Mercantile Bank
Member of CGD Group
Mercantile Bank Limited Reg. No. 1965/006706/06
An Authorised Financial Services Provider

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Directors' responsibility

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

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 annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and incorporate responsible disclosures in line with the accounting policies of the Company. The annual financial statements are based on appropriate accounting policies consistently applied, except as otherwise stated and supported by reasonable and prudent judgements and estimates. The directors believe that the 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 annual financial statements, set out on pages 4 to 41, have been approved by the Board and are signed on their behalf by:

J A S de Andrade Campos
Chairman

21 February 2006

D J Brown
Chief Executive Officer

21 February 2006

Certificate from the Company Secretary

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

F Vicente Coelho
Company Secretary

21 February 2006

Report of the independent auditors

To the members of Mercantile Bank Limited

We have audited the annual financial statements of Mercantile Bank Limited set out on pages 4 to 41, for the year ended 31 December 2005. These annual financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these annual financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

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

Deloitte & Touche

Chartered Accountants (SA)
Registered Accountants and Auditors

Johannesburg
21 February 2006

Directors' report for the year ended 31 December 2005

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

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 Bank Holdings Limited ("MBH"), 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 41 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. The authorised and issued share capital of the Company is detailed in note 10 to the annual financial statements.

5. Dividends

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

6. Directors, Company Secretary and registered addresses

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

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

Appointments during the period under review:

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

There were no resignations during the period under review.

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

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

Change of Company Secretary

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

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

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

7. Consolidated annual financial statements

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

8. Litigation

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

9. Going concern

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

10. Special resolutions

No special resolutions were passed during the year under review.

11. Post balance sheet events

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

Accounting policies
for the year ended 31 December 2005

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

1. Basis of presentation

The annual financial statements have been prepared for the first time in accordance with International Financial Reporting Standards ("IFRS"), using the historical cost convention as modified by the revaluation of certain financial assets, liabilities and properties. The revised IFRS policies have been consistently applied to both years presented, unless otherwise stated. IFRS 1 – First-time Adoption of IFRS, requires full retrospective application of IFRS, except for the requirement to restate comparatives under IAS 32 – Financial Instruments: Disclosure and Presentation, and IAS39 – Financial Instruments: Recognition and Measurement. However, this statement also provides exemptions from retrospective application in certain instances due to cost and practical considerations. The Company's transitional elections are set out below:

Elections applicable 1 January 2004

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

Elections applicable 1 January 2005

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

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.

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

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 liabilities are deemed to be held for trading.

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

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

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

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

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

A derivative's notional principal reflects the volume of the Company'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.

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. These financial assets have been designated as originated loans and are measured at amortised cost.

Investments

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

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

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, and the resultant gains and losses are included in income.

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

3. Financial instruments (continued)

3.2 Financial assets (continued)

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

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

Loans and advances

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

Other accounts receivable

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

3.3 Financial liabilities

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

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 issued by the Company, the current bid price is used as a measure of fair value. In the case of an asset acquired or liability held, the current offer or asking price is used as a measure of fair value. Mid-market prices are used as a measure of fair value where there are matching asset and liability positions.

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

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.

3.6 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.

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

3. Financial instruments (continued)

3.6 Impairments (continued)

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

The Company 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 Company estimates the recoverable amount on a portfolio basis for a group of similar financial assets.

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

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

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

4. Foreign currency transactions

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

5. 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 determined as the net 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 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 Company 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.

7. Property and equipment

7.1 Owner-occupied properties

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

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

7. **Property and equipment** (continued)

7.1 Owner-occupied properties (continued)

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.

7.2 Equipment

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

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

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater 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	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 is recognised in the income statement.

8. **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. Costs that are directly associated with an identifiable and unique system controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

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

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

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

10. Deferred income taxes

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

11. Sale and repurchase agreements and lending of securities

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

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

12. Instalment sales and leases

12.1 The Company as the lessee

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

12.2 The Company 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.

13. Interest income and interest expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company 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.

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

14. 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.

15. Retirement funds

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

16. 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 are 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.

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 Company's contributions to the post-retirement healthcare policy are charged to income in the year to which they relate.

17. Equity compensation plans

Share options in Mercantile Bank Holdings Limited are granted to employees of the Company at the discretion of the Remuneration Committee. The Company has applied the requirements of IFRS 2 to share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were not vested as of 1 January 2005.

