MERCANTILE BANK LIMITED

Reg No. 1965/0006706/06
A Subsidiary Company of Caixa Geral de Depósitos

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DIRECTORS' RESPONSIBILITY

In terms of the Companies Act 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.

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 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 Company'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 Company'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 Company. The financial statements are based on appropriate accounting policies consistently applied with the exception of adopting AC 133, and supported by reasonable and prudent judgements and estimates. Provided that the capital increase referred to in paragraph 10 of the directors' report is successfully concluded, the directors believe that the Company 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 4 to 34, have been approved by the Board and are signed on their behalf by:

J A S de ANDRADE CAMPOS
Chairman

22 April 2004

R RIBAS
Director

22 April 2004

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 2003 all such returns as are required of a public company in terms of the Companies Act, and that all such returns are true, correct and up to date.

F VICENTE COELHO
Company Secretary

22 April 2004

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBER OF MERCANTILE BANK LIMITED

We have audited the financial statements set out on pages 4 to 34, for the year ended 31 December 2003. 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. These 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 at 31 December 2003 and the results of its 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 in South Africa.

GOING CONCERN

Without qualifying our opinion above, we draw your attention to the fact that the annual financial statements have been prepared on the going concern basis, which is dependent on the ongoing support of the holding company and the successful re-capitalisation of the holding company, details of which have been disclosed in notes 9 and 10 of the Directors' report for the year ended 31 December 2003.

DELOITTE & TOUCHE

DELOITTE & TOUCHE
Chartered Accountants (SA)
Registered Accountants and Auditors

Johannesburg
23 April 2004

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2003

The directors have pleasure in presenting their report, which forms part of the audited financial statements of the Company for the year ended 31 December 2003.

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

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

3. CHANGE OF YEAR-END

During the prior period the Company changed its financial year-end from 31 March to 31 December and, as a result, the comparative period covers the nine months ended 31 December 2002. Consequently the financial information for the current and prior financial periods are not comparable.

4. FINANCIAL RESULTS

Details of the financial results are set out on pages 7 to 34 and in the opinion of the directors require no further comment.

5. SHARE CAPITAL

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

6. DIVIDENDS

No dividend was declared during the year under review (December 2002: nil).

7. DIRECTORS, COMPANY SECRETARY AND REGISTERED ADDRESSES

The directors of the Company at 31 December 2003:

J A S de Andrade Campos*†	*(Chairman)*
R M L de F N Ribas*‡	*(Acting Chief Executive Officer)*
G P De Kock†	
L Hyne§	
J H Real Pereira*†	
M J Soutelo da Silva*‡	

Appointments during the period under review:

L Hyne§	1 June 2003
J M Tubal Goncalves*‡	1 July 2003
M J Soutelo da Silva*‡	28 November 2003
A M Osman**†	2 February 2004
D J Brown‡	29 March 2004

Resignations during the period under review:

A M S A Soares*†	14 July 2003
R J Symmonds‡	31 July 2003
J M Tubal Goncalves*‡	1 November 2003
J H Real Pereira*†	29 March 2004
M J Soutelo da Silva*‡	30 March 2004

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2003
(continued)

7. DIRECTORS, COMPANY SECRETARY AND REGISTERED ADDRESSES (continued)

D Brown was appointed Chief Executive Officer and R Ribas ceased his function as Acting Chief Executive Officer with effect from 31 March 2004. R Ribas remains on the Board as a Non-executive Director.

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

*Portuguese, **Mozambican, ‡Executive, †Non-Executive, §Independent Non-Executive

8. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements have not been presented as the Company is wholly-owned by MLBH, which is a company incorporated in the Republic of South Africa.

9. ONGOING SUPPORT BY CGD

After assuming control of MLBH 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 MLBH that they would safeguard the financial soundness and the stability of MLBH, including the maintenance of the capital adequacy ratio of the Company 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 Company:

- A guarantee of R265 million in July 2002, to cover the repayment of certain non-performing loans, which allowed the Company 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 December 2002.
- Two guarantees of a face value of R22.0 million (and a present value of R18.2 million) in May 2003, in respect of certain single name promissory notes. As a result of these guarantees, the Company's exposure ceased to be regarded as a large exposure for regulatory purposes. These guarantees will lapse as soon as the Company's capital adequacy ratio is above the prescribed statutory level, without taking into account CGD's indemnity contained therein.

The status of these guarantees at 31 December 2003 is as follows:

- The outstanding balance at 31 December 2003 of the non-performing loans covered by the R265 million guarantee was R179.5 million, which corresponds to a reduction of R85.5 million of the original exposure. The Company received R33.3 million in terms of the guarantee and the remaining R52.2 million is made up of collections and acceptable securities obtained from debtors. In terms of the adoption of AC 133, the present value of advances covered by the guarantee at year-end amounted to R144.7 million.
- Regarding the R45 million guarantee, the outstanding balance at risk on these accounts was R44.7 million.
- In respect of the two guarantees totalling R22.0 million, the nominal value of the outstanding debt was reduced to R18.1 million (present value R16.1 million).

With the objective of maintaining the Company's capital adequacy ratio at the level required by the Registrar of Banks, CGD also agreed to provide a subordinated loan facility of R60 million to MLBH, primarily to extend, on the same terms and conditions, a subordinated loan facility to the Company. Implementation of the contract is subject to the approval of the Registrar of Banks.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2003
(continued)

9. ONGOING SUPPORT BY CGD (continued)

In addition, CGD has agreed to provide a subordinated loan facility of R8.2 million to be used by MLBH for the purpose of repaying its indebtedness to the Company. This facility will be implemented once the approval of the Registrar of Bank's for the R60 million subordinated loan facility referred to above has been obtained.

These subordinated loan facilities were agreed as an interim measure until the completion of the process of increasing the primary capital, which is essential to support the future growth of the business.

The terms and conditions for the recapitalisation of MLBH and the Company have already been established with the Registrar of Banks and agreed to by CGD.

