

# Directors' Report

FOR THE YEAR ENDED 31 MARCH 2002

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 March 2002.

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## 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 both the retail and corporate markets.

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## 2. Holding company

The majority shareholder of the company (64.1%) is Caixa Geral de Depósitos S.A. ("CGD"), a company registered in Portugal.

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## 3. Financial results

Full details of the financial results are set out on pages 14 to 38 and in the opinion of the directors require no further comment.

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## 4. Share capital

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

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## 5. Dividends

No dividend (2001: R nil) was declared during the year under review.

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## 6. Directors and secretary

The directors of the company are as follows:

Dr J A S de A Campos\* (Chairman)

**Messrs:**

R J Symmonds # (Group Managing Director)

G P De Kock

Dr J H Real Pereira\*#

Dr R M L de F N Ribas\*#

Dr A M S A Soares\*

**Appointed:**

S R Bruyns 25 October 2001

G K Chadwick 25 October 2001

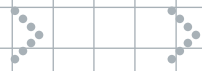
W H Meyer 25 October 2001

M J Shaw 25 October 2001

Prof A Steyn 25 October 2001

Dr J A S de A Campos\* 27 June 2002

Dr R M L de F N Ribas\*# 27 June 2002



## Directors' Report (continued)

FOR THE YEAR ENDED 31 MARCH 2002

### Resigned:

Dr J L M R De Matos* [Deceased]	14 April 2001	I B Skosana	31 January 2002
A J Laughland	31 July 2001	B T Wood	27 June 2002
P G Van Deventer	31 July 2001	W H Meyer	27 June 2002
A O'Dwyer †	14 August 2001	M J Shaw	27 June 2002
C S Dos Santos	14 August 2001	B R van Rooyen	27 June 2002
G G Lund	14 August 2001	Prof A Steyn	28 June 2002
Prof H V Vorster	14 August 2001	SR Bruyns	16 July 2002
		GK Chadwick	16 July 2002

\* Portuguese † Irish # Executive

The Company Secretary is Mr F Vicente Coelho\* and his postal and business addresses are:

### Postal:

PO Box 782699  
Sandton  
2146

### Business:

1st Floor  
Mercantile Lisbon House  
142 West Street  
Sandown  
2196

## 7. Subsidiary companies

**Note:** All subsidiary companies are incorporated in South Africa.

Company Name	Issued	Effective	Nature of	Shares at Cost		Indebtedness	
	Share Capital	Holding	Business	2002	2001	2002	2001
	R'000	%	*	R'000	R'000	R'000	R'000
Lisabank Corporate Finance Ltd	15	100	7	15	15	-	-
LSM (Troyeville) Properties (Pty) Ltd	-	100	7	140	140	-	-
Mercantile Asset Managers (Pty) Ltd	10	100	6	2,730	9,676	-	-
Mercantile Trust Administration Company (Pty) Ltd	-	100	8	-	-	-	-
Mercantile Bank Ltd	124,969	100	1	930,448	804,448	(13,144)	(22,941)
Mercantile Finance Ltd	-	100	3	-	-	165	165
Mercantile Insurance Brokers (Pty) Ltd	250	100	5	294	294	-	-
Mercantile Nominees (Pty) Ltd	-	100	4	-	-	-	-
Mercantile Participation Mortgage Bond Managers (Pty) Ltd	600	100	9	603	603	-	-
Mercantile Participation Mortgage Bond Nominees (Pty) Ltd	1	100	4	1	1	-	-
Mercantile Registrars Ltd	-	100	2	-	-	(16)	-
Mercvest (Pty) Ltd	1	51	9	1	1	-	-
Portion 2 of Lot 8 Sandown (Pty) Ltd	-	100	7	8,832	8,832	-	-
Sertona (Pty) Ltd	-	100	7	-	-	-	-
Weskor Beleggings (Pty) Ltd	-	100	7	-	-	-	-
Non-trading companies	140	100		25,438	25,438	(12,779)	(12,779)

## Directors' Report (continued)

FOR THE YEAR ENDED 31 MARCH 2002

\* Nature of Business

1 – Banking	4 – Nominee company	7 – Property holding
2 – Transfer secretaries	5 – Insurance brokers	8 – Asset trust company
3 – Investment holding	6 – Portfolio managers	9 – Discontinued

Aggregate income after taxation earned by subsidiaries amounted to R24.8 million (2001: R44.8 million) and aggregate losses amounted to R647.4 million (2001: R88.3 million).

