SALIENT FEATURES

- HEPS unchanged
- Growth in loans and advances of 4.7%
- Growth in tangible NAV per share of 8.0%
- High level of capital adequacy and liquidity available

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

CONDENSED UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL OVERVIEW

The tough trading environment experienced in 2010 has continued into 2011 with no clear signs of recovery in both domestic and international economic conditions. Headline earnings per share remained unchanged when comparing the six months ended 30 June 2011 to the six months ended 30 June 2010 with the main contributing factors as follows:

- although the lending book growth is 4.7%, net interest income reduced by 4.2% as a result of the negative endowment effect resulting from the lower interest rate environment in South Africa and the Group's high level of unleveraged capital;
- the net charge for credit losses increased by R6.4 million, however, the credit loss ratio of 0.28% remains well below industry averages;
- a 40.4% increase in net non-interest income largely attributable to the recognition of profits of R26.3 million generated from the exercising of equity options in the structured loan portfolio in addition to a strong performance from the electronic banking business; and
- costs increased 16.6% mainly as a result of the higher charge in amortisation and depreciation on the Group's new core banking system as well as increased staff costs which resulted in the cost to income ratio increasing from 63.1% to 65.5%.

CREDIT RATINGS

Moody's Investors Service ("Moody's") confirmed the following RSA national scale issuer ratings to Mercantile Bank Limited ("the Bank") on 3 April 2011:

Short term	P-2.za
Long term	A3.za
Outlook	On 20 June 2011, Moody's placed the Bank on ratings review for possible downgrade based on Moody's review of the standalone rating of Caixa Geral de Depósitos S.A. (the Group's holding company). Currently embedded in the Bank's ratings is a one notch uplift (on the international scale) attributable to parental support.

BUSINESS ACQUISITIONS

During the period under review the Bank acquired 74.9% of Custom Capital (Pty) Ltd ("Custom"), a rental finance business, effective 1 April 2011. The acquisition was structured by way of the vendors transferring rental finance assets from their existing businesses to Custom 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 transaction included no goodwill and the purpose of the acquisition was to focus on growing assets and transactional banking in the SME sector. The loss attributable to the non-controlling interest for the three-month period since acquisition is R0.476 million.

Effective 1 July 2011, Mercantile acquired 51% of Multi Risk Investment Holdings (Pty) Ltd ("MultiRisk"), a short-term insurance broker. The final consideration, which is currently estimated at R51 million, is dependent on a closing statement which will be based on MultiRisk's audited financials as at 30 June 2011. Comprehensive details of the transaction were communicated on SENS on 19 May 2011 and further details, as appropriate, will be provided in the next reporting period. This acquisition will enhance product offering, diversify revenue streams and increase the potential to cross-sell banking products to the customer bases of the Group.

INTERNATIONAL FINANCE CORPORATION ("IFC") LOAN FACILITY

The Group signed a Euro 50 million (R491 million) seven-year term loan facility with the IFC on 30 June 2011 to support growth in finance to small and medium sized enterprise clients as well as finance qualifying energy efficient and renewable energy projects. The term nature of the loan enhances the funding structure of the Group's balance sheet to support this lending growth.

DIRECTORATE

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

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

These condensed consolidated 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 2010 and in compliance with the Listings Requirements of the JSE Limited and in the manner required by the Companies Act.

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.

DIVIDENDS

The Group has not finalised its evaluation or secured approvals for a share consolidation and odd lot offer which has a bearing on dividend declarations being considered.

OUTLOOK

The anticipated 2011 economic recovery has not materialised. Even though the economic outlook remains uncertain for the next six to 12 months, the Group is confident it will grow lending and transactional revenue as a result of strategic growth initiatives and new business flows from the integration of the business acquisitions. Further recognition of income on equity options during the second half of 2011 is not anticipated.

