to certain allocated costs in 2006 now treated as direct costs. In addition this segment benefited from a provision release in 2006 against provisions raised in the current year.

Risk management and control

Group risk management philosophy

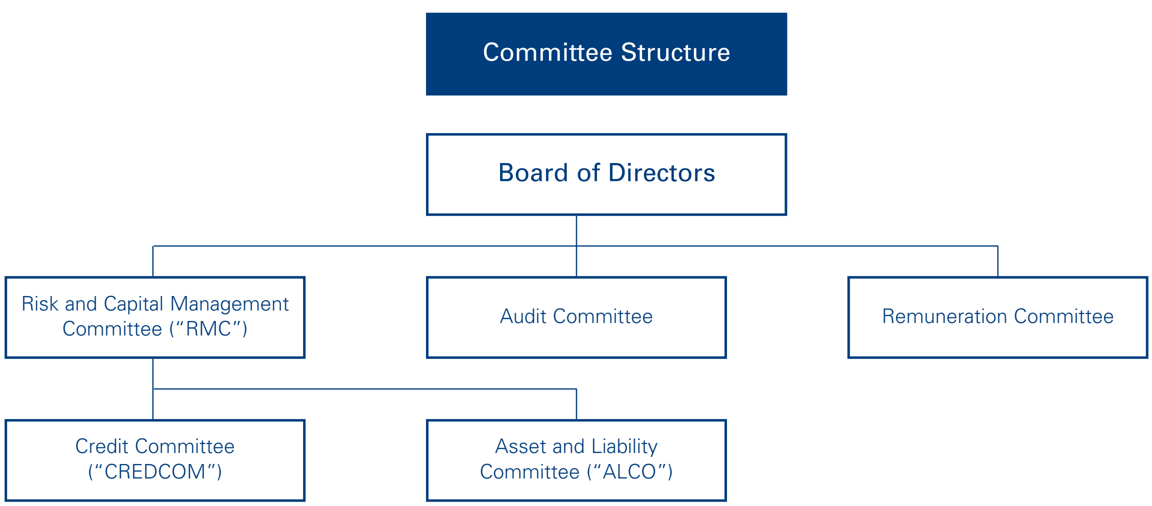
The Group recognises that the business of banking and financial services is conducted within an environment of complex inter-related risks. The Group operates in a dynamic environment where the past is not necessarily an acceptable guide to the future. Risk management is a key focus of the Group and addresses a wide spectrum of risks that are continually evaluated and policies and procedures reviewed to adapt to changing circumstances. In any economy there are sectors that are more vulnerable to cyclical downturn than others. Economic variances are monitored to assist in managing exposure to such sectors. The concentration of risk in our target market sectors is managed to achieve a balanced portfolio. Our business development efforts are focused on the stronger companies and individuals, establishing policy criteria, which eliminate weaker credit 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. 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

An Enterprise-wide Risk Management Framework is adopted to ensure appropriate and focused management of all risks. Risk assessment is a dynamic process and is reviewed regularly. 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, 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 life cycle/process

All of the Group's policies and procedures manuals have been reviewed and signed off by the relevant divisional heads. These standards are an integral part of the Group's governance infrastructure and risk management profile, reflecting the expectations and requirements of the Board in respect of key areas of control. The standards ensure alignment and consistency in the way that prevalent risk types are managed and form part of the four phases of the risk management life cycle, defined as:

Risk management and control (continued)

Risk management life cycle/process (continued)

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 an independent risk function. The 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 the ALCO and RMC in the first instance and to the SARB via the Finance Division through DI returns and periodic meetings.

Management of risk

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

Direct risks are found in most banking transactions. They are quantifiable and can be clearly defined. These risks are evaluated through examination of our databases, statistics and other records.

Indirect risks are considered to ensure that a 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.

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	

The responsibility for understanding the risks incurred by the Group and ensuring that they are appropriately managed lies with the Board. The Board approves risk management strategies and delegates the power to take decisions on risks and to implement strategies on risk management and control to the RMC. 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 predefined risk management policies. Major risks are managed, controlled and reviewed by an independent risk function.

Risk management and control (continued)

Management of risk (continued)

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.

A process is in place whereby the Top 10 risks faced by the Group are identified. These risks are assessed and evaluated in terms of a risk score attached to inherent risk and residual risk. Action plans are put in place to reduce the identified inherent risks to within acceptable residual risk parameters. The Top 10 risks are re-evaluated quarterly.

Focus has been increased on the overall improvement in the management of credit and counterparty risk through the implementation and ongoing development of a comprehensive on-line Early Warning Risk Identification System together with a Risk Assessment Decision Support Tool.

Increased focus has also been placed on Business Continuity Management ("BCM") during the year under review. BCM ensures the availability of key staff and processes required to support essential activities in the event of an interruption to, or disruption of, business. BCM is an important aspect of risk management and its value has been proven in creating a more resilient operational platform, through activities such as business impact assessments, business continuity planning and implementation, testing of business continuity and implementing corrective actions. Comprehensive simulations are conducted on an ongoing basis, with identified gaps addressed and/or plans put in place to resolve the identified issues.

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 and forecasting techniques. An internally developed Management Information System was enhanced during the year under review to improve the quality of internal reporting.

During the year under review, the Group established a Capital Management Committee under the auspices of the RMC to proactively evaluate and manage the Capital requirements of the Group as determined by Basel II requirements.

Under the Enterprise-wide Risk Management Framework we have categorised the direct risks of the Group and report on those deemed to be of the most significance:

Credit risk

Credit parameters and tolerance levels are clearly defined and reflected in governing procedures and policies. The Group offers a spread of banking products common within the banking industry with a specific focus on small and medium sized businesses across a wide variety of industries. Whilst personal market products are also offered, no specific targeting of the broader personal retail based market is undertaken. The primary risks encountered are associated with the lending of money and the issuing of contingent financial or performance guarantees to third parties on behalf of customers.

Dependent upon the risk profile of the customer, the risk inherent in the product offering and the track record/payment history of the client, varying types and levels of security are taken to mitigate credit related risks. Clean or unsecured lending will only be considered for financially strong borrowers.

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 exposures in advances made to foreign entities at year-end, except for the deposits placed with CGD as disclosed in note 28.2.

A portfolio analysis report is prepared and presented to the RMC analysing the performance and makeup of the book including customer and segment concentration analyses.

Risk management and control (continued)

Management of risk (continued)

Credit risk (continued)

The Group has adopted a conservative approach to credit granting within a specifically defined and structured approval process. The granting of credit is managed via a mandated approval process whereby levels of credit approval are determined by the experience of the mandated individual with dual or multiple sign-off on all material values. An ongoing weekly review is also undertaken by the CREDCOM of all lending in excess of R1 million. In addition the early warning system is applied to actively manage all accounts within the risk structure. The system identifies a number of characteristics relating to the performance of the accounts and based on various predefined algorithms, flags issues of concern. Monitoring is done by the Early Warning Department and any concerns are raised with the Credit Department and Retail or Commercial banking units. The Group is in the process of further developing a Decision Support tool to assist credit decision makers through the provision of indicative performance criteria and other information necessary to assist in making increasingly informed decisions. Such indicative performance data will be measured against predefined acceptance bands and result in the allocation of an overall acceptability rating.

There have been no material changes in the credit approval structure or overall make-up of the book from the prior reporting period.

The table below summarises the Group's maximum exposure to credit risk at balance sheet date:

	Loans and advances R'000	Committed undrawn facilities R'000	Other R'000	Total R'000
2007				
Current accounts	**780 463**	**–**	**–**	**780 463**
Credit card	**21 555**	**32 679**	**–**	**54 234**
Mortgage loans	**1 241 399**	**190 910**	**–**	**1 432 309**
Instalment sales and leases	**304 588**	**–**	**–**	**304 588**
Other advances	**562 401**	**–**	**–**	**562 401**
Guarantees	**–**	**–**	**391 335**	**391 335**
Letters of credit	**–**	**–**	**19 937**	**19 937**
	2 910 406	**223 589**	**411 272**	**3 545 267**
2006				
Current accounts	448 290	–	–	448 290
Credit card	29 002	–	–	29 002
Mortgage loans	711 221	269 478	–	980 699
Instalment sales and leases	299 284	–	–	299 284
Other advances	680 186	–	–	680 186
Guarantees	–	–	269 402	269 402
Letters of credit	–	–	11 662	11 662
	2 167 983	269 478	281 064	2 718 525

Operational risk

Operational risks faced by the Group are extensive and inter alia include risks associated with reputation, robbery, fraud, theft of data, legal challenges, statutory and legislative compliance, operational processes, employment policies, documentation risk and business continuity. Strategies, procedures and action plans to monitor, manage and limit the risks associated with operational processes, systems and external events include:

- documented operational policies, processes and procedures with segregation of duties;
- training and upskilling staff on operational procedures and legislative compliance;
- an operational event logger wherein all losses associated with operational issues including theft and robbery are recorded and evaluated to facilitate corrective action;
- ongoing improvements to the Disaster Recovery and Business Continuity plans including conducting a variety of simulation exercises in the branches and critical operations environments; and

Risk management and control (continued)

Management of risk (continued)

Operational risk (continued)

- conducting a variety of internal audits and reviews by both the Compliance and Internal Audit Departments in line with annual plans approved by the Board.

