MERCANTILE LISBON BANK HOLDINGS
LIMITED

Reg No. 1989/000164/06

A Subsidiary Company of Caixa Geral de Depósitos

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MERCANTILE GROUP (THE "GROUP")

The Group consists of Mercantile Lisbon Bank Holdings Limited and its subsidiaries.

Mercantile Lisbon Bank Holdings Limited (the "Company") is a registered bank controlling company and an investment holding company. Its holding company is Caixa Geral de Depósitos S.A. ("CGD"), a company registered in Portugal. Its two principal operating subsidiaries comprise:

Mercantile Bank Limited (the "Bank") provides a full range of foreign and domestic banking services. It operates in selected retail, commercial, corporate and alliance banking niches to which it offers banking, financial and investment services. It is a wholly-owned subsidiary of Mercantile Lisbon Bank Holdings Limited.

Mercantile Insurance Brokers (Proprietary) Limited offers life assurance broking services to the Group and external parties. Its products encompass the full range available in the market including pension, health benefits and life assurance. It is a wholly-owned subsidiary of Mercantile Lisbon Bank Holdings Limited.

Mercantile Insurance Brokers holds 50% of the capital of Mercguard Insurance Brokers (Proprietary) Limited, a company which offers short-term broking services to the Group and external parties. Its products include the full range available in the market, including domestic, commercial and industrial short-term policies.

BOARD OF DIRECTORS AND ADMINISTRATION

BOARD OF DIRECTORS AT 31 MARCH 2004

MERCANTILE LISBON BANK HOLDINGS LIMITED

Messrs:

J A S de Andrade Campos*+	*(Chairman)*
R M L de F N Ribas*#	*(Acting Chief Executive Officer)*
D J Brown#	
G P de Kock+	
L Hyne‡	
A M Osman^+	

ADMINISTRATION

Group Secretary

F Vicente Coelho*

Transfer Secretaries

Computershare Limited
70 Marshall Street
Johannesburg
2001 South Africa

Postal Address

PO Box 61051
Marshalltown
2107 South Africa

Registered Office

1st Floor
Mercantile Lisbon House
142 West Street
Sandown
2196

Postal Address

PO Box 782699
Sandton
2146

*Portuguese
^Mozambican
#Executive
+Non-executive
‡Independent non-executive

FIVE-YEAR FINANCIAL PERFORMANCE

Mercantile Lisbon Bank Holdings Limited and its Subsidiaries

	March 2000 R'000	March 2001 R'000	March 2002 R'000	December 2002* R'000	**December 2003 R'000**
ASSETS					
Intangible assets	49,840	56,289	22,284	14,696	**12,711**
Property and equipment	134,888	128,470	99,548	88,723	**84,651**
Investment properties	–	–	–	800	**800**
Taxation	–	2,090	–	3,396	**3,567**
Other accounts receivable	155,678	121,762	233,531	127,534	**82,430**
Interest in associated companies	23,015	19,678	3,246	1,879	**2,951**
Other investments	48,355	45,126	19,560	7,302	**3,965**
Loans and advances	2,814,301	2,792,954	1,475,609	1,313,292	**1,178,788**
Derivative financial instruments	–	–	–	8,124	**7,610**
Negotiable securities	492,749	345,060	242,997	155,588	**273,090**
Cash and cash equivalents	554,282	198,022	212,047	454,778	**574,930**
Total assets	4,273,108	3,709,451	2,308,822	2,176,112	**2,225,493**
EQUITY AND LIABILITIES					
Share capital and share premium	778,924	747,786	866,865	866,865	**866,865**
Capital redemption reserve fund	–	3,788	3,788	3,788	**3,788**
General reserve	7,478	7,478	7,478	7,478	**7,478**
Property revaluation reserve	14,826	14,237	21,182	20,997	**28,376**
Available-for-sale reserve	–	–	–	–	**(742)**
General risk reserve	–	–	–	–	**31,212**
Accumulated loss	(148,177)	(236,633)	(883,396)	(715,628)	**(773,078)**
Shareholder's loan	2,000	–	–	–	**–**
Shareholders' equity	655,051	536,656	15,917	183,500	**163,899**
Debentures	8,275	–	–	–	**–**
Deferred taxation	1,827	2,886	–	–	**–**
Long-term liabilities	10,517	10,517	–	8,335	**5,287**
Deposits	3,487,200	3,094,538	2,085,712	1,912,979	**1,946,752**
Derivative financial instruments	–	–	–	4,001	**32,115**
Provisions	–	3,556	29,399	27,404	**36,066**
Other accounts payable	107,575	61,298	174,042	38,387	**40,437**
Taxation	2,663	–	3,752	1,506	**937**
Total equity and liabilities	4,273,108	3,709,451	2,308,822	2,176,112	**2,225,493**
Contingent liabilities	218,024	203,459	1,056,020	483,649	**334,437**
Attributable (loss)/profit after taxation	(211,258)	(84,159)	(646,763)	167,768	**(58,888)**
Headline earnings/(loss)	29,756	(49,877)	(681,758)	184,350	(56,471)
Distribution to permanent capital holders – interest	1,134	1,098	–	–	**–**
Attributable (loss)/earnings per share (cents)	(48.8)	(19.0)	(151.5)	19.6	**(6.9)**
Headline earnings/(loss) per share (cents)	6.9	(11.3)	(159.7)	21.6	(6.6)

*For a nine-month period.

Note: The principal accounting policies adopted in the preparation of the consolidated financial statements are consistent, in all material respects with those applied in 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, comparatives have not been restated.

CHAIRMAN'S REVIEW

Management's primary focus during the year under review has centred on the continued 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; and
- Attracting new talent to Mercantile, where almost the entire senior management team has been replaced.

Although the Group remains in a loss-making position, attributable losses have decreased to R59 million from R97 million net of the effect of the CGD guarantees 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 in rationalising operations and 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 slowdown 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. The higher levels of liquidity are due to the reduction in the lending book and the retention of deposits during this period.

Completion of the Rehabilitation, essential for the future growth of the Group, is expected to be achieved during 2004 when focus will shift to developing the Bank in its chosen target markets.

DIRECTORATE

I would like to thank R J Symmonds, the previous CEO, for agreeing to extend his stay with the Group beyond his agreed departure date in order to assist the Executive during the difficult times related to the Rehabilitation process last year.

A special word of thanks is extended to A Soares and J Real Pereira, who have resigned from the Board, for the service that they rendered to the Group over the past few years.

I am extremely indebted to Rui Ribas for agreeing to act as CEO from August last year. Since joining the Board as an executive director in June 2002, Rui has done an exceptional job in spearheading the Rehabilitation process and the results achieved are in no small measure directly attributable to his drive and commitment. Rui will continue to support the Group in his new capacity as a non-executive director and will, for a transitional period, participate as a member of the Bank's Executive Committee.

David Brown was appointed as CEO, effective 31 March 2004. 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. He has a strong academic background and more than 30 years' experience in banking, including various executive positions. With his in-depth knowledge of the South African market we look forward to his leadership of Mercantile in the years to come.

Finally I would like to thank my remaining fellow Board members and the Mercantile staff for their commitment and the support they have given me this past year.

SUSTAINABILITY REPORTING

Following the release by the Global Reporting Initiative (GRI) in 2002 on Sustainability Reporting Guidelines, we intend to develop our sustainability reporting capability over the coming year. This will enable us in the future to prepare reports of this nature in accordance with these Guidelines.

FINANCIAL SERVICES CHARTER

The Banking Council, the Life Offices Association, the South African Insurance Association, the Association of Black Securities and Investment Professionals (ABSIP) and other industry bodies announced the introduction of a voluntary charter in October 2003 that will enable broad-based black economic empowerment. We are committed to the outcome of the charter and have plans in place to comply with key aspects of the charter going forward.

CHAIRMAN'S REVIEW (continued)

PROSPECTS

With the progress made during the past year and the ongoing support from CGD, both as regards capital and operational requirements, I am confident that the Group is now in a position to develop its business and again start generating profits for the benefit of its shareholders.

J A S de ANDRADE CAMPOS
Chairman

31 March 2004

ACTING CHIEF EXECUTIVE OFFICER'S REPORT

2003 was a very challenging year for Mercantile. Our primary efforts centred on the rehabilitation of the Bank, with good progress being achieved in terms of control, risk management, systems integration, process improvement, cost rationalisation and skills development.

David Brown joined the Bank as an executive advisor in August 2003 and has played a key role in the implementation of the Rehabilitation programme, as well as with the assessment of risks and opportunities that led to the definition of the strategic objectives for the Bank. David is an experienced banker with a deep knowledge of the South African market and, now, also of Mercantile. I am confident that he has the right skills to carry the Bank forward as the new Chief Executive Officer.

Furthermore, key new appointments have been made at senior manager level, including the heads of Human Resources, Finance, Operations, Information Technology, Card Business, Treasury Operations, Compliance and Credit. The improvements achieved are remarkable and I am proud of the quality of the people that we have been able to attract to the Bank, under difficult circumstances.

A comprehensive review of all risk policies led to numerous enhancements, including the introduction of more effective decision-making processes, improvements in the credit approval and control procedures, and a more pro-active and early identification of defaulting and problematic accounts.

A complete review of the core IT systems and controls, in particular those in the retail banking and treasury divisions, was performed by an external audit firm. Key areas of focus were identified and are being addressed. Projects are underway which are aimed at greater levels of integration, including various upgrades to systems.

Significant improvements have also been achieved in the areas of receivables administration, collection of non-performing loans and our ability to deliver a quality level of service in the Alliance Banking business.

A painful, but unavoidable task, was the rationalisation of staff. As part of the overall restructuring process, the Bank carried out retrenchment programmes, which resulted in a net reduction of 17% in staff levels.

FINANCIAL REVIEW

It is in this context of change that the consolidated loss of R59 million realised in 2003 needs to be assessed.

First, it is important to acknowledge that the Bank still has a high cost base, the reduction of which will be achieved through a combination of: (i) the integration of IT systems; (ii) the consolidation of the benefits to be derived, throughout the Bank, from the actions already taken by the new management team; (iii) a reduction in the exceptional costs incurred during the restructuring process, with auditors and consultants; and (iv) an increase in staff productivity, now that the restructuring process is nearing completion, which was accompanied by tension and uncertainty regarding the future.

A second driver of profitability is the platform built in the last 18 months for the processing of debit and credit cards and electronic settlements, which is expected to enhance the Bank's ability to earn fee income in the alliance banking business.

Finally, the third and potentially most significant factor for the return to profitability is the Bank's ability to successfully grow the retail business and in particular the lending book, which has become possible as a result of the restructuring process carried out and the capital injection underway.

The financial results recorded in 2002 (nine months) and 2003 are thus consistent with the pressing necessity to overcome the Bank's structural weaknesses, which required high restructuring costs and the sacrifice of financial margin, as it would have been imprudent to develop the retail business whilst the rehabilitation was underway.

The R59 million loss recorded in 2003 compares favourably with the R168 million profit reported in the previous financial period, if one takes into account that this profit was only made possible by a guarantee provided by the controlling shareholder in respect of certain non-performing loans, which allowed the Bank to release provisions in the amount of R265 million. Excluding the effect of this guarantee, the result of the previous nine-month reporting period would have been a loss of R97 million.

