Mercantile Lisbon Bank Holdings Limited

Reg No. 1989/000164/06
An authorised financial services provider
A Subsidiary Company of Caixa Geral de Depósitos S.A.

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Mercantile Group (the "Group")

The Group consists of Mercantile Lisbon Bank Holdings Limited and its Subsidiaries.

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

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

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

Board of directors and administration

Board of directors at 18 February 2005

Mercantile Lisbon Bank Holdings Limited

Messrs

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^†	

Administration

Group Secretary

F Vicente Coelho *

Transfer Secretaries

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

Postal Address
PO Box 61051
Marshalltown
2107 South Africa

Registered Office

1st Floor
Mercantile Lisbon House
142 West Street
Sandown
2196

Postal Address

PO Box 782699
Sandton
2146

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

Five-year financial performance

Mercantile Lisbon Bank Holdings Limited and its Subsidiaries

	March 2001 R'000	March 2002 R'000	December 2002* R'000	December 2003 R'000	**December 2004 R'000**
ASSETS					
Intangible assets	56,289	22,284	14,696	12,711	**6,801**
Property and equipment	128,470	99,548	88,723	84,651	**85,028**
Investment properties	–	–	800	800	**770**
Taxation	2,090	–	3,396	3,567	**3,616**
Other accounts receivable	121,762	233,531	127,534	82,430	**33,148**
Interest in associated companies	19,678	3,246	1,879	2,951	**3,236**
Other investments	45,126	19,560	7,302	3,965	**3,556**
Loans and advances	2,792,954	1,475,609	1,313,292	1,178,788	**975,611**
Derivative financial instruments	–	–	8,124	7,610	**90,162**
Negotiable securities	345,060	242,997	155,588	273,090	**370,279**
Cash and cash equivalents	198,022	212,047	454,778	574,930	**1,148,861**
Total assets	3,709,451	2,308,822	2,176,112	2,225,493	**2,721,068**
EQUITY AND LIABILITIES					
Share capital and share premium	747,786	866,865	866,865	866,865	**1,208,642**
Capital redemption reserve fund	3,788	3,788	3,788	3,788	**3,788**
General reserve	7,478	7,478	7,478	7,478	**7,478**
Property revaluation reserve	14,237	21,182	20,997	28,376	**31,461**
Available-for-sale reserve	–	–	–	(742)	**(955)**
General risk reserve	–	–	–	31,212	**31,668**
Accumulated loss	(236,633)	(883,396)	(715,628)	(773,078)	**(781,143)**
Shareholders' equity	536,656	15,917	183,500	163,899	**500,939**
Deferred taxation	2,886	–	–	–	**–**
Long-term liabilities	10,517	–	8,335	5,287	**–**
Deposits	3,094,538	2,085,712	1,912,979	1,946,752	**2,112,569**
Derivative financial instruments	–	–	4,001	32,115	**35,210**
Provisions	3,556	29,399	27,404	36,066	**32,768**
Other accounts payable	61,298	174,042	38,387	40,437	**39,538**
Taxation	–	3,752	1,506	937	**44**
Total equity and liabilities	3,709,451	2,308,822	2,176,112	2,225,493	**2,721,068**
Contingent liabilities	203,459	1,056,020	483,649	334,437	**371,067**
Attributable (loss)/profit after taxation	(84,159)	(646,763)	167,768	(58,888)	**(213,081)**
Headline (loss)/earnings	(49,877)	(681,758)	184,350	(56,471)	**(213,821)**
Distribution to permanent capital holders – interest	1,098	–	–	–	**–**
Attributable (loss)/earnings per share (cents)	(19.0)	(151.5)	19.6	(6.9)	**(11.6)**
Headline (loss)/earnings per share (cents)	(11.3)	(159.7)	21.6	(6.6)	**(11.7)**

*For a nine-month period.

Note: The principal accounting policies adopted in the preparation of the consolidated financial statements are consistent, in all material respects with those applied in the previous periods, except for the adoption of AC 133 (Financial Instruments: Recognition and Measurement), which is a prospective accounting statement, with effect from 1 January 2003. Accordingly, comparatives have not been restated.

Group review

Recapitalisation

We are pleased to report that the recapitalisation of the Group was successfully completed in September 2004, by way of an injection of primary capital in an amount of R555 million through a rights offer priced at 18 cents per share and fully underwritten by Caixa Geral de Depósitos. This resulted in CGD's holding in the Company increasing from 64.8% to 91.75%.

CGD is wholly-owned by the Portuguese state and was classified as the 103rd largest banking institution world-wide by assets in 2003, as published in the July 2004 issue of "The Banker". CGD's short- and long-term financial liability ratings were confirmed by the three leading international rating agencies – Fitch Ratings, Moody's, and Standard & Poor's, as follows:

	Short term	Long term	Date
Fitch Ratings	F1+	AA-	December 2004
Moody's	Prime-1	Aa3	July 2004
Standard & Poor's	A-1	A+	February 2004

Business focus

The Group's focus over the past two and a half years on rehabilitating the business, with a specific emphasis on cost control, collection of non-performing loans, enhanced risk management and information technology systems and the employment of a new senior management team, coupled with the abovementioned recapitalisation of the Group, has now created conditions to develop the

Bank in its chosen markets. The Bank's strategy remains unchanged, namely:

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

Rating

Based on the progress made as outlined above, the Group has received an upgrade in credit ratings by CA Ratings, as follows:

	Short term	Long term	Date
CA Ratings	zaA1	zaA	December 2004

Financial review

As reported in our rights offer circular dated 16 August 2004 and our interim results announcement dated 6 September 2004 (covering the six months ended 30 June 2004), the recapitalisation of the Group through the rights offer of R555 million underwritten by CGD was conditional upon the release of the CGD guarantees totalling R332 million. The release of these guarantees resulted in the impairment of loans and write-offs totalling R172.7 million and a simultaneous increase in the general risk reserve of R27.4 million.

The table below provides a summary of the comparative consolidated headline loss, after applying the impact of the release of the CGD guarantees.

	2004 R'000	2003 R'000
Headline loss	**(213,821)**	(56,471)
Less: Impact of release of guarantees	**172,729**	–
Adjusted headline loss	**(41,092)**	(56,471)

On a directly comparable basis, by excluding the impairments raised and write-off realised through the release of the CGD guarantees, the Group's performance reveals a solid improvement in the specific areas of:

- a reduction in the cost base; and
- funds benefit derived through the recapitalisation and improved employment of assets.

The benefits achieved in these areas have been partially offset by a reduced level of bad debt recoveries on legacy debt net of impairments raised – whilst cash recovered on non-performing loans increased, a more conservative approach was applied to AC 133 impairment estimates on fully provisioned legacy debt.

Directorate

Khanya Motshabi and Thebe Ikalafeng were appointed as independent non-executive directors in November 2004 to improve the composition of the Board in terms of diversity and skills. Background information on these directors is provided in the brief *curriculum vitae* of each director standing for re-election.

We thank the board for their contribution and support over the past year and welcome the new directors to the board.

Group review (continued)

Financial Sector Charter

The Group remains fully committed to achieving the targets set out in the charter scorecard (as are applicable) and plans are in place to deliver on these targets.

Brand

To align the market positioning of the business going forward with the bank's chosen strategy, vision and customer value proposition, a revitalisation of the brand is underway. More details on this initiative are contained in the cover section of this report.

Outlook

The positive outlook for the domestic economy is expected to provide good opportunities to develop business. With the progress made to date by the Bank and the positive developments that started to emerge on the business front during the latter part of 2004, we expect to return to profitability during 2005.

We would like to thank all our staff for their commitment and dedication over the past year and to our clients and shareholders, we would like to convey our appreciation for your trust and support.

J A S de Andrade Campos
Chairman

D J Brown
Chief Executive Officer

Sandton
18 February 2005

Annual financial statements

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 and the Group.

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

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

The external auditors are responsible for reporting on the 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 Group. 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 Group will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the annual financial statements.

These financial statements, set out on pages 10 to 55, have been approved by the board of Mercantile Lisbon Bank Holdings Limited and are signed on their behalf by:

J A S de Andrade Campos	D J Brown
Chairman	*Chief Executive Officer*

Sandton
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

Sandton
18 February 2005

Report of the independent auditors

To the members of Mercantile Lisbon Bank Holdings Limited

We have audited the annual financial statements and Group annual financial statements, set out on pages 10 to 55, 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. Those 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 and the Group at 31 December 2004 and the results of their 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, 1973, in South Africa.

DELOITTE & TOUCHE

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

Sandton
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 and of the Group for the year ended 31 December 2004.

1. Nature of business

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

2. Holding company

The majority shareholder of the Company (91,75%) is Caixa Geral de Depósitos S.A. ("CGD"), a company registered in Portugal.

3. Financial results

An overview of the financial results is set out in the Group Review commencing on page 5 of the Annual Report. Details of the financial results are set out on pages 14 to 55 and in the opinion of the directors require no further comment.

4. Share capital

During the 2004 financial year, the authorised share capital of 1,000,000,000 shares of 25 cents each was sub-divided into 4,465,955,440 shares of 1 cent each, in terms of a scheme of arrangement approved by the High Court of South Africa (Witwatersrand Local Division) on 13 July 2004.

As a result of the scheme of arrangement the par value of the issued share capital reduced from 25 cents each to 1 cent each and the issued share capital reduced by R205.3 million. This reduction in issued share capital was transferred to distributable reserves in terms of the approved scheme of arrangement.

In terms of the rights offer, concluded on 6 September 2004, 3,083,333,334 rights shares of 1 cent each were issued for a total consideration of R555 million at 18 cents each. At 31 December 2004 3,938,918,524 shares were in issue amounting to share capital of R39.4 million and share premium of R1,170.7 million, net of rights offer expenses of R6.4 million.

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

5. 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 as Chief Executive Officer and R Ribas ceased his function as Acting Chief Executive Officer with effect from 31 March 2004.

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

5. Directors, Company Secretary and registered addresses (continued)

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

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

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

6. Dividends

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

7. Recapitalisation

After assuming control of the Company 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 the Company that they would safeguard the financial soundness and the stability of the Company, including the maintenance of the capital adequacy ratio of the Bank 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 Bank 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 31 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 Group 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 the Company, primarily to extend, on the same terms and conditions, a subordinated loan facility to the Bank. 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.

8. Litigation

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

9. Subsidiary companies

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

Aggregate income after taxation earned by subsidiaries amounted to R4.3 million (2003: R0.2 million) and aggregate losses amounted to R210.2 million (2003: R61.4 million).