There have been no material losses during the reporting period that require specific identification.

Market risk

Market risk is the risk of revaluation of any financial instrument as a consequence of changes in market prices or rates and can be quantified as the potential change in the value of the banking book as a result of changes in the financial environment between now and a future point in time.

The Board determines market risk limits. These limits are reviewed at least annually dependent on market events.

The Group does not currently have any proprietary trading positions and therefore has minimal exposure to market risk. Before the Group enters into a proprietary trading position, the Trading Committee will evaluate and approve such positions. This Committee will ensure that the Group is prudently positioned, taking into account agreed limits, policies, prevailing markets, available liquidity and the relationship between risk and reward primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

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

Detailed market risk reports are produced on a daily basis, which allows for monitoring against prescribed limits. In the unlikely event of an unauthorised limit violation, the Asset and Liability Management Forum ("ALM") records such violation, which is immediately corrected and reported to the ALCO, which is a subcommittee of the RMC.

The Group does not perform a detailed sensitivity analysis on the potential impact of a change in exchange rates due to the fact that the Group does not currently have any proprietary trading positions. A detailed sensitivity analysis is performed for liquidity and interest rate risk as described below.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk

The Group, in terms of approved limits, manages short-term foreign currency exposures relating to trade imports, exports and interest flows on foreign liabilities.

The Group has conservative limits in terms of net open foreign currency positions which are well below the limits allowed by the South African Reserve Bank. For the year under review the highest net open position recorded for any single day was R5.1 million.

Risk management and control (continued)

Management of risk (continued)

Foreign currency risk (continued)

The transaction exposures and foreign exchange contracts at balance sheet date are summarised as follows:

	US Dollar R'000	Euro R'000	Pound Sterling R'000	Other R'000	Total R'000
2007					
Total foreign exchange assets	**913 287**	**65 356**	**30 444**	**8 116**	**1 017 203**
Total foreign exchange liabilities	**(60 493)**	**(18 578)**	**(20 794)**	**(89)**	**(99 954)**
Commitments to purchase foreign currency	**245 343**	**67 736**	**20 242**	**8 320**	**341 641**
Commitments to sell foreign currency	**(1 097 925)**	**(114 958)**	**(30 513)**	**(16 640)**	**(1 260 036)**
Year-end effective net open foreign currency positions	**212**	**(444)**	**(621)**	**(293)**	**(1 146)**
2006					
Total foreign exchange assets	1 459 295	37 348	28 834	4 285	1 529 762
Total foreign exchange liabilities	(24 402)	(10 890)	(22 193)	(329)	(57 814)
Commitments to purchase foreign currency	153 361	61 023	4 753	12 827	231 964
Commitments to sell foreign currency	(1 588 540)	(87 718)	(11 911)	(16 601)	(1 704 770)
Year-end effective net open foreign currency positions	(286)	(237)	(517)	182	(858)

Interest rate risk

Interest rate risk is the impact on net interest earnings and the sensitivity to economic value as a result of increases or decreases in interest rates arising from the execution of the core business strategies and the delivery of products and services to customers. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected adverse movements arise. The ALM forum monitors interest rate repricing on a daily basis and reports back to the ALCO and RMC.

The Group is exposed to interest rate risk as it takes deposits from clients at both fixed and floating interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and floating rate funds and by the use of interest rate swap contracts.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The interest rate swaps reprice on a quarterly basis. The floating rate on the interest rate swaps is based on the three-month JIBAR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

Sources of interest rate risk include volatility and changes in interest rate levels, yield curves and spreads. These affect the interest rate margin realised between lending income and borrowing costs when applied to our rate sensitive assets and liabilities. The Group is also exposed to basis risk, which is the difference in repricing characteristics of two floating-rate indices such as the South African prime rate and three-month JIBAR.

To measure such risk, the Group aggregates interest rate sensitive assets and liabilities into fixed time bands in accordance with the respective interest repricing dates. The Group uses both dynamic maturity gap and duration analysis, which measures the mismatch level between the average time over which the cash inflows are generated and cash outflows are required. Various reports are prepared taking alternative strategies and interest rate forecasts into consideration. These reports are presented to the ALCO and RMC on a regular basis.

To monitor the effect of the gaps on net interest income, a regular forecast of interest rate sensitive asset and liability scenarios is produced. It includes relevant banking activity performance and trends, different forecasts of market rates and expectations reflected in the yield curve.

Risk management and control (continued)

Management of risk (continued)

Interest rate risk (continued)

For regulatory purposes, the assessment and measurement of interest rate risk is based on the accumulated impact of interest rate sensitive instruments resulting from a parallel movement of plus or minus 200 basis points on the yield curve.

In addition, the impact on equity and profit and loss resulting from a change in interest rates is calculated monthly based on management's forecast of the most likely change in interest rates.

At reporting date, a 50 basis point change was applied as a sensitivity analysis to determine exposure to interest rates. If interest rates increased/decreased by 50 basis points and all other variables remained constant, the Group's net profit and equity for the year would increase/decrease by R13.6 million (2006: increase/decrease by R11.5 million). This is mainly attributable to the Group's exposure to interest rates on its lending and borrowings in the banking book.

The table below summarises the Group's exposure to interest rate risk. Assets and liabilities are included at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates and also indicate their effective interest rates at year-end:

	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	Effective interest rate %
2007								
Assets								
Intangible assets	–	–	–	–	–	23 569	23 569	–
Property and equipment	–	–	–	–	–	96 969	96 969	–
Other accounts receivable	–	–	–	–	–	23 639	23 639	–
Interest in associated company	–	–	–	–	–	4 251	4 251	–
Other investments	–	–	–	–	–	228	228	–
Loans and advances	2 660 214	–	–	111 091	43 438	–	2 814 743	13.48
Derivative financial instruments	4 248	–	–	–	–	39 566	43 814	–
Negotiable securities	102 752	145 769	20 482	–	6 574	–	275 577	11.13
Cash and cash equivalents	784 050	371 528	170 618	–	–	96 798	1 422 994	9.01
Total assets	3 551 264	517 297	191 100	111 091	50 012	285 020	4 705 784	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	839 914	839 914	–
Deposits	2 122 749	590 292	802 812	146 742	348	105 240	3 768 183	7.06
Derivative financial instruments	7 875	–	–	–	–	7 481	15 356	–
Provisions	–	–	–	–	–	42 435	42 435	–
Other accounts payable	–	–	–	–	–	39 780	39 780	–
Taxation	–	–	–	–	–	116	116	–
Total equity and liabilities	2 130 624	590 292	802 812	146 742	348	1 034 966	4 705 784	
On balance sheet interest sensitivity gap	1 420 640	(72 995)	(611 712)	(35 651)	49 664	–	749 946	
Derivative financial instruments	80 950	93 209	(21 500)	(110 101)	(42 558)	–	–	
Total net interest sensitivity gap	1 501 590	20 214	(633 212)	(145 752)	7 106	–	749 946	

Risk management and control (continued)

Management of risk (continued)

Interest rate risk (continued)

	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	Effective interest rate %
2006								
Assets								
Intangible assets	–	–	–	–	–	11 551	11 551	–
Property and equipment	–	–	–	–	–	94 956	94 956	–
Taxation	–	–	–	–	–	29	29	–
Other accounts receivable	–	–	–	–	–	145 291	145 291	–
Interest in associated company	–	–	–	–	–	3 626	3 626	–
Other investments	–	–	–	–	–	7 209	7 209	–
Loans and advances	1 952 227	–	–	31 074	83 131	–	2 066 432	11.74
Derivative financial instruments	31 134	–	–	–	–	–	31 134	–
Negotiable securities	56 061	164 450	152 607	31 898	–	–	405 016	8.72
Cash and cash equivalents	915 131	277 851	413 317	–	–	77 675	1 683 974	8.24
Total assets	2 954 553	442 301	565 924	62 972	83 131	340 337	4 449 218	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	667 418	667 418	–
Deposits	2 209 657	640 336	617 400	13 765	–	57 989	3 539 147	6.18
Derivative financial instruments	29 189	–	–	–	–	–	29 189	–
Provisions	–	–	–	–	–	38 994	38 994	–
Other accounts payable	126 343	–	–	–	–	48 092	174 435	–
Taxation	–	–	–	–	–	35	35	–
Total equity and liabilities	2 365 189	640 336	617 400	13 765	–	812 528	4 449 218	
On balance sheet interest sensitivity gap	589 364	(198 035)	(51 476)	49 207	83 131	–	472 191	
Derivative financial instruments	94 279	89 119	(10 700)	(105 899)	(66 799)	–	–	
Total net interest sensitivity gap	683 643	(108 916)	(62 176)	(56 692)	16 332	–	472 191	

Liquidity risk

Liquidity risk is the risk of being unable to meet current and future cash flow and collateral requirements when they become due, without negatively affecting the normal course of business. The Group is exposed to daily cash needs from overnight deposits, current accounts, maturing deposits, loan drawdowns and guarantees.

