

**Mercantile Bank Holdings Limited and its subsidiaries
("the Group")
unaudited bi-annual disclosure
as at 30 June 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 period ending 30 June 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:

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

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

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3. Detailed disclosures

3.1 Credit risk

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

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

Table 3.1.1 Gross credit risk exposures

As at 30 June 2014

	Gross exposure (2)	Risk-weighted exposure	Total capital required (@ 10.0%)
	R'000	R'000	R'000
<u>Portfolios</u>			
Corporate (1)	1 816 432	1 722 196	172 220
SME Corporate (3)	3 062 938	2 603 438	260 344
Public Sector Entities (3)	8 687	4 343	434
Local government and municipalities (3)	4 205	2 102	210
Sovereigns (Treasury bills & Government Stock)	360 145	-	-
Banks (1)	328 883	55 692	5 569
Retail	3 204 076	2 008 415	200 842
-Residential mortgage advances	995 757	377 773	37 777
-Retail revolving credit (Overdrafts & credit cards)	40 446	13 485	1 349
-SME retail (3)	2 009 250	1 510 393	151 039
-Retail – other (3)	158 683	106 764	10 676
Total	8 785 366	6 396 186	639 619

(1) Included in ‘Corporate’ and ‘Banks’ exposures are money market funds of R947 million and R66 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 R259 million held in Compass Securitisation (RF) Ltd, which is consolidated for group purposes.

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Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques
As at 30 June 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)	1 816 432	1 718	1 814 714
SME Corporate (3)	3 062 938	34 020	3 028 918
Public Sector Entities (3)	8 687	-	8 687
Local government and municipalities (3)	4 205	-	4 205
Sovereigns (Treasury bills & Government Stock)	360 145	-	360 145
Banks (1)	328 883	-	328 883
Retail	3 204 076	99 669	3 104 407
-Residential mortgage advances	995 757	34 355	961 402
-Retail revolving credit (Overdrafts & credit cards)	40 446	-	40 446
-SME retail (3)	2 009 250	54 115	1 955 135
-Retail – other (3)	158 623	11 199	147 424
Total	8 785 366	135 407	8 649 959

(1) Included in ‘Corporate’ and ‘Banks’ exposures are money market funds of R947 million and R66 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 R259 million held in Compass Securitisation (RF) Ltd, which is consolidated for group purposes.

(4) Only inward bank guarantees and eligible pledged investments and/or liquid funds are taken into account as credit risk mitigation. Inward guarantees are mainly received from CGD. Other forms of credit risk mitigation are non-qualifying collateral items in terms of the Regulations and are commented on below.

The Group uses on- and off-balance sheet netting to restrict its exposure to credit losses. When a client maintains both debit and credit balances with the Group and the Group enters into a netting agreement in respect of the relevant loans and deposits with the said counterparty, the Group may regard the exposure as a collateralised exposure in accordance with Regulation 23 of the Regulations. As at 30 June 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 30 June 2014

Geographical area	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
South Africa	7 090 046	1 436 991	10 363	8 537 400
Other	247 966	-	-	247 966
- Africa (excl South Africa)	80	-	-	80
- Asia	1 301	-	-	1 301
- Australia	475	-	-	475
- Europe - CGD	63 888	-	-	63 888
- Other institutions	48 465	-	-	48 465
- North America	133 757	-	-	133 757
Total	7 338 012	1 436 991	10 363	8 785 366

Table 3.1.4 Analyses of credit exposure based on industry sector

As at 30 June 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	175 371	7 681	-	183 052
Mining and quarrying	330 679	34 030	790	365 499
Manufacturing	663 491	157 841	304	821 636
Electricity, gas and water supply	15 481	671	27	16 179
Construction	229 246	96 861	1 524	327 631
Wholesale and retail trade, repair of specified items, hotels and restaurants	1 396 815	289 193	1 862	1 687 870
Transport, storage and communication	93 700	15 850	1	109 551
Financial intermediation and insurance	1 543 045	88 234	4 957	1 636 236
Real estate	1 097 004	342 380	1	1 439 385
Business services	534 299	96 759	255	631 313
Community, social and personal services	124 573	17 984	550	143 107
Private households	283 317	49 316	-	332 633
Other	850 991	240 191	92	1 091 274
Total	7 338 012	1 436 991	10 363	8 785 366

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Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 30 June 2014

