Integrated Annual Report 2015

for the year ended 31 December

Mercantile Bank

CELEBRATING 50 YEARS OF ENTREPRENEURIAL SPIRIT

Mercantile Bank Holdings Limited

The Business Bank inspired by entrepreneurs

Mercantile Bank
Holdings Limited
The Business Bank inspired by entrepreneurs

About Mercantile

Sustainability and governance

Annual financial statements

Get in touch online

Web: **mercantilebank.co.za**
Email: **investor@mercantilebank.co.za**

Registration number

1989/000164/06
Member of the CDG Group

Bank Regulations public disclosure

The December 2015 disclosure, required in terms of Regulation 43 of the Banks Act Regulations, is published on the Group's website.

This Integrated Annual Report is prepared in accordance with the provisions of King III. The aim of this report is to provide effective and transparent communication with all stakeholders.

OUR BRAND VALUE
AND PROPOSITION

Profile

Mercantile was founded in South Africa in 1965 and is owned by CGD, the largest bank in Portugal and a global financial services group that has been in existence for more than 120 years. Mercantile is a niche business and commercial bank that seeks to differentiate itself through great service and a deep understanding of the needs of the South African entrepreneur. Aligned with this, Mercantile has a comprehensive set of products and services catering to the everyday banking needs of businesses and entrepreneurs through our Private Bank offering.

While Mercantile operates exclusively within South Africa, it has reach into other key African markets through its parent company and fellow subsidiaries in Angola and Mozambique. There is an ongoing focus on capturing trade flows between these fast-growing economies.

Mission

We financially partner with entrepreneurs on their journey in creating a successful business.

Vision

We grow entrepreneurs through successful partnerships.

Values

We are Curious

We are visionary and innovative, dynamic and unconventional. We know that innovative thinking and action requires boldness, determination, passion and daring, and the courage to do things differently.

We are Committed

We act with absolute integrity, professionalism, honesty and transparency at all times. We value lifelong relationships above all else, and understand that success is ultimately built not on profit but on mutually beneficial partnerships.

We are Connected

We always behave in the best interest of the individual and the community we serve, and strive to deliver excellence in everything we do.

2015 SALIENT

FEATURES

MEL Teixeira *Chief Financial Officer*

16,5%
Growth in loans and advances

16,1%
Growth in deposits

22,5%
Growth in long-term funding

15,1%
Increase in profit after tax

13,6%
Increase in net interest and non-interest income

R1,6 billion
Strong level of cash and cash equivalents

2,4%
Non-performing loans as a percentage of loans and advances

R146,9 million
Profit after tax

0,5%
Credit loss ratio

7,4%
ROE

1,6%
ROA

63,6%
Cost to income

GROUP STRUCTURE

(EXCLUDING DORMANT ENTITIES)

Mercantile Bank Holdings Limited is a registered bank-controlling and investment holding company.

Its holding company is CGD and its principal operating entities as at 31 December 2015 are:

Mercantile Bank Holdings Limited

Mercantile Bank Limited — 100%

which operates in selected business, commercial, private and alliance banking niches, and offers a full range of international and domestic banking, financial and investment services

Mercantile Insurance Brokers Proprietary Limited — 100%

is an insurance brokerage. Its only source of revenue at present is the collection of legacy commission for insurance written in the past

The Mercantile Bank Foundation (NPC) — 100%

is the primary corporate social responsibility arm of the Group. The Foundation plays a fundamental role in enabling the Group to achieve its objective of making a meaningful contribution to the communities in which it operates

Mercantile Rental Finance Proprietary Limited — 74,9%

is a rental finance business that offers financing of office automation and allied equipment

Equity: 1 preference share

Compass Securitisation (RF) Limited

is a securitisation vehicle providing term funding for Mercantile Rental Finance

Portion 2 of Lot 8 Sandown Proprietary Limited — 100%

is a property-owning company. The underlying property, located in Sandton, is used by the Group as its head office

Mercantile Acquiring Proprietary Limited — 100%

is a property-owning company (located in Troyeville, Johannesburg) that leased office space to the Bank. The underlying property was sold in 2015 and the company is now dormant

Mercantile Payment Solutions Proprietary Limited (previously known as Mercantile E-Bureau Proprietary Limited) — 50%

is a joint venture company that processes and administers electronic financial transactions on behalf of customers

STRATEGY

WHY DO WE EXIST?

