SALIENT FEATURES

- Growth in NAV per share of 13.3%
- Growth in lending of 6.6%
- Impairments as a % of gross lending at 0.3%
- Growth in net non-interest income of 9.3%
- Reduction in costs of 2.2%
- HEPS before tax down by 12.7%

Mercantile Bank Holdings Limited
Member of CGD Group
("Mercantile" or "the Group")
Registration number 1989/000164/06

Condensed Audited Results for the year ended 31 December 2009

FINANCIAL OVERVIEW

Before tax performance

Industry conditions for the banking sector during 2009 were particularly difficult being characterised by a significant drop in economic activity with GDP declining, substantial increases in bad debts and sharp reductions in interest rates with the prime rate reducing from 15.5% in early December 2008 to 10.5% in August 2009. This has resulted in most domestic banks posting significant declines in 2009 profits.

Against this background the Group recorded a decrease in HEPS of 12.7% for the 2009 financial year which is largely attributable to:

- a decrease in net interest income (before credit losses) of 17.2% as a result of the negative endowment effect of lower interest rates, a squeeze in margins due to higher cost of deposits and little change in the balance sheet with lending up 6.6% and deposits down 3.3%; and
- an increase in impairments for credit losses of R2.7 million in line with tougher market conditions. Notwithstanding this increase, impairments were still at an acceptable level of 0.3% of gross lending. Non-performing loans and advances as a percentage of gross lending was 5.4% at December 2009 (December 2008: 3.8%).

The above negative impact on earnings was partially offset by:

- growth in non-interest income (net of costs) of 9.3% from core business activities; and
- cost containment with costs declining 2.2%. Cost savings were largely achieved due to lower bonus and share plan costs in line with the decline of the Group's results partly offset by higher consulting fees in Information Technology associated with services related to the new systems infrastructure being implemented for the Group.

Cost to income increased from 49.0% in December 2008 to 52.7% in December 2009 whilst both ROE at 17.5% (December 2008: 26.2%) and ROA at 3.8% (December 2008: 4.9%) declined reflecting the weaker market conditions and lower earnings of the Group.

After tax performance: recognition of deferred tax

In accordance with IFRS the Group deemed it appropriate to recognise deferred tax at the end of 2008 mainly in respect of tax losses incurred in the financial years prior to 2005. This recognition resulted in a once-off deferred tax credit of R162.2 million for the year ended 31 December 2008. Consequently, for the year ended 31 December 2009 there was no such deferred tax credit and the Group recognised a tax charge, making after tax performance for the two reporting periods ended 31 December 2008 and 2009 not comparable.

CREDIT RATINGS

Moody's Investors Service confirmed the following RSA national scale issuer ratings to the Bank in September 2009:

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 2008, except for the impact of the adoption of Standards and Interpretations described below:

- IAS 1 (revised 2007) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) has introduced a number of terminology changes and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has had no impact on the reported results or financial position of the Group.
- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2009) which is a disclosure standard, was amended with enhancements to disclosures about fair value and liquidity risk. These amendments have had no material impact on the disclosure of fair value and liquidity risk.
- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009) which is a disclosure Standard, requires operating segments within the Group to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The adoption of IFRS 8 has had no impact on the identification of the Group's reportable segments, reported results or financial position.
- Improvements to IFRS (issued in May 2008) include 35 amendments across 20 different Standards that largely clarify the required accounting treatment where previous practice had varied, and have resulted in a number of changes in the detail of the Group's accounting policies. These amendments have had no material impact on the Group's accounting policies.

AUDIT OPINION

The independent auditors, Deloitte & Touche, have issued their unmodified opinion on the Group's financial statements for the year ended 31 December 2009. The audit was conducted in accordance with International Standards on Auditing. A copy of their audit report is available for inspection at Mercantile's registered office. These condensed 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.

SUBSEQUENT EVENTS

No material events have occurred between the accounting date and the date of this report that require adjustment to or disclosure in the annual financial statements.

BLACK ECONOMIC EMPOWERMENT

Discussions are at an advanced stage with two short listed candidates for empowerment at shareholder level, and it is anticipated that a transaction could be concluded for the sale of 10% of the Group's equity over the ensuing months.

NEW BANKING SYSTEM

The implementation of the new core retail banking systems and enhancement/upgrade of current systems architecture is well underway with a go-live date planned for April 2010. Expenditure capitalised on this project as at 31 December 2009 is as follows:

- property and equipment: R20.8 million; and
- intangible assets: R164.4 million

The overall project cost has increased since the interim results report at June 2009 from an estimated R210 million to an estimated R245 million. The main reasons for the increased costs are:

- significant increase in time and resources spent on testing the system;
- higher spend on creating and implementing the infrastructure required; and
- higher costs incurred in training of users.

The project is funded from cash resources against agreed deliverables.

