

**Mercantile Bank Holdings Limited and its subsidiaries  
("the Group")  
Unaudited bi-annual disclosure  
31 December 2010**

**Disclosure in terms of the Banks Act, Regulation 43**

**Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)**  
**31 December 2010**

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**1. Basis of compilation**

The following information is compiled in terms of Regulation 43 of the Banks Act 1990 (as amended) the (“Regulations”), which incorporates the Basel II 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 31 December 2010.

Mercantile Bank Holdings Limited is a registered bank controlling and investment holding company. Its 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 entities within the Group are as follows:

<b>Company name</b>	<b>Effective Holding %</b>	<b>Nature of business</b>	<b>Fully consolidated</b>
LSM (Troyeville) Properties (Pty) Limited	100	Property holding	Yes
Mercantile Bank Limited	100	Banking	Yes
Mercantile Insurance Brokers (Pty) Limited	100	Insurance and assurance brokers	Yes
Portion 2 of Lot 8 Sandown (Pty) Limited	100	Property holding	Yes

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 Bank Regulations.

**Table 3.1.1 Gross credit risk exposures**

As at 31 December 2010

	<b>Gross exposure R'000</b>	<b>Risk-weighted exposure R'000</b>	<b>Total capital required (@ 9.5%) R'000</b>
<b>Portfolios</b>			
SME Corporate	3,070,916	2,663,258	253,010
Public Sector Entities	30,038	15,019	1,427
Sovereigns	234,990	-	-
Banks	822,625	164,525	15,630
Retail	616,017	245,884	23,359
SME Retail	1,900,083	1,246,346	118,403
<b>Total</b>	<b>6,674,669</b>	<b>4,335,032</b>	<b>411,829</b>

**Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques**

As at 31 December 2010

	<b>Gross credit exposure after set off R'000</b>	<b>Credit risk mitigation (!) R'000</b>	<b>Credit exposure after risk mitigation R'000</b>
<b>Major types of credit exposure</b>			
SME Corporate	3,070,916	14,822	3,056,094
Public Sector Entities	30,038	-	30,038
Sovereigns	234,990	-	234,990
Banks	822,625	-	822,625
Retail	616,017	18,898	597,119
SME Retail	1,900,083	49,813	1,850,270
<b>Total</b>	<b>6,674,669</b>	<b>83,533</b>	<b>6,591,136</b>

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**Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques (continued)**

As at 31 December 2010

(1) 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 in the form of collateral are non-qualifying in terms of the Bank 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 Banks Regulations. As at 31 December 2010, 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, the risk inherent in the product offering and the track record/payment history of the client, 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.

**Table 3.1.3 Geographical distribution of credit exposure**

As at 31 December 2010

<b>Geographical area</b>	<b>On balance sheet exposure R'000</b>	<b>Off balance sheet exposure R'000</b>	<b>Derivative instruments R'000</b>	<b>Total R'000</b>
South Africa	4,246,965	945,720	51,563	5,244,248
Other	1,430,421	-	-	1,430,421
- Africa (excl South Africa)	274	-	-	274
- Asia	2,816	-	-	2,816
- Australia	1,970	-	-	1,970
- Europe - CGD	1,372,170	-	-	1,372,170
- Other institutions	18,342	-	-	18,342
- North America	34,849	-	-	34,849
<b>Total</b>	<b>5,677,386</b>	<b>945,720</b>	<b>51,563</b>	<b>6,674,669</b>

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**Table 3.1.4 Analyses of credit exposure based on industry sector**  
As at 31 December 2010

	<b>On balance sheet exposure</b>	<b>Off balance sheet exposure</b>	<b>Derivative instruments</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>Industry sector</b>				
Agriculture, hunting, forestry and fishing	109,196	22,715	49	131,960
Mining and quarrying	10,208	12,471	-	22,679
Manufacturing	436,349	169,736	1,684	607,769
Electricity, gas and water supply	14,650	7,500	261	22,411
Construction	664,513	60,064	1,189	725,766
Wholesale and retail trade, repair of specified items, hotels and restaurants	879,164	264,858	16,138	1,160,160
Transport, storage and communication	40,420	16,042	-	56,462
Financial intermediation and insurance	2,137,288	84,829	16,012	2,238,129
Real estate	502,439	26,329	-	528,768
Business services	51,191	4,350	1,813	57,354
Community, social and personal services	7,333	8,914	188	16,435
Private households	500,380	78,375	123	578,878
Other	324,255	189,537	14,106	527,898
<b>Total</b>	<b>5,677,386</b>	<b>945,720</b>	<b>51,563</b>	<b>6,674,669</b>

