

# Unaudited interim results

for the six months ended 30 June 2008



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

# Mercantile Bank Holdings Limited

("Mercantile" or "the Group")

## Financial overview

The Group has continued to record strong growth in profit after taxation which increased by 67% for the first six months of 2008 compared to the six months ended 30 June 2007. Headline earnings per share ("HEPS"), in turn increased by 61%. These results are largely attributable to:

- an increase in net interest income of 49% as a result of the positive endowment effect of higher interest rates, higher capital due to profit retention together with a growth in lending of 33%;
- growth in recurring net fee and commission income of 24% due to increased business activities in retail and commercial banking and treasury;
- a low level of new credit impairments due to the ongoing good performance of the loans and advances book offset by ongoing recoveries from non-performing loans. Non-performing loans and advances as a percentage of total lending has reduced to 2.1% at 30 June 2008 from a level of 3.8% in June 2007;
- costs for the period under review being contained to an increase of 8% versus the comparable six months of 2007. Efficiency continues to improve with the overall cost to income ratio reducing from 59% in June 2007 to the current ratio of 49%. Expenses (e.g. interchange fees; broker fees) incurred directly in the generation of fee and commission income, previously included in operating expenditure, are now deducted from fee and commission income in determining the cost to income ratio and presented accordingly in the income statement. Comparatives have been adjusted; and
- non-recurring gains of R9.8 million on the disposal of VISA shares as part of that entity's public listing versus non-recurring income of R12.8 million realised in the period ended 30 June 2007 pertaining to legacy business.

Return on average equity ("ROE") improved to 27.3% (June 2007: 21.1%) whilst return on average assets ("ROA") was at 5.1% (June 2007: 3.4%). These performance ratios benefited from the non-recurring income mentioned above – adjusting for this non-recurring revenue, the ratios would be cost to income 51% (June 2007: 63%), ROE 25.1% (June 2007: 17.5%) and ROA 4.6% (June 2007: 2.8%), all of which still reflect significant improvements since June 2007.

## Accounting policies

The Group financial results 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 2007. These

## Highlights

- ↑ Growth in profit after taxation of 67%
- ↑ Growth in HEPS of 61%
- ↑ Lending growth of 33%
- ↑ ROE of 27%
- ↑ Improvement in cost to income from 59% to 49%

condensed financial statements have been prepared in terms of IAS 34 – Interim Financial Reporting.

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.

## New banking system

The implementation of the replacement of the core retail banking systems and enhancement/upgrade of current systems architecture has commenced. As previously reported the overall cost of this project was estimated at circa R130 million (excludes analysis costs previously incurred in assessment of the project of R19 million) and is expected to be completed by the third quarter of 2009. Contract terms for the project have

now been settled on a fixed price basis. However the overall cost of the project is expected to increase based on additional work that may be incurred in changes to processes (currently being mapped), increased scope and/or functionality sought, a consequential increase in resources required and any additional unforeseen impact of integration of systems as well as currency fluctuations.

Since the year ended 31 December 2007 expenditure on this project that has been capitalised amounts to:

- property and equipment: R18.4 million; and
- intangible assets: R30.1 million.

## Directorate

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

## Outlook

Lower economic growth rates and tighter monetary conditions are impacting on the level of business activity. These conditions are also expected to increase the levels of credit stress experienced by borrowers. The improvement in the Group's core performance is however expected to continue.

**J A S de Andrade Campos**  
Chairman

**D J Brown**  
Chief Executive Officer

Sandton  
24 July 2008

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

**Group Secretary:** R van Rensburg

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

**Share code:** MTL ISIN: ZAE000064721

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

**Sponsor:** Bridge Capital Advisors (Pty) Limited, 2nd Floor, 27 Fricker Road, Illovo, 2196

## Group Balance Sheet

	30 June 2008 R'000 Unaudited	30 June 2007 R'000 Unaudited	31 December 2007 R'000 Audited
<b>ASSETS</b>			
Intangible assets	53 454	11 939	23 569
Property and equipment	116 047	92 494	96 969
Other accounts receivable	47 122	33 894	23 639
Interest in associated company	4 251	3 626	4 251
Other investments	15 150	2 331	228
Loans and advances	3 074 152	2 309 437	2 814 743
Derivative financial instruments	32 869	34 411	43 814
Negotiable securities	244 239	341 902	275 577
Bank term deposits <sup>(1)</sup>	172 372	327 118	170 618
Cash and cash equivalents <sup>(1)</sup>	1 374 970	1 221 425	1 252 376
<b>Total assets</b>	<b>5 134 686</b>	<b>4 378 577</b>	<b>4 705 784</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	<b>961 553</b>	<b>740 228</b>	<b>839 914</b>
Share capital and share premium	1 207 518	1 207 074	1 207 422
Capital redemption reserve fund	3 788	3 788	3 788
Share-based payments reserve <sup>(2)</sup>	1 654	4 536	7 019
General reserve	7 478	7 478	7 478
Property revaluation reserve	53 705	45 588	53 705
Available-for-sale reserve	13 672	2 059	(48)
General credit-risk reserve <sup>(3)</sup>	(306 262)	(546 846)	(458 853)
Accumulated loss			
<b>Liabilities</b>	<b>4 153 133</b>	<b>3 638 349</b>	<b>3 865 870</b>
Deposits	4 022 427	3 531 320	3 768 183
Derivative financial instruments	14 273	14 998	15 356
Provisions	36 269	34 677	42 435
Other accounts payable	80 048	57 233	39 780
Taxation	116	121	116
<b>Total equity and liabilities</b>	<b>5 134 686</b>	<b>4 378 577</b>	<b>4 705 784</b>

