

**Mercantile Bank Holdings Limited and its subsidiaries
("the Group")
unaudited bi-annual disclosure
as at 30 June 2015
(incorporating quarterly disclosure)**

**Disclosure in terms of Regulation 43 relating to banks, issued
under section 90 of the Banks Act, No. 94 of 1990, as amended.**

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
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1. Basis of compilation

The following information is compiled in terms of Regulation 43 relating to banks, issued under section 90 of the Banks Act, No.94 of 1990 (as amended) (“the Regulations”), which incorporates the Basel 3 Pillar Three requirements on market discipline.

All disclosures presented below are consistent with those disclosed in terms of International Financial Reporting Standards (“IFRS”), unless otherwise stated. In the main, differences between IFRS and information disclosed in terms of the Regulations relate to the definition of capital and the calculation and measurement thereof.

These disclosures have been prepared in compliance with the Group’s disclosure policy.

2. Scope of reporting

This report covers the consolidated results of Mercantile Bank Holdings Limited and its subsidiaries (“the Group”) for the period ending 30 June 2015.

Mercantile Bank Holdings Limited is a registered bank-controlling and investment-holding company. Its 100% holding company is Caixa Geral de Depósitos S.A. (“CGD”), a company registered in Portugal.

The consolidated approach adopted for accounting purposes is consistent with the approach adopted for regulatory purposes. The descriptions and details of the consolidated entities within the Group are as follows:

Company name	Effective holding %	Nature of business	Fully consolidated
Mercantile Bank Limited	100	Banking	Yes
Mercantile Insurance Brokers (Pty) Ltd	100	Insurance and assurance brokers	Yes
Mercantile Acquiring (Pty) Ltd	100	Property holding	Yes
Portion 2 of Lot 8 Sandown (Pty) Ltd	100	Property holding	Yes
Mercantile Rental Finance (Pty) Ltd	74.9	Rental finance	Yes
Compass Securitisation (RF) Ltd	74.9	Securitisation vehicle	Yes

Other than Regulatory capital adequacy requirements, there are currently no restrictions or other major impediments on the transfer of funds or capital within the Group.

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3. Detailed disclosures

3.1 Credit risk

The Group has adopted the standardised approach to determine the capital requirement for credit risk on all portfolios. The Group does not intend to migrate to the internal ratings based approach for credit risk in the short-term.

The Group primarily advances funds to unrated counterparties. In the case of exposures to rated counterparties, the process of risk weighting these exposures is in accordance with the requirements of the Regulations.

Table 3.1.1 Gross credit risk exposures
As at 30 June 2015

	Gross exposure (2)	Risk-weighted exposure	Total capital required (@ 10.0%)
	R'000	R'000	R'000
<u>Portfolios</u>			
Corporate (1)	1 193 647	1 091 378	109 138
SME Corporate (3)	3 892 540	3 451 807	345 181
Public Sector Entities (3)	107 898	53 949	5 395
Sovereigns (Treasury bills & Government Stock)	483 943	-	-
Banks (1)	860 853	312 888	31 289
Retail	3 566 121	2 269 862	226 986
-Residential mortgage advances	1 162 859	493 711	49 371
-Retail revolving credit (Overdrafts & credit cards)	64 450	17 830	1 783
-SME retail (3)	2 153 047	1 628 834	162 883
-Retail – other (3)	185 766	129 487	12 949
Total	10 105 002	7 179 884	717 989

- (1) Included in 'Corporate' and 'Banks' exposures are money market funds of R274 million and R580 million, respectively.
- (2) Gross exposure includes the total on-balance sheet, off-balance sheet and derivative fair values as well as the derivative risk factor.
- (3) Included in the above are securitised rental assets to the value of R289 million held in Compass Securitisation (RF) Ltd, which is consolidated for Group purposes.