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

9. Subsidiary companies (continued)

9.1 Consolidated subsidiary companies

The principal consolidated subsidiary companies are as follows:

Company name	Issued share capital R'000	Effective holding %	Nature of business*	Shares, at cost 2004 R'000	Shares, at cost 2003 R'000	Owing (to)/by Subsidiaries 2004 R'000	Owing (to)/by Subsidiaries 2003 R'000
Lisabank Corporate Finance Limited	15	100	1	**15**	15	–	–
LSM (Troyeville) Properties (Proprietary) Limited	–	100	1	**140**	140	–	–
Mercantile Bank Limited	124,969	100	2	**1,485,448**	930,448	**(14,524)**	(8,248)
Mercantile Finance Limited	–	100	3	–	–	**(57)**	40
Mercantile Insurance Brokers (Proprietary) Limited	250	100	4	**294**	294	–	–
Mercantile Nominees (Proprietary) Limited	–	100	5	–	–	–	–
Portion 2 of Lot 8 Sandown (Proprietary) Limited	–	100	1	**8,832**	8,832	–	–
Weskor Beleggings (Proprietary) Limited	–	100	1	–	–	–	–
Loans from non-trading subsidiaries						**(16)**	(16)
						(14,597)	(8,224)

* Nature of business:
1. Property holding
2. Banking
3. Investment holding
4. Insurance brokers
5. Nominee company

9.2 Subsidiary companies not consolidated

	Mercantile E-Bureau (Pty) Ltd 2004 R'000	Mercantile E-Bureau (Pty) Ltd 2003 R'000	Mercantile Matrix Finance (Pty) Ltd 2004 R'000	Mercantile Matrix Finance (Pty) Ltd 2003 R'000	Boston Western Cape (Pty) Ltd 2004 R'000	Boston Western Cape (Pty) Ltd 2003 R'000
Equity investment at cost	–	–	–	–	**901**	901
Impairment loss	–	–	–	–	**(901)**	(901)
	–	–	–	–	–	–

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

9. Subsidiary companies (continued)

9.2 Subsidiary companies not consolidated (continued)

The financial statements of Mercantile E-Bureau (Pty) Ltd, Boston Western Cape (Pty) Ltd and Mercantile Matrix Finance (Pty) Ltd are not consolidated in the Group financial statements as the directors considered that the Group was unlikely to recover any of its investment and/or their consolidation would be of little benefit to shareholders. The auditors concur with the reasons for not consolidating these subsidiaries.

10. Going concern

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

11. Special resolutions

On 15 July 2004 a special resolution relating to the sub-division of the authorised but unissued share capital of the Company into 3,610,370,250 ordinary shares of one cent each, was registered.

On 18 October 2004 a special resolution relating to the alteration to Memorandum and Articles of Association by the deletion of Article 23.1.6 thereof, was registered. As a result of the deletion of the article, the Company is not permitted to reduce its share capital by way of a special resolution, consistent with the amendments to the Companies Act, 1973, as amended.

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 consolidated financial statements are set out below:

1. Basis of presentation

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

2. Group accounts

Subsidiary companies are companies in which the Group, directly or indirectly, has an interest of more than one-half of the voting rights or the power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the effective date of disposal. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests. A listing of the Group's principal subsidiaries is set out in paragraph 9.1 of the Directors' report.

3. Recognition of assets and liabilities

3.1 Assets

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

3.2 Liabilities

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

3.3 Contingent liabilities

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

4. Financial instruments

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

4.1 Derivative financial instruments

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

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

- forward exchange contracts;
- forward 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.

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

4. **Financial instruments** (continued)

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

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

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

4.2 Financial assets

The Group's principal financial assets are cash and cash equivalents, negotiable securities, loans and advances, investments, and trade and other receivables.

Cash and cash equivalents

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

Investments

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

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

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

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

Investments that are acquired with the intention to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, have been designated as available-for-sale. These assets are measured at fair value at each reporting date 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 being 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.

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

4. Financial instruments (continued)

4.2 Financial assets (continued)

Other accounts receivable

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

4.3 Financial liabilities

The Group's financial liabilities include long-term liabilities, deposits and trade and other payables 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.

4.4 Fair value estimation

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

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

4.5 Amortised cost

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

5. 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.

6. Subsidiaries

Investments in subsidiaries, in the Company financial statements, are recognised at fair value. All gains and losses on the sale of subsidiaries are recognised in the income statement.

7. Associated companies

Associated companies are those companies in which the Group or 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 using the equity method in the Group 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.

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

8. Joint ventures

The Group's interest in a jointly controlled entity is accounted for by the equity method of accounting.

Equity accounting involves recognising in income, the Group's share of the joint venture's profit or loss for the period. The Group'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.

9. Investment properties

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

Fair value movements are included in income in the year in which they arise.

10. Property and equipment

10.1 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. Revaluations are performed annually by independent registered professional valuators. Any revaluation increase, arising on the revaluation of owner-occupied properties, is credited to the non-distributable reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense. The increase is credited to income to the extent that an expense was previously charged to income. A decrease in carrying amount arising on the revaluation of owner-occupied properties is charged as an expense to the extent that it exceeds the balance, if any, held in the non-distributable reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the revaluation surplus, relating to that property, in the non-distributable reserve is transferred to distributable reserves.

10.2 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.

11. Intangible assets

Expenditure on acquired software and computer system development costs is 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 revalued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where considered necessary.

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

12. Provisions

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

13. 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.

14. Sale and repurchase agreements

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 being included in income. The obligation to return them is recorded at fair value as a trading liability.

15. 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.

16. 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..

17. Interest income and interest expense

Interest income and interest 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.

18. Fee and commission income

Fees and commissions are recognised on an accrual basis.

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

19. Pension Fund

The Group 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 relevant Group companies. The Group contributions to the Pension Fund are based on a percentage of the payroll and are charged to income as incurred.

20. Post-retirement medical benefits

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

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

21. Equity compensation plans

Share options are granted to employees at the discretion of the Group Remuneration Committee. The Share Incentive Trust's financial position and results is consolidated.

22. Segment information

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

23. 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 shareholders' equity. The reserve recognised by the Group comprises the difference between the impairments calculated in terms of AC 133 and the requirements of the Group's provisioning policy, which is more prudent than the statutory minimum provision requirements prescribed.

Balance sheets at 31 December 2004

		Group		Company	
		2004	2003	**2004**	2003
	Notes	**R'000**	R'000	**R'000**	R'000
ASSETS					
Intangible assets	1	**6,801**	12,711	**–**	–
Property and equipment	2	**85,028**	84,651	**–**	–
Investment properties	3	**770**	800	**–**	–
Taxation	4	**3,616**	3,567	**29**	29
Other accounts receivable	5	**33,148**	82,430	**214**	236
Interest in subsidiaries	6			**501,615**	163,254
Interest in associated companies	7	**3,236**	2,951	**–**	–
Other investments	8	**3,556**	3,965	**559**	677
Loans and advances	9	**975,611**	1,178,788	**–**	–
Derivative financial instruments	10	**90,162**	7,610	**–**	–
Negotiable securities	11	**370,279**	273,090	**–**	–
Cash and cash equivalents	12	**1,148,861**	574,930	**336**	2
Total assets		**2,721,068**	2,225,493	**502,753**	164,198
EQUITY AND LIABILITIES					
Shareholders' equity		**500,939**	163,899	**502,440**	163,899
Share capital and share premium	13	**1,208,642**	866,865	**1,210,143**	866,865
Capital redemption reserve fund		**3,788**	3,788	**3,788**	3,788
General reserve		**7,478**	7,478	**–**	–
Property revaluation reserve		**31,461**	28,376	**–**	–
Available-for-sale reserve		**(955)**	(742)	**(60,607)**	149,714
General risk reserve		**31,668**	31,212	**–**	–
Accumulated loss		**(781,143)**	(773,078)	**(650,884)**	(856,468)
Liabilities		**2,220,129**	2,061,594	**313**	299
Long-term liabilities	14	**–**	5,287	**–**	–
Deposits	15	**2,112,569**	1,946,752	**–**	–
Derivative financial instruments	10	**35,210**	32,115	**–**	–
Provisions	16	**32,768**	36,066	**–**	–
Other accounts payable	18	**39,538**	40,437	**313**	299
Taxation	4	**44**	937	**–**	–
Total equity and liabilities		**2,721,068**	2,225,493	**502,753**	164,198

Income statements
for the year ended 31 December 2004

	Notes	Group 2004 R'000	Group 2003 R'000	Company 2004 R'000	Company 2003 R'000
Interest income	21	192,138	226,970	1,945	26
Interest expenditure	22	(107,036)	(161,152)	(1,945)	–
Net interest income before credit losses		85,102	65,818	–	26
Net (charge for)/recovery of credit losses	9	(4,367)	19,840	–	–
Net interest income after credit losses		80,735	85,658	–	26
Net profit/(loss) on disposal and revaluation of investments		1,891	8	(12)	1,998
Non-interest income	23	96,138	91,025	1,000	2,590
Net interest and non-interest income		178,764	176,691	988	4,614
Operating expenditure	24	(219,834)	(237,521)	(744)	274
(Loss)/Profit before income from associated companies		(41 070)	(60,830)	244	4,888
Share of income from associated companies		768	1,942	–	–
(Loss)/Profit before taxation and exceptional item		(40,302)	(58,888)	244	4,888
Impairments and provisions raised and write-off on release of CGD guarantees	9	(172,729)	–	–	–
(Loss)/Profit before taxation		(213,031)	(58,888)	244	4,888
Taxation	25	(50)	–	–	–
Attributable (loss)/profit after taxation		(213,081)	(58,888)	244	4,888
Reconciliation between attributable (loss)/profit after taxation and headline (loss)/earnings:					
Attributable (loss)/profit after taxation		(213,081)	(58,888)	244	4,888
Realisation of available-for-sale reserve on disposal of investments		(60)	2,125	–	–
(Profit)/Impairment and loss on disposal of property and equipment		(680)	292	–	18
Headline (loss)/earnings		(213,821)	(56,471)	244	4,906
Attributable loss per share (cents)	26.1	(11.6)	(6.9)		
Headline loss per share (cents)	26.2	(11.7)	(6.6)		
Diluted attributable loss per share (cents)	26.3	(11.6)	(6.9)		
Diluted headline loss per share (cents)	26.4	(11.7)	(6.6)		
Dividends per share (cents)		–	–		

Cash flow statements
for the year ended 31 December 2004

	Notes	Group 2004 R'000	Group 2003 R'000	Company 2004 R'000	Company 2003 R'000
Operating activities					
Cash receipts from customers	27.1	**303,552**	324,498	**1,945**	26
Less: Cash paid to suppliers and employees	27.2	**(311,836)**	(368,439)	**(2,689)**	(241)
Dividends received		**142**	2,120	**1,000**	2,590
Taxation paid	27.3	**(992)**	(740)	**–**	–
Net cash (outflow)/inflow from operating activities		**(9,134)**	(42,561)	**256**	2,375
Changes in banking activities					
Net (increase)/decrease in income earning assets	27.4	**(39,511)**	84,016	**–**	–
Net increase/(decrease) in deposits and other accounts	27.5	**86,475**	84,137	**36**	(465)
Net cash inflow/(outflow) from banking activities		**46,964**	168,153	**36**	(465)
Investing activities					
Purchase of property, equipment and intangibles assets		**(9,342)**	(7,738)	**–**	–
Proceeds on sale of property, equipment and intangibles assets		**84**	411	**–**	–
Purchase of investments		**–**	(543)	**–**	–
Proceeds on disposal of investments		**150**	4,742	**40**	134
Proceeds on disposal of associate company		**1,851**	–	**–**	–
Increase in investment in subsidiary				**(555,000)**	–
Decrease/(Increase) in loans with subsidiary and associated companies		**483**	1,545	**6,384**	(4,942)
Net cash outflow from investing activities		**(6,774)**	(1,583)	**(548,576)**	(4,808)
Financing activities					
Proceeds on issue of ordinary shares		**555,000**	–	**555,000**	–
Share issue costs		**(6,382)**	–	**(6,382)**	–
Finance lease payments		**(5,743)**	(3,857)	**–**	–
Net cash inflow/(outflow) from financing activities		**542,875**	(3,857)	**548,618**	–
Net cash inflow/(outflow) for year		**573,931**	120,152	**334**	(2,898)
Cash and cash equivalents at beginning of year		**574,930**	454,778	**2**	2,900
Cash and cash equivalents at end of year	12	**1,148,861**	574,930	**336**	2

