**Summarised Group Balance Sheet**

<table>
<thead>
<tr>
<th>30 June 2003</th>
<th>30 June 2004</th>
<th>31 December 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unaudited</td>
<td>Unaudited</td>
<td>Audited</td>
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</tbody>
</table>

**ASSETS**

- Intangible assets: 10 054, 15 536, 12 711
- Property and equipment: 83 456, 85 008, 86 431
- Investment properties: 805, 805, 805
- Taxation: 3 881, 3 815, 3 567
- Other accounts receivable: 75 787, 110 339, 62 430
- Interest in associated companies: 2 484, 2 466, 2 951
- Loans and advances: 1 064 513, 1 261 801, 1 178 788
- Deposits, investments and securities: 34 027, 8 298, 7 610
- Negotiable securities: 303 145, 248 303, 272 090
- Credit card equivalents: 873 484, 515 726, 570 930

Total assets: 2 359 261, 2 298 300, 2 225 493

**Liabilities**

- Shareholders' equity: 135 473, 180 162, 163 399
- Share capital and share premium: 846 097, 864 665, 886 845
- Capital redemption reserve fund: 2 788, 2 788, 2 788
- General reserve: 7 478, 7 478, 7 478
- Property revaluation reserve: 26 374, 22 228, 26 374
- Free reserves: 21 268, 21 268, 21 212
- Accumulated loss (1 077), (742), (737)

Total liabilities: 2 323 761, 2 072 070, 2 061 074

**Summarised Group Income Statement**

<table>
<thead>
<tr>
<th>6 months ended</th>
<th>Audited</th>
<th>12 months ended</th>
<th>Audited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unaudited</td>
<td>Unaudited</td>
<td>Audited</td>
<td>Audited</td>
</tr>
</tbody>
</table>

- Interest income: 35 150, 39 097, 41 422
- Net interest income before credit losses: 35 150, 39 097, 41 422
- Net charge on recoveries of operating assets: 29 321, 28 910, 28 840
- Net interest income after credit losses: 35 395, 39 050, 39 609
- Net profit/(loss) on sale of investments: —, 2 323, 9
- Taxation: 4 233, 43 946, 91 025

**Net interest income and non-interest income**

- Net interest income: 77 138, 78 802, 77 691
- Operating expenditure (105 595), (113 670), (127 521)
- Loans before associated companies: (28 271), (34 891), (60 830)
- Shares of profit and loss from associated companies: 493, 4 308, 1 942
- Allowance on doubtful debts (57 776), (1 371), (1 147)
- Stabilisation: —, (22), —

**Non-interest income**

- Realisation of available-for-sale reserves (27 776), (31 272), (58 888)

**Summarised Group Segmental Information**

- Unaudited: 6 months ended 30 June 2004, 12 months ended 30 June 2004, 12 months ended 31 December 2003
- Audited: 6 months ended 30 June 2003, 12 months ended 30 June 2003, 12 months ended 31 December 2002

**Group Contingent Liabilities and Commitments**


**Financial Statistics**

- Number of ordinary shares in issue: 1 455 000, 1 455 000, 1 455 000
- Number of share options outstanding: 65 861, 69 855, 69 855
- Exercise price: (1 080), (1 085), (1 085)
- Options exercisable (1 080), (1 085), (1 085)
- Exercise price: (3), (3), (3)
- Warrants: 15 480, 15 480, 15 480
- Number of warrants outstanding: 15 480, 15 480, 15 480

**Outlook**

- The recapitalisation of Mercantile now concluded, it remains the Group’s aim to start generating profits in 2004 by:
  - continuing to focus on cost containment aided by the realisation of benefits from the rehabilitation process that has been under way over the past two years;
  - increasing interest income through the development of the retail business in the area of absentee banking by growing market share in the small to medium-sized business segments;
  - increasing fee income through transaction volume growth with existing and prospective joint venture partners in the area of card and payment products.

By order of the Board

J A S de Andrade Campas*

Chairman

D J Brown

Chief Executive Officer

The Board is now constituted as follows:

- J A S de Andrade Campas*
- M J M Figueira*
- J J J M Fonseca* (Executive)
- M B Pereira
- M A de Almeida**
- R M de L de F Ribe* (Portuguese)

**Mercantile Lisbon Bank Holdings Limited**

www.mercantile.co.za

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*Member of the Executive Committee

**Member of the Board of Directors

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**Introduction**

The period under review has seen:

- continued progress in the rehabilitation of Mercantile with the support of the controlling shareholder Centro General de Credito do Portugal S.A. (‘CGD’); and
- a further improvement in the operating results;

- the finalisation of the recapitalisation process.

**Financial overview**

- The headline loss for the reporting period was R27,7 million, which compares with a loss of R31,3 million for the same period of the previous year, an improvement of 11%.
- This improvement is primarily attributable to a reduction in operating costs, offset by a net increase in credit risk impairments.

**Accounting policies**

- The results for the six months ended 30 June 2004 were set out above in this report. They have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The accounting policies are consistent with those applied in the annual financial statements for the year ended 31 December 2003. The results have not been reviewed or reissued by the Group’s auditors.
- The results for the six months ended 30 June 2003 have been restated in terms of the adoption of AC 133.

**Recapitalisation of the Group**

- It was announced on 27 May 2004 that the recapitalisation of the Group would take place through a rights offer in the aggregate amount of R553 million, on an issue price of 18 cents per share. The results of the offer have been published in a separate statement.

- The recapitalisation will result in the Group’s capital adequacy ratio reaching a level in excess of 3%, compared with the statutory minimums of 1%.

**Commitment by CGD**

- With the recapitalisation of Mercantile now concluded, the Board of Directors of the Group in March 2003 through the injection of R120 million of new capital, CGD gave an undertaking to the South African Reserve Bank and the Directors of the Group that it would safeguard the financial soundness and stability of the Group. In performance of that undertaking, CGD has provided the following support to the Group:

- injection of capital totalling R312 million in 2002/2003, which led on completion of the rights offer. The release of these guarantees will result in the repayment of the capital contribution of R221 million and a simultaneous increase in the general capital reserve of R27 million; and
- a subordinated loan facility of R75 million as an interim measure to maintain the required capital adequacy levels of the Group, until the completion of the rights offer.

**Board of Directors**

- Since the date of publication of this annual report for the year ended 31 December 2003, M J M Figueira was appointed as executive director. He has extensive banking experience, acquired whilst serving as a senior manager of CGD and, since 1994, as executive director, both in Portugal and internationally.

- The Board is now constituted as follows:

- J A S de Andrade Campas*:
- M J M Figueira:
- J J J M Fonseca:
- M B Pereira:
- M A de Almeida:
- R M de L de F Ribe*:
- M J M Figueira:

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**Outlook**

With the recapitalisation of Mercantile now concluded, it remains the Group’s aim to start generating profits in 2004 by:

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