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Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques
As at 30 June 2015

	Gross credit exposure after set off (2) R'000	Credit risk mitigation (4) R'000	Credit exposure after risk mitigation R'000
<u>Major types of credit exposure</u>			
Corporate (1)	1 193 647	1 718	1 191 929
SME Corporate (3)	3 892 540	114 598	3 777 942
Public Sector Entities (3)	107 898	-	107 898
Sovereigns (Treasury bills & Government Stock)	483 943	-	483 943
Banks (1)	860 853	-	860 853
Retail	3 566 121	77 223	3 488 898
-Residential mortgage advances	1 162 859	9 041	1 153 818
-Retail revolving credit (Overdrafts & credit cards)	64 450	-	64 450
-SME retail (3)	2 153 047	53 988	2 099 059
-Retail – other (3)	185 766	14 195	171 571
Total	10 105 002	193 539	9 911 463

- (1) Included in ‘Corporate’ and ‘Banks’ exposures are money market funds of R274 million and R580 million, respectively.
- (2) Gross exposure includes the total on-balance sheet, off-balance sheet and derivative fair values as well as the derivative risk factor.
- (3) Included in the above are securitised rental assets to the value of R289 million held in Compass Securitisation (RF) Ltd, which is consolidated for Group purposes.
- (4) Only inward bank guarantees and eligible pledged investments and/or liquid funds are taken into account as credit risk mitigation. Inward guarantees are mainly received from CGD. Other forms of credit risk mitigation are non-qualifying collateral items in terms of the Regulations and are commented on below.

The Group uses on- and off-balance sheet netting to restrict its exposure to credit losses. When a client maintains both debit and credit balances with the Group and the Group enters into a netting agreement in respect of the relevant loans and deposits with the said counterparty, the Group may regard the exposure as a collateralised exposure in accordance with Regulation 23 of the Regulations. As at 30 June 2015, the Group did not recognise any netting arrangements to reduce its credit risk exposures for capital adequacy requirements.

Policies and processes for collateral valuation and management

Dependent upon the risk profile of the customer, their track record/payment history and the risk inherent in the product offering, varying types and levels of security are taken to reduce credit-related risks. These include, inter alia, pledges of investments, mortgage and notarial bonds, guarantees and cessions of debtors. Various levels of security value are attached to the different categories of security taken. The value of the security is reviewed regularly and the Group does not have any material concentration risk in respect of collateral used to reduce credit risk. Clean or unsecured lending will only be considered for financially strong borrowers.

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Table 3.1.3 Geographical distribution of credit exposure

As at 30 June 2015

Geographical area	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
South Africa	8 450 714	1 148 817	22 268	9 621 799
Other	483 203	-	-	483 203
- Africa (excl South Africa)	129 011	-	-	129 011
- Asia	239	-	-	239
- Australia	2 939	-	-	2 939
- Europe	50 229	-	-	50 229
- North America	300 785	-	-	300 785
Total	8 933 917	1 148 817	22 268	10 105 002

Table 3.1.4 Analyses of credit exposure based on industry sector

As at 30 June 2015

Industry sector	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
Agriculture, hunting, forestry and fishing	159 353	33 240	-	192 593
Mining and quarrying	341 438	68 730	248	410 416
Manufacturing	763 214	190 194	30	953 438
Electricity, gas and water supply	52 210	2 067	-	54 277
Construction	218 061	64 315	-	282 376
Wholesale and retail trade, repair of specified items, hotels and restaurants	1 296 264	285 824	670	1 582 758
Transport, storage and communication	97 106	20 644	-	117 750
Financial intermediation and insurance	2 526 905	111 119	17 741	2 655 765
Real estate	1 424 154	76 457	-	1 500 611
Business services	490 656	63 940	36	554 632
Community, social and personal services	203 239	39 719	90	243 048
Private households	390 324	45 240	89	435 653
Other	970 993	147 328	3 364	1 121 685
Total	8 933 917	1 148 817	22 268	10 105 002

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Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 30 June 2015

	Total derivative instruments R'000	Maximum counterparty credit exposure R'000
Counterparty credit risk		
Total Notional Principal amount	1 263 537	1 453 068
Gross replacement cost	9 632	11 077
Net replacement cost	9 632	11 077
Gross potential future exposure add-on	12 635	14 531
Net potential future exposure add-on	12 635	14 531
Adjusted exposure amount	22 268	25 608
Standardised CVA	6 326	7 275
Risk weighted exposure	16 122	18 540

Derivative exposures are only entered into with Mercantile clients of sound financial standing.