WE EXIST TO
GROW
ENTREPRENEURS

WE GET TO KNOW YOU

Our key differentiator is strong client relationships based on great service and an in-depth understanding of the needs of the South African entrepreneur.

This relationship is underpinned by our unique "single point of contact" management model, where the client, whatever their product or service needs, deals with a single relationship manager.

The foundation of our relationship model is based on our four pillars.

- Passionate about service
- Clients do not wait
- Tailored solutions
- Dedicated relationships

PRODUCT AND SERVICE OFFERING

DELIVERING

BECOME THE #1 BUSINESS BANK IN SOUTH AFRICA
servicing the needs of entrepreneurs

M & M 2016

A key deliverable for 2016 is to **maximise income** and **minimise cost** across all business units. Our recently launched innovative campaign will inspire and drive us to achieve these stretch goals.

Strategic projects for 2016 focus on two areas

Growing and strengthening our position in the business banking market. This includes innovative cash solutions, an offering for the medical market, creating a partner network to generate new business and cross-selling initiatives.

Building the Bank through targeting new markets and continuously improving the banking experience for both new and existing clients. This includes projects such as account opening and credit processes, a complete revamp of our Internet banking platform and development of a mobile banking platform to make it easier to do business with us.

GUIDING BEHAVIOUR

MARKET FOCUS

- We are a niche business and commercial bank, servicing the needs of entrepreneurs.
- Our focus target market is **established business** and **commercial clients**.

OPERATIONAL APPROACH

STRONG CLIENT RELATIONSHIPS

Mercantile has a comprehensive range of products and services that cater to the holistic banking needs of businesses, uniquely positioning us as a nimble and dynamic full-service banking player.

KEY PRODUCTS

- The **product range** includes **transactional banking**, **lending, foreign exchange**, **deposits and payment services**. This range is further augmented by Mercantile's Private Bank, **the first private bank in South Africa to cater exclusively to entrepreneurs**.
- "a small bank with BIG bank capability"

OUR STRATEGY AND GOALS

ACHIEVE

OUR VALUES

- ✓ We are **Curious**
- ✓ We are **Connected**
- ✓ We are **Committed**

- As a service driven organisation we have clear service standards applicable to client service as well as internal service delivery.
- Consulta, an independent market research house, has rated us #1 in terms of customer experience.

STAKEHOLDER MODEL

Creating great value for our stakeholders is one of our key deliverables.

We are passionate about meeting the needs and expectations of all our stakeholders. Great value for our stakeholders means great value for our shareholder.

EXPLORE.
DREAM.
DISCOVER.

"Twenty years from now, you will be more disappointed by the things that you didn't do than by the ones you did do; so throw off the bowlines, sail away from safe harbour, catch the trade winds in your sails"

MARK TWAIN

MERCANTILE IN TIME

2019

The Group aims to double its balance sheet from 2014.

2017

Launch SME Lite: Simple, affordable banking for small businesses.

2016

Develop and launch a product offering for medical practitioners.

Launch CashFlow Advance – a credit facility, calculated on the volume of turnover on a client's Mercantile Payment Solutions account.

Launch Cash End-to-End: This product will enable clients to deposit cash safely in-store in a secure safe, receive same-day value, and remove the risk associated with holding cash on their own premises.

Launch BaNCS Digital: Implement new Internet banking and mobile banking platforms.

Credit Lifecycle: Significantly improve the client experience in the credit application and fulfilment processes.

Client Onboarding: The goal is to significantly enhance the client experience of opening accounts.

2015

50

Celebrated 50th anniversary – 50 years of banking.

Launched ANSAMO: Increased trade flows between Mercantile and CGD's other African banking businesses in Angola and Mozambique.

Concluded Lushaka deal (R600 million): this is the largest, most complex lending transaction the Bank has done to date.

Launched CashPositive: a credit facility that is linked to the volume of turnover on a Mercantile point-of-sale device. First of its kind in South African banking.

Launched new acquiring business.

Rebranded Mercantile E-Bureau to Mercantile Payment Solutions.

Launched TESA (Tax Exempt Savings Account).

The Group grew the balance sheet to R10 billion.

2014

Launched the first Private Bank for Entrepreneurs in SA.

Introduced a new business model for the business centres in conjunction with a refurbishment to a new modern and professional style.

