

# Mercantile Lisbon Bank Holdings Limited

A Subsidiary Company of Caixa Geral de Depósitos S.A.

("the Company" or "the Group")

## Audited results for the year ended 31 December 2004

### Summarised Group Income Statement

	2004 R'000 Audited	2003 R'000 Audited
Interest income	192 138	226 970
Interest expense	(107 036)	(161 152)
<b>Net interest income before credit losses</b>	<b>85 102</b>	<b>65 818</b>
Net (charge for)/recovery of credit losses	(4 367)	19 840
<b>Net interest income after credit losses</b>	<b>80 735</b>	<b>85 658</b>
Net profit on disposal and revaluation of investments	1 891	8
Non-interest income	96 138	91 025
<b>Net interest and non-interest income</b>	<b>178 764</b>	<b>176 691</b>
Operating expenditure	(219 834)	(237 521)
<b>Loss before associated companies</b>	<b>(41 070)</b>	<b>(60 830)</b>
Share of income from associated companies	768	1 942
<b>Loss before taxation and exceptional item</b>	<b>(40 302)</b>	<b>(58 888)</b>
Impairment and provisions raised and write-off on release of CGD guarantees	(172 729)	-
<b>Loss before taxation</b>	<b>(213 031)</b>	<b>(58 888)</b>
Taxation	(50)	-
<b>Attributable loss after taxation</b>	<b>(213 081)</b>	<b>(58 888)</b>

### Reconciliation between attributable loss after taxation and headline loss:

Attributable loss after taxation	(213 081)	(58 888)
<i>Adjustment for:</i>		
Realisation of available-for-sale reserve on disposal of investments	(60)	2 125
(Profit)/Impairments and loss on disposal of property and equipment	(680)	292
<b>Headline loss</b>	<b>(213 821)</b>	<b>(56 471)</b>
Loss per ordinary share (cents)	(11,6)	(6,9)
Headline loss per ordinary share (cents)	(11,7)	(6,6)
Diluted attributable loss per ordinary share (cents)	(11,6)	(6,9)
Diluted headline loss per ordinary share (cents)	(11,7)	(6,6)
Dividend per share (cents)	-	-

### Summarised Group Balance Sheet

	2004 R'000 Audited	2003 R'000 Audited
<b>ASSETS</b>		
Intangible assets	6 801	12 711
Property and equipment	85 028	84 651
Investment properties	770	800
Taxation	3 616	3 567
Other accounts receivable	33 148	82 430
Interest in associated companies	3 236	2 951
Other investments	3 556	3 965
Loans and advances	975 611	1 178 788
Derivative financial instruments	90 162	7 610
Negotiable securities	370 279	273 090
Cash and cash equivalents	1 148 861	574 930
<b>Total assets</b>	<b>2 721 068</b>	<b>2 225 493</b>
<b>EQUITY AND LIABILITIES</b>		
Shareholders' equity	500 939	163 899
Share capital and share premium	1 208 642	866 865
Capital redemption reserve fund	3 788	3 788
General reserve	7 478	7 478
Property revaluation reserve	31 461	28 376
Available-for-sale reserve	(955)	(742)
General risk reserve	31 668	31 212
Accumulated loss	(781 143)	(773 078)
<b>Liabilities</b>	<b>2 220 129</b>	<b>2 061 594</b>
Long-term liabilities	-	5 287
Deposits	2 112 569	1 946 752
Derivative financial instruments	35 210	32 115
Provisions	32 768	36 066
Other accounts payable	39 538	40 437
Taxation	44	937
<b>Total equity and liabilities</b>	<b>2 721 068</b>	<b>2 225 493</b>

### Group Contingent Liabilities and Commitments

	2004 R'000 Audited	2003 R'000 Audited
Guarantees and letters of credit	138 470	119 126
Irrevocable unutilised facilities	232 597	215 311
Conditional buy-back obligations	42 685	116 050
Operating lease commitments:	10 619	13 253
Due within one year	5 191	5 643
Due between one and five years	5 428	7 610

### Summarised Group Cash Flow Statement

	2004 R'000 Audited	2003 R'000 Audited
Net cash outflow from operating activities	(9 134)	(42 561)
Net cash inflow from operating funds	46 964	168 153
Net cash outflow from investing activities	(6 774)	(1 583)
Net cash inflow/(outflow) from financing activities	542 875	(3 857)
<b>Net cash inflow for the year</b>	<b>573 931</b>	<b>120 152</b>
Cash and cash equivalents at beginning of year	574 930	454 778
<b>Cash and cash equivalents at end of year</b>	<b>1 148 861</b>	<b>574 930</b>

### Summarised Group Statement of Changes in Equity

	2004 R'000 Audited	2003 R'000 Audited
Balance at beginning of year	163 899	183 500
Transitional adjustments on adoption of AC133	-	28 246
Movements in reserves	3 328	13 442
Net transfer (to)/from available-for-sale reserve	(213)	3 662
Net transfer to general risk reserve	456	2 401
Revaluation of property	3 085	7 379
Movements in accumulated loss	(8 065)	(61 289)
Loss after taxation	(213 081)	(58 888)
Net transfer to general risk reserve	(456)	(2 401)
Transfer on subdivision of shares	205 340	-
Accumulated profit on consolidation of share incentive trust	132	-
Movements in share capital and premium	341 777	-
Issue of shares	555 000	-
Share issue expenses	(6 382)	-
Transfer to distributable reserve on subdivision of shares	(205 340)	-
Treasury shares on consolidation of share incentive trust	(1 501)	-
<b>Balance at end of year</b>	<b>500 939</b>	<b>163 899</b>