These derivative risks are taken on a back-to-back basis with the five major banks in South Africa. No concentration risk exists and no additional capital has been allocated.

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Table 3.1.6 Daily average gross credit exposure
For the six months ended 30 June 2015

	Average gross credit exposure R'000
Summary of on-balance sheet and off-balance sheet credit exposure	
Asset class	
Liquid assets	1 952 525
Cash and cash equivalents - Rand denominated	1 158 266
Cash and cash equivalents - Foreign currency denominated	309 865
Negotiable securities	484 394
Gross loans and other advances	6 688 361
Current accounts	1 538 075
Credit cards	18 978
Mortgage loans	2 676 140
Instalment sales and leases	847 598
Other advances	1 607 570
Gross other assets	13 249
Investments	6 184
Derivative financial assets	7 065
On-balance sheet exposure	8 654 135
Guarantees	490 330
Letters of credit	30 099
Committed undrawn facilities	94 124
Revocable overdraft facilities	674 207
Operating lease commitment	10 865
Off-balance sheet exposure	1 297 923
Total gross credit exposure	9 952 058

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Table 3.1.7 Impairments of loans and advances per geographical area
As at 30 June 2015

Impaired and past due loans and advances by geographical area

	South Africa Gross amount R'000	Other Gross amount R'000		
Individually impaired loans and advances	227 623	-		
Impairments for credit losses				
Portfolio impairments	16 038	-		
Specific impairments	32 223	-		
	48 261	-		
Past due loans and advances				
Category age analysis of loans and advances that are past due but not individually impaired				
Past due for:	1 – 30 days R'000	31 - 60 days R'000	61 -90 days R'000	Total gross amount R'000
South Africa	76 552	-	8 013	84 565
Other	-	-	-	-

A financial asset is past due when the counterparty has failed to make a payment that is contractually due; this is based on appropriate rules and assumptions per product type. An impairment loss is recognised if there is objective evidence that a financial asset or group of financial assets is impaired. Impaired exposure relates to assets that are individually determined to be impaired at reporting date.

Table 3.1.8 Reconciliation of changes in specific and portfolio impairments
For the six months ended 30 June 2015

Impairments for credit losses

Reconciliation of credit impairment balances	Portfolio impairment R'000	Specific impairment R'000	Total R'000
Credit impairments: balance at the beginning of the period	11 727	27 998	39 725
Movements for the period			
Credit losses written-off	-	(11 598)	(11 598)
Net impairments raised	4 311	15 823	20 134
Credit impairments: balance at the end of the period	16 038	32 223	48 261

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Table 3.1.9 Write-offs and recoveries reflected in the statement of comprehensive income
For the six months ended 30 June 2015

	South Africa R'000
Net charge for credit losses in statement of comprehensive income	
Movements for the period:	
Bad debts recovered	1 594
Net impairments raised	(20 134)
Amounts directly written off to other comprehensive income	(2 691)
Release on impairment held on non-current assets held for sale	5 000
Net charge for credit losses	(16 231)

Table 3.1.10 Credit portfolio maturity analysis
As at 30 June 2015

	Cash and cash equivalents and current accounts⁽¹⁾ R'000	Credit cards R'000	Mortgage loans R'000	Instalment sales and leases R'000	Other advances⁽²⁾ R'000	Negotiable securities R'000	Total Advances R'000
Maturing up to one month	1 977 401	21 581	216 440	1 888	306 775	12 663	2 536 748
Maturing between one and three months	-	-	14	6 786	36 337	10 687	53 824
Maturing between three and six months	306 640	-	1 161	7 601	11 727	97 604	424 733
Maturing between six months and one year	-	-	5 427	39 054	20 951	-	65 432
Maturing after one year	-	-	2 593 657	842 222	1 695 149	460 594	5 591 622
	2 284 041	21 581	2 816 699	897 551	2 070 939	581 548	8 672 359

(1) “Cash and cash equivalents” includes money market funds, Rand- and foreign currency-denominated bank balances.