Renovation of the Head Office building to match the new style of the business centres.

Introduced workflow methodology and realised significant efficiency enhancements.

Rebranded Custom Capital to Mercantile Rental Finance.

2013

Launched Mercantile Online Invest.

2011

Purchase of Custom Capital (rental finance business).

2005

The name of Mercantile Lisbon Bank Holdings Limited was changed to Mercantile Bank Holdings Limited.

BOARD OF DIRECTORS

NF Thomaz (47)

Chairman, Non-Executive Director, Portuguese

Nuno holds a degree in Business Administration and Management from the Instituto Superior de Gestão in Lisbon, is a graduate of the Harvard Business School, and is registered with the Securities and Futures Authority. He has been a member of the board of directors of CGD since July 2011 and was appointed as deputy CEO in 2013. He also holds directorships on several of the CGD subsidiaries' boards globally and has been appointed chairman of several of them.

GP de Kock (61)

Deputy Chairman, Lead Independent Non-Executive Director

Deon attended executive programmes at the Business Schools of the Universities of Cape Town and Stanford, California (SEP). He retired in 2004 as managing director of Woolworths Financial Services Proprietary Limited and as an executive director of Woolworths Holdings Limited. Before that, he was the general manager of the credit card division of Edgars Stores Limited. He is currently operating as an independent consultant in the retail and financial services industries.

KR Kumbier (44)

Chief Executive Officer

Karl holds a BCompt degree from the University of South Africa and a PGDA from the University of Cape Town. He is a Chartered Accountant (SA) and a Chartered Financial Analyst (CFA Institute). Before joining Mercantile, he worked for the Standard Bank group for nine years in various positions, including provincial director: Western Cape, and chief operating officer of Stanbic Bank Ghana Limited. Karl joined Mercantile in 2010 and was appointed as CEO with effect from 1 April 2013. He is also a member of the board and the board executive committee (as the chief executive representing the independent banks) of the Banking Association of South Africa.

RS Caliço (43)

Deputy Chief Executive Officer, Portuguese

Ricardo holds a degree in Economics from the Nova School of Business and Economics, as well as postgraduate qualifications in Investments and Financial Markets (ISCTE Business School) and Global Asset Management (Harvard Business School). Ricardo has 20 years' work experience in the financial services industry and has been employed by the CGD group since 2001, where he has held various positions, including executive director in the CGD Asset Management Unit, general manager of the CGD New York branch, and regional general manager of the CGD Grand Cayman branch. Ricardo joined Mercantile in July 2014 as an Executive Director and, on 1 July 2015, was appointed Deputy CEO of the Mercantile Group.

Administration

Group Secretary T Singh
Registered office 1st Floor, Mercantile Bank, 142 West Street, Sandown 2196
Postal address PO Box 782699, Sandton 2146

The Board comprises Non-Executive and Executive Directors with different skills, professional knowledge and experience, with independent Non-Executive Directors comprising the majority on the Board, ensuring that no individual director has unfettered powers of decision-making.

L Hyne (72)

Independent Non-Executive Director

Louis holds a BCom (Hons) degree and is a Chartered Accountant (SA). He has attended executive programmes at the University of the Witwatersrand's Graduate School of Business and Stanford University, California. He was appointed as a partner with Deloitte & Touche in 1970 and later became chief operating officer and deputy chairman, from which position he retired in May 2003. He holds directorships with various companies.

AT Ikalafeng (49)

Independent Non-Executive Director

Thebe holds BSc (Bus Admin) and MBA degrees from Marquette University in the USA and has completed executive development courses in Finance at the University of the Witwatersrand and Harvard Business School. A Chartered Marketer (CM (SA)), he has occupied various marketing positions in the USA and Africa. He is the founder of the Brand Leadership Group and Brand Africa. Thebe is a non-executive director of the World Wide Fund for Nature in SA, Car Track Holdings Limited and Brand South Africa; deputy chairman of South African Tourism; and chairman of Brand Finance Africa. He is a member of the Henley Africa Business School and IC Publications advisory boards and the founder of Brand Africa 100: Africa's Best Brands. Thebe has been named one of the 100 most influential Africans by New Africa magazine.