	Total derivative instruments R'000	Maximum counterparty credit exposure R'000
Counterparty credit risk		
Total Notional Principal amount	77 607	85 367
Gross replacement cost	9 587	16 682
Net replacement cost	9 587	16 682
Gross potential future exposure add-on	776	854
Net potential future exposure add-on	776	854
Adjusted exposure amount	10 363	17 536
Standardised CVA	2 984	3 240
Risk weighted exposure	10 099	12 885

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 period ended 30 June 2014

	Average gross credit exposure R'000
Summary of on-balance sheet and off-balance sheet credit exposure	
Asset class	
Liquid assets	2 066 955
Cash and cash equivalents - Rand denominated	1 371 720
Cash and cash equivalents - Foreign currency denominated	245 681
Negotiable securities	449 554
Gross loans and other advances	5 620 652
Current accounts	1 392 393
Credit card	18 822
Mortgage loans	2 212 346
Instalment sales and leases	739 217
Other advances	1 257 874
Gross other assets	16 424
Investments	5 595
Derivative financial assets	10 829
On-balance sheet exposure	7 704 031
Guarantees	484 830
Letters of credit	23 829
Committed undrawn facilities	319 988
Revocable overdraft facilities	522 192
Operating lease commitment	9 746
Off-balance sheet exposure	1 360 585
Total gross credit exposure	9 064 616

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Table 3.1.7 Impairments of loans and advances per geographical area
As at 30 June 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	227 585	-		
Impairments for credit losses				
Portfolio impairments	12 533	-		
Specific impairments	46 911	-		
	59 444	-		
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	26 869	10 767	155 643	193 279
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 period ended 30 June 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 period	7 555	33 192	40 747
Movements for the period			
Credit losses written-off	-	(1 308)	(1 308)
Net impairments raised	4 978	15 027	20 005
Credit impairments: balance at the end of the period	12 533	46 911	59 444

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Table 3.1.9 Write-offs and recoveries reflected in the statement of comprehensive income
For the period ended 30 June 2014

	South Africa R'000
Net charge for credit losses in statement of comprehensive income	
Movements for the period:	
Bad debts recovered	1 670
Net impairments raised	(20 005)
Amounts directly written off to other comprehensive income	(2 490)
Net charge for credit losses	(20 825)

Table 3.1.10 Credit portfolio maturity analysis
As at 30 June 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	2 414 474	17 864	30	9 336	5 432	19 997	2 467 133
Maturing between one and three months	-	-	2 630	4 854	8 104	178 081	193 669
Maturing between three and six months	-	-	3 921	5 264	10 886	135 769	155 840
Maturing between six months and one year	-	-	279	20 744	21 073	9 547	51 643
Maturing after one year	-	-	2 292 487	718 228	1 447 390	16 751	4 474 856
	2 414 474	17 864	2 299 347	758 426	1 492 885	360 145	7 343 141

(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 R114.1 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 R27.3 million in market risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 10.0%).

3.4 Equity positions

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

Table 3.4.1 Equity investments

As at 30 June 2014

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 10.0%) R'000
Investments				
Unlisted	Shares	5 799	5 799	580
		5 799	5 799	580

Table 3.4.2 Realised and unrealised gains on equity investments

For the period ended 30 June 2014

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

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3.5 Liquidity risk

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

Table 3.5 Liquidity maturity analyses

As at 30 June 2014

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	2 885 123	3 346 513	(461 390)
Maturing between one and three months	196 266	739 686	(543 420)
Maturing between three and six months	156 758	398 006	(241 248)
Maturing between six months and one year	51 713	469 277	(417 564)
Maturing after one year	4 474 867	1 203 751	3 271 116
Non-contractual	351 814	110 835	240 979
	8 116 541	6 268 068	1 848 473

3.6 Interest rate risk

Interest rate sensitivity analyses

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

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

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

Table 3.6 Net interest income sensitivity

As at 30 June 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)	35 653	35 653
Interest rate decrease (200bps decrease)	(39 902)	(39 902)

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3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 30 June 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	456 527	249 062
Retained earnings	533 051	326 486
Less: unappropriated profits	(76 524)	(77 424)
Accumulated other comprehensive income and reserves	110 921	53 505
Unrealised gains and losses on available for sale items	4 422	47 392
Actuarial reserve	(6 187)	(6 187)
Property revaluation reserve	101 420	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	(2 769)	-
Total common equity tier 1 capital and unimpaired reserve funds prior to regulatory adjustment	1 771 949	1 785 867
Total of specified adjustments to and deductions from common equity tier 1 capital and reserve funds	(145 155)	(145 155)
Intangible assets	(145 155)	(145 155)
Total common equity tier 1 capital and unimpaired reserve funds post regulatory adjustment	1 626 794	1 640 712
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	12 533	11 849
General allowance for credit impairment, after deferred tax: standardised approach	12 533	11 849
Tier 2 regulatory adjustments	-	-
Total qualifying capital and reserve funds	1 639 327	1 652 561