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

	Share capital R'000	Share premium R'000	Capital redemption reserve fund R'000	General reserve R'000	Property revaluation reserve R'000	Available-for-sale reserve R'000	General risk reserve R'000	Accumulated loss R'000	Total R'000
GROUP									
Shareholders' equity at 31 December 2002	**213,896**	**652,969**	**3,788**	**7,478**	**20,997**	**–**	**–**	**(715,628)**	**183,500**
Transitional adjustments on adoption of AC 133	–	–	–	–	–	(4,404)	28,811	3,839	28,246
Shareholders' equity restated at 1 January 2003	**213,896**	**652,969**	**3,788**	**7,478**	**20,997**	**(4,404)**	**28,811**	**(711,789)**	**211,746**
Revaluation of owner-occupied property	–	–	–	–	7,379	–	–	–	7,379
Gains and losses on remeasurement to fair value	–	–	–	–	–	1,537	–	–	1,537
Release to income on disposal of available-for-sale financial assets	–	–	–	–	–	2,125	–	–	2,125
Increase in general risk reserve	–	–	–	–	–	–	2,401	(2,401)	–
Loss after taxation	–	–	–	–	–	–	–	(58,888)	(58,888)
Shareholders' equity at 31 December 2003	**213,896**	**652,969**	**3,788**	**7,478**	**28,376**	**(742)**	**31,212**	**(773,078)**	**163,899**
Transfer to distributable reserves on sub-division of shares	(205,340)	–	–	–	–	–	–	205,340	–
Share capital issued	30,833	524,167	–	–	–	–	–	–	555,000
Share issue costs written-off against share premium	–	(6,382)	–	–	–	–	–	–	(6,382)
Revaluation of owner-occupied property	–	–	–	–	3,085	–	–	–	3,085
Gains and losses on remeasurement to fair value	–	–	–	–	–	(153)	–	–	(153)
Release to income on disposal of available-for-sale financial assets	–	–	–	–	–	(60)	–	–	(60)
Increase in general risk reserve	–	–	–	–	–	–	456	(456)	–
Treasury shares on consolidation of share incentive trust	(1,501)	–	–	–	–	–	–	–	(1,501)
Loss after taxation	–	–	–	–	–	–	–	(213,081)	(213,081)
Accumulated profit on consolidation of share incentive trust	–	–	–	–	–	–	–	132	132
Shareholders' equity at 31 December 2004	**37,888**	**1,170,754**	**3,788**	**7,478**	**31,461**	**(955)**	**31,668**	**(781,143)**	**500,939**

Statements of changes in equity for the year ended 31 December 2004 (continued)

	Share capital R'000	Share premium R'000	Capital redemption reserve fund R'000	Available-for-sale reserve R'000	Accumulated loss R'000	Total R'000
COMPANY						
Shareholders' equity at 31 December 2002	**213,896**	**652,969**	**3,788**	**–**	**(687,808)**	**182,845**
Transitional adjustments on adoption of AC 133	–	–	–	173,548	(173,548)	–
Shareholders' equity restated at 1 January 2003	**213,896**	**652,969**	**3,788**	**173,548**	**(861,356)**	**182,845**
Gains and losses on remeasurement to fair value	–	–	–	(21,836)	–	(21,836)
Release to income on disposal of available-for-sale financial assets	–	–	–	(1,998)	–	(1,998)
Profit after taxation	–	–	–	–	4,888	4,888
Shareholders' equity at 31 December 2003	**213,896**	**652,969**	**3,788**	**149,714**	**(856,468)**	**163,899**
Transfer to distributable reserves on sub-division of shares	(205,340)	–	–	–	205,340	–
Share capital issued	30,833	524,167	–	–	–	555,000
Share issue costs written-off against share premium	–	(6,382)	–	–	–	(6,382)
Gains and losses on remeasurement to fair value	–	–	–	(210,333)	–	(210,333)
Release to income on disposal of available-for-sale financial assets	–	–	–	12	–	12
Profit after taxation	–	–	–	–	244	244
Shareholders' equity at 31 December 2004	**39,389**	**1,170,754**	**3,788**	**(60,607)**	**(650,884)**	**502,440**

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

1. Intangible assets

GROUP	Computer software 2004 R'000	2003 R'000
Cost at beginning of year	**38,310**	34,046
Additions	**741**	4,271
Disposals	–	(7)
Cost at end of year	**39,051**	38,310
Accumulated amortisation and impairments at beginning of year	**(25,599)**	(19,350)
Amortisation	**(6,651)**	(6,255)
Disposals	–	6
Accumulated amortisation and impairments at end of year	**(32,250)**	(25,599)
Net carrying amount at end of year	**6,801**	12,711
COMPANY		
Cost at beginning of year	–	7
Disposals	–	(7)
Cost at end of year	–	–
Accumulated amortisation and impairments at beginning of year	–	(6)
Disposals	–	6
Accumulated amortisation and impairments at end of year	–	–
Net carrying amount at end of year	–	–

2. Property and equipment

GROUP	Owner-occupied properties R'000	Leasehold improve-ments R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
2004							
Open market value/cost at beginning of year	62,379	15,493	57,770	8,490	18,507	770	163,409
Revaluations	3,085	–	–	–	–	–	3,085
Additions	–	134	7,992	35	440	–	8,601
Disposals	–	(59)	(4,122)	(256)	(169)	(48)	(4,654)
Open market value/cost at end of year	**65,464**	**15,568**	**61,640**	**8,269**	**18,778**	**722**	**170,441**
Accumulated depreciation and impairment losses at beginning of year	(3,379)	(10,988)	(46,463)	(5,760)	(11,582)	(586)	(78,758)
Depreciation	(1,095)	(1,380)	(7,366)	(701)	(1,315)	(48)	(11,905)
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	**(4,474)**	**(12,324)**	**(49,563)**	**(5,963)**	**(12,503)**	**(586)**	**(85,413)**
Net carrying amount at end of year	**60,990**	**3,244**	**12,077**	**2,306**	**6,275**	**136**	**85,028**

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

2. Property and equipment (continued)

GROUP	Owner-occupied properties R'000	Leasehold improve-ments R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
2003							
Open market value/cost at beginning of year	55,000	15,650	56,181	8,287	18,237	1,215	154,570
Revaluations	7,379	–	–	–	–	–	7,379
Additions	–	996	1,704	258	311	198	3,467
Disposals	–	(1,153)	(115)	(55)	(41)	(643)	(2,007)
Open market value/cost at end of year	**62,379**	**15,493**	**57,770**	**8,490**	**18,507**	**770**	**163,409**
Accumulated depreciation and impairment losses at beginning of year	–	(9,607)	(39,857)	(5,116)	(10,372)	(895)	(65,847)
Depreciation	(3,379)	(2,019)	(6,775)	(692)	(1,284)	(67)	(14,216)
Reversal of impairments	–	–	54	15	49	–	118
Disposals	–	638	115	33	25	376	1,187
Accumulated depreciation and impairment losses at end of year	**(3,379)**	**(10,988)**	**(46,463)**	**(5,760)**	**(11,582)**	**(586)**	**(78,758)**
Net carrying amount at end of year	**59,000**	**4,505**	**11,307**	**2,730**	**6,925**	**184**	**84,651**

COMPANY	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Total R'000
2004				
Cost at beginning of year	–	–	–	–
Cost at end of year	–	–	–	–
Accumulated depreciation and impairment losses at beginning of year	–	–	–	–
Net carrying amount at end of year	–	–	–	–
2003				
Cost at beginning of year	95	7	37	139
Disposals	(95)	(7)	(37)	(139)
Cost at end of year	–	–	–	–
Accumulated depreciation and impairment losses at beginning of year	(95)	(3)	(24)	(122)
Disposals	95	3	24	122
Accumulated depreciation and impairment losses at end of year	–	–	–	–
Net carrying amount at end of year	–	–	–	–

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

Notes:

1. G J van Zyl, a valuator with Van Zyl Valuers and a Member of The Institute of Valuers of South Africa, independently valued the properties at 31 December 2004.
2. During 2003 where 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 Group'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 Note 14).
4. A register containing details of property and the revaluation thereof is available for inspection at the registered office of the Company.

3. Investment properties

	Group	
	2004	2003
	R'000	R'000
Open-market value at beginning of year	**800**	800
Revaluations	**(30)**	–
Open-market value at end of year	**770**	800

Notes:

1. G J van Zyl, a valuator with Van Zyl Valuers and a Member of The Institute of Valuers of South Africa, independently valued the properties at 31 December 2004.
2. At 31 December 2004 the value of unlet investment properties for the Group amounted to R129,000 (December 2003: R214,000).
3. A register containing details of investment properties and the revaluation thereof is available for inspection at the registered office of the Company.

4. Taxation

	Group		Company	
	2004	2003	**2004**	2003
	R'000	R'000	**R'000**	R'000
South African Revenue Services				
Taxation overpaid by the Group/Company	**3,616**	3,567	**29**	29
Taxation owing by the Group/Company	**44**	937	**–**	–

5. Other accounts receivable

Items in transit	**4,675**	51,434	**–**	–
Pre-payments and deposits	**11,166**	16,427	**–**	–
Properties in possession	**203**	3,367	**–**	–
Other receivables	**17,104**	11,202	**214**	236
	33,148	82,430	**214**	236

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

6. Interest in subsidiaries

	Company	
	2004	2003
	R'000	R'000
Unlisted		
Shares at fair value	**516,212**	171,478
Loans – net amount owing to subsidiaries	**(14,597)**	(8,224)
	501,615	163,254

A list of principle subsidiary companies is contained in paragraph 9 of the Directors' report.

7. Interest in associated companies

	Group	
	2004	2003
	R'000	R'000
Unlisted		
Shares, at cost		
* Mercguard Insurance Brokers (Pty) Ltd	**–**	–
† Statman Investments (Pty) Ltd	**675**	675
	675	675
Loans to associated companies	**–**	210
Accumulated share of post-acquisition profits	**2,834**	2,610
Dividends received from associated companies	**(273)**	(544)
	3,236	2,951
Directors' valuation of unlisted associated companies	**3,236**	2,951

* Financial year-end December.

† Financial year-end February.

Summarised financial information of associated companies is disclosed in Note 29.4. The loans to associated companies were interest free with no fixed terms of repayment. The investment in Mercguard Insurance Brokers (Pty) Ltd was disposed of during the current financial year.