10. CAPITAL INCREASE IN MLBH

The recapitalisation will comprise the replacement of the guarantees of R265 million and R45 million, with an injection of primary capital in an aggregate amount of between R550 million and R600 million, through a proposed rights issue in MLBH at a price of 18 cents per share, fully underwritten by CGD.

The release of these guarantees will result in the creation of provisions to the extent of their present value, which at year-end amounted to R189.4 million.

In terms of the Listings Requirements of the JSE Securities Exchange South Africa, the release of the guarantees constitutes a related party transaction and is, accordingly, subject to the approval of a simple majority of minority shareholders of MLBH in general meeting. Furthermore, insufficient authorised shares exist to facilitate the rights issue and shareholders will be requested to approve a resolution to increase the authorised share capital to the extent necessary.

The issue price in respect of the rights issue is less than the par value of MLBH's shares and, accordingly, MLBH will, with the approval of the shareholders, seek to reduce such par value prior to the increase in share capital referred to above.

Shareholders holding 36% of the aggregate minority shareholders' shares in MLBH have irrevocably undertaken to vote in favour of the release of the guarantees and other resolutions necessary to implement the rights offer.

11. GOING CONCERN

The financial statements have been prepared on the going-concern basis. The ability of the Company to continue as a going concern is dependent on the successful implementation of the proposed rights issue in MLBH and consequential recapitalisation referred to above.

12. SPECIAL RESOLUTIONS

No special resolutions were passed during the year under review.

13. POST-BALANCE SHEET EVENTS

Other than the proposed recapitalisation referred to in paragraph 10 above, no material events have occurred subsequent to 31 December 2003.

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1. BASIS OF PRESENTATION

The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial instruments and property. The principle accounting policies adopted in the preparation of these financial statements are consistent, in all material respects, with those applied the previous period 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, comparative figures have not been restated. The effect of the adoption of AC 133 is set out in note 20 of the accounting policies.

2. RECOGNITION OF ASSETS AND LIABILITIES

2.1 Assets

The Company 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 Company.

2.2 Liabilities

The Company 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.

2.3 Contingent liabilities

The Company 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 Company, 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.

3. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company 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. Management determines the appropriate classification of its assets and liabilities at initial recognition and re-evaluates such designation at each balance sheet date.

3.1 Derivative financial instruments

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

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

- Forward exchange contract;
- Foreign 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 that do not qualify for hedge accounting are recognised in the income statement within non-interest income.

3. FINANCIAL INSTRUMENTS (continued)

3.1 Derivative 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.

3.2 Financial assets

The Company's principal financial assets are cash and cash equivalents, negotiable securities, loans and advances, investments, and other accounts receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held by the Company with the South African Reserve Bank, domestic banks and foreign banks as well as resale agreements.

Investments

Investments comprise of 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, have been designated as held-to-maturity. Held-to-maturity investments are carried at amortised cost, less any adjustment necessary for impairment.

Investments created by the Company by providing money, goods, or services to a debtor have been designated as loans and receivables originated by the Company. Loans and receivables originated by the Company 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, the resultant gains and losses being 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 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 included in income. Variable rate loans and advances have been designated as originated loans and receivables and are measured at amortised cost.

Other accounts receivable

Other accounts receivable comprise loans to/(from) fellow subsidiaries, associates and joint ventures, items in transit, prepayments and deposits, properties in possession and other receivables. These financial assets have been designated as originated loans and receivables and are measured at amortised cost.

ACCOUNTING POLICIES (continued)

3. FINANCIAL INSTRUMENTS (continued)

3.3 Financial liabilities

The Company's financial liabilities are long-term liabilities, deposits and other accounts payable 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.

3.4 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 to be issued by the Company, the current bid price is used as a measure of fair value. In the case of an asset to be 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 Company uses a variety of methods and assumptions that are based on market conditions and risk 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 discount value of future cash flows, replacement cost and termination cost, are used to determine fair value for all remaining financial instruments.

3.5 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.

4. 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 in 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.

5. SUBSIDIARIES

Investments in subsidiaries are designated as available-for-sale and recognised at fair value. All gains and losses on the sale of subsidiaries are recognised in the income statement.

6. ASSOCIATED COMPANIES

Associated companies are those companies in which the Company holds a long-term interest, exercises significant influence over their financial and operating policies and holds not less than 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. 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 (continued)

7. JOINT VENTURES

The Company's interest in a jointly controlled entity is accounted for by the equity method of accounting. Equity accounting involves recognising in income, the Company's share of the joint venture's profit or loss for the year. The Company'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.

8. PROPERTY AND EQUIPMENT

8.1 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.

8.2 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 such assets 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.

9. INTANGIBLE ASSETS

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

10. PROVISIONS

Provisions are recognised when the Company 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 and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

11. 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 asset relating to the carry forward of unused tax losses is recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

12. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

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

13. 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.

14. 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.

15. INTEREST INCOME AND EXPENSE

Interest income and 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.

16. FEE AND COMMISSION INCOME

Fees and commissions are recognised on an accrual basis.

ACCOUNTING POLICIES (continued)

17. PENSION FUND

The Company 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 Company. Company contributions to the Fund are based on a percentage of the payroll and are charged to the income statement as incurred.

18. POST-RETIREMENT MEDICAL BENEFITS

The Company provides for post-retirement medical benefits to certain retired employees. The entitlement to these benefits is only applicable to employees who were employed with the Company prior to May 2000 and is based on the employees remaining in service up to retirement age. The Company contributes, after taking into account the recommendations of independent qualified actuaries, to a post-retirement healthcare policy that is 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 Company's contributions to the post-retirement healthcare policy are charged to the income statement in the year to which they relate.

19. COMPARATIVE FIGURES

The Company changed it's financial year-end in 2002, from 31 March to 31 December, and as a result thereof the comparative reporting period covers 9 months compared to the current figures covering 12 months. Consequently the financial information for the current year and prior periods is not comparable.