An important event during the financial year under review was the adoption of the new Accounting Statement AC 133, the effects of which are described in note 24 of the Accounting Policies.

CAPITAL INCREASE AND ONGOING SUPPORT OF CGD

The progress made with the Rehabilitation of the Bank was a key determining factor in the decision of the controlling shareholder to support the recapitalisation of the Group on the terms agreed with the Registrar of Banks, which are dealt with in notes 9, 10 and 11 of the Directors' report.

In summary, the recapitalisation will comprise the replacement of certain guarantees by 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, fully underwritten by CGD.

OUTLOOK

The substantial increase in the capital base, as a result of the proposed rights issue, combined with improved controls, efficient IT systems, lower recurring costs and a rejuvenated management team, will play a pivotal role in the development of our Bank.

The main focus will be to develop 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. The Bank is well-positioned to compete in its product offering, service levels and relationship management, within the chosen target markets.

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

An increased volume of transactions generated through existing joint ventures, together with prospective opportunities, is expected to result in continued growth in fee income in the Alliance Banking area of card and payment products.

The regulatory formalities preceding the injection of capital in terms of the proposed rights issue are anticipated to reach completion by August 2004 and, accordingly, we expect the Group to be operating profitably in 2005.

I am grateful to all staff for their dedication and commitment to the rehabilitation of the Group. I firmly believe that there is a role for Mercantile in the South African market and I am confident that our management team, under the leadership of David Brown, will succeed in completing the turnaround, through the continuous focus on rationalisation, cost containment, excellence of service and prudent growth.

To the Bank's clients, our appreciation and thanks for the trust and support. To my fellow directors, for their confidence and guidance, my sincere thanks.

R RIBAS
Acting Chief Executive Officer

31 March 2004

ANNUAL FINANCIAL STATEMENTS

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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 and Group.

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 Group 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 Group'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 Group'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 Group. 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 Group 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 12 to 51, have been approved by the Board of Mercantile Lisbon Bank Holdings Limited 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 members of Mercantile Lisbon Bank Holdings Limited

We have audited the annual financial statements and Group annual financial statements, set out on pages 12 to 51, 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. Those 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 and the Group at 31 December 2003 and the results of their operations and cash flows for the year then ended in accordance with Statements of South African 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 and Group 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 recapitalisation of the Group, details of which have been disclosed in notes 9 and 10 of the Directors' report for the year ended 31 December 2003.

We agree with the directors' reasons for not consolidating the subsidiary companies referred to in note 8.2 of the Directors' report.

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 and of the Group for the year ended 31 December 2003.

1. NATURE OF BUSINESS

The Company is a registered bank controlling company and an investment holding company incorporated in the Republic of South Africa. Through various subsidiaries the Company is involved in the full spectrum of domestic and international banking and financial services to both the retail and corporate markets.

2. HOLDING COMPANY

The majority shareholder of the Company (64.83%) 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

An overview of the financial results is set out in the Chairman's review and Acting Chief Executive Officer's report on pages 5 and 6 and pages 7 and 8 of the annual report, respectively. Details of the financial results are set out on pages 16 to 51 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 13 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 were as follows:

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

7. DIRECTORS, SECRETARY AND REGISTERED ADDRESSES (continued)

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

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:	**Business:**
PO Box 782699	1st Floor
Sandton	Mercantile Lisbon House
2146	142 West Street
	Sandown
	2196

*Portuguese ^Mozambican #Executive +Non-executive ‡Independent non-executive

8. SUBSIDIARY COMPANIES

All subsidiary companies are incorporated in South Africa. A register containing details of all non-trading companies is available for inspection at the registered office of the Company.

Aggregate income after taxation earned by subsidiaries amounted to R0.2 million (2002: R180.7 million) and aggregate losses amounted to R61.4 million (2002: R5.0 million).

8.1 Consolidated subsidiary companies

The principal consolidated subsidiary companies are as follows:

Company name	Issued share capital R'000	Effective holding %	Nature of business^	Shares at cost 2003 R'000	Shares at cost 2002 R'000	Owing (to)/by Subsidiaries 2003 R'000	Owing (to)/by Subsidiaries 2002 R'000
Lisabank Corporate Finance Limited	15	100	1	**15**	15	**–**	–
LSM (Troyeville) Properties (Proprietary) Limited	–	100	1	**140**	140	**–**	–
Mercantile Bank Limited	124,969	100	2	**930,448**	930,448	**(8,248)**	(15,325)
Mercantile Finance Limited	–	100	3	**–**	–	**40**	165
Mercantile Insurance Brokers (Proprietary) Limited	250	100	4	**294**	294	**–**	–
Mercantile Nominees (Proprietary) Limited	–	100	5	**–**	–	**–**	–
Portion 2 of Lot 8 Sandown (Proprietary) Limited	–	100	1	**8,832**	8,832	**–**	–
Weskor Beleggings (Proprietary) Limited	–	100	1	**–**	–	**–**	–
Loans from non-trading subsidiaries						**(16)**	(12,794)
						(8,224)	(27,954)

^Nature of business

1 – Property holding
2 – Banking
3 – Investment holding
4 – Insurance brokers
5 – Nominee company

8. SUBSIDIARY COMPANIES (continued)

8.2 Subsidiary companies and share trust not consolidated

	Mercantile Matrix Finance (Pty) Limited		Boston Western Cape (Pty) Limited	
	2003	2002	**2003**	2002
	R'000	R'000	**R'000**	R'000
Equity investment at cost	**–**	–	**901**	901
Impairment loss	**–**	–	**(901)**	(901)
	–	–	**–**	–

The financial statements of Boston Western Cape (Pty) Ltd and Mercantile Matrix Finance (Pty) Ltd are not consolidated in the Group financial statements as the directors considered that the Group was unlikely to recover any of its investment and their consolidation would be of little benefit to shareholders.

The share trust has not been consolidated due to the immaterial effect thereof.

9. 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 the 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 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 Bank's exposure ceased to be regarded as a large exposure for regulatory purposes. These guarantees will lapse as soon as the Bank'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 R265.0 million guarantee was R179.5 million, which corresponds to a 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 of advances covered by the guarantee at year-end amounted to R144.7 million.

– Regarding the R45.0 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 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.

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 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.

10. 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 between R550 million and 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 issue 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.

11. 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 consequential recapitalisation of the Group 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 consolidated financial statements are set out below:

1. BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial instruments and property. The principal accounting policies adopted in the preparation of these consolidated financial statements are consistent, in all material respects, with those applied in 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 24 of the accounting policies.

2. GROUP ACCOUNTS

Subsidiary companies are companies in which the Group, directly or indirectly, has an interest of more than one-half of the voting rights or the power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the effective date of disposal. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests. A listing of the Group's principal subsidiaries is set out in paragraph 8 of the Directors' report.

3. RECOGNITION OF ASSETS AND LIABILITIES

3.1 Assets

The Group 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 Group.

3.2 Liabilities

The Group 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.

3.3 Contingent Liabilities

The Group 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 Group, 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.

4. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group 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.

ACCOUNTING POLICIES (continued)

4. FINANCIAL INSTRUMENTS (continued)

4.1 Derivative financial instruments

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

The Group uses the following derivative financial instruments to reduce its underlying financial risks:
– Forward exchange contracts;
– 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 are recognised in the income statement within non-interest income.

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.

A derivative's notional principal reflects the volume of the Group's investment in derivative financial instruments and represents the amount to which a rate or price is applied to calculate the exchange of cash flows.

4.2 Financial assets

The Group'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 Group with the South African Reserve Bank, domestic banks and foreign banks as well as resale agreements. These financial assets have been designated as originated loans and are measured at amortised cost.

Investments

Investments comprise 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 Group by providing money, goods, or services to a debtor have been designated as loans and receivables originated by the Group. Loans and receivables originated by the Group 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.

4. FINANCIAL INSTRUMENTS (continued)

4.2 Financial assets (continued)

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 being 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 items in transit, pre-payments and deposits, properties in possession and other receivables. These assets have been designated as originated loans and receivables and are measured at amortised cost.

4.3 Financial liabilities

The Group's financial liabilities include 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.

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

4.5 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.

5. 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.

6. SUBSIDIARIES

Investments in subsidiaries, in the Company financial statements, are recognised at fair value. All gains and losses on the sale of subsidiaries are recognised in the income statement.

7. ASSOCIATED COMPANIES

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

8. JOINT VENTURES

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

9. INVESTMENT PROPERTIES

Investment properties are held to earn rentals and/or for capital appreciation. The Group carries investment properties in the balance sheet at open-market fair value based on regular valuations by independent registered professional valuators. The open-market fair value is based on the open market net rentals for each property. Fair value movements are included in income in the year in which they arise.

10. PROPERTY AND EQUIPMENT

10.1 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.

10.2 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.

ACCOUNTING POLICIES (continued)

11. INTANGIBLE ASSETS

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

12. PROVISIONS

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

13. 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 assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

14. SALE AND REPURCHASE AGREEMENTS

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

15. 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.

16. 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.

17. INTEREST INCOME AND INTEREST EXPENSE

Interest income and interest 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.

ACCOUNTING POLICIES (continued)

18. FEE AND COMMISSION INCOME

Fees and commissions are recognised on an accrual basis.

19. PENSION FUND

The Group 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 relevant Group companies. The Group contributions to the Fund are based on a percentage of the payroll and are charged to income as incurred.

20. POST-RETIREMENT MEDICAL BENEFITS

The Group 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 Group prior to May 2000 and is based on the employees remaining in service up to retirement age. The Group 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 Group's contributions to the post-retirement healthcare policy are charged to income in the year to which they relate.

21. EQUITY COMPENSATION PLANS

Share options are granted to employees at the discretion of the Group Human Resources and Remuneration Committees.

22. SEGMENT INFORMATION

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10 per cent or more of all the segments, are reported separately.

23. COMPARATIVE FIGURES

The Group 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.

Certain properties within the Group that met the definition of investment properties were not disclosed as such previously. These investment properties have now been disclosed as investment properties and comparatives have been restated. Refer to note 3 of the notes to the financial statements for details.

Indirect taxation is now disclosed as part of operating expenditure. Refer to note 24 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 10 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.

23. COMPARATIVE FIGURES (continued)

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 16 of the notes to the financial statements for details.

Taxation assets and liabilities are now disclosed separately on the face of the balance sheet whereas they were offset against each other previously.

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

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

The Group 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 Group:

24.1 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	**–**	**–**	**(715,628)**
Transitional adjustments on adoption of AC 133	**(4,404)**	**28,811**	**3,839**
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	(4,404)	–	4,404
Balance at 1 January 2003 as restated	**(4,404)**	**28,811**	**(711,789)**

24.2 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.

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

24.3 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 Group comprises the difference between the impairments calculated in terms of AC 133 and the requirements of the Group's provisioning policy, which is more prudent than the statutory minimum provision requirements prescribed.

