

Mercantile Bank Holdings Limited

("Mercantile" or "the Group")

Unaudited interim results for the six months ended 30 June 2005

Highlights

- Return to profitability
- Headline earnings per share of 1,1 cents versus comparable period loss per share of 3,3 cents

Financial overview

The Group has achieved its primary objective of returning to profitability during the first six months of the 2005 financial year with a headline profit of R42,558 million.

The results achieved are largely attributable to:

- an increase in funds profit generated by the recapitalisation in terms of the rights offer, which was completed in September 2004 as well as interest recovered on certain legacy debt
- non-interest income growth of 23%, mainly in the areas of transactional banking and foreign exchange services
- cost containment in operating expenses – costs for the comparable six months ended 30 June 2004 benefited from a write back in suspense account provisions of R5,4m. Excluding this item, costs for the six months ended 30 June 2005, increased by 0.6%
- continued recovery of impaired and written off legacy debt
- exceptional recoveries of R23,1 million being amounts impaired/written off in 2004 with the release of the CGD guarantees
- growth in performing loans and advances of 28% year on year, and an ongoing reduction in legacy debt through improved collection processes in place.

Accounting policies

The results for the six months ended 30 June 2005 have been prepared in accordance with the International Financial Reporting Standards (IFRS), which were adopted with effect from 1 January 2005. Certain accounting policies are therefore not consistent with those applied in the annual financial statements for the year ended 31 December 2004. The comparative results for the six months ended 30 June 2004 and the year ended 31 December 2004 have been restated in terms of the adoption of IFRS in these interim financial reporting statements.

The results have not been reviewed or reported on by the Group's auditors.

Directorate

Shareholders are notified that Sharada Rapeti has been appointed as a Non-Executive Director of Mercantile with immediate effect.

There were no other changes to the Board of Directors during the period under review.

Going concern

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

Outlook

Whilst the level of recoveries achieved on legacy debt is not expected to be repeated in the second half of the year, an ongoing write back of impairments is anticipated. Expenditure on systems of approximately R8m is to be incurred over the remaining six months, largely aimed at enhancing our Alliance banking service offering in order to generate increased fee income in future years.

Economic conditions remain favourable for the banking sector and the improvement in the Group's core performance is expected to continue.

J A S de Andrade Campos
Chairman

D J Brown
Chief Executive Officer

Sandton
29 July 2005

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

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

Registered Office: Mercantile Bank, 142 West Street, Sandown, 2196

Share Code: MTL **ISIN:** ZAE000064721

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

Sponsor: Bridge Capital Services (Pty) Ltd, 1st Floor, Building 22A
The Woodlands, Woodlands Drive
Woodmead, Sandton, 2196

Sponsor

**BRIDGE
CAPITAL**

**Mercantile Bank
Holdings Limited**
Member of CGD Group
Registration number 1989/000164/06

www.mercantile.co.za

Summarised Group Balance Sheet

	30 June 2005 R'000 Unaudited	30 June 2004 R'000 Unaudited Restated	31 December 2004 R'000 Unaudited Restated
ASSETS			
Intangible assets	4 473	10 054	6 801
Property and equipment	80 145	83 550	85 028
Investment properties	720	800	770
Taxation	3 626	3 681	3 616
Other accounts receivable	27 680	75 787	33 148
Interest in associated companies	3 236	3 446	3 236
Other investments	2 940	3 439	3 556
Loans and advances	1 126 645	1 068 512	975 611
Derivative financial instruments	5 047	34 237	90 162
Negotiable securities	336 317	202 145	370 279
Cash and cash equivalents	1 381 925	873 684	1 148 861
Total assets	2 972 754	2 359 335	2 721 068
EQUITY AND LIABILITIES			
Shareholders' equity	520 201	135 567	500 939
Share capital and share premium	1 208 032	866 607	1 208 642
Capital redemption reserve fund	3 788	3 788	3 788
General reserve	7 478	7 478	7 478
Property revaluation reserve	31 273	28 376	31 273
Available-for-sale reserve	(1 573)	(1 267)	(955)
Share based payments reserve	444	–	123
General risk reserve	6 954	19 588	31 668
Accumulated loss	(736 195)	(789 003)	(781 078)
Liabilities	2 452 553	2 223 768	2 220 129
Long-term liabilities	–	3 626	–
Subordinated loan	–	60 436	–
Deposits	2 290 844	2 050 143	2 112 569
Derivative financial instruments	95 653	28 938	35 210
Provisions	30 039	31 973	32 768
Other accounts payable	35 973	48 608	39 538
Taxation	44	44	44
Total equity and liabilities	2 972 754	2 359 335	2 721 068