Indirect taxation is now disclosed as part of operating expenditure. Refer to note 21 of the notes to the financial statements for details.

Forward exchange contracts are now disclosed as derivative instruments whereas they were previously disclosed within other accounts receivable for assets and other accounts payable for liabilities. Refer to note 7 of the notes to the financial statements for details.

Impairments against property and equipment are now disclosed as part of property and equipment's carrying amount instead of being disclosed as part of other accounts payable. Refer to note 2 of the notes to the financial statements for details.

Provisions for legal claims are now disclosed within provisions for other risks whereas they were previously disclosed as part of other accounts payable. Provisions for the contingent liabilities that arose from the sale of the asset finance book are now disclosed within provisions for other risks. They were previously disclosed as part of the impairment for credit losses. Refer to note 13 of the notes to the financial statements for details.

The above changes in presentation did not affect the Company's results for the period ended 31 December 2002.

20. ADOPTION OF NEW ACCOUNTING STATEMENT AC 133 – FINANCIAL INSTRUMENTS (RECOGNITION AND MEASUREMENT)

The Company adopted the new accounting statement, AC 133, on 1 January 2003. This statement:

- introduces fair value accounting to certain classes of financial instruments;
- classifies financial instrument assets and liabilities;
- determines the valuation of financial instrument assets and liabilities;
- determines whether changes in fair value are recognised in income or directly in equity; and
- how impairments, specific and portfolio, are determined.

As it is a prospective accounting statement, comparatives have not been restated. Accordingly, results for the year ended 2003 are not comparable with those of 2002. However, on adoption of the statement adjustments were made against opening equity balances for the year. The adoption of AC 133 has resulted in the following impact on the financial statements of the Company:

20. ADOPTION OF NEW ACCOUNTING STATEMENT AC 133 – FINANCIAL INSTRUMENTS (RECOGNITION AND MEASUREMENT) (continued)

20.1 Opening equity

The table below provides disclosure of the transitional adjustments effected to opening equity:

	Available-for-sale reserve R'000	General risk reserve R'000	Accumulated loss R'000
Balance at 31 December 2002 as previously reported	**–**	**–**	**(748,914)**
Transitional adjustments on adoption of AC 133	**(2,148)**	**28,811**	**1,583**
Adjustment for specific loan impairments	–	–	11,843
Creation of portfolio impairment	–	–	(10,427)
Release of general loan provisions	–	–	27,395
Creation of a general risk reserve	–	28,811	(28,811)
Revaluation of held-for-trading financial instruments	–	–	(565)
Revaluation of available-for-sale financial instruments	(2,148)	–	2,148
Balance at 1 January 2003 as restated	**(2,148)**	**28,811**	**(747,331)**

20.2 Credit risk impairment

Consistent with existing banking industry practice, prior to the adoption of AC 133, a provision for bad debts was calculated based on a matrix model. AC 133 prescribes that a cash flow valuation methodology be adopted which requires all future expected cash flows, including interest income, be taken into account in calculating credit risk impairments.

20.3 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, a general risk reserve has been recognised within shareholders' equity. The reserve recognised by the Company comprises the difference between the impairments calculated in terms of AC 133 and the requirements of the Company's provisioning policy, which is more prudent than the statutory minimum provision requirements prescribed.

20.4 Effect of AC 133 on current year income

The table below discloses the effect of the adoption of AC 133 on the current year's results:

	Increase/ (decrease) in non-interest income R'000	Increase/ (decrease) in credit loss R'000	Total R'000
Adjustment for specific loan impairments	–	6,012	6,012
Increase in portfolio impairment	–	7,636	7,636
Reversal of general loan provisions	–	(11,247)	(11,247)
Net gain on remeasurement to fair value of available-for-sale financial assets	(6,879)	–	(6,879)
Revaluation of held-for-trading financial instruments	2,206	–	2,206
(Negative)/favourable impact on current year's results	**(4,673)**	**2,401**	**(2,272)**

BALANCE SHEET AT 31 DECEMBER 2003

	Notes	2003 R'000	2002 R'000
ASSETS			
Intangible assets	1	**12,711**	14,696
Property and equipment	2	**25,062**	32,952
Other accounts receivable	3	**90,005**	150,021
Interest in subsidiaries	4	**56,208**	50,472
Other investments	5	**6,401**	4,051
Loans and advances	6	**1,178,788**	1,313,751
Originated		**1,042,595**	–
Held for trading		**136,193**	–
Derivative financial instruments	7	**7,610**	8,124
Negotiable securities	8	**273,090**	155,588
Cash and cash equivalents	9	**574,930**	454,482
Total assets		**2,224,805**	2,184,137
EQUITY AND LIABILITIES			
Shareholders' equity		**171,965**	193,109
Share capital and share premium	10	**929,687**	929,687
General reserve		**12,231**	12,231
Property revaluation reserve		**105**	105
Available-for-sale reserve		**4,731**	–
General risk reserve		**31,212**	–
Accumulated loss		**(806,001)**	(748,914)
Liabilities		**2,052,840**	1,991,028
Long-term liabilities	11	**5,287**	8,335
Deposits	12	**1,948,617**	1,923,300
Derivative financial instruments	7	**32,115**	4,001
Provisions	13	**30,400**	20,378
Other accounts payable	15	**36,377**	34,799
Taxation		**44**	215
Total equity and liabilities		**2,224,805**	2,184,137
Contingent liabilities	16	**334,437**	483,649

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	12 months 2003 R'000	9 months 2002 R'000
Interest income	18	**232,683**	197,232
Interest expenditure	19	**(161,459)**	(129,810)
Net interest income before credit losses		**71,224**	67,422
Net recoveries of credit losses	6	**19,900**	247,764
Net income after credit losses		**91,124**	315,186
Net profit/(loss) on sale and revaluation of investments		**720**	(16,239)
Non-interest income	20	**90,459**	66,802
Net interest and non-interest income		**182,303**	365,749
Operating expenditure	21	**(238,572)**	(196,641)
(Loss)/Profit before taxation		**(56,269)**	169,108
Taxation	22	**–**	4,347
Attributable (loss)/profit after taxation		**(56,269)**	173,455