To measure liquidity risk, the Group aggregates assets and liabilities into fixed time bands in accordance with the respective maturity dates, which measures the mismatch level between the average time over which the cash inflows are generated and cash outflows are required.

The ALM forum monitors liquidity risk on a daily basis and reports back to the ALCO and RMC. Ultimate responsibility for liquidity risk management rests with the Board. An appropriate liquidity risk management framework has been developed for the management of the Group's short, medium and long term funding and liquidity requirements.

Through active liquidity management, the Group seeks to preserve stable, reliable and cost effective sources of funding. To accomplish this, management uses a variety of liquidity risk measures that consider market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of liabilities.

To manage this risk, the Group performs, amongst others, the following:

- maintenance of stock of readily available, high quality liquid assets in excess of the statutory requirements as well as strong balance sheet liquidity ratios;
- assumptions based sensitivity analysis to assess potential cash flows at risk;

Risk management and control (continued)

Management of risk (continued)

Liquidity risk (continued)

- management of concentration risk, being undue reliance on any single counterparty or counterparty group, sector, market, product, instrument, currency and tenor;
- maintenance of sources of funding for contingency funding needs;
- monitoring of daily cash flow movements/cash flow requirements, including daily settlements and collateral management processes;
- creation and monitoring of prudential liquidity risk limits; and
- maintenance of an appropriate term mix of funding.

There were no significant changes in the Group's liquidity position during the current financial year or the manner in which it manages and measures the risk. The Group is adequately funded and able to meet all its current and future obligations.

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

	Assets R'000	Liabilities R'000	Total mismatch R'000
2007			
Maturing up to one month	**1 829 107**	**2 162 753**	**(333 646)**
Maturing between one and three months	**592 643**	**751 773**	**(159 130)**
Maturing between three and six months	**258 494**	**519 894**	**(261 400)**
Maturing between six months and one year	**179 121**	**284 360**	**(105 239)**
Maturing after one year	**1 846 419**	**147 090**	**1 699 329**
	4 705 784	**3 865 870**	**839 914**
2006			
Maturing up to one month	1 820 121	2 346 569	(526 448)
Maturing between one and three months	484 548	804 066	(319 518)
Maturing between three and six months	419 297	401 022	18 275
Maturing between six months and one year	328 967	216 378	112 589
Maturing after one year	1 396 285	13 765	1 382 520
	4 449 218	3 781 800	667 418

Risk management and control (continued)

Management of risk (continued)

Liquidity risk (continued)

The remaining period to contractual maturity of financial liabilities of the Group as at balance sheet date which includes the interest obligation on unmatured deposits and derivatives calculated up to maturity date is summarised in the table below:

	Up to 1 month R'000	1 – 3 months R'000	3 – 6 months R'000	6 – 12 months R'000	Over 1 year R'000
2007					
Deposits	**2 060 662**	**768 400**	**537 375**	**306 368**	**175 918**
Derivative financial instruments	**3 444**	**3 344**	**1 850**	**1 322**	**7 018**
Other accounts payable	**39 780**	–	–	–	–
Taxation	**116**	–	–	–	–
Guarantees, letters of credit and committed undrawn facilities	**634 861**	–	–	–	–
Operating lease commitments	**366**	**698**	**890**	**1 350**	**4 289**
	2 739 229	**772 442**	**540 115**	**309 040**	**187 225**
2006					
Deposits	2 108 185	800 776	416 510	234 381	16 995
Derivative financial instruments	6 759	6 068	3 027	2 429	14 669
Other accounts payable	174 435	–	–	–	–
Taxation	35	–	–	–	–
Guarantees, letters of credit and committed undrawn facilities	550 542	–	–	–	–
Operating lease commitments	454	866	1 104	1 674	6 191
	2 840 410	807 710	420 641	238 484	37 855

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

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

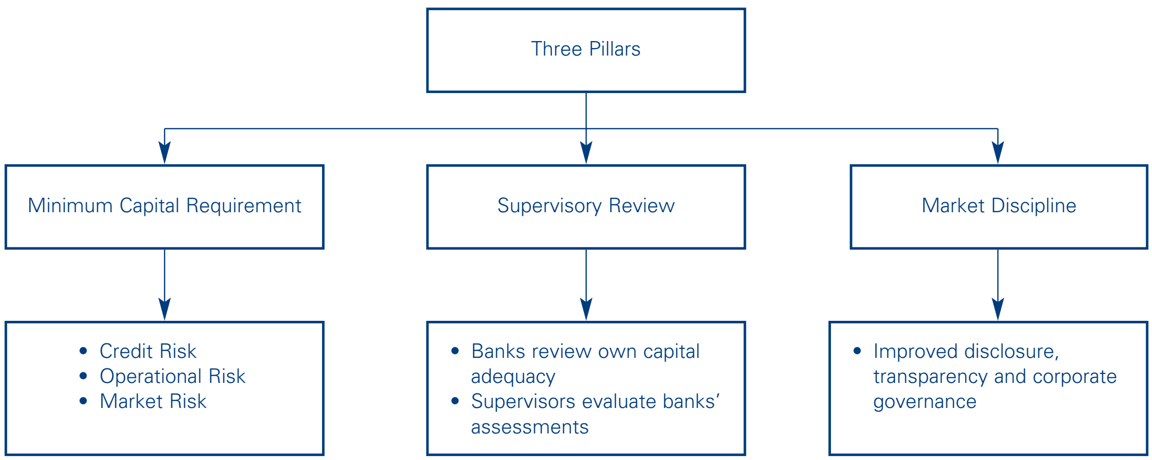
In today's complex environment, combining effective bank-level management with market discipline and regulatory supervision, best attains systemic safety and soundness. Building on these principles, the new Accord has far reaching implications for banks in terms of minimum capital standards linked to risks, risk measurement systems and methods, risk management practices and public disclosure of risk profile information. It focuses mainly on improving the management of credit and operational risks, enhancements to the supervisory review process and more extensive risk disclosure.

The overall objective of the new Accord is to improve the safety and soundness of the financial system. This will ensure a more resilient, more stable and a better source for credit, risk intermediation and growth. The principles of Basel II were built around three pillars. These pillars can briefly be summarised by the following diagram:

Risk management and control (continued)

Management of risk (continued)

Basel II (continued)



The new Accord provides a range of approaches that vary in levels of sophistication for the measurement of credit, operational and market 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. The Bank evaluated the various options available and decided that the most appropriate approaches to follow for the calculation of the minimum capital requirement in terms of the Banks Act would be the Standardised Approach for Credit, Operational and Market risk.

The Accord has been implemented with effect 1 January 2008. A pre-implementation parallel process has been in place since October 2007.

The Bank continues to form part of various Basel II committees in association with the SARB, The Banking Association and other financial institutions.

The Group 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.

Capital management

The Group and its principal subsidiary, the Bank, are subject to minimum capital requirements as defined in the Banks Act and the Regulations relating to Banks ("the Banks Act"). The management of the Group's capital takes place under the auspices of the RMC, through the ALCO. The RMC considers the various risks faced by the Group and analyses the need to hold capital against these risks whilst taking account of the regulatory requirements. In addition, the level of capital required to support the Group's targeted business growth is taken into consideration.

Risk weighted capital is allocated to the different business units in line with their targeted growth requirements.

The objective of the Group's capital management approach is to ensure the maintenance of sound capital ratios, taking all the above requirements into account, whilst producing appropriate returns to shareholders. Capital to support the Group's needs is currently generated by retained earnings.

In terms of regulation, the Group is able to consider different tiers of capital. The capital of the Bank consists almost entirely of tier 1 capital. Following the recapitalisation of the Group in 2004, it has remained capitalised well beyond regulatory and internal requirements.

The approach to capital management has been enhanced over the past year in line with Basel II.

Risk management and control (continued)

Management of risk (continued)

Capital management (continued)

The level of capital for the Bank is as follows:

	Risk weighting	Average assets 31 December 2007 R'000	Risk-weighted assets 31 December 2007 R'000	Risk-weighted assets 31 December 2006 R'000
Banking book				
Cash, off-balance sheet activities and central government transactions	0%	1 410 022	–	–
Landbank bonds	10%	–	–	15 193
Letters of credit and other bank advances	20%	384 222	76 844	26 355
Residential mortgage loans, performance-related guarantees and committed undrawn facilities	50%	1 165 108	582 554	361 742
Other assets including counterparty risk exposure	100%	2 462 631	2 462 631	1 859 955
		5 421 983	3 122 029	2 263 245

	2007 R'000	2006 R'000
Primary capital	798 377	638 880
Share capital and share premium	1 483 299	1 483 299
General reserve	12 231	12 231
Less: Impairments	(697 153)	(856 650)
Secondary capital	39 025	43 259
General debt provisions	39 025	28 407
Fifty per cent of a revaluation surplus	–	14 852
Net qualifying capital and reserves	837 402	682 139

	2007	2006
Capital adequacy ratio (%)*	26.8	30.1
Primary capital (%)	25.6	28.2
Secondary capital (%)	1.2	1.9

* These ratios are calculated as a percentage of risk weighted assets in line with the risk weightings ascribed to these assets under the Banks Act.