DR Motsepe (58)

Independent Non-Executive Director

Daphne holds a Baccalaureus Rationis degree (upgraded to a BCompt degree) as well as an MBA from De Montfort University in the United Kingdom. She was the chief executive for card and the unsecured lending cluster at Absa until her retirement in June 2012. Prior to joining Absa, Daphne was managing director of the South African PostBank. She has a long track record in unsecured lending, mass market banking, and SMME finance. She serves as a non-executive director on the boards of Rand Mutual Assurance Limited, Kapela Investment Holdings Limited (and its investee companies XON Holdings Proprietary Limited, SPX Flow Technology South Africa, and Stonehenge). Daphne is a member of the executive committee of the Consultative Group to Assist the Poor (CGAP), an international organisation headquartered in Washington DC, which promotes responsible and inclusive financial markets. She is also a trustee on the Alexander Forbes Community Trust.

TH Njikizana (40)

Independent Non-Executive Director, Zimbabwean

Tapiwa is a Chartered Accountant (SA) and his professional career includes international experience in Africa, the United Kingdom and the Republic of Ireland. He is currently serving as a director of W Consulting, which offers various professional services across Africa, the United Kingdom and Australia. Tapiwa has over 16 years' experience in public practice. He is a member of the Association for the Advancement of Black Accountants in Southern Africa and sits on various SAICA committees, including the Accounting Practices Committee (since 2007). His industry experience includes financial services, mining, manufacturing, tourism, telecommunications, and transport and logistics. He is a JSE-registered IFRS Adviser.

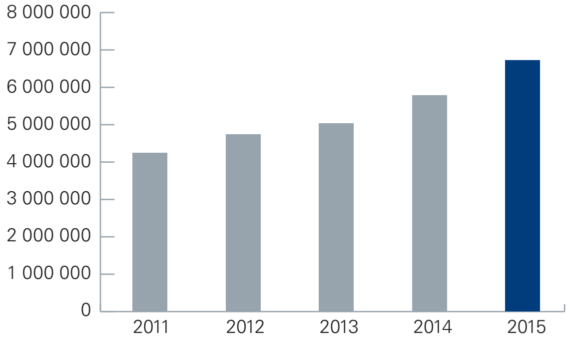
FIVE-YEAR GROUP

SALIENT FEATURES

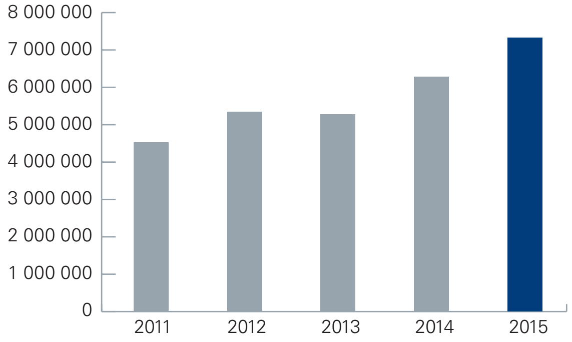
years ended 31 December 2015

	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
Statement of financial position					
Total assets	**10 034 386**	8 767 662	7 733 848	7 240 349	6 215 275
Loans and advances	**7 250 043**	6 223 991	5 227 941	5 291 748	4 489 863
Cash and cash equivalents	**1 586 798**	1 518 444	1 490 690	1 223 016	952 621
Total equity attributable to equity holders of the parent	**2 021 777**	1 901 981	1 793 644	1 674 091	1 678 774
Long-term funding	**646 215**	527 559	583 173	581 876	–
Debt securities	**202 810**	202 764	–	–	–
Deposits	**6 721 913**	5 792 204	5 041 649	4 736 758	4 251 543
Statement of comprehensive income					
Profit before tax (from continuing operations)	**205 227**	180 675	188 988	195 910	163 919
Profit after tax (from continuing operations)	**146 889**	127 653	136 309	147 042	119 119
Profit after tax attributable to equity holders of the parent (from continuing operations)	**145 984**	128 339	137 506	146 424	119 924
Profit after tax attributable to equity holders of the parent (including from discontinued operations)	**145 984**	128 339	137 506	151 017	124 150
Financial performance ratios (%)					
Return on average equity (ROE)	**7,4**	6,9	7,9	9,0	7,7
Return on average assets (ROA)	**1,6**	1,5	1,8	2,3	2,1
Cost to income	**63,6**	63,2	62,3	60,3	64,9
Share statistics (cents)					
Net asset value per share	**55,9**	52,6	49,6	46,3	42,9
Tangible net asset value per share	**50,6**	47,4	44,2	40,8	36,1