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	12 months 2003 R'000	9 months 2002 R'000
Operating activities			
Cash receipts from customers	23.1	**327,109**	271,124
Less: Cash paid to suppliers and employees	23.2	**(383,508)**	(299,866)
Dividends received		**2,583**	4,000
Taxation paid	23.3	**(171)**	(383)
Net cash outflow from operating activities		**(53,987)**	(25,125)
Changes in banking activities			
Net decrease in income earning assets	23.4	**84,476**	486,100
Net increase/(decrease) in deposits and other accounts	23.5	**102,630**	(202,737)
Net cash inflow from banking activities		**187,106**	283,363
Investing activities			
Purchase of property, equipment and intangible assets		**(7,738)**	(5,314)
Proceeds on sale of property, equipment and intangible assets		**411**	2,052
Purchase of investments		**(543)**	(110)
Proceeds on disposal of investments		**2,199**	6,096
Increase in loans with subsidiary companies		**(3,143)**	(5,071)
Net cash outflow from investing activities		**(8,814)**	(2,347)
Financing activities			
Finance lease payments		**(3,857)**	(3,857)
Net cash outflow from financing activities		**(3,857)**	(3,857)
Net cash inflow for year/period		**120,448**	252,034
Cash and cash equivalents at beginning of year/period		**454,482**	202,448
Cash and cash equivalents at end of year/period	9	**574,930**	454,482

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital and share premium 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
Shareholders' equity at 31 March 2002	929,687	12,231	–	–	–	(922,369)	19,549
Revaluation of property	–	–	105	–	–	–	105
Profit after taxation	–	–	–	–	–	173,455	173,455
Shareholders' equity at 31 December 2002	929,687	12,231	105	–	–	(748,914)	193,109
Transitional adjustments on adoption of AC 133*	–	–	–	(2,148)	28,811	1,583	28,246
Shareholders' equity restated at 1 January 2003	929,687	12,231	105	(2,148)	28,811	(747,331)	221,355
Gains and losses on remeasurement to fair value	–	–	–	6,599	–	–	6,599
Release to income on disposal of available-for-sale financial assets	–	–	–	280	–	–	280
Increase in general risk reserve	–	–	–	–	2,401	(2,401)	–
Loss after taxation	–	–	–	–	–	(56,269)	(56,269)
Shareholders' equity at 31 December 2003	929,687	12,231	105	4,731	31,212	(806,001)	171,965

* Refer to note 20.1 of the accounting policies for details.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

1. INTANGIBLE ASSETS

	Computer software	
	2003	2002
	R'000	R'000
Cost at beginning of year/period	**34,039**	35,997
Additions	**4,271**	3,989
Disposals	**–**	(5,947)
Cost at end of year/period	**38,310**	34,039
Accumulated amortisation and impairments at beginning of year/period	**(19,343)**	(19,123)
Amortisation	**(6,256)**	(3,724)
Disposals	**–**	3,504
Accumulated amortisation and impairments at end of year/period	**(25,599)**	(19,343)
Net carrying amount at end of year/period	**12,711**	14,696

2. PROPERTY AND EQUIPMENT

	Owner-occupied property 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**
Open market value/ cost at beginning of year	200	15,636	35,500	8,164	16,878	1,215	77,593
Additions	–	996	1,704	258	311	198	3,467
Disposals	–	(1,139)	(20)	–	–	(643)	(1,802)
Open market value/ cost at end of year	**200**	**15,493**	**37,184**	**8,422**	**17,189**	**770**	**79,258**
Accumulated depreciation and impairments at beginning of year	–	(9,601)	(19,176)	(5,041)	(9,928)	(895)	(44,641)
Depreciation	–	(2,018)	(6,775)	(686)	(1,154)	(67)	(10,700)
Reversal of impairments	–	–	54	15	49	–	118
Disposals	–	631	20	–	–	376	1,027
Accumulated depreciation and impairment losses at end of year	**–**	**(10,988)**	**(25,877)**	**(5,712)**	**(11,033)**	**(586)**	**(54,196)**
Net carrying amount at end of year	**200**	**4,505**	**11,307**	**2,710**	**6,156**	**184**	**25,062**

2. PROPERTY AND EQUIPMENT (continued)

	Owner-occupied property R'000	Leasehold improvements R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
Open market value/ cost at beginning of period	95	15,558	60,348	8,430	15,909	1,441	101,781
Revaluations	105	–	–	–	–	–	105
Additions	–	110	11,871	46	1,147	–	13,174
Disposals	–	(32)	(36,719)	(312)	(178)	(226)	(37,467)
Open market value/cost at end of period	**200**	**15,636**	**35,500**	**8,164**	**16,878**	**1,215**	**77,593**
Accumulated depreciation and impairments at beginning of period	–	(8,743)	(42,587)	(4,389)	(8,891)	(925)	(65,535)
Depreciation	–	(882)	(7,478)	(504)	(847)	(112)	(9,823)
Impairments	–	–	(215)	(300)	(309)	–	(824)
Disposals	–	24	31,104	152	119	142	31,541
Accumulated depreciation and impairments at end of period	**–**	**(9,601)**	**(19,176)**	**(5,041)**	**(9,928)**	**(895)**	**(44,641)**
Net carrying amount at end of period	**200**	**6,035**	**16,324**	**3,123**	**6,950**	**320**	**32,952**

Notes:

1. The owner-occupied property comprises stand 624 Malvern, Johannesburg, with a building thereon. Mr G J Van Zyl, a valuator with Van Zyl Valuers and a member of the Institute of Valuers of South Africa, independently valued the property at 31 December 2002.
2. Where certain lease terms were extended for a shorter term than previously anticipated the leasehold improvements have now been depreciated over the shorter term resulting in a greater depreciation charge of R0.8 million.
3. The carrying amount of the Company's computer equipment includes an amount of R6.0 million (December 2002: R9.6 million) in respect of assets held under a financial lease agreement. See note 11.