The equity-settled share-based payments are measured at fair value at the grant date and expensed on a straight-line basis over the vesting period, based on the Company'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.

18. General credit-risk reserve

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

19. Critical accounting estimates and judgements

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

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

19. Critical accounting estimates and judgements (continued)

19.1 Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Company 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 the Company, or national or local economic conditions that correlate with defaults on assets in the Company. 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.

19.2 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.

19.3 Impairment of available-for-sale equity investments

The Company 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 Company evaluates among other factors, the normal volatility in share price. In addition impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

19.4 Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit 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.

20. Comparative figures

Where necessary, comparative figures have been restated to be consistent with the disclosure in the current year. Details of restatements are provided in Note 26.

21. Recent accounting developments

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

Balance sheet at 31 December 2005

	Notes	2005 R'000	2004 R'000 (restated)
ASSETS			
Intangible assets	1	**7,018**	6,801
Property and equipment	2	**25,764**	23,558
Other accounts receivable	3	**33,765**	50,962
Interest in subsidiaries	4	**65,611**	59,374
Other investments	5	**5,661**	6,129
Loans and advances	6	**1,458,677**	975,611
Derivative financial instruments	7	**36,757**	90,162
Negotiable securities	8	**379,028**	370,279
Cash and cash equivalents	9	**1,408,972**	1,148,861
Total assets		**3,421,253**	2,731,737
EQUITY AND LIABILITIES			
Shareholders' equity		**566,588**	515,456
Share capital and share premium	10	**1,483,300**	1,483,300
General reserve		**12,231**	12,231
Property revaluation reserve		**69**	95
Available-for-sale reserve		**11,786**	4,278
General credit-risk reserve		**10,835**	31,668
Accumulated loss		**(951,633)**	(1,016,116)
Liabilities		**2,854,665**	2,216,281
Deposits	11	**2,639,377**	2,115,518
Derivative financial instruments	7	**38,531**	35,210
Provisions	12	**31,618**	35,269
Other accounts payable	14	**145,139**	30,240
Taxation		**–**	44
Total equity and liabilities		**3,421,253**	2,731,737

Income statement
for the year ended 31 December 2005

	Notes	2005 R'000	2004 R'000 (restated)
Interest income	17	**254,204**	197,907
Interest expenditure	18	**(113,238)**	(107,112)
Net interest income before credit losses		**140,966**	90,795
Net recovery of/(charge for) credit losses	6	**22,182**	(3,555)
Net interest income after credit losses		**163,148**	87,240
Net loss on disposal of investments		**(1,528)**	–
Non-interest income	19	**116,504**	99,212
Net interest and non-interest income		**278,124**	186,452
Operating expenditure	20	**(234,641)**	(223,382)
Profit/(Loss) before taxation and exceptional items		**43,483**	(36,930)
Impairments and provisions raised and write-off on release of CGD guarantee	6	**–**	(172,729)
Recovery of amounts previously written off in respect of the release of the CGD guarantee		**23,119**	–
Profit/(Loss) before taxation		**66,602**	(209,659)
Taxation	21	**–**	–
Attributable profit/(loss) after taxation		**66,602**	(209,659)

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

	Share capital R'000	Share premium R'000	General reserve R'000	Property revaluation reserve R'000	Available for-sale reserve R'000	General credit-risk reserve R'000	Accumulated loss R'000	Total R'000
Shareholders' 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 credit-risk reserve	–	–	–	–	–	456	(456)	–
Revaluation of property	–	–	–	(10)	–	–	–	(10)
Loss after taxation (restated)	–	–	–	–	–	–	(209,659)	(209,659)
Shareholders' equity at 31 December 2004	**124,969**	**1,358,331**	**12,231**	**95**	**4,278**	**31,668**	**(1,016,116)**	**515,456**
Change in accounting policy – IAS 32 and 39 credit-risk impairments	–	–	–	–	–	–	(22,952)	(22,952)
Release of general credit-risk reserve on adoption of IFRS in respect of credit risk impairments	–	–	–	–	–	(22,952)	22,952	–
Gains and losses on remeasurement to fair value	–	–	–	–	5,950	–	–	5,950
Release to income on disposal of available-for-sale financial assets	–	–	–	–	1,558	–	–	1,558
Increase in general credit-risk reserve	–	–	–	–	–	2,119	(2,119)	–
Revaluation of property	–	–	–	(26)	–	–	–	(26)
Profit after taxation	–	–	–	–	–	–	66,602	66,602
Shareholders' equity at 31 December 2005	**124,969**	**1,358,331**	**12,231**	**69**	**11,786**	**10,835**	**(951,633)**	**566,588**