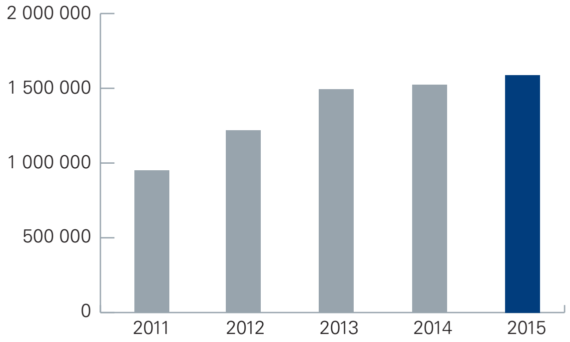
16,1%
Deposits
R6 722 million



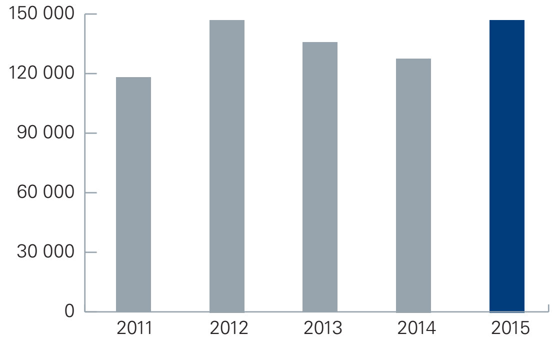
16,5%
Loans and advances
R7 250 million



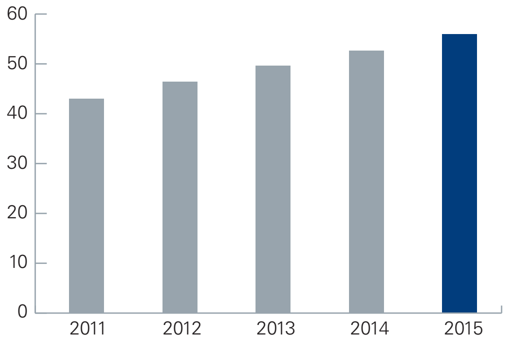
4,5%
Cash and cash equivalents
R1 587 million