The pro forma effect of the transaction on the tangible net asset value per share of the Group at 31 December 2009, based on the above revised cost estimates, is expected to be a decrease of approximately 1.6 cents versus the estimated decrease previously reported for December 2008 of 2.6 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 remains the creation of 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.

DIRECTORATE

Ms R van Rensburg resigned as company secretary with effect 31 July 2009. An acting secretary was appointed on contract for the period 1 September 2009 to 31 December 2009. Ms A de Villiers was appointed with effect 1 January 2010.

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

OUTLOOK

The slow rate of recovery in the South African economy following the global financial crisis in 2008/2009 will make 2010 a challenging year. In addition, the termination by Woolworths Financial Services of its card processing agreement in October 2009, following the sale of a controlling stake in the business to a competitor bank, will put pressure on the rate of growth in fee income during the coming year. Cost pressures will also be experienced in the short term due to the implementation and consequent depreciation charge for the new banking system. Over the medium to longer term the costs associated with this investment are expected to be offset by increased growth in volume of business.

J A S de Andrade Campos	D J Brown	Sandton
Chairman	**Chief Executive Officer**	**25 February 2010**

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, T H Njikizana°, S Rapeti ** Portuguese ° Zimbabwean*
Group Secretary:	A de Villiers
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

BRIDGE CAPITAL

Condensed consolidated statement of financial position

	2009 R'000 Audited	2008 R'000 Audited
ASSETS		
Intangible assets	170 325	76 894
Property and equipment	131 483	128 672
Tax	256	-
Other accounts receivable	29 539	39 273
Other investments	23 590	12 315
Deferred tax assets	102 936	157 275
Non-current assets held for sale	5 510	5 289
Loans and advances	3 629 574	3 403 789
Derivative financial instruments	21 406	56 873
Negotiable securities	267 902	247 141
Bank term deposits	35 276	324 295
Cash and cash equivalents	1 400 937	1 464 959
Total assets	5 818 734	5 916 775
EQUITY AND LIABILITIES		
Shareholders' equity	1 437 671	1 269 030
Share capital and share premium	1 202 571	1 202 571
Share-based payments reserve	1 894	4 650
Property revaluation reserve	52 708	46 364
Available-for-sale reserve	13 883	13 036
Capital redemption reserve fund	3 788	3 788
General reserve	7 478	7 478
Retained income/(Accumulated loss)	155 349	(8 857)
Non-current liability		
Deferred tax liabilities	18 870	15 259
Liabilities	4 362 193	4 632 486
Deposits	4 246 598	4 389 347
Derivative financial instruments	16 230	95 091
Provisions	38 142	48 596
Other accounts payable	61 153	98 958
Tax	70	494
Total equity and liabilities	5 818 734	5 916 775

Condensed consolidated statement of comprehensive income

	2009 R'000 Audited	2008 R'000 Audited
Interest income	529 584	661 776
Interest expense	(261 315)	(337 813)
Net interest income	268 269	323 963
Net charge for credit losses	(9 323)	(6 618)
Net interest income after credit losses	258 946	317 345
Net gain on disposal of available-for-sale investments	1 583	9 837
Net non-interest income	200 059	183 035
Non-interest income	287 909	260 003
Fee and commission expenditure	(87 850)	(76 968)
Net interest and non-interest income	460 588	510 217
Operating expenditure	(247 578)	(253 154)
Operating profit	213 010	257 063
Share of income from associated company	4 059	735
Profit before tax	217 069	257 798
Tax	(54 867)	162 175
Profit after tax	162 202	419 973
Other comprehensive income		
Revaluation of owner-occupied properties	8 812	10 689
Gains on remeasurement to fair value	2 576	25 121
Release to income on disposal of available-for-sale financial assets	(1 583)	(9 837)
Tax relating to other comprehensive income	(2 614)	(20 230)
Other comprehensive income net of tax	7 191	5 743
Total comprehensive income	169 393	425 716
Profit after tax attributable to:		
Equity holders of the parent	162 202	419 973
Total comprehensive income attributable to:		
Equity holders of the parent	169 393	425 716
Earnings per ordinary share after tax (cents)	4.1	10.7
Earnings per ordinary share before tax (cents)	5.6	6.6
Diluted earnings per ordinary share after tax (cents)	4.1	10.7
Diluted earnings per ordinary share before tax (cents)	5.5	6.6
Dividend per share (cents)	-	-
Restated reconciliation between profit before tax and headline earnings (1)		
Profit before tax	217 069	257 798
Adjustment for non-headline items:		
Realisation of available-for-sale reserve on disposal of investments	(1 583)	(9 837)
Loss/(Profit) on disposal of property and equipment	14	(29)
Headline earnings before tax	215 500	247 932
Tax	(54 867)	162 175
Tax on non-headline items (1)	218	1 385
Restated headline earnings after tax (1)	160 851	411 492
Headline earnings per ordinary share after tax (cents)	4.1	10.5
Headline earnings per ordinary share before tax (cents)	5.5	6.3
Diluted headline earnings per ordinary share after tax (cents)	4.1	10.5
Diluted headline earnings per ordinary share before tax (cents)	5.5	6.3