Corporate Governance

The Boards of Directors of Mercantile Bank Holdings Limited and Mercantile Bank Limited (collectively referred to as "the Board") hold joint Board meetings. The Board subscribes to and is committed to ensuring that the Group complies with the principles and standards set out in the code of corporate practices and conduct expressed in the King Report on Corporate Governance for South Africa 2002 ("King II") and is satisfied that the Group complied in all material respects with these principles throughout the year under review.

The following is a summary of the corporate governance processes of the Group for the year ended 31 December 2007:

1. Board of Directors

The Board exercises effective control over the Group and gives strategic direction to the Bank's management.

Key responsibilities of the Board assisted by its Board Committees are to:

- approve the Group's strategy, vision and objectives and monitor/review the implementation thereof;
- approve and annually review the Group's limits of authorities;
- annually review corporate governance processes and assess the achievement of these against objectives set;
- annually review its charter and approve changes to the charters of the Board Committees;
- annually approve the non-executive Directors' remuneration and submit such for approval and ratification by shareholders at the Annual General Meeting;
- annually approve executive Directors' remuneration and/or increases thereto;
- annually approve the Group's budget (includes capital expenditure);
- be accountable for financial, operational and internal systems of control and overall risk management;
- approve changes to the Group's financial and accounting policies;
- approve the audited financial statements and interim results;
- be responsible for ensuring that the Group complies with all relevant laws, regulations and codes of business practice and codes of ethics;
- appoint appropriate Board Committees and determine the composition thereof; and
- annually approve the Board and Board Committees' self-evaluations conducted on their effectiveness.

The Board comprises of non-executive and executive Directors with different skills, professional knowledge and experience, with independent non-executive Directors comprising the majority on the Board. For detail on the composition of the Board and changes to such during the financial year ended 31 December 2007, the frequency of meetings and attendance thereof, refer to Annexure A to this document. The roles of the Chairman of the Board and Chief Executive Officer ("CEO"), who are appointed by the Board, are separated, thereby ensuring a clear division of responsibilities at the head of the Group. The Chairman of the Board is an independent non-executive Director.

Non-executive Directors offer independent judgement and, apart from their fees, there are no extraneous factors that could materially affect their judgement. If there is an actual or potential conflict of interest, the Director (executive or non-executive) concerned, after declaring his/her interest in terms of the Companies Act, No. 61 of 1973, as amended ("Companies Act"), is excluded from the related decision-making process.

The process of identification of suitable candidates to fill vacancies on the Board and to re-appoint Directors on termination of their term of office is conducted by the Directors' Affairs Committee. This Committee's nominations are submitted to the Board 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 Board, will retain office only until the next Annual General Meeting unless the appointment is confirmed at that meeting.

All Directors except the CEO, who has a five year service contract, retire on a three-year rotational basis. If eligible for re-election, they can be re-elected at the Annual General Meeting. Directors are required to retire from the Board at age 70. The Board can however decide that a Director continues in office beyond this age. Such Director is still subject to retirement by rotation provisions as explained above.

The Board operates in terms of a charter, which defines its duties, responsibilities and powers. The charter is reviewed annually. The evaluation of the performance of the Board as a whole is conducted annually by means of a self-evaluation process. An evaluation of the Chairman is conducted by the other Directors. The evaluation of individual non-executive Directors' performance is conducted on a bilateral basis between the Chairman and each Director.

At 31 December 2007, the Board, which has a unitary board structure, comprised of seven Directors, of which two were executives. Mr Osman resigned as a non-executive Director on 21 November 2007 following his resignation as the Chairman of BCI Fomento a bank in Mozambique, which is also a subsidiary of CGD.

Corporate Governance (continued)

1. Board of Directors (continued)

All the non-executive Directors are classified as independent, one of whom is a woman. Two of the Directors are classified as black in terms of the relevant legislation. The Board is satisfied that its composition currently reflects an appropriate balance in this respect.

The Board has unrestricted access to all company information, records, documents and property.

2. Group Secretary

The appointment and removal 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. 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. If necessary, Directors are entitled to obtain independent professional advice at the Group's expense.

The Group Secretary also maintains and regularly updates, a corporate governance manual, copies of which are distributed to all Directors, and organises and conducts a Board approved induction programme to familiarise new Directors with the Group's operations, their fiduciary duties, and the Group's corporate governance processes. The Group Secretary assists the Board in developing a training framework annually to assist the non-executive Directors with continuous development as Directors and in particular in a banking environment.

3. Board Committees

To assist the Board in carrying out its duties and responsibilities, a number of Board Committees exist. This does not relieve the Board of any of its responsibilities. These Committees all operate in terms of approved charters, which define their roles. All Board Committees' charters are reviewed annually. Changes to the charters are subject to Board approval. The performance of Board Committees, based on the duties and responsibilities as set out in the respective charters, are evaluated annually by means of a self-evaluation process, which results are discussed at the Board Committee concerned and then reviewed and approved by the Board.

For detail on the composition of the Board Committees, frequency of meetings and attendance thereof, refer to Annexure A.

All Directors who are not members of the Board Committees may attend Committee meetings. All Directors who are not Committee members receive copies of the documentation sent to the Board Committees from time to time.

Further details on the Board Committees are provided below.

3.1 Group Audit Committee ("GAC")

The GAC comprises two independent non-executive Directors, one of whom acts as Chairman, who is not the Chairman of the Board, and the CEO. To comply with the requirements of the Banks Amendment Act, 2007, Mr Ikalafeng was appointed as a GAC member effective 1 January 2008 to ensure the GAC comprises three non-executive Directors who act independently. The CEO who stepped down as a GAC member effective 1 January 2008 will attend GAC meetings as a permanent invitee.

GAC meetings are held at least four times per annum. The meetings of the Committee are attended by the head of Internal Audit, the External Auditors, the head of Risk, the Compliance Officer, the head of Finance and the head of Corporate Services and Treasury. The head of Internal Audit, head of Risk, the Compliance Officer and head of Corporate Services and Treasury do not attend the meeting held in April annually as such meeting is dedicated to approving the statutory annual financial statements of subsidiary companies. If a special meeting is called the attendance of non-members is at the discretion of the Chairman of the GAC. The head of Internal Audit, the Compliance Officer, the head of Finance, any member of the Executive Committee and the External Auditors have unrestricted access to the Chairman of the Committee. As defined in its charter, the primary objective of the Committee is to assist the Board to fulfil its responsibilities relative to:

- financial control and reporting;
- compliance with statutory and regulatory legislation which includes but is not limited to the Banks Act, Companies Act, the Listings Requirements of the JSE Limited ("JSE"), Common law, International Financial Reporting Standards ("IFRS") and tax legislation;
- Corporate Governance;
- Risk Management; and
- shareholder reporting.

Inter alia, the Committee reviews accounting policies, the audited annual financial statements, interim results, internal and external auditors' reports, the adequacy and efficiency of internal control systems, the effectiveness of management information systems, the internal audit process and the Bank's continuing viability as a going concern. The Compliance Officer also gives feedback to the Committee on compliance issues and updates on changes to legislation, which could have an impact on the Group.

Corporate Governance (continued)

3. Board Committees (continued)

3.1 Group Audit Committee ("GAC") (continued)

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 GAC has fulfilled its responsibilities in terms of its charter during the year under review.

The GAC has satisfied itself as to the independence of the external auditors.

The GAC 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 2007, in terms of IFRS, the Companies Act, the Banks Act and JSE Listings Requirements.

3.2 Risk and Capital Management Committee ("RMC")

This Committee comprises five members, three of whom are independent non-executive Directors, the CEO and an Executive Director. The Chairman of the Board chairs this Committee.

RMC meetings are held at least four times per annum. The RMC meetings are attended by the head of Risk, the head of Special Projects and Asset and Liability Management, the head of Finance, the head of Credit, the Compliance Officer and the head of Corporate Services and Treasury.

The name of the Committee was changed at the last Board meeting of the year to align with the Banks Amendment Act, 2007.

As defined in its charter, the RMC's objectives are to:

- assist the Board to fulfil its risk management and control responsibilities, in the discharge of its duties relating to risk and control management, assurance, monitoring and reporting of all risks identified and managed through the Enterprise Wide Risk Management Framework;
- provide monitoring and oversight of the risk management process;
- facilitate communication between the Board, GAC, internal auditors, compliance and other parties engaged in the risk management activities;
- ensure the quality, integrity and reliability of the Group's risk management and control;
- review the Group's process and allocation of capital buffer and capital management policy; and
- provide an independent and objective oversight and review of the information presented by management on risk management generally and specifically taking into account reports by management and the GAC to the Board on financial, operational and strategic risks.

The RMC has fulfilled its responsibilities in terms of its charter during the year under review.

For more detailed information relating to the Risk Management of the Group refer to pages 52 to 63.

3.3 Directors' Affairs Committee

This Committee comprises all the non-executive Directors on the Board. The Chairman of the Board chairs this Committee. Meetings are held at least four times per annum.