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3.7 Capital management (continued)

Table 3.7.1 Capital structure and regulatory capital adequacy (continued)

As at 30 June 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		18.53%	21.69%
Tier 1		18.53%	21.69%
Total		18.68%	21.85%
Minimum required ratio (amount R'000)			
Common Equity Tier 1	@ 5.5%	482 786	415 990
Tier 1	@ 7.0%	614 455	529 442
Total	@ 10.0%	877 793	756 346

Table 3.7.2 Total risk weighted exposure and required regulatory capital

As at 30 June 2014

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Risk weighted exposure equivalent amount prior to concentration risk	8 777 933	7 563 457
Risk weighted exposure equivalent amount in respect of concentration risk	-	-
Risk weighted exposure amount in respect of threshold items	-	3
Aggregate risk weighted exposure equivalent amounts	8 777 933	7 563 460
Minimum required capital and reserve funds	877 793	756 346

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.

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4. Financial performance and financial position

STATEMENT OF FINANCIAL POSITION

	Note	Change %	30 June 2014 Unaudited R'000	30 June 2013 Unaudited R'000	31 December 2013 Audited R'000
ASSETS					
Intangible assets			193,556	199,146	196,468
Property and equipment			192,440	140,304	188,141
Tax			4,135	1,203	1,125
Other accounts receivable			134,950	171,341	96,908
Other investments			5,799	5,052	5,799
Deferred tax assets			5,990	2,399	6,068
Non-current assets held for sale			13,474	13,470	13,470
Loans and advances		10.1	5,779,732	5,251,832	5,227,941
Derivative financial instruments			9,588	18,338	10,630
Negotiable securities			360,145	329,101	496,608
Cash and cash equivalents		(0.4)	1,416,733	1,422,596	1,490,690
Total assets		7.4	8,116,542	7,554,782	7,733,848
EQUITY AND LIABILITIES					
Total equity attributable to equity holders of the parent		8.8	1,851,242	1,701,355	1,793,644
Share capital and share premium			1,207,270	1,207,270	1,207,270
Property revaluation reserve			101,420	76,874	99,364
Available-for-sale reserve			4,422	3,162	6,652
Capital redemption reserve fund			3,788	3,788	3,788
General reserve			7,478	7,478	7,478
Employee benefits reserve			(6,187)	(7,296)	(6,186)
Retained earnings			533,051	410,079	475,278
Non-controlling interests			(2,769)	(494)	(1,384)
Total equity			1,848,473	1,700,861	1,792,260
Liabilities					
Deferred tax liabilities			71,701	60,016	71,561
Long-term funding			584,048	582,362	583,173
Debt securities issued	1		180,532	-	-
Deposits		4.2	5,134,126	4,925,609	5,041,649
Derivative financial instruments			7,367	20,433	11,459
Provisions and other liabilities			68,603	65,754	71,733
Other accounts payable			221,692	199,562	162,013
Tax			-	185	-
Total equity and liabilities		7.4	8,116,542	7,554,782	7,733,848

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STATEMENT OF INCOME

	Note	Change %	Six months ended 30 June 2014 R'000 Unaudited	Six months ended 30 June 2013 R'000 Unaudited	12 months ended 31 December 2013 R'000 Audited
Interest income			306,387	286,476	586,022
Interest expense			(138,019)	(117,988)	(245,469)
Net interest income		-0.1	168,368	168,488	340,553
Net (charge for) credit losses	2		(20,825)	(5,542)	(19,489)
Net interest income after credit losses			147,543	162,946	321,064
Net gain on disposal of available-for-sale investments	3		-	16,310	16,310
Net non-interest income		15.5	111,311	96,397	196,495
Non-interest income			195,846	161,912	342,599
Fee and commission expenditure	4		(84,535)	(65,515)	(146,104)
Net interest and non-interest income			258,854	275,653	533,869
Operating expenditure	4	1.1	(178,826)	(176,801)	(344,881)
Profit before tax		-19.0	80,028	98,852	188,988
Tax			(23,501)	(26,852)	(52,679)
Profit after tax		-21.5	56,527	72,000	136,309
Profit after tax attributable to:					
Equity holders of the parent	5	-19.9	57,913	72,307	137,506
Non-controlling interests			(1,386)	(307)	(1,197)
			56,527	72,000	136,309