**Table 3.1.5 Derivatives exposing the bank to counterparty credit risk**  
As at 31 December 2010

	<b>Total derivative instruments</b>	<b>Maximum counterparty credit exposure</b>
	<b>R'000</b>	<b>R'000</b>
<b>Counterparty credit risk</b>		
<b>Gross positive fair value</b>	<b>34,717</b>	<b>34,658</b>
<b>Current netting benefits</b>	<b>-</b>	<b>-</b>
<b>Netted current credit exposure (pre-mitigation)</b>	<b>34,717</b>	<b>34,658</b>
<b>Collateral value after haircut</b>	<b>-</b>	<b>-</b>
<b>Current exposure method</b>	<b>51,563</b>	<b>47,463</b>
<b>Credit exposure</b>	<b>21,097</b>	<b>16,356</b>

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**Table 3.1.6 Daily average gross credit exposure**  
For the year ended 31 December 2010

	<b>Average gross credit exposure R'000</b>
<b>Summary of on-balance sheet and off-balance sheet credit exposure</b>	
<b>Asset class</b>	
<b>Liquid assets</b>	<b>1,624,035</b>
Cash and cash equivalents - Rand denominated	976,926
Cash and cash equivalents - Foreign currency denominated	382,363
Negotiable securities	264,746
<b>Gross loans and advances</b>	<b>3,720,864</b>
Current accounts	663,957
Credit card	20,184
Mortgage loans	1,885,946
Instalment sales and leases	325,983
Other advances	824,794
<b>Gross other assets</b>	<b>146,765</b>
Investments	125,889
Derivative financial assets	20,876
<b>On-balance sheet exposure</b>	<b>5,491,664</b>
Guarantees	310,504
Letters of credit	18,258
Committed undrawn facilities	107,796
Revocable overdraft facilities	424,737
Operating lease commitment	11,593
<b>Off-balance sheet exposure</b>	<b>872,888</b>
<b>Total gross credit exposure</b>	<b>6,364,552</b>

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**Table 3.1.7 Impairments of loans and advances per geographical area**  
As at 31 December 2010

**Impaired and past due loans and advances by geographical area**

	<b>South Africa Gross amount R'000</b>	<b>Other Gross amount R'000</b>
<b>Individually impaired loans and advances</b>	<b>229,010</b>	<b>-</b>
<b>Impairments for credit losses</b>		
Portfolio impairments	5,513	-
Specific impairments	62,071	-
	<b>67,584</b>	<b>-</b>

**Past due loans and advances**

**Category age analysis of loans and advances that are past due but not individually impaired**

<b>Past due for:</b>	<b>1 – 30 days</b>	<b>31 - 60 days</b>	<b>61 -90 days</b>	<b>Total gross amount R'000</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	
<b>South Africa</b>	<b>12,049</b>	<b>10,641</b>	<b>40,498</b>	<b>63,188</b>
<b>Other</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

A financial asset is past due when the counterparty has failed to make a payment when contractually due and is based on appropriate rules and assumptions per product type. An impairment loss is recognised if and only 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.

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**Table 3.1.8 Reconciliation of changes in specific and portfolio impairments**  
For the year ended 31 December 2010

**Impairments for credit losses**

<b>Reconciliation of credit impairment Statement of financial position</b>	<b>Portfolio impairment R'000</b>	<b>Specific impairment R'000</b>	<b>Total R'000</b>
Credit impairments: balance at the beginning of the year	20,750	44,078	64,828
<b>Movements for the year:</b>			
Credit losses written-off	-	(2,542)	(2,542)
Net impairments (released)/raised	(15,237)	20,535	5,298
<b>Credit impairments: balance at the end of the year</b>	<b>5,513</b>	<b>62,071</b>	<b>67,584</b>

**Table 3.1.9 Write-offs and recoveries reflected in the statement of comprehensive income**  
For the year ended 31 December 2010

	<b>South Africa R'000</b>
<b>Net charge for credit losses in statement of comprehensive income</b>	
Movements for the year:	
Bad debts recovered	(1,876)
Net impairments raised	5,298
<b>Net charge for credit losses</b>	<b>3,422</b>

**3.2 Operational risk**

The Group currently holds R76.8 million in operational risk capital in terms of the standardised approach for the calculation of this 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 R0.2 million in market risk capital in terms of the standardised approach for the calculation of this capital (based on a capital requirement of 9.5%).

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3.4 Equity positions

Investments consist of unlisted and listed equity investments and have been designated as available-for-sale.

