Mercantile Bank Holdings Limited

("Mercantile" or "the Group")

Audited results for the year ended 31 December 2007

Highlights

- Growth in profit of 64.2%
- Growth in HEPS of 59.0%
- Lending growth of 36.2%
- ROE 21.9%
- Improvement in cost to income from 71.7% to 59.4%

FINANCIAL OVERVIEW

The Group has again recorded a strong growth in profit after taxation, which increased by 64.2% for the 2007 financial year compared to the 2006 financial year. Headline earnings per share increased by 59.0%. These increases are largely attributable to:

- an increase in net interest income (after credit losses) of 24.9% as a result of higher capital due to profit retention, the higher interest rate environment and growth in lending of 36.2%;
- growth in recurring non-interest income of 19.2% from core business activities with strong contributions from card and treasury; and
- non-recurring income of R15 million pertaining to legacy business.

Costs increased year on year by 8.8% of which 5.0% relates directly to costs incurred in generating increased fee income. Efficiency continues to improve with the overall cost to income ratio reducing from 71.7% in December 2006 to the current ratio of 59.4%.

Return on average equity ("ROE") improved to 21.9% (December 2006: 16.5%) whilst return on average assets ("ROA") was at 3.6% (December 2006: 2.6%). These performance ratios benefited from the non-recurring income mentioned above – adjusting for this non-recurring income, the ratios would be cost to income 61.7%, ROE 19.9% and ROA 3.3%, all of which still reflect significant improvements since December 2006.

Total balance sheet growth was constrained due to fluctuations in wholesale treasury activities, which reflected a decrease in wholesale deposits as at December 2007 of approximately R300 million compared to the end of December 2006.

CREDIT RATINGS

Caixa Geral De Depósitors S.A. ("CGD"), which is wholly owned by the Portuguese State, remains the Group's holding company with a shareholding of 91.75%.

CGD is ranked as the world's 114th largest banking institution by assets in a current issue of "The Banker's Almanac". Its short and long-term financial liability ratings were confirmed by the three leading international rating agencies – Fitch Ratings, Moody's and Standard & Poor's, as follows:

	Short term	Long term	Date
Fitch Ratings	F1+	AA–	September 2007
Moody's	P–1	Aa1	October 2007
Standard & Poors	A–1	A+	September 2007

Moody's Investors Service, in their first time rating of Mercantile Bank Limited ("the Bank"), assigned the following national scale issuer ratings to the Bank in February 2008:

Short term	P–1.za
Long term	A2.za

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 2006. 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 2007. 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 financial statements have been prepared on the going concern basis.

DIRECTORATE

As advised in our SENS announcements on 10 January 2007 and 5 December 2007, Manuel Figueira resigned from the Board effective 28 February 2007 and Magid Osman on 21 November 2007, respectively.

NEW BANKING SYSTEM

The Board has approved a project involving both the replacement of our core retail banking systems and the enhancement/upgrade of our current systems architecture at an estimated cost of *circa* R130 million, which includes expenditure on hardware at an estimated level of approximately R19 million. The balance of the expenditure will largely consist of software, development and implementation costs. Costs incurred to date on this project amount to R19 million. The increase in estimated cost since December 2006 is mainly due to an expanded scope in terms of upgrading/enhancing the current systems architecture of the Bank. The cost estimates remain preliminary calculations and could change once the implementation planning together with the various contract negotiations have been finalised. These negotiations will include payment terms but it is anticipated that the project will be funded from cash resources over the period of the project against agreed deliverables.

The *pro forma* effect of the transaction on the tangible net asset value per share of the Group, based on the above cost estimates, is expected to be a decrease of approximately three cents. The *pro forma* effect of the transaction has not been reviewed or reported on by the Group's auditors.

The rationale for this project is based on creating a new systems platform to support the growth of the Group in line with our strategic objectives – the project will result in a more flexible and integrated systems environment enhancing our risk management and controls whilst providing us with greater capacity to compete in the market in the areas of product and service. No profits can be directly attributed to this project but the project drivers outlined above are expected to provide a positive benefit to the Group over time. The project is expected to be completed by the third quarter of 2009.

OUTLOOK

Whilst the prevailing tighter monetary conditions are impacting on the rate of credit growth in the market, 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
22 February 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 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001

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

Sponsor

BRIDGE CAPITAL

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

Group Balance Sheet

	31 December 2007 R'000 Audited	31 December 2006 R'000 Audited
ASSETS		
Intangible assets	**23 569**	11 551
Property and equipment	**96 969**	94 956
Taxation	**–**	29
Other accounts receivable	**23 639**	145 291
Interest in associated company	**4 251**	3 626
Other investments	**228**	7 209
Loans and advances	**2 814 743**	2 066 432
Derivative financial instruments	**43 814**	31 134
Negotiable securities	**275 577**	405 016
Cash and cash equivalents	**1 422 994**	1 683 974
Total assets	**4 705 784**	4 449 218
EQUITY AND LIABILITIES		
Shareholders' equity	**839 914**	667 418
Share capital and share premium	**1 207 422**	1 207 046
Capital redemption reserve fund	**3 788**	3 788
Share-based payments reserve	**7 019**	3 025
General reserve	**7 478**	7 478
Property revaluation reserve	**53 705**	45 588
Available-for-sale reserve	**(48)**	5 216
General credit-risk reserve	**19 403**	13 954
Accumulated loss	**(458 853)**	(618 677)
Liabilities	**3 865 870**	3 781 800
Deposits	**3 768 183**	3 539 147
Derivative financial instruments	**15 356**	29 189
Provisions	**42 435**	38 994
Other accounts payable	**39 780**	174 435
Taxation	**116**	35
Total equity and liabilities	**4 705 784**	4 449 218