3. OTHER ACCOUNTS RECEIVABLE

	2003 R'000	2002 R'000
Items in transit	**51,434**	60,333
Loans to fellow subsidiaries and holding company (refer to note 25.2)	**10,730**	24,145
Prepayments and deposits	**16,416**	4,661
Properties in possession	**3,367**	3,583
Other receivables	**8,058**	57,299
	90,005	150,021

4. INTEREST IN SUBSIDIARIES

	2003 R'000	2002 R'000
Unlisted		
Shares at fair value	**9,839**	6,964
Loans (refer to note 25.2)	**46,369**	43,508
	56,208	50,472

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

5. OTHER INVESTMENTS

	2003 R'000	2002 R'000
Available-for-sale		
Listed	**–**	55
Unlisted – associated company	**3,236**	–
– other	**3,165**	3,996
	6,401	4,051
Directors' valuation of unlisted investments	**6,401**	3,996

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

6. LOANS AND ADVANCES

	2003 R'000	2002 R'000
Category analysis		
Originated	**1,481,909**	
Current accounts	**410,606**	545,822
Credit card accounts	**136,780**	126,313
Home loans	**303,649**	312,948
Instalment sales and leases	**127,787**	141,916
Preference shares	**1,498**	14,988
Foreign loans and deposits	**45,590**	58,242
Other advances	**455,999**	581,176
Held-for-trading		
Other advances	**136,193**	–
	1,618,102	1,781,405
Less: Impairment for credit losses	**(297,874)**	(372,521)
Less: Interest in suspense	**(141,440)**	(95,133)
	1,178,788	1,313,751
Maturity analysis		
Repayable on demand	**1,058,768**	774,158
Maturing within six months	**36,891**	496,445
Maturing after six months but within 12 months	**34,070**	140,147
Maturing after 12 months	**488,373**	370,655
	1,618,102	1,781,405

6. LOANS AND ADVANCES (continued)

	2003 R'000	2002 R'000
Impairment for credit losses		
Balance at beginning of year/period	**372,521**	604,850
Movements for the year/period:		
Transitional adjustments	**(28,811)**	–
Transfer from/(to) investments	**36**	(3,417)
Transfer to provision for other risks (refer to note 13)	**(11,510)**	–
Credit losses written-off	**(30,694)**	(2,171)
Net release to income statement after impairments/provisions raised	**(3,668)**	(226,741)
Balance at end of year/period	**297,874**	372,521
Comprising:		
General provisions	**–**	30,760
Portfolio impairment	**3,079**	–
Specific impairment	**294,795**	341,761
	297,874	372,521
Net recoveries of credit losses		
Net release of impairments/provisions	**3,668**	226,741
Recoveries in respect of amounts previously written-off	**8,756**	11,090
Release of other credit risk related provisions	**7,476**	9,933
	19,900	247,764

The aggregate amount of non-performing loans at the year-end on which interest was not being accrued amounted to R542.0 million (December 2002: R619.4 million).

7. DERIVATIVES FINANCIAL INSTRUMENTS

	Notional principal R'000	Fair value of assets R'000	Notional principal R'000	Fair value of liabilities R'000
Held for trading				
2003				
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**
2002				
Foreign exchange contracts	90,650	8,124	71,090	4,001

8. NEGOTIABLE SECURITIES

	2003 R'000	2002 R'000
Originated		
Government stock	**–**	39,247
Treasury bills	**257,718**	55,722
Debentures	**15,204**	60,619
Non-liquid bills and acceptances	**168**	–
	273,090	155,588
Maturity analysis		
Repayable on demand	**149,146**	40,290
Maturing within six months	**123,944**	76,051
Maturing after 12 months but within five years	**–**	39,247
	273,090	155,588

9. CASH AND CASH EQUIVALENTS

	2003	2002
Cash and bank notes	**25,641**	30,694
Central Bank balances	**32,422**	35,684
Domestic bank balances	**73,175**	355,575
Foreign bank balances	**82,090**	32,529
Resale agreements	**361,602**	–
	574,930	454,482

10. SHARE CAPITAL AND SHARE PREMIUM

	Number of issued ordinary shares '000	Share capital R'000	Share premium R'000	Total R'000
At 31 December 2002 and 31 December 2003	62,484	124,969	804,718	929,687

Notes:

1. The total authorised number of ordinary shares is 62 630 000 shares (December 2002: 62 630 000 shares) with a par value of R2.00 per share. No shares were issued during the year under review (December 2002: nil shares).
2. The unissued shares are under the control of the directors until the next annual general meeting.

11. LONG-TERM LIABILITIES

	2003 R'000	2002 R'000
Finance Lease – IBM Global Financing S.A.		
Total outstanding lease commitment	**5,786**	9,644
Future finance charges	**(499)**	(1,309)
	5,287	8,335

The finance lease bears interest at a fixed rate of 11.4% per annum and is secured over computer equipment with a carrying value of R6.0 million (December 2002: R9.6 million). The lease repayments of R964,376 are payable quarterly in advance with the last payment being on 1 July 2005. The current portion of the loan is R2.6 million (December 2002: R3.5 million).