24.4 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 loss on remeasurement to fair value of available-for-sale financial assets	(3,662)	–	(3,662)
Revaluation of held-for-trading financial instruments	2,206	–	2,206
(Negative)/favourable impact on current year's results	**(1,456)**	**2,401**	**945**

BALANCE SHEETS AT 31 DECEMBER 2003

	Notes	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Company 2002 R'000
ASSETS					
Intangible assets	1	**12,711**	14,696	**–**	1
Property and equipment	2	**84,651**	88,723	**–**	17
Investment properties	3	**800**	800	**–**	–
Taxation	4	**3,567**	3,396	**29**	29
Other accounts receivable	5	**82,430**	127,534	**236**	266
Interest in subsidiaries	6	–	–	**163,254**	180,821
Interest in associated companies	7	**2,951**	1,879	**–**	–
Other investments	8	**3,965**	7,302	**677**	138
Loans and advances	9	**1,178,788**	1,313,292	**–**	–
Originated		**1,042,595**	**–**	**–**	–
Held-for-trading		**136,193**	**–**	**–**	–
Derivative financial instruments	10	**7,610**	8,124	–	–
Negotiable securities	11	**273,090**	155,588	–	–
Cash and cash equivalents	12	**574,930**	454,778	**2**	2,900
Total assets		**2,225,493**	2,176,112	**164,198**	184,172
EQUITY AND LIABILITIES					
Shareholders' equity		**163,899**	183,500	**163,899**	182,845
Share capital and share premium	13	**866,865**	866,865	**866,865**	866,865
Capital redemption reserve fund		**3,788**	3,788	**3,788**	3,788
General reserve		**7,478**	7,478	–	–
Property revaluation reserve		**28,376**	20,997	–	–
Available-for-sale reserve		**(742)**	–	**149,714**	–
General risk reserve		**31,212**	–	–	–
Accumulated loss		**(773,078)**	(715,628)	**(856,468)**	(687,808)
Liabilities		**2,061,594**	1,992,612	**299**	1,327
Long-term liabilities	14	**5,287**	8,335	–	–
Deposits	15	**1,946,752**	1,912,979	**–**	459
Derivative financial instruments	10	**32,115**	4,001	–	–
Provisions	16	**36,066**	27,404	–	–
Other accounts payables	18	**40,437**	38,387	**299**	868
Taxation	4	**937**	1,506	–	–
Total equity and liabilities		**2,225,493**	2,176,112	**164,198**	184,172
Contingent liabilities	19	**334,437**	483,649	–	–

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	Group 12 months 2003 R'000	Group 9 months 2002 R'000	Company 12 months 2003 R'000	Company 9 months 2002 R'000
Interest income	21	**226,970**	188,072	**26**	240
Interest expenditure	22	**(161,152)**	(128,175)	**–**	(101)
Net interest income before credit losses		**65,818**	59,897	**26**	139
Net recoveries of credit losses	9	**19,840**	247,764	**–**	–
Net interest income after credit losses		**85,658**	307,661	**26**	139
Net profit/(loss) on sale and revaluation of investments		**8**	(10,013)	**1,998**	173,533
Non-interest income	23	**91,025**	72,532	**2,590**	–
Net interest and non-interest income		**176,691**	370,180	**4,614**	173,672
Operating expenditure	24	**(237,521)**	(206,515)	**274**	(1,199)
(Loss)/profit before income from associated companies		**(60,830)**	163,665	**4,888**	172,473
Share of income from associated companies		**1,942**	1,394	**–**	–
(Loss)/profit before taxation		**(58,888)**	165,059	**4,888**	172,473
Taxation	25	**–**	2,709	**–**	(1,396)
Attributable (loss)/profit after taxation		**(58,888)**	167,768	**4,888**	171,077
Reconciliation between attributable (loss)/profit after taxation and headline (loss)/earnings:					
Attributable (loss)/profit after taxation		**(58,888)**	167,768	**4,888**	171,077
Realisation of available-for-sale reserve on sale of investments		**2,125**	–	**–**	–
Impairment and loss on sale of property and equipment		**292**	16,582	**18**	–
Headline (loss)/earnings		**(56,471)**	184,350	**4,906**	171,077
Attributable (loss)/earnings per share (cents)	26.1	**(6.9)**	19.6		
Headline (loss)/earnings per share (cents)	26.2	**(6.6)**	21.6		
Diluted attributable (loss)/earnings per share (cents)	26.3	**(6.9)**	19.6		
Diluted headline (loss)/earnings per share (cents)	26.4	**(6.6)**	21.6		
Dividends per share (cents)		**–**	–		

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	Group 12 months 2003 R'000	Group 9 months 2002 R'000	Company 12 months 2003 R'000	Company 9 months 2002 R'000
Operating activities					
Cash receipts from customers	27.1	**324,498**	267,694	**26**	240
Less: Cash paid to suppliers and employees	27.2	**(368,439)**	(299,243)	**(241)**	(1,288)
Dividends received		**2,120**	4,000	**2,590**	–
Taxation paid	27.3	**(740)**	(2,933)	–	(1,425)
Net cash (outflow)/inflow from operating activities		**(42,561)**	(30,482)	**2,375**	(2,473)
Changes in banking activities					
Net decrease in income earning assets	27.4	**84,016**	486,400	–	–
Net increase/(decrease) in deposits and other accounts	27.5	**84,137**	(211,402)	**(465)**	533
Net cash inflow/(outflow) from banking activities		**168,153**	274,998	**(465)**	533
Investing activities					
Purchase of property, equipment and intangibles assets		**(7,738)**	(5,481)	–	–
Proceeds on sale of property, equipment and intangible assets		**411**	2,547	–	–
Purchase of investments		**(543)**	(4,928)	–	–
Proceeds on disposal of investments		**4,742**	7,173	**134**	–
Increase/(decrease) in loans with subsidiary and associated companies		**1,545**	2,761	**(4,942)**	2,179
Net cash (outflow)/inflow from investing activities		**(1,583)**	2,072	**(4,808)**	2,179
Financing activities					
Finance lease payments		**(3,857)**	(3,857)	–	–
Net cash (outflow)/inflow from financing activities		**(3,857)**	(3,857)	–	–
Net cash inflow/(outflow) for year/period		**120,152**	242,731	**(2,898)**	239
Cash and cash equivalents at beginning of year/period		**454,778**	212,047	**2,900**	2,661
Cash and cash equivalents at end of year/period	12	**574,930**	454,778	**2**	2,900

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

	Share capital and share premium R'000	Capital redemption reserve fund 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
GROUP								
Shareholders' equity at 31 March 2002	866,865	3,788	7,478	21,182	–	–	(883,396)	15,917
Revaluation of property	–	–	–	(185)	–	–	–	(185)
Profit after taxation	–	–	–	–	–	–	167,768	167,768
Shareholders' equity at 31 December 2002	866,865	3,788	7,478	20,997	–	–	(715,628)	183,500
Transitional adjustments on adoption of AC 133*	–	–	–	–	(4,404)	28,811	3,839	28,246
Shareholders' equity restated at 1 January 2003	866,865	3,788	7,478	20,997	(4,404)	28,811	(711,789)	211,746
Revaluation of owner-occupied property	–	–	–	7,379	–	–	–	7,379
Gains and losses on remeasurement to fair value	–	–	–	–	1,537	–	–	1,537
Release to income on disposal of available-for-sale financial assets	–	–	–	–	2,125	–	–	2,125
Increase in general risk reserve	–	–	–	–	–	2,401	(2,401)	–
Loss after taxation	–	–	–	–	–	–	(58,888)	(58,888)
Shareholders' equity at 31 December 2003	**866,865**	**3,788**	**7,478**	**28,376**	**(742)**	**31,212**	**(773,078)**	**163,899**
COMPANY								
Shareholders' equity at 31 March 2002	866,865	3,788	–	–	–	–	(858,885)	11,768
Profit after taxation	–	–	–	–	–	–	171,077	171,077
Shareholders' equity at 31 December 2002	866,865	3,788	–	–	–	–	(687,808)	182,845
Transitional adjustments on adoption of AC 133	–	–	–	–	173,548	–	(173,548)	–
Shareholders' equity restated at 1 January 2003	866,865	3,788	–	–	173,548	–	(861,356)	182,845
Gains and losses on remeasurement to fair value	–	–	–	–	(21,836)	–	–	(21,836)
Release to income on disposal of available-for-sale financial assets	–	–	–	–	(1,998)	–	–	(1,998)
Profit after taxation	–	–	–	–	–	–	4,888	4,888
Shareholders' equity at 31 December 2003	**866,865**	**3,788**	**–**	**–**	**149,714**	**–**	**(856,468)**	**163,899**

* Refer to note 24.1 of the accounting policies for details.

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

1. INTANGIBLE ASSETS

Group	Computer software 2003 R'000	2002 R'000
Cost at beginning of year/period	**34,046**	36,004
Additions	**4,271**	3,989
Disposals	**(7)**	(5,947)
Cost at end of year/period	**38,310**	34,046
Accumulated amortisation and impairments at beginning of year/period	**(19,350)**	(19,130)
Amortisation	**(6,255)**	(3,724)
Disposals	**6**	3,504
Accumulated amortisation and impairments at end of year/period	**(25,599)**	(19,350)
Net carrying amount at end of year/period	**12,711**	14,696
Company		
Cost at beginning of year/period	**7**	7
Disposals	**(7)**	–
Cost at end of year/period	**–**	7
Accumulated amortisation and impairments at beginning of year/period	**(6)**	(6)
Disposals	**6**	–
Accumulated amortisation and impairments at end of year/period	**–**	(6)
Net carrying amount at end of year/period	**–**	1

2. PROPERTY AND EQUIPMENT

Group	Owner-occupied properties 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
2003							
Open market value/cost at beginning of year	55,000	15,650	56,181	8,287	18,237	1,215	154,570
Revaluations	7,379	–	–	–	–	–	7,379
Additions	–	996	1,704	258	311	198	3,467
Disposals	–	(1,153)	(115)	(55)	(41)	(643)	(2,007)
Open market value/cost at end of year	**62,379**	**15,493**	**57,770**	**8,490**	**18,507**	**770**	**163,409**
Accumulated depreciation and impairments at beginning of year	–	(9,607)	(39,857)	(5,116)	(10,372)	(895)	(65,847)
Depreciation	(3,379)	(2,019)	(6,775)	(692)	(1,284)	(67)	(14,216)
Reversal of impairments	–	–	54	15	49	–	118
Disposals	–	638	115	33	25	376	1,187
Accumulated depreciation and impairments at end of year	**(3,379)**	**(10,988)**	**(46,463)**	**(5,760)**	**(11,582)**	**(586)**	**(78,758)**
Net carrying amount at end of year	**59,000**	**4,505**	**11,307**	**2,730**	**6,925**	**184**	**84,651**

