

# Mercantile Bank Holdings Limited

("Mercantile" or "the Group")

## Unaudited Interim Results for the six months ended 30 June 2007

### Highlights

- ↑ Growth in attributable profit of 65.3%
- ↑ Growth in HEPS of 57.4%
- ↑ Lending growth of 35.6%
- ↑ ROE 21.1%
- ↑ Improvement in cost to income from 75.7% to 61.5%

### FINANCIAL OVERVIEW

The Group has again recorded a strong growth in attributable profit after taxation which increased by 65.3% for the first six months of 2007 compared to the six months ended June 2006. Headline earnings per share in turn increased by 57.4%. These increases are largely attributable to:

- an increase in net interest income of 25.2% as a result of higher capital due to profit retention together with a growth in lending of 35.6%;
- growth in recurring non-interest income of 25.9% from core business activities with strong contributions from all the business segments;
- non-recurring income of R12.8 million pertaining to legacy business.

Costs for the period under review increased by 11.4% versus the comparable six months of 2006. Of this increase, 4% relates directly to costs incurred in generating increased fee income. Efficiency continues to improve with the overall cost to income ratio reducing from 75.7% in June 2006 to the current ratio of 61.5%.

Return on average equity ("ROE") improved to 21.1% (June 2006: 15.7%) whilst return on average assets ("ROA") was at 3.4% (June 2006: 2.3%). These performance ratios benefited from the non-recurring income mentioned above - adjusting for this non-recurring revenue, the ratios would be cost to income 65.9%, ROE 17.5% and ROA 2.8%, all of which still reflect significant improvements since June 2006.

Total balance sheet growth was constrained due to fluctuations in wholesale treasury activities which reflected a decrease in wholesale deposits as at June 2007 of circa R400m and R200m compared to the end of June 2006 and December 2006, respectively.

### 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 2006. These 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.

### DIRECTORATE

As advised in our SENS announcement on 10 January 2007, Manuel Figueira resigned from the Board effective 28 February 2007. There were no further changes to the Board of Directors during the period under review.

### OUTLOOK

The evaluations underway for the replacement of our core banking systems at a current estimated cost of approximately R70m - R80m are expected to be completed prior to year-end, when a decision on this project will be finalised.

Whilst the higher interest rate environment is expected to slow the rate of credit growth, economic conditions remain positive and the Group's core performance is expected to continue to improve.

**J A S de Andrade Campos** **D J Brown**  
Chairman Chief Executive Officer

Sandton  
27 July 2007

**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, 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, 2nd Floor, 27 Fricker Road, Illovo, 2196

Sponsor

BRIDGE  
CAPITAL

**Mercantile Bank  
Holdings Limited**  
Member of CGD Group  
Registration number 198900016406

### Group Balance Sheet

	30 June 2007 R'000 Unaudited	30 June 2006 R'000 Unaudited	31 December 2006 R'000 Audited
<b>ASSETS</b>			
Intangible assets	11 939	5 349	11 551
Property and equipment	92 494	93 010	94 956
Taxation	-	29	
Other accounts receivable	33 894	66 385	145 291
Interest in associated company	3 626	3 323	3 626
Other investments	2 331	1 929	7 209
Loans and advances	2 309 437	1 703 585	2 066 432
Derivative financial instruments	34 411	26 520	31 134
Negotiable securities	341 902	389 832	405 016
Cash and cash equivalents	1 548 543	2 094 301	1 683 974
<b>Total assets</b>	<b>4 378 577</b>	<b>4 384 263</b>	<b>4 449 218</b>

### EQUITY AND LIABILITIES

	30 June 2007 R'000 Unaudited	30 June 2006 R'000 Unaudited	31 December 2006 R'000 Audited
<b>Shareholders' equity</b>	<b>740 228</b>	<b>596 483</b>	<b>667 418</b>
Share capital and share premium	1 207 074	1 207 032	1 207 046
Capital redemption reserve fund	3 788	3 788	3 788
Share-based payments reserve	4 536	2 121	3 025
General reserve	7 478	7 478	7 478
Property revaluation reserve	45 588	36 476	45 588
Available-for-sale reserve	2 059	(70)	5 216
General credit-risk reserve	16 551	11 933	13 954
Accumulated loss	(546 846)	(672 275)	(618 677)
<b>Liabilities</b>	<b>3 638 349</b>	<b>3 787 780</b>	<b>3 781 800</b>
Deposits	3 531 320	3 409 796	3 539 147
Derivative financial instruments	14 998	153 344	29 189
Provisions	34 677	26 406	38 994
Other accounts payable	57 233	198 200	174 435
Taxation	121	34	35
<b>Total equity and liabilities</b>	<b>4 378 577</b>	<b>4 384 263</b>	<b>4 449 218</b>