(2) “Other advances” includes medium-term and structured loans.

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3.2 Operational risk

The Group currently holds R121.4 million in operational risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 10.0%).

3.3 Market risk

The portfolios that are subject to market risk are foreign exchange and interest rate contracts for which the Group currently holds R28.4 million in market risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 10.0%).

3.4 Equity positions

Investments consist of unlisted equity investments and these have been designated either as available-for-sale or at fair value through profit and loss.

Table 3.4.1 Equity investments

As at 30 June 2015

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 10.0%) R'000
Investments				
Unlisted	Shares	6 388	6 388	639
		6 388	6 388	639

Table 3.4.2 Realised and unrealised gains on equity investments

For the six months ended 30 June 2015

	Total R'000
Realised gains and losses in profit and loss for the period	-
Unrealised cumulative gains and losses recognised directly in equity	
Listed	33
Unlisted	6 151
	6 184

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3.5 Liquidity risk

The table below summarises assets and liabilities of the Group into relevant maturity groupings based on the remaining period to contractual maturity at reporting date:

Table 3.5 Liquidity maturity analyses
As at 30 June 2015

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	2 870 431	4 114 949	(1 244 518)
Maturing between one and three months	56 087	781 590	(725 503)
Maturing between three and six months	425 562	286 475	139 087
Maturing between six months and one year	65 516	532 787	(467 271)
Maturing after one year	5 591 626	1 632 375	3 959 251
Non-contractual	382 545	107 480	275 065
	9 391 767	7 455 656	1 936 111

3.6 Interest rate risk

Interest rate sensitivity analyses

For regulatory purposes, the assessment and measurement of interest rate risk is based on the accumulated impact of interest rate sensitive instruments resulting from a parallel movement of plus or minus 200 basis points on the yield curve.

In addition, the impact on equity and profit and loss resulting from a change in interest rates is calculated monthly based on management’s forecast of the most likely change in interest rates.

The table below reflects the Group’s annual net interest income sensitivity for a 200 basis point increase or decrease in interest rates, while all other variables remain constant. The impact is mainly attributable to the Group’s exposure to interest rates on its capital position and lending and deposits in the banking book.

Table 3.6 Net interest income sensitivity
As at 30 June 2015

	Impact on economic value of equity R'000	Impact on net interest income for twelve months R'000
Net interest income sensitivity of a parallel shock		
Interest rate increase (200bps increase)	30 492	30 492
Interest rate decrease (200bps decrease)	(40 703)	(40 703)

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3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 30 June 2015

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Common equity tier 1 capital and reserve funds attributable to common shareholder:		
Paid up capital	1 207 270	1 483 300
Ordinary shares	36 140	124 969
Share premium	1 171 130	1 358 331
Qualifying retained profits	595 464	390 999
Retained earnings	626 132	421 603
Less: unappropriated profits	(30 668)	(30 604)
Accumulated other comprehensive income and reserves	104 334	47 955
Unrealised gains and losses on available for sale items	1 642	55 340
Actuarial reserve	(7 454)	(7 454)
Property revaluation reserve	110 146	69
Minority interest recognised in common equity tier 1 capital and reserve funds	(1 568)	-
Total common equity tier 1 capital and unimpaired reserve funds prior to regulatory adjustment	1 905 500	1 922 254
Total of specified adjustments to and deductions from common equity tier 1 capital and reserve funds	(145 656)	(145 656)
Intangible assets	(145 656)	(145 656)
Total common equity tier 1 capital and unimpaired reserve funds post regulatory adjustment	1 759 844	1 776 598
Total Additional Tier 1 capital and reserve funds:	-	-
Additional Tier 1 capital and reserve funds	-	-
Additional Tier 1 regulatory adjustments	-	-
Tier 2 capital and unimpaired reserve funds prior to adjustments and deductions	16 038	15 448
General allowance for credit impairment, after deferred tax: standardised approach	16 038	15 448
Tier 2 regulatory adjustments	-	-
Total qualifying capital and reserve funds	1 775 882	1 792 046

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3.7 Capital management (continued)

Table 3.7.1 Capital structure and regulatory capital adequacy (continued)

As at 30 June 2015

The Bank does not have a countercyclical buffer requirement as this has not been imposed by the Bank Supervision Department of the South African Reserve Bank and will only be phased in from 1 January 2016.

