MERCANTILE BANK LIMITED

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

Mercantile Bank Limited

Reg No. 1965/006706/06
An authorised financial services provider
Member of Caixa Geral de Depósitos S.A.

Table of contents

Directors' responsibility

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

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

The internal financial controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with sound business practices and the Company's written policies and procedures.

These controls are implemented by trained and skilled staff, with clearly defined lines of accountability and appropriate segregation of duties. The controls are monitored by management and include a budgeting and reporting system operating within strict deadlines and an appropriate control framework. As part of the system of internal financial controls the Company'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 financial statements.

The financial statements are prepared in accordance with South African statements of Generally Accepted Accounting Practice and incorporate responsible disclosures in line with the accounting policies of the Company. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The directors believe that the Company 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 financial statements, set out on pages 4 to 35, have been approved by the Board and are signed on their behalf by:

J A S de Andrade Campos
Chairman

18 February 2005

D J Brown
Chief Executive Officer

18 February 2005

Certificate from the Company Secretary

In terms of section 268G(d) of the Companies Act, 1973, as amended, 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 2004 all such returns as are required of a public company in terms of the Companies Act, 1973, as amended, and that all such returns are true, correct and up to date.

F VICENTE COELHO
Company Secretary

18 February 2005

Report of the independent auditors

To the member of Mercantile Bank Limited

We have audited the financial statements set out on pages 4 to 35, for the year ended 31 December 2004. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

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

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

Audit opinion

In our opinion the financial statements fairly present, in all material respects, the financial position of the Company at 31 December 2004 and the results of its operations and cash flows for the year then ended in accordance with South African statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants (SA)
Registered Accountants and Auditors

Johannesburg
18 February 2005

Directors' report
for the year ended 31 December 2004

The directors have pleasure in presenting their report, which forms part of the audited financial statements of the Company for the year ended 31 December 2004.

1. Nature of business

The Company is a registered bank, incorporated in the Republic of South Africa, and provides its clients with a full range of domestic and international banking services. In addition, it provides a full range of specialised financing, savings and investment facilities to the retail, commercial, corporate and alliance banking niche markets.

2. Holding company

Mercantile Lisbon Bank Holdings Limited ("MLBH"), a company incorporated in the Republic of South Africa, wholly owns the Company. The ultimate holding company is Caixa Geral de Depósitos S.A. ("CGD"), a company registered in Portugal.

3. Financial results

Details of the financial results are set out on pages 6 to 35 and in the opinion of the directors require no further comment.

4. Share capital

The company issued 1 share of R2 to its holding company for a consideration of R555 million. The related stamp duty of R1.387 million was charged against the share premium.

The authorised and issued share capital of the Company is detailed in Note 10 to the financial statements.

5. Dividends

No dividend was declared during the year under review (December 2003: nil).

6. Directors, company secretary and registered addresses

The directors of the Company at 31 December 2004 were as follows:

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

Appointments during the period under review:

M J M Figueira*#	26 May 2004
A T Ikalafeng†	16 November 2004
K B Motshabi†	16 November 2004

Resignation during the period under review:

R M L de F N Ribas*†	7 September 2004

D J Brown was appointed Chief Executive Officer and R Ribas ceased his function as Acting Chief Executive Officer with effect from 31 March 2004.

The company secretary is Mr F Vicente Coelho* and his postal and business addresses are:

Postal:	Business:
PO Box 782699	1st Floor
Sandton	Mercantile Lisbon House
2146	142 West Street
	Sandown
	2196

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

7. Consolidated financial statements

Consolidated financial statements have not been presented as the Company is wholly owned by MLBH, which is a company incorporated in the Republic of South Africa.

Directors' report
for the year ended 31 December 2004 (continued)

8. Recapitalisation

After assuming control of MLBH in March 2002, through the injection of R120 million of new capital by way of a specific issue of shares for cash, CGD gave an undertaking to the South African Reserve Bank and the directors of MLBH that they would safeguard the financial soundness and the stability of MLBH, including the maintenance of the capital adequacy ratio of the Company at the statutory level prescribed by the Registrar of Banks.

In the performance of that undertaking, CGD issued the following guarantees in favour of the Bank:

- a guarantee of R265 million in July 2002, to cover the repayment of certain non-performing loans, which allowed the Company to release provisions for credit losses of the same amount;
- a guarantee of R45 million in April 2003, to cover potential losses on certain accounts, for the financial period ended December 2002; and
- two guarantees totalling a face value of R22 million in May 2003, in respect of certain single name promissory notes.

A condition of the recapitalisation of the Company was the release of the guarantees. This release resulted in an increase in impairments and write-offs amounting to R172.7 million.

CGD also agreed to provide a subordinated loan facility of R60 million to MLBH, primarily to extend, on the same terms and conditions, a subordinated loan facility to the Company. This facility was implemented in June 2004 after the approval of the Registrar of Banks was obtained, and was repaid, including interest, after concluding the rights offer.

9. Litigation

Three previous employees of the Company have lodged a claim against the Company in an amount of approximately R26 million. The directors are of the opinion, based on advice from legal counsel that the claim is unlikely to succeed.

10. Going concern

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

11. Special resolutions

No special resolutions were passed during the year under review.

12. Post balance sheet events

No material events have occurred subsequent to 31 December 2004.

Accounting policies for the year ended 31 December 2004

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

1. Basis of presentation

The financial statements are prepared in accordance with South African statements of Generally Accepted Accounting Practice. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial assets, liabilities and property. The principle accounting policies adopted in the preparation of these financial statements are consistent, in all material respects, with those applied the previous year.

2. Recognition of assets and liabilities

2.1 Assets

The Company 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 Company.

2.2 Liabilities

The Company 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.

2.3 Contingent liabilities

The Company 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 Company, or it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

3. Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company 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.

3.1 Derivative financial instruments

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

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

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

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

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

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

3.2 Financial assets

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held by the Company with the South African Reserve Bank, domestic banks and foreign banks as well as resale agreements.

Accounting policies for the year ended 31 December 2004 (continued)

3. Financial instruments (continued)

3.2 Financial assets (continued)

Investments

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

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

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

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

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

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

Loans and advances

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

Both specific and portfolio impairments raised during the year, less recoveries of advances previously written-off, are charged to the income statement.