As defined in its charter, the primary objectives of this Committee are to:

- assist the Board in its determination, evaluation and monitoring of the appropriateness and effectiveness of the corporate governance structures, processes, practices and instruments of the Group;
- assist the Board in ensuring that the Group is compliant in all material aspects with King II and other corporate governance practices;
- establish and maintain a continuity plan for the Board;
- be responsible for the process of Board nominations and appointments for recommendation to the Board and in doing so, review the skills, experience and other qualities required for the effectiveness of the Board;
- ensure that a management succession plan was in place; and
- assist the Board in determining whether the employment/appointment of any Directors should be terminated (excludes resignations).

As reported previously the Board disbanded the Nominations Committee in 2006 by incorporating the role, power and duties of the Nominations Committee, set out in its charter, into the charter of the Directors' Affairs Committee. The rationale for the Board's decision was that the Nominations Committee had fulfilled some of the functions of the Directors' Affairs Committee stipulated in the Banks Act.

3.4 Remuneration Committee

This Committee comprises all the independent non-executive Directors of the Board excluding the Chairman of the Board. An independent non-executive Director chairs this Committee. The CEO attends this Committee's meetings by invitation. The Committee must meet at least twice per annum.

As defined in its charter, the Committee's primary objectives are to:

- assist the Board in determining the broad policy for executive and senior management remuneration and the Bank's remuneration philosophy (refer to item 5 below for further detail);

Corporate Governance (continued)

3. Board Committees (continued)

3.4 Remuneration Committee (continued)

- assist the Board in reviewing the remuneration of the executive Directors and Company Secretary; and
- assist the Board in reviewing the non-executive Directors' fees.

3.5 Transformation Committee

This Committee comprises three independent non-executive Directors and the CEO. The chairman of the Board chairs this Committee. This Committee must meet at least four times per annum.

As defined in its charter, this Committee's primary objectives are to:

- assist the Board in determining 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 ("FSC"):
  - employment equity targets for the various levels of management and other employees;
  - 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 of Directors in relation to gender and black people; and
- assist the Board in determining which black individuals/entities should be considered for direct ownership in the Group.

3.6 Technology Committee

This Committee, which is a Committee of Mercantile Bank Limited, comprises two independent non-executive Directors and two executive Directors. An independent non-executive Director chairs this Committee. This Committee was formed in 2006 to monitor and manage a special project of the Bank relating to the replacement of its core banking system. The Technology Committee fulfilled its charter for the 2007 year and the Board has decided to extend its mandate into 2008.

4. Management Committees

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

Asset and Liability Committee ("ALCO")
Credit Committee
Employment Equity Committee
Executive Committee ("Exco")
Human Resources Committee
IT Steering Committee
Procurement Committee

All these Committees operate in terms of their charters, which define their duties and responsibilities.

Non-executive Directors may attend any Management Committee meetings.

5. 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 Group ensures that remuneration practices are fair, equitable and competitive. The three main elements of remuneration are described below.

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 individual 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 form an important component of variable pay. The incentive bonus scheme introduced in 2004 has been reviewed annually 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 is 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 option scheme is being reviewed.

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 for services rendered as members of the various Board Committees. Foreign exchange impact is taken into account for Directors who are non-resident.

Corporate Governance (continued)

6. Internal Audit function

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

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

The Board reviewed the Internal Audit Charter, which governs internal audit's activity in the Group, during the year. The charter defines the role, objectives, 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 GAC.

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 GAC and/or the RMC 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 other specialists environments; and
- CGD's Internal Audit Department carries out assignments in accordance with CGD's requirements.

7. 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 and or co-sourcing;
- 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 subject to subsequent ratification by the GAC. For amounts in excess of R250 000 prior approval by the GAC is required.

8. 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 on these risks. The Compliance function is mandated to make the Board 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; and
- 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 will review the charter and its ongoing implementation to assess the extent to which the Group is managing its regulatory risks effectively.

The GAC reviews and approves annually a compliance plan. The GAC monitors the progress against the compliance plan, which sets out training, monitoring and review of compliance with the regulatory requirements in the Group.

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 RMC and the GAC (the same report is also submitted to the South African Reserve Bank, once discussed by the GAC).

The National Credit Act ("NCA"), The Financial Intelligence Centre Act ("FICA") and The Financial Advisory and Intermediary Services Act ("FAIS") were the key areas that the Compliance Department focused on during the year under review.

Corporate Governance (continued)

8. Compliance function (continued)

The Compliance function during the first half of the year under review, initiated preparations and projects for the implementation of the NCA, which became fully effective on 1 June 2007. The NCA has had a significant impact on credit providers throughout South Africa. Business processes and credit granting procedures have been reformulated to ensure compliance with this local legislation. Quarterly reports are submitted to the National Credit Regulator containing statistics of the credit granting practices of the business, with the first of these reports being submitted in the last quarter of 2007.

As required by FICA, the Compliance Department manages the ongoing monitoring and compliance with anti-money laundering and combating of terrorist financing legislation.

The ongoing implementation of FAIS was the other major imperative for the business and the Compliance function during the year, with the majority of our Retail Banking Staff undergoing further training in the rendering of financial advice and related services, to meet the Fit and Proper requirements of the legislation. Reports on compliance with the requirements of FAIS, were also completed and submitted to the Financial Services Board during the year.

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

9. Dealing in securities of the Group

The Group's dealings in securities policy ("the policy") regarding dealings in the Group's securities by Directors and the Group Secretary, complies with the JSE Listings Requirements. Should any Director and the Group Secretary 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 also restricts trading by certain individuals employed by the Bank, which includes but is not limited to the senior managers and the Mercantile Bank Holdings Limited share incentive scheme participants.

All individuals bound by the policy may not trade during the following periods:

- when the company is trading under cautionary announcement;
- the period between the end of either the financial year or half-year and release of results pertaining to that period; and
- any period when there exists any matter, which constitutes unpublished price sensitive information.

The policy also emphasises that each individual (whether a Director or employee) is obliged to comply with the provisions of the Securities Services Act, No. 36 of 2004, which deals with insider trading rules.

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

10. 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.

11. 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 its commercial success, as adherence thereto is a strategic business imperative.

The Board believes that the Group has adhered to the ethical standards during the year under review.

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.

Corporate Governance (continued)

11. Integrated sustainability reporting (continued)

Safety, Health and Environmental Principles (continued)

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 the Group is adhering to the Environmental Risk Management Policy as previously approved by the RMC.

12. 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. The Transformation Committee monitors 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 are based on the Financial Sector Charter Scorecard requirements and aligned to the strategy of the Group, are as follows:

Employment Equity

Transformation in the workplace is an important aspect of employment equity, 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.

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.

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 and the overall level of representivity of black people is higher than the target set for 2007 but remains short of the requirements in terms of the FSC . The challenge remains the attraction, employment and retention of suitably experienced and skilled employment equity candidates for middle management and senior management level positions.

Skills Development

The various components of the performance management system introduced in 2007 were refined and enhanced during the year under review. This includes personal development plans for all staff detailing individual training and development priorities.

Various training programmes were presented over the last year. The emphasis was on sales skills, management training on the performance system and brand and customer service training.

A fourth group of learners, from the BANKSETA Letsema learnership programme, as well as a group of graduate learners targeting unemployed people from previously disadvantaged groups were employed on a one-year contract. Some of the learners from the 2006 intake were offered trainee positions. The employment and retention of learners as trainees and permanent staff has been very successful.

Corporate Social Investment

The Group is committed to the upliftment and transformation of communities and has developed a comprehensive framework for its Corporate Social Investment policy and plan. The implementation of this plan will commence as part of the conclusion of a BEE ownership transaction.

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's exploratory discussions have continued with potential candidates within a framework and approach to be used to consider empowerment partners for the Group, as approved by CGD.

13. Annual financial statements

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

Corporate Governance (continued)

14. Regulation

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

15. Communication with stakeholders

The Board communicates with its shareholders in accordance with the Companies Act and JSE Listings Requirements. Appropriate communication is also sent to the employees of the Bank from time to time. The Board has delegated authority to the CEO to speak to investment analysts from time to time. Communication with the SARB, the Registrar of Companies and the JSE is done in compliance with the respective laws/guidelines.