		Mercantile Bank Holdings Limited Group	Mercantile Bank Limited Company
Capital adequacy ratio (%)			
Common Equity Tier 1		20.30%	21.82%
Tier 1		20.30%	21.82%
Total		20.48%	22.01%
Minimum required ratio (amount R'000)			
Common Equity Tier 1	@6.5%	563 631	529 347
Tier 1	@8.0%	693 700	651 504
Total	@10.0%	867 125	814 380

Table 3.7.2 Total risk weighted exposure and required regulatory capital

As at 30 June 2015

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Risk weighted exposure equivalent amount prior to concentration risk	8 671 250	8 143 796
Risk weighted exposure equivalent amount in respect of concentration risk	-	-
Risk weighted exposure amount in respect of threshold items	-	3
Aggregate risk weighted exposure equivalent amounts	8 671 250	8 143 799
Minimum required capital and reserve funds	867 125	814 380

The Group has documented its Internal Capital Adequacy Assessment Process (“ICAAP”), which was approved by the Board of Directors. Evaluations were made of the various direct, indirect and associated risks faced by the Bank and the related mitigating controls that are in place.

The disclosures of the composition of capital and main capital features for the Group and the Bank, required per Directive 3 of 2015, issued in terms of section 6(6) of the Banks Act of 1990, are set out in Annexures A and B, respectively.

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3.8 Liquidity disclosures

In terms of Regulation 43(1)(e)(iii)(F), the Liquidity Coverage Ratio (“LCR”) positions of the Group and of the Bank, as at 30 June 2015, are set out below.

Table 3.8 Liquidity disclosures
As at 30 June 2015

	Mercantile Bank Holdings Group R’000	Mercantile Bank Limited Company R’000
High Quality Liquid Assets (HQLA)	675 498	675 498
Net cash outflows	257 552	257 552
Required LCR (%)	60.0	60.0
Actual LCR (%)	262.3	262.3

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4. Financial performance and financial position

STATEMENT OF FINANCIAL POSITION

	Note	Change %	30 June 2015 Unaudited R'000	30 June 2014 Unaudited R'000	31 December 2014 Audited R'000
ASSETS					
Intangible assets			187,518	193,556	188,476
Property and equipment			217,794	192,440	214,994
Tax			5,841	4,135	133
Other accounts receivable			122,158	135,990	154,359
Other investments			6,388	5,799	6,388
Deferred tax assets			651	5,990	496
Non-current assets held for sale			18,452	13,474	13,482
Loans and advances		20.6	6,969,617	5,779,732	6,223,991
Derivative financial instruments			9,717	9,588	6,132
Negotiable securities		61.5	581,547	360,145	440,767
Cash and cash equivalents		(10.2)	1,272,084	1,416,733	1,518,444
Total assets		15.7	9,391,767	8,117,582	8,767,662
EQUITY AND LIABILITIES					
Total equity attributable to equity holders of the parent		4.7	1,937,680	1,851,242	1,901,981
Share capital and share premium			1,207,270	1,207,270	1,207,270
Capital redemption reserve fund	1		-	3,788	3,788
Employee benefits reserve			(7,453)	(6,187)	(7,453)
General reserve	1		-	7,478	7,478
Property revaluation reserve			110,147	101,420	110,147
Available-for-sale reserve			1,642	4,422	4,635
Retained earnings			626,074	533,051	576,116
Non-controlling interests			(1,568)	(1,729)	(2,070)
Total equity			1,936,112	1,849,513	1,899,911
Liabilities					
			7,455,655	6,268,069	6,867,751
Deferred tax liabilities			66,113	71,701	66,115
Long-term funding	2	12.0	653,929	584,048	527,559
Debt securities			202,764	180,532	202,764
Deposits		20.1	6,166,123	5,134,126	5,792,204
Derivative financial instruments			10,737	7,367	8,727
Provisions and other liabilities			76,985	68,603	79,085
Tax			992	-	5,213
Other accounts payable			278,012	221,692	186,084
Total equity and liabilities		15.7	9,391,767	8,117,582	8,767,662