Other accounts receivable

Other accounts receivable comprise loans to/(from) fellow subsidiaries, associates and joint ventures, items in transit, prepayments and deposits, properties in possession and other receivables. These financial assets have been designated as originated loans and receivables and are measured at amortised cost.

3.3 Financial liabilities

The Company's financial liabilities are long-term liabilities, deposits and other accounts payable consisting of accruals, product related credits and sundry creditors. All financial liabilities, other than liabilities held-for-trading purposes and derivative instruments, are measured at amortised cost. Financial liabilities held-for-trading purposes and derivative instruments are measured at fair value, and the resultant gains and losses are included in income.

3.4 Fair value estimation

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

Accounting policies
for the year ended 31 December 2004 (continued)

3. Financial instruments (continued)

3.4 Fair value estimation (continued)

In assessing the fair value of non-traded derivatives and other financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risk 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 discount value of future cash flows, replacement cost and termination cost, are used to determine fair value for all remaining financial instruments.

3.5 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. Foreign currency transactions

Transactions in foreign currencies are converted to South African Rand at the spot rate on the transaction date. Monetary assets, liabilities and commitments in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year-end. Realised profits and losses on foreign exchange are included in income.

5. Subsidiaries

Investments in subsidiaries are designated as available-for-sale and recognised at fair value. Fair value is determined as the net tangible asset value. All gains and losses on the sale of subsidiaries are recognised in the income statement.

6. Associated companies

Associated companies are those companies in which the Company holds a long-term interest, exercises significant influence over their financial and operating policies and holds not less than a 20% 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 at fair value and are classified as available for sale investments, with the resultant gain or loss being recognised in equity until disposal or found to be impaired. 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.

7. Joint ventures

The Company's interest in a jointly controlled entity is accounted for by the equity method of accounting. Equity accounting involves recognising in income, the Company's share of the joint venture's profit or loss for the year. The Company's interest in the joint venture is carried in the balance sheet at an amount that reflects its share of the net assets of the joint venture.

8. Property and equipment

8.1 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. The open-market fair value is based on the open market net rentals for each property. Independent registered professional valuators perform revaluations annually. 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.

Accounting policies for the year ended 31 December 2004 (continued)

8. Property and equipment (continued)

8.1 Owner-occupied properties (continued)

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.

8.2 Equipment

All equipment is stated at historical cost less accumulated depreciation. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written-down immediately to its estimated recoverable amount. Depreciation is calculated on the straight-line method to write-down the cost of equipment to their residual value over their estimated useful lives. Leasehold improvements are written-off on a straight-line basis over the period of the lease.

The estimated useful lives are as follows:

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

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken to income.

9. Intangible assets

Expenditure on acquired software and computer system development costs are capitalised and amortised once the system is in use. Amortisation is charged on a straight-line basis over the expected useful life of the system, which is usually between three and five years. Intangible assets are not re-valued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where considered necessary.

10 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

11. Deferred income taxes

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

12. Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements ("repos") are reflected in the financial statements as 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. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

Accounting policies
for the year ended 31 December 2004 (continued)

13. Leases and instalment credit agreements

Leases and instalment credit agreements are regarded as financing transactions. Rentals and instalments receivable thereunder, less unearned finance charges, are included under advances. Finance charges earned are computed at the effective rate of interest inherent in the contracts and are brought to income in proportion to capital balances outstanding under each contract.

14. Assets held under financial lease obligations

Assets held under financial leases are capitalised at the present value of contractual lease payments. The capitalised amount of the leased asset is depreciated over its expected useful life and the lease charges are allocated to accounting periods during the lease term so as to result in a finance charge and a reduction of the financial lease liability over the period of the lease.

15. Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest rate method based on the capital amounts outstanding. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

16. Fee and commission income

Fees and commissions are recognised on an accrual basis.

17. Pension fund

The Company operates a defined contribution fund, the assets of which are held in a separate trustee-administered fund. The Pension Fund is funded by payments from employees and by the Company. Company contributions to the Fund are based on a percentage of the payroll and are charged to the income statement as incurred.

18. Post-retirement medical benefits

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

19. General risk reserve

As recommended by the Banking Council of South Africa in their position paper on reporting on regulatory provisioning within the requirements of AC 133 and circular 21 of 2004 issued by the South African Reserve Bank, a general risk reserve has been recognised within Shareholder's equity. The reserve recognised by the Company comprises the difference between the impairments calculated in terms of AC 133 and the requirements of the Company's provisioning policy, which is more prudent than the statutory minimum provision requirements prescribed.

Balance sheet at 31 December 2004

	Notes	2004 R'000	2003 R'000
ASSETS			
Intangible assets	1	6,801	12,711
Property and equipment	2	23,558	25,062
Other accounts receivable	3	51,085	90,005
Interest in subsidiaries	4	59,374	56,208
Other investments	5	6,129	6,401
Loans and advances	6	975,611	1,178,788
Derivative financial instruments	7	90,162	7,610
Negotiable securities	8	370,279	273,090
Cash and cash equivalents	9	1,148,861	574,930
Total assets		2,731,860	2,224,805
EQUITY AND LIABILITIES			
Shareholder's equity		515,579	171,965
Share capital and share premium	10	1,483,300	929,687
General reserve		12,231	12,231
Property revaluation reserve		95	105
Available-for-sale reserve		4,278	4,731
General risk reserve		31,668	31,212
Accumulated loss		(1,015,993)	(806,001)
Liabilities		2,216,281	2,052,840
Long-term liabilities	11	–	5,287
Deposits	12	2,115,518	1,948,617
Derivative financial instruments	7	35,210	32,115
Provisions	13	28,869	30,400
Other accounts payable	15	36,640	36,377
Taxation		44	44
Total equity and liabilities		2,731,860	2,224,805

Income statement
for the year ended 31 December 2004

	Notes	2004 R'000	2003 R'000
Interest income	18	197,907	232,683
Interest expenditure	19	(107,112)	(161,459)
Net interest income before credit losses		90,795	71,224
Net (charge for)/recovery of credit losses	6	(3,555)	19,900
Net income after credit losses		87,240	91,124
Net profit on disposal of investments		–	720
Non-interest income	20	94,458	90,459
Net interest and non-interest income		181,698	182,303
Operating expenditure	21	(218,505)	(238,572)
Loss before taxation and exceptional item		(36,807)	(56,269)
Impairments and provisions raised and write-off on release of CGD guarantee	6	(172,729)	–
Loss before taxation		(209,536)	(56,269)
Taxation	22	–	–
Attributable loss after taxation		(209,536)	(56,269)