Group Income Statement

	2007 R'000 Audited	2006 R'000 Audited
Interest income	**467 247**	357 163
Interest expense	**(250 012)**	(189 044)
Net interest income	**217 235**	168 119
Net (charge for)/recovery of credit losses	**(5 358)**	1 520
Net interest income after credit losses/ recoveries	**211 877**	169 639
Net gain/(loss) on disposal and revaluation of available-for-sale investments	**5 602**	(347)
Non-interest income	**190 871**	147 520
Recurring	**175 796**	147 520
Non-recurring	**15 075**	–
Net interest and non-interest income	**408 350**	316 812
Operating expenditure	**(245 819)**	(226 040)
Operating profit before exceptional item	**162 531**	90 772
Recovery of amounts previously written-off in respect of the release of the CGD guarantee	**–**	8 602
Operating profit	**162 531**	99 374
Share of income from associated company	**2 771**	1 269
Profit before taxation	**165 302**	100 643
Taxation	**(29)**	–
Profit after taxation	**165 273**	100 643
Earnings per ordinary share (cents)	**4.21**	2.56
Diluted earnings per ordinary share (cents)	**4.21**	2.56
Dividend per share (cents)	**–**	–
Reconciliation between profit after taxation and headline earnings		
Profit after taxation	**165 273**	100 643
Adjustment for:		
Realisation of available-for-sale reserve on disposal of investments	**(5 602)**	(2)
Loss on disposal of property and equipment	**13**	2
Headline earnings	**159 684**	100 643
Headline earnings per ordinary share (cents)	**4.07**	2.56
Diluted headline earnings per ordinary share (cents)	**4.07**	2.56

Financial Statistics

	2007 Audited	2006 Audited
Number of ordinary shares in issue:		
– end of year ('000)	**3 926 538**	3 925 208
– weighted average ('000)	**3 925 485**	3 925 145
– weighted average – diluted ('000)	**3 925 485**	3 925 145
Return on average equity (%)	**21.9**	16.5
Return on average assets (%)	**3.6**	2.6
Cost to income (%)	**59.4**	71.7
Net asset value per ordinary share (cents)	**21.4**	17.0
Capital adequacy ratio (%)		
– Mercantile Bank Limited	**26.8**	30.1

Group Contingent Liabilities and Commitments

	2007 R'000 Audited	2006 R'000 Audited
Guarantees, letters of credit and committed undrawn facilities	**634 861**	550 542
Operating lease commitments	**7 593**	10 288

Summarised Group Statement of Changes in Equity

	2007 R'000 Audited	2006 R'000 Audited
Balance at beginning of the year	**667 418**	550 179
Movements in reserves	**12 296**	19 701
Revaluation of owner-occupied property	**8 117**	9 112
Net transfer to general credit-risk reserve	**5 449**	3 119
Share-based payments expense	**3 994**	2 178
Net transfer (from)/to available-for-sale reserve	**(5 264)**	5 292
Movements in accumulated loss	**159 824**	97 524
Profit after taxation	**165 273**	100 643
Net transfer to general credit-risk reserve	**(5 449)**	(3 119)
Movement in share capital and share premium		
Reduction of treasury shares held within the Group	**376**	14
Balance at end of year	**839 914**	667 418

Summarised Group Cash Flow Statement

	2007 R'000 Audited	2006 R'000 Audited
Net cash (outflow)/inflow from operating activities	**(250 498)**	287 135
Net cash (outflow) from investing activities	**(10 482)**	(12 133)
Net cash (outflow)/inflow for the year	**(260 980)**	275 002
Cash and cash equivalents at beginning of the year	**1 683 974**	1 408 972
Cash and cash equivalents at end of the year	**1 422 994**	1 683 974

Summarised Group Segmental Information

	2007 R'000 Audited	2006 R'000 Audited
Segment revenue		
Retail banking	**236 656**	180 975
Treasury	**58 415**	43 093
Alliance banking, MBL credit card, electronic banking and structured loans	**68 730**	44 098
Other services [1]	**49 907**	47 126
	413 708	315 292
Profit after taxation		
Retail banking [2]	**175 631**	103 687
Treasury [2]	**23 686**	14 400
Alliance banking, MBL credit card, electronic banking and structured loans [2]	**27 340**	31 693
Other services [3]	**(61 384)**	(49 137)
	165 273	100 643

The lower attributable profit from Alliance banking is mainly due to certain allocated costs in 2006 now treated as direct costs. In addition this segment benefited from a provision release in 2006 against provisions raised in the current year.

Notes:

(1) "Other services" includes support divisions, insurance brokers and inter-group eliminations.

(2) Excludes the allocation of attributable support costs.

(3) "Other services" includes support divisions, insurance brokers, inter-group eliminations, associate income and exceptional item.

Material Related Party Balances and Transactions

Balances with CGD at year end are R898 million (2006: R1 456 million) and interest received amounts to R73 million (2006: R80 million).