Mercantile Lisbon Bank Holdings Limited

("MLBH" or "the Company" or "the Group")

Consolidated results for the year ended 31 December 2003 and proposed recapitalisation

Summarised Group Income Statement

	12 months ended 2003 R'000 Reviewed	9 months ended 2002 R'000 Audited
Interest income	**226 970**	188 072
Interest expense	**(161 152)**	(128 175)
Net interest income before credit losses	**65 818**	59 897
Net recoveries of credit losses [1]	**19 840**	247 764
Net interest income after credit losses	**85 658**	307 661
Net profit/(loss) on sale of investments	**8**	(10 013)
Non-interest income	**91 025**	72 532
Net interest and non-interest income	**176 691**	370 180
Operating expenditure	**(237 521)**	(206 515)
(Loss)/profit before associated companies	**(60 830)**	163 665
Share of income from associated companies	**1 942**	1 394
(Loss)/profit before taxation	**(58 888)**	165 059
Taxation	**–**	2 709
Attributable (loss)/profit after taxation	**(58 888)**	**167 768**
Reconciliation between attributable (loss)/profit after taxation and headline (loss)/earnings		
Attributable (loss)/profit after taxation	**(58 888)**	167 768
Adjustment for:		
Realisation of available-for-sale reserve	**2 125**	
Impairments and loss on sale of property and equipment	**292**	16 582
Headline (loss)/earnings	**(56 471)**	184 350
(Loss)/earnings per share* (cents)	**(6,9)**	19,6
Headline (loss)/earnings per ordinary share (cents)	**(6,6)**	21,6

Summarised Group Balance Sheet

	2003 R'000 Reviewed	2002 R'000 Audited
Assets		
Intangible assets	**12 711**	14 696
Property and equipment	**84 651**	88 723
Investment properties	**800**	800
Taxation	**3 567**	3 396
Other accounts receivables	**82 430**	127 534
Interest in associated companies	**2 951**	1 879
Other investments	**3 965**	7 302
Loans and advances	**1 178 788**	1 313 292
Derivative financial instruments	**7 610**	8 124
Negotiable securities	**273 090**	155 588
Cash and cash equivalents	**574 930**	454 778
Total assets	**2 225 493**	2 176 112
Equity and liabilities		
Shareholders' equity	**163 899**	183 500
Share capital and share premium	**866 865**	866 865
Capital redemption reserve fund	**3 788**	3 788
General reserve	**7 478**	7 478
Property revaluation reserve	**28 376**	20 997
Available-for-sale reserve	**(742)**	
General risk reserve	**31 212**	
Accumulated loss	**(773 078)**	(715 628)
Liabilities	**2 061 594**	1 992 612
Long-term liabilities	**5 287**	9 335

Summarised Group Cash Flow Statement

	12 months ended 2003 R'000 Reviewed	9 months ended 2002 R'000 Audited
Net cash inflow/(outflow) from operating activities	**6 993**	(41 915)
Net cash inflow from operating funds	**117 790**	286 088
Net cash outflow from investing activities	**(1 583)**	(9 777)
Net cash (outflow)/inflow from financing activities	**(3 048)**	8 335
Net cash inflow for the year/period	**120 152**	242 731
Cash and cash equivalents at beginning of year/period	**454 778**	212 047
Cash and cash equivalents at end of year/period	**574 930**	454 778

Summarised Group Statement of Changes in Equity

	12 months ended 2003 R'000 Reviewed	9 months ended 2002 R'000 Audited
Balance at beginning of year/period	**183 500**	15 917
Transitional adjustments on adoption of AC 133	**28 246**	
Creation of general risk reserve	**28 811**	
Revaluation of held-for-trading financial instruments	**(565)**	
Movements in reserves	**11 041**	(185)
Net transfer to available-for-sale reserve	**3 662**	
Revaluation of property	**7 379**	(185)
(Loss)/profit after taxation	**(58 888)**	167 768
Balance at end of year/period	**163 899**	183 500