Cash flow statement
for the year ended 31 December 2004

	Notes	2004 R'000	2003 R'000
Operating activities			
Cash receipts from customers	23.1	307,021	327,109
Less: Cash paid to suppliers and employees	23.2	(310,047)	(383,508)
Dividends received		762	2,583
Taxation paid	23.3	–	(171)
Net cash outflow from operating activities		(2,264)	(53,987)
Changes in banking activities			
Net (increase)/decrease in income earning assets	23.4	(38,699)	84,476
Net increase in deposits and other accounts	23.5	79,728	102,630
Net cash inflow from banking activities		41,029	187,106
Investing activities			
Purchase of property, equipment and intangible assets		(9,325)	(7,738)
Proceeds on sale of property, equipment and intangible assets		84	411
Purchase of investments		–	(543)
Proceeds on disposal of investments		–	2,199
Increase in loans with subsidiary companies		(3,463)	(3,143)
Net cash outflow from investing activities		(12,704)	(8,814)
Financing activities			
Proceeds on issue of ordinary share		555,000	–
Share issue cost		(1,387)	–
Finance lease payments		(5,743)	(3,857)
Net cash inflow/(outflow) from financing activities		547,870	(3,857)
Net cash inflow for year		573,931	120,448
Cash and cash equivalents at beginning of year		574,930	454,482
Cash and cash equivalents at end of year	9	1,148,861	574,930

Statement of changes in equity
for the year ended 31 December 2004

	Share capital R'000	Share premium R'000	General reserve R'000	Property revaluation reserve R'000	Available for-sale reserve R'000	General risk reserve R'000	Accumu-lated loss R'000	Total R'000
Shareholder's equity at 31 December 2002	**124,969**	**804,718**	**12,231**	**105**	**–**	**–**	**(748,914)**	**193,109**
Transitional adjustments on adoption of AC 133	–	–	–	–	(2,148)	28,811	1,583	28,246
Shareholder's equity restated at 1 January 2003	**124,969**	**804,718**	**12,231**	**105**	**(2,148)**	**28,811**	**(747,331)**	**221,355**
Gains and losses on remeasurement to fair value	–	–	–	–	6,599	–	–	6,599
Release to income on disposal of available-for-sale financial assets	–	–	–	–	280	–	–	280
Increase in general risk reserve	–	–	–	–	–	2,401	(2,401)	–
Loss after taxation	–	–	–	–	–	–	(56,269)	(56,269)
Shareholder's equity at 31 December 2003	**124,969**	**804,718**	**12,231**	**105**	**4,731**	**31,212**	**(806,001)**	**171,965**
Share capital issued	–	555,000	–	–	–	–	–	555,000
Share issue costs written-off against share premium	–	(1,387)	–	–	–	–	–	(1,387)
Gains and losses on remeasurement to fair value	–	–	–	–	(453)	–	–	(453)
Increase in general risk reserve	–	–	–	–	–	456	(456)	–
Revaluation of property	–	–	–	(10)	–	–	–	(10)
Loss after taxation	–	–	–	–	–	–	(209,536)	(209,536)
Shareholder's equity at 31 December 2004	**124,969**	**1,358,331**	**12,231**	**95**	**4,278**	**31,668**	**(1,015,993)**	**515,579**

Notes to the financial statements for the year ended 31 December 2004

1. Intangible assets

	Computer Software	
	2004	2003
	R'000	R'000
Cost at beginning of year	**38,310**	34,039
Additions	**741**	4,271
Cost at end of year	**39,051**	38,310
Accumulated amortisation and impairment losses at beginning of year	**(25,599)**	(19,343)
Amortisation	**(6,651)**	(6,256)
Accumulated amortisation and impairment losses at end of year	**(32,250)**	(25,599)
Net carrying amount at end of year	**6,801**	12,711

2. 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
2004							
Open market value/cost at beginning of year	200	15,493	37,184	8,422	17,189	770	79,258
Revaluations	(10)	–	–	–	–	–	(10)
Additions	–	134	7,975	35	440	–	8,584
Disposals	–	(59)	(4,122)	(256)	(169)	(48)	(4,654)
Open market value/cost at end of year	**190**	**15,568**	**41,037**	**8,201**	**17,460**	**722**	**83,178**
Accumulated depreciation and impairment losses at beginning of year	–	(10,988)	(25,877)	(5,712)	(11,033)	(586)	(54,196)
Depreciation	–	(1,380)	(7,366)	(695)	(1,185)	(48)	(10,674)
Reversal of impairments	–	–	161	285	260	–	706
Disposals	–	44	4,105	213	134	48	4,544
Accumulated depreciation and impairment losses at end of year	**–**	**(12,324)**	**(28,977)**	**(5,909)**	**(11,824)**	**(586)**	**(59,620)**
Net carrying amount at end of year	**190**	**3,244**	**12,060**	**2,292**	**5,636**	**136**	**23,558**

Notes to the financial statements for the year ended 31 December 2004 (continued)

2. Property and equipment (continued)

	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
2003							
Open market value/cost at beginning of year	200	15,636	35,500	8,164	16,878	1,215	77,593
Additions	–	996	1,704	258	311	198	3,467
Disposals	–	(1,139)	(20)	–	–	(643)	(1,802)
Open market value/cost at end of year	**200**	**15,493**	**37,184**	**8,422**	**17,189**	**770**	**79,258**
Accumulated depreciation and impairment losses at beginning of year	–	(9,601)	(19,176)	(5,041)	(9,928)	(895)	(44,641)
Depreciation	–	(2,018)	(6,775)	(686)	(1,154)	(67)	(10,700)
Reversal of Impairments	–	–	54	15	49	–	118
Disposals	–	631	20	–	–	376	1,027
Accumulated depreciation and impairment losses at end of year	**–**	**(10,988)**	**(25,877)**	**(5,712)**	**(11,033)**	**(586)**	**(54,196)**
Net carrying amount at end of year	**200**	**4,505**	**11,307**	**2,710**	**6,156**	**184**	**25,062**

Notes:

1. The owner-occupied property comprises stand 624 Malvern, Johannesburg, with a building thereon. Mr G J Van Zyl, a valuator with Van Zyl Valuers and a Member of The Institute of Valuers of South Africa, independently valued the property at 31 December 2004.
2. During 2003 certain lease terms were extended for a shorter term than previously anticipated the leasehold improvements were depreciated over the shorter term resulting in an increased depreciation charge of R0.8 million.
3. At 31 December 2003, the carrying amount of the Company's computer equipment included an amount of R6,0 million in respect of assets held under a financial lease agreement. This lease was settled during the financial year ended 31 December 2004 (refer to Note 11).

