

Mercantile Bank Holdings Limited

("Mercantile" or "the Group")

Audited results for the year ended 31 December 2005

Highlights

- ▲ Headline earnings per share of 1.7 cents versus prior year headline (loss) per share of (11.7) cents
- ▲ Total asset growth of 25.2%
- ▲ Lending growth of 49.5%
- ▲ Deposits growth of 24.8%

FINANCIAL OVERVIEW

The Group achieved its objectives of continued growth in core profitability in the second six months together with strong growth in loans and advances. The headline earnings of R68,025 million are largely attributable to:

- an increase in funds profit generated by the recapitalisation which was completed in September 2004 together with growth in lending (net of impairments) of 49.5%. Overall asset growth amounted to 25.2%;
- non-interest income growth of 16.3% largely in the areas of transactional banking and foreign exchange services;
- continued recoveries of impaired and written-off legacy debt;
- exceptional recoveries of R23,1 million being amounts impaired/written-off in 2004 following the release of Caixa Geral de Depósitos S.A. ("CGD") guarantees, which was a condition attached to the recapitalisation of the Group; and
- cost containment in operating expenses – costs for the 12 months ended 31 December 2004 benefited from a write-back in suspense account provisions of R5,4 million. Excluding this item, costs for the 12 months ended 31 December 2005 did not increase.

Accounting policies

The results have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which were adopted with effect from 1 January 2005. The comparative results for December 2004 have been restated in terms of the adoption of IFRS.

A copy of the audited annual financial statements is available for inspection at the registered office of Mercantile.

Going concern

The annual financial statements have been prepared on the going concern basis.

Shareholding and ratings

CGD remains the holding company with a shareholding of 91.75%.

CGD's ratings were confirmed by the three leading international rating agencies as follows:

	Short term	Long term	Date
Fitch Ratings	F1+	AA-	December 2004
Moody's	Prime-1/B	Aa3	December 2005
Standard & Poor's	A-1	A+	April 2005

Mercantile's rating has in turn been confirmed by CA Ratings as follows:

	Short term	Long term	Date
CA Ratings	zaA1	zaA-	February 2006

Directorate

Sharoda Rapeti was appointed as an independent non-executive director on 29 July 2005 whilst Julio Lopes was appointed as an executive director on 9 November 2005.

There were no other changes to the Board during the year.

Company Secretary

Ms Ronell van Rensburg has been appointed as Company Secretary with effect from 23 March 2006. Mr Francisco Vicente Coelho will retire as Company Secretary with effect from the same date. The directors wish to thank Mr Vicente Coelho for his commitment, support, guidance and professionalism throughout his many years of service.

Outlook

Whilst the overall level of recoveries on legacy debt is expected to decline going forward, an ongoing write back of impairments is anticipated in 2006.

Evaluations are currently underway for the replacement of our core banking system at an estimated cost of approximately R40 – R50 million. These cost estimates are preliminary desktop calculations and a detailed analysis has now commenced. The project (which is subject to final Board approval) is expected to have a duration of 2 – 3 years. Furthermore, additional systems spend to further enhance our alliance banking service offering, in order to generate increased fee income in future years is under discussion with certain of our alliance partners – the extent of this spend is yet to be estimated and agreed with these partners.

Economic conditions remain favourable for the banking sector and 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
21 February 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

Group Secretary: F Vicente Coelho* *Portuguese **Mozambican

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

Summarised Group Balance Sheet

	2005 R'000 Audited	2004 R'000 Audited (Restated)
ASSETS		
Intangible assets	7 020	6 801
Property and equipment	91 305	85 028
Investment properties	350	770
Taxation	3 698	3 616
Other accounts receivable	14 887	33 148
Interest in associated companies	3 323	3 236
Other investments	2 365	3 556
Loans and advances	1 458 677	975 611
Derivative financial instruments	36 757	90 162
Negotiable securities	379 028	370 279
Cash and cash equivalents	1 408 972	1 148 861
Total assets	3 406 382	2 721 068
EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital and share premium	1 207 032	1 208 642
Capital redemption reserve fund	3 788	3 788
Share-based payments reserve	847	123
General reserve	7 478	7 478
Property revaluation reserve	36 476	31 273
Available-for-sale reserve	(76)	(955)
General credit-risk reserve	10 835	31 668
Accumulated loss	(716 201)	(781 078)
Liabilities	2 856 203	2 220 129
Deposits	2 636 547	2 112 569
Derivative financial instruments	38 531	35 210
Provisions	31 647	39 168
Other accounts payable	149 478	33 138
Taxation	–	44
Total equity and liabilities	3 406 382	2 721 068