Effect of AC 133 on 2003 Group Results

	R'000 Reviewed
Non-interest income	**(1 456)**
Net transfer to available-for-sale reserve	**(3 662)**
Revaluation of held-for-trading financial instruments	**2 206**
Provision for bad debts	**2 401**
Adjustment for specific loan impairments	**6 012**
Movement in portfolio impairment	**7 636**
Reversal of general loan provisions	**(11 247)**
Favourable impact on 2003 results	**945**

Summarised Group Segmental Information

	12 months ended 2003 R'000 Reviewed	9 months ended 2002 R'000 Audited
Segment revenue:		
Retail banking	**93 896**	103 036
Treasury	**8 843**	11 690
Alliance banking, MBL credit card and structured loans	**33 829**	7 050
Other services [2]	**42 065**	249 798
	178 633	371 574
Contribution/(loss) after tax:		
Retail banking [3]	**38 705**	38 729

Announcement of consolidated results for the year ended 31 December 2003 and proposed recapitalisation

- Proposed rights issue in an aggregate amount of R550 million to R600 million which will include release of certain Caixa Geral de Depositos S.A. ("CGD") guarantees
- Issue to be priced at 18 cents per share
- Fully underwritten by CGD
- Appointment of new CEO
- Improved collection of non-performing loans
- Rehabilitation programme well advanced and ongoing – improved efficiencies
- Headline loss per share of 6,6 cent per share (2002 (nine months): loss of 9,4 cent per share excluding the benefit of the CGD guarantee of R265 million)
- Attributable loss of R59 million – improvement of 39% from the loss of R97 million for the nine-month period ended 31 December 2002, excluding the benefit of the CGD guarantee of R265 million

Joaquim de Andrade Campos, Chairman said:
"Good progress has been made in rehabilitating the Group over the past 18 months. CGD is committed to supporting Mercantile through its continued turnaround as evidenced by the proposed rights issue."

Dave Brown, newly appointed CEO, said:
"I am delighted with my appointment and look forward to taking Mercantile to the next stage of its development."

31 March 2004

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Financial overview

Management's primary focus during the year under review has centred on the rehabilitation of the Group. Good progress has been made across all areas identified for action with significant success achieved in:

- Reducing the recurring cost base through headcount and process rationalisation
- Collections under the non-performing book
- Attracting new talent to Mercantile Bank Limited ("Bank"), where almost the entire senior management team has been replaced

Although the Group remains in a loss making position, attributable losses net of the effect of the CGD guarantees have decreased to R59 million from R97 million for the nine-month period to 31 December 2002. The improved results are mainly due to a reduction in costs (on an annualised basis), recoveries of non-performing loans and growth in Alliance Banking fee income. These results need to be considered in the context of the turnaround, with the associated costs incurred to rationalise the operations and the systems, the inefficiencies inherent in the significant retrenchment of staff and the major changes in managerial staff and the reduction in margin resulting from the slow down in lending activities.

Whilst the Rehabilitation has been underway, a deliberate strategy of not actively seeking new clients within Retail Banking has been employed, accounting for the lack of growth in assets in this business. Higher levels of liquidity are evident due to the reduction in the lending book and retention of deposits during this period.

Completion of the Rehabilitation is expected to be achieved during 2004 when the focus will be shifted to developing the Bank in its chosen target markets.

Accounting policies

The results comply with South African Statements of Generally Accepted Accounting Practice applicable to Interim Financial Reporting and the accounting policies are consistent with those applied in the previous annual financial statements, except for the adoption of AC 133, the effect of which has been shown in the results.

AC 133

The adoption of the new Accounting Statement AC 133 has resulted in the following impact on the financial results:

- Increase in the opening balance of shareholders' equity of R28,2 million of which R28,8 million corresponds to a reduction in provisions accounted for as a non-distributable general risk reserve and the reduction of R85,5 million of the original exposure. The Bank 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 attached to this guarantee 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 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 Bank'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 the Company, primarily to extend, on the same terms and conditions, a subordinated loan facility to the Bank. Implementation of the contract is subject to the approval of the Registrar of Banks.

In addition, CGD has agreed to provide a subordinated loan facility of R8,2 million to be used by the Company for the purpose of repaying its indebtedness to the Bank. This facility will be implemented once the approval of the Registrar of Banks 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 the Company and the Bank have already been established with the Registrar of Banks and agreed to by the controlling shareholder.