Summarised Group Income Statement

	6 months ended 30 June 2005 R'000 Unaudited	6 months ended 30 June 2004 R'000 Unaudited Restated	12 months ended 31 December 2004 R'000 Unaudited Restated
Interest income	117 331	91 143	192 138
Interest expense	(54 142)	(52 213)	(107 036)
Net interest income before credit losses	63 189	38 930	85 102
Net recovery of/(charge for) credit losses	13 319	(5 335)	(4 367)
Net interest income after credit losses	76 508	33 595	80 735
Net profit on disposal of investments	592	–	1 891
Non-interest income ⁽¹⁾	57 056	46,305	101,410
Net interest and non-interest income	134 156	79,900	184,036
Operating expenditure ⁽¹⁾	(114 123)	(108,077)	(225,041)
Profit/(loss) before associated companies	20 033	(28 177)	(41 005)
Share of income from associated companies	–	495	768
Profit/(loss) before taxation and exceptional items	20 033	(27 682)	(40 237)
Impairments and provisions raised and write-off on release of CGD guarantee	–	–	(172 729)
Recovery of amounts previously written off in respect of the release of the CGD guarantee	23 119	–	–
Profit/(loss) before taxation	43 152	(27 682)	(212 966)
Taxation	(31)	–	(50)
Attributable profit/(loss) after taxation	43 121	(27 682)	(213 016)
Reconciliation between attributable profit/(loss) after taxation and headline profit/(loss)			
Attributable profit/(loss) after taxation	43 121	(27 682)	(213 016)
Adjustment for:			
Realisation of available-for-sale reserve on disposal of investments	(614)	–	(60)
Profit/(loss) on disposal of property and equipment	51	(202)	(680)
Headline profit/(loss)	42 558	(27 884)	(213 756)

Group Contingent Liabilities and Commitments

	30 June 2005 R'000 Unaudited	30 June 2004 R'000 Unaudited Restated	31 December 2004 R'000 Unaudited Restated
Guarantees and letters of credit	234 740	122 845	138 470
Irrevocable unutilised facilities	211 171	191 882	232 597
Conditional buy-back obligations	18 480	76 694	42 685
Operating lease commitments:	13 211	17 051	10 619
Due within one year	4 357	6 849	5 191
Due between one and five years	8 854	10 202	5 428
Total contingent liabilities and commitments	477 602	408 472	424 371

Financial Statistics

	30 June 2005 R'000 Unaudited	30 June 2004 R'000 Unaudited Restated	31 December 2004 R'000 Unaudited Restated
Number of ordinary shares in issue:			
– end of period ('000)	3 938 919	855 585	3 938 919
– weighted average ('000)	3 938 919	855 585	1 832 817
– weighted average – diluted ('000)	3 939 280	855 585	1 832 825
Profit/(loss) per ordinary share (cents)	1,1	(3,2)	(11,6)
Headline profit/(loss) per ordinary share (cents)	1,1	(3,3)	(11,7)
Diluted profit/(loss) per ordinary share (cents)	1,1	(3,2)	(11,6)
Diluted headline profit/(loss) per ordinary share (cents)	1,1	(3,3)	(11,7)
Net asset value per ordinary share (cents)	13,2	15,8	12,7

Summarised Group Cash Flow Statement

	6 months ended 30 June 2005 R'000 Unaudited	6 months ended 30 June 2004 R'000 Unaudited Restated	12 months ended 31 December 2004 R'000 Unaudited Restated
Net cash inflow/(outflow) from operating activities	41 112	(26 951)	(9 134)
Net cash inflow from operating funds	193 000	272 703	46 964
Net cash outflow from investing activities	(1 048)	(5 070)	(6 774)
Net cash inflow from financing activities	–	58 072	542 875
Net cash inflow for the period	233 064	298 754	573 931
Cash and cash equivalents at beginning of period	1 148 861	574 930	574 930
Cash and cash equivalents at end of period	1 381 925	873 684	1 148 861