Summarised Group Income Statement

	2005 R'000 Audited	2004 R'000 Audited (Restated)
Interest income	248 290	192 138
Interest expense	(113 144)	(107 036)
Net interest income before credit losses	135 146	85 102
Net recovery of/(charge for) credit losses	21 287	(4 367)
Net interest income after credit losses	156 433	80 735
Net (loss)/profit on disposal and revaluation of investments	(498)	1 891
Non-interest income ⁽¹⁾	117 903	101 410
Net interest and non-interest income	273 838	184 036
Operating expenditure ⁽¹⁾	(230 477)	(225 041)
Profit/(Loss) before associated companies	43 361	(41 005)
Share of income from associated companies	516	768
Profit/(Loss) before taxation and exceptional items	43 877	(40 237)
Impairments and provisions raised and write-off on release of CGD guarantee	–	(172 729)
Recovery of amounts previously written-off in respect of the release of the CGD guarantee	23 119	–
Profit/(Loss) before taxation	66 996	(212 966)
Taxation	–	(50)
Attributable profit/(loss) after taxation	66 996	(213 016)
Reconciliation between attributable profit/(loss) after taxation and headline earnings/(loss):		
Attributable profit/(loss) after taxation	66 996	(213 016)
Adjustment for:		
Realisation of available-for-sale reserve on disposal of investments	885	(60)
Loss/(Profit) on disposal of property and equipment	144	(680)
Headline earnings/(loss)	68 025	(213 756)
Earnings/(Loss) per ordinary share (cents)	1.7	(11.6)
Headline earnings/(loss) per ordinary share (cents)	1.7	(11.7)
Diluted earnings/(loss) per ordinary share (cents)	1.7	(11.6)
Diluted headline earnings/(loss) per ordinary share (cents)	1.7	(11.7)
Dividend per share (cents)	–	–

Financial Statistics

	2005	2004
Number of ordinary shares in issue:		
– end of year ('000)	3 925 126	3 930 372
– weighted average ('000)	3 927 892	1 830 341
– weighted average – diluted ('000)	3 932 811	1 830 349
Net asset value per ordinary share (cents)	14.0	12.7
Capital adequacy ratio (%)		
– Consolidated Group	31.3	37.2
– Mercantile Bank Limited	34.5	39.2

Group Contingent Liabilities and Commitments

	2005 R'000 Audited	2004 R'000 Audited
Guarantees and letters of credit	287 821	138 470
Conditional buy-back obligations	7 707	42 685
Operating lease commitments	13 742	10 619

Summarised Group Cash Flow Statement

	2005 R'000 Audited	2004 R'000 Audited
Net cash inflow/(outflow) from operating activities	66 401	(9 134)
Net cash inflow from banking activities	209 973	46 964
Net cash outflow from investing activities	(16 263)	(6 774)
Net cash inflow from financing activities	–	542 875
Net cash inflow for the year	260 111	573 931
Cash and cash equivalents at beginning of year	1 148 861	574 930
Cash and cash equivalents at end of year	1 408 972	1 148 861

Summarised Group Statement of Changes in Equity

	2005 R'000 Audited	2004 R'000 Audited (Restated)
Balance at beginning of year	500 939	163 899
Transitional adjustments on adoption of IFRS		
Creation of credit risk impairments	(22 952)	–
Movements in reserves	8 925	3 263
Net transfer from/(to) available-for-sale reserve		
Net transfer to general credit-risk reserve	2 119	456
Share-based payments expense	724	123
Revaluation of owner-occupied property	5 203	2 897
Movement in accumulated loss		
Attributable profit/(loss) after taxation	66 996	(213 016)
Net transfer to general credit-risk reserve	(2 119)	(456)
Transfer on sub-division of shares	–	205 340
Accumulated profit on consolidation of share incentive trust	–	132
Movements in share capital and premium	(1 610)	341 777
Issue of shares		
Share issue expenses	–	(6 382)
Transfer to distributable reserve on sub-division of shares	–	(205 340)
Treasury shares on consolidation of share incentive trust	(1 610)	(1 501)
Balance at end of year	550 179	500 939

Summarised Group Segmental Information

	2005 R'000 Audited	2004 R'000 Audited (Restated)
Segment revenue:		
Retail banking	138 968	116 342
Treasury	31 999	28 277
Alliance banking, MBL credit card and structured loans	39 559	41 790
Other services ⁽²⁾	87 445	2 762
	297 971	189 171
Contribution/(loss) after tax:		
Retail banking ⁽³⁾	80 544	61 941
Treasury ⁽³⁾	8 451	(29 374)
Alliance banking, MBL credit card and structured loans ⁽³⁾	14 739	23 529
Other services ⁽²⁾	(36 738)	(269 112)
	66 996	(213 016)

IFRS Reconciliation

	Opening balance 1 January 2005 R'000 Audited	Closing balance 31 December 2004 R'000 Audited
Balance as previously reported	500 939	500 939
Effect on reported results	65	65
– depreciation on property and equipment	188	188
– share-based payments expense	(123)	(123)
Transitional adjustment		
– creation of credit risk impairments	(22 952)	–
Movement in reserves		
– decrease in property revaluation reserve	(188)	(188)
– creation of share-based payments reserve	123	123
Restated shareholders' equity	477 987	500 939

Changes in shareholders' equity

	2005 R'000 Audited	2004 R'000 Audited
Balance as previously reported	500 939	500 939
Effect on reported results	65	65
– depreciation on property and equipment	188	188
– share-based payments expense	(123)	(123)
Transitional adjustment		
– creation of credit risk impairments	(22 952)	–
Restated loans and advances	952 659	975 611

Notes:

(1) The foreign exchange and insurance broker commissions earned were previously disclosed net of commission paid. The commissions paid are now disclosed separately as part of operating expenditure (2004: R5,3 million). Comparatives have been restated.

(2) "Other services" includes: support divisions, collections, specialised asset finance, insurance brokers, inter-group eliminations and IFRS adjustments.

(3) Excludes the allocation of attributable support costs.