

SALIENT FEATURES

- Net charge for credit losses of 0.1%
- Growth in loans and advances of 2.5%
- Growth in deposits of 7.5%
- HEPS down by 37.7%



Mercantile Bank Holdings Limited

Registration number 1989/000164/06

Member of CGD Group
("Mercantile" or "the Group")

CONDENSED AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL OVERVIEW

Against the background of continued uncertainty in economic conditions, both internationally and domestically, the Group experienced a tough trading environment in 2010 with headline earnings declining for the year under review by 37.7%, mainly due to:

- the negative endowment effect resulting from the lower interest rate environment in South Africa and the Group's high level of unleveraged capital. The Group's capital adequacy ratio as at 31 December 2010 was 23.5% (2009: 26.3%);
- the termination by Woolworths Financial Services (WFS) of its card processing agreement in October 2009 following the sale by WFS of a controlling interest in its financial services business;
- the increase in the Group's cost base following the implementation of the new core banking system in April 2010. The increased amortisation and depreciation charge year on year amounted to R14.5 million; and
- the general lower level of business activity experienced, in line with depressed national economic activities and broad industry trends.

Notwithstanding the difficult market conditions, the quality of the Group's lending portfolio remained sound with a net charge for credit losses as a percentage of loans and advances of 0.1% (2009: 0.3%).

Cost to income increased from 52.7% for the year ended 31 December 2009 to 65.5% for the year ended 31 December 2010, whilst both ROE at 6.8% (December 2009: 12.0%) and ROA at 1.7% (December 2009: 2.8%) declined, reflecting the weaker market conditions and lower earnings of the Group.

CREDIT RATINGS

Moody's Investors Service (Moody's) confirmed the following RSA national scale issuer ratings to the Bank on 11 June 2010:

Short term	P-1.za
Long term	A2.za
Outlook	On 21 December 2010 Moody's placed Mercantile on ratings review for possible downgrade based on Moody's review of the stand alone rating of Caixa Geral de Depósitos S.A. (the Group's holding company).

BLACK ECONOMIC EMPOWERMENT

The SENS announcement dated 5 October 2010 advised that discussions with the short-listed candidates for the sale of 10% of the Group's equity were terminated based on the prevailing uncertain international market conditions. No further developments have taken place since then in this regard, but the Group remains committed to empowerment at shareholder level.

NEW BANKING SYSTEM

The Group's new core banking system was successfully implemented in April 2010 at a cost of R242 million. The new platform is expected to enhance the Group's competitiveness in the market.

DIRECTORATE AND COMPANY SECRETARY

Mr K R Kumbier was appointed as Executive Director: Finance and Business with effect from 1 June 2010 and Ms S Rapeti, a non-executive director, resigned with effect from 29 July 2010.

Ms A de Villiers was appointed as Company Secretary with effect from 1 January 2010.

The Board has extended the employment contracts of Mr D J Brown as chief executive officer and Mr J P M Lopes as executive director to March 2014 and July 2014, respectively.

ACCOUNTING POLICIES

These audited condensed consolidated annual financial statements have been prepared under the historical cost conventions excluding financial instruments and properties which 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 which are consistent with those applied in the financial statements for the year ended 31 December 2009.

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 2010. 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 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.

GOING CONCERN

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

EVENTS AFTER THE REPORTING PERIOD

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.

DIVIDENDS

The Group will be seeking the relevant approvals for a share consolidation and odd lot offer where after dividend declarations will be considered.

OUTLOOK

The policy stimulus measures implemented in international markets is supportive of an improved economic outlook for 2011 and the Group is confident of an improved performance going forward.

J A S de Andrade Campos

Chairman

D J Brown

Chief Executive Officer

Sandton
24 February 2011

Condensed consolidated statement of financial position

	2010 R'000 Audited	2009 R'000 Audited
ASSETS		
Intangible assets	224 402	170 325
Property and equipment	126 887	131 483
Tax	101	256
Other accounts receivable	49 021	29 539
Other investments	10 969	23 590
Deferred tax assets	62 382	102 936
Non-current assets held for sale	-	5 510
Loans and advances	3 720 907	3 629 574
Derivative financial instruments	34 717	21 406
Negotiable securities	265 028	267 902
Bank term deposits	-	35 276
Cash and cash equivalents	1 759 897	1 400 937
Total assets	6 254 311	5 818 734
EQUITY AND LIABILITIES		
Shareholders' equity	1 539 394	1 437 671
Share capital and share premium	1 202 760	1 202 571
Share-based payments reserve	3 190	1 894
Property revaluation reserve	54 547	52 708
Available-for-sale reserve	10 502	13 883
Capital redemption reserve fund	3 788	3 788
General reserve	7 478	7 478
Retained earnings	257 129	155 349
Liabilities	4 714 917	4 381 063
Deferred tax liabilities	21 038	18 870
Deposits	4 563 988	4 246 598
Derivative financial instruments	28 122	16 230
Provisions and other liabilities	29 920	38 142
Other accounts payable	71 849	61 153
Tax	-	70
Total equity and liabilities	6 254 311	5 818 734

