

# 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 for the year ended 31 March 2002.

## 1. Nature of business

The company is a registered bank, incorporated in the Republic of South Africa, and provides its clients with a full range of domestic and foreign banking services. In addition, it provides a full range of specialised financing, savings and investment facilities for private and corporate clients.

## 2. Holding company

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

## 3. Financial results

Full details of the financial results are set out on pages 5 to 23 and in the opinion of the directors require no further comment.

## 4. Share capital

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

## 5. Dividends

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

## 6. Directors, secretary and registered office address

**The directors of the company are as follows:**

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

Dr J H Real Pereira \*#

R J Symmonds # (Managing Director)

Dr R M L de F N Ribas\*#

G P De Kock

Dr A M S A Soares \*

### Appointed:

S R Bruyns 25 October 2001

Prof A Steyn 25 October 2001

G K Chadwick 25 October 2001

Dr J A S de A Campos\* 25 October 2001

W H Meyer 25 October 2001

Dr R M L de F N Ribas\*# 25 October 2001

M J Shaw 25 October 2001

### Resigned:

Dr J L M R De Matos\* [Deceased] 14 April 2001

B T Wood 27 June 2002

A J Laughland 31 July 2001

W H Meyer 27 June 2002

P G Van Deventer 31 July 2001

M J Shaw 27 June 2002

A O'Dwyer† 14 August 2001

B R van Rooyen 27 June 2002

C S Dos Santos 14 August 2001

Prof A Steyn 28 June 2002

G G Lund 14 August 2001

SR Bruyns 16 July 2002

Prof H V Vorster 14 August 2001

GK Chadwick 16 July 2002

I B Skosana 31 January 2002

### Company secretary:

F Vicente Coelho\*

\* Portuguese † Irish # Executive

### Postal and registered office addresses:

Postal

PO Box 782699

Sandton

2146

Registered Office

1st Floor

Mercantile Lisbon House

142 West Street, Sandown

## Directors' Report (continued)

FOR THE YEAR ENDED 31 MARCH 2002

### 7. Discontinued operations

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

Division	Date of Discontinuance	Description of Business
Mercantile Asset Finance	19 November 2001	Asset financing
Mercantile CSDP	31 March 2002	CSDP
Mercantile Custodial Services	31 March 2002	Custodial services
Mercantile Sharedealing	31 March 2002	Scrip trading

The CSDP, custodial services, transfer secretarial and scrip trading operations were sold for a total price of R71.0 million at a profit of R71.0 million. The Asset Finance book was sold for a total consideration of R450.8 million at a discount of R14.4 million.

### 8. Further recapitalisation of the company

As a consequence of the losses reported for the 2002 financial year, Mercantile required, in addition to the initial recapitalisation 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 Company by R265 million. Refer to note 20 for the financial effects of this guarantee.

### 9. CGD's commitment to the company

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 Company indirectly by way of an issue of shares for cash in the Holding Company 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.

### 10. Going concern

Further to the information contained above in paragraphs 8 and 9, 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 Bank Limited of 26 June 2002, believe that the Company will be a going concern in the year ahead.

### 11. Consolidated financial statements

Consolidated financial statements have not been presented as the Company is wholly-owned by Mercantile Lisbon Bank Holdings Limited, a company incorporated in the Republic of South Africa.