3. Other accounts receivable

	2004 R'000	2003 R'000
Items in transit	**4,675**	51,434
Loans to fellow subsidiaries and holding company (refer to Note 25.2)	**19,159**	10,730
Prepayments and deposits	**11,155**	16,416
Properties in possession	**203**	3,367
Other receivables	**15,893**	8,058
	51,085	90,005

Notes to the financial statements for the year ended 31 December 2004 (continued)

4. Interest in subsidiaries

	2004 R'000	2003 R'000
Unlisted		
Shares at fair value	**9,948**	9,839
Loans (refer to Note 25.2)	**49,426**	46,369
	59,374	56,208

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

5. Other investments

Available-for-sale

	2004 R'000	2003 R'000
Unlisted – associated company	**3,236**	3,236
– other	**2,893**	3,165
	6,129	6,401
Directors' valuation of unlisted investments	**6,129**	6,401

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

6. Loans and advances

Category analysis

	2004 R'000	2003 R'000
Originated	**1,275,068**	1,481,909
Current accounts	**235,574**	410,606
Credit card	**136,674**	136,780
Mortgage loans	**344,495**	303,649
Instalment sales and leases	**153,008**	127,787
Preference share	**–**	1,498
Foreign loans and deposits	**–**	45,590
Other advances	**405,317**	455,999
Held-for-trading		
Other advances	**136,342**	136,193
	1,411,410	1,618,102
Less: Impairment for credit losses	**(294,264)**	(297,874)
Interest in suspense	**(141,535)**	(141,440)
	975,611	1,178,788

Maturity analysis

	2004 R'000	2003 R'000
Repayable on demand	**605,769**	1,058,768
Maturing within six months	**69,089**	36,891
Maturing after six months but within 12 months	**61,850**	34,070
Maturing after 12 months	**674,702**	488,373
	1,411,410	1,618,102

Notes to the financial statements for the year ended 31 December 2004 (continued)

6. Loans and advances (continued)

	2004 R'000	2003 R'000
Impairment for credit losses		
Balance at beginning of year	297,874	372,521
Movements for the year:		
Transitional adjustments	–	(28,811)
Transfer from investments	–	36
Transfer to provision for other risks (refer to Note 13)	–	(11,510)
Credit losses written-off	(154,363)	(30,694)
Net impairments raised/(released)	150,753	(3,668)
Impairments raised on release of CGD guarantee	134,846	–
Other net impairments raised/(released)	15,907	(3,668)
Balance at end of year	294,264	297,874
Comprising:		
Portfolio impairment	5,439	3,079
Specific impairment	288,825	294,795
	294,264	297,874
Impairments and provisions raised and write-off on release of CGD guarantee		
Net impairments raised	(134,846)	–
Net provisions raised	(2,927)	–
Write-off of suspense account	(34,956)	–
	(172,729)	–
Net (charge for)/recovery of credit losses		
Net impairments (raised)/released	(15,907)	3,668
Recoveries in respect of amounts previously written off	7,502	8,756
Release of other credit risk related provisions	4,850	7,476
	(3,555)	19,900

Non-performing loans

	Balance after interest in suspense R'000	Specific impairment R'000	Net balance R'000
2004			
Category analysis			
Current accounts	1,833	1,537	296
Credit card	76,514	70,138	6,376
Mortgage loans	35,175	12,750	22,425
Instalment sales and leases	62,611	53,774	8,837
Preference share	–	–	–
Other advances	181,259	150,626	30,633
Balance at 31 December 2004	357,392	288,825	68,567

Notes to the financial statements for the year ended 31 December 2004 (continued)

6. Loans and advances (continued)

Non-performing loans (continued)

	Balance after interest in suspense R'000	Specific impairment R'000	Net balance R'000
2003			
Category analysis			
Current accounts	13,403	6,206	7,197
Credit card	80,027	69,877	10,150
Mortgage loans	49,280	13,815	35,465
Instalment sales and leases	63,491	49,073	14,418
Preference share	1,499	197	1,302
Other advances	334,329	155,627	178,702
Balance at 31 December 2003	542,029	294,795	247,234

7. Derivatives financial instruments

	Notional principal R'000	Fair value of assets R'000	Notional principal R'000	Fair value of liabilities R'000
2004				
Held-for-trading				
Foreign exchange contracts	**1,018,421**	**89,970**	**214,869**	**3,183**
Interest rate swaps	**150,000**	**192**	**256,864**	**32,027**
	1,168,421	**90,162**	**471,733**	**35,210**
2003				
Held-for-trading				
Foreign exchange contracts	206,299	7,610	234,909	9,756
Interest rate swaps	–	–	108,391	22,359
	206,299	7,610	343,300	32,115

Notes to the financial statements for the year ended 31 December 2004 (continued)

8. Negotiable securities

	2004 R'000	2003 R'000
Originated		
Treasury bills	**178,660**	257,718
Debentures	**30,104**	15,204
Non-liquid bills and acceptances	**83**	168
Held for trading		
Corporate bonds	**161,432**	–
	370,279	273,090
Maturity analysis		
Repayable on demand	–	149,146
Maturing within six months	**208,847**	123,944
Maturing after 12 months but within five years	**161,432**	–
	370,279	273,090

9. Cash and cash equivalents

	2004 R'000	2003 R'000
Cash and bank notes	**18,792**	25,641
Central Bank balances	**33,336**	32,422
Domestic bank balances	**88,206**	73,175
Resale agreements	–	361,602
Foreign bank balances	**1,008,527**	82,090
	1,148,861	574,930

10. Share capital and share premium

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
At 31 December 2002 and 31 December 2003	62,484,352	124,969	804,718	929,687
Issue of 1 ordinary share of R2	1	–	555,000	555,000
Stamp duty on issue of share	–	–	(1,387)	(1,387)
At 31 December 2004	**62,484,353**	**124,969**	**1,358,331**	**1,483,300**

Notes:

1. The total authorised number of ordinary shares is 62,630,000 shares (December 2003: 62,630,000 shares) with a par value of R2.00 per share.
2. No shares were issued during the financial year ended 31 December 2003.
3. The non-issued shares are under the control of the directors until the next annual general meeting.