2. PROPERTY AND EQUIPMENT (continued)

Group	Owner-occupied properties 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
2002							
Open market value/cost at beginning of period	63,360	17,450	81,137	8,565	17,330	1,435	189,277
Revaluations	(8,198)	–	–	–	–	–	(8,198)
Additions	–	111	11,870	46	1,150	164	13,341
Disposals	(162)	(1,911)	(36,826)	(324)	(243)	(384)	(39,850)
Open market value/cost at end of period	**55,000**	**15,650**	**56,181**	**8,287**	**18,237**	**1,215**	**154,570**
Accumulated depreciation and impairments at beginning of period	–	(8,748)	(63,348)	(4,463)	(9,271)	(925)	(86,775)
Depreciation	–	(883)	(7,493)	(512)	(948)	(112)	(9,948)
Impairments	–	–	(215)	(300)	(309)	–	(824)
Disposals	–	24	31,199	159	156	142	31,680
Accumulated depreciation and impairments at end of period	**–**	**(9,607)**	**(39,857)**	**(5,116)**	**(10,372)**	**(895)**	**(65,847)**
Net carrying amount at end of period	**55,000**	**6,043**	**16,324**	**3,171**	**7,865**	**320**	**88,723**

Company	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Total R'000
2003				
Cost at beginning of year	95	7	37	139
Disposals	(95)	(7)	(37)	(139)
Cost at end of year	–	–	–	–
Accumulated depreciation and impairments at beginning of year	(95)	(3)	(24)	(122)
Disposals	95	3	24	122
Accumulated depreciation and impairments at end of year	–	–	–	–
Net carrying amount at end of year	–	–	–	–
2002				
Cost at beginning and end of period	**95**	**7**	**37**	**139**
Accumulated depreciation and impairments at beginning of period	(87)	(2)	(21)	(110)
Depreciation	(8)	(1)	(3)	(12)
Accumulated depreciation and impairments at end of period	**(95)**	**(3)**	**(24)**	**(122)**
Net carrying amount at end of period	**–**	**4**	**13**	**17**

Notes:

1. G J van Zyl, a valuator with Van Zyl Valuers and a member of The Institute of Valuers of South Africa, independently valued the properties at 31 December 2003.
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 Group'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 14.
4. A register containing details of property and the revaluation thereof is available for inspection at the registered office of the Company.

3. INVESTMENT PROPERTIES

	Group		Company	
	2003 R'000	2002 R'000	**2003 R'000**	2002 R'000
Open-market value at beginning of year/period	**800**	920	–	–
Revaluations	**–**	(120)	–	–
Open-market value at end of year/period	**800**	800	**–**	**–**

Notes:

1. 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 properties at 31 December 2003.
2. At 31 December 2003 the value of unlet investment properties for the Group amounted to R214,000 (December 2002: R286,000).
3. A register containing details of investment properties and the revaluation thereof is available for inspection at the registered office of the Company.

4. TAXATION

	Group		Company	
	2003 R'000	2002 R'000	**2003 R'000**	2002 R'000
South African Revenue Services				
Taxation overpaid by the Group	**3,567**	3,396	**29**	29
Taxation owing by the Group	**937**	1,506	–	–

5. OTHER ACCOUNTS RECEIVABLE

Items in transit	**51,434**	73,907	**–**	–
Pre-payments and deposits	**16,427**	27,474	**–**	–
Properties in possession	**3,367**	3,583	**–**	–
Other receivables	**11,202**	22,570	**236**	266
	82,430	127,534	**236**	266

6. INTEREST IN SUBSIDIARIES

Unlisted		
Shares at fair value	**171,478**	208,775
Loans – net amount owing to subsidiaries	**(8,224)**	(27,954)
	163,254	180,821

A list of principal subsidiary companies is contained in note 8 of the Directors' report.

7. INTEREST IN ASSOCIATED COMPANIES

Unlisted	Proportion owned	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Company 2002 R'000
Shares at cost					
* Mercguard Insurance Brokers (Pty) Limited	50.0%	**–**	–		
** Pegmin (Pty) Limited	–	**–**	1,001		
*** Statman Investments (Pty) Limited	21.4%	**675**	–		
		675	1,001		
Loans to associated companies		**210**	210		
Accumulated share of post-acquisition profits		**2,610**	**668**		
Dividends received from associated companies		**(544)**	–		
		2,951	1,879		
Directors' valuation of unlisted associated companies		**2,951**	1,879		

* Financial year-end December.
** Financial year-end March.
*** Financial year-end February.

Summarised financial information of associated companies is disclosed in note 29.4. The loans to associated companies are interest free with no fixed terms of repayment.

8. OTHER INVESTMENTS

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Company 2002 R'000
Available-for-sale				
Listed	**767**	4,262	**677**	138
Unlisted	**3,198**	3,040	**–**	–
	3,965	7,302	**677**	138
Directors' valuation of unlisted investments	**3,198**	3,040	**–**	–

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

9. LOANS AND ADVANCES

	Group 2003 R'000	Group 2002 R'000
Category analysis		
Originated	**1,481,909**	
Current accounts	**410,606**	545,363
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	**112,573**	58,242
Other advances	**389,016**	581,176
Held-for-trading		
Other advances	**136,193**	–
	1,618,102	1,780,946
Less: Impairment for credit losses	**(297,874)**	(372,521)
Less: Interest in suspense	**(141,440)**	(95,133)
	1,178,788	1,313,292
Maturity analysis		
Repayable on demand	**1,058,768**	773,699
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	1,780,946
Impairment for credit losses		
Balance at beginning of year/period	**372,521**	604,850
Movements for period:		
Transitional adjustments	**(28,811)**	–
Transfer from/(to) investments	**36**	(3,417)
Transfer to provision for other risks (refer to note16)	**(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

9. LOANS AND ADVANCES (continued)

	Group	
	2003	2002
	R'000	R'000
Net recoveries of credit losses		
Net release of impairments/provisions	**3,668**	226,741
Recoveries in respect of amounts previously written-off	**8,696**	11,090
Release of other credit risk related provisions	**7,476**	9,933
	19,840	247,764

The aggregate amount of non-performing loans at the year-end amounted to R534.8 million (December 2002: R618.7 million).

10. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	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

11. NEGOTIABLE SECURITIES

	Group		Company	
	2003	2002	**2003**	2002
	R'000	R'000	**R'000**	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	**–**	–

12. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 R'000	2002 R'000	**2003 R'000**	2002 R'000
Coin and bank notes	**25,641**	30,694	–	–
Central bank balances	**32,422**	35,684	–	–
Domestic bank balances	**73,175**	355,871	**2**	2,900
Foreign bank balances	**82,090**	32,529	–	–
Resale agreements	**361,602**	–	–	–
	574,930	454,778	**2**	2,900

13. SHARE CAPITAL AND SHARE PREMIUM

13.1 Issued – Group and Company

	Number of issued ordinary shares '000	Share capital R'000	Share premium R'000	Total R'000
At 31 December 2002	**855,585**	**213,896**	**652,969**	**866,865**
At 31 December 2003	**855,585**	**213,896**	**652,969**	**866,865**

13.2 Authorised

The total authorised number of ordinary shares is 1 billion shares (December 2002: 1 billion shares) with a par value of 25 cents per share. The total authorised number of preference shares is 15.2 million shares (December 2002: 15.2 million shares) with a par value of 25 cents per share. No shares were issued during the year (December 2002: nil).

13.3 Unissued

The unissued shares are under the control of the directors until the next annual general meeting.

13.4 Share incentive scheme

Certain employees were given the option to acquire shares in the capital of the Company at an exercise price of R0.32 (thirty-two cents) per share. An option may not be exercised prior to the fifth anniversary date of the offer. If the option is not exercised on that date, the option-holder is obliged to exercise the option in respect of at least 20% per annum of the shares in respect of which the option is exercisable, or the option in respect of that 20% will lapse. The full purchase price is payable on the exercise of the option.

The number of shares, which could be utilised for the purposes of the scheme at the beginning of the year, amounted to 85,402,752 and there have been no changes in this number during the year under review.

14. LONG-TERM LIABILITIES

	Group		Company	
	2003 R'000	2002 R'000	**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).

15. DEPOSITS

	Group		Company	
	2003 R'000	2002 R'000	**2003 R'000**	2002 R'000
Call deposits and current accounts	**678,020**	697,125	**–**	459
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	**–**	–
	1,946,752	1,912,979	**–**	459
Maturity analysis				
Repayable on demand	**1,135,354**	580,458	**–**	459
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	**–**	–
	1,946,752	1,912,979	**–**	459

16. PROVISIONS

Group	Post-retirement medical benefits R'000	Leave pay R'000	Onerous lease contracts R'000	Other risks R'000	Total R'000
At 31 March 2002	**9,798**	**9,601**	**10,000**	–	**29,399**
Additional provision raised	1,433	739	–	879	3,051
Charged to provision	–	(2,062)	(2,579)	–	(4,641)
Unutilised provision reversed	–	–	(405)	–	(405)
At 31 December 2002	**11,231**	**8,278**	**7,016**	**879**	**27,404**
Amount previously accounted for under provisions for credit risk (refer to note 9)	–	–	–	11,510	11,510
Additional provision raised	3,136	6,370	–	151	9,657
Charged to provision	–	(4,062)	(1,369)	–	(5,431)
Unutilised provision reversed	–	(2,131)	–	(4,943)	(7,074)
At 31 December 2003	**14,367**	**8,455**	**5,647**	**7,597**	**36,066**

16. PROVISIONS (continued)

Post-retirement medical benefits

Refer to note 17 for detailed disclosure of this provision.

Leave pay

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

Onerous lease contracts

The restructuring of part of the banking services segment in 2001 resulted in the closure of certain branches. The full estimated costs incurred in the fulfilment of the lease obligations are expected to be fully utilised by 2009.

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 Group, 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 which are expected to materialise.

17. POST-RETIREMENT MEDICAL BENEFITS

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

	Group	
	2003 R'000	2002 R'000
The amounts recognised in the balance sheet are as follows: (refer note 16)		
Present value of total service liabilities	**24,129**	21,968
Fair value of plan assets	**(10,656)**	(10,737)
Unrecognised actuarial gains	**894**	–
Total liability in the balance sheet	**14,367**	11,231

17. POST-RETIREMENT MEDICAL BENEFITS (continued)

	Group	
	12 months 2003 R'000	Nine 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 (gain)/loss	**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 principal 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

18. OTHER ACCOUNTS PAYABLE

	Group		Company	
	2003 R'000	2002 R'000	**2003 R'000**	2002 R'000
Accruals	**7,817**	23,797	**17**	550
Product related credits	**18,957**	12,207	**–**	–
Sundry creditors	**13,663**	2,383	**282**	318
	40,437	38,387	**299**	868

19. CONTINGENT LIABILITIES

	Group 2003 R'000	Group 2002 R'000
19.1 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

19.2 Conditional buy-back obligation

In terms of the sale agreement, wherein the Group disposed of its asset finance book, the Group 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 million (December 2002: R237 million). An amount of R6.6 million, included in provisions for other risks (refer to note 16), has been provided against this obligation (December 2002: R11.5 million).

	Group 2003 R'000	Group 2002 R'000
19.3 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.

20. DEFERRED TAXATION

A deferred tax asset has not been recognised for the deductible temporary differences and unutilised calculated tax losses of R928.8 million (December 2002: R924.9 million) due to the uncertainty regarding the timing of the reversal of these losses.

