



Corporate Governance

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

BOARD OF DIRECTORS

Mercantile's Board, and the Board of Mercantile Bank Limited ("the Bank"), meet regularly to define strategy and key policies; to set risk parameters, approve budgets, and to monitor the implementation of approved strategies and policies. In the period under review, the Board and the Board of the Bank met four times. The Board exercises effective control over the Group.

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. The roles of the Chairman of the board and of Chief Executive Officer are separate.

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

The remuneration of the directors of Mercantile and of the Bank is normally reviewed annually by the Directors' Group Human Resources Committee.

Executive and non-executive directors of Mercantile and of the Bank are selected through a process of consultation and arrangements with the major shareholders and their nominations are submitted to the relevant boards of directors for ratification, subject to formal notification by the Bank Supervision Department of the South African Reserve Bank. 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 of the company unless the appointment is confirmed at that annual general meeting.

A director is required to retire from the board at age 70. Until age 70 all directors retire on a three-year rotational basis. If eligible for re-election, they can be re-elected at the annual general meeting.

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. These committees have written terms of reference or charters that are subject to regular review. Details of the main board committees are provided below.

The Group Secretary ensures that statutory and other 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.

GROUP AUDIT COMMITTEE

This Committee is currently constituted by two non-executive directors, including its Chairman, and one executive director. It operates in accordance with a written charter authorised by the board.

Group Audit Committee meetings are held at least three times annually. They are attended by the Head of Internal Audit and the external audit partners. The Head of Internal Audit 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 fulfil their responsibilities under the Banks Act, the Companies Act, other applicable statutory law and the common law. In particular, the Committee reviews,

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inter alia, accounting policies and financial statements, auditors' reports, the effectiveness of management information and the internal audit process. The external auditors' appointment and remuneration are recommended by the Committee and considered at the annual general meeting.

The Group Audit Committee also assists the board of the Bank in carrying out their responsibilities as per 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 Audit Committee addressed its responsibilities properly in terms of the charter during the 2002 financial year. No changes to the charter were adopted during the 2002 financial year.

The Audit Committee considers the annual financial statements of Mercantile Bank and its subsidiaries to be a fair presentation of its financial position on 31 March 2002, results of operations, and cash flows for the period ended then, in terms of Statements of South African Generally Accepted Accounting Practice (GAAP) and the Companies Act in South Africa.

GROUP RISK MANAGEMENT COMMITTEE

This Committee is currently constituted by three non-executive directors, including its Chairman, and two executive directors, including the Chief Executive Officer. The meetings of the Committee are held every second month and are attended by the Head of Risk Management.

Its main objective is to approve all risk policies, limits and allocation of capital requirements for all activities at the highest level in the Group; and, to serve as a forum for discussion and decision-taking relative to important business opportunities involving risk issues which can affect materially the achievement of the Group's strategic objectives.

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.

GROUP HUMAN RESOURCES COMMITTEE

This Committee is chaired by the Group Chairman and is normally constituted by three non-executive directors and two executive directors, including the Chief Executive Officer. Currently, however, the number of non-executive directors is only two due to a resignation from the Board.

It controls the effectiveness of Group policy on human resources and ensures that remuneration levels and conditions of service of staff (other than executives) throughout the Group are appropriate, equitable and in line with the Group's remuneration policy. This committee meets normally three times a year.

INTERNAL CONTROL AND OPERATIONAL RISK

Management applies policies, methods and procedures which aim at achieving internal controls of a high standard. These controls are implemented by qualified staff whose duties are segregated.

The Internal Audit Department is independent and its function forms part of the risk management function. As part of its function internal audit evaluates the adequacy or appropriateness of the controls and procedures established to determine and manage operational risk throughout the Group.

Any significant or material control weaknesses are reported to management, the Group Risk Management Committee or the Group Audit Committee for attention and the necessary remedial action.

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COMPLIANCE FUNCTION

A Group compliance function which is independent from internal auditing is currently headed by the Group Secretary who, as Chief Compliance Officer, is responsible, inter alia, for the establishment of a compliance culture in the Group that contributes to the overall objective of prudent risk management and good Corporate Governance.

EMPLOYMENT EQUITY

Mercantile has followed a structured approach in meeting the legislative challenges with regards to its Employment Equity Plan and has formed an Employment Equity Committee representative of previously disadvantaged individuals who are constantly reviewing the employment practices of the Group as an integral part of the Group's strategic objectives.

The Group's equity plan is a five-year plan with the ultimate objective of enhancing productivity and competitiveness by creating a skillful and dedicated workforce through training and promotion of existing staff.

CODE OF BANKING PRACTICE

The Group subscribes to the Code of Banking Practice and Related Policies endorsed by banking groups that are 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 in accordance with the Code and encourages its employees to acquaint themselves with the Code and honour its precepts.

FINANCIAL STATEMENTS

Accounting policies and the basis of accounting on which these statements are prepared, are more fully set out in note 1 to the financial statements.

REGULATION

The South African Reserve Bank, the Financial Services Board and/or the JSE Securities Exchange South Africa regulate various Group operations.