

**Mercantile Bank Holdings Limited and its subsidiaries
("the Group")
unaudited bi-annual disclosure
as at 31 December 2013
(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.**

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 year ending 31 December 2013.

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:

	Effective holding %	Nature of business	Fully consolidated
Company name			
Mercantile Bank Limited	100	Banking	Yes
Mercantile Insurance Brokers (Pty) Ltd	100	Insurance and assurance brokers	Yes
LSM (Troyeville) Properties (Pty) Ltd	100	Property holding	Yes
Portion 2 of Lot 8 Sandown (Pty) Ltd	100	Property holding	Yes
Custom Capital (Pty) Ltd	74.9	Rental finance	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.

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 31 December 2013

	Gross exposure ⁽²⁾	Risk-weighted exposure	Total capital required (@ 9.5%)
	R'000	R'000	R'000
<u>Portfolios</u>			
Corporate ⁽¹⁾	2 248 742	2 136 244	202 943
SME Corporate	1978 099	1 717 992	163 209
Public Sector Entities	104 816	52 408	4 979
Local government and municipalities	4 383	2 191	208
Sovereigns (Treasury bills & Government Stock)	402 149	-	-
Banks ⁽¹⁾	314 191	63 086	5 993
Retail	3 229 562	1 973 813	187 512
-Residential mortgage advances	943 334	356 475	33 865
-Retail revolving credit (Overdrafts & credit cards)	44 514	15 777	1 499
-SME retail	2 097 408	1 500 937	142 589
-Retail – other	144 306	100 624	9 559
Total	8 281 942	5 945 734	564 844

(1) Included in 'Corporate' and 'Banks' exposures are money market funds of R1 224 million and R169 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.

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

31 December 2013

Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques
As at 31 December 2013

	Gross credit exposure after set off (2) R'000	Credit risk mitigation (3) R'000	Credit exposure after risk mitigation R'000
<u>Major types of credit exposure</u>			
Corporate (1)	2 248 742	1 718	2 247 024
SME Corporate	1 978 099	31 183	1 946 916
Public Sector Entities	104 816	-	104 816
Local government and municipalities	4 383	-	4 383
Sovereigns (Treasury bills & Government Stock)	402 149	-	402 149
Banks (1)	314 191	1	314 190
Retail	3 229 562	92 120	3 137 442
-Residential mortgage advances	943 334	5 451	937 883
-Retail revolving credit (Overdrafts & credit cards)	44 514	-	44 514
-SME retail	2 097 408	74 199	2 023 209
-Retail – other	144 306	12 470	131 836
Total	8 281 942	125 022	8 156 920

(1) Included in ‘Corporate’ and ‘Banks’ exposures are money market funds of R1 224 million and R169 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) 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 31 December 2013, 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 and 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 cession 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.

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

31 December 2013

Table 3.1.3 Geographical distribution of credit exposure

As at 31 December 2013

Geographical area	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
South Africa	7 037 086	1 102 044	5 522	8 144 652
Other	137 290	-	-	137 290
- Africa (excl South Africa)	958	-	-	958
- Asia	600	-	-	600
- Australia	34	-	-	34
- Europe - CGD	10 025	-	-	10 025
- Other institutions	13 746	-	-	13 746
- North America	111 927	-	-	111 927
Total	7 174 376	1 102 044	5 522	8 281 942

Table 3.1.4 Analyses of credit exposure based on industry sector

As at 31 December 2013

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	80 530	10 011	-	90 541
Mining and quarrying	262 382	28 810	-	291 192
Manufacturing	529 227	114 500	51	643 778
Electricity, gas and water supply	11 864	2 704	-	14 568
Construction	228 179	52 298	111	280 588
Wholesale and retail trade, repair of specified items, hotels and restaurants	1 323 921	318 980	491	1 643 392
Transport, storage and communication	93 502	15 418	-	108 920
Financial intermediation and insurance	1 938 391	63 730	4 299	2 006 420
Real estate	936 805	45 551	3	982 359
Business services	445 589	38 724	32	484 345
Community, social and personal services	126 718	979	31	127 728
Private households	277 999	24 769	15	302 783
Other	919 269	385 570	489	1 305 328
Total	7 174 376	1 102 044	5 522	8 281 942

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2013

Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 31 December 2013

	Total derivative instruments R'000	Maximum counterparty credit exposure R'000
Counterparty credit risk		
Total Notional Principal amount	49 302	69 749
Gross replacement cost	5 029	8 892
Net replacement cost	5 029	8 892
Gross potential future exposure add-on	493	549
Net potential future exposure add-on	493	549
Adjusted exposure amount	5 522	9 441
Risk weighted exposure	3 180	5 201

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

These derivative risks are done 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.