Corporate Governance (continued)

Annexure A

Attendance of meetings by Directors

	Date appointed to Board	Board (joint meetings)	Group Audit	Risk Manage-ment**	Directors' Affairs	Remune-ration	Trans-formation	Technology (constituted Feb 2006)^
Number of meetings held during the year under review		5§	7	4	4	4	4	7
Directors								
J A S de Andrade Campos	26.07.2002	#5/5	*	#4/4	#4/4	*	#3/4	*
D J Brown	29.03.2004	5/5	7/7	4/4	*	*4/4	4/4	7/7
G P de Kock	23.11.2000	5/5	7/7	4/4	4/4	#4/4	*	7/7
M J M Figueira ‡	26.05.2004	1/1	*	1/1	*	*	*	1/1
L Hyne	01.06.2003	5/5	#7/7	4/4	4/4	4/4	*	*
A T Ikalafeng	16.11.2004	4/5	*	*	3/4	3/4	3/4	*
J P M Lopes	09.11.2005	5/5	*	4/4	*	*	*	6/7
A M Osman†	02.02.2004	1/5	*	*	2/4	*	*	*
S Rapeti	29.07.2005	4/5	*	*	3/4	3/4	3/4	#7/7

* non-member of Committee/permanent invitee. The ad hoc attendance by a Director of a meeting he/she is not a member or permanent invitee of, is not disclosed
** name changed on 31.10.2007 to Risk and Capital Management Committee
† resigned effective 21.11.2007
‡ resigned effective 28.02.2007
# chairman of meeting
§ one of which was a two day Strategy Board meeting
^ Board Committee of the Bank. All other Board Committees of the Company were also fulfilling the role of such for the Bank

Analysis of shareholders

at 31 December 2007

SHAREHOLDERS' SPREAD

	2007	2006
Number of public shareholders	**6 962**	6 969

Percentage of shares held by:

	2007 Number	2007 %	2006 Number	2006 %
Public	**311 342 829**	**7.91**	311 124 327	7.90
Non-public	**3 627 575 695**	**92.09**	3 627 794 197	92.10
Directors	–	–	–	–
Employees	**1 177 000**	**0.03**	65 502	–
Trustees of share incentive scheme	**12 380 500**	**0.31**	13 710 500	0.35
Holders of 10% or more of shares	**3 614 018 195**	**91.75**	3 614 018 195	91.75
	3 938 918 524	**100.0**	3 938 918 524	100.0

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

	Number of shares	%
2007		
Caixa Geral de Depósitos SA	**3 614 018 195**	**91.75**
2006		
Caixa Geral de Depósitos SA	3 614 018 195	91.75

PERFORMANCE ON THE JSE DURING THE YEAR

	2007	2006
Number of shares issued	**3 938 918 524**	3 938 918 524
Share price (cents)		
Year-end	**35**	26
Highest	**38**	45
Lowest	**25**	24
Number of shares traded	**255 239 004**	89 716 935
Value of shares traded (R'000)	**84 753**	30 377
Average price (cents)	**33**	34
Market capitalisation (R'000)	**1 374 288**	1 020 554

Group addresses

Mercantile Bank Group

Head Office

142 West Street, Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: +27 11 302 0300
Fax: +27 11 883 7765

Mercantile Insurance Brokers

Head Office

Mercantile Bank, 142 West Street
Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: +27 11 302 0556/7/8
Fax: +27 11 302 0752

Mercantile Bank Branches

Boksburg Branch

North Atlas Centre, cnr Atlas and
North Rand Roads, Boksburg, 1459
PO Box 31558, Braamfontein, 2017
Tel: +27 11 918 5276
Fax: +27 11 918 4159

Bruma Branch

11 Ernest Oppenheimer Boulevard
Bruma, 2198
PO Box 31558, Braamfontein, 2017
Tel: +27 11 622 0916
Fax: +27 11 622 8833

Cape Town City Branch

Ground Floor, M&B House, Pier Place
Foreshore, Cape Town, 8001
PO Box 51, Cape Town, 8000
Tel: +27 21 419 9402
Fax: +27 21 419 5929

Cape Town Tygerberg Branch

Ground Floor, Tygerpoort Building
7 Mispel Street, Belville, 7530
PO Box 5436, Tygervalley, 7536
Tel: +27 21 910 0161
Fax: +27 21 910 0163

Comaro Crossing Branch

Shop FF9, Comaro Crossing
Shopping Centre, Orpen and Comaro
Roads, Oakdene, 2190
PO Box 31558, Braamfontein, 2017
Tel: +27 11 435 0640
Fax: + 27 11 435 1586

Durban Branch

Cowey Shopping Centre, 123 Cowey
Road
Berea, Durban, 4001
PO Box 519, Durban 4000
Tel: +27 31 209 9048
Fax: +27 31 209 9446

Germiston Branch

The Lake Shopping Centre
cnr William Hill and Lake Street
Germiston, 1401
PO Box 31558, Braamfontein, 2017
Tel: +27 11 824 5813
Fax: +27 11 824 5823

Horizon Branch

153 Ontdekkers Road, Horizon, 1730
PO Box 31558, Braamfontein, 2017
Tel: +27 11 763 6000
Fax: +27 11 763 8742

Pretoria Hatfield Branch

Pro-Equity Court, cnr Pretorius and
Gordon Street, Hatfield, Pretoria, 0083
PO Box 31558, Braamfontein, 2017
Tel: +27 12 342 1151
Fax: +27 12 342 1191

Pretoria West Branch

477 Mitchell Street
Pretoria West, 0183
PO Box 31558, Braamfontein, 2017
Tel: +27 12 327 4671
Fax: +27 12 327 4645

Sandton Branch

Ground Floor, 142 West Street
Sandown, 2196
PO Box 31558, Braamfontein, 2017
Tel: +27 11 302 0763
Fax: +27 11 884 1821

Strijdompark Branch

Shop 2, Homeworld Centre
cnr Malibongwe Drive and CR Swart
Road, Strijdom Park, Randburg, 2194
PO Box 31558, Braamfontein, 2017
Tel: +27 11 791 0854
Fax: +27 11 791 2387

Troyeville Branch

77 Bezuidenhout Street
Bertrams, 2094
PO Box 31558, Braamfontein, 2017
Tel: +27 11 624 1450
Fax: +27 11 614 9611

Vanderbijlpark Branch

Shops 1 and 2, Russell's Building
54 President Kruger Street
Vanderbijlpark, 1911
PO Box 31558, Braamfontein, 2017
Tel: +27 16 981 4132
Fax: +27 16 981 0767

Welkom Branch

Tulbagh House, 11 Tulbagh Street
Welkom, 9459
PO Box 2207, Welkom, 9460
Tel: +27 57 357 3142
Fax: +27 57 352 7879

Notice of Annual General Meeting

Mercantile Bank Holdings Limited
Member of CGD Group

(Registration number 1989/000164/06)
(Incorporated in the Republic of South Africa)
Share code: MTL ISIN: ZAE000064721
("Mercantile" or "the Company")

Notice is hereby given that an Annual General Meeting ("the meeting") of the shareholders of the Company will be held at 08:30 on Tuesday, 27 May 2008 in the Boardroom, First Floor, Mercantile Bank, 142 West Street, Sandown, Sandton for the following purposes:

ORDINARY RESOLUTIONS

1. ADOPTION OF ANNUAL FINANCIAL STATEMENTS:

To receive and adopt the annual financial statements of the Company and of the Mercantile Group for the year ended 31 December 2007.

Explanatory note:

At the Annual General Meeting the Directors must present the audited annual financial statements for the year ended 31 December 2007 to shareholders together with the reports of the Directors and auditors as contained in the 2007 Annual Report.

2. NON-EXECUTIVE DIRECTORS' REMUNERATION

To approve and ratify the proposed fees payable to the non-executive Directors of the Mercantile Group from time to time for the period 1 April 2008 to 31 March 2009 for serving as a Director on the Board and Board Committees during the financial year ending 31 December 2008, effective 1 April 2008.

2.1 Chairman of the Mercantile Board: R1 232 000 per annum

2.2 Director of the Mercantile Board: R175 000 per annum

2.3 Director of Mercantile Bank Limited ("the Bank"), the major subsidiary of the Company: R38 000 per annum

2.4 Chairman of the Group Audit Committee: R60 000 per annum

2.5 Member of the Group Audit Committee: R54 000 per annum

2.6 Chairman of the Remuneration Committee: R46 000 per annum

2.7 Member of the Remuneration Committee: R54 000 per annum

2.8 Member of the Risk and Capital Management Committee: R54 000 per annum

2.9 Member of the Transformation Committee: R54 000 per annum

2.10 Member of the Directors' Affairs Committee: R54 000 per annum

2.11 Chairman of the Technology Committee (Committee of the Bank): R46 000 per annum

Notice of Annual General Meeting (continued)

2.12 Member of the Technology Committee (Committee of the Bank): R54 000 per annum

2.13 Chairmen of the Risk and Capital Management Committee, Transformation Committee and Directors' Affairs Committee if the Chairman of the Board is not the Chairman of these Committees: R46 000 per annum for each chairmanship.

Explanatory note:

Shareholders are requested to approve the remuneration payable to non-executive Directors for serving on the Boards and Board Committees of the Company and the Bank. The Chairman of the Mercantile Board's fee includes remuneration for the Chairman's participation on other Boards and Board Committees. The Board members' total fees are dependent on their participation on Board Committees. Refer to Annexure A on page 72 for the Board and Board Composition as at 31 December 2007.

3. RE-ELECTION OF DIRECTORS RETIRING BY ROTATION

To re-elect by way of separate resolutions Directors in the place of those retiring in accordance with the Company's articles of association. The Directors retiring are:

L Hyne (appointed : 01/06/2003)

S Rapeti (appointed : 29/07/2005)

and being eligible offer themselves for re-election.

An abbreviated *curriculum vitae* of each Director offering themselves for re-election is contained on page 83 of the Annual Report.

Explanatory note:

In accordance with the articles of association of the Company one-third of the Directors is required to retire at each meeting and may offer themselves for re-election. In terms of the articles of association of the Company the Managing Director, during the period of his service contract, is not taken into account when determining which Directors are to retire by rotation.

4. AUDITORS

To recommend the re-appointment of Deloitte & Touche as independent auditors of the Company.

