





Mercantile Bank Holdings Limited

("Mercantile" or "the Group")

Unaudited interim results for the six months ended 30 June 2006

Highlights

-  Growth in profit before taxation and exceptional items of 102.5%
-  Total asset growth of 47.5%
-  Lending growth of 51.2%
-  Deposit growth of 48.8%

FINANCIAL OVERVIEW

The Group has continued to achieve strong growth in profit before taxation and exceptional items during the first six months of the 2006 financial year which saw these profits increase by 102.5% from R20.033 million (comparative six months of 2005) to R40.569 million. Exceptional recoveries of amounts previously written off in respect of the release of the CGD guarantee, declined from R23.119 million for the six months ended 30 June 2005, to R4.455 million for the six months ended 30 June 2006. Due to this decline in exceptional recoveries, headline earnings increased by a modest 5.8%. The increase in profits is largely attributable to:

- 22% growth in funds profit generated by the increase of 51.2% in lending and the growth of 48.8% in customer deposits;
- non-interest income growth of 21.1% largely in the areas of transactional and alliance banking;
- cost containment in operating expenses which decreased by 1.9%.

ACCOUNTING POLICIES

The accounting policies applied in the preparation of the unaudited interim financial statements are in accordance with International Financial Reporting Standards ("IFRS") and are consistent with those applied in the annual financial statements for the financial year ended 31 December 2005.

The interim results have not been reviewed or audited by the Group's auditors.

GOING CONCERN

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

DIRECTORATE

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

OUTLOOK

Whilst tighter monetary conditions are expected to slow the rate of credit growth over the balance of the year, the improvement in the Group's performance is expected to continue.

Projects evaluating the replacement of our core retail banking systems and enhancements to our alliance banking systems, as referred to in our December 2005 results announcements, are well underway and should be concluded by year end.

J A S de Andrade Campos
Chairman

D J Brown
Chief Executive Officer

Sandton
26 July 2006

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

* Portuguese ** Mozambican

Group Secretary: R van Rensburg

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

Share code: MTL **ISIN:** ZAE000064721

Transfer Secretaries: Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001

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

Summarised Group Balance Sheet

	30 June 2006 R'000 Unaudited	30 June 2005 R'000 Unaudited	31 December 2005 R'000 Audited
ASSETS			
Intangible assets	5 349	4 473	7 020
Property and equipment	93 010	80 145	91 305
Investment properties	-	720	350
Taxation	29	3 626	3 698
Other accounts receivable	66 385	27 680	14 887
Interest in associated companies	3 323	3 236	3 323
Other investments	1 929	2 940	2 365
Loans and advances	1 703 585	1 126 645	1 458 677
Derivative financial instruments	26 520	5 047	36 757
Negotiable securities	389 832	336 317	379 028
Cash and cash equivalents	2 094 301	1 381 925	1 408 972
Total assets	4 384 263	2 972 754	3 406 382
EQUITY AND LIABILITIES			
Shareholders' equity	596 483	520 201	550 179
Share capital and share premium	1 207 032	1 208 032	1 207 032
Capital redemption reserve fund	3 788	3 788	3 788
Share-based payments reserve	2 121	444	847
General reserve	7 478	7 478	7 478
Property revaluation reserve	36 476	31 273	36 476
Available-for-sale reserve	(70)	(1 573)	(76)
General credit-risk reserve	11 933	6 954	10 835
Accumulated loss	(672 275)	(736 195)	(716 201)
Liabilities	3 787 780	2 452 553	2 856 203
Deposits	3 409 796	2 290 844	2 636 547
Derivative financial instruments	153 344	95 653	38 531
Provisions	26 406	30 039	31 647
Other accounts payable	198 200	35 973	149 478
Taxation	34	44	-
Total equity and liabilities	4 384 263	2 972 754	3 406 382

Summarised Group Income Statement

	Six months ended 30 June 2006 R'000 Unaudited	Six months ended 30 June 2005 R'000 Unaudited	12 months ended 31 December 2005 R'000 Audited
Interest income	155 460	117 331	248 290
Interest expense	(78 361)	(54 142)	(113 144)
Net interest income before credit recoveries	77 099	63 189	135 146
Net credit recoveries	6 161	13 319	21 287
Net interest income after credit recoveries	83 260	76 508	156 433
Net (loss)/profit on disposal of investments	(36)	592	(498)
Non-interest income	69 086	57 056	117 903
Net interest and non-interest income	152 310	134 156	273 838
Operating expenditure	(111 956)	(114 123)	(230 477)
Profit before associated companies	40 354	20 033	43 361
Share of income from associated companies	215	-	516
Profit before taxation and exceptional items	40 569	20 033	43 877
Recovery of amounts previously written-off in respect of the release of the CGD guarantee	4 455	23 119	23 119
Profit before taxation	45 024	43 152	66 996
Taxation	-	(31)	-
Profit after taxation	45 024	43 121	66 996
Reconciliation between profit after taxation and headline earnings:			
Profit after taxation	45 024	43 121	66 996
Adjustment for:			
Realisation of available-for-sale reserve on disposal of investments	-	(614)	885
(Profit)/Loss on disposal of property and equipment	(17)	51	144
Headline earnings	45 007	42 558	68 025
Earnings per ordinary share (cents)	1.1	1.1	1.7
Headline earnings per ordinary share (cents)	1.1	1.1	1.7
Diluted earnings per ordinary share (cents)	1.1	1.1	1.7
Diluted headline earnings per ordinary share (cents)	1.1	1.1	1.7
Dividend per ordinary share (cents)	-	-	-

