





# 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

### 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<br>2006<br>R'000<br>Unaudited | 30 June<br>2005<br>R'000<br>Unaudited | 31 December<br>2005<br>R'000<br>Audited |
|-------------------------------------|---------------------------------------|---------------------------------------|---|
| <b>ASSETS</b>                       |                                       |                                       |   |
| 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                               |
| <b>Total assets</b>                 | <b>4 384 263</b>                      | <b>2 972 754</b>                      | <b>3 406 382</b>                        |
| <b>EQUITY AND LIABILITIES</b>       |                                       |                                       |   |
| <b>Shareholders' equity</b>         |                                       |                                       |   |
| 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)                               |
| <b>Liabilities</b>                  | <b>3 787 780</b>                      | <b>2 452 553</b>                      | <b>2 856 203</b>                        |
| 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                                    | -                                       |
| <b>Total equity and liabilities</b> | <b>4 384 263</b>                      | <b>2 972 754</b>                      | <b>3 406 382</b>                        |

### Summarised Group Income Statement

|   | Six months<br>ended<br>30 June<br>2006<br>R'000<br>Unaudited | Six months<br>ended<br>30 June<br>2005<br>R'000<br>Unaudited | 12 months<br>ended<br>31 December<br>2005<br>R'000<br>Audited |
|---|--|--|---|
| Interest income   | 155 460  | 117 331  | 248 290   |
| Interest expense  | (78 361)   | (54 142)   | (113 144)   |
| <b>Net interest income before credit recoveries</b>                                       | <b>77 099</b>  | <b>63 189</b>  | <b>135 146</b>  |
| Net credit recoveries   | 6 161  | 13 319   | 21 287  |
| <b>Net interest income after credit recoveries</b>  | <b>83 260</b>  | <b>76 508</b>  | <b>156 433</b>  |
| Net (loss)/profit on disposal of investments  | (36)   | 592  | (498)   |
| Non-interest income   | 69 086   | 57 056   | 117 903   |
| <b>Net interest and non-interest income</b>   | <b>152 310</b>   | <b>134 156</b>   | <b>273 838</b>  |
| Operating expenditure   | (111 956)  | (114 123)  | (230 477)   |
| <b>Profit before associated companies</b>   | <b>40 354</b>  | <b>20 033</b>  | <b>43 361</b>   |
| Share of income from associated companies   | 215  | -  | 516   |
| <b>Profit before taxation and exceptional items</b>                                       | <b>40 569</b>  | <b>20 033</b>  | <b>43 877</b>   |
| Recovery of amounts previously written-off in respect of the release of the CGD guarantee | 4 455  | 23 119   | 23 119  |
| <b>Profit before taxation</b>   | <b>45 024</b>  | <b>43 152</b>  | <b>66 996</b>   |
| Taxation  | -  | (31)   | -   |
| <b>Profit after taxation</b>  | <b>45 024</b>  | <b>43 121</b>  | <b>66 996</b>   |
| <b>Reconciliation between profit after taxation and headline earnings:</b>                |  |  |   |
| Profit after taxation   | 45 024   | 43 121   | 66 996  |
| <b>Adjustment for:</b>  |  |  |   |
| Realisation of available-for-sale reserve on disposal of investments                      | -  | (614)  | 885   |
| (Profit)/Loss on disposal of property and equipment                                       | (17)   | 51   | 144   |
| <b>Headline earnings</b>  | <b>45 007</b>  | <b>42 558</b>  | <b>68 025</b>   |
| 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<br>2006<br>Unaudited | 30 June<br>2005<br>Unaudited | 31 December<br>2005<br>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<br>2006<br>R'000<br>Unaudited | 30 June<br>2005<br>R'000<br>Unaudited | 31 December<br>2005<br>R'000<br>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<br>ended<br>30 June<br>2006<br>R'000<br>Unaudited | Six months<br>ended<br>30 June<br>2005<br>R'000<br>Unaudited | 12 months<br>ended<br>31 December<br>2005<br>R'000<br>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                    |  |  |   |
| 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                                     |  |  |   |
| 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)   |
| <b>Balance at end of period</b>                           | <b>596 483</b>   | <b>520 201</b>   | <b>550 179</b>  |

### Summarised Group Cash Flow Statement

|   | Six months<br>ended<br>30 June<br>2006<br>R'000<br>Unaudited | Six months<br>ended<br>30 June<br>2005<br>R'000<br>Unaudited | 12 months<br>ended<br>31 December<br>2005<br>R'000<br>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)  |
| <b>Net cash inflow for the period</b>             | <b>685 329</b>   | <b>233 064</b>   | <b>260 111</b>  |
| Cash and cash equivalents at beginning of period  |  |  |   |
|   | 1 408 972  | 1 148 861  | 1 148 861   |
| <b>Cash and cash equivalents at end of period</b> | <b>2 094 301</b>   | <b>1 381 925</b>   | <b>1 408 972</b>  |

### Summarised Group Segmental Information

|  | Six months<br>ended<br>30 June<br>2006<br>R'000<br>Unaudited | Six months<br>ended<br>30 June<br>2005<br>R'000<br>Unaudited | 12 months<br>ended<br>31 December<br>2005<br>R'000<br>Audited |
|--|--|--|---|
| <b>Segment revenue: (1)</b>                                |  |  |   |
| 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  |
|  | <b>146 149</b>   | <b>120 837</b>   | <b>252 551</b>  |
| <b>Profit after taxation:</b>                              |  |  |   |
| 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)  |
|  | <b>45 024</b>  | <b>43 121</b>  | <b>66 996</b>   |

**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.