Notes to the financial statements for the year ended 31 December 2004 (continued)

11. Long-term liabilities

	2004 R'000	2003 R'000
Finance Lease – IBM Global Financing S.A.		
Total outstanding lease commitment	–	5,786
Future finance charges	–	(499)
	–	5,287

The finance lease beared interest at a fixed rate of 11.4% per annum and was secured over computer equipment with a carrying value of R6.0 million at 31 December 2003. The lease repayments of R964,376 were payable quarterly in advance. The finance lease was settled during the financial year ended 31 December 2004. The current portion of the loan at 31 December 2003 was R2.6 million

12. Deposits

	2004 R'000	2003 R'000
Call deposits and current accounts	755,897	679,885
Savings accounts	140,949	133,198
Term and notice deposits	1,133,009	996,628
Negotiable certificates of deposit	35,708	78,396
Foreign bank deposits and loans	49,955	60,510
	2,115,518	1,948,617
Maturity analysis		
Repayable on demand and within one month	1,165,980	1,137,219
Maturing after one month but within six months	822,164	743,989
Maturing after six months but within 12 months	127,374	66,370
Maturing after 12 months	–	1,039
	2,115,518	1,948,617

Notes to the financial statements for the year ended 31 December 2004 (continued)

13. Provisions

	Post–retirement medical benefits R'000	Leave pay R'000	Other risks R'000	Total R'000
At 31 December 2002	**11,231**	**8,268**	**879**	**20,378**
Amount previously accounted for under provisions for credit risk (refer to Note 6)	–	–	11,510	11,510
Additional provision raised	3,136	6,361	151	9,648
Charged to provision	–	(4,062)	–	(4,062)
Unutilised provision reversed	–	(2,131)	(4,943)	(7,074)
At 31 December 2003	**14,367**	**8,436**	**7,597**	**30,400**
Additional provision raised	1,582	4,812	291	6,685
Charged to provision	–	(5,206)	(410)	(5,616)
Unutilised provision reversed	–	–	(2,600)	(2,600)
At 31 December 2004	**15,949**	**8,042**	**4,878**	**28,869**

Post-retirement medical benefits

Refer to Note 14 for detailed disclosure of this provision.

Leave pay

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

Other risks

Consists of provisions for contingent liabilities that arose from the sale of the asset finance book, legal claims and other risks. At any time there are legal or potential claims made against the Company, the outcome of which cannot at present be forseen. 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 2004 (continued)

14. Post-retirement medical benefits

The Company operates a partly funded post-retirement medical scheme. The assets of the funded plan are held independently of the Company's assets in a separate-trustee administered fund. Independent actuaries value this scheme at least every three years.

The latest actuarial valuations were carried out at 31 December 2004.

	2004 R'000	2003 R'000
The amounts recognised in the balance sheet are as follows (refer to Note 13):		
Present value of total service liabilities	26,257	24,129
Fair value of plan assets	(10,308)	(10,656)
Unrecognised actuarial gains	–	894
Liability in the balance sheet	15,949	14,367
The amounts recognised in the income statement are as follows:		
Current service cost	1,020	1,301
Interest costs	2,240	2,580
Expected return on plan assets	(986)	(1,257)
Actuarial (gain)/loss	(144)	912
Employer benefit payments	(1,088)	(940)
Payments from plan assets	540	540
Total included in staff costs	1,582	3,136
Reconciliation of the movement in the net liability:		
At the beginning of year	14,367	11,231
Current service cost	1,020	1,301
Interest costs	2,240	2,580
Expected return on plan assets	(986)	(1,257)
Actuarial (gain)/loss	(144)	912
Employer benefit payments	(1,088)	(940)
Payments from plan assets	540	540
At the end of year	15,949	14,367

The principle actuarial assumptions used were as follows:

Discount rate	9.5% (2003: 10%) compounded annually
Investment return	9.5% (2003: 10%) compounded annually
Rate of medical inflation	7.5% (2003: 8%) compounded annually

15. Other accounts payable

	2004 R'000	2003 R'000
Accruals	11,325	6,631
Loans from fellow subsidiaries (refer to Note 25.2)	196	1,514
Product-related credits	17,848	18,665
Sundry creditors	7,271	9,567
	36,640	36,377

Notes to the financial statements for the year ended 31 December 2004 (continued)

16. Contingent liabilities and commitments

16.1 Guarantees, letters of credit and irrevocable unutilised facilities

	2004 R'000	2003 R'000
Guarantees	135,102	114,352
Letters of credit	3,368	4,774
Irrevocable unutilised facilities	232,597	215,311

16.2 Conditional buy-back obligation

In terms of the sale agreement, wherein the Company disposed of its asset finance book, the Company has an obligation to buy-back the credit agreement rights and obligations of customers that fail to meet their repayments. The capital balance, outstanding on this book at the year-end, was R42.7 million (December 2003: R116.0 million). An amount of R4.0 million, included in provisions for other risks (refer to Note 13), has been provided against this obligation (December 2003: R6.6 million).

16.3 Commitments under operating leases

	2004 R'000	2003 R'000
The total minimum future lease payments under operating leases are as follows:		
Property rentals		
Due within one year	4,946	4,660
Due between one and five years	5,305	6,997
	10,251	11,657
Motor vehicle rentals		
Due within one year	245	983
Due between one and five years	123	613
	368	1,596

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.

17. Deferred taxation

A deferred tax asset has not been recognised for the deductible temporary differences and unutilised calculated tax losses of R1,045.0 million (December 2003: R836.5 million) due to the recent history of tax losses and the absence of future taxable temporary differences.

