SALIENT FEATURES

- Increase in HEPS of 23.2%
- Growth in loans and advances of 20.7%
- Growth in tangible NAV per share of 7.4%
- High level of capital adequacy

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

AUDITED CONDENSED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL OVERVIEW

Despite the tough trading environment the Group has experienced strong results. Headline earnings and earnings for the year under review increased 23.2% and 22.3%, respectively, mainly due to:

- 3.9% growth in net interest income despite the negative endowment effect of the low interest rate environment. The effects of the negative endowment were countered by the strong growth in loans and advances which increased 20.7%. Approximately R400 million of the growth came through in the last quarter, the majority being new to bank customers;
- growth in net foreign currency income of 14.6% year on year mainly as a result of a focus on margin management as well as broadening the product offering;
- strong growth in revenue from electronic services. This is mainly due to increased volumes on the new internet banking platform and a very strong performance from the E-bureau business; and
- a gain of R39.8 million as a result of positive fair value adjustments from equity investments in the structured loan portfolio. These gains together with fees earned in Multi Risk Investment Holdings (Pty) Ltd ("Multi Risk") largely accounted for the overall strong growth in net non-interest income which increased by 59.0%.

The charge for credit losses increased from R3.4 million in 2010 to R11.6 million in 2011. Despite the increase, the quality of the Group's lending portfolio remained sound with a net charge for credit losses as a percentage of average loans and advances of 0.28% (2010: 0.09%) being well below industry averages.

Cost to income ratio of 64.7% improved slightly when compared to 65.5% for the year ended 31 December 2010. Both ROE at 7.7% (December 2010: 6.8%) and ROA at 2.1% (December 2010: 1.7%) improved as a result of the growth in operating income.

BUSINESS ACQUISITIONS AND CORPORATE ACTIVITY

During 2011 the Group completed two acquisitions:

- effective 1 April 2011, the Group acquired 74.9% of Custom Capital (Pty) Ltd ("Custom Capital"), a rental finance business headquartered in Durban, which offers financing of office automation and allied equipment through operating rentals. Custom Capital invested in infrastructure and people by setting up an office in Johannesburg and increasing its presence in Cape Town. The acquisition was structured by way of the vendors transferring rental finance assets from their existing businesses to Custom Capital to the value of R34 million on loan account in exchange for their equity holding. Mercantile invested R102 million on loan account in respect of its proportionate shareholding. The business performed very well in 2011 and exceeded expectations for new business written. The prospects for 2012 look promising. The Group is currently exploring securitisation options to fund the rapid growth in the rental book; and
- effective 1 July 2011, the Group acquired 51% of Multi Risk, an investment holding company with subsidiaries that offer insurance brokerage across a range of insurance products for both the commercial and personal markets. The consideration paid was R45.9 million which consists of a shareholder loan of R6.2 million and the balance of R39.7 million for the shares. The fair value of net liabilities was R19 million and goodwill arising on acquisition amounted to R49.9 million. Goodwill arose based on the value associated with the expected future earnings from the business. Projected earnings have been determined on a discounted cash flow basis at a discount rate of 20% which has been warranted by the sellers. If the warranted profits are not achieved over a period of five and a half years from the effective date, then Mercantile will either be refunded the shortfall in value by the sellers or Mercantile's shareholding will be increased to a maximum of 66%.The company has an experienced management team and a strategic shareholder in the Hollard Group, which holds 20% of the shares. Multi Risk exceeded their targets for the 2011 financial year. The ongoing changes in the regulatory environment have created opportunities for consolidation in the insurance industry. The Group is currently exploring various opportunities to grow the business through the acquisition of small and medium sized brokerages.

The Group will continue to explore acquisitions that enhance shareholder value by increasing the customer base, growing the balance sheet and increasing both funded and non-funded revenue. During the past 18 months numerous acquisition opportunities were explored. After thorough analysis of these opportunities, the Group is of the view that the current scope to do a large acquisition is very limited. However, there are some opportunities available for smaller acquisitions that could complement the banking, insurance and rental finance businesses.

To fund future growth in lending, and partly align the structure of the balance sheet towards meeting the requirements of Basel III, the Group concluded a R491 million, seven year term facility with the International Finance Corporation in June 2011. The full amount of the facility is still available for drawdown.

During the year under review, Bidvest Bank made an offer to CGD to acquire Mercantile. This offer was rejected by CGD on the basis that Mercantile is not for sale.