### 8. Discontinued Operations

During the period under review the following subsidiaries/divisions have been sold or discontinued:

Subsidiary / Division	Date of Discontinuance	Description of Business
Global Investment Planning Services Ltd	31 October 2001	Portfolio managers
Mercantile Asset Finance (a division of Mercantile Bank Ltd)	19 November 2001	Asset financing
Mercantile Asset Trust Company (Pty) Ltd	30 November 2001	Asset trust company
Mercantile Asset Managers (Pty) Ltd	31 March 2002	Portfolio managers
Mercantile CSDP (a division of Mercantile Bank Ltd)	31 March 2002	CSDP
Mercantile Custodial Services (a division of Mercantile Bank Ltd)	31 March 2002	Custodial Services
Mercantile Registrars Ltd	31 March 2002	Transfer secretaries
Mercantile Sharedealing (a division of Mercantile Bank Ltd)	31 March 2002	Scrip trading

The CSDP, custodial services, transfer secretarial and scrip trading operations were sold for a total price of R110.0 million at a profit of R76.6 million. The Asset Finance book was sold for a total consideration of R450.8 million at a discount of R14.4 million. The other operations were sold for a total price of R16.2 million at a profit of R11.5 million.

### 9. Special Resolutions

*Mercantile Lisbon Bank Holdings Limited:*

A special resolution was passed on 14 August 2001, amending the Articles of Association of the Company in order to add article 124 to the Articles of Association to allow for STRATE.

A special resolution was passed on 14 August 2001 amending the Articles of Association of the Company in order to amend article 123 to read "the Regulations relating to Banks".

A special resolution was passed on 18 March 2002 increasing its authorised ordinary share capital to one billion ordinary shares of 25c each.

### 10. Further recapitalisation of the Group

As a consequence of the losses reported for the 2002 financial year, Mercantile required, in addition to the initial recapitalisation in the form of an issue of shares for cash to CGD in March 2002, further recapitalisation in order to meet the capital adequacy requirements set by the SARB and to meet the future capital needs of Mercantile Bank Limited ("the recapitalisation").

In order to comply with the prudential requirements in respect of capital adequacy, CGD undertook to guarantee the recovery of certain of Mercantile's specifically identified non-performing advances with an aggregate face value of R265 million. This guarantee was established with effect from 8 July 2002, the effect thereof being that provisions were reversed thereby increasing the reserves of the Group by R265 million. Refer to note 24 for the financial effects of this guarantee.

### 11. CGD's commitment to the Group

In March 2002, shareholders in general meeting passed all the resolutions necessary to establish CGD as Mercantile's controlling shareholder. Capital in the amount of R120 million was injected into the Group by way of an issue of shares for cash on 27 March 2002, taking CGD's shareholding in Mercantile from 28% to 64.1%.

As indicated in the cautionary announcement dated 21 May 2002, Mercantile shareholders, depositors and other customers are assured of the continued support of CGD, who has confirmed to the SARB and the Board and management of Mercantile their willingness to safeguard the financial soundness and stability of Mercantile, including the maintenance of capital adequacy.

### 12. Going Concern

Further to the information contained above in paragraphs 10 and 11, the Directors, based on the Guarantee Agreement signed with CGD on 8 July 2002, the letter of comfort and undertaking by CGD to the Registrar of Banks of 28 March 2002 and CGD's letter to the Board of Directors of Mercantile Lisbon Bank Holdings Limited of 26 June 2002, believe that the Group and Company will be a going concern in the year ahead.