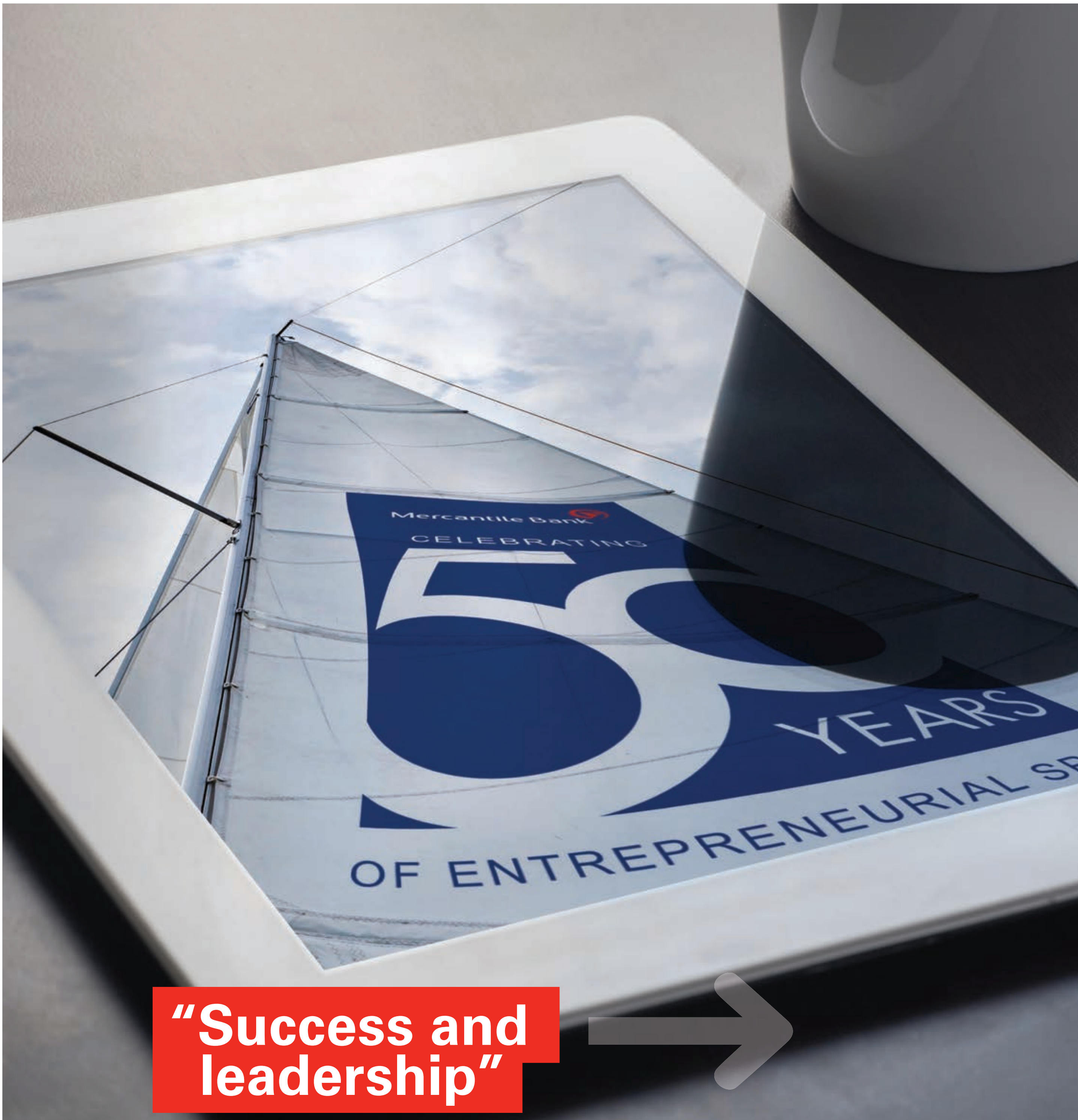


15,1%
Profit after tax
R147 million



6,3%
Net asset value per share
55,9 cents





"Success and leadership"

50-year celebration

The Group celebrated its 50th birthday in 2015. This milestone was used as a vehicle to promote awareness of the Bank and affirm the sustainability and longevity of the Mercantile brand. The 50-year campaign elements/emblems were used in all advertising and communication activities during 2015. In a first for the Bank, a radio advertisement was developed and aired on Talk Radio 702/Cape Talk. The campaign included Private Banking as well as other product- or service-related campaigns, thus optimising the spend. Mercantile commissioned sculptor Simon Max Bannister to build a wooden boat sculpture to symbolise the entrepreneur's journey towards building their business. The boat also shows the Mercantile brand and links our heritage to a ship, which appears in the Bank's red logo – the spinnaker. An exceptional coffee table book was commissioned in celebration of our 50th birthday and of entrepreneurship in South Africa, featuring 41 of our clients and nine other well-known entrepreneurs who share their stories of success and learnings with up and coming entrepreneurs.

GROUP REVIEW

CGD, the holding company, a Portuguese state-owned banking corporation and the largest bank in Portugal, with a presence in 23 countries and spanning four continents, is the Group's sole shareholder.

Trading conditions

Once again, trading conditions have proved extremely difficult – especially toward the latter part of 2015. The commodity markets led the negative trend with oil prices falling to lows not seen since 2004. The Chinese economy also showed signs of a slowdown as its GDP dipped below the critical 7% growth rate. The result has been a sell-off of emerging market currencies resulting in all-time low exchange rates and, in line with this, the fear of inflation has prompted many emerging countries, including South Africa, to start increasing their domestic interest rates. The United States Federal Reserve Bank's insistence on raising its rates for the first time in nearly a decade has exacerbated the negative perception of emerging market investment, which has seen a flight of capital out of countries like South Africa and which will support additional local rate hikes. The effect has been a dramatic slowdown in business activity and has further eroded business confidence. The social and labour uncertainty in South Africa is regarded as a critical factor that has precipitated ongoing uncertainty and lower confidence in the country. Despite the extremely negative environment, Mercantile continued on its path of growing the Bank and forging forward with a compelling offering to its target market.

Financial overview

Despite the difficult trading conditions, the Group produced a robust set of results for the year under review, with net profit after tax increasing year-on-year by 15%.

The growth in net interest income is 17%, driven by a 17% increase in loans and advances and a slight positive endowment effect due to the increases in the repo rate during 2015.