J A S de Andrade Campos
Chairman

D J Brown
Chief Executive Officer

Sandton
28 July 2011

Condensed consolidated statement of financial position

	30 June 2011 R'000 Unaudited	30 June 2010 R'000 Unaudited	31 December 2010 R'000 Audited
ASSETS			
Intangible assets	**215 270**	218 349	224 402
Property and equipment	**121 736**	128 477	126 887
Tax	**224**	26	101
Other accounts receivable	**54 607**	112 181	49 021
Other investments	**39 799**	21 312	10 969
Deferred tax assets	**40 963**	82 052	62 382
Non-current assets held for sale	**–**	3 234	–
Loans and advances	**3 912 125**	3 737 952	3 720 907
Derivative financial instruments	**14 859**	15 498	34 717
Negotiable securities	**235 569**	261 555	265 028
Bank term deposits	**–**	243 372	–
Cash and cash equivalents	**1 369 277**	1 129 091	1 759 897
Total assets	**6 004 429**	5 953 099	6 254 311
EQUITY AND LIABILITIES			
Total equity attributable to equity holders of the parent	**1 593 897**	1 492 203	1 539 394
Share capital and share premium	**1 202 840**	1 202 571	1 202 760
Share-based payments reserve	**1 662**	2 613	3 190
Property revaluation reserve	**54 547**	52 708	54 547
Available-for-sale reserve	**12 478**	11 374	10 502
Capital redemption reserve fund	**3 788**	3 788	3 788
General reserve	**7 478**	7 478	7 478
Retained earnings	**311 104**	211 671	257 129
Non-controlling interest	**(476)**	–	–
Total equity	**1 593 421**	1 492 203	1 539 394
Liabilities	**4 411 008**	4 460 896	4 714 917
Deferred tax liabilities	**21 344**	19 747	21 038
Deposits	**4 227 427**	4 281 326	4 563 988
Derivative financial instruments	**7 974**	15 322	28 122
Provisions and other liabilities	**37 423**	29 525	29 920
Other accounts payable	**116 840**	114 976	71 849
Total equity and liabilities	**6 004 429**	5 953 099	6 254 311
Commitments and contingent liabilities	**433 881**	437 133	467 808

Condensed consolidated statement of comprehensive income

	Six months ended 30 June 2011 R'000 Unaudited	Six months ended 30 June 2010 R'000 Unaudited	12 months ended 31 December 2010 R'000 Audited
Interest income	**215 547**	224 358	450 918
Interest expense	**(91 971)**	(95 361)	(194 558)
Net interest income	**123 576**	128 997	256 360
Net (charge for)/recovery of credit losses	**(5 566)**	864	(3 422)
Net interest income after credit losses	**118 010**	129 861	252 938
Net gain on disposal of available-for-sale investments	**–**	885	885
Net non-interest income	**111 959**	79 758	168 485
Non-interest income	**170 821**	125 271	271 587
Fee and commission expenditure	**(58 862)**	(45 513)	(103 102)
Net interest and non-interest income	**229 969**	210 504	422 308
Operating expenditure	**(154 367)**	(132 346)	(278 804)
Operating profit	**75 602**	78 158	143 504
Share of income from associated company	**–**	–	567
Profit before tax	**75 602**	78 158	144 071
Tax	**(22 203)**	(22 307)	(43 045)
Profit after tax	**53 399**	55 851	101 026
Other comprehensive income/(loss)			
Revaluation of owner-occupied properties	**–**	–	2 554
Gains/(Losses) on remeasurement to fair value	**2 298**	(2 033)	(3 331)
Release to income on disposal of available-for-sale financial assets	–	(885)	(885)
Tax relating to other comprehensive income/loss	**(322)**	409	120
Other comprehensive income/(loss) net of tax	**1 976**	(2 509)	(1 542)
Total comprehensive income	**55 375**	53 342	99 484
Profit after tax attributable to:			
Equity holders of the parent	**53 875**	55 851	101 026
Non-controlling interest	**(476)**	–	–
	53 399	55 851	101 026
Total comprehensive income attributable to:			
Equity holders of the parent	**55 851**	53 342	99 484
Non-controlling interest	**(476)**	–	–
	55 375	53 342	99 484
Earnings per ordinary share (cents)	**1.4**	1.4	2.6
Diluted earnings per ordinary share (cents)	**1.4**	1.4	2.6

Headline earnings

	Six months ended 30 June 2011 R'000 Unaudited	Six months ended 30 June 2010 R'000 Unaudited	12 months ended 31 December 2010 R'000 Audited
Reconciliation between profit after tax and headline earnings			
Profit after tax attributable to equity holders of the parent	**53 875**	55 851	101 026
Adjustment for non-headline items:			
Realisation of available-for-sale reserve on disposal of investments	**–**	(885)	(885)
Loss on disposal of property and equipment	**–**	–	6
Tax on non-headline items	**–**	124	122
Headline earnings	**53 875**	55 090	100 269
Headline earnings per ordinary share (cents)	**1.4**	1.4	2.6
Diluted headline earnings per ordinary share (cents)	**1.4**	1.4	2.5

Financial statistics

	30 June 2011 Unaudited	30 June 2010 Unaudited	31 December 2010 Audited
Number of ordinary shares in issue:			
– end of the period ('000)	**3 912 287**	3 911 114	3 911 959
– weighted average ('000)	**3 912 055**	3 911 114	3 911 255
– weighted average – diluted ('000)	**3 934 680**	3 936 208	3 935 365
Return on average equity (%)	**6.9**	7.6	6.8
Return on average assets (%)	**1.7**	1.9	1.7
Cost to income (%)	**65.5**	63.1	65.5
Net asset value per ordinary share (cents)	**40.7**	38.2	39.4
Tangible net asset value per ordinary share (cents)	**35.2**	32.6	33.6