12. DEPOSITS

	2003 R'000	2002 R'000
Call deposits and current accounts	**679,885**	707,446
Savings accounts	**133,198**	126,495
Term and notice deposits	**996,628**	569,910
Negotiable certificates of deposit	**78,396**	438,111
Foreign bank deposits and loans	**60,510**	81,338
	1,948,617	1,923,300
Maturity analysis		
Repayable on demand	**1,137,219**	590,779
Maturing within six months	**743,989**	1,034,327
Maturing after six months but within 12 months	**66,370**	258,892
Maturing after 12 months	**1,039**	39,302
	1,948,617	1,923,300

13. PROVISIONS

	Post-retirement medical benefits R'000	Leave pay R'000	Other risks R'000	Total R'000
At 31 March 2002	**9,798**	**9,601**	**–**	**19,399**
Additional provision raised	1,433	731	879	3,043
Charged to provision	–	(2,064)	–	(2,064)
At 31 December 2002	**11,231**	**8,268**	**879**	**20,378**
Amount previously accounted for under provisions for credit risk (refer to note 6)	–	–	11,510	11,510
Additional provision raised	3,136	6,361	151	9,648
Charged to provision	–	(4,062)	–	(4,062)
Unutilised provision reversed	–	(2,131)	(4,943)	(7,074)
At 31 December 2003	**14,367**	**8,436**	**7,597**	**30,400**

Post-retirement medical benefits

Refer to note 14 for detailed disclosure of this provision.

Leave pay

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

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 Company, 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 that are expected to materialise.

14. POST-RETIREMENT MEDICAL BENEFITS

The Company operates a partly funded post-retirement medical scheme. The assets of the funded plan are held independently of the Company'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 2003.

	2003 R'000	2002 R'000
The amounts recognised in the balance sheet are as follows: (refer to note 13)		
Present value of total service liabilities	**24,129**	21,968
Fair value of plan assets	**(10,656)**	(10,737)
Unrecognised actuarial gains	**894**	–
Liability in the balance sheet	**14,367**	11,231

	12 months 2003 R'000	9 months 2002 R'000
The amounts recognised in the income statement are as follows:		
Current service cost	**1,301**	665
Interest costs	**2,580**	853
Expected return on Plan Assets	**(1,257)**	(466)
Actuarial loss/(gain)	**912**	(911)
Net difference in valuation of unfunded liability	**–**	1,933
Employer benefit payments	**(940)**	(641)
Payments from plan assets	**540**	–
Total included in staff costs	**3,136**	1,433
Reconciliation of the movement in the net liability:		
At the beginning of year/period	**11,231**	9,798
Current service cost	**1,301**	665
Interest costs	**2,580**	853
Expected return on Plan Assets	**(1,257)**	(466)
Actuarial (gain)/loss	**912**	(911)
Net difference in valuation of unfunded liability	**–**	1,933
Employer benefit payments	**(940)**	(641)
Payments from plan assets	**540**	–
At the end of year/period	**14,367**	11,231

The principle actuarial assumptions used were as follows:

Discount rate	10% (2002: 12%) compounded annually
Investment return	10% (2002: 12%) compounded annually
Rate of medical inflation	8% (2002: 10%) compounded annually

15. OTHER ACCOUNTS PAYABLE

	2003 R'000	2002 R'000
Accruals	**6,631**	20,826
Loans from fellow subsidiaries (refer to note 25.2)	**1,514**	2,283
Product related credits	**18,665**	7,269
Sundry creditors	**9,567**	4,421
	36,377	34,799

16. CONTINGENT LIABILITIES

16.1 Guarantees, letters of credit and irrevocable unutilised facilities

Guarantees	**114,352**	130,797
Letters of Credit	**4,774**	2,278
Irrevocable unutilised facilities	**215,311**	350,574
	334,437	**483,649**

16.2 Conditional buy-back obligation

In terms of the sale agreement, wherein the Company disposed of its asset finance book, the Company 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 R116.0 million (December 2002: R237 million). An amount of R6.6 million, included in provisions for other risks (refer to note 13), has been provided against this obligation (December 2002: R11.5 million).

16.3 Commitments under operating leases

The total minimum future lease payments under operating leases are as follows:

Property rentals:		
Due within one year	**4,660**	1,988
Due between one and five years	**6,997**	7,814
Due after five years	**–**	123
	11,657	9,925
Motor vehicle rentals:		
Due within one year	**983**	1,756
Due between one and five years	**613**	1,738
	1,596	3,494

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.

17. DEFERRED TAXATION

A deferred tax asset has not been recognised for the deductible temporary differences and unutilised calculated tax losses of R 901.6 million (December 2002: R 898.8 million) due to the recent history of tax losses and the absence of future taxable temporary differences.

18. INTEREST INCOME

	12 months 2003 R'000	9 months 2002 R'000
Interest on:		
Cash and cash equivalents	**41,614**	19,866
Negotiable securities	**23,828**	17,119
Loans and advances	**167,241**	160,247
Originated	**152,215**	–
Held-for-trading	**15,026**	–
	232,683	197,232

19. INTEREST EXPENDITURE

	12 months 2003 R'000	9 months 2002 R'000
Interest on:		
Long-term liabilities	**809**	343
Deposits	**160,650**	129,467
	161,459	129,810

20. NON-INTEREST INCOME

	12 months 2003 R'000	9 months 2002 R'000
Transactional income	**69,158**	48,116
Fees and commission	**67,055**	44,136
Knowledge-based fees	**2,103**	3,980
Trading income	**18,718**	14,686
Foreign currency	**15,305**	12,786
Treasury operations	**3,413**	1,900
Investment income – dividends	**2,583**	4,000
Associated company	**544**	–
Other	**2,039**	4,000
	90,459	66,802

21. OPERATING EXPENDITURE

	12 months 2003 R'000	9 months 2002 R'000
Auditors' remuneration		
Audit fees – current	**3,090**	1,875
Audit fees – prior	**–**	478
Fees for other services	**4,958**	1,725
	8,048	4,078
Professional fees		
Consulting	**10,553**	6,814
Collection	**15,857**	15,576
Legal	**842**	915
Technical and other	**9,600**	7,076
	36,852	30,381

