

SALIENT FEATURES

- Growth in NAV per share of 10.7%
- Headline earnings down by 32.0%
- Net recovery in credit impairments



**Mercantile Bank
Holdings Limited**

Member of CGD Group
("the Group")

Registration number 1989/000164/06

CONDENSED UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL OVERVIEW

The Group recorded a decrease of 32.0% in headline earnings for the six months ended 30 June 2010 compared to the six months ended 30 June 2009.

This decline is mainly attributable to:

- a decrease in net interest income (before credit losses) of 7.7% as a result of the negative endowment effect on the Group's significant capital base and other non-interest-bearing deposits;
- the general lower level of business activity in the reporting period with loans and advances increasing by 1.9% and deposits by 3.3%;
- a decline in net non-interest income of 20.1%, primarily due to the termination by Woolworths Financial Services of its card processing agreement in October 2009 following the sale of a controlling stake in its financial services business to a competitor bank; and
- an increase in operating expenditure of 10.4% largely driven by a higher depreciation charge following the implementation of a new core banking system.

A net recovery of credit impairments reflects the ongoing sound performance of the loans and advances book.

Cost to income increased from 49.7% in June 2009 to 63.1% in June 2010 whilst both ROE at 7.6% (June 2009: 12.6%) and ROA at 1.9% (June 2009: 2.9%) declined reflecting the weaker market conditions, a higher systems cost base and lower earnings of the Group.

CREDIT RATINGS

Moody's Investors Service confirmed the following RSA national scale issuer ratings of Mercantile Bank Limited on 11 June 2010:

Short term	P-1.za
Long term	A2.za
Outlook	Stable

ACCOUNTING POLICIES

These condensed consolidated financial statements have been prepared under the historical cost conventions excluding financial instruments and properties which are fair valued and the accounting policies are in accordance with International Financial Reporting Standards. These condensed financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting. The same accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the financial year ended 31 December 2009.

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.

BLACK ECONOMIC EMPOWERMENT AND MERGER NEGOTIATIONS

Discussions with the two short-listed candidates for the sale of 10% of the Group's equity have been deferred pending the outcome of the proposed merger negotiations underway with Sasfin Holdings Limited.

NEW BANKING SYSTEM

The new core banking system went live in April 2010 at a cost of R242 million.

DIRECTORATE

Mr K R Kumbier was appointed as Executive Director: Finance and Business with effect 1 June 2010.

Ms A de Villiers was appointed as company secretary with effect 1 January 2010.

OUTLOOK

The ongoing uncertainty in the rate of recovery in local and global markets makes the remainder of 2010 challenging. In addition, the termination of the Woolworths Financial Services card processing agreement will continue to place pressure on fee income. Cost pressures will in turn be experienced with the ongoing depreciation charge for the new banking system.

The outlook for the Group over the medium term remains positive.

J A S de Andrade Campos Chairman	D J Brown Chief Executive Officer	Sandton 29 July 2010
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Condensed consolidated statement of financial position

	30 June 2010 R'000 Unaudited	30 June 2009 R'000 Unaudited	31 December 2009 R'000 Audited
ASSETS			
Intangible assets	218 349	125 171	170 325
Property and equipment	128 477	125 641	131 483
Tax	26	-	256
Other accounts receivable	112 181	40 585	29 539
Other investments	21 312	12 121	23 590
Deferred tax assets	82 052	125 104	102 936
Non-current assets held for sale	3 234	3 234	5 510
Loans and advances	3 737 952	3 667 891	3 629 574
Derivative financial instruments	15 498	71 279	21 406
Negotiable securities	261 555	293 112	267 902
Bank term deposits	243 372	93 277	35 276
Cash and cash equivalents	1 129 091	1 080 317	1 400 937
Total assets	5 953 099	5 637 732	5 818 734
EQUITY AND LIABILITIES			
Shareholders' equity	1 492 203	1 350 606	1 437 671
Share capital and share premium	1 202 571	1 202 571	1 202 571
Share-based payments reserve	2 613	5 170	1 894
Property revaluation reserve	52 708	46 364	52 708
Available-for-sale reserve	11 374	10 551	13 883
Capital redemption reserve fund	3 788	3 788	3 788
General reserve	7 478	7 478	7 478
Retained income	211 671	74 684	155 349
Non-current liability			
Deferred tax liabilities	19 747	14 854	18 870
Liabilities	4 441 149	4 272 272	4 362 193
Deposits	4 281 326	4 143 743	4 246 598
Derivative financial instruments	15 322	22 693	16 230
Provisions	29 525	28 937	38 142
Other accounts payable	114 976	76 415	61 153
Tax	-	484	70
Total equity and liabilities	5 953 099	5 637 732	5 818 734

