## Introduction

The first half of this year has been:
- Good progress on the rehabilitation of Mercantile Bank Limited ("MLBH" or the "Group") with the support of the controlling shareholder Caixa Geral de Depósitos S.A. ("CGD")
- An improvement in the operating results
- Changes in the composition of the Board of Directors.

## Rehabilitation of the bank

As previously reported, the Board has continued the rehabilitation of the Bank through the implementation of best practices in terms of risk management, internal control and human resources development, with a focus on cost reduction and operational efficiencies.

## Significant improvements

Significant improvements have been achieved and, overall, the Board is satisfied with the level of control being exercised. The process is ongoing.

## Supporting CGD

In addition to the guarantee for R265 million issued in July 2002, to cover the requirement of certain non-performing loans, during the reporting period CGD issued additional guarantees in favour of the Bank in order to maintain the capital adequacy ratio above the minimum prescribed by the Registrar of Banks. The total amount of the new guarantees was R63 million, of which R59 million was to cover some additional potential exposures and R2 million in respect of certain single name provisions notes regarding as large exposures for the regulatory capital calculations.

Furthermore, CGD has agreed to provide a subordinated loan facility in favour of MLBH up to the value of R56 million, with the purpose of maintaining the capital adequacy ratio of the Bank above the prescribed level, as further operating losses are expected to be incurred until the completion of the rehabilitation process. The implementation of this subordinated loan facility is subject to the approval by the Registrar of Banks.

CGD has also agreed to provide a subordinated loan facility in favour of MLBH, up to an amount of R2.2 million, to repay a loan from the Bank.

## Results for the six months ended 30 June 2003

The results for the six months ended 30 June 2003 are as set out below in this report.

They have been prepared in accordance with South African Statements of Generally Accepted Accounting Practices. The accounting policies are consistent with those used in the financial statements for the nine-month period ended 31 December 2002. Progress has been made with the implementation of accounting standard AS ("Accounting Standard") and Measurement. It is anticipated that the Group will be fully compliant by December 2003.

The attributable result for the reporting period was a loss of approximately R24.8 million which compares with a loss of R25.4 million in the same period of the previous year. The results for the six months ended 30 June 2002 were largely a consequence of the raising of provisions for credit losses of R22.9 million.

In the six months ended 30 June 2003 there was a net release of provisions for credit losses of R7.3 million as a consequence of the improvement in collections.

The losses realised in the reporting period continue to reflect a high cost base, non-recurrent expenses related to the restructuring actions and the sacrifice of interest activities, which will remain in place until the completion of the rehabilitation process.

New agreements have been signed for the processing of third party card products. This has already had a positive impact on the half year results and is expected to generate substantial increases in the future incomes.

## Board of directors

Luis de Santos was appointed a non-executive director and Chairman of the Audit Committee. Mr M Hine resigned recently as Deputy Chairman of Deloitte & Touche and has extensive experience in the auditing of Banks.

J Tubal Gonçalves was appointed an executive director. He has extensive banking experience, accomplished while serving as a senior manager of CGD, both in Portugal and internationally.

A Sours received the Board as a non-executive director.

As previously announced, John Symmonds left the Group at the end of July. The Board is in the process of appointing a successor and is confident that an announcement will be made soon. In the interim, R Ribas was appointed Acting Chief Executive Officer.

## Outlook

The Board is confident that the current steps are being taken to rehabilitate the Bank. The process is an advanced and will appropriately position the Group to return to profitability on a sustainable basis over the medium term.