## Group Income Statement

	Six months ended 30 June 2008 R'000 Unaudited	Six months ended 30 June 2007 R'000 Unaudited	12 months ended 31 December 2007 R'000 Audited
Interest income	297 867	213 885	467 247
Interest expense	(154 219)	(117 346)	(250 012)
<b>Net interest income</b>	<b>143 448</b>	<b>96 539</b>	<b>217 235</b>
Net recovery of/(charge for) credit losses	763	(339)	(5 358)
<b>Net interest income after credit recoveries/losses</b>	<b>144 211</b>	<b>96 200</b>	<b>211 877</b>
Net gain on disposal and revaluation of available-for-sale investments	9 838	3 493	5 602
Fee and commission income	117 033	92 958	190 571
Recurring Non-recurring	(117 033)	80 168	175 796
		12 730	15 075
Fee and commission expenditure <sup>(4)</sup>	(32 610)	(12 234)	(28, 841)
<b>Net interest and non-interest income</b>	<b>238 472</b>	<b>180 417</b>	<b>379 509</b>
Operating expenditure <sup>(4)</sup>	(115 306)	(106 496)	(216 978)
<b>Operating profit</b>	<b>123 167</b>	<b>73 921</b>	<b>162 531</b>
Share of income from associated company	1 073	536	2 771
<b>Profit before taxation</b>	<b>124 240</b>	<b>74 457</b>	<b>165 302</b>
Taxation	–	(29)	(29)
<b>Profit after taxation</b>	<b>124 240</b>	<b>74 428</b>	<b>165 273</b>
Earnings per ordinary share (cents)	3.16	1.90	4.21
Diluted earnings per ordinary share (cents)	3.16	1.90	4.21
Dividend per share (cents)	–	–	–
<b>Reconciliation between profit after taxation and headline earnings:</b>			
Profit after taxation	124 240	74 428	165 273
Adjustment for:			
Realisation of available-for-sale reserve on disposal of investments	(9 838)	(3 500)	(5 602)
(Profit)/Loss on disposal of property and equipment	(29)	(11)	13
<b>Headline earnings</b>	<b>114 373</b>	<b>70 917</b>	<b>159 684</b>
Headline earnings per ordinary share (cents)	2.91	1.81	4.07
Diluted headline earnings per ordinary share (cents)	2.91	1.81	4.07

## Financial Statistics

	30 June 2008 Unaudited	30 June 2007 Unaudited	31 December 2007 Audited
Number of ordinary shares in issue:			
– end of period ('000)	3 927 165	3 925 373	3 926 538
– weighted average ('000)	3 926 792	3 925 366	3 925 485
– weighted average diluted ('000)	3 926 792	3 925 366	3 925 485
Return on average equity (%)	27.3	21.1	21.9
Return on average assets (%)	5.1	3.4	3.6
Cost to income (%) <sup>(4)</sup>	48.5	58.9	56.4
Net asset value per ordinary share (cents)	25.0	18.9	21.4

## Group Contingent Liabilities and Commitments

	30 June 2008 R'000 Unaudited	30 June 2007 R'000 Unaudited	31 December 2007 R'000 Audited
Guarantees, letters of credit and committed undrawn facilities	596 538	408 646	634 861
Operating lease commitments	13 487	8 741	7 593