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STATEMENT OF INCOME

	Note	Change %	Six months ended 30 June 2015 R'000 Unaudited	Six months ended 30 June 2014 R'000 Unaudited	12 months ended 31 December 2014 R'000 Audited
Interest income			364,910	306,387	640,240
Interest expense			(173,151)	(138,019)	(290,858)
Net interest income		13.9	191,759	168,368	349,382
Net (charge for) credit losses	3	(22.1)	(16,231)	(20,825)	(34,029)
Net interest income after credit losses			175,528	147,543	315,353
Net non-interest income		5.1	116,961	111,311	234,100
Non-interest income			193,537	195,846	418,179
Fee and commission expenditure			(76,576)	(84,535)	(184,079)
Net interest and non-interest income			292,489	258,854	549,453
Operating expenditure		13.4	(201,637)	(177,785)	(368,778)
Profit before tax		12.1	90,852	81,069	180,675
Tax			(25,990)	(23,501)	(53,022)
Profit after tax		12.7	64,862	57,568	127,653
Profit after tax attributable to:					
Equity holders of the parent		11.1	64,360	57,913	128,339
Non-controlling interests			502	(345)	(686)
			64,862	57,568	127,653

Explanatory notes

1. The capital redemption reserve fund and general reserve were transferred to retained earnings during the first half of 2015.
2. A loan was obtained from the International Finance Corporation in 2011 - repayments in this regard commenced in September 2014 with the final payment due in September 2018. An additional funding line of USD 15 million was obtained from a CGD group company, Banco Nacional Ultramarino S.A. (Macau), during the first half of 2015. This is a one year loan renewable annually for a maximum of three years.
3. The charge for credit losses as a percentage of average loans and advances is 0.49% (June 2014: 0.76%).

5. Remuneration

The Regulations require that the Group’s remuneration policy, processes and procedures be disclosed to the public. Sufficient detail of qualitative and quantitative information has been disclosed as part of the corporate governance section of the Group’s integrated annual report for the financial year ended 31 December 2014.

6. Qualitative disclosures and accounting policies

The Regulations require that certain qualitative disclosures and statements on accounting policy be made. These required regulatory qualitative disclosures and statements on accounting policy were made in the Group integrated annual report for the financial year ended 31 December 2014.

The above disclosures should be read in conjunction with the qualitative disclosures made in the sections on risk management and control, and corporate governance and statements on Group accounting policy contained in the Group integrated annual report as at 31 December 2014.

2 September 2015

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ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Group

As at 30 June 2015

R'000		Basel III common disclosures template to be used during the transition of regulatory adjustments (i.e. from 1 June 2013 to 1 January 2018)		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1 207 270		
2	Retained earnings	595 464		
3	Accumulated other comprehensive income (and other reserves)	104 334		
4	Directly issued capital subject to phase out from CET 1 (only applicable to non-joint stock companies)	0		
	<i>Public sector capital injections grandfathered until 1 January 2018</i>	0		
5	Common share capital issued by subsidiaries and held third parties (amounts allowed in group CET)	-1 568	-1 568	
6	Common Equity Tier 1 capital before regulatory adjustments	1 905 500		
Common Equity Tier 1 capital: regulatory adjustments				
7	Prudential valuation adjustments	0	0	
8	Goodwill (net of related tax liability)	0	0	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	145 656	145 656	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0	
11	Cash-flow hedge reserve	0	0	
12	Shortfall of provisions to expected losses	0	0	
13	Securitisation gain on sale	0	0	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0	
15	Defined-benefit pension fund net assets	0	0	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	0	0	
17	Reciprocal cross-holdings in common equity	0	0	
18	Investments in the capital of banking, financial, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	0	