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2013

Table 3.1.6 Daily average gross credit exposure
For the year ended 31 December 2013

	Average gross credit exposure R'000
Summary of on-balance sheet and off-balance sheet credit exposure	
Asset class	
Liquid assets	1 807 828
Cash and cash equivalents - Rand denominated	1 307 832
Cash and cash equivalents - Foreign currency denominated	146 622
Negotiable securities	353 374
Gross loans and other advances	5 548 146
Current accounts	1 410 200
Credit card	20 881
Mortgage loans	2 348 361
Instalment sales and leases	691 740
Other advances	1 076 964
Gross other assets	13 729
Investments	5 053
Derivative financial assets	8 676
On-balance sheet exposure	7 369 703
Guarantees	330 230
Letters of credit	22 436
Committed undrawn facilities	75 308
Revocable overdraft facilities	498 319
Operating lease commitment	9 134
Off-balance sheet exposure	935 427
Total gross credit exposure	8 305 130

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2013

Table 3.1.7 Impairments of loans and advances per geographical area
As at 31 December 2013

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	186 955	-		
Impairments for credit losses				
Portfolio impairments	7 555	-		
Specific impairments	33 192	-		
	40 747	-		
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	27 145	53 107	40 806	121 058
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 year ended 31 December 2013

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 year	12 302	62 931	75 233
Movements for the year			
Credit losses written-off	-	(50 068)	(50 068)
Net impairments raised	(4 747)	20 329	15 582
Credit impairments: balance at the end of the year	7 555	33 192	40 747

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2013

Table 3.1.9 Write-offs and recoveries reflected in the statement of comprehensive income
For the year ended 31 December 2013

	South Africa
	R'000
Net charge for credit losses in statement of comprehensive income	
Movements for the year:	
Bad debts recovered	1 553
Net impairments raised	(15 582)
Amounts directly written off to other comprehensive income	(5 460)
Net charge for credit losses	(19 489)

Table 3.1.10 Credit portfolio maturity analysis
As at 31 December 2013

	Cash and cash equivalents and current accounts(1)	Credit cards	Mortgage loans	Instalment sales and leases	Other advances (2)	Negotiable securities	Total Advances
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Maturing up to one month	2 473 562	19 521	436	3 937	39 418	36 941	2 573 815
Maturing between one and three months	-	-	5 311	8 085	7 069	106 820	127 285
Maturing between three and six months	-	-	3 850	8 671	12 125	210 415	235 061
Maturing between six months and one year	-	-	203 568	22 349	19 582	125 096	370 595
Maturing after one year	-	-	1,953 653	667 477	1 052 030	17 336	3 690 496
	2 473 562	19 521	2 166 818	710 519	1 130 224	496 608	6 997 252

(1) Cash and cash equivalents includes money market funds, rand denominated domestic bank balances and foreign currency denominated bank balances.

(2) Other advances include medium-term and structured loans.

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2013

3.2 Operational risk

The Group currently holds R96.8 million in operational risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 9.5%).

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 R5.7 million in market risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 9.5%).

3.4 Equity positions

Investments consist of unlisted and listed 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 31 December 2013

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 9.5%) R'000
Investments				
Unlisted	Shares	5 799	5 799	551
		5 799	5 799	551

Table 3.4.2 Realised and unrealised gains on equity investments

For the year ended 31 December 2013

	Total R'000
Realised gains and losses in profit and loss for the year	
Listed	16 310
	16 310
Unrealised cumulative gains and losses recognised directly in equity	
Listed	33
Unlisted	5 562
	5 595

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2013

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 31 December 2013

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	2 875 244	3 102 738	(227 494)
Maturing between one and three months	191 014	1 033 680	(842 666)
Maturing between three and six months	236 437	287 410	(50 973)
Maturing between six months and one year	371 037	452 466	(81 429)
Maturing after one year	3 690 580	954 539	2 736 041
Non-contractual	369 536	110 755	258 781
	7 733 848	5 941 588	1 792 260

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 31 December 2013

	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)	32 563	32 563
Interest rate decrease (200bps decrease)	(46 755)	(46 755)

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2013

3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 31 December 2013

	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	1 483 299
Ordinary shares	36 140	124 969
Share premium	1 171 130	1 358 330
Qualifying retained profits	455 248	249 059
Retained earnings	475 248	269 059
Less: unappropriated profits	(20 000)	(20 000)
Accumulated other comprehensive income and reserves	104 393	51 731
Unrealised gains and losses on available for sale items	(50)	45 618
Actuarial reserve	(6 187)	(6 187)
Property revaluation reserve	99 364	69
General reserve	7 478	12 231
Other capital reserve funds	3 788	-
Minority interest recognised in common equity tier 1 capital and reserve funds	(1 383)	-
Total common equity tier 1 capital and unimpaired reserve funds prior to regulatory adjustment	1 765 528	1 784 089
Total of specified adjustments to and deductions from common equity tier 1 capital and reserve funds	(196 468)	(196 466)
Intangible assets	(196 468)	(196 466)
Total common equity tier 1 capital and unimpaired reserve funds post regulatory adjustment	1 569 060	1 587 623
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	6 194	5 587
General allowance for credit impairment, after deferred tax: standardised approach	6 194	5 587
Tier 2 regulatory adjustments	-	-
Total qualifying capital and reserve funds	1 575 254	1 593 210