Explanatory notes

1. R260 million of Mercantile Rental Finance's (Pty) Ltd (previously Custom Capital (Pty) Ltd) rental assets, were securitised on 5 February 2014 and notes to this value were issued - class A notes of R180 million to the International Finance Corporation and class D notes of R80 million to Mercantile Rental Finance (Pty) Ltd.
2. The charge for credit losses as a percentage of average loans and advances is 0.76% (June 2013: 0.21%). Although higher than the comparative period, the charge remains below industry averages.
3. Gains were recognised on the disposal of VISA Inc. shares during the first half of 2013.
4. VISA and MasterCard fees, which are directly attributable to fee and commission income, were previously included under operating expenditure but are now disclosed under fee and commission expenditure. Comparatives for the six months ended 30 June 2013 and the year ended 31 December 2013 have been adjusted accordingly.
5. Eliminating the gains net of tax on the disposal of Visa Inc. shares from the first half 2013 results, the decrease in profit after tax attributable to equity holders of the parent is 1.9%.

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 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.

4 September 2014

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ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Group

As at 30 June 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	456 527	
3	Accumulated other comprehensive income (and other reserves)	110 921	
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)	(2 769)	(2 769)
6	Common Equity Tier 1 capital before regulatory adjustments	1 771 949	
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	0	0
8	Goodwill (net of related tax liability)	0	0
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	145 155	145 155
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0
11	Cash-flow hedge reserve	0	0
12	Shortfall of provisions to expected losses	0	0
13	Securitisation gain on sale	0	0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0
15	Defined-benefit pension fund net assets	0	0
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	0	0
17	Reciprocal cross-holdings in common equity	0	0
18	Investments in the capital of banking, financial, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	0

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19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amounts above 10% threshold)	0	0
20	Mortgage servicing rights (amount above 10% threshold)	0	0
21	Deferred tax assets arising from temporary differences (amounts above 10% threshold, net of related tax liability)	0	0
22	Amount exceeding the 15% threshold	0	0
23	of which: significant investments in the common stock of financials	0	0
24	of which: mortgage servicing rights	0	0
25	of which: deferred tax assets arising from temporary differences	0	0
26	National specific regulatory adjustments	0	0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT	145 155	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	145 155	
	OF WHICH:	0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0	
28	Total regulatory adjustments to Common Equity Tier 1	145 155	
29	Common Equity Tier 1 capital (CET1)	1 626 794	
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)		1 626 794
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		12 533
51	Tier 2 capital before regulatory adjustments		12 533
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)		12 533
59	Total capital (TC= T1 + T2)		1 639 327
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	8 777 933	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	Total risk weighted assets		8 777 933
Capital ratios			

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61	Common Equity Tier 1 (as a percentage of risk weighted assets)	18.53
62	Tier 1 (as a percentage of risk weighted assets)	18.53
63	Total capital (as a percentage of risk weighted assets)	18.68
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)	18.53
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)	12 533
77	Cap on inclusion of provisions in Tier 2 under standardised approach	0
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	0
Capital instruments subject to phase-out arrangement (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	0
81	Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	0
85	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

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ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Limited (solo)

As at 30 June 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	249 062	
3	Accumulated other comprehensive income (and other reserves)	53 505	
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	1 785 867	
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	0	0
8	Goodwill (net of related tax liability)	0	0
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	145 155	145 155
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

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	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	145 155	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	145 155	
	OF WHICH:	0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0	
28	Total regulatory adjustments to Common Equity Tier 1	145 155	
29	Common Equity Tier 1 capital (CET1)	1 640 712	
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”)

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42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	0	
43	Total regulatory adjustments to Additional Tier 1 capital	0	
44	Additional Tier 1 capital (AT1)	0	
45	Tier 1 capital (T1= CET1 + AT1)	1 640 712	
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	11 849	
51	Tier 2 capital before regulatory adjustments	11 849	
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)	11 849	
59	Total capital (TC= T1 + T2)	1 652 561	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	7 563 460	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	Total risk weighted assets	7 563 460	
Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	21.69	
62	Tier 1 (as a percentage of risk weighted assets)	21.69	
63	Total capital (as a percentage of risk weighted assets)	21.85	

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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)	21.69
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)	11 849
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 30 June 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