Financial statistics

	2009 Audited	2008 Audited
Number of ordinary shares in issue:		
- end of the year ('000)	3 911 114	3 911 114
- weighted average ('000)	3 911 114	3 924 414
- weighted average - diluted ('000)	3 928 895	3 924 414
Return on average equity after tax (%)	12.0	39.8
Return on average equity before tax (%)	17.5	26.2
Return on average assets after tax (%)	2.8	7.9
Return on average assets before tax (%)	3.8	4.9
Cost to income (%)	52.7	49.0
Net asset value per ordinary share (cents)	36.8	32.4
Tangible net asset value per ordinary share (cents)	32.4	30.5

Condensed Group contingent liabilities and commitments

	2009 R'000 Audited	2008 R'000 Audited
Guarantees, letters of credit and committed undrawn facilities	506 678	670 100
Operating lease commitments	24 355	12 302
Capital commitments	51 628	93 018

Condensed consolidated statement of changes in equity

	2009 R'000 Audited	2008 R'000 Audited
Share capital and share premium		
Balance at beginning of the year	1 202 571	1 207 422
Increase of treasury shares	-	(4 851)
Balance at end of the year	1 202 571	1 202 571
Share-based payments reserve		
Balance at beginning of the year	4 650	7 019
Share-based payments expense	(2 756)	4 650
Transfer to retained income/accumulated loss	-	(7 019)
Balance at end of the year	1 894	4 650
Property revaluation reserve		
Balance at beginning of the year	46 364	53 705
Other comprehensive income	8 812	10 689
Tax relating to other comprehensive income	(2 468)	(18 030)
Balance at end of the year	52 708	46 364
Available-for-sale reserve		
Balance at beginning of the year	13 036	(48)
Other comprehensive income	993	15 284
Tax relating to other comprehensive income	(146)	(2 200)
Balance at end of the year	13 883	13 036
Capital redemption reserve fund and general reserve		
Balance at beginning and end of the year	11 266	11 266
General credit-risk reserve		
Balance at beginning of the year	-	19 403
Transfer to retained income/accumulated loss	-	(19 403)
Balance at end of the year	-	-
Retained income/(Accumulated loss)		
Balance at beginning of the year	(8 857)	(458 853)
Profit after tax	162 202	419 973
Share-based payments expense	2 004	3 601
Transfer from share-based payments and general credit-risk reserve	-	26 422
Balance at end of the year	155 349	(8 857)
Total equity		
Balance at beginning of the year	1 269 030	839 914
Increase of treasury shares	-	(4 851)
Share-based payments expense	(752)	8 251
Profit after tax	162 202	419 973
Other comprehensive income net of tax	7 191	5 743
Balance at end of the year	1 437 671	1 269 030

Condensed consolidated statement of cash flows

	2009 R'000 Audited	2008 R'000 Audited
Net cash inflow from operating activities	41 241	291 296
Net cash (outflow) from investing activities	(105 263)	(78 713)
Net cash (outflow)/inflow for the year	(64 022)	212 583
Cash and cash equivalents at beginning of the year	1 464 959	1 252 376
Cash and cash equivalents at end of the year	1 400 937	1 464 959

Condensed Group segmental information

	2009 R'000 Audited	2008 R'000 Audited
Segment revenue net of fee and commission expenditure		
Revenue from external customers		
Retail and Commercial banking	291 779	347 155
Treasury	45 224	59 612
Alliance banking, MBL credit card and electronic banking	63 055	53 799
Other services (2)	69 853	56 269
	469 911	516 835
Segment result - operating profit (3)		
Retail and Commercial banking	197 583	268 249
Treasury	25 888	41 638
Alliance banking, MBL credit card and electronic banking	39 583	30 801
Other services (2)	(50 044)	(83 625)
Operating profit	213 010	257 063
Share of income from associated company	4 059	735
Profit before tax	217 069	257 798
Tax	(54 867)	162 175
Profit after tax	162 202	419 973

Material related party balances and transactions

	2009 R'000 Audited	2008 R'000 Audited
Net balances with Caixa Geral de Depósitos S.A.	614 222	1 345 707
Interest received from Caixa Geral de Depósitos S.A.	10 518	41 063

Explanatory notes

(1) The tax effect on non-headline items was omitted for 2008 but reported HEPS after tax remained unchanged.
(2) "Other services" includes support divisions, surplus capital, insurance brokers and inter-group eliminations.
(3) Segment results represent the operating profit earned by each segment without the allocation of tax or attributable support costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.