





Mercantile Bank Holdings Limited

("Mercantile" or "the Group")

Audited Results for the year ended 31 December 2006

Highlights

-  Growth in HEPS of 48.0%
-  Total asset growth of 30.6%
-  Lending growth of 41.7%
-  Deposit growth of 34.2%

FINANCIAL OVERVIEW

The Group has continued to achieve strong growth in attributable profit after taxation which has increased by 50.2% for the 2006 financial year compared to the 2005 financial year. Headline earnings per share have in turn increased by 48.0%. These increases have been achieved despite:

- a reduction in net recovery of credit losses from R21.3 million in 2005 to R1.5 million in 2006; and
 - a reduction in recovery of amounts previously written off relating to the CGD guarantees from R23.1 million in 2005 to R8.6 million for the 2006 financial year.
- The growth in earnings is largely attributable to:
- an increase in net interest income of 24.4% generated by growth in lending (net of impairments) of 41.7% and deposits of 34.2%. Overall total asset growth was 30.6%;
 - non-interest income growth of 32.1% mainly in the areas of transactional banking, alliance banking card business and foreign exchange services;
 - continued recoveries of impaired and written off legacy debts. Legacy debt with a gross value of R377.4 million was sold during the year under review resulting in a net release of R7.3 million in impairments upon conclusion of the sale; and
 - cost containment in operating expenses – year on year growth of 0.8%.

ACCOUNTING POLICIES

Basis of preparation

The Group financial results from which these condensed financial statements were derived have been prepared on the historical cost basis excluding financial instruments and properties which are fair valued and conform to International Financial Reporting Standards. The accounting policies are consistent with those applied in the annual financial statements for the financial year ended 31 December 2005. These condensed financial statements have been prepared in terms of IAS 34 – Interim financial reporting.

Audit opinion

The auditors, Deloitte & Touche, have issued their opinion on the Group's financial statements for the year ended 31 December 2006. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. A copy of their audit report is available for inspection at Mercantile's registered office. These summarised financial statements have been derived from the Group financial statements and are consistent in all material respects, with the Group financial statements.

GOING CONCERN

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

DIRECTORATE

Khanya Motshabi resigned from the Board effective 10 November 2006 whilst Manuel Figueira, a Caixa Geral de Depósitos secondee, has resigned from the Board effective 28 February 2007 in order to return to Portugal.

OUTLOOK

With the sale of the bulk of the legacy book during the past year, recoveries on legacy debt will be limited going forward.

Evaluations are still underway for the replacement of our core banking systems at a current estimated cost of approximately R70 – R80 million. The increase in this estimated cost since December 2005 is due to an expanded scope of the project. These cost estimates remain preliminary calculations with a detailed analysis in progress. The project (which is subject to final Board approval) is expected to have a duration of 2 to 3 years.

Whilst tighter monetary conditions are expected to slow the rate of credit growth, 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
27 February 2007

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 Ikalaefeng, 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 Advisors (Pty) Limited, 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

Group Balance Sheet

	2006 R'000 Audited	2005 R'000 Audited
ASSETS		
Intangible assets	11 551	7 020
Property and equipment	94 956	91 305
Investment properties	–	350
Taxation	29	3 698
Other accounts receivable	145 291	14 887
Interest in associated company	3 626	3 323
Other investments	7 209	2 365
Loans and advances	2 066 432	1 458 677
Derivative financial instruments	31 134	36 757
Negotiable securities	405 016	379 028
Cash and cash equivalents	1 683 974	1 408 972
Total assets	4 449 218	3 406 382
EQUITY AND LIABILITIES		
Shareholders' equity	667 418	550 179
Share capital and share premium	1 207 046	1 207 032
Capital redemption reserve fund	3 788	3 788
Share-based payments reserve	3 025	847
General reserve	7 478	7 478
Property revaluation reserve	45 588	36 476
Available-for-sale reserve	5 216	(76)
General credit-risk reserve	13 954	10 835
Accumulated loss	(618 677)	(716 201)
Liabilities	3 781 800	2 856 203
Deposits	3 539 147	2 636 547
Derivative financial instruments	29 189	38 531
Provisions	38 994	31 647
Other accounts payable	174 435	149 478
Taxation	35	–
Total equity and liabilities	4 449 218	3 406 382