Cash flow statement for the year ended 31 December 2005

	Notes	2005 R'000	2004 R'000 (restated)
Operating activities			
Cash receipts from customers	22.1	403,976	311,775
Cash paid to suppliers and employees	22.2	(334,995)	(314,801)
Dividends received		509	762
Taxation paid	22.3	(44)	–
Net cash inflow/(outflow) from operating activities		69,446	(2,264)
Changes in banking activities			
Net increase in income earning assets	22.4	(505,989)	(38,699)
Net increase in deposits and other accounts	22.5	715,427	79,728
Net cash inflow from banking activities		209,438	41,029
Investing activities			
Purchase of property, equipment and intangible assets		(18,644)	(9,325)
Proceeds on sale of property, equipment and intangible assets		384	84
Proceeds on disposal of investments		900	–
Increase in loans with subsidiary companies		(1,413)	(3,463)
Net cash outflow from investing activities		(18,773)	(12,704)
Financing activities			
Proceeds on issue of ordinary shares		–	555,000
Share issue cost		–	(1,387)
Finance lease payments		–	(5,743)
Net cash inflow from financing activities		–	547,870
Net cash inflow for year		260,111	573,931
Cash and cash equivalents at beginning of year		1,148,861	574,930
Cash and cash equivalents at end of year	9	1,408,972	1,148,861

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

1. Intangible assets

	Computer software	
	2005	2004
	R'000	R'000
Cost at beginning of year	**39,051**	38,310
Additions	**5,015**	741
Cost at end of year	**44,066**	39,051
Accumulated amortisation and impairment losses at beginning of year	**(32,250)**	(25,599)
Amortisation	**(4,798)**	(6,651)
Accumulated amortisation and impairment losses at end of year	**(37,048)**	(32,250)
Net carrying amount at end of year	**7,018**	6,801

2. Property and equipment

	Owner-occupied property R'000	Leasehold Improve-ments R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
2005							
Open market value/cost at beginning of year	190	15,568	61,545	8,201	17,460	722	103,686
Revaluations	(26)	–	–	–	–	–	(26)
Additions	–	3,941	7,968	205	1,515	–	13,629
Disposals	–	(2,343)	(2,451)	(2)	–	(300)	(5,096)
Open market value/cost at end of year	**164**	**17,166**	**67,062**	**8,404**	**18,975**	**422**	**112,193**
Accumulated depreciation and impairment losses at beginning of year	–	(12,324)	(49,485)	(5,909)	(11,824)	(586)	(80,128)
Depreciation	–	(1,432)	(7,477)	(674)	(1,242)	(44)	(10,869)
Reversal of impairments	–	–	–	–	–	–	–
Disposals	–	2,206	2,061	1	–	300	4,568
Accumulated depreciation and impairment losses at end of year	**–**	**(11,550)**	**(54,901)**	**(6,582)**	**(13,066)**	**(330)**	**(86,429)**
Net carrying amount at end of year	**164**	**5,616**	**12,161**	**1,822**	**5,909**	**92**	**25,764**

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

2. Property and equipment (continued)

	Owner-occupied property R'000	Leasehold Improve-ments R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
2004 (restated)							
Open market value/cost at beginning of year	200	15,493	57,692	8,422	17,189	770	99,766
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**	**61,545**	**8,201**	**17,460**	**722**	**103,686**
Accumulated depreciation and impairment losses at beginning of year	–	(10,988)	(46,385)	(5,712)	(11,033)	(586)	(74,704)
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)**	**(49,485)**	**(5,909)**	**(11,824)**	**(586)**	**(80,128)**
Net carrying amount at end of year	**190**	**3,244**	**12,060**	**2,292**	**5,636**	**136**	**23,558**

Note:

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. The property was revalued at 31 December 2005 to the offer to purchase amount received.