## Summarised Group Statement of Changes in Equity

	Six months ended 30 June 2008 R'000 Unaudited	Six months ended 30 June 2007 R'000 Unaudited	12 months ended 31 December 2007 R'000 Audited
Balance at beginning of period	839 914	667 418	667 418
Movements in reserves	(11 049)	951	12 296
Revaluation of owner-occupied properties	–	–	8 117
Transfer from share-based payments reserve <sup>(2)</sup>	(7 019)	–	–
Share-based payments expense <sup>(2)</sup>	1 654	1 511	3 994
Transfer from/(to) general credit-risk reserve <sup>(3)</sup>	(19 403)	2 597	5 449
Net transfer to/(from) available-for-sale reserve on revaluation and/or realisation	13 720	(3 157)	(5 264)
Movements in accumulated loss	152 591	71 831	159 824
Profit after taxation	124 240	74 428	165 273
Transfer from share-based payments reserve <sup>(2)</sup>	7 019	–	–
Share-based payments expense <sup>(2)</sup>	1 929	–	–
Transfer from/(to) general credit-risk reserve <sup>(3)</sup>	19 403	(2 597)	(5 449)
Movement in share capital and share premium	–	–	–
Reduction of treasury shares held within the Group	96	28	376
<b>Balance at end of period</b>	<b>961 553</b>	<b>740 228</b>	<b>839 914</b>

## Summarised Group Cash Flow Statement

	Six months ended 30 June 2008 R'000 Unaudited	Six months ended 30 June 2007 R'000 Unaudited	12 months ended 31 December 2007 R'000 Audited
Net cash inflow/(outflow) from operating activities	168 173	(47 922)	(7 861)
Net cash (outflow) from investing activities	(45 579)	(1 372)	(10 482)
<b>Net cash inflow/(outflow) for period</b>	<b>122 594</b>	<b>(49 294)</b>	<b>(18 343)</b>
Cash and cash equivalents at beginning of period <sup>(1)</sup>	1 252 376	1 270 719	1 270 719
<b>Cash and cash equivalents at end of period<sup>(1)</sup></b>	<b>1 374 970</b>	<b>1 221 425</b>	<b>1 252 376</b>

## Summarised Group Segmental Information

	Six months ended 30 June 2008 R'000 Unaudited	Six months ended 30 June 2007 R'000 Unaudited	12 months ended 31 December 2007 R'000 Audited
<b>Segment revenue net of fee and commission expenditure<sup>(4)</sup></b>	<b>159 793</b>	<b>111 373</b>	<b>241 602</b>
Retail and Commercial banking <sup>(5)</sup>	22 008	18 051	40 046
Treasury	–	–	–
Alliance banking, MBL credit card and electronic banking <sup>(5)</sup>	22 412	24 423	53 316
Other services <sup>(6)</sup>	33 406	26 909	49 903
<b>Total</b>	<b>237 709</b>	<b>180 756</b>	<b>384 867</b>
<b>Profit after taxation</b>	<b>129 709</b>	<b>81 253</b>	<b>183 740</b>
Retail and Commercial banking <sup>(5)(7)</sup>	13 452	9 724	23 686
Treasury <sup>(7)</sup>	–	–	–
Alliance banking, MBL credit card and electronic banking <sup>(5)(7)</sup>	11 245	8 182	19 231
Other services <sup>(6)</sup>	(30 166)	(24 731)	(61 384)
<b>Total</b>	<b>124 240</b>	<b>74 428</b>	<b>165 273</b>

## Material Related Party Balances and Transactions

	30 June 2008 R'000 Unaudited	30 June 2007 R'000 Unaudited	31 December 2007 R'000 Audited
Net balances with Caixa Geral de Depósitos S.A.	1 067 673	1 344 638	897 792
Interest received from Caixa Geral de Depósitos S.A.	20 833	38 953	73 105

## Explanatory notes:

- Bank term deposits with a residual maturity greater than three months from the reporting date to maturity date are now presented separately in the balance sheet. Comparatives for the six months ended 30 June 2007 and for the year ended 31 December 2007 have been adjusted accordingly.
- With the adoption of IFRIC 11 – IFRS 2: Group and Treasury Transactions, a share-based payments reserve in respect of the Mercantile share option scheme is not required. This reserve has therefore been transferred to accumulated losses and share-based payments expense for this scheme will be processed to accumulated losses with effect from 1 January 2008. In the case of the Mercantile conditional share plan introduced in 2008, a share-based payments reserve will be created to separate the effects of this plan from other classes of reserves for management purposes.
- The new Bank Regulations which were effective 1 January 2008 no longer require general credit-risk reserves which resulted in the balance of this reserve at 31 December 2007 being transferred to accumulated losses in 2008.
- Expenditure directly attributable to fee and commission income, previously included under operating expenditure is now presented separately in the income statement. Comparatives for the six months ended 30 June 2007 and for the year ended 31 December 2007 have been adjusted accordingly.
- Structured loans previously included with Alliance Banking, MBL credit card and electronic banking are now presented as part of Retail and Commercial banking. Comparatives for the six months ended 30 June 2007 and for the year ended 31 December 2007 have been adjusted accordingly.
- "Other services" includes support divisions, surplus capital, insurance brokers and inter-Group eliminations.
- Excludes the allocation of attributable support costs.
- "Other services" includes support divisions, surplus capital, insurance brokers, inter-Group eliminations and associate income.

Sponsor

**BRIDGE CAPITAL**