Explanatory note:

Deloitte & Touche has indicated their willingness to continue as the Company's auditors until the next Annual General Meeting. The Group Audit Committee has satisfied itself as to the independence of Deloitte & Touche. The Group Audit Committee has the power in terms of the SA Corporate Laws Amendment Act, 2006 to approve the remuneration of the external auditors. The remuneration and non-audit fees paid to the auditors during the year ended 31 December 2007 are contained on page 44.

As special business and requiring shareholder approval, shareholders are requested to consider and if deemed fit, pass with or without modification the following resolutions numbers 5, 6, 7 and 8.

5. CONTROL OF AUTHORISED BUT UNISSUED SHARES

"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.

Notice of Annual General Meeting (continued)

6. GENERAL AUTHORITY TO ISSUE SHARES FOR CASH

"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);
- 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; and
- 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 this meeting is required for this resolution to become effective.

7. NEW LONG TERM INCENTIVE SCHEME: CONDITIONAL SHARE PLAN

"RESOLVED as an ordinary resolution that the Mercantile Bank Holdings Limited Conditional Share Plan, substantially in the form of the rules tabled at the meeting at which this resolution will be proposed and considered and initialled by the Chairman of the meeting for the purposes of identification, be hereby approved and adopted by the Company with immediate effect."

Explanatory note:

The rules of the Mercantile Bank Holdings Limited Conditional Share Plan are available for inspection at the registered office of the Company. The detail of the address is on page 3. You can contact the Company Secretary to make an arrangement to do so.

The salient features of the Mercantile Bank Holdings Limited Conditional Share Plan follows:

GLOSSARY OF TERMS

"Allocated"	for purposes of setting the CSP limits, one Share allocated per any one Conditional Award made;
"Board"	subject to 4.2 of the Rules, the board of Directors of the Company from time to time with the power of delegation;
"Business Day""	any day on which the JSE is open for the transaction of business;
"Company"	Mercantile Bank Holdings Limited (Registration number 1989/000164/06);
"Conditional Award"	a conditional award of a Share granted to a Participant in terms of the CSP;
"CSP"	the Mercantile Bank Holdings Limited Conditional Share Plan, as amended from time to time;
"Date of Grant"	the date on which a Conditional Award is granted to an Employee as specified in the Letter of Grant, irrespective of the date on which the Conditional Award granted to an Employee, is actually accepted;
"Employee"	a person eligible for participation in the CSP, namely an officer or other employee of any Employer Company but excluding any non-executive Directors;
"Employer Company"	a company in the Group which employs an Employee;
"Financial Year"	the financial year of the Company which currently runs from 1 January to 31 December each year or any such other period as may be determined by the Board from time to time;

Notice of Annual General Meeting (continued)

"Grant" or "Granted"	the grant to an Employee of a Conditional Award in terms of the CSP;
"Group"	the Company and its direct and indirect subsidiaries;
"HEPS"	the Company's Headline Earnings Per Share;
"Independent Advisor"	an advisor, other than the auditors of the Company, chosen from the ranks of reputable auditing firms;
"JSE"	the JSE Limited (Registration number 2005/022939/06), a public company duly registered and incorporated with limited liability in accordance with the company laws of South Africa, licensed as an exchange under the Securities Services Act, No. 36 of 2004;
"Letter of Grant"	a document approved by the Board which details the name of the Employee to whom the Conditional Awards are granted, the number of Shares in respect of which the awards are Granted, the Date of Grant, Performance Period and any applicable Performance Conditions, Vesting Date and any applicable conditions pertaining thereto;
"Market Value"	the Volume Weighted Average price of a share as quoted on the JSE for the 30 Business Days immediately preceding the date on which a determination of the Market Value of the Shares is to be made for the purposes of the CSP;
"Participant"	an Employee to whom a Conditional Award has been made and who has accepted such Conditional Award and includes the executor of his deceased estate, where appropriate;
"Performance Condition"	the condition specified in the Letter of Grant, to which a Conditional Award is subject;
"Performance Period"	the period in respect of which a Performance Condition is to be satisfied as specified in the Letter of Grant and which period will normally coincide with the Financial Year or Financial Years;
"Retirement"	in relation to an Employee, normal retirement as determined by the Company or with the approval of the Board, prior to the normal retirement age;
"ROE"	the Company's Return on Capital Employed;
"Settlement"	delivery of the required number of Shares to which a Participant is entitled pursuant to the Vesting of a Conditional Award to such Participant;
"Settlement Date"	the date on which Settlement shall occur;
"Shares"	ordinary shares with a par value of R0.01 each (one cent) or as adjusted in the capital of the Company;
"Third Party"	a broker appointed by the Company for the purpose of the CSP;
"Vesting Date"	the date on which a Participant becomes entitled to a Share after verification that the Performance Conditions have been met and after confirmation by the Board that the Performance Conditions have been fulfilled, as set out in the Letter of Grant, and "Vest" and "Vested" shall be construed accordingly.

Introduction

In line with global best practice and emerging South African practice, the Company intends to adopt a new share incentive plan, namely a Conditional Share Plan. The CSP is in line with practice in FTSE 100 and FTSE 250 companies in the UK and with several recently adopted schemes for large JSE-listed or dual-listed companies.

The CSP will include participation by executive Directors and selected employees of the Group. The purpose of the CSP is to recognise contributions made by selected Employees and to provide for an incentive for their continuing relationship with the Group, by providing them with the opportunity of receiving Shares in the Company, thereby providing Participants with an incentive to advance the Group's interests and to ensure that the Group attracts and retains the core competencies required for formulating and implementing the Group's business strategies. Subject to the Board's discretion no further grants will be made under any of the Company's existing share schemes subsequent to the financial year ended 31 December 2007, however in future this will not preclude the Board from issuing grants under the existing share schemes.

Notice of Annual General Meeting (continued)

Flexible settlement methods have been adopted for the CSP, namely the issue of shares (either at the Market Value as at the Vesting Date or at the Market Value as at the Date of Grant, an issue price equal to the maximum discount allowed for in the JSE Listings Requirements or at par value), a market purchase or cash as a last resort. The Company intends to issue shares at market value, but subject to the approval of the Board in instances deemed to be appropriate, the Board will be authorised to issue shares at a discount or at par value. The Company will retain the right to issue new Shares at its election. In any case, the Company will be limited to issuing no more than 10% (ten percent) of the number of issued ordinary shares at any one time, which at the date of approval of the CSP equates to 393 891 852 (three hundred and ninety-three million, eight hundred and ninety-one thousand eight hundred and fifty-two) shares in settlement of the CSP and any other share schemes operated by the Company. Notwithstanding the foregoing, the Employer Companies may, on instruction of the Board and as a fallback provision only, pay any Participant under the CSP an equivalent amount in cash in lieu of any Shares.

The CSP also supports the principle of alignment of management and shareholder interests with Performance Conditions governing the vesting of the Conditional Awards.

Salient features of the CSP:

General

The Conditional Award will Vest after the Performance Period if, and to the extent that the Performance Conditions have been satisfied over the Performance Period. The duration and specifics of the Performance Condition and Performance Period will be stated in the Letter of Grant. The Performance Period for the first Grant is three years and the Board will determine the Performance Conditions on an annual basis. The Employer Company will recommend participation in the CSP to the Board and will be responsible for the Settlement of Conditional Awards.

Eligibility

Eligible employees will receive annual grants of Conditional Awards. Directors (excluding non-executive Directors) and Employees nominated by Employer Companies and approved by the Board are eligible to participate in the CSP.

Performance conditions

The Vesting of Conditional Awards will be subject to the achievement of specified Performance Conditions, stated in a Letter of Grant, and will be set by the Board on an annual basis measured against audited information. For purposes of good governance executive Directors of the Board will not have any voting rights in respect of governance issues relating to the CSP. It is intended that the Performance Conditions to be imposed will be related to HEPS over a three-year period and the ROE, over a three-year period. Threshold, target and stretch target levels of the HEPS and ROE Performance Conditions will be imposed by the Board prior to the Date of Grant and will be stated in the Letter of Grant.

Limits

Overall Company limit

The aggregate number of Shares which may be allocated under the CSP and any other share scheme operated by the Company shall not exceed 10 % (ten percent) of the number of issued ordinary shares at any one time, which currently equates to 393 891 852 (three hundred and ninety-three million, eight hundred and ninety-one thousand eight hundred and fifty-two) shares. The limit referred to shall exclude the Shares allocated to participants under the CSP which have vested or shares in respect of any of the other share schemes operated by the Company that have vested or in the case of options, been exercised, but shall include the actual number of new shares issued by the Company in settlement of the CSP and any other share scheme operated by the Company.

Individual limit

The maximum number of Shares Allocated in respect of all Unvested Conditional Awards granted to any Participant in respect of this CSP, and any other unvested shares that have been allocated in respect of any other share scheme operated by the Company shall not exceed the limit determined from time to time by the Board, which number of Shares shall not exceed 59 083 778 shares (fifty-nine million eighty-three thousand seven hundred and seventy-eight) (which represent approximately 1.5% percent of the issued ordinary share capital of the Company) as at the date of Annual General Meeting at which the CSP is approved by shareholders.