Group Income Statement

	2006 R'000 Audited	2005 R'000 Audited (Restated)
Interest income	357 163	248 290
Interest expense	(189 044)	(113 144)
Net interest income before credit recoveries	168 119	135 146
Net recovery of credit losses	1 520	21 287
Net interest income after credit recoveries	169 639	156 433
Net loss on disposal and revaluation of investments	(347)	(498)
Non-interest income ⁽¹⁾	147 520	111 712
Net interest and non-interest income	316 812	267 647
Operating expenditure ⁽¹⁾	(226 040)	(224 286)
Operating profit before exceptional item	90 772	43 361
Recovery of amounts previously written-off in respect of the release of the CGD guarantee	8 602	23 119
Operating profit	99 374	66 480
Share of income from associated company	1 269	516
Profit before taxation	100 643	66 996
Taxation	–	–
Attributable profit after taxation	100 643	66 996
Earnings per ordinary share (cents)	2.56	1.71
Diluted earnings per ordinary share (cents)	2.56	1.70
Dividend per share (cents)	–	–
Reconciliation between attributable profit after taxation and headline earnings		
Attributable profit after taxation	100 643	66 996
Adjustment for:		
Realisation of available-for-sale reserve on disposal of investments	(2)	885
Loss on disposal of property and equipment	2	144
Headline earnings	100 643	68 025
Headline earnings per ordinary share (cents)	2.56	1.73
Diluted headline earnings per ordinary share (cents)	2.56	1.73

Financial Statistics

	2006 Audited	2005 Audited
Number of ordinary shares in issue:		
– end of period ('000)	3 925 208	3 925 126
– weighted average ('000)	3 925 145	3 927 892
– weighted average – diluted ('000)	3 925 145	3 932 811
Return on average equity (%)	16.5	12.7
Return on average assets (%)	2.6	2.2
Cost to income (%)	71.7	91.0
Net asset value per ordinary share (cents)	17.0	14.0
Capital adequacy ratio (%)		
– Consolidated Group	26.4	31.3
– Mercantile Bank Limited	30.1	34.5

Group Contingent Liabilities and Commitments

	2006 R'000 Audited	2005 R'000 Audited
Guarantees and letters of credit	281 064	287 821
Conditional buy-back obligations	–	7 707
Operating lease commitments	10 288	13 742

Summarised Group Statement of Changes in Equity

	2006 R'000 Audited	2005 R'000 Audited
Balance at beginning of year	550 179	500 939
Transitional adjustments on adoption of IFRS	–	(22 952)
Creation of credit risk impairments	–	(22 952)
Movements in reserves	19 701	8 925
Revaluation of owner-occupied property	9 112	5 203
Net transfer to general credit-risk reserve	3 119	2 119
Share-based payments expense	2 178	724
Net transfer to available-for-sale reserve	5 292	879
Movements in accumulated loss	97 524	64 877
Attributable profit after taxation	100 643	66 996
Net transfer to general credit-risk reserve	(3 119)	(2 119)
Movement in share capital and share premium	–	–
Treasury shares on consolidation of share incentive trust	14	(1 610)
Balance at end of year	667 418	550 179

Summarised Group Cash Flow Statement

	2006 R'000 Audited	2005 R'000 Audited
Net cash inflow from operating activities	287 135	276 374
Net cash outflow from investing activities	(12 133)	(16 263)
Net cash inflow for the year	275 002	260 111
Cash and cash equivalents at beginning of year	1 408 972	1 148 861
Cash and cash equivalents at end of year	1 683 974	1 408 972

Summarised Group Segmental Information

	2006 R'000 Audited	2005 R'000 Audited (Restated)
Segment revenue: ⁽²⁾		
Retail banking	180 975	138 586
Treasury	43 093	31 363
Alliance banking, MBL credit card, electronic banking and structured loans	44 098	32 527
Other services ⁽³⁾	47 126	43 884
	315 292	246 360
Attributable profit after taxation:		
Retail banking ⁽⁴⁾	103 687	80 544
Treasury ⁽⁴⁾	14 400	8 451
Alliance banking, MBL credit card, electric banking and structured loans ⁽⁴⁾	31 693	14 739
Other services ^{(4) (5)}	(49 137)	(36 738)
	100 643	66 996

Notes:

- (1) Certain costs incurred by Alliance partners are settled by Mercantile on their behalf and subsequently reimbursed by these Alliance partners to Mercantile. The reimbursements were previously treated as non-interest income and the costs as operating expenditure (2005: R6.2 million). The accounting treatment has been changed for the year ended 31 December 2006 whereby the reimbursements received are offset against the costs incurred. Comparatives have been restated.
- (2) Segment revenue has been restated for the year ended 31 December 2005 and now excludes net credit recoveries and exceptional items.
- (3) "Other services" includes support divisions, insurance brokers and inter-group eliminations.
- (4) Excludes the allocation of attributable support costs.
- (5) "Other services" includes support divisions, insurance brokers, inter-group eliminations, associate income and exceptional items.