Notes to the financial statements for the year ended 31 December 2004 (continued)

18. Interest income

	2004 R'000	2003 R'000
Interest on:		
Cash and cash equivalents	57,196	41,614
Negotiable securities	21,747	23,828
Loans and advances	118,964	167,241
Originated	108,234	152,215
Held-for-trading	10,730	15,026
	197,907	232,683

19. Interest expenditure

Interest on:		
Long-term liabilities	456	809
Deposits	104,711	160,650
Subordinated loan from Mercantile Lisbon Bank Holdings Limited	1,945	–
	107,112	161,459

20. Non-interest income

Transactional income	77,214	69,158
Fees and commission	74,851	67,055
Knowledge-based fees	2,363	2,103
Trading income	16,354	18,718
Foreign currency	18,706	15,305
Treasury operational (loss)/profit	(2,352)	3,413
Investment income – dividends	762	2,583
Associated company	273	544
Other	489	2,039
Other income	128	–
	94,458	90,459

Notes to the financial statements for the year ended 31 December 2004 (continued)

21. Operating expenditure

	2004 R'000	2003 R'000
Auditors' remuneration		
Audit fees – current	**4,000**	3,090
– prior	**1,200**	–
Fees for other services	**3,202**	4,958
	8,402	8,048
Professional fees		
Consulting	**5,818**	10,553
Collection	**6,701**	15,857
Legal	**2,183**	842
Technical and other	**16,335**	9,600
	31,037	36,852
Depreciation and amortisation (refer to Notes 1 and 2)	**17,325**	16,956
Lease charges		
Motor vehicles	**624**	1,492
Equipment	**200**	260
	824	1,752
Staff costs		
Salaries, wages and allowances	**87,973**	86,847
Post-retirement medical benefits	**1,582**	3,136
Contributions to defined contribution funds	**5,295**	6,467
Other	**3,501**	2,893
	98,351	99,343
Number of staff (including temporary) at year-end	**434**	430
Impairment and (profit)/loss on sale of equipment and property		
Improvements to leased premises	**15**	432
Computer equipment	**(174)**	(70)
Furniture and fittings	**(262)**	(15)
Office equipment	**(229)**	(49)
Motor vehicles	**(30)**	(52)
	(680)	246
Operating leases expenses – premises	**12,018**	10,670
Marketing and communication	**6,984**	7,417
Directors' emoluments (refer to Note 25.3)		
Executive directors	**4,461**	2,803
Non-executive directors:		
Fees	**1,294**	927
	5,755	3,730

Notes to the financial statements for the year ended 31 December 2004 (continued)

21. Operating expenditure (continued)

	2004 R'000	2003 R'000
Indirect taxation		
Non-claimable value added tax	8,156	6,525
Skills development levy	171	350
Regional Services Council levies	799	817
Total indirect taxation	9,126	7,692
Other operating costs	29,363	45,866
Total operating expenditure	218,505	238,572

22. Taxation

Direct taxation

	2004	2003
South African normal taxation:		
Prior period	–	–
South African tax rate reconciliation		
South African standard tax rate	30,0%	30,0%
Exempt income	(0.4%)	(4.6%)
Non-deductible expenses	1.0%	0.2%
Reversal of allowances	(31.8%)	(30.4%)
Tax losses	1.2%	4.8%
Effective rate of taxation	0.0%	0.0%

As the Company had no taxable income at the year-end, no provision for taxation has been made.

	2004	2003
Estimated tax losses available for set-off against future taxable income	1,044,955	836,554

23. Cash flow details

23.1 Cash receipts from customers

	2004	2003
Interest income	197,907	232,683
Non-interest income and profit/(loss) on sale and revaluation of investments	94,458	91,179
Adjusted for: Dividends received	(762)	(2,583)
Net loss/(profit) on sale and revaluation of investments	–	(720)
Revaluation of held-for-trading financial instruments	7,964	(2,206)
Recoveries of credit losses	7,454	8,756
Total cash receipts from customers	307,021	327,109

23.2 Cash paid to suppliers and employees

	2004	2003
Interest expenditure	(106,656)	(160,650)
Operating expenditure	(218,505)	(238,572)
Adjusted for: Depreciation and amortisation	17,325	16,956
Impairment and loss on sale of property and equipment	(680)	246
Decrease in provisions	(1,531)	(1,488)
Total cash paid to suppliers and employees	(310,047)	(383,508)

Notes to the financial statements for the year ended 31 December 2004 (continued)

23. Cash flow details (continued)

	2004 R'000	2003 R'000
23.3 Taxation paid		
Amounts unpaid at beginning of year	(44)	(215)
Income statement charge	–	–
Less: Amounts unpaid at end of year	44	44
Total taxation paid	–	(171)
23.4 Changes in income earning assets		
Increase in negotiable securities	(97,189)	(117,502)
Decrease in loans and advances	58,490	201,978
Net (increase)/decrease in income earning assets	(38,699)	84,476
23.5 Changes in deposits and other accounts		
Increase in deposits	166,901	25,317
(Decrease)/Increase in other accounts	(87,173)	77,313
Net increase in deposits and other accounts	79,728	102,630

24. Financial risk management

24.1 Foreign currency risk management

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

	US Dollar R'000	Euro R'000	Pound Sterling R'000	Other R'000	Total R'000
2004					
Total foreign exchange assets	958,519	14,001	34,889	1,118	1,008,527
Total foreign exchange liabilities	(12,439)	(5,853)	(30,832)	(831)	(49,955)
Commitments to purchase foreign currency	60,986	26,103	–	1,350	88,439
Commitments to sell foreign currency	(1,010,388)	(34,002)	(4,577)	(2,140)	(1,051,107)
Month-end effective net open foreign currency positions	(3,322)	249	(520)	(503)	(4,096)
2003					
Total foreign exchange assets	78,974	5,761	42,053	1,472	128,260
Total foreign exchange liabilities	(16,647)	(4,309)	(38,895)	(288)	(60,139)
Commitments to purchase foreign currency	71,507	25,192	9,816	3,921	110,436
Commitments to sell foreign currency	(136,851)	(26,751)	(12,439)	(4,791)	(180,832)
Month-end effective net open foreign currency positions	(3,017)	(107)	535	314	(2,275)

Notes to the financial statements for the year ended 31 December 2004 (continued)

24. Financial risk management (continued)

24.1 Foreign currency risk management (continued)

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

	Highest rate		Lowest rate	
Foreign currency	**2004**	2003	**2004**	2003
US Dollar	**6.94**	8.19	**5.58**	6.29
Euro	**8.40**	9.15	**7.71**	7.65
Pound Sterling	**12.20**	12.33	**10.88**	11.11
Swiss Franc	**5.39**	5.76	**5.01**	5.15
Japanese Yen	**0.06**	0.07	**0.06**	0.06
Denmark Kronen	**0.97**	–	**0.96**	–
Hong Kong Dollar	**1.33**	–	**1.27**	–
Australian Dollar	–	5.08	–	5.00

24.2 Credit risk management

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

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

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

Counterparties to derivatives expose the Company to credit-related losses in the event of non-performance. The counterparties to these contracts are financial institutions. The Company 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 Company did not consider there to be any significant concentration of risk, which had not been insured or adequately provided for. There were no material credit exposures in advances made to foreign entities at year-end, except for the deposits with CGD as disclosed in Note 25.