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19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amounts above 10% threshold)	0	0
20	Mortgage servicing rights (amount above 10% threshold)	0	0
21	Deferred tax assets arising from temporary differences (amounts above 10% threshold, net of related tax liability)	0	0
22	Amount exceeding the 15% threshold	0	0
23	of which: significant investments in the common stock of financials	0	0
24	of which: mortgage servicing rights	0	0
25	of which: deferred tax assets arising from temporary differences	0	0
26	National specific regulatory adjustments	0	0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT	145 656	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	145 656	
	OF WHICH:	0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0	
28	Total regulatory adjustments to Common Equity Tier 1	145 656	
29	Common Equity Tier 1 capital (CET1)	1 759 844	
Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	0	
34	Additional Tier 1 instruments (and CET1 instruments not included in line 5) issued by subsidiaries and held by third parties (amounts allowed in group AT1)	0	
35	of which: instruments issued by subsidiaries subject to phase out	0	
36	Additional Tier 1 capital before regulatory adjustments	0	
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	0	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments	0	0
39	Investments in the capital of banking, financial, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	0	0
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
41	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT	0	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	0	
	OF WHICH:	0	

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42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	0	
43	Total regulatory adjustments to Additional Tier 1 capital	0	
44	Additional Tier 1 capital (AT1)	0	
45	Tier 1 capital (T1= CET1 + AT1)	1 759 844	
Tier 2 capital and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0	
47	Directly issued capital instruments subject to phase out from Tier 2	0	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in lines 5 to 34) issued by subsidiaries and held by third parties (amounts allowed in group Tier 2)	0	
49	of which: instruments issued by subsidiaries subject to phase out	0	
50	Provisions	16 038	
51	Tier 2 capital before regulatory adjustments	16 038	
Tier 2 capital: regulatory adjustments			
52	Investment in own Tier 2 instruments	0	0
53	Reciprocal cross-holdings in Tier 2 instruments	0	0
54	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	0	0
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
56	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT	0	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	0	
	OF WHICH:	0	
57	Total regulatory adjustments to Tier 2 capital	0	
58	Tier 2 capital (T2)	16 038	
59	Total capital (TC= T1 + T2)	1 775 882	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	8 671 250	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	Total risk weighted assets	8 671 250	

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Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	20.30
62	Tier 1 (as a percentage of risk weighted assets)	20.30
63	Total capital (as a percentage of risk weighted assets)	20.48
64	Institution specific buffers requirements (minimum CET1 requirement plus capital conservation buffers plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.50
65	of which: capital conservation buffer requirement	0
66	of which: bank specific countercyclical buffer requirement	0
67	of which: G-SIB buffer requirement	0
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	20.30
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	6.50
70	National Tier 1 minimum ratio	8.00
71	National total capital minimum ratio	10.00
Amounts below the threshold for deductions (before risk weighting)		
72	Non-significant investments in the capital of other financials	0
73	Significant investments in common stock of financials	0
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	0
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	16 038
77	Cap on inclusion of provisions in Tier 2 under standardised approach	0
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	0
Capital instruments subject to phase-out arrangement (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	0
81	Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	0
85	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

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ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Limited (solo)

As at 30 June 2015

R'000		Basel III common disclosures template to be used during the transition of regulatory adjustments (i.e. from 1 June 2013 to 1 January 2018)		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1 483 300		
2	Retained earnings	390 999		
3	Accumulated other comprehensive income (and other reserves)	47 955		
4	Directly issued capital subject to phase out from CET 1 (only applicable to non-joint stock companies) <i>Public sector capital injections grandfathered until 1 January 2018</i>	0		
5	Common share capital issued by subsidiaries and held third parties (amounts allowed in group CET)	0		0
6	Common Equity Tier 1 capital before regulatory adjustments	1 922 254		
Common Equity Tier 1 capital: regulatory adjustments				
7	Prudential valuation adjustments	0		0
8	Goodwill (net of related tax liability)	0		0
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	145 656		145 656
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0		0
11	Cash-flow hedge reserve	0		0
12	Shortfall of provisions to expected losses	0		0
13	Securitisation gain on sale	0		0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0		0
15	Defined-benefit pension fund net assets	0		0
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	0		0
17	Reciprocal cross-holdings in common equity	0		0
18	Investments in the capital of banking, financial, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0		0