3. Other accounts receivable

	2005 R'000	2004 R'000 (restated)
Items in transit	**4,396**	4,675
Loans to fellow subsidiaries and holding company (refer to Note 24.2)	**18,542**	19,036
Prepayments and deposits	**3,692**	11,155
Properties in possession	**–**	203
Other receivables	**7,135**	15,893
	33,765	50,962

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

4. Interest in subsidiaries

	2005 R'000	2004 R'000
Unlisted		
Shares at fair value	**15,202**	9,948
Loans (refer to Note 24.2)	**50,409**	49,426
	65,611	59,374

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

5. Other investments

	2005 R'000	2004 R'000
Available-for-sale		
Unlisted – associated company	**3,323**	3,236
– other	**2,338**	2,893
	5,661	6,129
Directors' valuation of unlisted investments	**5,661**	6,129

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

6. Loans and advances

	2005 R'000	2004 R'000
Category analysis		
Amortised cost	**1,758,930**	1,275,068
Current accounts	**318,177**	235,574
Credit card	**137,638**	136,674
Mortgage loans	**529,247**	344,495
Instalment sales and leases	**209,642**	153,008
Other advances	**564,226**	405,317
Fair value		
Other advances	**129,292**	136,342
	1,888,222	1,411,410
Less: Impairment for credit losses	**(268,665)**	(294,264)
Less: Interest in suspense	**(160,880)**	(141,535)
	1,458,677	975,611
Maturity analysis		
Repayable on demand	**696,215**	605,769
Maturing within six months	**61,884**	69,089
Maturing after six months but within 12 months	**65,798**	61,850
Maturing after 12 months	**1,064,325**	674,702
	1,888,222	1,411,410

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

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

6. Loans and advances (continued)

	2005 R'000	2004 R'000
Impairment for credit losses		
Balance at beginning of year	294,264	297,874
Movements for year:		
Credit losses written-off	(39,826)	(154,363)
Net impairments raised	14,227	150,753
Impairments raised on release of CGD guarantee	–	134,846
Creation of credit-risk impairments on adoption of IFRS	22,952	–
Other net impairments (released)/raised	(8,725)	15,907
Balance at end of year	268,665	294,264
Comprising:		
Portfolio impairment	4,238	5,439
Specific impairment	264,427	288,825
Balance at end of year	268,665	294,264
Net recovery of/(charge for) credit losses		
Net impairments released/(raised)	8,725	(15,907)
Recoveries in respect of amounts previously written off	9,705	7,502
Other credit risk related provisions released	3,752	4,850
	22,182	(3,555)
Exceptional items as per income statement		
Net impairments raised	–	(134,846)
Net provisions raised	–	(2,927)
Write-off of suspense account	–	(34,956)
Recovery of amounts previously written off in respect of the release of the CGD guarantee	23,119	–
	23,119	(172,729)

Non-performing loans

	Balance after interest in suspense R'000	Specific impairment R'000	Net balance R'000
2005			
Category analysis			
Current accounts	1,830	–	1,830
Credit card	67,826	67,579	247
Mortgage loans	28,729	12,182	16,547
Instalment sales and leases	52,355	51,186	1,169
Other advances	145,220	133,480	11,740
Balance at 31 December 2005	295,960	264,427	31,533

Notes to the annual financial statements for the year ended 31 December 2005 (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
2004			
Category analysis			
Current accounts	1,833	1,537	296
Credit cards	76,514	70,138	6,376
Mortgage loans	35,175	12,750	22,425
Instalment sales and leases	62,611	53,774	8,837
Other advances	181,258	150,626	30,632
Balance at 31 December 2004	357,391	288,825	68,566

7. Derivative financial instruments

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

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

8. Negotiable securities

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

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

9. Cash and cash equivalents

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

10. Share capital and share premium

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
At 1 January 2004	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 and 31 December 2005	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 2004: 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 2005.
3. The unissued shares are under the control of the directors until the next annual general meeting.