Growing net non-interest income remains a key focus for the Group and various initiatives are continuously explored in order to boost this revenue stream. While the increase year-on-year is 8%, foreign exchange income increased by 17%. The net non-interest income of Mercantile Rental Finance increased by 90% year-on-year, albeit off a relatively low base.

While the charge for credit losses increased from R34 million in 2014 to R35 million in 2015, the credit loss ratio of 0,5% (as a percentage of average lending) decreased from 0,6% in 2014 due to a larger loans and advances portfolio. This ratio is well within acceptable industry norms and the quality of the Group's lending portfolio remains sound.

Operating expenditure increased by 14% for the year, due mainly to costs (including staff costs and other overheads) attributable to the launch and implementation of a number of strategic initiatives, including the Private Bank and Acquiring. Further, an amount of R10 million was provided for a legal matter that has subsequently been settled.

Despite the difficulty for a small bank of maintaining liquidity and raising deposits, the Bank managed to increase the deposit base by 16% year-on-year. The Mercantile Online Invest (MOI) product was introduced to the Bank's Treasury clients in 2015 and R400 million of new-to-Bank deposits were raised. Through our relationships with local banks, we raised R100 million in wholesale funds; and various focused deposit campaigns were launched during the year.

The long-term funding of the Group increased by 23% due to a three-year USD15 million loan secured from our sister company, Banco National Ultramarino S.A. in Macau.

Initiatives and projects

The Group embarked on several projects in 2015 to enable it to meet its objective of better serving its stakeholders and becoming the number one Business Bank in South Africa. Some of the strategic highlights for 2015 are:

- Funding strategy: A funding strategy was developed to ensure Mercantile's ability to fund its anticipated growth in 2015 and 2016.

The strategy comprised four key focus areas: Retail, Commercial, Treasury and Wholesale Funding. The programme achieved excellent results with funding growing by over R1 billion during the year under review;

"Be realistic, persistent and serve your clients with integrity"

CJ STEYN – Nexus Group

- ANSAMO: The purpose of the ANSAMO (acronym – Angola, South Africa, Mozambique) initiative is to increase trade flows between Mercantile and CGD's other African banking businesses in Angola and Mozambique. This is accomplished by introducing business opportunities through its 'sister' banks in Mozambique and Angola, using 'on the ground' expertise to support clients' business requirements, supporting trade initiatives and offering advice. ANSAMO facilitates cross-border business and investment flows through offering:
  - three geographies via a single point of contact;
  - access to a relationship executive in each of the three countries;
  - reliable, knowledgeable and professional 'on the ground' expertise;
  - facilitation of all banking needs; and
  - team-based approach to creating banking solutions.

  The most noteworthy transaction to date has been the introduction of Mercantile's 'sister' bank, Banco Comercial e de Investimentos (BCI) in Mozambique, to Lushaka Investments Proprietary Limited, a Mercantile client, to enable us to create a R600 million funding solution for a building development project in the heart of Sandton, Johannesburg;
- The new business centre concept: An additional four business centres were revamped and converted to the new model during 2015. This concept allows for smaller, more modern and more automated business centres to be opened quickly and cost effectively. Greater efficiencies and improved client experience are some of the key benefits achieved through this approach;
- Implementing the workflow solution: Further process efficiencies and improved client experience were achieved through the implementation of the workflow methodology in various business units, in particular, Treasury Operations, Credit Fulfilment, and Business Account Opening. Impressive results were seen in Mercantile Rental Finance, where turnaround times of under 10 minutes for the processing of applications have been achieved;
- New Acquiring business: A new Acquiring business was developed, established and is functioning effectively. The objective is to attract new-to-Bank merchants, as well as new-to-Business and Commercial banking customers for the Bank;
- Developing and launching new products: Two new lending products were developed: CashPositive (a credit facility that is granted to merchants and linked to the volume of turnover on their Mercantile POS device) was launched successfully in November, a first for the South African banking industry. CashFlow Advance (a credit facility granted to clients who use the Bank's payment collections services and based on the volume of turnover in the account) will be launched in March 2016. A further new product, Cash end-to-end, will be launched in April 2016. This product will enable clients to deposit cash safely on their own premises, in a secure safe, to receive same-day value without the risk of keeping the cash in their own facility. A Global Traveller Card will also be launched during 2016, which will enable our customers to purchase foreign exchange and use a card when making purchases abroad; the card will be available in three currencies; and
- BaNCS digital: A major project has been launched with the objective of implementing a new and improved internet banking platform and a mobile banking platform for smart phones and tablets. Clients have been consulted extensively on the design of features and functionality of the platforms. The launch is planned for the last quarter of 2016 and the project will be another first for Mercantile.

