

**Mercantile Bank Holdings Limited and its subsidiaries
("the Group")
unaudited bi-annual disclosure
as at 31 December 2014
(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 2014.

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
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.

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 2014

	Gross exposure ⁽²⁾	Risk-weighted exposure	Total capital required (@ 10.0%)
	R'000	R'000	R'000
<u>Portfolios</u>			
Corporate ⁽¹⁾	1 570 885	1 464 010	146 401
SME Corporate ⁽³⁾	3 149 264	2 621 212	262 121
Public Sector Entities ⁽³⁾	67 846	34 349	3 435
Sovereigns (Treasury bills & Government Stock)	384 439	-	-
Banks ⁽¹⁾	585 044	220 274	22 027
Retail	3 489 653	2 144 410	214 441
-Residential mortgage advances	1 032 825	419 378	41 938
-Retail revolving credit (Overdrafts & credit cards)	44 156	13 027	1 303
-SME retail ⁽³⁾	2 253 005	1 604 695	160 470
-Retail – other ⁽³⁾	159 667	107 310	10 731
Total	9 247 131	6 484 255	648 425

- (1) Included in ‘Corporate’ and ‘Banks’ exposures are money market funds of R662 million and R379 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 R290 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 31 December 2014

	Gross credit exposure after set off (2)	Credit risk mitigation (4)	Credit exposure after risk mitigation
	R'000	R'000	R'000
<u>Major types of credit exposure</u>			
Corporate (1)	1 570 885	1 718	1 569 167
SME Corporate (3)	3 149 264	139 233	3 010 031
Public Sector Entities (3)	67 846	-	67 846
Sovereigns (Treasury bills & Government Stock)	384 439	-	384 439
Banks (1)	585 044	-	585 044
Retail	3 489 653	71 196	3 418 457
-Residential mortgage advances	1 032 825	9 624	1 023 201
-Retail revolving credit (Overdrafts & credit cards)	44 156	-	44 156
-SME retail (3)	2 253 005	50 427	2 202 578
-Retail – other (3)	159 667	11 145	148 522
Total	9 247 131	212 147	9 034 984

- (1) Included in ‘Corporate’ and ‘Banks’ exposures are money market funds of R662 million and R379 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 R290 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 31 December 2014, 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.

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Table 3.1.3 Geographical distribution of credit exposure

As at 31 December 2014

Geographical area	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
South Africa	7 471 506	1 471 673	6 725	8 949 904
Other	297 227	-	-	297 227
- Africa (excl South Africa)	71 733	-	-	71 733
- Asia	183	-	-	183
- Australia	2 143	-	-	2 143
- Europe	109 015	-	-	109 015
- North America	114 153	-	-	114 153
Total	7 768 733	1 471 673	6 725	9 247 131

Table 3.1.4 Analyses of credit exposure based on industry sector

As at 31 December 2014

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	171 821	33 175	136	205 132
Mining and quarrying	300 938	101 578	-	402 516
Manufacturing	740 429	235 898	355	976 682
Electricity, gas and water supply	52 096	3 379	19	55 494
Construction	222 344	67 954	102	290 400
Wholesale and retail trade, repair of specified items, hotels and restaurants	1 102 328	353 680	892	1 456 900
Transport, storage and communication	93 512	20 153	-	113 665
Financial intermediation and insurance	2 129 945	125 896	4 389	2 260 230
Real estate	1 364 559	205 258	5	1 569 822
Business services	533 430	102 615	379	636 424
Community, social and personal services	211 135	37 692	447	249 274
Private households	333 234	67 451	-	400 685
Other	512 962	116 944	1	629 907
Total	7 768 733	1 471 673	6 725	9 247 131

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Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 31 December 2014

	Total derivative instruments R'000	Maximum counterparty credit exposure R'000
Counterparty credit risk		
Total Notional Principal amount	66 419	73 061
Gross replacement cost	6 061	10 546
Net replacement cost	6 061	10 546
Gross potential future exposure add-on	664	731
Net potential future exposure add-on	664	731
Adjusted exposure amount	6 725	11 277
Standardised CVA	1 943	2 015
Risk weighted exposure	5 894	8 217

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 year ended 31 December 2014

	Average gross credit exposure R'000
Summary of on-balance sheet and off-balance sheet credit exposure	
Asset class	
Liquid assets	1 965 261
Cash and cash equivalents - Rand denominated	1 280 165
Cash and cash equivalents - Foreign currency denominated	254 920
Negotiable securities	430 176
Gross loans and other advances	5 841 321
Current accounts	1 392 035
Credit cards	18 602
Mortgage loans	2 290 673
Instalment sales and leases	768 364
Other advances	1 371 647
Gross other assets	14 684
Investments	6 184
Derivative financial assets	8 500
On-balance sheet exposure	7 821 266
Guarantees	467 449
Letters of credit	33 241
Committed undrawn facilities	381 596
Revocable overdraft facilities	593 304
Operating lease commitment	10 865
Off-balance sheet exposure	1 486 455
Total gross credit exposure	9 307 721

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Table 3.1.7 Impairments of loans and advances per geographical area
As at 31 December 2014

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	210 079	-		
Impairments for credit losses				
Portfolio impairments	11 727	-		
Specific impairments	27 998	-		
	39 725	-		
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	20 530	3 139	2 051	25 720
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 2014

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	7 555	33 192	40 747
Movements for the year			
Credit losses written-off	-	(31 797)	(31 797)
Net impairments raised	4 172	26 603	30 775
Credit impairments: balance at the end of the year	11 727	27 998	39 725