8. Other investments

	Group		Company	
	2004	2003	**2004**	2003
	R'000	R'000	**R'000**	R'000
Available-for-sale				
Listed	**631**	767	**559**	677
Unlisted	**2,925**	3,198	**–**	–
	3,556	3,965	**559**	677
Directors' valuation of unlisted investments	**2,925**	3,198	**–**	–

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

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

9. Loans and advances

	Group 2004 R'000	Group 2003 R'000
Category analysis		
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		
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
Impairment for credit losses		
Balance at beginning of year	297,874	372,521
Movements for year:		
Transitional adjustments	–	(28,811)
Transfer from investments	–	36
Transfer to provision for other risks (refer Note 16)	–	(11,510)
Credit losses written-off	(154,363)	(30,694)
Net impairments raised/(released)	150,753	(3,668)
Impairment 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

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

9. Loans and advances (continued)

	Group 2004 R'000	Group 2003 R'000
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	8,643	8,696
Release of other credit risk-related provisions	2,897	7,476
	(4,367)	19,840

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
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

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

10. Derivative financial instruments

	Group			
	Notional principal R'000	Fair value of assets R'000	Notional principal R'000	Fair value of liabilities R'000
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

11. Negotiable securities

	Group	
	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

12. Cash and cash equivalents

	Group		Company	
	2004 R'000	2003 R'000	**2004 R'000**	2003 R'000
Coin and bank notes	**18,792**	25,641	–	–
Central bank balances	**33,336**	32,422	–	–
Domestic bank balances	**88,206**	73,175	**336**	2
Resale agreements	–	361,602	–	–
Foreign bank balances	**1,008,527**	82,090	–	–
	1,148,861	574,930	**336**	2

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

13. Share capital and share premium

13.1 Issued – GROUP

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
At 31 December 2002 and 31 December 2003	**855,585,190**	**213,896**	**652,969**	**866,865**
Transfer to distributable reserves on sub-division of shares	–	(205,340)	–	(205,340)
Issue of ordinary shares of 1 cent each	3,083,333,334	30,833	524,167	555,000
Share issue costs	–	–	(6,382)	(6,382)
Treasury shares on consolidation of Share Incentive Trust	(8,546,595)	(1,501)	–	(1,501)
At 31 December 2004	**3,930,371,929**	**37,888**	**1,170,754**	**1,208,642**

13.2 Issued – COMPANY

	Number of issued ordinary shares	Share capital R'000	Share premium R'000	Total R'000
At 31 December 2002 and 31 December 2003	**855,585,190**	**213,896**	**652,969**	**866,865**
Transfer to distributable reserves on sub-division of shares	–	(205,340)	–	(205,340)
Issue of ordinary shares of 1 cent each	3,083,333,334	30,833	524,167	555,000
Share issue costs	–	–	(6,382)	(6,382)
At 31 December 2004	**3,938,918,524**	**39,389**	**1,170,754**	**1,210,143**

13.3 Authorised

The total authorised number of ordinary shares, after the sub-division, in terms of the scheme of arrangement approved by the High Court of South Africa (Witwatersrand Local Division) on 13 July 2004, is 4,465,955,440 shares with a par value of 1 cent each (December 2003: 1,000,000,000 shares with a par value of 25 cents each). The total authorised number of preference shares is 15,200,000 shares (December 2003: 15.2 million shares) with a par value of 25 cents each. No shares were issued during the financial year ended 31 December 2003.

13.4 Unissued

The unissued 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)

13. Share capital and share premium (continued)

13.5 Share incentive scheme

Certain employees were given the option to acquire shares in the capital of the Company at an exercise price of 32 cents each on 20 November 2001 and 11 February 2002.

Options in issue at the beginning of the year amounted to 18,268,000. During the year, a total of 11,625,000 options were cancelled and a further 5,000,000 options were issued on 5 October 2004 at an exercise price of 18 cents each and 3,100,000 options were issued at an exercise price of 17 cents each on 7 October 2004. The number of shares, which could be utilised for the purposes of the scheme at 31 December 2004, amounted to 14,743,000.

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 that are exercisable, or the option in respect of that 20% will lapse.

Grant date	Exercise price cents	Options at 31 December 2003 and 31 December 2002	Granted during year	Cancelled during year	Options at 31 December 2004	Relating to directors
20 November 2001 and 11 February 2002	32	18,268,000	–	(11,625,000)	6,643,000	–
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**	**5,000,000**

14. Long-term liabilities

	Group 2004 R'000	Group 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 bears 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.

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

15. Deposits

	Group 2004 R'000	2003 R'000
Call deposits and current accounts	**752,947**	678,020
Savings accounts	**140,949**	133,198
Term and notice deposits	**1,133,009**	996,628
Negotiable certificates of deposit	**35,709**	78,396
Foreign bank deposits and loans	**49,955**	60,510
	2,112,569	1,946,752
Maturity analysis		
Repayable on demand and within one month	**1,163,031**	1,135,354
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
	2,112,569	1,946,752

16. Provisions

GROUP	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 2002	**11,231**	**8,278**	**7,016**	**879**	**27,404**
Amount previously accounted for under provisions for credit risk (refer Note 9)	–	–	–	11,510	11,510
Additional provision raised	3,136	6,370	–	151	9,657
Charged to provision	–	(4,062)	(1,369)	–	(5,431)
Unutilised provision reversed	–	(2,131)	–	(4,943)	(7,074)
At 31 December 2003	**14,367**	**8,455**	**5,647**	**7,597**	**36,066**
Additional provision raised	1,582	4,812	–	291	6,685
Charged to provision	–	(5,207)	(1,766)	(410)	(7,383)
Unutilised provision reversed	–	–	–	(2,600)	(2,600)
At 31 December 2004	**15,949**	**8,060**	**3,881**	**4,878**	**32,768**

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

16. Provisions (continued)

Post-retirement medical benefits

Refer to Note 17 for detailed disclosure of this provision.

Leave pay

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

Onerous lease contracts

The restructuring of part of the banking services segment in 2001 resulted in the closure of certain branches. The full estimated costs incurred in the fulfilment of the lease obligations are expected to be fully utilised by 2008.

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 Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual basis or in aggregate. Provisions are raised for all liabilities, which are expected to materialise.

17. Post-retirement medical benefits

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

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

	Group	
	2004	2003
	R'000	R'000
The amounts recognised in the balance sheet are as follows (refer Note 16):		
Present value of total service liabilities	**26,257**	24,129
Fair value of plan assets	**(10,308)**	(10,656)
Unrecognised actuarial gains	**–**	894
Total liability in the balance sheet	**15,949**	14,367

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

17. Post-retirement medical benefits (continued)

	Group	
	2004	2003
	R'000	R'000
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 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 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

18. Other accounts payable

	Group		Company	
	2004	2003	**2004**	2003
	R'000	R'000	**R'000**	R'000
Accruals	**12,240**	7,817	**17**	17
Product-related credits	**16,147**	18,957	**–**	–
Sundry creditors	**11,151**	13,663	**296**	282
	39,538	40,437	**313**	299

19. Contingent liabilities and comments

19.1 Guarantees, letters of credit and irrevocable unutilised facilities

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

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

19. Contingent liabilities (continued)

19.2 Conditional buy-back obligation

In terms of the sale agreement, wherein the Group disposed of its asset finance book, the Group has an obligation to buy-back the credit agreement rights and obligations of customers that fail to meet their repayments. 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 Note 16), has been provided against this obligation (December 2003: R6.6 million).

19.3 Commitments under operating leases

	Group	
	2004	2003
	R'000	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.

20. Deferred taxation

A deferred tax asset has not been recognised for the deductible temporary differences and unutilised calculated tax losses of R1,075.2 million (December 2003: R862.6 million) due to the uncertainty regarding the timing of the reversal of these losses.

21. Interest income

	Group		Company	
	2004	2003	**2004**	2003
	R'000	R'000	**R'000**	R'000
Interest on:				
Cash and cash equivalents	**57,196**	41,614	**–**	26
Negotiable securities	**21,747**	23,828	**–**	–
Loans and advances	**113,195**	161,528	**–**	–
Originated	**102,465**	146,502	**–**	–
Held-for-trading	**10,730**	15,026	**–**	–
Subordinated loan to the Bank	**–**	–	**1,945**	–
	192,138	226,970	**1,945**	26

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

22. Interest expenditure

	Group 2004 R'000	Group 2003 R'000	Company 2004 R'000	Company 2003 R'000
Interest on:				
Long-term liabilities	456	809	–	–
Deposits	104,635	160,343	–	–
Subordinated loan from CGD	1,945	–	1,945	–
	107,036	161,152	1,945	–

23. Non-interest income

	Group 2004 R'000	Group 2003 R'000	Company 2004 R'000	Company 2003 R'000
Transactional income	78,271	69,519	–	–
Fees and commission	75,908	67,416	–	–
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	1,385	2,788	1,000	2,590
Dividends	142	2,120	1,000	2,590
Rental income	1,243	668	–	–
Other income	128	–	–	–
	96,138	91,025	1,000	2,590

24. Operating expenditure

	Group 2004 R'000	Group 2003 R'000	Company 2004 R'000	Company 2003 R'000
Auditors' remuneration				
Audit fees – current	4,000	2,594	–	17
– prior	1,200	–	–	(533)
Fees for other services	3,202	4,958	–	–
	8,402	7,552	–	(516)
Professional fees				
Consulting	12,478	26,492	–	52
Legal	1,950	977	–	–
Technical and other	16,365	9,600	–	–
	30,793	37,069	–	52

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

24. Operating expenditure (continued)

	Group		Company	
	2004 R'000	2003 R'000	**2004 R'000**	2003 R'000
Depreciation and amortisation				
(refer Notes 1 and 2)	**18,556**	20,471	**–**	–
Lease charges				
Motor vehicles	**624**	1,492	**–**	–
Equipment	**200**	260	**–**	–
	824	1,752	**–**	–
Staff costs				
Salaries, wages and allowances	**81,251**	87,920	**–**	–
Post-retirement medical benefits	**1,582**	3,136	**–**	–
Contributions to defined contribution pension fund	**5,307**	6,477	**–**	–
Other	**3,506**	2,903	**–**	–
	91,646	100,436	**–**	–
Number of persons employed by the Group				
at year-end	**437**	432	**–**	–
Operating lease expenses – premises	**8,861**	6,924	**–**	–
Marketing and communication	**7,499**	7,461	**468**	–
Impairment and (profit)/loss on sale				
of property and equipment				
Leasehold improvements	**15**	523	**–**	–
Computer equipment	**(174)**	(70)	**–**	–
Furniture and fittings	**(262)**	(74)	**–**	4
Office equipment	**(229)**	(36)	**–**	13
Motor vehicles	**(30)**	(52)	**–**	–
Computer software	**–**	1	**–**	1
	(680)	292	**–**	18
Directors' emoluments (refer Note 29.3)				
Executive directors	**4,461**	2,803	**4,461**	2,803
Non-executive directors				
Fees	**1,294**	927	**1,294**	927
	5,755	3,730	**5,755**	3,730
Less: Amounts paid by subsidiaries	**–**	–	**(5,755)**	(3,730)
	5,755	3,730	**–**	–
Indirect taxation				
Unclaimable value-added tax	**8,042**	6,546	**–**	–
Skills development levy	**173**	351	**–**	–
Regional Services Council levies	**816**	830	**3**	3
	9,031	7,727	**3**	3

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

24. Operating expenditure (continued)

	Group		Company	
	2004 R'000	2003 R'000	2004 R'000	2003 R'000
Direct operating expenses in respect of investment properties				
Let properties	250	237	–	–
Unlet properties	122	124	–	–
	372	361	–	–
Other operating costs	38,775	43,746	273	169
Total operating expenditure	219,834	237,521	744	(274)

25. Taxation

	Group 2004	Group 2003	Company 2004	Company 2003
Direct taxation				
South African normal taxation:				
Current	–	–	–	–
Deferred	–	–	–	–
Prior period	50	–	–	–
	50	–	–	–
South African tax rate reconciliation:				
South African standard tax rate	30.0%	30.0%	30.0%	30.0%
Exempt income	(0.8%)	(3.6%)	(409.8%)	(53.0%)
Tax losses raised/utilised	1.6%	6.7%	379.8%	23.0%
Deferred taxation not raised	(31.8%)	(33.8%)	–	–
Expenses not allowable	1.0%	0.7%	–	–
Effective tax rate	0.0%	0.0%	0.0%	0.0%
Estimated tax losses available for set-off against future taxable income	1,075,178	862,608	2,607	1,862

26. Loss, headline loss and diluted loss per share

26.1 Loss per share

The calculation of loss per share is based on losses of R213.1 million (December 2003: losses of R58.9 million) and a weighted average of 1,832,816,520 (December 2003: 855,585,190) ordinary shares in issue throughout the year.