Condensed consolidated statement of changes in equity

	Six months ended 30 June 2011 R'000 Unaudited	Six months ended 30 June 2010 R'000 Unaudited	12 months ended 31 December 2010 R'000 Audited
Share capital and share premium			
Balance at beginning of the period	**1 202 760**	1 202 571	1 202 571
Decrease of treasury shares held within the Group	**80**	–	189
Balance at end of the period	**1 202 840**	1 202 571	1 202 760
Share-based payments reserve			
Balance at beginning of the period	**3 190**	1 894	1 894
Vesting of shares in the conditional share plan	**(1 486)**	–	(104)
Share-based payments (write back)/expense	**(42)**	719	1 400
Balance at end of the period	**1 662**	2 613	3 190
Property revaluation reserve			
Balance at beginning of the period	**54 547**	52 708	52 708
Other comprehensive income	**–**	–	2 554
Tax relating to other comprehensive income	**–**	–	(715)
Balance at end of the period	**54 547**	52 708	54 547
Available-for-sale reserve			
Balance at beginning of the period	**10 502**	13 883	13 883
Other comprehensive income/(loss)	**2 298**	(2 918)	(4 216)
Tax relating to other comprehensive income/loss	**(322)**	409	835
Balance at end of the period	**12 478**	11 374	10 502
Capital redemption reserve fund and general reserve			
Balance at beginning and end of the period	**11 266**	11 266	11 266
Retained earnings			
Balance at beginning of the period	**257 129**	155 349	155 349
Profit after tax attributable to equity holders of the parent	**53 875**	55 851	101 026
Share-based payments expense	**100**	471	754
Balance at end of the period	**311 104**	211 671	257 129
Total equity attributable to equity holders of the parent			
Balance at beginning of the period	**1 539 394**	1 437 671	1 437 671
Decrease of treasury shares held within the Group	**80**	–	189
Vesting of shares in the conditional share plan	**(1 486)**	–	(104)
Share-based payments expense	**58**	1 190	2 154
Profit after tax attributable to equity holders of the parent	**53 875**	55 851	101 026
Other comprehensive income/(loss) net of tax	**1 976**	(2 509)	(1 542)
Balance at end of the period	**1 593 897**	1 492 203	1 539 394
Non-controlling interest			
Balance at beginning of the period	**–**	–	–
Change in non-controlling interest	**(476)**	–	–
Balance at end of the period	**(476)**	–	–
Total equity	**1 593 421**	1 492 203	1 539 394

Condensed consolidated statement of cash flows

	Six months ended 30 June 2011 R'000 Unaudited	Six months ended 30 June 2010 R'000 Unaudited	12 months ended 31 December 2010 R'000 Audited
Net cash (outflow)/inflow from operating activities	**(386 625)**	(212 572)	420 749
Net cash outflow from investing activities	**(3 995)**	(59 274)	(61 789)
Net cash (outflow)/inflow for the period	**(390 620)**	(271 846)	358 960
Cash and cash equivalents at beginning of the period	**1 759 897**	1 400 937	1 400 937
Cash and cash equivalents at end of the period	**1 369 277**	1 129 091	1 759 897

Condensed Group segmental information

	Six months ended 30 June 2011 R'000 Unaudited	Six months ended 30 June 2010 R'000 Unaudited	12 months ended 31 December 2010 R'000 Audited
Segment revenue net of fee and commission expenditure			
Revenue from external customers			
Business and commercial banking	**161 356**	136 225	277 440
Treasury	**30 978**	29 602	60 340
Alliance banking, MBL credit card and electronic banking	**20 089**	15 823	35 650
Support divisions, surplus capital, insurance brokers, rental finance business and inter-group eliminations	**23 112**	27 990	52 300
	235 535	209 640	425 730
Segment result – operating profit			
Business and commercial banking	**92 512**	89 114	173 676
Treasury	**16 239**	19 181	34 545
Alliance banking, MBL credit card and electronic banking	**14 866**	3 429	9 893
Support divisions, surplus capital, insurance brokers, rental finance business and inter-group eliminations	**(48 015)**	(33 566)	(74 610)
Operating profit	**75 602**	78 158	143 504
Share of income from associated company	**–**	–	567
Profit before tax	**75 602**	78 158	144 071
Tax	**(22 203)**	(22 307)	(43 045)
Profit after tax	**53 399**	55 851	101 026

Material related party balances and transactions

	30 June 2011 R'000 Unaudited	30 June 2010 R'000 Unaudited	31 December 2010 R'000 Audited
Net balances with Caixa Geral de Depósitos S.A.	**67 740**	442 488	1 084 434
Interest received from Caixa Geral de Depósitos S.A.	**1 604**	550	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*

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