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Table 3.1.9 Write-offs and recoveries reflected in the statement of comprehensive income
For the year ended 31 December 2014

	South Africa R’000
Net charge for credit losses in statement of comprehensive income	
Movements for the year:	
Bad debts recovered	4 246
Net impairments raised	(30 775)
Amounts directly written off to other comprehensive income	(7 500)
Net charge for credit losses	(34 029)

Table 3.1.10 Credit portfolio maturity analysis
As at 31 December 2014

	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	2 451 643	17 942	-	3 418	38 537	-	2 511 540
Maturing between one and three months	-	-	31	1 821	2 324	215 074	219 250
Maturing between three and six months	69 506	-	46	7 224	8 275	29 299	114 350
Maturing between six months and one year	-	-	219 225	32 833	36 866	22 925	311 849
Maturing after one year	-	-	2 236 488	777 336	1 555 078	173 469	4 742 371
	2 521 149	17 942	2 455 790	822 632	1 641 080	440 767	7 899 360

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

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

3.2 Operational risk

The Group currently holds R118.7 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 R27.1 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 31 December 2014

	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 year ended 31 December 2014

	Total R'000
Realised gains and losses in profit and loss for the year	-
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 31 December 2014

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	2 992 494	3 823 686	(831 192)
Maturing between one and three months	221 542	800 026	(578 484)
Maturing between three and six months	115 054	288 705	(173 651)
Maturing between six months and one year	312 005	389 355	(77 350)
Maturing after one year	4 742 439	1 458 559	3 283 880
Non-contractual	384 128	107 420	276 708
	8 767 662	6 867 751	1 899 911

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 31 December 2014

	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)	32 492	32 492
Interest rate decrease (200bps decrease)	(53 363)	(53 363)

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3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 31 December 2014

	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	518 094	311 188
Retained earnings	576 116	372 080
Less: unappropriated profits	(58 022)	(60 892)
Accumulated other comprehensive income and reserves	118 594	60 199
Unrealised gains and losses on available for sale items	4 636	55 353
Actuarial reserve	(7 454)	(7 454)
Property revaluation reserve	110 146	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	(2 070)	-
Total common equity tier 1 capital and unimpaired reserve funds prior to regulatory adjustment	1 841 888	1 854 687
Total of specified adjustments to and deductions from common equity tier 1 capital and reserve funds	(146 614)	(146 614)
Intangible assets	(146 614)	(146 614)
Total common equity tier 1 capital and unimpaired reserve funds post regulatory adjustment	1 695 274	1 708 073
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	11 727	11 006
General allowance for credit impairment, after deferred tax: standardised approach	11 727	11 006
Tier 2 regulatory adjustments	-	-
Total qualifying capital and reserve funds	1 707 001	1 719 079

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3.7 Capital management (continued)

Table 3.7.1 Capital structure and regulatory capital adequacy (continued)

As at 31 December 2014

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		21.33%	22.03%
Tier 1		21.33%	22.03%
Total		21.48%	22.17%
Minimum required ratio (amount R'000)			
Common Equity Tier 1	@ 5.5%	437 067	426 396
Tier 1	@ 7.0%	556 267	542 686
Total	@ 10.0%	794 668	775 265

Table 3.7.2 Total risk weighted exposure and required regulatory capital

As at 31 December 2014

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Risk weighted exposure equivalent amount prior to concentration risk	7 946 675	7 752 648
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	7 946 675	7 752 651
Minimum required capital and reserve funds	794 668	775 265

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 related 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 2014 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 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 risk management and control, corporate governance and statements on Group accounting policy contained in the Group integrated annual report as at 31 December 2014.

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ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Group

As at 31 December 2014

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	518 094	
3	Accumulated other comprehensive income (and other reserves)	118 594	
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)	(2 070)	(2 070)
6	Common Equity Tier 1 capital before regulatory adjustments	1 841 888	
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)	146 614	146 614
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	146 614	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	146 614	
	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	146 614	
29	Common Equity Tier 1 capital (CET1)	1 695 274	
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	

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	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)		1 695 274
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		11 727
51	Tier 2 capital before regulatory adjustments		11 727
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)		11 727
59	Total capital (TC= T1 + T2)		1 707 001
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	7 946 675	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	Total risk weighted assets		7 946 675

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Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	21.33
62	Tier 1 (as a percentage of risk weighted assets)	21.33
63	Total capital (as a percentage of risk weighted assets)	21.48
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)	21.33
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	5.50
70	National Tier 1 minimum ratio	7.00
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)	11 727
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 31 December 2014

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	1 483 300	
2	Retained earnings	311 188	
3	Accumulated other comprehensive income (and other reserves)	60 199	
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	1 854 687	
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)	146 614	146 614
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	146 614	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	146 614	
	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	146 614	
29	Common Equity Tier 1 capital (CET1)	1 708 073	
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	

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	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)		1 708 073
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		11 006
51	Tier 2 capital before regulatory adjustments		11 006
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)		11 006
59	Total capital (TC= T1 + T2)		1 719 079
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		7 752 651
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:		0
60	Total risk weighted assets		7 752 651

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Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	22.03
62	Tier 1 (as a percentage of risk weighted assets)	22.03
63	Total capital (as a percentage of risk weighted assets)	22.17
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)	22.03
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	5.50
70	National Tier 1 minimum ratio	7.00
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)	11 006
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 B: MAIN FEATURES DISCLOSURE TEMPLATE

Mercantile Bank Group and Mercantile Bank Limited (solo)

As at 31 December 2014

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

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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