

Mercantile Lisbon Bank Holdings

Results for the nine months ended 31 December 2002

Summarised group income statement

	9 months ended 31 December 2002 R'000 Reviewed	12 months ended 31 March 2002 R'000 Audited
Interest income	188,072	353,815
Interest expense	(128,175)	(235,397)
Net interest income before provision for credit losses	59,897	118,418
Net reversal of/(provision for) credit losses (1)	247,764	(506,778)
Net interest income/(expense)	307,661	(388,360)
Non-interest income	72,532	179,039
Net (loss)/profit on sale and revaluation of investments	(10,013)	67,929
Operating income/(loss)	370,180	(141,392)
Operating expenses	(199,924)	(489,643)
Income/(loss) after taxation	170,256	(631,035)
Share of profit/(loss) from associated companies	1,394	(3,530)
Income/(loss) before taxation	171,650	(634,565)
Taxation	(3,882)	(12,198)
Attributable income/(loss)	167,768	(646,763)
Continuing operations	167,768	(479,784)
Discontinued operations	-	(166,979)
Determination of headline earnings/(loss)		
Attributable earnings/(loss)	167,768	(646,763)
Adjustment for:		
- Profit on sale of discontinued operations (5)	-	(73,716)
- Impairments and loss on sale of fixed assets	16,582	38,721
Headline earnings/(loss)	184,350	(681,758)

Summarised group balance sheet

	31 December 2002 R'000 Reviewed	31 March 2002 R'000 Audited
Assets		
Cash and cash equivalents	454,778	212,047
Negotiable securities	155,588	242,997
Loans and advances	1,313,292	1,475,609
Interest in associated companies	1,879	3,246
Investments	7,302	19,560
Other assets	137,548	233,531
Property, equipment and intangible assets	105,043	121,832
Total assets	2,175,430	2,308,822
Liabilities		
Deposits	1,912,979	2,085,712
Other liabilities and provisions	70,616	207,193
Long term liabilities	8,335	-
Total liabilities	1,991,930	2,292,905
Shareholders' funds		
Share capital	866,865	866,865
Reserves	(683,365)	(850,948)
Total shareholders' funds	183,500	15,917
Total liabilities and shareholders' funds	2,175,430	2,308,822

Contingent liabilities

	31 December 2002	31 March 2002
Guarantees and letters of credit	133,075	186,829
Conditional buy-back obligation	225,446	375,231
Irrevocable unutilised facilities	350,574	869,191
Operating lease commitments:	13,419	21,506
Due within one year	3,744	6,817
Thereafter	9,675	14,689

- Mercantile has reversed, in the current reporting period, provisions for credit losses in the amount of R265 million as referred to in paragraph 3 of the text of this Announcement.
- Excludes the allocation of attributable support costs.
- "Other services" includes support divisions, collections, specialised asset finance, insurance brokers and inter-group eliminations.

Summarised group cash flow statement

	9 months ended 31 December 2002 R'000 Reviewed	12 months ended 31 March 2002 R'000 Audited
Cash flow from operating activities	(38,982)	(116,654)
Cash flow from operating funds	292,679	(560,460)
Taxation paid	(9,524)	(9,242)
Cash flow from investing activities	(9,777)	581,302
Cash flow from financing activities	8,335	119,079
Net cash inflow	242,731	14,025
Cash and cash equivalents at beginning of period	212,047	198,022
Cash and cash equivalents at end of period	454,778	212,047

Summarised group statement of change in shareholders' funds

	9 months ended 31 December 2002 R'000 Reviewed	12 months ended 31 March 2002 R'000 Audited
Opening balance	15,917	536,656
Movements in share capital and share premium	-	119,079
Movements in non-distributable reserves	(185)	6,945
Movements in distributable reserves	167,768	(646,763)
Shareholders' interest	183,500	15,917

Summarised group segmental information

	9 months ended 31 December 2002 R'000 Unaudited	12 months ended 31 March 2002 R'000 Audited
Operating income/(loss):		
Banking Services	103,036	(24,180)
Treasury	11,690	33,413
Alliance Banking	7,050	(18,571)
Other services (3) (4)	248,404	(104,086)
Discontinuing operations	-	(27,968)
	370,180	(141,392)
Attributable income/(loss):		
Banking Services (2)	38,729	(130,058)
Treasury (2)	(7,366)	29
Alliance Banking (2)	(12,111)	(41,526)
Other services (3) (4)	148,516	(308,229)
Discontinuing operations	-	(166,979)
	167,768	(646,763)

Financial statistics

	31 December 2002	31 March 2002
Number of ordinary shares in issue:		
- end of period (* 000)	855,585	855,585
- weighted average (* 000)	855,585	427,014
Attributable income/(loss) per share* (cents)	19.6	(151.5)
Headline earnings/(loss) per ordinary share* (cents)	21.6	(159.7)
Net asset value per ordinary share (cents)	21.4	1.9
Capital adequacy ratio (%)		
Consolidated MLBH Group	10.7	0.7
Mercantile Bank Limited	12.4	1.0

* Basic and fully diluted

- Included in "Other services" is the reversal, in the reporting period, of provisions for credit losses in the amount of R265 million.
- The prior period adjustment determine headline earnings has been restated in order to comply with SAICA circular 7/2002.
- Depreciation amounted to R16,328,000 (12 months to 31 March 2002: R36,811,000). Capital expenditure incurred amounted to R17,333,000 (12 months to 31 March 2002: R52,182,000).