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

11. Deposits

	2005 R'000	2004 R'000
Call deposits and current accounts	**946,684**	755,897
Savings accounts	**155,853**	140,949
Term and notice deposits	**1,411,088**	1,133,009
Negotiable certificates of deposit	**35,472**	35,708
Foreign bank deposits and loans	**90,280**	49,955
	2,639,377	2,115,518
Maturity analysis		
Repayable on demand and within one month	**1,516,731**	1,165,980
Maturing after one month but within six months	**966,723**	822,164
Maturing after six months but within 12 months	**155,623**	127,374
Maturing after 12 months	**300**	–
	2,639,377	2,115,518

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

12. 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
At 31 December 2003 (restated)	**–**	**1,500**	**14,367**	**8,436**	**–**	**7,597**	**31,900**
Additional provision raised	4,000	2,400	1,582	4,812	–	291	13,085
Charged to provision	–	(1,500)	–	(5,206)	–	(410)	(7,116)
Unutilised provision reversed	–	–	–	–	–	(2,600)	(2,600)
At 31 December 2004 (restated)	**4,000**	**2,400**	**15,949**	**8,042**	**–**	**4,878**	**35,269**
Additional provision raised	9,000	3,244	2,234	2,818	428	3,295	21,019
Charged to provision	(4,000)	(2,400)	(7,769)	(2,949)	–	(577)	(17,695)
Unutilised provision reversed	–	–	–	–	–	(6,975)	(6,975)
At 31 December 2005	**9,000**	**3,244**	**10,414**	**7,911**	**428**	**621**	**31,618**

Post-retirement medical benefits

Refer to Note 13 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 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 annual financial statements for the year ended 31 December 2005 (continued)

13. Post-retirement medical benefits

The Company operates a partly funded post-retirement medical scheme. The assets of the funded plans 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 2005.

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

	2005 R'000	2004 R'000
The amounts recognised in the balance sheet are as follows (refer Note 12):		
Present value of total service liabilities	16,651	26,257
Fair value of plan assets	(6,237)	(10,308)
Liability in the balance sheet	10,414	15,949
The amounts recognised in the income statement are as follows:		
Current service cost	414	1,020
Interest costs	1,659	2,240
Expected return on Plan Assets	(575)	(986)
Actuarial loss/(gain)	1,736	(144)
Employer benefit payments	(1,085)	(1,088)
Payments from plan assets	540	540
Effect on curtailment	(455)	–
Total included in staff costs	2,234	1,582
Reconciliation of the movement in the net liability:		
At the beginning of year	15,949	14,367
Current service cost	414	1,020
Interest costs	1,659	2,240
Expected return on Plan Assets	(575)	(986)
Actuarial loss/(gain)	1,736	(144)
Employer benefit payments	(1,085)	(1,088)
Payments from plan assets	540	540
Net effect of settlements	(7,769)	–
Payments from plan assets	(455)	–
At the end of year	10,414	15,949

The principle actuarial assumptions used were as follows:

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

14. Accounts payable

	2005	(restated)
Accruals	5,380	4,925
Loans from fellow subsidiaries (refer to note 24.2)	121	196
Loans received under repurchase agreements	109,461	–
Product-related credits	11,606	17,848
Sundry creditors	18,571	7,271
	145,139	30,240

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

15. Contingent liabilities and commitments

	2005 R'000	2004 R'000
15.1 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. An amount of R0,3 million, included in provisions for other risks (refer to Note 12), has been provided against this obligation (December 2004: R4,0 million).		
Capital balance outstanding	7,707	42,685
15.2 Guarantees and letters of credit		
Guarantees	261,763	135,102
Lending related	34,860	37,805
Mortgage	70,173	27,705
Performance	156,730	69,592
Letters of credit	26,058	3,368
	287,821	138,470
15.3 Commitments under operating leases		
The total minimum future lease payments under operating leases are as follows:		
Property rentals:		
Due within one year	3,852	4,946
Due between one and five years	9,721	5,305
	13,573	10,251
Motor vehicle rentals:		
Due within one year	103	245
Due between one and five years	66	123
	169	368

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

16. Deferred taxation

A deferred tax asset has not been recognised for the deductible temporary differences and unutilised calculated tax losses of R0,980 million (December 2004: R1,045 million) due to the uncertainty regarding the timing of the reversal of these losses and availability of future taxable income.