Condensed consolidated statement of comprehensive income

	Six months ended 30 June 2010 R'000 Unaudited	Six months ended 30 June 2009 R'000 Unaudited	12 months ended 31 December 2009 R'000 Audited
Interest income	224 358	291 684	529 584
Interest expense	(95 361)	(151 891)	(261 315)
Net interest income	128 997	139 793	268 269
Net recovery of/(charge for) credit losses	864	(6 749)	(9 323)
Net interest income after credit losses	129 861	133 044	258 946
Net gain on disposal of available-for-sale investments	885	1 583	1 583
Net non-interest income	79 758	99 814	200 059
Non-interest income	125 271	138 290	287 909
Fee and commission expenditure	(45 513)	(38 476)	(87 850)
Net interest and non-interest income	210 504	234 441	460 588
Operating expenditure	(132 346)	(119 872)	(247 578)
Operating profit	78 158	114 569	213 010
Share of income from associated company	-	-	4 059
Profit before tax	78 158	114 569	217 069
Tax	(22 307)	(32 172)	(54 867)
Profit after tax	55 851	82 397	162 202
Other comprehensive (loss)/income			
Revaluation of owner-occupied properties	-	-	8 812
(Losses)/Gains on remeasurement to fair value	(2 033)	(1 308)	2 576
Release to income on disposal of available-for-sale financial assets	(885)	(1 583)	(1 583)
Tax relating to other comprehensive loss/income	409	406	(2 614)
Other comprehensive (loss)/income net of tax	(2 509)	(2 485)	7 191
Total comprehensive income	53 342	79 912	169 393
Profit after tax attributable to:			
Equity holders of the Group	55 851	82 397	162 202
Total comprehensive income attributable to:			
Equity holders of the Group	53 342	79 912	169 393
Earnings per ordinary share (cents)	1.4	2.1	4.1
Diluted earnings per ordinary share (cents)	1.4	2.1	4.1

Headline earnings

Restated reconciliation between profit after tax and headline earnings⁽¹⁾

	Six months ended 30 June 2010 R'000 Unaudited	Six months ended 30 June 2009 R'000 Unaudited	12 months ended 31 December 2009 R'000 Audited
Profit after tax	55 851	82 397	162 202
Adjustment for non-headline items:			
Realisation of available-for-sale reserve on disposal of investments	(885)	(1 583)	(1 583)
Loss on disposal of property and equipment	-	14	14
Tax on non-headline items ⁽¹⁾	124	218	218
Restated headline earnings⁽¹⁾	55 090	81 046	160 851
Headline earnings per ordinary share (cents)	1.4	2.1	4.1
Diluted headline earnings per ordinary share (cents)	1.4	2.1	4.1

Financial statistics

	30 June 2010 Unaudited	30 June 2009 Unaudited	31 December 2009 Audited
Number of ordinary shares in issue:			
- end of the period ('000)	3 911 114	3 911 114	3 911 114
- weighted average ('000)	3 911 114	3 911 114	3 911 114
- weighted average – diluted ('000)	3 936 208	3 911 114	3 928 895
Return on average equity (%)	7.6	12.6	12.0
Return on average assets (%)	1.9	2.9	2.8
Cost to income (%)	63.1	49.7	52.7
Net asset value per ordinary share (cents)	38.2	34.5	36.8
Tangible net asset value per ordinary share (cents)	32.6	31.3	32.4