FINANCIAL SECTOR CHARTER

The Group remains committed to achieving the targets we set ourselves with regard to Employment Equity, procurement, loans to Black SMEs and Corporate Social Investment. Employment equity remains a challenge, particularly at middle management level; however, good progress has been made at junior level. We are close to finalising the appointment of a black female at Board level.

From an ownership and control perspective, Mercantile announced in October 2010 that as a result of the economic crisis playing itself out in Europe and the USA, negotiations with the Group's shortlisted BEE candidates were terminated. The Group remains committed to empowerment at shareholder level and will continue to explore opportunities in this regard.

DIRECTORATE

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

RATINGS

Moody's confirmed the following RSA national scale issuer ratings for Mercantile Bank Limited on 11 October 2011:

Short term	P-2.za
Long term	Baa1.za
Outlook	Stable

DIVIDENDS

No dividends have been declared or paid for the year under review.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

These condensed annual consolidated financial statements have been prepared under the historical cost conventions excluding financial instruments and properties that are fair valued. The condensed financial information has been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the AC 500 standards as issued by the Accounting Practices Board and the information as required by IAS 34: Interim Financial Reporting. The report has been prepared using accounting policies that comply with IFRS that are consistent with those applied in the financial statements for the year ended 31 December 2010; in compliance with the Listings Requirements of the JSE Limited; and the requirements of the Companies Act.

AUDIT OPINION

The independent auditors, Deloitte & Touche, have issued their unmodified opinion on the Group's annual financial statements for the year ended 31 December 2011. The audit was conducted in accordance with International Standards on Auditing. These condensed annual financial statements have been derived from the Group's annual financial statements and are consistent in all material respects with the Group annual financial statements. A copy of their audit report is available for inspection at Mercantile's registered office. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's auditors.

Condensed consolidated statement of financial position

At 31 December	2011 R'000 Audited	2010 R'000 Audited
ASSETS		
Intangible assets	**216 086**	224 402
Property and equipment	**129 568**	126 887
Goodwill	**49 932**	–
Tax	**–**	101
Other accounts receivable	**87 434**	49 021
Other investments	**63 789**	10 969
Deferred tax assets	**17 737**	62 382
Loans and advances	**4 489 863**	3 720 907
Derivative financial instruments	**15 657**	34 717
Negotiable securities	**192 588**	265 028
Cash and cash equivalents	**952 621**	1 759 897
Total assets	**6 215 275**	6 254 311
EQUITY AND LIABILITIES		
Total equity attributable to equity holders of the parent	**1 678 774**	1 539 394
Share capital and share premium	**1 202 948**	1 202 760
Share-based payments reserve	**–**	3 190
Property revaluation reserve	**62 433**	54 547
Available-for-sale reserve	**21 291**	10 502
Capital redemption reserve fund	**3 788**	3 788
General reserve	**7 478**	7 478
Retained earnings	**380 836**	257 129
Non-controlling interests	**(3 185)**	–
Total equity	**1 675 589**	1 539 394
Liabilities	**4 539 686**	4 714 917
Deferred tax liabilities	**27 066**	21 038
Deposits	**4 251 543**	4 563 988
Derivative financial instruments	**17 130**	28 122
Provisions and other liabilities	**50 191**	29 920
Other accounts payable	**192 836**	71 849
Tax	**920**	–
Total equity and liabilities	**6 215 275**	6 254 311
Commitments and contingent liabilities	**414 055**	467 808