26.2 Headline loss per share

The calculation of headline loss per share is based on losses of R213.8 million (December 2003: losses of R56.5 million) and a weighted average of 1,832,816,520 (December 2003: 855,585,190) ordinary shares in issue throughout the year.

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

26. Loss, headline loss and diluted loss per share (continued)

26.3 Diluted loss per share

The calculation of diluted loss per share is based on losses of R213.1 million (December 2003: losses of R58.9 million) and a weighted average of 1,832,824,514 (December 2003: 855,585,190) ordinary shares in issue throughout the year. The weighted number of ordinary shares has been adjusted with the dilution effect of the share options issued.

26.4 Diluted headline loss per share

The calculation of diluted headline loss per share is based on losses of R213.8 million (December 2003: losses of R56.5 million) and a weighted average of 1,832,824,514 (December 2003: 855,585,190) ordinary shares in issue throughout the year. The weighted number of ordinary shares has increased by 7,944 with the dilution effect of the share options issued.

27. Cash flow details

	Group		Company	
	2004 R'000	2003 R'000	**2004 R'000**	2003 R'000
27.1 Cash receipts from customers				
Interest income	**192,138**	226,970	**1,945**	26
Non-interest income and profit on disposal and revaluation of investments	**98,029**	91,033	**988**	4,588
Adjusted for: Dividends received	**(142)**	(2,120)	**(1,000)**	(2,590)
Net (profit)/loss on disposal and revaluation of investments	**(1,891)**	2,125	**12**	(1,998)
Revaluation of held-for-trading financial instruments	**7,964**	(2,206)	**–**	–
Recoveries of credit losses	**7,454**	8,696	**–**	–
Total cash receipts from customers	**303,552**	324,498	**1,945**	26
27.2 Cash paid to suppliers and employees				
Interest expenditure	**(106,580)**	(160,343)	**(1,945)**	–
Operating expenditure	**(219,834)**	(237,521)	**(744)**	274
Adjusted for: Depreciation and amortisation	**18,556**	20,471	**–**	–
Impairment and loss on disposal of property and equipment	**(680)**	292	**–**	18
Reversal of accruals	**–**	–	**–**	(533)
(Release)/Increase in provisions	**(3,298)**	8,662	**–**	–
Total cash paid to customers and employees	**(311,836)**	(368,439)	**(2,689)**	(241)

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

27. Cash flow details (continued)

	Group 2004 R'000	Group 2003 R'000	Company 2004 R'000	Company 2003 R'000
27.3 Taxation paid				
Amounts overpaid at beginning of year	**2,630**	1,890	**29**	29
Income statement charge	**(50)**	–	**–**	–
Less: Amounts overpaid at end of year	**(3,572)**	(2,630)	**(29)**	(29)
Total taxation paid	**(992)**	(740)	**–**	–
27.4 Changes in income earning assets				
Increase in negotiable securities	**(97,189)**	(117,502)	**–**	–
Decrease in loans and advances	**57,678**	201,518	**–**	–
Net (increase)/decrease in income earning assets	**(39,511)**	84,016	**–**	–
27.5 Changes in deposits and other accounts				
Increase in deposits	**165,817**	33,773	**–**	(459)
(Decrease)/Increase in other accounts	**(79,342)**	50,364	**36**	(6)
Net increase/(decrease) in deposits and other accounts	**86,475**	84,137	**36**	(465)

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

28. Financial risk management

28.1 Foreign currency risk management

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

Exposure in R'000 to	US Dollar	Euro	Pound Sterling	Other	Total
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)

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	**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
Australian Dollar	**–**	5.08	**–**	5.00
Denmark Kronen	**0.97**	–	**0.96**	–
Hong Kong Dollar	**1.33**	–	**1.27**	–

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

28. Financial risk management (continued)

28.2 Credit risk management

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

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

Advances and debtors comprise a large number of customers, dispersed across different industries and geographical areas.

Ongoing credit evaluations are performed on the financial condition of these debtors. Advances and debtors are presented net of impairment for credit losses.

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

At year-end, the Group did not consider there to be any significant concentration of risk, which had not been insured or adequately provided for. There were no material credit exposures in advances made to foreign entities at year-end, except for the deposits with CGD as disclosed in Note 29.

28.3 Liquidity risk management

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

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

28. Financial risk management (continued)

	Assets R'000	Liabilities R'000	Total mismatch R'000
2004			
Maturing up to one month	**1,313,500**	**1,232,394**	**81,106**
Maturing between one and three months	**541,329**	**576,184**	**(34,855)**
Maturing between three and six months	**192,691**	**249,484**	**(56,793)**
Maturing between six months and one year	**103,583**	**130,575**	**(26,992)**
Maturing after one year	**569,965**	**532,431**	**37,534**
	2,721,068	**2,721,068**	**–**
2003			
Maturing up to one month	1,623,058	1,214,325	408,733
Maturing between one and three months	166,222	607,232	(441,010)
Maturing between three and six months	104,001	137,926	(33,925)
Maturing between six months and one year	69,827	67,773	2,054
Maturing after one year	262,385	198,237	64,148
	2,225,493	2,225,493	–

28.4 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)

28. Financial risk management (continued)

28.5 Interest rate risk management

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

	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	–	–	–	–	–	85,028	85,028	
Investment properties	–	–	–	–	–	770	770	
Taxation	–	–	–	–	–	3,616	3,616	
Other accounts receivable	7,618	–	–	–	–	25,530	33,148	1.65
Interest in associated companies	–	–	–	–	–	3,236	3,236	
Other investments	–	–	–	–	–	3,556	3,556	
Loans and advances	793,491	1,991	8,436	67,074	32,753	71,866	975,611	7.48
Derivative financial instruments	–	–	–	–	–	90,162	90,162	
Negotiable securities	143,329	65,435	–	–	161,432	83	370,279	7.40
Cash and cash equivalents	96,505	508,769	494,024	–	–	49,563	1,148,861	6.98
Total assets	1,040,943	576,195	502,460	67,074	194,185	340,211	2,721,068	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	500,939	500,939	
Deposits	1,060,119	410,716	373,736	–	–	267,998	2,112,569	4.90
Derivative financial instruments	–	–	–	–	–	35,210	35,210	
Provisions	–	–	–	–	–	32,768	32,768	
Other accounts payable	–	–	–	–	–	39,538	39,538	
Taxation	–	–	–	–	–	44	44	
Total liabilities	1,060,119	410,716	373,736	–	–	876,497	2,721,068	
On balance sheet interest sensitivity gap	(19,176)	165,479	128,724	67,074	194,185			

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

28. Financial risk management (continued)

28.5 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	–	–	–	–	–	84,651	84,651	
Investment properties	–	–	–	–	–	800	800	
Taxation	–	–	–	–	–	3,567	3,567	
Other accounts receivable	–	–	–	–	–	82,430	82,430	
Interest in associated companies	–	–	–	–	–	2,951	2,951	
Other investments	–	–	–	–	–	3,965	3,965	
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	511,998	2,225,493	
Equity and liabilities								
Shareholders' equity	–	–	–	–	–	163,899	163,899	
Long-term liabilities	230	417	1,974	2,666	–	–	5,287	11.51
Deposits	947,160	516,087	215,167	3,882	–	264,456	1,946,752	6.88
Derivative financial instruments	–	–	–	–	–	32,115	32,115	
Provisions	–	–	–	–	–	36,066	36,066	
Other accounts payable	–	–	–	–	–	40,437	40,437	
Taxation	–	–	–	–	–	937	937	
Total liabilities	947,390	516,504	217,141	6,548	–	537,910	2,225,493	
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)

29. Related-party information

29.1 Identity of related parties with whom material transactions have occurred

The holding company and material subsidiaries of the Group are identified on pages 10 to 13 in the Directors' report and the associated companies are disclosed in Note 7 to the financial statements. All of these entities and the directors are related parties. There are no other related parties with whom material transactions have taken place, other than as listed below.

29.2 Material related-party balances and transactions

Mercantile Lisbon Bank Holdings Limited and its Subsidiaries, in the ordinary course of business, enter into various financial services transactions with the holding company and its subsidiaries, other entities within the Group and associated companies. These transactions are governed by terms no less favourable than those arranged with third parties. For loans to and from subsidiaries, see paragraph 9 in the Directors' report and for loans to and from associated companies see Note 7 to the financial statements. Other transactions are detailed hereafter.

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 MBL	–	(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 paragraph 7 in the Director's report. Guarantee fees paid to CGD during the year amounted to R nil (2003: R0.3 million).

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

29. Related-party information (continued)

29.3 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	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
M J Soutelo da Silva	–	–	–	–	–	–
R J Symmonds	–	950	–	110	–	1,060
J 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 Group 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 Group by Caixa Geral de Depósitos.

Mr Figueira's employment in the Group 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 and commensurate with his position as Executive Director.

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

29. Related-party information (continued)

29.3 Director and director-related activities (continued)

Share options

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

Beneficial and non-beneficial interests held, directly or indirectly, in shares issued by the Company

	Direct				Indirect					
Director	Beneficial		Non-beneficial		Beneficial		Non-beneficial		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
J H Real Pereira	–	91 000	–	–	–	–	–	–	–	91 000
	–	91 000	–	–	–	–	–	–	–	91 000

Notes: 1. There has been no change in these interests between 31 December 2004 and the date of this report.
2. J H Real Pereira resigned as non-executive director on 29 March 2004.

29.4 Summarised financial information of associated companies

	Mercguard Insurance Brokers (Pty) Ltd		Statman Investments (Pty) Ltd	
	2004	2003	**2004**	2003
	R'000	R'000	**R'000**	R'000
Income statements				
(Loss)/Profit after taxation	–	(2,326)	**2,373**	3,989
Balance sheets				
Non-current assets	–	1,641	**14,054**	14,876
Current assets	–	2,899	**12,039**	13,696
Current liabilities	–	(5,530)	**(8,739)**	(10,290)
Non-current liabilities	–	–	**(2,339)**	(3,160)
Equity	–	(990)	**15,015**	15,122
Percentage held	–	50.0	**21.4**	21.4
Nature of business	Insurance brokers		Investment holding	
Place of incorporation	South Africa		South Africa	

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

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

30. Segment information

The primary business segments of the Group are as follows:

Business segment	Scope of products and services
Retail Banking*	Banking, investment and other financial services offered to banking customers.
Treasury*	Managing internal liquidity as well as serving retail and alliance banking customers.
Alliance Banking, MBL Credit Card and Structured Loans*	Card processing services and structured loans offered to banking customers.
Support and Other Services	Support services for the above segments as well as collections, specialised asset finance, insurance brokers, inter-Group eliminations and AC 133 adjustments.

* Excludes the allocation of attributable support costs.