21. INTEREST INCOME

	Group		Company	
	12 months 2003 R'000	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000
Interest on:				
Cash and cash equivalents	**41,614**	10,706	**26**	240
Negotiable securities	**23,828**	17,119	**–**	–
Loans and advances	**161,528**	160,247	**–**	–
Originated	**146,502**	–	**–**	–
Held-for-trading	**15,026**	–	**–**	–
	226,970	188,072	**26**	240

22. INTEREST EXPENDITURE

Interest on:				
Long-term liabilities	**809**	343	**–**	–
Deposits	**160,343**	127,832	**–**	101
	161,152	128,175	**–**	101

23. NON-INTEREST INCOME

Transactional income	**69,519**	53,541	**–**	–
Fees and commission	**67,416**	49,561	**–**	–
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	**2,788**	4,305	**2,590**	–
Dividends	**2,120**	4,000	**2,590**	–
Rental income from investment properties	**668**	305	**–**	–
	91,025	72,532	**2,590**	–

24. OPERATING EXPENDITURE

	Group		Company	
	12 months 2003 R'000	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000
Auditors' remuneration				
Audit fees – Current	**2,594**	2,500	**15**	625
– Prior	**–**	478	**(533)**	–
Fees for other services	**4,958**	1,725	**–**	–
	7,552	4,703	**(516)**	625
Professional fees				
Consulting	**26,492**	23,128	**52**	259
Legal	**977**	1,946	**–**	102
Technical and other	**9,600**	7,080	**–**	–
	37,069	32,154	**52**	361
Depreciation and amortisation (refer to notes 1 and 2)	**20,471**	16,327	**–**	12
Lease charges				
Motor vehicles	**1,492**	1,468	–	–
Equipment	**260**	337	–	–
	1,752	1,805	**–**	–
Staff costs				
Salaries, wages and allowances	**87,920**	60,912	**–**	–
Post-retirement medical benefits	**3,136**	1,433	**–**	–
Contributions to defined contribution pension fund	**6,477**	8,758	**–**	–
Other	**2,903**	2,918	**–**	–
	100,436	74,021	**–**	–
Number of persons employed by the Group at year/period-end	**432**	520	**–**	–
Rent – premises	**6,924**	6,518	**–**	19
Marketing and communication	**7,461**	7,733	**–**	–
Impairment and loss/(profit) on sale of property and equipment				
Property	**–**	(19)	**–**	–
Leasehold improvements	**523**	9	**–**	–
Computer equipment	**(70)**	5,347	**–**	–
Furniture and fittings	**(74)**	(81)	**4**	–
Office equipment	**(36)**	(169)	**13**	–
Motor vehicles	**(52)**	(166)	**–**	–
Computer software	**1**	5,199	**1**	–
Revaluation of land and buildings	**–**	6,012	**–**	–
Properties in possession	**–**	450	**–**	–
	292	16,582	**18**	–

24. OPERATING EXPENDITURE (continued)

	Group		Company	
	12 months 2003 R'000	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000
Directors' emoluments (Details in note 29.3)				
Executive directors			**2,803**	3,556
Non-executive directors:				
Fees			**927**	570
Other services			**–**	41
			3,730	4,167
Less: Amounts paid by subsidiaries			**(3,730)**	(4,167)
			–	–
Indirect taxation				
Unclaimable Value Added Tax	**6,546**	5,308	**–**	1
Skills Development Levy	**351**	569	**–**	–
Regional Services Council levies	**830**	714	**3**	1
	7,727	6,591	**3**	2
Direct operating expenses in respect of investment properties				
Let properties	**237**	85	**–**	–
Unlet properties	**124**	90	**–**	–
	361	175	**–**	–
Other operating costs	**47,476**	39,906	**169**	180
Total operating expenditure	**237,521**	206,515	**(274)**	1,199

25. TAXATION

	Group		Company	
	12 months 2003 R'000	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000
Direct taxation				
South African normal taxation:				
Current	–	40	–	–
Deferred	–	–	–	–
Prior period	–	(2,749)	–	1,396
	–	(2,709)	**–**	1,396
South African tax rate reconciliation:				
South African standard tax rate	**30.0%**	30.0%	**30.0%**	30.0%
Exempt income	**(3.6%)**	(1.7%)	**(53.0%)**	(30.2%)
Tax losses raised/utilised	**6.7%**	8.6%	**23.0%**	0.2%
Deferred taxation not raised	**(33.8%)**	(43.9%)	–	–
Expenses not allowable	**0.7%**	7.1%	–	–
Adjustment for prior period	**–**	(1.7%)	**–**	0.8%
Effective tax rate	**0.0%**	**(1.6%)**	**0.0%**	0.8%
Estimated tax losses available for set-off against future taxable income	**928,839**	924,876	**4,416**	4,201

26. ATTRIBUTABLE EARNINGS, HEADLINE EARNINGS AND DILUTED EARNINGS PER SHARE

26.1 Attributable earnings/(Loss) per share

The calculation of (loss)/profit per share is based on losses of R58.9 million (December 2002: profits of R167.8 million) and a weighted average of 855 585 190 ordinary shares in issue throughout the year (December 2002: 855 585 190 ordinary shares in issue throughout the period).

26.2 Headline earnings/(loss) per share

The calculation of headline (loss)/profit per share is based on losses of R56.5 million (December 2002: profits of R184.4 million) and a weighted average of 855 585 190 ordinary shares in issue throughout the year (December 2002: 855 585 190 ordinary shares in issue throughout the period).

26.3 Diluted earnings/(loss) per share

The calculation of diluted earnings per share is based on losses of R58.9 million (December 2002: profits of R167.8 million) and a weighted average of 855 585 190 ordinary shares in issue throughout the year (December 2002: 855 585 190 ordinary shares in issue throughout the period).

26.4 Diluted headline earnings/(loss) per share

The calculation of diluted headline earnings per share is based on losses of R56.5 million (December 2002: profits of R184.4 million) and a weighted average of 855 585 190 ordinary shares in issue throughout the year (December 2002: 855 585 190 ordinary shares in issue throughout the period).

27. CASH FLOW DETAILS

	Group		Company	
	12 months 2003 R'000	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000
27.1 Cash receipts from customers				
Interest income	**226,970**	188,072	**26**	240
Non-interest income and profit/(loss) on sale and revaluation of investments	**91,033**	62,519	**4,588**	173,533
Adjusted for: Dividends received	**(2,120)**	(4,000)	**(2,590)**	-
Net loss/(profit) on sale and revaluation of investments	**2,125**	10,013	**(1,998)**	(173,533)
Revaluation of held-for-trading financial instruments	**(2,206)**	–	**–**	–
Recoveries of credit losses	**8,696**	11,090	**–**	–
Total cash receipts from customers	**324,498**	267,694	**26**	240
27.2 Cash paid to suppliers and employees				
Interest expenditure	**(160,343)**	(127,832)	**–**	(101)
Operating expenditure	**(237,521)**	(206,515)	**274**	(1,199)
Adjusted for: Depreciation and amortisation	**20,471**	16,327	**–**	12
Impairment and loss on sale of property and equipment	**292**	16,582	**18**	–
Reversal of accruals	**–**	–	**(533)**	–
Increase in provisions	**8,662**	2,195	**–**	–
Total cash paid to customers and employees	**(368,439)**	(299,243)	**(241)**	(1,288)
27.3 Taxation paid				
Amounts overpaid/(unpaid) at beginning of year/period	**1,890**	(3,752)	**29**	–
Income statement credit/charge	**–**	2,709	**–**	(1,396)
Less: Amounts overpaid at end of year/period	**(2,630)**	(1,890)	**(29)**	(29)
Total taxation paid	**(740)**	(2,933)	**–**	(1,425)
27.4 Changes in income earning assets				
(Increase)/decrease in negotiable securities	**(117,502)**	87,409	**–**	–
Decrease in loans and advances	**201,518**	398,991	**–**	–
Net decrease in income earning assets	**84,016**	486,400	**–**	–

27. CASH FLOW DETAILS (continued)

27.5 Changes in deposits and other accounts

	Group		Company	
	12 months 2003 R'000	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000
Increase/(decrease) in deposits	**33,773**	(172,733)	**(459)**	(813)
Increase/(decrease) in other accounts	**50,364**	(38,669)	**(6)**	1,346
Net increase/(decrease) in deposits and other accounts	**84,137**	(211,402)	**(465)**	533

28. FINANCIAL RISK MANAGEMENT

28.1 Foreign currency risk management

The Group, 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

28.2 Credit risk management

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

The Group 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 Group Risk Management Committee.

28. FINANCIAL RISK MANAGEMENT (continued)

28.2 Credit risk management (continued)

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

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

28.3 Liquidity risk management

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Group maintains cash resources to cover these exposures. The table below summarises assets and liabilities at balance sheet date of the Group 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	1,623,058	1,214,325	408,733
Maturing between one and three months	166,222	607,232	(441,010)
Maturing between three and six months	104,001	137,926	(33,925)
Maturing between six months and one year	69,827	67,773	2,054
Maturing after one year	262,385	198,237	64,148
	2,225,493	2,225,493	–

28.4 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.

28. FINANCIAL RISK MANAGEMENT (continued)

28.5 Interest rate risk management

The Group 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 Group'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 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	–	–	–	–	–	84,651	84,651	–
Investment properties	–	–	–	–	–	800	800	–
Taxation	–	–	–	–	–	3,567	3,567	–
Other accounts receivable	–	–	–	–	–	82,430	82,430	–
Interest in associated companies	–	–	–	–	–	2,951	2,951	–
Other investments	–	–	–	–	–	3,965	3,965	–
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	511,998	2,225,493	7.78
EQUITY AND LIABILITIES								
Shareholders' equity	–	–	–	–	–	163,899	163,899	–
Long-term liabilities	230	417	1,974	2,666	–	–	5,287	11.51
Deposits	947,160	516,087	215,167	3,882	–	264,456	1,946,752	6.88
Derivative financial instruments	–	–	–	–	–	32,115	32,115	–
Provisions	–	–	–	–	–	36,066	36,066	–
Other accounts payable	–	–	–	–	–	40,437	40,437	–
Taxation	–	–	–	–	–	937	937	–
Total liabilities	947,390	516,504	217,141	6,548	–	537,910	2,225,493	6.05
On balance sheet interest sensitivity gap	236,280	(218,504)	(88,845)	52,956	44,025	–	–	–

29. RELATED-PARTY INFORMATION

29.1 Identity of related parties with whom material transactions have occurred

The holding company and material subsidiaries of the Group are identified on pages 12 and 13 in the Directors' report and the associated companies are disclosed in note 7 to the financial statements. 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.

29.2 Material related-party transactions

Mercantile Lisbon Bank Holdings Limited and its subsidiaries, in the ordinary course of business, enter into various financial services transactions with the holding company and its subsidiaries, other entities within the Group and associated companies. These transactions are governed by terms no less favourable than those arranged with third parties. For loans to and from subsidiaries, see note 8 in the Directors' report and for loans to and from associated companies see note 7 to the financial statements. Other transactions are detailed hereafter.

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 to note 9 in the Director's report. Guarantee fees paid to CGD during the 2003 financial year amounted to R0.3 million.

29. RELATED-PARTY INFORMATION (continued)

29.3 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:

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

Employment contracts

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

Share options

No options have been granted to directors during the current year and the prior period to purchase ordinary shares in the Company.