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

21. OPERATING EXPENDITURE (continued)

	12 months 2003 R'000	9 months 2002 R'000
Depreciation and amortisation (refer to notes 1 and 2)	**16,956**	16,202
Lease charges		
Motor vehicles	**1,492**	1,468
Equipment	**260**	337
	1,752	1,805
Staff costs		
Salaries, wages and allowances	**86,847**	62,449
Post-retirement medical benefits	**3,136**	2,014
Contributions to defined contribution funds	**6,467**	9,693
Other	**2,893**	2,911
	99,343	77,067
Number of staff (including temporary) at year-end/period-end	**430**	518
Impairment and loss/(profit) on sale of equipment and property		
Improvements to leased premises	**432**	8
Computer equipment	**(70)**	4,209
Furniture and fittings	**(15)**	(86)
Office equipment	**(49)**	(197)
Motor vehicles	**(52)**	(60)
Computer software	**–**	5,187
	246	9,061
Rent – premises	**10,670**	10,115
Marketing and communication	**7,417**	7,516
Directors' emoluments		
(Details in note 25.3)		
Executive directors	**2,803**	3,556
Non-executive directors:		
Fees	**927**	570
Other services	**–**	41
	3,730	4,167
Indirect taxation		
Unclaimable value-added tax	**6,525**	5,306
Skills development levy	**350**	569
Regional Services Council levies	**817**	688
Total indirect taxation	**7,692**	6,563
Other operating costs	**45,866**	29,686
Total operating expenditure	**238,572**	196,641

22. TAXATION

	12 months 2003 R'000	9 months 2002 R'000
Direct taxation		
South African normal taxation:		
Prior year/period	**–**	(4,347)
South African tax rate reconciliation		
South African standard tax rate	**30,0%**	30,0%
Exempt income	**(4,6%)**	(0,7%)
Non-deductible expenses	**0,2%**	5,3%
Reversal of allowances	**(30,4%)**	(41,5%)
Tax losses	**4,8%**	6,9%
Adjustment for prior periods	**–**	(2,6%)
Effective rate of taxation	**–**	(2,6%)
As the Company had no taxable income at the year-end/period-end, no provision for taxation has been made.		
Estimated tax losses available for set-off against future taxable income	**901,564**	898,843

23. CASH FLOW DETAILS

23.1 Cash receipts from customers

	2003	2002
Interest income	**232,683**	197,232
Non-interest income and profit on sale and revaluation of investments	**91,179**	50,563
Adjusted for: Dividends received	**(2,583)**	(4,000)
Net loss/(profit) on sale and revaluation of investments	**(720)**	16,239
Revaluation of held-for-trading financial instruments	**(2,206)**	–
Recoveries of credit losses	**8,756**	11,090
Total cash receipts from customers	**327,109**	271,124

23.2 Cash paid to suppliers and employees

	2003	2002
Interest expenditure	**(160,650)**	(129,467)
Operating expenditure	**(238,572)**	(196,641)
Adjusted for: Depreciation and amortisation	**16,956**	16,202
Impairment and loss on sale of property and equipment	**246**	9,061
Increase in provisions	**(1,488)**	979
Total cash paid to suppliers and employees	**(383,508)**	(299,866)

23.3 Taxation paid

	2003	2002
Amounts unpaid at beginning of year/period	**(215)**	(4,945)
Income statement charge	**–**	4,347
Less: Amounts unpaid at end of year/period	**44**	215
Total taxation paid	**(171)**	(383)

23.4 Changes in income earning assets

	2003	2002
(Increase)/decrease in negotiable securities	**(117,502)**	87,409
Decrease in loans and advances	**201,978**	398,691
Net decrease in income earning assets	**84,476**	486,100

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

23. CASH FLOW DETAILS (continued)

23.5 Changes in deposits and other accounts

	12 months 2003 R'000	9 months 2002 R'000
Increase/(decrease) in deposits	**25,317**	(190,393)
Increase/(decrease) in other accounts	**77,313**	(12,344)
Net increase/(decrease) in deposits and other accounts	**102,630**	(202,737)

24. FINANCIAL RISK MANAGEMENT

24.1 Foreign currency risk management

The Bank, 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
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:

Foreign currency	Highest rate	Lowest rate
US Dollar	8.19	6.29
Euro	9.15	7.65
Pound Sterling	12.33	11.11
Swiss Franc	5.76	5.15
Japanese Yen	0.07	0.06
Australian Dollar	5.08	5.00

24. FINANCIAL RISK MANAGEMENT (continued)

24.2 Credit risk management

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

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

Advances and receivables comprise a large number of customers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers. Advances and receivables are presented net of impairment for credit losses.

Counterparties to derivatives expose the Company to credit-related losses in the event of non-performance. The counterparties to these contracts are financial institutions. The Company 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 Company 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 other than to CGD.

24.3 Liquidity risk management

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

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	1,674,303	1,204,288	470,015
Maturing between one and three months	136,910	607,649	(470,739)
Maturing between three and six months	78,121	138,565	(60,444)
Maturing between six months and one year	69,827	69,108	719
Maturing after one year	265,644	205,195	60,449
	2,224,805	2,224,805	–

24.4 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.

24. FINANCIAL RISK MANAGEMENT (continued)

24.5 Interest rate risk management

The Company takes on exposures 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 daily. The table below summarises the Company'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 as at 31 December 2003:

	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 %
Assets								
Intangible assets						12,711	12,711	
Property and equipment						25,062	25,062	
Other accounts receivable						90,005	90,005	
Interest in subsidiaries						56,208	56,208	
Other investments						6,401	6,401	
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	511,310	2,224,805	7.79
Equity and liabilities								
Shareholders' equity						171,965	171,965	
Long-term liabilities	230	417	1,974	2,666			5,287	11.51
Deposits	947,160	516,087	215,167	3,882		266,321	1,948,617	6.88
Derivative financial instruments						32,115	32,115	
Provisions						30,400	30,400	
Other accounts payable						36,3777	36,377	
Taxation						44	44	
Total equity and liabilities	947,390	516,504	217,141	6,548		537,222	2,224,805	6.06
On balance sheet interest sensitivity gap	236,280	(218,504)	(88,845)	52,956	44,025			

25. RELATED-PARTY INFORMATION

25.1 Identity of related parties with whom material transactions have occurred

The holding company and ultimate holding company is identified on page 4 in the Directors' report. Material subsidiaries of the Company are identified below. 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.