1 introduction

The nine months to 31 December 2002 has seen:

- A restructuring of the Board of Directors.
- The restoration of the capital of the Bank through a guarantee provided by the controlling shareholder.
- The design of a clear plan of rehabilitation and substantial progress on its implementation.

2 the board of directors

Changes to the board of directors were announced at the half-year and the board remains unchanged at this stage. It is anticipated that additional appointments will be made to the board at both an executive and non-executive level and further announcements will be made in due course. It was announced in December that Johnny Symmonds would be leaving the group at the end of March 2003. In the interests of the group, this has been extended to 30 June 2003.

3 the restoration of capital

As was announced in July 2002, Caixa Geral de Depositos ("CGD") has issued a guarantee in favour of Mercantile Bank Limited in the amount of R265 million. The nature of the guarantee was that CGD assumed financial responsibility for the repayment of certain non-performing loans, thereby allowing Mercantile to release provisions and re-establish capital adequacy. The impact of this guarantee has been reflected in the results for this reporting period.

4 the rehabilitation process

Given the turbulence experienced by the group in the year to 31 March 2002, it was necessary to undergo a period of rehabilitation. The board formulated a plan in July 2002 and tasked management with its implementation. The plan was to rebuild capacity and implement best banking practice. Whilst there is more work to be undertaken, substantial progress has been made. Particular areas of achievement include:

- Improvements in the management of risk and internal control.
- An increased focus on human resource management.
- Improvements in efficiency through process rationalisation and cost reduction.
- The improvement in managerial capabilities through the development of internal resources and certain key new appointments.

Various restructuring initiatives have been concluded. The intention of these initiatives is primarily to improve the way in which risk is managed and controlled, whilst at the same time improving efficiencies and reducing costs. These included:

- Centralising the back office processing areas of each aspect of the business into one structure.
- Refocusing the front end of the retail banking business around the branches and in so doing simplifying the structure and reporting lines.

5 change of year end

The group has changed its year-end from 31 March to 31 December to coincide with CGD's reporting period. The financial results therefore cover a nine-month reporting period to 31 December 2002.

6 results for the nine months ended 31 December 2002

The results for the period are set out elsewhere in this report. They have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice applicable to preliminary financial reporting and the Companies' Act in South Africa. The accounting policies are consistent with those adopted in the Annual Financial Statements for the year ended 31 March 2002. The results have been reviewed by the group's independent auditors, Deloitte & Touche, and a copy of their report is available for inspection at the company's registered office.

The group results for the period reflect a net attributable income after taxation of R168 million (12 months to 31 March 2002: loss R647 million). The positive result is predominantly due to the reversal of provisions in the amount of R265 million, as a result of the guarantee provided by CGD referred to above. Excluding the guarantee, Mercantile's result for the reporting period would have reflected an attributable loss of R97 million.

The ongoing losses are largely a result of an unacceptably high cost base and a deliberate delay in the relaunching of the commercial activities, particularly in the retail bank. As referred to above, the primary focus of the rehabilitation process is on the rebuilding of capacity and implementation of best banking practice – and therefore not on short-term profits. Consistent with this policy, the Bank is deliberately carrying excess liquidity and this also has a negative impact on profitability.

7 outlook

The focus of the board and management will continue to be on the rehabilitation of the Bank. The revenue earning activities of the Bank remain:

- Retail Banking: The Bank will remain a broadly based South African bank at all times conscious of its roots in the Portuguese community.
- Alliance Banking: This business will focus mainly on card processing.
- Treasury: This will be a treasury serving retail and alliance banking customers and managing internal liquidity.

It is expected that the rehabilitation work will be largely concluded in the second half of this year. There will be a continued focus on cost reduction through improvements in systems and people skills. Once the work on rehabilitation is complete and the board is entirely comfortable with the risk management capabilities, growth in the lending activities particularly in the retail bank will recommence.

The establishment of CGD as the controlling shareholder and, more importantly, its on-going support has brought stability and confidence to the group. There remains much to be accomplished but the board is happy with progress made to date and confident this process will be successfully completed in the course of this year. CGD has assured the board of their willingness to safeguard the financial soundness and stability of Mercantile, including the maintenance of capital adequacy.

BY ORDER THE BOARD

J A S de A Campos, Chairman
R J Symmonds, Group Managing Director
Sandton, 4 April 2003



MERCANTILE LISBON BANK HOLDINGS
LIMITED

Reg No: 1989/000164/06

A Subsidiary Company of Caixa Geral de Depósitos

www.mercantile.co.za

Mercantile Lisbon Bank Holdings Limited (Registration number 1989/000164/06)

Registered office: Mercantile Lisbon House, 142 West Street, Sandown, 2196

Directors: Dr J A S de A Campos* (Chairman), R J Symmonds (Group Managing Director), G P de Kock, Dr J H Real Pereira*, Dr R M L de F N Ribas* (Executive), Dr A M S A Soares*

Group Secretary: F Vicente Coelho* (*Portuguese)

Transfer Secretaries: Computershare Investor Services Limited, 8th Floor, 11 Diagonal Street, Johannesburg, 2001.

Corporate Advisor and Sponsor to Mercantile

Reporting Accountants and Auditors



Bridge Capital Services (Pty) Limited
(Registration number 1988/016301/07)
(A sponsor registered with the JSE Securities Exchange South Africa)

Deloitte & Touche