17. Interest income

	2005 R'000	2004 R'000
Interest on:		
Cash and cash equivalents	82,325	57,196
Negotiable securities	27,957	21,747
Loans and advances	143,922	118,964
Amortised cost	134,230	108,234
Fair value	9,692	10,730
	254,204	197,907

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

18. Interest expenditure

	2005 R'000	2004 R'000
Interest on:		
Long-term liabilities	–	456
Deposits	113,238	104,711
Subordinated loan from Mercantile Bank Holdings Limited	–	1,945
	113,238	107,112

19. Non-interest income

		(restated)
Transactional income	86,809	81,968
Fees and commission	85,087	79,605
Knowledge-based fees	1,722	2,363
Trading income	29,186	16,354
Foreign currency	30,456	18,706
Treasury operational loss	(1,270)	(2,352)
Investment income – dividends	509	762
Associated company	429	273
Other	80	489
Other income	–	128
	116,504	99,212

20. Operating expenditure

Auditors' remuneration		
Audit fees – current	5,163	4,000
– prior	200	1,200
Fees for other services	1,458	3,202
	6,821	8,402
Professional fees		(restated)
Consulting	10,276	10,572
Collection	3,329	6,701
Legal	1,588	2,183
Technical and other	19,184	16,335
	34,377	35,791
Depreciation and amortisation (refer to Notes 1 and 2)	15,667	17,325
Lease charges		
Motor vehicles	37	624
Equipment	78	200
	115	824

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

20. Operating expenditure (continued)

	2005 R'000	2004 R'000
Staff costs		(restated)
Salaries, wages and allowances	89,874	87,973
Post-retirement medical benefits	2,234	1,582
Contributions to retirement funds	5,746	5,295
Share-based payments excluding directors	413	45
Other	4,190	3,501
	102,457	98,396
Number of staff (including temporary) at year end	413	434
Impairment and loss/(profit) on sale of equipment and property		
Improvements to leased premises	66	15
Computer equipment	80	(174)
Furniture and fittings	–	(262)
Office equipment	–	(229)
Motor vehicles	(2)	(30)
	144	(680)
Operating leases expenses – premises	15,972	12,018
Marketing and communication	7,212	6,984
Directors' emoluments (refer to Note 24.3)		(restated)
Executive directors	5,899	4,461
Non-executive directors fees	2,520	1,294
Share-based payments	311	78
	8,730	5,833
Indirect taxation		
Non-claimable Value-Added Tax	7,942	8,156
Skills development levy	486	171
Regional Services Council levies	959	799
Total indirect taxation	9,387	9,126
Other operating costs	33,759	29,363
Total operating expenditure	234,641	223,382

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

21. Taxation

	2005 R'000	2004 R'000
Direct taxation		
South African normal taxation	–	–
South African tax rate reconciliation		
South African standard tax rate	29.0%	30.0%
Exempt income	(0.8%)	(0.4%)
Non-deductible expenses	–	1.0%
Deferred tax not raised	(227.2%)	(31.8%)
Tax losses	199.0%	1.2%
Effective tax rate	0.0%	0.0%

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

Estimated tax losses available for set-off against future taxable income	980,313	1,044,955

22. Cash flow details

22.1 Cash receipts from customers

	2005	(restated)
Interest income	254,204	197,907
Non-interest income and profit on sale and revaluation of investments	114,976	99,212
Adjusted for: Dividends received	(509)	(762)
Net loss on sale and revaluation of investments	1,528	–
Revaluation of held-for-trading financial instruments	953	7,964
Recoveries of credit losses	32,824	7,454
Total cash receipts from customers	403,976	311,775

22.2 Cash paid to suppliers and employees

Interest expenditure	(113,238)	(106,656)
Operating expenditure	(234,641)	(223,382)
Adjusted for: Depreciation and amortisation	15,667	17,325
Loss/(Profit) on sale of property and equipment	144	(680)
Share-based payments	724	123
Decrease in provisions	(3,651)	(1,531)
Total cash paid to suppliers and employees	(334,995)	(314,801)

22.3 Taxation paid

Amounts unpaid at beginning of year	(44)	(44)
Income statement charge	–	–
Less: Amounts unpaid at end of year	–	44
Total taxation paid	(44)	–

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

22. Cash flow details (continued)

22.4 Changes in income earning assets

	2005 R'000	2004 R'000 (restated)
Increase in negotiable securities	(8,749)	(97,189)
(Increase)/Decrease in loans and advances	(497,240)	58,490
Net increase in income earning assets	(505,989)	(38,699)

22.5 Changes in deposits and other accounts

	2005 R'000	2004 R'000
Increase in deposits	523,859	166,901
Increase/(Decrease) in other accounts	191,568	(87,173)
Net increase in deposits and other accounts	715,427	79,728