29. RELATED-PARTY INFORMATION (continued)

29.3 Director and director-related activities (continued)

Beneficial and non-beneficial interests held, directly or indirectly, in shares issued by the Company are as follows:

Director	Direct				Indirect				Total	
	Beneficial		Non-beneficial		Beneficial		Non-beneficial			
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
J H Real Pereira	**91 000**	91 000	**–**	–	**–**	–	**–**	–	**91 000**	91 000
R J Symmonds	**–**	15 500	**–**	–	**–**	–	**–**	–	**–**	15 500
	91 000	106 500	**–**	–	**–**	–	**–**	–	**91 000**	106 500

Note: There has been no change in these interests between 31 December 2003 and the date of this report.

29.4 Summarised financial information of associated companies

	Mercguard Insurance Brokers (Pty) Limited		Pegmin (Pty) Limited		Statman Investments (Pty) Limited	
	12 months 2003 R'000	9 months 2002 R'000	12 months 2003 R'000	9 months 2002 R'000	12 months 2003 R'000	9 months 2002 R'000
Income statements						
(Loss)/Profit after taxation	**(2,326)**	45	**–**	1,765	**3,989**	–
Balance sheets						
Non-current assets	**1,641**	2,106	**–**	3,168	**14,876**	–
Current assets	**2,899**	2,730	**–**	6,165	**13,696**	–
Current liabilities	**(5,530)**	(3,276)	**–**	(4,849)	**(10,290)**	–
Non-current liabilities	**–**	(224)	**–**	(480)	**(3,160)**	–
Equity	**(990)**	1,336	**–**	4,004	**15,122**	–
Nature of business	Insurance brokers		Paint manufacturing industry		Investment holding	
Place of incorporation	South Africa		South Africa		South Africa	

The Group in applying the equity method of accounting uses the most recent audited financial statements of associated companies. These are not always drawn up to the same date as the financial statements of the Group. In instances where significant events occurred between the last financial statement date of an associated company and the financial statement date of the Group, the effect of such events is adjusted for.

30. SEGMENT INFORMATION

The primary business segments of the Group are as follows:

Business segment	Scope of products and services
Retail banking*	Banking, investment and other financial services offered to banking customers.
Treasury*	Managing internal liquidity as well as serving retail and alliance banking customers.
Alliance banking, MBL credit card and structured loans*	Card processing services and structured loans offered to banking customers.
Support and other services	Support services for the above segments as well as collections, specialised asset finance, insurance brokers, inter-Group eliminations and AC 133 adjustments.

*Excludes the allocation of attributable support costs.

The primary segments are as follows:

	Retail banking		Treasury		Alliance Banking, MBL credit card and structured loans		Support and other services		Total	
	12 months 2003 R'000	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000	**12 months 2003 R'000**	9 Months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000
Segment results:										
Segment revenue	**93,896**	103,036	**8,843**	11,690	**33,829**	7,050	**42,065**	249,798	**178,633**	371,574
Segment expenditure	**(55,191)**	(64,307)	**(12,284)**	(19,056)	**(26,420)**	(19,161)	**(143,626)**	(101,282)	**(237,521)**	(203,806)
Profit/(Loss) after tax	**38,705**	38,729	**(3,441)**	(7,366)	**7,409**	(12,111)	**(101,561)**	148,516	**(58,888)**	167,768
Other information:										
Capital disposals/(expenditure)	**9,652**	(957)	**5,574**	15	**(45)**	(15,143)	**(22,098)**	8,349	**(6,917)**	(7,736)
Depreciation and amortisation	**(3,088)**	(3,432)	**(2,817)**	(2,989)	**(6,550)**	(3,106)	**(8,016)**	(6,800)	**(20,471)**	(16,327)
Other non-cash expenses	**–**	–	**–**	–	**–**	–	**(292)**	(2,172)	**(292)**	(2,172)
Share of income from associated companies							**1,942**	1,394	**1,942**	1,394
Segment position:										
Segment assets	**1,564,317**	1,474,012	**146,690**	141,234	**199,625**	230,335	**314,861**	330,531	**2,225,493**	2,176,112
Segment liabilities	**1,469,150**	1,435,283	**233,602**	148,600	**200,843**	242,447	**157,999**	166,282	**2,061,594**	1,992,612
Carrying amounts of segment assets include:										
Investments in associated companies							**2,951**	1,879	**2,951**	1,879

The secondary segments are as follows:

	Gauteng		Free State		KwaZulu–Natal		Western Cape		Total	
	12 months 2003 R'000	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000	**12 months 2003 R'000**	9 months 2002 R'000
Segment revenue	**162,062**	355,514	**2,914**	2,191	**4,270**	3,825	**9,387**	10,044	**178,633**	371,574
Capital disposals/(expenditure)	**(6,737)**	(6,852)	**41**	(393)	**240**	(426)	**(461)**	(65)	**(6,917)**	(7,736)
Segment assets	**2,016,270**	1,964,309	**66,312**	58,568	**61,005**	52,344	**81,906**	100,891	**2,225,493**	2,176,112

RISK MANAGEMENT AND CONTROL

THE GROUP'S RISK MANAGEMENT PHILOSOPHY

The Group recognises that the business of banking and financial services is conducted within an environment of complex inter-related risks. The Group operates in a dynamic environment where the past is not necessarily an acceptable guide to the future. A passive role in the face of potential or actual adverse conditions is not accepted. Anything less than a group-wide integrated approach to risk management may subject the Group to unnecessary and increased levels of risk.

Accordingly, a philosophy of "enterprise-wide risk management" within a Risk Management Monitoring and Control framework has been established to ensure that all risks are managed effectively within acceptable risk profiles, policies and parameters and that the management of risk is an independent process from that of taking on/creating risk within the Group. The objectives of the risk management function are furthermore to evaluate and manage the relationship between risk and return, establish limits and to ensure that activities are prudently controlled.

ENTERPRISE-WIDE RISK MANAGEMENT

The risk management function of the Group has an ongoing mandate to ensure the development, implementation and continued adherence to generally accepted enterprise-wide risk management policies in the following areas of risk:

Market	Technology
Interest Rate	Business Process
Currency	People
Equity Price	Liquidity
Credit	Solvency
Operational	Compliance

Two other risks, which are referred to as "indirect risks", are strategic and reputation risk. These risks are present in almost every decision made by management and the various boards, and thus impact on the Group's image and success. These indirect risks, although difficult to quantify at a given point in time, are always considered to ensure that complete risk assessment is carried out.

RISK MANAGEMENT IN PRACTICE

The Asset and Liability Committee, the Credit Committee and the Risk Management Committee ("RMC") meet regularly to collaborate on risk control, establish how much risk is acceptable and decide on how the Group will stay within targets and laid-down thresholds. Reporting mechanisms are in place to monitor the various risks consistent with the limits and controls that have been established. In any economy, there are sectors which are more vulnerable to cyclical changes than others. The Group strictly monitors these economic variances and manages its exposure. In its defined target market sectors the concentration of risk is managed to achieve portfolio diversification. In addition, policy criteria are designed to eliminate weaker credits or investments from relevant portfolios. The Group continues to develop credit risk modelling analytical tools to better understand and manage its credit risk portfolios.

The ultimate responsibility for understanding the risks run by the Group and ensuring that they are appropriately managed, rests with Mercantile's Board. The Board fully recognises that it is accountable for the process of risk management and the system of internal control. Management reports regularly to the Board on the effectiveness of internal control systems and significant control weaknesses identified. A wide variety of checks and balances to manage operational risk have been developed. These include, *inter alia*, a comprehensive disaster recovery planning process, incorporating business continuity planning for all key areas and extensive on- and off-site back-up facilities.

Mercantile's Board approves risk management strategies, but delegates to the RMC the power to take decisions on risk and to implement strategies on risk management and control. Discretionary limits and authorities are, in turn, delegated to management within laid-down parameters to enable them to implement the Group's risk management policies. It is the joint responsibility of business units and management to actively manage the Group's credit and market risk portfolios, fixed assets and manpower to minimise the impact of adversity.

CORPORATE GOVERNANCE

The Board of Directors ("the Board") of Mercantile Lisbon Bank Holdings Limited ("Mercantile" or "the Group") subscribes and is committed to complying with the principles and standards of corporate governance expressed in the King Report II on Corporate Governance. The Board evaluated the achievement of the corporate governance objectives that had been set for the 2003 financial year and documented the objectives which it would like to achieve in the 2004 financial year.

BOARD OF DIRECTORS

Mercantile's Board and the Board of Mercantile Bank Limited ("the Bank"), meet regularly to define strategy and key policies; to identify key risk areas and set risk parameters; review the effectiveness of the Group's internal systems of control; approve budgets and monitor the implementation of approved strategies and policies. The Board exercises effective control over the Group. In the period under review, the Boards of Mercantile and the Bank met eight times. The number of Board meetings attended by each director was as follows:

J A S de Andrade Campos	8
G P de Kock	8
L Hyne (appointed 1 June 2003)	6
J H Real Pereira	7
R M L de F N Ribas	8
A M S A Soares (resigned 14 July 2003)	2
R J Symmonds (resigned 31 July 2003)	4
J M Tubal Goncalves (appointed 1 July 2003; resigned 1 November 2003)	3
M J Soutelo da Silva (appointed 28 November 2003; resigned 30 March 2004)	0

The Chairman of both Mercantile and the Bank is a non-executive director. The Boards of directors comprise non-executive and executive directors with different skills, professional knowledge and experience, with the non-executive directors comprising the majority on the boards. The roles of the Chairman of the Board and of Chief Executive Officer, who is appointed by the Board, are separated.

Non-executive directors offer independent judgement and, apart from their fees and, in some cases, shareholdings, there were no extraneous factors that materially affected their judgement. If there is an actual or potential conflict of interest, the non-executive directors concerned, after declaring their interest in terms of the Companies Act, 1973, are excluded from the related decision-making process.

Executive and non-executive directors of Mercantile and of the Bank are selected through a process of consultation and their nominations are submitted to the relevant boards of directors for approval, subject to formal notification and approval by the Registrar of Banks. From the current financial year the Board will be assisted by the newly constituted Nominations and Corporate Governance Committee (see below) in the process of the selection and termination of the appointment of directors. Any person appointed to fill a casual vacancy or as an addition to the boards of Mercantile and of the Bank will retain office only until the next annual general meeting unless the appointment is confirmed at that meeting.

A director is required to retire from the Board at age 70. Until age 70 all directors retire on a three-year rotational basis. If eligible for re-election, they can be re-elected at the annual general meeting.

The boards of Mercantile and of the Bank operate in terms of a charter which defines their role.

To assist the Boards of Mercantile and of the Bank in carrying out their duties and responsibilities, a number of Board committees have been formed. In future the performance of the committees will be evaluated by the Board at least once annually. These committees have written terms of reference or charters that are subject to regular review. Details of the Board committees are provided below.

The Group Secretary ensures that statutory and regulatory procedures are complied with, and can only be removed from his duties by means of a directors' resolution. All directors of all companies in the Group have access to the advice and services of the Group Secretary and, if necessary, are entitled to obtain independent professional advice at the Group's expense. The Group Secretary provides a central source of advice and guidance on business ethics and compliance with good corporate governance. The Group Secretary also conducts an orientation programme for new directors and briefs directors on new laws and regulations.