Proposed recapitalisation

An essential requirement to deliver on the growth strategies is the recapitalisation of the Group at a level necessary to compete in these markets. The board is accordingly pleased to report that the major shareholder, CGD, has committed to underwriting a rights offer in an aggregate amount of between R550 million and R600 million. This capital will play a major part in the renewed marketing drive of the Bank to increase its loan book and return to profitability. The capital committed by CGD to the rights offer will include the release of certain guarantees as referred to below.

Capital increase

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 R550 million to R600 million, through a proposed rights issue at a price of 18 cents per share, fully underwritten by the controlling shareholder. 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 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 offer is less than the par value of the Company's shares and, accordingly, the Company 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 have irrevocably undertaken to vote in favour of the release of the guarantees and other resolutions necessary to implement the rights offer.

Directorate

Dave Brown has been appointed Chief Executive Officer, with immediate effect. Dave has been an executive advisor to Mercantile for the past eight months and has been intimately involved in refocusing the strategy of the Group and in assisting with the implementation of the Rehabilitation programme. Dave is an experienced banker with an indepth knowledge of the South African market.

Rui Ribas, who was the acting CEO during the Rehabilitation process, will remain on the board as a non-executive director.

Going concern

The financial statements have been prepared on the going concern basis. The ability of the Group to continue as a going concern is dependent on the successful implementation of the proposed rights issue and the consequential recapitalisation of the Group as referred to above. The results have been reviewed by Deloitte & Touche and without qualifying their review opinion the auditors have raised an emphasis of matter drawing attention to this. The auditors' review report is available for inspection at the Company's registered office.

Taxation	[illegible]	[illegible]
Other accounts receivables	**82 430**	127 534
Interest in associated companies	**2 951**	1 879
Other investments	**3 965**	7 302
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Shareholders' equity	**163 899**	183 500
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Property revaluation reserve	**28 376**	20 997
Available-for-sale reserve	**(742)**	
General risk reserve	**31 212**	
Accumulated loss	**(773 078)**	(715 628)
Liabilities	**2 061 594**	1 992 612
Long term liabilities	**5 287**	8 335
Deposits	**1 946 752**	1 912 979
Derivative financial instruments	**32 115**	4 001
Provisions	**36 066**	27 404
Other accounts payables	**40 437**	38 387
Taxation	**937**	1 506
Total equity and liabilities	**2 225 493**	2 176 112

Contingent Liabilities and Commitments

	2003 R'000 Reviewed	2002 R'000 Audited
Guarantees and letters of credit	**119 126**	133 075
Irrevocable unutilised facilities	**215 311**	350 574
Conditional buy-back obligations	**116 050**	236 956
Operating lease commitments:	**13 253**	13 419
Due within one year	**5 643**	3 744
Due between one and five years	**7 610**	9 552
Due after five years	**–**	123
Total contingent liabilities and commitments	**463 740**	734 024

Adjustment for specific loan impairments	**6 012**
Movement in portfolio impairment	**7 636**
Reversal of general loan provisions	**(11 247)**
Favourable impact on 2003 results	**945**

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Segment revenue:		
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Other services (2)	**42 065**	249 798
	178 633	371 574
Contribution/(loss) after tax:		
Retail banking (3)	**38 705**	38 729
Treasury (3)	**(3 441)**	(7 366)
Alliance banking, MBL credit card and structured loans (3)	**7 409**	(12 111)
Other services (2)	**(101 561)**	148 516
	(58 888)	167 768

Financial Statistics

	2003 Reviewed	2002 Audited
Number of ordinary shares in issue:		
– end of year/period ('000)	**855 585**	855 585
– weighted average ('000)	**855 585**	855 585
Net asset value per ordinary share (cents)	**19,2**	21,4
Capital adequacy ratio (%)		
– Consolidated MLBH Group	**9,8**	10,7
– Mercantile Bank Limited	**11,8**	12,4

* Basic and fully diluted

(1) MLBH has reversed, in 2002, gross impairments for credit losses in the amount of R265 million related to the CGD guarantee as referred to in the text of this Announcement.