Condensed consolidated statement of changes in equity

	Six months ended 30 June 2010 R'000 Unaudited	Six months ended 30 June 2009 R'000 Unaudited	12 months ended 31 December 2009 R'000 Audited
Share capital and share premium	1 202 571	1 202 571	1 202 571
Share-based payments reserve	1 894	4 650	4 650
Balance at beginning of the period	719	520	(2 756)
Balance at end of the period	2 613	5 170	1 894
Property revaluation reserve	52 708	46 364	46 364
Balance at beginning of the period	-	-	8 812
Other comprehensive income	-	-	(2 468)
Tax relating to other comprehensive income	-	-	(2 468)
Balance at end of the period	52 708	46 364	52 708
Available-for-sale reserve	13 883	13 036	13 036
Balance at beginning of the period	(2 918)	(2 891)	993
Other comprehensive (loss)/income	409	406	(146)
Tax relating to other comprehensive loss/income	11 374	10 551	13 883
Balance at end of the period	11 266	11 266	11 266
Retained income/(Accumulated loss)	155 349	(8 857)	(8 857)
Balance at beginning of the period	55 851	82 397	162 202
Share-based payments expense	471	1 144	2 004
Balance at end of the period	211 671	74 684	155 349
Total equity	1 437 671	1 269 030	1 269 030
Balance at beginning of the period	1 190	1 664	(752)
Share-based payments expense	55 851	82 397	162 202
Profit after tax	(2 509)	(2 485)	7 191
Other comprehensive (loss)/income net of tax	1 492 203	1 350 606	1 437 671

Share capital and share premium

Balance at beginning and end of the period	1 202 571	1 202 571	1 202 571
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Share-based payments reserve

Balance at beginning of the period	1 894	4 650	4 650
Share-based payments expense	719	520	(2 756)
Balance at end of the period	2 613	5 170	1 894

Property revaluation reserve

Balance at beginning of the period	52 708	46 364	46 364
Other comprehensive income	-	-	8 812
Tax relating to other comprehensive income	-	-	(2 468)
Balance at end of the period	52 708	46 364	52 708

Available-for-sale reserve

Balance at beginning of the period	13 883	13 036	13 036
Other comprehensive (loss)/income	(2 918)	(2 891)	993
Tax relating to other comprehensive loss/income	409	406	(146)
Balance at end of the period	11 374	10 551	13 883

Capital redemption reserve fund and general reserve

Balance at beginning and end of the period	11 266	11 266	11 266
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Retained income/(Accumulated loss)

Balance at beginning of the period	155 349	(8 857)	(8 857)
Profit after tax	55 851	82 397	162 202
Share-based payments expense	471	1 144	2 004
Balance at end of the period	211 671	74 684	155 349

Total equity

Balance at beginning of the period	1 437 671	1 269 030	1 269 030
Share-based payments expense	1 190	1 664	(752)
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Other comprehensive (loss)/income net of tax	(2 509)	(2 485)	7 191
Balance at end of the period	1 492 203	1 350 606	1 437 671

Condensed consolidated statement of cash flows

	Six months ended 30 June 2010 R'000 Unaudited	Six months ended 30 June 2009 R'000 Unaudited	12 months ended 31 December 2009 R'000 Audited
Net cash (outflow)/inflow from operating activities	(212 572)	(332 947)	41 241
Net cash (outflow) from investing activities	(59 274)	(51 695)	(105 263)
Net cash (outflow) for the period	(271 846)	(384 642)	(64 022)
Cash and cash equivalents at beginning of the period	1 400 937	1 464 959	1 464 959
Cash and cash equivalents at end of the period	1 129 091	1 080 317	1 400 937

Condensed Group segmental information

	Six months ended 30 June 2010 R'000 Unaudited	Six months ended 30 June 2009 R'000 Unaudited	12 months ended 31 December 2009 R'000 Audited
Segment revenue net of fee and commission expenditure			
Revenue from external customers			
Retail and Commercial banking	136 225	145 325	291 779
Treasury	29 602	25 202	45 224
Alliance banking, MBL credit card and electronic banking	15 823	33 672	63 055
Other services ⁽²⁾	27 990	36 991	69 853
	209 640	241 190	469 911
Segment result – operating profit⁽³⁾	89 114	96 407	197 583
Retail and Commercial banking	19 181	14 247	25 888
Treasury	3 429	21 354	39 583
Alliance banking, MBL credit card and electronic banking	(33 566)	(17 439)	(50 044)
Other services ⁽²⁾	78 158	114 569	213 010
Share of income from associated company	-	-	4 059
Profit before tax	78 158	114 569	217 069
Tax	(22 307)	(32 172)	(54 867)
Profit after tax	55 851	82 397	162 202

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Other services ⁽²⁾	27 990	36 991	69 853
	209 640		