GROUP AUDIT COMMITTEE

This Committee is comprised of an independent non-executive director, who acts as Chairman, a non-executive director and the Acting Chief Executive Officer ("ACEO"). The members of the Committee at 31 December 2003 were:

L Hyne *(Chairman);*

J H Real Pereira; and

R M L de F N Ribas *(ACEO).*

Group Audit Committee meetings are held at least three times annually and during the period under review met six times. They are attended by the head of Internal Audit, the external audit partners, the head of Risk Control and Compliance, the head of Compliance and the head of Finance. The head of Internal Audit, the head of Compliance and the external auditors have unrestricted access to the Chairman of the Committee. The Committee has a clear mandate. It assists the Boards of Mercantile and of the Bank to fulfil their responsibilities under the Banks Act, the Companies Act, other applicable statutory law and common law. In particular, the Committee reviews*, inter alia,* accounting policies and financial statements, internal and auditors' reports, the adequacy and efficiency of internal control systems, the effectiveness of management information systems and the internal audit process.

The external auditors' appointment and remuneration are recommended by the Committee and approved at the annual general meeting. The principles for recommending the use of the external auditors for non-audit services are set by the Committee.

The Group Audit Committee also assists the Board of the Bank in carrying out their responsibilities under the Banks Act, especially regarding the annual reporting on the functioning of the internal control systems of the Bank and its continuing viability as a going concern.

The Group Audit Committee has fulfilled its responsibilities in terms of its charter during the period under review and the charter was reviewed during the last year.

The Group Audit Committee considers the annual financial statements of Mercantile and its subsidiaries to be a fair presentation of its financial position, and the results of operations and cash flows for the year ended 31 December 2003, in terms of South African Statements of Generally Accepted Accounting Practice (GAAP) and the Companies Act.

GROUP RISK MANAGEMENT COMMITTEE

This Committee is comprised of two non-executive directors, including its Chairman, an independent non-executive director, the Acting Chief Executive Officer and the heads of Risk Control and Compliance, Finance and Credit Analysis. The members of the Committee at 31 December 2003 were:

J A S de Andrade Campos *(Chairman);*

L Hyne;

J H Real Pereira;

R M L de F N Ribas *(ACEO);*

H Bloem *(Head of Risk Control and Compliance);*

J de Beer *(Head of Finance);* and

G Evans *(Head of Credit Analysis).*

During the period under review, the Committee met six times. The meetings were attended by the Compliance Officer. The Committee operates in terms of a charter, which defines its role.

GROUP RISK MANAGEMENT COMMITTEE (continued)

The Committee's main objective is to assist the Board in designing, implementing and monitoring the Group's risk management processes and reviewing the effectiveness thereof. This process involves identifying the significant risks impacting the businesses of the Group and the assessment of the effectiveness of the systems of internal control in managing these risks, which can materially affect the achievement of the Group's strategic objectives. The Committee also serves as a forum for discussion and decision-taking relative to important business opportunities involving risk issues and approves all risk policies, limits and allocations of capital requirements.

Although they are not separate directors' committees, the important Group Asset and Liability Committee (ALCO) and the Group Credit Committee (Credcom) report directly to the Group Risk Management Committee.

GROUP HUMAN RESOURCES AND REMUNERATION COMMITTEE

This Committee is chaired by the Group Chairman and comprised three non-executive directors and the Acting Chief Executive Officer. The members of the Committee at 31 December 2003 were:

J A S de Andrade Campos *(Chairman);*
G P de Kock;
J H Real Pereira; and
R M L de F N Ribas *(ACEO).*

The Committee operates in terms of a charter, which defines its role.

It controls the effectiveness of the Group's policy on human resources and ensures that remuneration levels and conditions of service of staff (other than directors) throughout the Group are appropriate, equitable and in line with the Group's remuneration policy. This Committee met four times during the period under review.

GROUP EXECUTIVE COMMITTEE

This Committee comprised the following members at 31 December 2003:

R M L de F N Ribas *(ACEO) (Chairman);*
H Bloem *(Head of Risk Control and Compliance);*
F Schutte *(Group legal advisor);* and
J de Beer *(Head of Finance).*

The Committee operates in terms of a charter, which was revised during the period under review.

This Committee met regularly during the year and its primary role is to assist the Board in managing and monitoring the implementation of strategy, business plans and budgets approved by the major shareholder and the Board, and is responsible for certain operational matters.

NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE

The Board approved the appointment and charter of this Committee at its meeting on 26 November 2003. Formal meetings of the Committee are to be held at least twice a year.

The Committee is chaired by the Group Chairman and comprised the following non-executive directors at 31 December 2003:

J A S de Andrade Campos *(Chairman);*
G P de Kock; and
L Hyne.

The Committee's main objectives are to assist the Board to:

– determine and evaluate the corporate governance structures and practices in the Group;
– assess the Board annually as a whole and the contribution of each individual director;
– plan for successors to the executive directors and ensure the continuity of non-executive directors;
– nominate successors to the key positions or core functions in the Group in order to ensure that a management succession plan is in place.

NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE (continued)

In future, the determination of the remuneration of executive and non-executive directors will be considered and recommended to the Board by this Committee instead of by the Group Human Resources and Remuneration Committee.

INTERNAL AUDIT FUNCTION

The Internal Auditor, who reports to the Chief Executive Officer, is independent and this function forms part of the risk management process. The Internal Auditor has direct access to the Chairman of the Group Audit Committee and the Chairman of the Board.

The Group Audit Committee must concur with any decision to appoint or dismiss the Internal Auditor.

The internal audit work plan is drawn up in collaboration with CGD's Internal Audit Department and approved by the Group Audit Committee.

As part of its function, internal audit evaluates and monitors the adequacy or appropriateness of the internal controls, procedures and systems established to determine and manage operational risk throughout the Group. Any significant or material control weaknesses are reported to management, the Group Risk Management Committee and/or the Group Audit Committee for consideration and the necessary remedial action.

To complement the Group internal audit function:

– The Bank has entered into an outsourcing arrangement with KPMG to provide specialist internal audit services in the IT and Treasury areas; and
– CGD's Internal Audit Department undertakes assignments in accordance with CGD's requirements.

COMPLIANCE FUNCTION

Group compliance, which is independent of the internal audit function is headed by a Compliance Officer, is responsible, *inter alia,* for the establishment of a compliance culture in the Group, which contributes to the overall objective of prudent risk management and good corporate governance.

The objectives of the compliance function, as part of an effective risk management framework, include assisting line management to comply with applicable statutory, regulatory and supervisory requirements relating to the banking industry and to facilitate the management of regulatory and reputational risks.

EMPLOYMENT EQUITY

An Employment Equity report was submitted to the Department of Labour in accordance with legislative requirements and was accepted by that Department in October 2003.

The three-year term of Mercantile's Employment Equity Committee terminated at the end of 2003. Nominations were received for representatives and the newly appointed Employment Equity Committee will commence their work in 2004.

The current Employment Equity Policy and Plan will be revised to include the provisions of the Financial Sector Charter.

CODE OF BANKING PRACTICE

The Group subscribes to the Code of Banking Practice ("the Code") endorsed by banks that are also members of the Banking Council. The Group attempts to conduct its business with uncompromising integrity and fairness so as to promote complete trust and confidence. In meeting this fundamental objective, the Group conducts its relationships with the regulatory authorities, clients, competitors, employees, shareholders, suppliers and the community at large, and encourages its employees to acquaint themselves with the Code and honour its precepts.

FINANCIAL STATEMENTS

Accounting policies and the basis of accounting on which annual financial statements are prepared, are more fully set out on pages 16 to 23 of this report.

REGULATION

The South African Reserve Bank, the Financial Services Board and/or the JSE Securities Exchange South Africa regulate the various activities of the Group.

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
Mercantile Bank Limited				
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			**18,798**	21,633
Impairments			**(806,000)**	(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%

ANALYSIS OF SHAREHOLDERS AT 31 DECEMBER 2003

SHAREHOLDERS' SPREAD

	Year ended 31 December 2003	9 months ended 31 December 2002
Number of public shareholders	**6,927**	9,460
Percentage of shares held by:		
– Public	**35,07%**	35,08%
– Non-public	**64,93%**	64,92%
– Director	**0,01%**	0,00%
– Trustees of share incentive scheme	**0,09%**	0,09%
– Holders of 10% or more of shares	**64,83%**	64,83%

MAJOR SHAREHOLDERS HOLDING IN EXCESS OF 5% OF THE COMPANY'S SHARE CAPITAL

	Number of shares	Percentage
2003		
Caixa Geral de Depósitos SA	**554,705,722**	**64,83**
Hollard Group	**60,807,187**	**7,11**
Electra Share Ventures (Pty) Ltd	**47,512,116**	**5,55**
2002		
Caixa Geral de Depósitos SA	554,705,722	64,83
Hollard Group	60,807,187	7,11
Electra Share Ventures (Pty) Ltd	47,512,116	5,55

PERFORMANCE ON THE JSE SECURITIES EXCHANGE SOUTH AFRICA

	Year ended 31 December 2003	9 months ended 31 December 2002
Share price (cents)		
Year-end	17	12
Highest	20	17
Lowest	8	7
Number of shares traded ('000)	26,702	21,214
Value of shares traded (R'000)	3,599	2,523
Average price (cents)	13	12

GROUP ADDRESSES

MERCANTILE BANK GROUP

Head Office

Mercantile Lisbon House
142 West Street, Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: (011) 302-0300
Fax: (011) 302-0729

MERCANTILE BANK

Boksburg

Shop 1, Park Place East
corner North Rand and
Wiek Roads, Bardene
Boksburg, 1459
PO Box 31558
Braamfontein, 2017
Tel: (011) 918-5276
Fax: (011) 918-4159

Bruma

Portuguese House
11 Ernest Oppenheimer
Boulevard, Bruma, 2198
PO Box 31558
Braamfontein, 2017
Tel: (011) 622-0916
Fax: (011) 622-8833

Cape Town

2 Southern Life Building
Thibault Square
St George's Mall
Cape Town, 8001
PO Box 51, Cape Town, 8000
Tel: (021) 419-9402
Fax: (021) 419-5929

Comaro Crossing

Shop FF9, Comaro Crossing
Shopping Centre, corner Orpen
and Comaro Roads, Oakdene
PO Box 31558, Braamfontein 2017
Tel: (011) 435-0640
Fax: (011) 435-1586

Durban

Shop 6, 123 Cowey Road
Cowey Park
Morningside, Durban, 4001
PO Box 4651, Durban, 4000
Tel: (031) 207-4255
Fax: (031) 207-4354

Germiston

The Lake Shopping Centre
Corner William Hill
and Lake Streets
Germiston, 1401
PO Box 31558
Braamfontein, 2017
Tel: (011) 824-5813
Fax: (011) 824-5823

Horizon

153 Ontdekkers Road, Block E
Horizon, Roodepoort, 1724
PO Box 31558, Braamfontein, 2017
Tel: (011) 763-6000
Fax: (011) 763-8742