### Summarised Group Segmental Information

	2004 R'000 Audited	2003 R'000 Audited
Segment revenue:		
Retail banking	116 342	93 896
Treasury	23 005	8 843
Alliance banking, MBL credit card and structured loans	41 790	33 829
Other services <sup>(1)</sup>	2 762	42 065
	<b>183 899</b>	<b>178 633</b>
Contribution/(loss) after tax:		
Retail banking <sup>(2)</sup>	61 941	38 705
Treasury <sup>(2)</sup>	(29 439)	(3 441)
Alliance banking, MBL credit card and structured loans <sup>(2)</sup>	23 529	7 409
Other services <sup>(1)</sup>	(269 112)	(101 561)
	<b>(213 081)</b>	<b>(58 888)</b>

### Financial Statistics

	2004	2003
Number of ordinary shares in issue:		
- end of year/period ('000)	3 938 919	855 585
- weighted average ('000)	1 832 817	855 585
Net asset value per ordinary share (cents)	12,7	19,2
Capital adequacy ratio (%)		
- Consolidated MLBH Group	37,2	9,8
- Mercantile Bank Limited	39,2	11,8

(1) "Other services" includes support divisions, collections, specialised asset finance, insurance brokers, inter-group eliminations and AC133 adjustments  
(2) Excludes the allocation of attributable support costs.

### Introduction

The year under review has seen:

- The recapitalisation of the Group through the successful completion of the rights offer of R555 million.
- Upgrade in credit rating.
- Headline loss, excluding the impact of the impairments and write-offs due to the release of the CGD guarantees, reducing to 2,2 cents per share versus a prior year comparable loss of 6,6 cents per share.

### Recapitalisation

We are pleased to report that the recapitalisation of the Group was successfully completed in September 2004, by way of an injection of primary capital in an amount of R555 million through a rights offer priced at 18 cents per share and fully underwritten by Caixa Geral de Depósitos ("CGD"). This resulted in CGD's holding in the Company increasing from 64,8% to 91,75%.

### Financial overview

As reported in our rights offer circular, dated 16 August 2004, and our interim results announcement, dated 6 September 2004, the recapitalisation of the Group through the rights offer of R555 million underwritten by CGD was conditional upon the release of the CGD guarantees totalling R332 million. The release of these guarantees resulted in the impairment of loans and write-offs totalling R172,7 million and a simultaneous increase in the general risk reserve of R27,4 million. Accordingly, the 2004 reported results are not directly comparable to the prior year.

On a directly comparable basis, by excluding the exceptional impairments raised and write-offs realised through the release of the CGD guarantees, the Group's performance reveals a solid improvement:

	2004 R'000	2003 R'000
Headline loss	(213 821)	(56 471)
Less: Impact of release of guarantees	172 729	-
<b>Adjusted headline loss</b>	<b>(41 092)</b>	<b>(56 471)</b>
Headline loss per ordinary share (cents)	(11,7)	(6,6)
<b>Adjusted headline loss per ordinary share (cents)</b>	<b>(2,2)</b>	<b>(6,6)</b>

Specific areas of improvement were:

- a reduction in the cost base; and
- funds benefit derived through the recapitalisation and better employment of assets.

The benefits achieved in these areas have been partially offset, by a reduced level of bad debt recoveries on legacy debt, net of impairments raised - whilst cash recovered on non-performing loans increased, a more conservative approach was applied to AC133 impairment estimates on fully provisioned legacy debt.

### Accounting policies and audited financial statements

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 annual financial statements for the year ended 31 December 2003.

The results for the year ended 31 December 2004 have been audited by Deloitte & Touche and their unqualified opinion is available for inspection at the Company's registered office.

### Rating

The Group received an upgrade in credit ratings by CA Ratings in December 2004, as follows:

Short term	zaA1	(previously zaA3)
Long term	zaA	(previously zaBBB -)

### Directorate

Khanya Motshabi and Thebe Ikalafeng were appointed as independent non-executive directors in November 2004 to improve the composition of the Board in terms of diversity and skills.

### Going concern

The financial statements have been prepared on the going concern basis.

### Outlook

The positive outlook for the domestic economy is expected to provide good opportunities to develop business. With the progress made to date by the Bank and the positive developments that started to emerge on the business front during the latter part of 2004, we expect to return to profitability during 2005.

**J A S de Andrade Campos**  
Chairman

**D J Brown**  
Chief Executive Officer

Sandton  
18 February 2005

Corporate advisor and sponsor to Mercantile



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**Directors:** Dr J A S de Andrade Campos \* [Chairman], D J Brown [Chief Executive Officer], G P de Kock M J M Figueira \* [Executive], L Hyne, A M Osman \*\*, A T Ikalafeng, K B Motshabi

**Group Secretary:** F Vicente Coelho \* (\* Portuguese \*\* Mozambican)

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

**Share code:** MTL ISIN: ZAE000056537

**Transfer secretaries:** Computershare Investor Services 2004 (Pty) Ltd, 8th Floor, 70 Marshall Street, Johannesburg, 2001

**Corporate advisor and sponsor:** Bridge Capital Services (Pty) Ltd, 1st Floor, Building 22A, The Woodlands, Woodlands Drive Woodmead, Sandton, 2196