Condensed consolidated statement of comprehensive income

For the year ended 31 December	2011 R'000 Audited	2010 R'000 Audited
Interest income	**447 835**	450 918
Interest expense	**(181 408)**	(194 558)
Net interest income	**266 427**	256 360
Net charge for credit losses	**(11 618)**	(3 422)
Net interest income after credit losses	**254 809**	252 938
Net gain on disposal of available-for-sale investments	**–**	885
Net non-interest income	**267 936**	168 485
Non-interest income	**356 255**	271 587
Fee and commission expenditure	**(128 168)**	(103 102)
Fair value adjustment on unlisted investments	**39 849**	–
Net interest and non-interest income	**522 745**	422 308
Operating expenditure	**(345 473)**	(278 804)
Operating profit	**177 272**	143 504
Share of income from associated company	**–**	567
Profit before tax	**177 272**	144 071
Tax	**(48 161)**	(43 045)
Profit after tax	**129 111**	101 026
Other comprehensive income/(loss)		
Revaluation of owner-occupied properties	**11 456**	2 554
Gains/(Losses) on remeasurement to fair value of other investments and negotiable securities	**12 545**	(3 331)
Release to income on disposal of available-for-sale financial assets	**–**	(885)
Tax relating to other comprehensive income/loss	**(5 326)**	120
Other comprehensive income/(loss) net of tax	**18 675**	(1 542)
Total comprehensive income	**147 786**	99 484
Profit after tax attributable to:		
Equity holders of the parent	**123 598**	101 026
Non-controlling interests	**5 513**	–
	129 111	101 026
Total comprehensive income attributable to:		
Equity holders of the parent	**142 273**	99 484
Non-controlling interests	**5 513**	–
	147 786	99 484
Earnings per ordinary share (cents)	**3.2**	2.6
Diluted earnings per ordinary share (cents)	**3.2**	2.6

GOING CONCERN

The Director's assess the Group's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the year ahead. For this reason these condensed annual consolidated financial statements have been prepared on a going concern basis.

EVENTS AFTER THE REPORTING PERIOD

In a Stock Exchange News Services announcement dated 15 February 2012, shareholders were advised that the Board had decided that Mercantile would make an offer to minority shareholders by way of a scheme of arrangement, to acquire all of their shares at a consideration of 52 cents per share, subject to all the required approvals being obtained. This process is currently under way.

ADMINISTRATIVE INFORMATION

These audited condensed annual consolidated results are a summary of the audited annual consolidated financial statements of the Group, which were prepared by Mercantile Group Finance under the direction and supervision of the Executive Director: K R Kumbier CA(SA). A copy of the audited annual financial statements will be available on or before 30 March 2012, either on www.mercantile.co.za, or on request at the registered address of the Group.

OUTLOOK

The past few years have seen the Group concentrate on growing a quality loans and advances book, significantly increase its capital base, implement a new core banking platform, finalise a term loan from the International Finance Corporation and conclude certain key strategic investments. The Board is of the opinion that a strong foundation has been laid to ensure the sustainability of the business.

In November 2011 the Board approved a plan outlining a growth strategy whereby the Group will invest in increasing its distribution capability and building its brand awareness over the coming years. In order to align the culture of the organisation to the identified growth strategy, the Group embarked on a specific culture project in 2011. The benefits of this project are expected to manifest in 2012 and beyond.

2012 will continue to pose economic challenges as a result of domestic and international developments. Despite these challenges the Group is confident that a strong platform has been built that will assist in achieving the strategic objectives and the goals set for the year ahead.

J A S de Andrade Campos	**D J Brown**	Sandton
Chairman	*Chief Executive Officer*	23 February 2012

Headline earnings

For the year ended 31 December	2011 R'000 Audited	2010 R'000 Audited
Reconciliation between profit after tax and headline earnings		
Profit after tax attributable to equity holders of the parent	**123 598**	101 026
Adjustment for non-headline items:		
Realisation of available-for-sale reserve on disposal of investments	**–**	(885)
Loss on disposal of property and equipment	**–**	6
Tax on non-headline items	**–**	122
Headline earnings	**123 598**	100 269
Headline earnings per ordinary share (cents)	**3.2**	2.6
Diluted headline earnings per ordinary share (cents)	**3.2**	2.5

Financial statistics

	2011 R'000 Audited	2010 R'000 Audited
Number of ordinary shares in issue:		
– end of the year ('000)	**3 912 535**	3 911 959
– weighted average ('000)	**3 912 234**	3 911 255
– weighted average – diluted ('000)	**3 917 984**	3 935 365
Return on average equity (%)	**7.7**	6.8
Return on average assets (%)	**2.1**	1.7
Cost to income (%)	**64.7**	65.5
Net asset value per ordinary share (cents)	**42.9**	39.4
Tangible net asset value per ordinary share (cents)	**36.1**	33.6