Notice of Annual General Meeting (continued)

Cessation of employment and death

Resignation or dismissal

If a Participant's employment with any Employer Company terminates by reason of his resignation or dismissal on grounds of misconduct, poor performance or proven dishonest or fraudulent conduct (whether such cessation occurs as a result of notice given by him or otherwise or where he resigns to avoid dismissal on ground of misconduct, poor performance or proven dishonest or fraudulent conduct) before the Vesting Date, all Unvested Conditional Awards will lapse, unless the Board in their absolute discretion determines otherwise. The discretion of the Board will be limited to the Vesting of a *pro rata* portion of the Conditional Awards, reflecting the number of months served since the Date of Grant and, in the opinion of the Board the extent to which the Performance Conditions have been satisfied.

Retrenchment, death or Retirement

If a Participant's employment with any Employer Company terminates before the end of the Vesting Date, by reason of retrenchment, death or Retirement, a *pro rata* portion of the Unvested Conditional Awards shall Vest on the date of cessation of employment or the date of death. The *pro rata* portion of the Conditional Awards that vest will, unless the Board determine otherwise, reflect the number of months served since the Date of Grant and, in the opinion of the Board, the extent to which the Performance Conditions have been satisfied.

Other reasons for cessation of employment

If a Participant ceases to be an Employee of any Employer Company by reason of circumstances, other than those set out above, the Board, can by written notice to the Participant permit a *pro rata* portion of the Unvested Conditional Awards to Vest on the date of cessation of employment. The *pro rata* portion of the Conditional Awards that Vest will, unless the Board determine otherwise, reflect the number of months served since the Date of Grant and, in the opinion of the Board, the extent to which the Performance Conditions have been satisfied.

Change of control and delisting

In the event that a change of control of the Company shall occur before the Vesting Date, the Board shall by written notice to the Participant deem a *pro rata* portion of the Unvested Conditional Awards to Vest on the date of the change of control occurring. The *pro rata* portion of the Conditional Awards that Vest will reflect the number of months served since the Date of Grant and the extent to which the Performance Conditions have been met, unless the Board in their absolute discretion decide otherwise. The portion of the Conditional Awards that do not Vest early will:

– if the Shares shall continue to be listed on the JSE following such change of control, continue to be subject to the terms of the Letter of Grant relating thereto unless, the Board, in their absolute discretion and in consultation with an Independent Advisor, determine that the terms of the Letter of Grant relating thereto are no longer appropriate, in which case the Board after consultation with an Independent Advisor, shall make such adjustment to the number of Conditional Awards or take such other action as may be required to place the Participants in no worse position than they were prior to the occurrence of the change of control; or
– if the Shares shall cease to be listed on the JSE following such change of control, be subject to the application of the provisions of applicable to Variation in Share Capital.

In the event of an Employer Company (other than the Company), ceasing to be a subsidiary of the Company, the Board, after consultation with an Independent Advisor may take such action as they consider appropriate to protect the interests of Participants, including converting Grants into grants in respect of Shares in one or more other companies, reviewing the time that had endured since the Date of Grant which had elapsed), and calculate the number of Shares to Vest in each Participant accordingly, provided that the Participants are no worse off as verified by an Independent Advisor.

For the purposes of this paragraph "control" shall be aligned with the Banks Act as amended from time to time and for current purposes means in relation to the Company, that some or other natural person, company, close corporation or other juristic person or corporate entity, charity, partnership, trust, joint venture, syndicate, or other association of persons or entities, individually or collectively:

– owns or own, directly or indirectly, over 50% of the Shares of the Company;
– controls or control, directly or indirectly, over 50% of the voting rights, in relation to the Shares of the Company, exercisable by members in general meeting or otherwise of the Company; and
– are entitled, directly or indirectly, to appoint a majority of Directors of the Board of the Company, or to appoint of remove Directors, having a majority of the votes exercisable at meetings of the board of Directors of the Company.

Notice of Annual General Meeting (continued)

Variation in share capital

In the event of a rights issue, capitalisation issue, capital distribution, subdivision of Shares, consolidation of Shares, the Shares ceasing being listed on the JSE, the Company being put into liquidation for the purpose of reorganisation or any other event affecting the share capital of the Company, or in the event of the Company making distributions to shareholders, including a distribution in specie or a payment in terms of section 90 of the Companies Act, No. 61 of 1973 (other than a dividend paid in the ordinary course of business out of the current year's retained earnings), Participants shall continue to participate in this CSP, however the Board shall make such adjustment to the number of Conditional Awards or take such other action as may be required to place Participants in no worse position than they were prior to the happening of the relevant event.

The Board shall notify the Participants of any adjustments which are made. Where necessary, in respect of any such adjustments, the Independent Advisor, acting as expert and not as arbitrator and whose decision shall be final and binding on all persons affected thereby, shall confirm to the Board in writing that these are calculated on a non-prejudicial basis.

If the Company is placed into liquidation otherwise than for the purposes of reorganisation, the Conditional Awards shall *ipso facto* lapse as from the date of liquidation and any Unvested Conditional Awards which has not yet been Vested shall *ipso facto* lapse from the date of liquidation. For the purposes hereof "date of liquidation" shall mean the date upon which any application (whether provisional or final) for the liquidation of the Company which is granted by the relevant court, is lodged at the relevant court.

Shares to rank *pari passu*

Any Shares Settled for the CSP will rank *pari passu* in all respects with the issued Shares. The Company shall make timeous application for any listing on the JSE of the Shares.

Amendments to the CSP

Amendments to the provisions of the Scheme relating to:

- eligibility to participate in the CSP;
- the procedure to be adopted in respect of the vesting of Conditional Awards in the event of termination of employment and/or Retirement as set out above;
- the basis for determining the Market Value;
- the adjustment of Conditional Awards and price in the event of a variation of capital of the Company;
- the limitations on benefits or maximum entitlements applicable to the maximum dilution limit imposed on the Company and the maximum individual limit applicable to Participants, and
- any rights including those arising on a liquidation of the Company, attaching to the Conditional Awards

are subject to approval by ordinary resolution of the shareholders in General/Annual General Meeting to the extent (if any) required in terms of the Listings Requirements and/or compliance with any applicable statute, regulation, rules or Listings Requirements from time to time. Any further amendments to the rules of the CSP may be effected by the Board.

8. SIGNATURE OF DOCUMENTS

"**RESOLVED** that any one Director or the Company Secretary of the Company be and is hereby authorised to do all such things and sign all documents and take all such action as they consider necessary to implement the resolutions set out in the notice convening this Annual General Meeting at which this ordinary resolution will be considered."

VOTING AND PROXIES

A member entitled to attend, speak and vote at this 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 this meeting but wish to be represented thereat, must complete and return the attached form of proxy in accordance with the instructions contained therein. A form of proxy is attached for this purpose and must be lodged at the Company's transfer secretaries or the

Notice of Annual General Meeting (continued)

Company's registered address by no later than 08:30 on Friday 23 May 2008. The detail of these addresses are on page 3.

Dematerialised shareholders, excluding own-name dematerialised shareholders, who wish to attend this 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.

By order of the Board

Ms R van Rensburg
Company Secretary

11 March 2008

Registered office

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

Transfer Secretaries

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

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

L Hyne, age 64, 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.

S Rapeti, age 43, holds an MBA *(cum laude)* from the University of Wales and is currently studying for a Masters degree in Electronic Engineering through the University of the Witwatersrand. 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. Ms Rapeti is now on a study sabbatical after a career spanning two decades with the SABC where her last position was Group Executive: Technology.

Form of proxy

Mercantile Bank Holdings Limited
Member of CGD Group

(Registration number 1989/000164/06)
(Incorporated in the Republic of South Africa)
Share code: MTL ISIN: ZAE000064721
("the Company")

for use by certificated and own-name dematerialised ordinary shareholders at the Annual General Meeting of the Company to be held at 08:30 on Tuesday, 27 May 2008 ("the meeting") in the Boardroom, First Floor, Mercantile Bank 142 West Street, Sandown, Sandton.

I/We (please print) full name/(s) ____________________

of (please print) address ____________________

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 Tuesday, 27 May 2008 at 08:30 and at any adjournment thereof, and to vote or abstain from voting on the ordinary resolutions to be proposed at the meeting, as follows:

Resolutions	**For**	**Against**	**Abstain**
1. Ordinary resolution number 1: Adoption of annual financial statements			
2. Ordinary resolution number 2: Non-executive Directors' remuneration			
3. Re-election of Directors			
3.1 Ordinary resolution number 3: L Hyne			
3.2 Ordinary resolution number 4: S Rapeti			
4. Ordinary resolution number 5: Re-appointment of auditors			
5. Ordinary resolution number 6: Control of authorised but unissued shares			
6. Ordinary resolution number 7: General authority to issue shares for cash			
7. Ordinary resolution number 8: New long term incentive scheme: Conditional Share Plan			
8. Ordinary resolution number 9: Signature on documents			

Signed this ____________ day of ____________ 2008

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. It is the intention of the Company to request for a vote on a poll.
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 08:30 on Friday, 23 May 2008.
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 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 11 883-7765) or faxed to the transfer secretaries (fax number +27 11 688 5238) by no later than 08:30 on Friday, 23 May 2008.

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