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

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19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amounts above 10% threshold)	0	0
20	Mortgage servicing rights (amount above 10% threshold)	0	0
21	Deferred tax assets arising from temporary differences (amounts above 10% threshold, net of related tax liability)	0	0
22	Amount exceeding the 15% threshold	0	0
23	of which: significant investments in the common stock of financials	0	0
24	of which: mortgage servicing rights	0	0
25	of which: deferred tax assets arising from temporary differences	0	0
26	National specific regulatory adjustments	0	0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT	145 656	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	145 656	
	OF WHICH:	0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0	
28	Total regulatory adjustments to Common Equity Tier 1	145 656	
29	Common Equity Tier 1 capital (CET1)	1 776 598	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	0	
34	Additional Tier 1 instruments (and CET1 instruments not included in line 5) issued by subsidiaries and held by third parties (amounts allowed in group AT1)	0	
35	of which: instruments issued by subsidiaries subject to phase out	0	
36	Additional Tier 1 capital before regulatory adjustments	0	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	0	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments	0	0
39	Investments in the capital of banking, financial, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	0	0
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
41	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT	0	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
		0	
	OF WHICH:	0	

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

30 June 2015

42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	0	
43	Total regulatory adjustments to Additional Tier 1 capital	0	
44	Additional Tier 1 capital (AT1)	0	
45	Tier 1 capital (T1= CET1 + AT1)	1 776 598	
Tier 2 capital and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0	
47	Directly issued capital instruments subject to phase out from Tier 2	0	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in lines 5 to 34) issued by subsidiaries and held by third parties (amounts allowed in group Tier 2)	0	
49	of which: instruments issued by subsidiaries subject to phase out	0	
50	Provisions	15 448	
51	Tier 2 capital before regulatory adjustments	15 448	
Tier 2 capital: regulatory adjustments			
52	Investment in own Tier 2 instruments	0	0
53	Reciprocal cross-holdings in Tier 2 instruments	0	0
54	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	0	0
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
56	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	0	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	0	
	OF WHICH:	0	
57	Total regulatory adjustments to Tier 2 capital	0	
58	Tier 2 capital (T2)	15 448	
59	Total capital (TC= T1 + T2)	1 792 046	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	8 143 800	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	Total risk weighted assets	8 143 800	

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

30 June 2015

Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	21.82
62	Tier 1 (as a percentage of risk weighted assets)	21.82
63	Total capital (as a percentage of risk weighted assets)	22.01
64	Institution specific buffers requirements (minimum CET1 requirement plus capital conservation buffers plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.50
65	of which: capital conservation buffer requirement	0
66	of which: bank specific countercyclical buffer requirement	0
67	of which: G-SIB buffer requirement	0
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	21.82
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	6.50
70	National Tier 1 minimum ratio	8.00
71	National total capital minimum ratio	10.00
Amounts below the threshold for deductions (before risk weighting)		
72	Non-significant investments in the capital of other financials	0
73	Significant investments in common stock of financials	0
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	0
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	15 448
77	Cap on inclusion of provisions in Tier 2 under standardised approach	0
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	0
Capital instruments subject to phase-out arrangement (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	0
81	Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	0
85	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

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ANNEXURE B: MAIN FEATURES DISCLOSURE TEMPLATE

Mercantile Bank Group and Mercantile Bank Limited (solo)

As at 30 June 2015

Disclosure template for main features of regulatory capital instruments			
1	Issuer	Mercantile Bank Limited	Mercantile Bank Holdings Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Unlisted	Unlisted
3	Governing Law(s) of the instrument	Banks Act, Companies Act	Banks Act, Companies Act
Regulatory treatment			
4	Transitional Basel III rules	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group and solo	Group
7	Instrument type (type to be specified by each jurisdiction)	Ordinary share capital	Ordinary share capital
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	R1 483 Million	R1 207 Million
9	Par value of instrument	R2.00	1 cent
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	28/03/2002	13/06/1989
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No Maturity	No Maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A

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	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	N/A	N/A
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt, Senior unsecured debt, deposits, creditors	Subordinated debt, Senior unsecured debt, deposits, creditors
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A