Condensed consolidated statement of changes in equity

For the year ended 31 December	2011 R'000 Audited	2010 R'000 Audited
Share capital and share premium		
Balance at beginning of the year	**1 202 760**	1 202 571
Decrease of treasury shares held within the Group	**188**	189
Balance at end of the year	**1 202 948**	1 202 760
Share-based payments reserve		
Balance at beginning of the year	**3 190**	1 894
Vesting of conditional share plan awards	**(1 544)**	(104)
Conversion of conditional share plan	**(1 646)**	–
Share-based payments expense	**–**	1 400
Balance at end of the year	**–**	3 190
Property revaluation reserve		
Balance at beginning of the year	**54 547**	52 708
Other comprehensive income	**11 456**	2 554
Tax relating to other comprehensive income	**(3 570)**	(715)
Balance at end of the year	**62 433**	54 547
Available-for-sale reserve		
Balance at beginning of the year	**10 502**	13 883
Other comprehensive income/(loss)	**12 545**	(4 216)
Tax relating to other comprehensive income/loss	**(1 756)**	835
Balance at end of the year	**21 291**	10 502
Capital redemption reserve fund and general reserve		
Balance at beginning and end of the year	**11 266**	11 266
Retained earnings		
Balance at beginning of the year	**257 129**	155 349
Profit after tax attributable to equity holders of the parent	**123 598**	101 026
Share-based payments expense	**109**	754
Balance at end of the year	**380 836**	257 129
Total equity attributable to equity holders of the parent		
Balance at beginning of the year	**1 539 394**	1 437 671
Decrease of treasury shares held within the Group	**188**	189
Vesting of conditional share plan awards	**(1 544)**	(104)
Conversion of conditional share plan	**(1 646)**	–
Share-based payments expense	**109**	2 154
Profit after tax attributable to equity holders of the parent	**123 598**	101 026
Other comprehensive income/(loss) net of tax	**18 675**	(1 542)
Balance at end of the year	**1 678 774**	1 539 394
Non-controlling interests		
Balance at beginning of the year	**–**	–
Non-controlling interest arising from the acquisition of Multi Risk Investment Holdings (Pty) Ltd	**(8 698)**	–
Change in non-controlling interests	**5 513**	–
Balance at end of the year	**(3 185)**	–
Total equity	**1 675 589**	1 539 394

Condensed consolidated statement of cash flows

For the year ended 31 December	2011 R'000 Audited	2010 R'000 Audited
Net cash (outflow)/inflow from operating activities	**(765 432)**	420 749
Net cash (outflow) from investing activities	**(41 844)**	(61 789)
Net cash (outflow)/inflow for the year	**(807 276)**	358 960
Cash and cash equivalents at beginning of the year	**1 759 897**	1 400 937
Cash and cash equivalents at end of the year	**952 621**	1 759 897

Condensed segmental information

For the year ended 31 December	2011 R'000 Audited	2010 R'000 Audited
Segment revenue net of fee and commission expenditure		
Revenue from external customers		
Business and Commercial Banking	**340 078**	284 077
Treasury	**67 128**	60 340
Alliance banking and electronic services	**38 783**	28 911
Rental finance	**6 706**	–
Insurance and assurance brokers	**44 504**	1 103
Support divisions, surplus capital and inter-group eliminations	**37 164**	51 299
	534 363	425 730
Segment result – operating profit		
Business and Commercial Banking	**203 862**	166 443
Treasury	**36 694**	34 545
Alliance banking and electronic services	**28 986**	17 032
Rental finance	**(3 206)**	–
Insurance and assurance brokers	**14 544**	837
Support divisions, surplus capital and inter-group eliminations	**(103 608)**	(75 353)
Operating profit	**177 272**	143 504
Share of income from associated company	**–**	567
Profit before tax	**177 272**	144 071
Tax relating to insurance and assurance brokers	**(3 695)**	(239)
Tax relating to other segments	**(44 466)**	(42 806)
Profit after tax	**129 111**	101 026

Material related party balances and transactions

	2011 R'000 Audited	2010 R'000 Audited
Net balances with Caixa Geral de Depósitos S.A.	**5 160**	1 084 434
Interest received from Caixa Geral de Depósitos S.A.	**1 973**	1 353

Directors: J A S de Andrade Campos*# *(Chairman)*, D J Brown *(Chief Executive Officer)*, K R Kumbier *(Executive)*, J P M Lopes* *(Executive)*, G P de Kock^, L Hyne^, A T Ikalafeng^, T H Njikizana^°

Group secretary: A de Villiers ** Portuguese ° Zimbabwean # Non-Executive ^ Independent Non-Executive*

Registered office: Mercantile Bank, 142 West Street, Sandown, 2196

Share code: MTL **ISIN:** ZAE000064721

Transfer secretaries: Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001

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

Sponsor

BRIDGE CAPITAL

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