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

The primary segments are as follows:

	Retail Banking		Treasury		Alliance Banking, MBL Credit Card and Structured Loans		Support and Other Services		Total	
	2004 R'000	2003 R'000	**2004 R'000**	2003 R'000	**2004 R'000**	2003 R'000	**2004 R'000**	2003 R'000	**2004 R'000**	2003 R'000
Segment results										
Segment revenue	**116,342**	93,896	**23,005**	8,843	**41,790**	33,829	**2,762**	42,065	**183,899**	178,633
Segment expenditure	**(54,401)**	(55,191)	**(52,444)**	(12,284)	**(18,261)**	(26,420)	**(271,874)**	(143,626)	**(396,980)**	(237,521)
Contribution/(Loss) before allocated costs	**61,941**	38,705	**(29,439)**	(3,441)	**23,529**	7,409	**(269,112)**	(101,561)	**(213,081)**	(58,888)
Other information										
Capital disposals/ (expenditure)	**1,326**	9,652	**326**	5,574	**(661)**	(45)	**(10,223)**	(22,098)	**(9,232)**	(6,917)
Depreciation and amortisation	**(2,168)**	(3,088)	**(3,184)**	(2,817)	**(7,004)**	(6,550)	**(6,200)**	(8,016)	**(18,556)**	(20,471)
Other non-cash expenses	**–**	–	**–**	–	**–**	–	**–**	(292)	**–**	(292)
Share of income from associated companies	**–**	–	**–**	–	**–**	–	**768**	1,942	**768**	1,942
Segment position										
Segment assets	**757,499**	1,564,317	**1,592,907**	146,690	**172,485**	199,625	**198,177**	314,861	**2,721,068**	2,225,493
Segment liabilities	**1,885,785**	1,469,150	**227,373**	233,602	**19,878**	200,843	**87,093**	157,999	**2,220,129**	2,061,594
Carrying amounts of segment assets include:										
Investments in associated companies	**–**	–	**–**	–	**–**	–	**3,236**	2,951	**3,236**	2,951

The secondary segments are as follows:

	Gauteng		Free State		KwaZulu-Natal		Western Cape		Total	
	2004 R'000	2003 R'000	**2004 R'000**	2003 R'000	**2004 R'000**	2003 R'000	**2004 R'000**	2003 R'000	**2004 R'000**	2003 R'000
Segment revenue	**164,562**	162,062	**3,534**	2,914	**5,007**	4,270	**10,796**	9,387	**183,899**	178,633
Capital disposals/ (expenditure)	**(9,280)**	(6,737)	**94**	41	**(228)**	240	**182**	(461)	**(9,232)**	(6,917)
Segment assets	**2,592,914**	2,016,270	**16,707**	66,312	**45,176**	61,005	**66,271**	81,906	**2,721,068**	2,225,493

Risk management and control

The Group's risk management philosophy

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

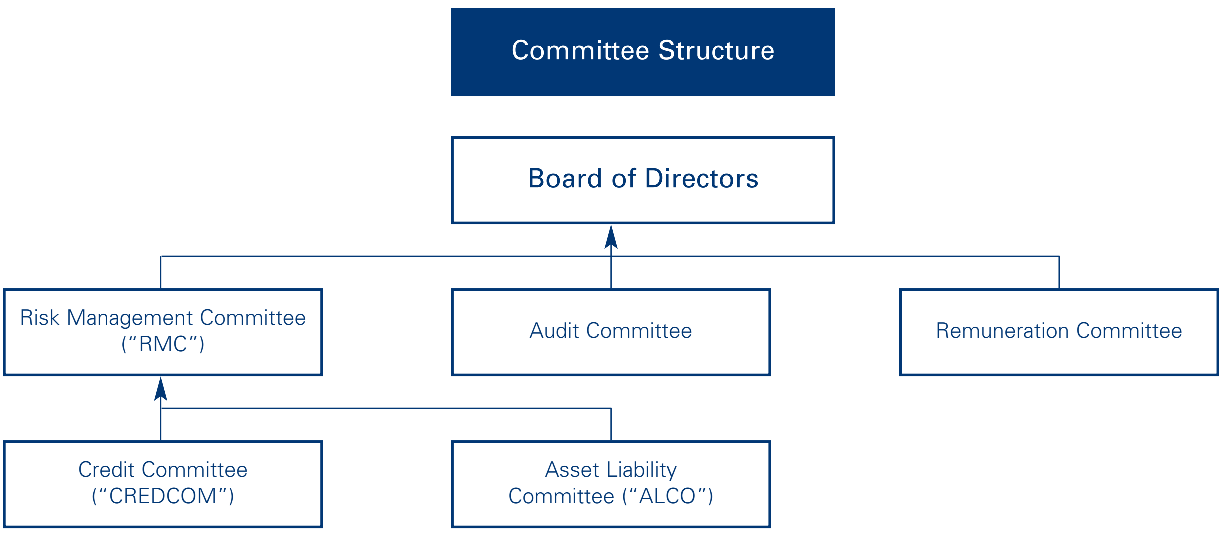
A philosophy of enterprise-wide risk management within a Risk Management Monitoring and Control Framework has been established to ensure that all business and operational risks are managed effectively within acceptable risk profiles, policies and parameters and that the management of risk is an independent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

Enterprise-wide risk management

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

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

The Group continues to develop credit risk modeling analytical tools to better understand and manage its credit risk portfolios.



Risk management and control (continued)

Enterprise-wide risk management (continued)

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

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

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

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

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

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

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

A wide variety of checks and balances to manage operational risk have been enhanced during the year. These include, *inter alia,* a disaster recovery planning process, incorporating business continuity planning for all key areas and extensive on- and off-site back-up facilities. A study was performed to identify high-risk impact occurrences/disasters. The disaster recovery plan project was initiated in July 2004. The main objectives of this project were to reduce the recovery time and to standardise the recovery methodology, should a disaster occur. These procedures have been documented and an action plan is in place to test these procedures. It is envisaged that the testing of the disaster recovery plan will be completed by 30 June 2005.

Risk management life cycle/process

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

Risk identification (and comprehension)

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

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

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

Risk management (as an independent function)

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

Risk monitoring (and compliance with documented policies)

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

Risk management and control (continued)

Basel II – Influencing risk management developments at Mercantile

The Basel Capital Accord's objective is to more closely align capital adequacy assessment with the key elements of banking risks. This provides incentives for banks to enhance their risk measurement and management capabilities. This will ensure a more resilient, more stable and a better source for credit, risk intermediation and growth. Basel II is not the end of the journey, but only a tool to get us to our final destination, being best world-wide banking practice. Basel II's objective is to make us aware of these challenges and to make sure that internationally active banks deal with such challenges.

In today's complex environment, combining effective bank-level management with market discipline and regulatory supervision best attains systemic safety and soundness. Building on these principles, the new accord has far-reaching implications for banks in terms of minimum capital standards linked to risks, risk measurement systems and methods, risk management practices and public disclosure of risk profile information.

The accord provides a range of approaches from simple to advanced methodologies for the measurement of both credit and operational risk in determining capital levels. It provides a flexible structure in which banks, subject to supervisory review, will adopt approaches that best fit their level of sophistication and their risk profile.

The comprehensive, detailed and complex compliance criteria set by Basel II require substantial investments in data collection, information technology systems and business process changes. We are currently busy with projects to define gaps and address the implementation of enhancements required in respect of methodologies, systems and business processes across the areas of market, credit and operational risk management to satisfy the stringent criteria to be met for Basel II compliance.

Corporate governance

The Board of Directors ("the Board") of Mercantile Lisbon Bank Holdings Limited ("Mercantile" or "the Group") subscribes and is committed to complying with the principles and standards of corporate governance expressed in the King Report II on Corporate Governance. The Board evaluated the achievement of the corporate governance objectives that had been set for the 2004 financial year and documented the objectives, which it would like to achieve in the 2005 financial year.

With the exception of the following, all the objectives for 2004 were fully attained:

- The performance of the Directors' Committees to be evaluated at least annually.

  The process has been documented but implementation has been delayed due to the Board committees having been reconstituted and the majority of the directors on the Board only being appointed in 2004.

- The Board to disclose in the Annual Report that a documented and tested disaster recovery plan exists.

  These procedures have been documented but only partially tested. An action plan for further implementation and testing of procedures is in place and it is envisaged that the testing process will be completed by 30 June 2005.

Board of Directors

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

The Chairman of both Mercantile and the Bank is a non-executive director.

The boards of directors comprise non-executive and executive directors with different skills, professional knowledge and experience, with the non-executive directors, of which two-thirds are independent, comprising the majority on the boards. The roles of the Chairman of the Board and of Chief Executive Officer, who is appointed by the Board, are separated.

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

The process of the identification of suitable candidates to fill vacancies on the boards, to re-appoint directors on termination of their term of office or the termination of the appointment of directors, is conducted by the Nominations Committee (see below). This committee's nominations are submitted to the relevant boards of directors for approval, subject to formal notification and approval by the Registrar of Banks. Any person appointed to fill a casual vacancy or as an addition to the boards of Mercantile and of the Bank will retain office only until the next Annual General Meeting unless the appointment is confirmed at that meeting.

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

The boards of Mercantile and of the Bank operate in terms of a charter which defines their role.

To assist the boards of Mercantile and of the Bank in carrying out their duties and responsibilities, a number of board committees have been formed. In future the performance of the committees will be evaluated by the Board at least once annually. These committees have written terms of reference or charters that are subject to regular review. Details of the board committees are provided below.

The Group Secretary ensures that statutory and regulatory procedures are complied with, and can only be removed from his duties by means of a directors' resolution. All directors of all companies in the Group have access to the advice and services of the Group Secretary and, if necessary, are entitled to obtain independent professional advice at the Group's expense. The Group Secretary provides a central source of advice and guidance on business ethics and compliance with good corporate governance.

The Group Secretary also maintains a corporate governance manual and conducts an orientation programme for new directors. Briefings are also held for directors on new laws and regulations.

Corporate governance (continued)

Group Audit Committee

This committee comprises two independent non-executive directors, one of whom acts as Chairman, and the Chief Executive Officer ("CEO"). The members of the committee at 31 December 2004 were:

L Hyne (Chairman)

D J Brown (CEO)

K B Motshabi

Group Audit Committee meetings are held at least three times annually. The number of meetings held during the year under review and a record of attendance of each member is set out in Appendix A. The meetings of the committee are attended by the head of Internal Audit, the external audit partners, the head of Risk, the head of Compliance and the head of Finance. The head of Internal Audit, the head of Compliance and the external auditors have unrestricted access to the Chairman of the committee. The committee has a clear mandate. It assists the boards of Mercantile and of the Bank to fulfill their responsibilities under the Banks Act, the Companies Act, other applicable statutory law and the common law.

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

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

The Group Audit Committee also assists the Board of the Bank in carrying out their responsibilities under the Banks Act, especially regarding the annual reporting on the functioning of the internal control systems of the Bank and its continuing viability as a going concern.

The Group Audit Committee has fulfilled its responsibilities in terms of its charter during the period under review and the charter was reviewed during the last year.

The Group Audit Committee considers the annual financial statements of Mercantile and its subsidiaries to be a fair presentation of its financial position, and the results of operations and cash flows for the year ended 31 December 2004, in terms of South African Statements of Generally Accepted Accounting Practice (GAAP) and the Companies Act.