Summarised Group Statement of Changes in Equity

	6 months ended 30 June 2005 R'000 Unaudited	6 months ended 30 June 2004 R'000 Unaudited Restated	12 months ended 31 December 2004 R'000 Unaudited Restated
Balance at beginning of period	500 939	163 899	163 899
Transitional adjustments on adoption of IFRS	–	–	–
Creation of credit risk impairments	(22 952)	–	–
Movements in reserves	(8 524)	(12 148)	3 263
Revaluation of owner-occupied property	–	–	2 897
Net transfer (from)/to general risk reserve	(8 227)	(11 623)	456
Share option expense	321	–	123
Net transfer to available-for-sale reserve	(618)	(525)	(213)
Movements in accumulated loss	51 348	(15 926)	(8 000)
Profit/(loss) after taxation	43 121	(27 682)	(213 016)
Net transfer from/(to) general risk reserve	8 227	11 623	(456)
Transfer on subdivision of shares	–	–	205 340
Accumulated loss on consolidation of share incentive trust	–	133	132
Movements in share capital and premium	(610)	(258)	341 777
Issue of shares	–	–	555 000
Share issue expense	–	–	(6 382)
Transfer to distributable reserve on subdivision of shares	–	–	(205 340)
Treasury shares on consolidation of share incentive trust	(610)	(258)	(1 501)
Balance at end of period	520 201	135 567	500 939

IFRS Reconciliation

	Opening Balance 1 January 2005 R'000 Unaudited	Closing Balance 30 June 2004 R'000 Unaudited Restated	Closing Balance 31 December 2004 R'000 Unaudited Restated
Changes in shareholders' equity	500 939	135 473	500 939
Balance as previously reported	65	94	65
Effect on reported results	–	–	–
– Depreciation on property and equipment	188	94	188
– Share option expense	(123)	–	(123)
Transitional adjustment	–	–	–
– Creation of credit risk impairments	(22 952)	–	–
Movement in reserves	–	–	–
– Decrease in property revaluation reserve	(188)	–	(188)
– Creation of share based payments reserve	123	–	123
Restated shareholders' equity	477 987	135 567	500 939
Property and equipment	–	–	–
Balance as previously reported	85 028	83 456	85 028
Effect on reported results	–	–	–
– Depreciation on property and equipment	–	94	–
Restated property and equipment	85 028	83 550	85 028
Loans and advances	–	–	–
Balance as previously reported	975 611	1 068 512	975 611
Transitional adjustment	–	–	–
– Creation of credit risk impairments	(22 952)	–	–
Restated loans and advances	952 659	1 068 512	975 611

Summarised Group Segmental Information

	6 months ended 30 June 2005 R'000 Unaudited	6 months ended 30 June 2004 R'000 Unaudited Restated	12 months ended 31 December 2004 R'000 Unaudited Restated
Segment revenue: ⁽²⁾			
Retail banking	66 843	55 951	116 342
Treasury	13 417	10 630	27 759
Alliance banking, MBL credit card and structured loans	19 773	21 274	41 790
Other services ⁽³⁾	20 804	(2,125)	3,280
	120 837	85,730	189,171
Profit/(loss) after tax: ⁽²⁾			
Retail banking ⁽⁴⁾	38 399	28 329	61 941
Treasury ⁽⁴⁾	2 335	131	(29 439)
Alliance banking, MBL credit card and structured loans ⁽⁴⁾	8 074	14 927	23 529
Other services ⁽³⁾	(5 687)	(71 069)	(269 235)
	43 121	(27 682)	(213 204)

(1) The foreign exchange and insurance broker commissions earned were previously disclosed net of commissions paid. The commissions paid are now disclosed separately as part of operating expenditure. (June 2004: R2,6 million, December 2004: R5,3 million)

(2) The segmental results have been restated for the six months ended 30 June 2004 to reflect the current management structure of segments and thereby reflect the information on a comparable basis.

(3) "Other services" includes support divisions, collections, specialised asset finance, insurance brokers, inter-group eliminations, return on surplus capital and IFRS adjustments.

(4) Excludes the allocation of attributable support costs.