(2) "Other services" includes support divisions, collections, specialised asset finance, insurance brokers, inter-group eliminations and AC 133 adjustments. Included in "Other services" is the reversal, in 2002, of gross impairments for credit losses as referred to in note 1.

(3) Excludes the allocation of attributable support costs.

(4) Certain comparative figures have been restated to allow for a more meaningful comparison. Details thereof will be disclosed in the annual financial statements.

systems, the inefficiencies inherent in the significant retrenchment of staff and the major changes in managerial staff and the reduction in margin resulting from the slow down in lending activities.

Whilst the Rehabilitation has been underway, a deliberate strategy of not actively seeking new clients within Retail Banking has been employed, accounting for the lack of growth in assets in this business. Higher levels of liquidity are evident due to the reduction in the lending book and retention of deposits during this period.

Completion of the Rehabilitation is expected to be achieved during 2004 when the focus will be shifted to developing the Bank in its chosen target markets.

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- Increase in the opening balance of shareholders' equity of R28,2 million of which R28,8 million corresponds to a reduction in provisions accounted for as a non-distributable general risk reserve and the remaining (R0,6) million is attributable to the revaluation of held-for-trading financial assets and related derivative instruments.
- In respect of the current financial year a further increase in shareholders' equity of R4,6 million of which R2,4 million corresponds to an increase in the general risk reserve and R2,2 million to the revaluation of held-for-trading financial assets and related derivative instruments.
- The R4,6 million referred to above is partly offset by the transfer of the revaluation of available-for-sale financial assets from the income statement to the available-for-sale reserve, in equity, of R3,7 million. This resulted in a decrease in the attributable loss of R0,9 million.

Ongoing support by CGD

After assuming control of the Company 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 the Company that they would safeguard the financial soundness and the stability of the Company, including the maintenance of the capital adequacy ratio of the Bank at the statutory level prescribed by the Registrar of Banks.

In performance of that undertaking, CGD issued the following guarantees in favour of the Bank:

- A guarantee of R265 million in July 2002, to cover the repayment of certain non-performing loans, which allowed the Bank 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 with a face value of R22 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 Bank's exposure ceased to be regarded as a large exposure for regulatory purposes. These guarantees will lapse, inter alia, as soon as the Bank's capital adequacy ratio is above the prescribed minimum statutory level, without taking into account CGD's indemnity.

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

- The outstanding balance of the non-performing loans covered by the R265 million guarantee was R179,5 million, which corresponds to a

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 have irrevocably undertaken to vote in favour of the release of the guarantees and other resolutions necessary to implement the rights offer.

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Outlook

The substantial increase in the capital base, as a result of the proposed rights issue, in conjunction with improved controls, a lower recurring cost base and a rejuvenated skills base, as well as the ongoing enhancements to IT systems, will play a pivotal role in growing our business.

The main focus of the Bank will be on developing the Retail activities. We will grow our enterprise banking business, by offering products and services to small and mid-sized businesses across the spectrum, whilst retaining a key focus on portuguese customers. We are well positioned to compete on our product offering, functionality, service levels and relationship management within our chosen target markets.

Treasury will remain as a key support area for our Retail Banking business.

An increased volume of transactions generated via existing joint ventures together with prospective opportunities in the Alliance Banking area of card and payment products is forecast to result in continued growth in fee income earned in this business.

Regulatory timelines attached to finalising the actual injection of capital in terms of the proposed rights issue are expected to reach completion by August 2004 and we expect the Group to be operating on a profitable footing in 2005.

We would like to thank our staff for their commitment over the past year, which has held many challenges. Their support has been instrumental in the success to date of our turnaround strategy.

Joaquim de Andrade Campos
Chairman

Rui Ribas
Acting Chief Executive

Directors: Dr J A S de Andrade Campos * [Chairman], Dr R M L de F N Ribas * [Acting Chief Executive Officer], G P de Kock, D J Brown [Executive], L Hyne, Dr A M Osman **

Group Secretary: F Vicente Coelho * * Portuguese ** Mozambican

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MERCANTILE LISBON BANK HOLDINGS LIMITED

Reg. No. 1989/000164/06
A Subsidiary Company of Caixa Geral de Depósitos