Financial Statistics

	30 June 2006 Unaudited	30 June 2005 Unaudited	31 December 2005 Audited
Number of ordinary shares in issue:			
- end of period ('000)	3 925 126	3 928 103	3 925 126
- weighted average ('000)	3 925 126	3 929 320	3 927 892
- weighted average - diluted ('000)	3 939 474	3 938 568	3 932 811
Return on average equity (%)	15.7	16.9	12.7
Return on average assets (%)	2.3	3.0	2.2
Cost to income (%)	76.6	94.4	91.3
Net asset value per ordinary share (cents)	15.2	13.2	14.0
Capital adequacy ratio (%)			
- Consolidated Group	32.2	39.8	31.3
- Mercantile Bank Limited	32.9	44.7	34.5

Group Contingent Liabilities and Commitments

	30 June 2006 R'000 Unaudited	30 June 2005 R'000 Unaudited	31 December 2005 R'000 Audited
Guarantees and letters of credit	293 540	234 740	287 821
Conditional buy-back obligations	-	18 480	7 707
Operating lease commitments	15 932	13 211	13 742

Summarised Group Statement of Changes in Equity

	Six months ended 30 June 2006 R'000 Unaudited	Six months ended 30 June 2005 R'000 Unaudited	12 months ended 31 December 2005 R'000 Audited
Balance at beginning of period	550 179	500 939	500 939
Transitional adjustments on adoption of IFRS			
Creation of credit risk impairments	-	(22 952)	(22 952)
Movements in reserves	2 378	(8 524)	8 925
Revaluation of owner-occupied property	-	-	5 203
Net transfer to/(from) general credit-risk reserve	1 098	(8 227)	2 119
Share-based payments expense	1 274	321	724
Net transfer to/(from) available-for-sale reserve	6	(618)	879
Movements in accumulated loss	43 926	51 348	64 877
Profit after taxation	45 024	43 121	66 996
Net transfer to/(from) general credit-risk reserve	(1 098)	8 227	(2 119)
Movement in share capital and premium			
Treasury shares on consolidation of share incentive trust	-	(610)	(1 610)
Balance at end of period	596 483	520 201	550 179

Summarised Group Cash Flow Statement

	Six months ended 30 June 2006 R'000 Unaudited	Six months ended 30 June 2005 R'000 Unaudited	12 months ended 31 December 2005 R'000 Audited
Net cash inflow from operating activities	43 016	41 112	66 401
Net cash inflow from banking activities	648 363	193 000	209 973
Net cash outflow from investing activities	(6 050)	(1 048)	(16 263)
Net cash inflow for the period	685 329	233 064	260 111
Cash and cash equivalents at beginning of period	1 408 972	1 148 861	1 148 861
Cash and cash equivalents at end of period	2 094 301	1 381 925	1 408 972

Summarised Group Segmental Information

	Six months ended 30 June 2006 R'000 Unaudited	Six months ended 30 June 2005 R'000 Unaudited	12 months ended 31 December 2005 R'000 Audited
Segment revenue: ⁽¹⁾			
Retail banking	81 406	64 619	138 968
Treasury	20 957	16 028	31 999
Alliance banking, MBL credit card and structured loans	26 219	16 892	39 470
Other services ⁽²⁾	17 567	23 298	42 114
	146 149	120 837	252 551
Profit after taxation:			
Retail banking ⁽³⁾	49 843	38 399	80 544
Treasury ⁽³⁾	4 359	2 335	8 451
Alliance banking, MBL credit card and structured loans ⁽³⁾	15 143	8 074	14 739
Other services ⁽³⁾⁽⁴⁾	(24 321)	(5 687)	(36 738)
	45 024	43 121	66 996

Notes:

- (1) Segment revenue has been restated for the year ended 31 December 2005 and now excludes net credit recoveries and exceptional items.
- (2) "Other services" includes support divisions, insurance brokers and inter-group eliminations.
- (3) Excludes the allocation of attributable support costs.
- (4) "Other services" includes support divisions, insurance brokers, inter-group eliminations, associate income and exceptional items.

Sponsor

**BRIDGE
CAPITAL**

**Mercantile Bank
Holdings Limited**

Member of CGD Group
Registration number 1989/000164/06