Notes to the financial statements for the year ended 31 December 2004 (continued)

24. Financial risk management (continued)

24.3 Liquidity risk management

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

	Assets R'000	Liabilities R'000	Total mismatch R'000
2004			
Maturing up to one month	**1,327,820**	**1,232,284**	**95,536**
Maturing between one and three months	**541,329**	**575,901**	**(34,572)**
Maturing between three and six months	**192,691**	**249,092**	**(56,401)**
Maturing between six months and one year	**103,583**	**130,005**	**(26,422)**
Maturing after one year	**566,437**	**544,578**	**21,859**
	2,731,860	**2,731,860**	**–**
2003			
Maturing up to one month	1,674,303	1,204,288	470,015
Maturing between one and three months	136,910	607,649	(470,739)
Maturing between three and six months	78,121	138,565	(60,444)
Maturing between six months and one year	69,827	69,108	719
Maturing after one year	265,644	205,195	60,449
	2,224,805	2,224,805	–

24.4 Fair value of financial instruments

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

Notes to the financial statements for the year ended 31 December 2004 (continued)

24. Financial risk management (continued)

24.5 Interest rate risk management

The Company takes on exposures that are subject to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Mismatches of interest rate re-pricing are monitored regularly by ALCO. The table below summarises the Company's exposure to interest rate risks. Assets and liabilities are included at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates and also indicate their weighted 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	Weighted effective interest rate %
2004								
Assets								
Intangible assets	–	–	–	–	–	6,801	6,801	
Property and equipment	–	–	–	–	–	23,558	23,558	
Other accounts receivable	7,618	–	–	–	–	43,467	51,085	1.07
Interest in subsidiaries	–	–	–	–	–	59,374	59,374	
Other investments	–	–	–	–	–	6,129	6,129	
Loans and advances	793,491	1,991	8,436	67,074	32,753	71,866	975,611	7.48
Derivative financial instruments	–	–	–	–	–	90,162	90,162	
Negotiable securities	143,329	65,435	–	–	161,432	83	370,279	7.40
Cash and cash equivalents	96,505	508,769	494,024	–	–	49,563	1,148,861	6.98
Total assets	1,040,943	576,195	502,460	67,074	194,185	351,003	2,731,860	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	515,579	515,579	
Deposits	1,061,151	410,716	373,736	–	–	269,915	2115,518	4.90
Derivative financial instruments	–	–	–	–	–	35,210	35,210	
Provisions	–	–	–	–	–	28,869	28,869	
Other accounts payable	–	–	–	–	–	36,640	36,640	
Taxation	–	–	–	–	–	44	44	
Total equity and liabilities	1,061,151	410,716	373,736	–	–	886,257	2,731,860	
On balance sheet interest sensitivity gap	(20,208)	165,479	128,724	67,074	194,185			

Notes to the financial statements for the year ended 31 December 2004 (continued)

24. Financial risk management (continued)

24.5 Interest rate risk management (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	Weighted effective interest rate %
2003								
Assets								
Intangible assets	–	–	–	–	–	12,711	12,711	
Property and equipment	–	–	–	–	–	25,062	25,062	
Other accounts receivable	–	–	–	–	–	90,005	90,005	
Interest in subsidiaries	–	–	–	–	–	56,208	56,208	
Other investments	–	–	–	–	–	6,401	6,401	
Loans and advances	812,107	1,528	6,715	59,504	44,025	254,909	1,178,788	9.59
Derivative financial instruments	–	–	–	–	–	7,610	7,610	
Negotiable securities	70,044	148,207	54,671	–	–	168	273,090	8.19
Cash and cash equivalents	301,519	148,265	66,910	–	–	58,236	574,930	6.57
Total assets	1,183,670	298,000	128,296	59,504	44,025	511,310	2,224,805	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	171,965	171,965	
Long-term liabilities	230	417	1,974	2,666	–	–	5,287	11.51
Deposits	947,160	516,087	215,167	3,882	–	266,321	1,948,617	6.88
Derivative financial instruments	–	–	–	–	–	32,115	32,115	
Provisions	–	–	–	–	–	30,400	30,400	
Other accounts payable	–	–	–	–	–	36,377	36,377	
Taxation	–	–	–	–	–	44	44	
Total equity and liabilities	947,390	516,504	217,141	6,548	–	537,222	2,224,805	
On balance sheet interest sensitivity gap	236,280	(218,504)	(88,845)	52,956	44,025			

Notes to the financial statements for the year ended 31 December 2004 (continued)

25. Related-party information

25.1 Identity of related parties with whom material transactions have occurred

The holding company and ultimate holding company is identified on page 4 in the Directors' report. Material subsidiaries of the Company are identified below. All of these entities and the directors are related parties. There are no other related parties with whom material transactions have taken place, other than as listed below.

25.2 Material related-party balances and transactions

The Company, in the ordinary course of business, enters into various financial services transactions with the ultimate holding company and its subsidiaries, the holding company, fellow subsidiaries, the share incentive trust and the company's subsidiaries. These transactions are governed by terms no less favourable than those arranged with third parties. Loans to subsidiaries, loans to and from fellow subsidiaries and other transactions are detailed hereafter.