Condensed consolidated statement of comprehensive income

	2010 R'000 Audited	2009 R'000 Audited
Interest income	450 918	529 584
Interest expense	(194 558)	(261 315)
Net interest income	256 360	268 269
Net charge for credit losses	(3 422)	(9 323)
Net interest income after credit losses	252 938	258 946
Net gain on disposal of available-for-sale investments	885	1 583
Net non-interest income	168 485	200 059
Non-interest income	271 587	287 909
Fee and commission expenditure	(103 102)	(87 850)
Net interest and non-interest income	422 308	460 588
Operating expenditure	(278 804)	(247 578)
Operating profit	143 504	213 010
Share of income from associated company	567	4 059
Profit before tax	144 071	217 069
Tax	(43 045)	(54 867)
Profit after tax	101 026	162 202
Other comprehensive (loss)/income		
Revaluation of owner-occupied properties	2 554	8 812
(Losses)/Gains on remeasurement to fair value	(3 331)	2 576
Release to income on disposal of available-for-sale financial assets	(885)	(1 583)
Tax relating to other comprehensive loss/income	120	(2 614)
Other comprehensive (loss)/income net of tax	(1 542)	7 191
Total comprehensive income	99 484	169 393
Profit after tax attributable to:		
Equity holders of the Group	101 026	162 202
Total comprehensive income attributable to:	99 484	169 393
Equity holders of the Group	99 484	169 393
Earnings per ordinary share (cents)	2.6	4.1
Diluted earnings per ordinary share (cents)	2.6	4.1

Headline earnings

	2010	2009
Reconciliation between profit after tax and headline earnings		
Profit after tax	101 026	162 202
Adjustment for non-headline items:		
Realisation of available-for-sale reserve on disposal of investments	(885)	(1 583)
Loss on disposal of property and equipment	6	14
Tax on non-headline items	122	218
Headline earnings	100 269	160 851
Headline earnings per ordinary share (cents)	2.6	4.1
Diluted headline earnings per ordinary share (cents)	2.5	4.1

Financial statistics

	2010 Audited	2009 Audited
Number of ordinary shares in issue:		
- end of the year ('000)	3 911 959	3 911 114
- weighted average ('000)	3 911 255	3 911 114
- weighted average - diluted ('000)	3 935 365	3 928 895
Return on average equity (%)	6.8	12.0
Return on average assets (%)	1.7	2.8
Cost to income (%)	65.5	52.7
Net asset value per ordinary share (cents)	39.4	36.8
Tangible net asset value per ordinary share (cents)	33.6	32.4

Condensed consolidated statement of changes in equity

	2010 R'000 Audited	2009 R'000 Audited
Share capital and share premium		
Balance at beginning of the year	1 202 571	1 202 571
Decrease of treasury shares held within the Group	189	-
Balance at end of the year	1 202 760	1 202 571
Share-based payments reserve		
Balance at beginning of the year	1 894	4 650
Vesting of shares in the conditional share plan	(104)	-
Share-based payments expense/(write back)	1 400	(2 756)
Balance at end of the year	3 190	1 894
Property revaluation reserve		
Balance at beginning of the year	52 708	46 364
Other comprehensive income	2 554	8 812
Tax relating to other comprehensive income	(715)	(2 468)
Balance at end of the year	54 547	52 708
Available-for-sale reserve		
Balance at beginning of the year	13 883	13 036
Other comprehensive (loss)/income	(4 216)	993
Tax relating to other comprehensive loss/income	835	(146)
Balance at end of the year	10 502	13 883
Capital redemption reserve fund and general reserve		
Balance at beginning and end of the year	11 266	11 266
Retained earnings/(Accumulated loss)		
Balance at beginning of the year	155 349	(8 857)
Profit after tax	101 026	162 202
Share-based payments expense	754	2 004
Balance at end of the year	257 129	155 349
Total equity		
Balance at beginning of the year	1 437 671	1 269 030
Decrease of treasury shares held within the Group	189	-
Vesting of shares in the conditional share plan	(104)	-
Share-based payments expense/(write back)	2 154	(752)
Profit after tax	101 026	162 202
Other comprehensive (loss)/income net of tax	(1 542)	7 191
Balance at end of the year	1 539 394	1 437 671

Condensed consolidated statement of cash flows

	2010 R'000 Audited	2009 R'000 Audited
Net cash inflow from operating activities	420 749	41 241
Net cash (outflow) from investing activities	(61 789)	(105 263)
Net cash inflow/(outflow) for the year	358 960	(64 022)
Cash and cash equivalents at beginning of the year	1 400 937	1 464 959
Cash and cash equivalents at end of the year	1 759 897	1 400 937

Condensed Group segmental information

	2010 R'000 Audited	2009 R'000 Audited
Segment revenue net of fee and commission expenditure		
Revenue from external customers		
Business and Commercial Banking	277 440	291 779
Treasury	60 340	45 224
Alliance banking, MBL credit card and electronic banking	35 650	63 055
Other services ⁽¹⁾	52 300	69 853
	425 730	469 911
Segment result - operating profit ⁽²⁾		
Business and Commercial Banking	173 676	197 583
Treasury	34 545	25 888
Alliance banking, MBL credit card and electronic banking	9 893	39 583
Other services ⁽¹⁾	(74 610)	(50 044)
Operating profit	143 504	213 010
Share of income from associated company	567	4 059
Profit before tax	144 071	217 069
Tax	(43 045)	(54 867)
Profit after tax	101 026	162 202

Material related party balances and transactions

	2010 R'000 Audited	2009 R'000 Audited
Net balances with Caixa Geral de Depósitos S.A.	1 084 434	614 222
Interest received from Caixa Geral de Depósitos S.A.	1 353	10 518

Condensed Group contingent liabilities and commitments

	2010 R'000 Audited	2009 R'000 Audited
Guarantees	305 669	303 514
Letters of credit	10 260	12 330
Committed undrawn facilities	129 903	190 834
Operating lease commitments	16 616	11 265
Capital commitments	5 360	51 628

Explanatory notes

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

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

Group secretary: A de Villiers ^o Portuguese ^o Zimbabwean

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

Sponsor