Table 3.4.1 Equity investments  
As at 31 December 2010

	Type	Carrying amount R'000	Fair value R'000	Capital requirement R'000
<b>Investments</b>				
Listed	Shares	10,724	10,724	1,019
Unlisted	Shares	245	245	23
		<b>10,969</b>	<b>10,969</b>	<b>1,042</b>

Table 3.4.2 Realised and unrealised gains on equity investments  
For the year ended 31 December 2010

<b>Realised gains and losses in profit and loss for the year</b>		<b>Total R'000</b>
Listed		885
Unlisted		2,032
		<b>2,917</b>
<b>Unrealised cumulative gains and losses recognised directly in equity</b>		
Listed		10,724
Unlisted		41
		<b>10,765</b>

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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 the contractual maturity at reporting date:

**Table 3.5 Liquidity maturity analyses**  
As at 31 December 2010

	<b>Assets R'000</b>	<b>Liabilities R'000</b>	<b>Total mismatch R'000</b>
Maturing up to one month	2,579,700	3,154,262	(574,562)
Maturing between one and three months	83,572	589,407	(505,835)
Maturing between three and six months	281,223	249,990	31,233
Maturing between six months and one year	47,455	623,053	(575,598)
Maturing after one year	2,942,409	77,167	2,865,242
Non-contractual	319,951	21,038	298,913
	<b>6,254,310</b>	<b>4,714,917</b>	<b>1,539,393</b>

**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 borrowings in the banking book.

**Table 3.6 Net interest income sensitivity**  
As at 31 December 2010

	<b>Impact on economic value of equity R'000</b>	<b>Impact on net interest income for twelve months R'000</b>
<b>Net interest income sensitivity of a parallel shock</b>		
<b>Interest rate increase (200bps increase)</b>	<b>42,392</b>	<b>42,392</b>
<b>Interest rate decrease (200bps decrease)</b>	<b>(42,392)</b>	<b>(42,392)</b>

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3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy  
As at 31 December 2010

	Mercantile Bank Holdings Limited Group	Mercantile Bank Limited Company
	R'000	R'000
<b>Primary share capital</b>		
<b>Qualifying primary capital and reserve funds and deductions</b>		
<b>Issued primary share capital</b>	32,007	124,969
Ordinary shares	32,007	124,969
<b>Primary unimpaired reserve funds</b>	1,439,149	1,381,220
Share premium	1,170,753	1,358,330
Retained earnings	257,130	10,659
General reserve	7,478	12,231
Other capital reserve funds	3,788	-
<b>Total primary share capital and unimpaired reserve funds, before deductions, specified approved amounts and non qualifying amounts</b>	1,471,156	1,506,189
<b>Deductions against primary share capital and primary unimpaired reserve funds</b>	(224,402)	(229,794)
Intangible assets - computer software	(224,402)	(224,402)
Qualifying capital instruments held in banks	-	(5,392)
<b>Net qualifying primary share capital and reserve funds</b>	1,246,754	1,276,395
<b>Qualifying secondary capital and reserve funds</b>		
<b>Secondary unimpaired reserve funds</b>	43,007	5,161
Revaluation surplus	37,880	34
General allowance for credit impairment, after deferred tax	5,127	5,127
<b>Net qualifying secondary capital and reserve funds</b>	43,007	5,161
<b>Aggregate amount of qualifying primary and secondary capital and reserve funds</b>	1,289,761	1,281,556
<b>Capital adequacy ratio</b>	23.46%	23.77%
Primary capital	22.68%	23.67%
Secondary capital	0.78%	0.10%

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**3.7.2 Total risk weighted exposure and required regulatory capital**  
As at 31 December 2010

	<b>Mercantile Bank Holdings Limited Group</b>		<b>Mercantile Bank Limited Company</b>	
	<b>Total risk weighted exposure</b>	<b>Minimum regulatory capital</b>	<b>Total risk weighted exposure</b>	<b>Minimum regulatory capital</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>Total</b>	<b>5,497,079</b>	<b>522,223</b>	<b>5,391,380</b>	<b>512,181</b>

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 were evaluated as well as mitigating controls that are in place.

**4. Financial performance and financial position**

Information pertaining to the financial performance and financial position for the year ended 31 December 2010 has been publicly disclosed on SENS on 24 February 2011 and in the Group annual report for the financial year ended 31 December 2010.

**5. 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 annual report for the financial year ended 31 December 2010.

The above disclosures should be read in conjunction with these qualitative disclosures made in the risk management and control, corporate governance and statements on Group accounting policy contained in the Group annual report at 31 December 2010.

23 March 2011