23. Financial risk management

23.1 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
2005					
Total foreign exchange assets	1,133,799	61,959	26,848	2,708	1,225,314
Total foreign exchange liabilities	(17,685)	(49,082)	(22,324)	(1,057)	(90,148)
Commitments to purchase foreign currency	83,036	52,113	–	40,072	175,221
Commitments to sell foreign currency	(1,199,681)	(65,521)	(5,435)	(41,635)	(1,312,272)
Year-end effective net open foreign currency positions	(531)	(531)	(911)	88	(1,885)
2004					
Total foreign exchange assets	958,519	14,001	34,889	1,118	1,008,527
Total foreign exchange liabilities	(12,439)	(5,853)	(30,832)	(831)	(49,955)
Commitments to purchase foreign currency	60,986	26,103	–	1,350	88,439
Commitments to sell foreign currency	(1,010,388)	(34,002)	(4,577)	(2,140)	(1,051,107)
Year-end effective net open foreign currency positions	(3,322)	249	(520)	(503)	(4,096)

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

23. Financial risk management (continued)

23.1 Foreign currency risk management (continued)

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

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

23.2 Credit risk management

Potential concentrations of credit risk consist mainly of short-term cash, cash equivalent investments, advances and other 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 other receivables comprise a large number of customers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers. Advances and other 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 24.

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

23. Financial risk management (continued)

23.3 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
2005			
Maturing up to one month	**1,472,282**	**1,711,069**	**(238,787)**
Maturing between one and three months	**500,391**	**688,265**	**(187,874)**
Maturing between three and six months	**310,798**	**280,868**	**29,930**
Maturing between six months and one year	**130,699**	**158,515**	**(27,816)**
Maturing after one year	**1,007,083**	**15,948**	**991,135**
	3,421,253	**2,854,665**	**566,588**
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	566,314	28,999	537,315
	2,731,737	2,216,281	515,456

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

23. Financial risk management (continued)

23.5 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 %
2005								
Assets								
Intangible assets	–	–	–	–	–	7,018	7,018	
Property and equipment	–	–	–	–	–	25,764	25,764	
Other accounts receivable	18,878	–	–	–	–	14,887	33,765	
Interest in subsidiaries	–	–	–	–	53,102	12,509	65,611	
Other investments	–	–	–	–	–	5,661	5,661	
Loans and advances	1,331,406	2,783	12,805	–	111,683	–	1,458,677	9.75
Derivative financial instruments	–	–	–	–	–	36,757	36,757	
Negotiable securities	153,175	34,560	56	–	191,237	–	379,028	6.96
Cash and cash equivalents	580,163	440,032	335,293	–	–	53,484	1,408,972	6.51
Total assets	2,083,622	477,375	348,154	–	356,022	156,080	3,421,253	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	566,588	566,588	
Deposits	1,696,340	507,693	435,044	300	–	–	2,639,377	4.58
Derivative financial instruments	–	–	–	–	–	38,531	38,531	
Provisions	–	–	–	–	–	31,618	31,618	
Other accounts payable	–	–	–	–	–	145,139	145,139	
Total equity and liabilities	1,696,340	507,693	435,044	300	–	781,876	3,421,253	
On balance sheet interest sensitivity gap	387,282	(30,318)	(86,890)	(300)	356,022			

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

23. **Financial risk management** (continued)

23.5 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 %
2004								
Assets								
Intangible assets	–	–	–	–	–	6,801	6,801	
Property and equipment	–	–	–	–	–	23,558	23,558	
Other accounts receivable	7,618	–	–	–	–	43,344	50,962	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	350,880	2,731,737	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	515,456	515,456	
Deposits	1,061,151	410,716	373,736	–	–	269,915	2,115,518	4.90
Derivative financial instruments	–	–	–	–	–	35,210	35,210	
Provisions	–	–	–	–	–	35,269	35,269	
Other accounts payable	–	–	–	–	–	30,240	30,240	
Taxation	–	–	–	–	–	44	44	
Total equity and liabilities	1,061,151	410,716	373,736	–	–	886,134	2,731,737	
On balance sheet interest sensitivity gap	**(20,208)**	**165,479**	**128,724**	**67,074**	**194,185**			

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

24. Related-party information

24.1 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.