Pretoria

Pro-Equity Court
corner Pretorius and Gordon Streets
Hatfield, Pretoria, 0083
PO Box 31558, Braamfontein, 2017
Tel: (012) 342-1151
Fax: (012) 342-1191

Pretoria West

Shops 2 and 3, 477 Mitchell Street
Pretoria West, 0183
PO 31558, Braamfontein, 2017
Tel: (012) 327-4671
Fax: (012) 327-4645

Sandton

142 West Street, Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: (011) 302-0763
Fax: (011) 884-1821

Strijdom Park

Shop 2, Homeworld Centre
Corner Hans Strijdom Drive and
CR Swart Road, Strijdom Park, 2194
PO Box 31558, Braamfontein, 2017
Tel: (011) 791-0854
Fax: (011) 791-2387

Troyeville

77 Bezuidenhout Street
Troyeville, 2094
PO Box 31558, Braamfontein, 2017
Tel: (011) 624-1450
Fax: (011) 614-9611

Vanderbijlpark

Shops 1 and 2, Russel Building
54 President Kruger Street
Vanderbijlpark, 1911
PO Box 31558, Braamfontein, 2017
Tel: (016) 981-4132
Fax: (016) 981-0767

Welkom

Tulbagh House, 11 Tulbagh Street
Welkom, 9459
PO Box 2207, Welkom, 9460
Tel: (057) 357-3143
Fax: (057) 352-7879

MERCANTILE TREASURY

Head Office

Mercantile Lisbon House
142 West Street
Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: (011) 302-0300
Fax: (011) 883-7756

MERCANTILE INSURANCE BROKERS

Head Office

Mercantile Lisbon House
142 West Street
Sandown, 2196
PO Box 782699, Sandton, 2146
Tel: (011) 302-0556/7/8
Fax: (011) 302-0752

MERCGUARD

Head Office

Tuscany Office Park, Block 6
Mercantile House
Coombe Place (off Rivonia Road)
Rivonia, 2128
PO Box 5368, Rivonia, 2128
Tel: (011) 803-6666
Fax: (011) 803-6655

Durban

75 Columbine Place, Glen Anil
Durban, 4051
PO Box 201015
Durban North, 4016
Tel: (031) 569-4155
Fax: (031) 569-4158

NOTICE OF ANNUAL GENERAL MEETING

MERCANTILE LISBON BANK HOLDINGS
LIMITED

Reg No: 1989/000164/06
(Incorporated in the Republic of South Africa)
("the Company")
A Subsidiary Company of Caixa Geral de Depósitos

Notice is hereby given that an annual general meeting ("the meeting") of the members of the Company will be held at 14:00 on Tuesday, 25 May 2004 in the boardroom, First Floor, Mercantile Lisbon House, 142 West Street, Sandown, for the following purposes:

1. To receive and adopt the annual financial statements of the Company for the year ended 31 December 2003, together with the directors' report and to approve the remuneration of the directors as reflected in those statements.
2. To elect directors in the place of the directors who retire from office in terms of the Company's Articles of Association. These directors are:

   G P de Kock who retires by rotation and, being eligible, offers himself for re-election.

   A M Osman, who was appointed to the Board on 2 February 2004, and D J Brown, whose appointment was confirmed at the Board meeting held on 29 March 2004, retire at the end of this meeting but, being eligible, offer themselves for re-election.

   (A brief curriculum vitae of each director standing for re-election is attached to this Notice.)
3. To authorise the directors to determine the remuneration of the auditors and to re-appoint them for the ensuing year.
4. To place the unissued shares under the control of the directors in terms of the following ordinary resolution number 4:

   Ordinary resolution number 4

   "RESOLVED that all the unissued shares in the authorised share capital of the Company be and are hereby placed under the control of the directors of the Company who are authorised to allot and issue the same to such persons and on such terms and conditions as they may determine in their sole and absolute discretion, subject to the provisions of the Companies Act, No. 61 of 1973 (as amended), the provisions of the Banks Act, No. 94 of 1990 (as amended) and the Listings Requirements of the JSE Securities Exchange South Africa."
5. To consider and, if deemed fit, to pass the following ordinary resolution number 5:

   Ordinary resolution number 5

   "RESOLVED that the directors be given the general authority to issue reserve shares of a class already in issue held under their control, for cash, when the directors consider it appropriate in the circumstances, subject to the provisions of the Companies Act, No. 61 of 1973 (as amended), the provisions of the Banks Act, No. 94 of 1990 (as amended), the Listings Requirements of the JSE Securities Exchange South Africa and to the following limitations, that:

   – the authority shall be valid until the next annual general meeting of the Company (provided it shall not extend beyond 15 months);

- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of shares in issue prior to such issue;
- issues for cash in any one financial year may not exceed 15% of the Company's issued share capital;
- the issues must be made to public shareholders as defined by the JSE Securities Exchange South Africa;
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price as determined over the 30 days prior to the date that the price of the issue is determined or agreed by the directors of the Company."

The approval of a 75% majority of the votes cast by shareholders present or represented by proxy at this meeting is required for this resolution to become effective.

6. To transact any such other business as may be transacted at the meeting, in terms of the Company's Articles of Association.

Voting and proxies

A member entitled to attend, speak and vote at the meeting is entitled to appoint a proxy (who need not be a member of the Company) to attend, vote and speak in his/her stead.

Members which are companies or other body corporates, may, in terms of section 188(1) of the Companies Act, No. 61 of 1973 (as amended), by resolution of its directors or other governing body, authorise any person to act as its representative at the meeting.

Certificated shareholders and own-name dematerialised shareholders, who are unable to attend the meeting but wish to be represented thereat, should complete and return the attached form of proxy in accordance with the instructions contained therein. A form of proxy is attached for this purpose and must be lodged at the Company's registered office, First Floor, Mercantile Lisbon House, 142 West Street, Sandown, 2196 (PO Box 782699, Sandton, 2146) by not later than 14:00 on Friday, 21 May 2004.

Dematerialised shareholders, excluding own-name dematerialised shareholders, who wish to attend the meeting, must request their Central Securities Depository Participant ("CSDP") or broker to provide them with a Letter of Representation or must instruct their CSDP or broker to vote by proxy on their behalf in terms of the agreement entered into between the shareholder and their CSDP or broker.

By order of the board

F Vicente Coelho
Company Secretary

3 May 2004

Registered office

First Floor
Mercantile Lisbon House
142 West Street
Sandown, 2196
(PO Box 782699, Sandton, 2146)

Transfer Secretaries

Computershare Limited
70 Marshall Street
Johannesburg 2001
(PO Box 61051, Marshalltown 2107)

BRIEF CURRICULUM VITAE OF EACH DIRECTOR STANDING FOR RE-ELECTION

G P de Kock, age 49, attended Executive Programmes at the Universities of Cape Town and Stanford, California. He held various positions with Edgars Stores Limited in the finance and credit divisions and became General Manager Credit Division. G P de Kock is currently executive director of Woolworths (Proprietary) Limited and the Managing Director of Woolworths Financial Services (Proprietary) Limited.

A M Osman, age 59, holds an M.Sc degree in Economics and Finance (Public and International) from the University of Lisbon. He started his career as economist at CGD and later became National Director of Finance in Mozambique. From 1979 to 1992 he held various positions in the Mozambican Government, including Minister of Mineral Resources and Minister of Finance. He also spent three years with UNDP/United Nations in New York as Director of Governance and Management Development, A M Osman has been the Chairman of Banco Comercial e de Investimentos, SARL, Maputo since 1996.

D J Brown, age 49, holds a B. Comm Degree from the University of South Africa and an MBA from the University of Cape Town. In addition, he attended the Management Development Programme at the School of Business Leadership and the Advanced Management Program at Harvard Business School in the USA. D J Brown spent 30 years with the Standard Bank Group where he held various senior positions including Managing Director of Stanbic Bank Botswana, Managing Director of Stanbic Bank Zambia, Managing Director of Stannic Asset Finance and Managing Director of Standard Bank Commercial Banking Division.

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FORM OF PROXY

MERCANTILE LISBON BANK HOLDINGS
LIMITED

Reg No: 1989/000164/06

A Subsidiary Company of Caixa Geral de Depósitos

**for use by certificated and own-name dematerialised ordinary shareholders
at the annual general meeting of the Company
to be held at 14:00 on Tuesday, 25 May 2004 ("the meeting")**

I/We (please print) ___

of (please print) ___

being (a) member(s) of the Company, holding [ ] ordinary shares in the Company hereby appoint:

1. ___ or failing him/her,

2. ___ or failing him/her,

the Chairman of the meeting, as my/our proxy to attend, speak and vote on my/our behalf at the meeting to be held at the registered office of the Company, in Sandton, on Tuesday, 25 May 2004 at 14:00 and at any adjournment thereof, and to vote or abstain from voting on the ordinary resolutions to be proposed at the meeting, as follows:

Ordinary shareholders	**For**	**Against**	**Abstain**
Ordinary resolution number 1: adoption of annual financial statements			
Ordinary resolution number 2: re-election of directors			
Ordinary resolution number 3: remuneration and re-appointment of auditors			
Ordinary resolution number 4: unissued shares under directors' control			
Ordinary resolution number 5: issue of reserve shares for cash			

Signed this ___ day of ___ 2004

Signature of member(s) ___

Assisted by me (where applicable) ___

Please read the notes and instructions on the reverse hereof.

NOTES TO THE PROXY

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.
2. Every person present and entitled to vote at the meeting as a member or as a proxy or as a representative of a body corporate shall, on a show of hands, have one vote only, irrespective of the number of shares such person holds or represents, but in the event of a poll, a member shall be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by him/her/it bears to the aggregate amount of the nominal value of all the shares issued by the Company.
3. Please insert the relevant number of shares/votes in the appropriate spaces on the face hereof and how you wish your votes to be cast. If you return this form of proxy duly signed without any specific directions, the proxy will vote or abstain from voting at his/her/its discretion.

Instructions on signing and lodging this form of proxy

1. A deletion of any printed matter and the completion of any blank spaces need not be signed or initialled. Any alteration or correction must be initialled by the authorised signatory/ies.
2. The Chairman shall be entitled to decline to accept the authority of a person signing this form of proxy:
   (a) under a power of attorney; or
   (b) on behalf of a company,
   unless that person's power of attorney or authority is deposited at the registered office of the Company not later than 14:00 on Friday, 21 May 2004.
3. You may insert the name of any person(s) whom you wish to appoint as your proxy in the blank space(s) provided for that purpose.
4. Where there are joint holders of shares, all joint shareholders must sign this form of proxy.
5. The completion and lodging of this form of proxy will not preclude the member who grants the proxy from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such member wish to do so.
6. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the transfer secretaries of the Company or waived by the Chairman of the meeting. The Chairman of the meeting may reject any form of proxy not completed and/or received in accordance with these notes or instructions, or with the Articles of Association of the Company.
7. Completed forms of proxy should be returned to the Company's registered office, First Floor, Mercantile Lisbon House, 142 West Street, Sandown, 2196 (PO Box 782699, Sandton, 2146) or faxed to the Company Secretary (fax number +27 11 302 0729) by no later than 14:00 on Friday, 21 May 2004.

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