Group Risk Management Committee

This committee comprises the Chairman, who is a non-executive director, two independent non-executive directors, the Chief Executive Officer and the Executive Director. The members of the committee at 31 December 2004 were:

J A S de Andrade Campos (Chairman)

D J Brown (CEO)

M J M Figueira (Executive)

G P de Kock

L Hyne

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

The meetings of the committee were attended by the head of Risk, the head of Risk Standards Policies and Supervision, the head of Finance, the head of Credit Risk Analysis, the head of ALM and the Compliance Officer.

The committee operates in terms of a charter, which defines its role. The charter was reviewed during the past year.

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

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

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

Restructure of the Nominations and Corporate Governance Committee and Group Human Resources and Remuneration Committee

At its meeting on 28 July 2004, the Board approved the splitting of the structure of the previous Nominations and Corporate Governance Committee into the Directors' Affairs Committee ("DAC") and the Nominations and Remuneration Committee ("NRC"). The primary objective of the DAC would be to assist the Board in its

Corporate governance (continued)

determination, evaluation and monitoring of the appropriateness and effectiveness of the corporate governance structures, processes and practices of Mercantile in accordance with best practice, whilst the NRC's primary responsibility would be to recommend to the Board the appointment and termination of service of executive and non-executive directors and the individual remuneration packages of executive directors and fees for non-executive directors.

The charters of the committees aforementioned were approved by the Board on 22 September 2004 and at the same time it was resolved that the Group Human Resources and Remuneration Committee become a Management Committee and be renamed the Human Resources Committee, since it no longer had the remuneration element and was now dealing with the salaries and performance of management below director level. This committee was to report to the NRC. The number of meetings of the Nominations and Corporate Governance Committee/NRC held during the year under review and a record of attendance of each member is set out in Appendix A.

In view of the desirability of having the committee dealing with remuneration chaired by an independent non-executive director and the committee dealing with nominations to the Board chaired by the Chairman of the Board, in accordance with sound corporate governance principles, the Board at its meeting on 17 November 2004, approved the recommendation that the NRC be split into two separate committees, namely the Nominations Committee and the Remuneration Committee.

Directors' Affairs Committee

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

The members of the committee at 31 December 2004 were:

J A S de Andrade Campos (Chairman)
G P de Kock
L Hyne
A T Ikalafeng
K B Motshabi
A M Osman

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

The committee operates in terms of a charter, which defines its role as set out above.

Nominations Committee

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

The members of the committee at 31 December 2004 were:

J A S Andrade Campos *(Chairman)*
G P de Kock
L Hyne
A T Ikalafeng
K B Motshabi
A M Osman

Meetings of this committee are held whenever meetings of the Board of Directors are held.

The committee operates in terms of a charter, which was approved by the Board on 17 November 2004. Its primary objective is to lead the process for board nominations and appointments and make recommendations to the Board; and to provide support on succession planning, for appointments to the Board and to executive management.

Remuneration Committee

This committee comprises all the independent non-executive directors on the Board. The members of the committee at 31 December 2004 were:

G P de Kock (Chairman)
L Hyne
A T Ikalafeng
K B Motshabi

Meetings of this committee are held whenever meetings of the Board of Directors are held.

The committee operates in terms of a charter, which was approved by the Board on 17 November 2004. Its primary objective is to determine the broad policy and remuneration philosophy for the Group. The committee reviews and recommends to the Board the executive directors' and senior management's remuneration. It also recommends the fees for non-executive directors.

Management committees

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

Assets and Liability Committee (ALCO)
Credit Committee
Executive Committee (Exco)
Human Resources Committee
IT Steering Committee

Corporate governance (continued)

All these committees operate in terms of a charter, which defines their role.

All these charters were revised during the past year.

Internal Audit function

The head of Internal Audit, who reports to the Group Audit Committee, is independent and his function forms part of the risk management process. He has direct and unrestricted access to the Chairman of the Group Audit Committee and the Chairman of the Board.

The Group Audit Committee must concur with any decision to appoint or dismiss the head of Internal Audit. An Internal Audit Charter was approved by the Board during the year under review and governs internal audit activity within the Group. The charter defines the role, objective, authority and responsibility of the Internal Audit function.

All significant operations, business activities and support functions are subject to Internal Audit review. The audit plan is risk based and is drawn up annually in conjunction with CGD's Internal Audit Department and approved by the Group Audit Committee.

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

To complement the Group internal audit function:

- the Bank has entered into an outsourcing arrangement with KPMG, to provide specialist internal audit services in the IT and Treasury areas; and
- CGD's Internal Audit Department undertakes assignments in accordance with CGD's requirements.

External auditors' services: Outsourcing policy

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

- Bookkeeping or other services related to accounting records or financial statements.
- Financial information systems design and implementation.
- Appraisal or valuation services, fairness opinions or contribution-in-kind reports for financial reporting purposes.
- Actuarial services.
- Internal audit outsourcing.
- Performance of management functions.
- As staff-recruitment agent.
- Broker-dealer, investment advisor or investment banking services.
- Legal services.

The CEO may approve non-auditing services projects up to R250,000. Thereafter, pre-approval by the Group Audit Committee is required.

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

Compliance function

Group compliance, which is independent of the internal audit function and is headed by a Compliance Officer, is responsible, *inter alia,* for the establishment of a compliance culture in the Group, which contributes to the overall objective of prudent risk management and good corporate governance.

The objectives of the compliance function, as part of an effective risk management framework, include assisting line management to comply with applicable statutory, regulatory and supervisory requirements relating to the banking industry and to facilitate the management of regulatory and reputational risks.

Dealing in securities of Mercantile

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

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

In addition, the policy stipulates that directors and employees are prohibited from dealing in Mercantile's shares from the last date of the financial year or interim period up to the announcement of the final or interim results on SENS.

Corporate governance (continued)

Code of banking practice

The Group subscribes to the Code of Banking Practice ("the Code") endorsed by banks that are also members of the Banking Council. The Group attempts to conduct its business with uncompromising integrity and fairness so as to promote complete trust and confidence. In meeting this fundamental objective, the Group conducts its relationships with the regulatory authorities, clients, competitors, employees, shareholders, suppliers and the community at large, and encourages its employees to acquaint themselves with the Code and honour its precepts.

Integrated sustainability reporting

- Ethical Standards

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

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

- Safety, Health and Environmental Principles

  The Group is committed to protecting the safety and well-being of its employees during the execution of their duties and of persons who may enter any of its premises. Regular inspections of the workplace are therefore done to identify potential hazards and the Group does not hesitate in taking and enforcing such steps that may be reasonably practicable to eliminate or mitigate against any hazard or potential hazard to the safety of its employees or other persons.

  As far as the health of its employees is concerned, Mercantile recognises that employees with life threatening illnesses may wish to continue in as many of their normal activities as their condition allows. In the case of HIV/AIDS, for example, Mercantile recognises the impact that this disease will have on its ability to achieve its business objectives. Accordingly, it has an established policy in terms of which Mercantile strives to ensure a working environment where HIV-positive employees are protected from unfair discrimination and stigmatisation and that all employees have access to training, information and counseling services relating to the disease.

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

  The Group acknowledges that the sound management of natural resources is a cornerstone of sustainable development including justifiable social and economic development. In order to apply those environmental standards that are applicable to our business operations and services we are in the process of rolling out a policy for managing environmental risks.

- The Financial Sector Charter

  Mercantile supports the implementation of the Financial Sector Charter and during the past year has focused on two key areas, namely employment equity and procurement. Formal employment equity and procurement policies have been developed which take into account black economic empowerment and social transformation. Specific targets have been set and the progress made in attaining these targets will be reviewed on an annual basis.

  The funds spent on the development of the skills of previously disadvantaged employees, which has a target of 1.5% of the annual payroll by 2008, has not been material during the year under review as the training initiatives are only now coming to fruition. However, a full quota of learners was taken on and has proven to be beneficial.

  The financing of small- and medium-sized business enterprises will form part of the Bank's business development initiatives in 2005.

Financial statements

Accounting policies and the basis of accounting on which annual financial statements are prepared, are more fully set out on pages 14 to 19 of this report.

Regulation

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

Corporate governance (continued)

APPENDIX A

Attendance of meetings by directors

Director	Board	Committees			
		Group Audit	Risk Management	Directors' Affairs	Nominations and Remuneration †
Number of meetings held during the period under review	8	5	5	2	7
J A S de Andrade Campos	8/8	#	5/5	2/2	7/7
R M L de F N Ribas*	4/6	2/4	2/3	#	2/3
G P de Kock	8/8	#	2/2	2/2	7/7
L Hyne	8/8	5/5	5/5	2/2	7/7
J H Real Pereira**	1/2	0/2	0/1	#	#
A M Osman	3/7	#	#	2/2	3/6
D J Brown	7/7	3/3	4/4	#	#
M J M Figueira	6/6	#	3/4	#	#
A T Ikalafeng	1/1	#	#	1/1	1/1
K B Motshabi	1/1	1/1	#	1/1	1/1

* Resigned 7 September 2004
** Resigned 29 March 2004
# Non-member of Committee
† Including Nominations and Corporate Governance Committee

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
Mercantile Bank Limited				
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	99,762
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	978,867
Large exposure impairment	100	–	–	93,502
Other regulatory impairments	0	15,990	–	–
		3,171,621	1,229,366	1,311,035
Primary capital			1,495,530	941,918
Secondary capital			17,553	18,806
Impairments			(1,030,723)	(806,000)
Net qualifying capital			482,360	154,724
Capital adequacy ratio (%)			39.2	11.8
Primary capital (%)			37.8	10.4
Secondary capital (%)			1.4	1.4

Analysis of shareholders at 31 December 2004

SHAREHOLDERS' SPREAD

	2004	2003
Number of public shareholders	**6,819**	6,927
Percentage of shares held by:		
Public	**8.04**	35.07
Non-public	**91.96**	64.93
Director	**–**	0.01
Trustees of share incentive scheme	**0.21**	0.09
Holders of 10% or more of shares	**91.75**	64.83

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

	Number of shares	Percentage
2004		
Caixa Geral de Depósitos S.A.	**3,614,018,195**	**91.75**
2003		
Caixa Geral de Depósitos S.A.	554,705,722	64.83
Hollard Group	60,807,187	7.11
Electra Share Ventures (Pty) Ltd	47,512,116	5.55

PERFORMANCE ON THE JSE SECURITIES EXCHANGE SOUTH AFRICA

	2004	2003
Share price (cents)		
Year-end	**18**	17
Highest	**24**	20
Lowest	**11**	8
Number of shares traded ('000)	**46,175**	26,702
Value of shares traded (R'000)	**8,370**	3,599
Average price (cents)	**18**	13

Group addresses

MERCANTILE BANK

Head Office

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

BRANCHES

Boksburg

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

Bruma

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

Cape Town

2 Southern Life Building
Thibault Square
St George's Mall
Cape Town, 8001
PO Box 51, Cape Town, 8000
Tel: (021) 419-9402
Fax: (021) 419-5929

Comaro Crossing

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

Durban

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

Germiston

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

Horizon

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

Pretoria

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

Pretoria West

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

Sandton

142 West Street, Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: (011) 302-0763
Fax: (011) 884-1821

Strijdom Park

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

Troyeville

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

Vanderbijlpark

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

Welkom

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

TREASURY

Head Office

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

MERCANTILE INSURANCE BROKERS

Head Office

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

Notice of annual general meeting

Mercantile Lisbon Bank
Holdings Limited

Reg No: 1989/000164/06
(Incorporated in the Republic of South Africa)
Share code: MTL ISIN: ZAE000056537
("Mercantile" or "the Company")
A Subsidiary Company of Caixa Geral de Depósitos S.A.