24.2 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 and from fellow subsidiaries and other transactions are detailed hereafter.

	% Held	2005 R'000	2004 R'000
Loans to subsidiaries			
Portion 2 of Lot 8 Sandown (Pty) Limited	100	**47,600**	47,369
Lisabank Corporate Finance Limited*	100	**3,360**	3,219
LSM Troyeville Properties (Pty) Limited	100	**5,502**	5,507
Sertona (Pty) Limited*	100	**–**	70
Less: Provisions held against loan accounts		**(6,053)**	(6,739)
		50,409	49,426
Loans to fellow subsidiaries and holding company			
Mercantile Equipment Trading (Pty) Limited*		**–**	467
Mercantile Finance Limited*		**–**	1,430
Mercantile Insurance Brokers (Pty) Limited		**596**	23
Mercantile Bank Holdings Limited		**13,754**	14,401
Mercantile Registrars Limited		**8,314**	8,281
Weskor Beleggings (Pty) Limited*		**784**	859
Less: Provisions held against loan accounts		**(4,906)**	(6,425)
		18,542	19,036
Loans from fellow subsidiaries			
Mercantile Nominees (Pty) Limited		**121**	196
Loan to Share Incentive Trust		**3,111**	1,501

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

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

24. Related-party information (continued)

24.2 Material related-party balances and transactions (continued)

Other balances and transactions

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

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

Guarantees

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

Post-retirement medical plan

Details of the post-retirement medical plan are disclosed in note 13.

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

24. Related-party information (continued)

24.3 Director and director-related activities

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

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

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

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

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

Service agreements

D J Brown, Chief Executive Officer

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

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

M J M Figueira, Executive Director

Mr Figueira has been seconded to Mercantile by CGD.

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

J P M Lopes, Executive Director

Mr Lopes has been seconded to Mercantile by CGD.

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

Share options

No options were granted to directors to purchase ordinary shares in Mercantile Bank Holdings Limited during the past financial year. On 5 October 2004, 5,000,000 share options were granted to D J Brown at an exercise price of 18 cents each.

Directors' interests

No directors held beneficial and/or non-beneficial interests, directly or indirectly, in shares issued by Mercantile Bank Holdings Limited.

25. Share incentive scheme

The options granted are in respect of the holding company, Mercantile Bank Holdings Limited, to the employees of the Bank.

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

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

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

25. Share incentive scheme (continued)

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

(1) Refer to Note 24.3.

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

	2005	2004
Weighted average share price	**31 cents**	18 cents
Weighted average exercise price	**28 cents**	18 cents
Expected volatility	**103,0% –127,2%**	117,1% – 119,0%
Option life	**4 years**	4 years
Risk free rate	**6.7% – 7,3%**	7,2%
Expected dividends	**Nil**	Nil

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

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

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

26. IFRS Reconciliation and prior year restatement

- **IFRS reconciliation**

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

- **Prior year restatement**

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

	Opening balance 1 January 2005 R'000	Closing balance 31 December 2004 R'000
Balance sheet		
Changes in shareholders' equity		
Balance as previously reported	**515,579**	515,579
Share-based payments	**(123)**	–
Restated shareholders' equity	**515,456**	515,579
Loans to fellow subsidiaries and holding company		
Balance as previously reported	**19,159**	19,159
Transitional adjustment		
– share-based payments	**(123)**	–
Restated interest in subsidiaries	**19,036**	19,159

	2004 R'000
Provisions	
Balance as previously reported	28,869
Non-IFRS restatement	
– reclassification from other accounts payable	6,400
Restated provisions	35,269
Other accounts payable	
Balance as previously reported	36,640
Non-IFRS restatement	
– reclassification to provisions	(6,400)
Restated other accounts payable	30,240

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

26. IFRS Reconciliation and prior year restatement (continued)

Income statement

	2004 R'000
Operating expenditure	
Amount previously reported	218,505
IFRS adjustments	
– share-based payments	123
Restated amount for IFRS	218,628
Non IFRS restatement [(1)]	4,754
Restated operating expenditure	223,382
Non-interest income	
Amount previously reported	94,458
Non IFRS restatement [(1)]	4,754
Restated non-interest income	99,212

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

Capital adequacy statement at 31 December 2005

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