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2013

3.7 Capital management (continued)

Table 3.7.1 Capital structure and regulatory capital adequacy (continued)

As at 31 December 2013

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		21.36%	20.33%
Tier 1		21.36%	20.33%
Total		21.45%	20.40%
Minimum required ratio (amount R'000)			
Common Equity Tier 1	@ 4.5%	330 508	351 360
Tier 1	@ 6.0%	440 679	468 480
Total	@ 9.5%	697 741	741 760

Table 3.7.2 Total risk weighted exposure and required regulatory capital

As at 31 December 2013

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Risk weighted exposure equivalent amount prior to concentration risk	7 344 642	7 291 797
Risk weighted exposure equivalent amount in respect of concentration risk	-	516 203
Risk weighted exposure amount in respect of threshold items	-	3
Aggregate risk weighted exposure equivalent amounts	7 344 642	7 808 003
Minimum required capital and reserve funds	697 741	741 760

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

The Group and Bank’s composition of capital and main capital features disclosure, required per directive 8 of 2013, issued in terms of section 6(6) of the Banks Act of 1990, is disclosed in Annexures A and B, respectively.

4. Financial performance and financial position

Information pertaining to the financial performance and financial position for the year ended 31 December 2013 is available on the Group’s website: www.mercantile.co.za

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 2013.

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 2013.

The above disclosures should be read in conjunction with the qualitative disclosures made in the risk management and control, corporate governance and statements on Group accounting policy contained in the Group integrated annual report as at 31 December 2013.

24 March 2014

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2013

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Group

As at 31 December 2013

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	
R'000			
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	455 248	
3	Accumulated other comprehensive income (and other reserves)	104 393	
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)	(1 383)	(1 383)
6	Common Equity Tier 1 capital before regulatory adjustments	1 765 528	
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)	196 468	196 468
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”)

31 December 2013

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	196 468	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	196 468	
	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	196 468	
29	Common Equity Tier 1 capital (CET1)	1 569 060	
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	

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

31 December 2013

	OF WHICH:		0
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)		1 569 060
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		6 194
51	Tier 2 capital before regulatory adjustments		6 194
Tier 2 capital: regulatory adjustments			
52	Investment in own Tier 2 instruments		0
53	Reciprocal cross-holdings in Tier 2 instruments		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
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
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)		6 194
59	Total capital (TC= T1 + T2)		1 575 254
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		7 344 642
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:		0
60	Total risk weighted assets		7 344 642
Capital ratios			

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

31 December 2013

61	Common Equity Tier 1 (as a percentage of risk weighted assets)	21.36
62	Tier 1 (as a percentage of risk weighted assets)	21.36
63	Total capital (as a percentage of risk weighted assets)	21.45
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)	21.36
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	4.50
70	National Tier 1 minimum ratio	6.00
71	National total capital minimum ratio	9.50
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)	6 194
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”)
31 December 2013

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Limited (solo)

As at 31 December 2013

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	
R'000			
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	1 483 299	
2	Retained earnings	249 059	
3	Accumulated other comprehensive income (and other reserves)	51 731	
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	1 784 089	
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)	196 466	196 466
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
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of	0	0

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

31 December 2013

	regulatory consolidation, net of eligible short positions (amounts above 10% threshold)		
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	196 466	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	196 466	
	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	196 466	
29	Common Equity Tier 1 capital (CET1)	1 587 623	
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”)

31 December 2013

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)	1 587 623	
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	5 587	
51	Tier 2 capital before regulatory adjustments	5 587	
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)	5 587	
59	Total capital (TC= T1 + T2)	1 593 210	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	7 808 003	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	Total risk weighted assets	7 808 003	
Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	20.33	
62	Tier 1 (as a percentage of risk weighted assets)	20.33	
63	Total capital (as a percentage of risk weighted assets)	20.40	

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

31 December 2013

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)	20.33
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	4.50
70	National Tier 1 minimum ratio	6.00
71	National total capital minimum ratio	9.50
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)	5 587
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”)
31 December 2013

ANNEXURE B: MAIN FEATURES DISCLOSURE TEMPLATE

Mercantile Bank Group and Mercantile Bank Limited (solo)

As at 31 December 2013

Set out below is the template that banks must use to ensure that the key features of all regulatory capital instruments are disclosed. Banks will be required to complete all of the shaded cells for each outstanding regulatory capital instrument (banks should insert "N/A" if the question is not applicable).

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

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

31 December 2013

15	Optional call date contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	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