	Held %	2004 R'000	2003 R'000
Loans to subsidiaries			
Portion 2 of Lot 8 Sandown (Pty) Ltd	100	**47,369**	44,075
Lisabank Corporate Finance Ltd*	100	**3,219**	3,049
LSM Troyeville Properties (Pty) Ltd	100	**5,507**	5,507
Sertona (Pty) Ltd *	100	**70**	70
Mercantile E-Bureau (Pty) Ltd	50	**–**	–
Less: Provisions held against loan accounts		**(6,739)**	(6,332)
		49,426	46,369
Loans to fellow subsidiaries and holding company			
Mercantile Equipment Trading (Pty) Limited*		**467**	467
Mercantile Finance Limited*		**1,430**	1,421
Mercantile Insurance Brokers (Pty) Limited		**23**	–
Mercantile Lisbon Bank Holdings Limited		**14,524**	8,248
Mercantile Nominees (Pty) Limited		**–**	1
Mercantile Registrars Limited		**8,281**	8,266
Weskor Beleggings (Pty) Limited*		**859**	704
Less: Provisions held against loan accounts		**(6,425)**	(8,377)
		19,159	10,730
Loans from fellow subsidiaries			
Mercantile Administration Trust Company (Pty) Limited		**–**	1,508
Mercantile Nominees (Pty) Limited		**196**	–
Mercantile Insurance Brokers (Pty) Limited		**–**	6
		196	1,514
Loan to Share Incentive Trust		**1,501**	258

*The loans have been subordinated in favour of other creditors of these companies.

Notes to the financial statements for the year ended 31 December 2004 (continued)

25. Related-party information (continued)

25.2 Material related-party balances and transactions (continued)

Other balances and transactions

	2004 R'000	2003 R'000
Caixa Geral de Depósitos – Lisbon	**978,623**	96,829
Nostro accounts	**642**	1,628
Vostro accounts	**(2,996)**	(5,912)
Deposits at CGD	**980,977**	105,882
Deposit at Mercantile Bank Limited	**–**	(4,769)
Caixa Geral de Depósitos – Paris	**274**	871
Nostro accounts	**280**	883
Vostro accounts	**(6)**	(12)
Caixa Geral de Depósitos – London		
Vostro accounts	**(184)**	(17)
Caixa Geral de Depósitos (CGD)	**978,713**	97,683
Banco Comercial e de Investimentos (BCI) – Mozambique	**(38,500)**	(31,882)
Vostro accounts	**(78)**	(87)
Call and notice deposits	**(53,118)**	(31,795)
Deposits at BCI	**14,696**	–
Banco Nacional Ultramarino (BNU)		
Deposit at MBL	**–**	(6,691)
	940,213	59,110

Interest was paid to BCI – Mozambique amounting to R2.9 million (2003: R1.6 million) and CGD amounting to R2.3 million in respect of the above balances during the year. Interest received from CGD in respect of above balances during the year amounted to R2.9 million (2003: R0.1 million).

Guarantees

For guarantees issued by CGD, refer Note 8 in the Director's report. Guarantee fees paid to CGD during the year amounted to Rnil (2003: R0,3 million).

Notes to the financial statements for the year ended 31 December 2004 (continued)

25. Related-party information (continued)

25.3 Director and director-related activities

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

Directors' emoluments

Director	Directors' fees R'000	Salary R'000	Fringe benefits R'000	Pension fund and medical aid contributions R'000	Bonus R'000	Total R'000
2004						
D J Brown	**–**	**1,417**	**–**	**–**	**1,250**	**2,667**
J A S De Andrade Campos	**456**	**–**	**–**	**–**	**–**	**456**
G P De Kock	**236**	**–**	**–**	**–**	**–**	**236**
M J M Figueira	**–**	**872**	**27**	**–**	**200**	**1,099**
L Hyne	**282**	**–**	**–**	**–**	**–**	**282**
A T Ikalafeng	**30**	**–**	**–**	**–**	**–**	**30**
K B Motshabi	**35**	**–**	**–**	**–**	**–**	**35**
J H Real Pereira	**44**	**–**	**–**	**–**	**–**	**44**
A M Osman	**159**	**–**	**–**	**–**	**–**	**159**
R M L de F N Ribas	**52**	**661**	**19**	**15**	**–**	**747**
	1,294	**2,950**	**46**	**15**	**1,450**	**5,755**
2003						
J A S de Andrade Campos	385	–	–	–	–	385
G P de Kock	140	–	–	–	–	140
L Hyne	111	–	–	–	–	111
J H Real Pereira	203	–	–	–	–	203
R M L de F N Ribas	–	1,225	45	26	–	1,296
A M S A Soares	88	–	–	–	–	88
J Soutelo da Silva	–	–	–	–	–	–
R J Symmonds	–	950	–	110	–	1,060
M Tubal Goncalves	–	425	15	7	–	447
	927	2,600	60	143	–	3,730

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. The Company may re-appoint Mr Brown at the expiry of the five-year period provided that agreement is reached on the terms and conditions for his re-appointment.

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

M J M Figueira, Executive Director

Mr Figueira has been seconded to the Company by Caixa Geral de Depositos ("CGD").

Mr Figueira's employment in the Company commenced on 7 May 2004 and it will last for a period of three years. In terms of the service agreement Mr Figueira agreed to perform such duties, functions and services as are assigned to him from time to time by the Board of Directors and which are consistent with his position as Executive Director.

Share options

D J Brown was granted 5,000,000 share options on 5 October 2004 in Mercantile Lisbon Bank Holdings Limited in terms of the approved share option scheme. No other options have been granted to directors during the current or prior year to purchase ordinary shares in Mercantile Lisbon Bank Holdings Limited.

Capital adequacy statement at 31 December 2004

	Risk weighting	Average assets 31 December 2004 R'000	Risk-weighted assets 31 December 2004 R'000	Risk-weighted assets 31 December 2003 R'000
Banking book				
Cash, off-balance sheet activities and central government transactions	0%	1,660,897	–	–
Letters of credit and other bank advances	20%	124,353	24,871	99,922
Residential mortgage loans and performance-related guarantees	50%	331,772	165,886	138,904
Other assets including counterparty risk exposure	100%	1,038,609	1,038,609	978,064
Large exposure impairment	100%	–	–	93,502
Other regulatory impairments	0%	15,990	–	–
		3,171,621	1,229,366	1,310,392
Primary capital			1,495,530	941,918
Secondary capital			17,553	18,799
Impairments			(1,030,723)	(806,001)
Net qualifying capital			482,360	154,716
Capital adequacy ratio (%)			39.2	11.8
Primary capital (%)			37.8	10.4
Secondary capital (%)			1.4	1.4

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