Notice is hereby given that an Annual General Meeting ("the meeting") of the members of the Company will be held at 10:00 on Wednesday, 23 March 2005 in the Boardroom, First Floor, Mercantile Lisbon House, 142 West Street, Sandown, Sandton for the following purposes:

1. To receive and adopt the annual financial statements of the Company for the year ended 31 December 2004, together with the Directors' report and to approve the remuneration of the directors as reflected in those statements.

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

   J A S de Andrade Campos who retires by rotation and, being eligible, offers himself for re-election.

   M J M Figueira, who was appointed to the Board on 26 May 2004, A T Ikalafeng and K B Motshabi, who were appointed to the Board on 16 November 2004, retire at the end of this meeting but, being eligible, offer themselves for re-election.

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

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

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

Ordinary resolution number 4

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

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

Ordinary resolution number 5

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

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

Notice of annual general meeting (continued)

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

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

6. To consider and, if deemed fit, passing, with or without modification, the following special resolution:

SPECIAL RESOLUTION

"**RESOLVED** that the name of the Company be and it is hereby changed from "Mercantile Lisbon Bank Holdings Limited" to "Mercantile Bank Holdings Limited"."

Reason for and effect of special resolution

The reason for and effect of the special resolution are to align the holding company's name with that of its major subsidiary, Mercantile Bank Limited ("the Bank"), and with the branding of the Bank. The Company's abbreviated name, share code and ISIN will remain unchanged.

7. To transact any such other business as may be transacted at the meeting, in terms of the Company's articles of association.

Voting and proxies

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

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

Certificated shareholders and own-name dematerialised shareholders, who are unable to attend this meeting but wish to be represented thereat, must complete and return the attached form of proxy in accordance with the instructions contained therein. A form of proxy is attached for this purpose and must be lodged at the Company's registered office, First Floor, Mercantile Lisbon House, 142 West Street, Sandown, 2196 (PO Box 782699, Sandton, 2146) by no later than 14:00 on Friday, 18 March 2005.

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

Procedure for surrender

Subject to the approval by the Mercantile shareholders of the special resolution contained in this Notice of Annual General Meeting reflecting the name change, and the registrations of the special resolution by the Registrar of Companies and the Registrar of Banks, certificates reflecting the name change will be sent to certificated shareholders, by registered post, at the risk of the Mercantile shareholders concerned on or about Monday, 18 April 2005, if the documents of title have been surrendered by Friday, 15 April 2005 or within five business days of receipt of such documents of title if surrendered after Friday, 15 April 2005.

Notice of annual general meeting (continued)

Certificated shareholders are required to surrender their share certificates and/or other documents of title in respect of all their existing Mercantile shares by completing and sending the attached form of surrender, together with the share certificates/documents of title, to Mercantile's transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107).

Shareholders who have dematerialised their share certificates in terms of STRATE must **not** complete the attached form of surrender as their accounts at their CSDP or broker will be automatically updated on Monday, 18 April 2005.

By order of the board

F Vicente Coelho
Company Secretary

Sandton
28 February 2005

Registered office

First Floor
Mercantile Lisbon House
142 West Street
Sandown, 2916
(PO Box 782699, Sandton, 2146)

Transfer secretaries

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

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

J A S de Andrade Campos, age 67, holds a degree in Law from Coimbra University in Portugal. Having started his career as Public Prosecutor, he later held senior positions in various banks and other companies in Europe and Africa, including Chairman of Banque Franco Portugaise in Paris (part of CGD group).

M J M Figueira, age 58, holds a degree in Agronomic Engineering (Lisbon Technical University). He joined the CGD group in 1977, where he has held various senior managerial positions, including Deputy Chairman and CEO of BCI – Mozambique.

A T Ikalafeng, age 38, holds a BSc degree and an MBA degree from Marquette University in the U.S.A. and a Certificate in Finance from Wits. He has held various marketing positions in the U.S.A. and S.A., including a six year tenure at NIKE as Marketing Director RSA and Africa. In 2002 he founded Brand Leadership of which he is currently Managing Director. He is also a director of the Marketing Federation of Southern Africa.

K B Motshabi, age 43, holds the qualifications Dip. Jur, LLB (University of North West) and LLM (Southern Methodist University, USA). He has nearly 14 years of involvement in the insurance, finance and investment industries. He is Executive Chairman of Motse Capital and a director of companies.

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Form of proxy

Mercantile Lisbon Bank
Holdings Limited

Reg No: 1989/000164/06
(Incorporated in the Republic of South Africa)
Share code: MTL   ISIN: ZAE000056537
("Mercantile" or "the Company")
A Subsidiary Company of Caixa Geral de Depósitos S.A.

for use by certificated and own-name dematerialised ordinary shareholders at the Annual General Meeting of the Company to be held at 10:00 on Wednesday, 23 March 2005 ("the meeting") in the Boardroom, First Floor, Mercantile Lisbon House, 142 West Street, Sandown, Sandton

I/We (please print) ______________________________

of (please print) ______________________________

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

1. ______________________________ or failing him/her,

2. ______________________________ or failing him/her,

3. the Chairman of the meeting,

as my/our proxy to attend, speak and vote on my/our behalf at the annual general meeting to be held at the registered office of the Company, in Sandton, on Wednesday, 23 March 2005 at 10:00 and at any adjournment thereof, and to vote or abstain from voting on the ordinary and special resolutions to be proposed at the meeting, as follows:

Ordinary shareholders	For	Against	Abstain
Ordinary resolution number 1 Adoption of annual financial statements			
Ordinary resolution number 2 Re-election of directors			
Ordinary resolution number 3 Remuneration and re-appointment of auditors			
Ordinary resolution number 4 Unissued shares under directors' control			
Ordinary resolution number 5 Issue of reserve shares for cash			
Special resolution Change of name			

Signed this ______________ day of ______________ 2005

Signature of member(s) ______________________________

Assisted by me (where applicable) ______________________________

Please read the notes and instructions on the reverse hereof.

Form of proxy (continued)

Notes:

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

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

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

Instructions on signing and lodging this form of proxy:

1. A deletion of any printed matter and the completion of any blank spaces need not be signed or initialled.

   Any alteration or correction must be initialled by the authorised signatory/ies.

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

   (a) under a power of attorney; or

   (b) on behalf of a company,

   unless that person's power of attorney or authority is deposited at the registered office of the Company by no later than 14:00 on Friday, 18 March 2005.

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

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

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

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

7. Completed forms of proxy should be returned to the Company's registered office, First Floor, Mercantile Lisbon House, 142 West Street, Sandown, 2196 (PO Box 782699, Sandton, 2146) or faxed to the Company Secretary (fax number +27 11 302 0729) by no later than 14:00 on Friday, 18 March 2005.

Form of surrender

Mercantile Lisbon Bank
Holdings Limited

Reg No: 1989/000164/06
(Incorporated in the Republic of South Africa)
Share code: MTL ISIN: ZAE000056537
("Mercantile" or "the Company")
A Subsidiary Company of Caixa Geral de Depósitos S.A.

Only for use by certificated shareholders of Mercantile.

PLEASE REFER TO THE INSTRUCTIONS BELOW AND NOTES ON THE REVERSE SIDE OF THIS FORM OF SURRENDER BEFORE COMPLETING THE FORM. SHAREHOLDERS WHO HAVE DEMATERIALISED THEIR SHARE CERTIFICATES IN TERMS OF STRATE MUST *NOT* COMPLETE THE FORM.

Completion of this form of surrender:

Mercantile shareholders are required to surrender their share certificates and/or other documents of title in respect of all their existing Mercantile shares by completing and sending this form of surrender, together with the share certificates/documents of title, to Mercantile's transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107).

PLEASE COMPLETE THE FOLLOWING IN BLOCK LETTERS:

Dear Sirs

I/We hereby surrender the under mentioned Mercantile share certificates and/or documents of title:

Surname

First names (in full)(if applicable)

Title (Mr., Mrs, Miss, etc.)

Signature Date 2005

Address to which new share certificate should be sent (preferably PO Box number):

Postal code

Subject to the approval, and where necessary the registration, of the special resolution contained in the Notice of Annual General Meeting forming part of the Annual Report to which this form of surrender is attached being fulfilled, a certificate reflecting the name change will be sent to the above address, by registered post, at the risk of the Mercantile shareholder concerned on or about Monday, 18 April 2005, if the documents of title have been surrendered by Friday, 15 April 2005 or within five business days of receipt of such documents of title if surrendered after Friday, 15 April 2005. Contrary instructions will not be accepted.

APPLICABLE TO ALL CERTIFICATED MERCANTILE SHAREHOLDERS

Share certificates and/or documents of title surrendered

Name of registered holder (separate form for each holder)	Certificate number(s)	Number of shares	***For office use only***
		Total	

Form of surrender (continued)

APPLICABLE TO NON-RESIDENT MERCANTILE SHAREHOLDERS ONLY

Non-residents who are emigrants from South Africa

A share certificate will be sent to an authorised dealer in foreign exchange in South Africa controlling such shareholder's blocked assets and will be restrictively endorsed in terms of the Exchange Control Regulations. Such non-resident must give the following information:

Name and address of the authorised dealer in South Africa:

____

____

____

Account number ____________________

(If no nomination is made in terms of this section, the new share certificate will be held in trust by the transfer secretaries.)

All other non-residents

A share certificate will be sent to the registered address of the non-resident concerned or any other address in accordance with the posting instructions given on the face of this form of surrender and will be restrictively endorsed in terms of the South African Exchange Control Regulations. Such other non-residents must give the following information:

Name and address of the authorised dealer in South Africa:

____

____

____

Account number ____________________

Notes:

1. Return address:

   This completed form of surrender, together with share certificate(s) and/or documents of title, must be delivered or mailed to the transfer secretaries at the following address in an envelope marked "**Mercantile – Certificates of Title**":

   By hand

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

   By post

   Computershare Investor Services 2004 (Proprietary) Limited
   PO Box 61051
   Marshalltown, 2107

   (Telephone number: (011) 370-5000)

2. No receipts will be issued for share certificates and/or documents lodged unless specially requested. In compliance with the requirements of the JSE Securities Exchange South Africa ("JSE"), lodging agents requiring receipts are requested to prepare special transaction receipts.

3. A minor must be assisted by his/her parent or guardian.

4. Where shares are jointly held, this form of surrender must be signed by all joint holders.

5. If this form of surrender is signed under power of attorney, such document must be produced unless it has previously been noted by the transfer secretaries of Mercantile or the documents have been lodged with a JSE stockbroker and this form of surrender bears the stamp of that stockbroker.

6. If the Mercantile shareholder is a deceased estate, this form of surrender must be accompanied by a Letter of Executorship unless the relevant documents have been lodged with a JSE stockbroker and this form of surrender bears the stamp of that stockbroker.

7. If a shareholder produces evidence to the satisfaction of Mercantile that the share certificate in respect of his/her shares have been lost or destroyed, Mercantile may waive the surrender of that certificate against an indemnity given by the Mercantile shareholder or other person and in a form and on terms and conditions approved by Mercantile, or Mercantile may, in its discretion, waive the requirement for the indemnity.

8. Shareholders who have dematerialised their share certificates in terms of STRATE must **not** complete this form of surrender. Where such shareholders wish to provide a new address to which share statements is/are to be posted they should contact their Central Securities Depository Participant or broker.