25.2 Material related-party transactions

The Company, in the ordinary course of business, enters into various financial services transactions with the ultimate holding company and its subsidiaries, holding company, fellow subsidiaries and its subsidiaries. These transactions are governed by terms no less favourable than those arranged with third parties. Loans to subsidiaries, loans to and from fellow subsidiaries and other transactions are detailed hereafter.

	Percentage held	**2003 R'000**	2002 R'000
Loans to subsidiaries			
Portion 2 of Lot 8 Sandown (Pty) Limited	100	**44,075**	41,195
Lisabank Corporate Finance Limited	100	**3,049**	2,868
LSM Troyeville Properties (Pty) Limited	100	**5,507**	5,425
Sertona (Pty) Limited	100	**70**	70
Less: Provisions held against loan accounts		**(6,332)**	(6,050)
		46,369	43,508
Loans to fellow subsidiaries and holding company			
Mercantile Equipment Trading (Pty) Limited		**467**	467
Mercantile Finance Limited		**1,421**	1,488
Mercantile Insurance Brokers (Pty) Limited		**–**	2,224
Mercantile Lisbon Bank Holdings Limited		**8,248**	15,325
Mercantile Nominees (Pty) Limited		**1**	1
Mercantile Registrars Limited		**8,266**	13,314
Weskor Beleggings (Pty) Limited		**704**	701
Less: Provisions held against loan accounts		**(8,377)**	(9,375)
		10,730	24,145
Loans from fellow subsidiaries			
Mercantile Administration Trust Company (Pty) Limited		**1,508**	2,283
Mercantile Insurance Brokers (Pty) Limited		**6**	–
		1,514	2,283

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

25. RELATED-PARTY INFORMATION (continued)

25.2 Material related-party transactions (continued)

Other balances and transactions

At 31 December 2003	R'000	
Caixa Geral de Depósitos – Lisbon	96,829	
Nostro accounts		1,628
Vostro accounts		(5,912)
Deposits at CGD		105,882
Deposit at MBL		(4,769)
Caixa Geral de Depósitos – Paris	871	
Nostro accounts		883
Vostro accounts		(12)
Caixa Geral de Depósitos – London		
Vostro accounts		(17)
Caixa Geral de Depósitos (CGD)	97,683	
Banco Comercial e de Investimentos (BCI) – Mozambique	(31,882)	
Vostro accounts		(87)
Call and notice deposits		(31,795)
Banco Nacional Ultramarino (BNU)		
Deposit at MBL		(6,691)
	59,110	

Interest was paid to BCI – Mozambique amounting to R1.6 million in respect of the above balance during the 2003. financial year Interest received from CGD in respect of above balances during the 2003 financial year amounted to R0.1 million.

Guarantees

For guarantees issued by CGD, refer note 9 in the Directors' report. Guarantee fees paid to CGD during the 2003 financial year amounted to R0.3 million.

25. RELATED-PARTY INFORMATION (continued)

25.3 Director and director-related activities

No material loans were made to directors during the year under review. There were no material transactions with directors, other than the following:

Directors' emoluments

Director	Directors' fees R'000	Fees for other services R'000	Salary R'000	Fringe benefits R'000	Pension fund and medical aid con-tributions R'000	Total R'000
2003						
De Campos J A S	**385**	**–**	**–**	**–**	**–**	**385**
Symmonds R J*	**–**	**–**	**950**	**–**	**110**	**1,060**
De Kock G P	**140**	**–**	**–**	**–**	**–**	**140**
Real Pereira J H	**203**	**–**	**–**	**–**	**–**	**203**
De FN Ribas R M L*	**–**	**–**	**1,225**	**45**	**26**	**1,296**
Soares A M S A	**88**	**–**	**–**	**–**	**–**	**88**
Hyne L	**111**	**–**	**–**	**–**	**–**	**111**
Soutelo da Silva M J*	**–**	**–**	**–**	**–**	**–**	**–**
Tubal Gonsalves J M*	**–**	**–**	**425**	**15**	**7**	**447**
	927	**–**	**2,600**	**60**	**143**	**3,730**
2002						
De Campos JAS	192	–	–	–	–	192
Symmonds R J*	–	–	1,220	–	139	1,359
De Kock G P	86	–	–	–	–	86
Real Pereira J H	102	–	455	22	18	597
De FN Ribas R M L*	–	–	1,044	28	12	1,084
Soares A M S A	80	–	–	–	–	80
Wood B T	13	41	–	–	–	54
Shaw M J	26	–	–	–	–	26
Chadwick G K	45	–	–	–	–	45
Steyn A*	–	–	290	22	38	350
Van Rooyen B R	26	–	–	–	–	26
Meyer W H*	–	–	236	–	32	268
	570	41	3,245	72	239	4,167

* Executive

Employment contracts

An employment contract was entered into with Dr R M L de FN Ribas for an initial period of three years ending on 26 June 2005.

CAPITAL ADEQUACY STATEMENT AT 31 DECEMBER 2003

	Risk weighting	Average assets 31 December 2003 R'000	Risk-weighted assets 31 December 2003 R'000	Risk-weighted assets 31 December 2002 R'000
Banking book				
Cash, off-balance sheet activities and Central Government transactions	0%	1,154,127	**–**	–
Letters of credit and other bank advances	20%	499,611	**99,922**	146,036
Residential mortgage loans and performance-related guarantees	50%	277,807	**138,904**	158,886
Other assets including counterparty risk exposure	100%	978,064	**978,064**	1,421,606
Large exposure impairment	100%	93,502	**93,502**	–
		3,003,111	**1,310,392**	1,726,528
Primary capital			**941,918**	941,918
Secondary capital			**18,799**	21,633
Impairments			**(806,001)**	(748,911)
Net qualifying capital			**154,716**	214,640
Capital adequacy ratio			11,8%	12,4%
Primary capital			10,4%	11,2%
Secondary capital			1,4%	1,2%