### Group Income Statement

	6 months ended 30 June 2007 R'000 Unaudited	6 months ended 30 June 2006 R'000 Unaudited (Restated)	12 months ended 31 December 2006 R'000 Audited
Interest income	213 885	155 460	357 163
Interest expense	(117 346)	(78 361)	(189 044)
<b>Net interest income</b>	<b>96 539</b>	<b>77 099</b>	<b>168 119</b>
Net (charge for)/recovery of credit losses	(339)	6 161	1 520
<b>Net interest income after credit losses/ recoveries</b>	<b>96 200</b>	<b>83 260</b>	<b>169 639</b>
Net profit/(loss) on disposal and revaluation of investments	3 493	(36)	(347)
Non-interest income <sup>(1)</sup>	80 168	63 696	147 520
Recurring	12 790	-	-
Non-recurring	-	-	-
<b>Net interest and non-interest income</b>	<b>192 651</b>	<b>146 920</b>	<b>316 812</b>
Operating expenditure <sup>(1)</sup>	(118 730)	(106 566)	(226 040)
<b>Operating profit before exceptional item</b>	<b>73 921</b>	<b>40 354</b>	<b>90 772</b>
Recovery of amounts previously written-off in respect of the release of the CGD guarantee	-	4 455	8 602
<b>Operating profit</b>	<b>73 921</b>	<b>44 809</b>	<b>99 374</b>
Share of income from associated company	536	215	1 269
<b>Profit before taxation</b>	<b>74 457</b>	<b>45 024</b>	<b>100 643</b>
Taxation	(29)	-	-
<b>Attributable profit after taxation</b>	<b>74 428</b>	<b>45 024</b>	<b>100 643</b>
Earnings per ordinary share (cents)	1.90	1.15	2.56
Diluted earnings per ordinary share (cents)	1.90	1.14	2.56
Dividend per share (cents)	-	-	-

### Reconciliation between attributable profit after taxation and headline earnings

	30 June 2007 R'000 Unaudited	30 June 2006 R'000 Unaudited	31 December 2006 R'000 Audited
Attributable profit after taxation	74 428	45 024	100 643
<b>Adjustment for:</b>			
Realisation of available-for-sale reserve on disposal of investments	(3 500)	-	(2)
(Profit)/Loss on disposal of property and equipment	(11)	(17)	2
<b>Headline earnings</b>	<b>70 917</b>	<b>45 007</b>	<b>100 643</b>
Headline earnings per ordinary share (cents)	1.81	1.15	2.56
Diluted headline earnings per ordinary share (cents)	1.81	1.14	2.56

### Financial Statistics

	30 June 2007 Unaudited	30 June 2006 Unaudited	31 December 2006 Audited
Number of ordinary shares in issue:			
- end of period ('000)	3 925 373	3 925 126	3 925 208
- weighted average ('000)	3 925 366	3 925 126	3 925 145
- weighted average - diluted ('000)	3 925 366	3 939 474	3 925 145
Return on average equity (%)	21.1	15.7	16.5
Return on average assets (%)	3.4	2.3	2.6
Cost to income (%)	61.5	75.7	71.7
Net asset value per ordinary share (cents)	18.9	15.2	17.0
Capital adequacy ratio (%)			
- Mercantile Bank Limited	31.2	32.9	30.1

### Group Contingent Liabilities and Commitments

	30 June 2007 R'000 Unaudited	30 June 2006 R'000 Unaudited	31 December 2006 R'000 Audited
Guarantees and letters of credit	408 646	293 540	281 064
Operating lease commitments	8 741	15 932	10 288

### Summarised Group Statement of Changes in Equity

	6 months ended 30 June 2007 R'000 Unaudited	6 months ended 30 June 2006 R'000 Unaudited	12 months ended 31 December 2006 R'000 Audited
Balance at beginning of period	667 418	550 179	550 179
Movements in reserves	951	2 378	19 701
Revaluation of owner-occupied property	-	-	9 112
Net transfer to general credit-risk reserve	2 597	1 098	3 119
Share-based payments expense	1 511	1 274	2 178
Net transfer (from)/to available-for-sale reserve	(3 157)	6	5 292
Movements in accumulated loss	71 831	43 926	97 524
Attributable profit after taxation	74 428	45 024	100 643
Net transfer to general credit-risk reserve	(2 597)	(1 098)	(3 119)
Movement in share capital and share premium			
Treasury shares on consolidation of share incentive trust	28	-	14
<b>Balance at end of period</b>	<b>740 228</b>	<b>596 483</b>	<b>667 418</b>

### Summarised Group Cash Flow Statement

	6 months ended 30 June 2007 R'000 Unaudited	6 months ended 30 June 2006 R'000 Unaudited	12 months ended 31 December 2006 R'000 Audited
Net cash (outflow)/inflow from operating activities	(134 059)	691 379	287 135
Net cash (outflow) from investing activities	(1 372)	(6 050)	(12 133)
<b>Net cash (outflow)/inflow for the period</b>	<b>(135 431)</b>	<b>685 329</b>	<b>275 002</b>
Cash and cash equivalents at beginning of period	1 683 974	1 408 972	1 408 972
<b>Cash and cash equivalents at end of period</b>	<b>1 548 543</b>	<b>2 094 301</b>	<b>1 683 974</b>

### Summarised Group Segmental Information

	6 months ended 30 June 2007 R'000 Unaudited	6 months ended 30 June 2006 R'000 Unaudited (Restated)	12 months ended 31 December 2006 R'000 Audited
<b>Segment revenue:</b> <sup>(1)</sup>			
Retail banking	107 940	81 406	180 975
Treasury	26 228	17 273	43 093
Alliance banking, MBL credit card, electronic banking and structured loans	31 912	20 829	44 098
Other services <sup>(2)</sup>	26 910	21 251	47 126
<b>Attributable profit after taxation:</b>			
Retail banking <sup>(3)</sup>	75 709	49 843	103 687
Treasury <sup>(3)</sup>	9 724	4 359	14 400
Alliance banking, MBL credit card, electronic banking and structured loans <sup>(3)</sup>	13 726	15 143	31 693
Other services <sup>(4)</sup>	(24 731)	(24 321)	(49 137)
<b>Total</b>	<b>74 428</b>	<b>45 024</b>	<b>100 643</b>

(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. The accounting treatment changed for the year ended 31 December 2006 whereby the reimbursements received are offset against the costs incurred.

Comparatives for the six months ended 30 June 2006 have therefore been restated.

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

(3) Excludes the allocation of attributable support costs.

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 the first six months of 2006 against provisions raised in the current period.

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