Directorate and Company Secretary

Ricardo Caliço, who joined the Group in July 2014 as an Executive Director, was appointed Deputy CEO, effective from 1 July 2015. There were no other changes to the Board or Company Secretariat during the period under review.

Credit rating

Moody's issued the following RSA national scale issuer ratings for the Bank on 24 November 2015:

Short-term	P-3.za (previously P-3.za)
Long-term	Baa3.za (previously Baa3.za)
Outlook	Stable (previously Negative)

Apart from Moody's assessed concerns on contagion risks from CGD, the Bank's parent company, the rating agency has assessed the Bank's financial fundamentals as remaining sound. In view of CGD's very low standalone ratings and Mercantile's very small franchise and low importance to the banking system, the Bank's rating does not incorporate a rating uplift from any parental or systemic support.

Outlook

2016 brings a range of challenges but also great opportunities for entrepreneurs. Traditional corporates will be disrupted by those who introduce or develop collaborative business models; these innovative businesses will put pressure on the pricing power and margins of incumbents, though South Africa will remain a highly concentrated, high-cost economy for some time. In a country with a high unemployment rate, these businesses will create jobs, which are desperately needed. We will continue to support growth of the SME market.

The pressures imposed by the global macro-economic and regulatory environment will continue to challenge us in the year ahead. Despite this, we are confident that the medium- to long-term strategy that we have put in place and refined during the course of 2015 is resilient and will position us well for a successful 2016.

We will continue to improve the efficiency of our business operations and build on the valuable advances we have made in our engagement with all our stakeholders, while scaling back in areas that are not aligned with our strategy.

For 2016, we have adopted "M&M" as the catch-phrase for our strategy: "maximise income & minimise costs". Every one of our business units knows what needs to be done so that Mercantile can grow revenue at a higher rate than costs in 2016.

Appreciation

Our sincere thanks go to all our stakeholders. Mercantile has implemented a stakeholder relationship management model whereby we build extraordinary relationships with all our stakeholders. It is the commitment and dedication of all our staff during the year under review and the strong support of our other stakeholders that has enabled us to grow our business and deliver a robust set of results. Last year we decided to participate in the same customer satisfaction survey that the "Big 4" banks' business banking units do; and are very proud to say that the remarkable passion of our staff has been recognised in the results of our customer satisfaction survey, where we are rated the number one Business and Commercial bank in the country in respect of service.

NF Thomaz
Chairman

KR Kumbier
CEO

24 February 2016

Sustainability and governance

“Be committed and give it your all”

JAFTA CLAUDE

Case study
Jafta Claude
Sasol Vikings

Jafta Claude became an entrepreneur by chance while he was working at Eskom as part of the first intake of black apprentices. He was the first black supervisor and headed the aircon division. In 1992, the Managing Director decided to get rid of all the auxiliary services and asked if he wanted to buy the aircon business. Jafta obliged because it was the only division making money but he couldn't afford to pay the price. "However we came to a payment arrangement and I took over the business and named it Rotac Air-conditioning," says Jafta. "I was computer illiterate but had been taught the basics. I paid Rotac off in three months as the business was doing well. After that there was no looking back." As Sasol Vikings, Jafta's company invests in a variety of industries including petroleum, furniture, clothing and property development. The key to Jafta's success?

"My commitment to growing my business interests by working hard and putting everything into it. My faith in God and staying humble, together with the help and support I have had for the past 20 years from Mercantile Bank. If I had one piece of advice for aspiring entrepreneurs it would be to venture into something you like doing. Then you will be committed and give it your all – no pain, no gain."

SUSTAINABILITY

For companies to succeed in times of flux, they need to define and embrace a rigorous framework for sustainability – one that goes beyond well-intended but vague, overarching statements and builds a foundation on which to achieve their sustainability and business goals.

The Group subscribes to a sustainable future and, to this end, aims to ensure sustainable practices across the entire scope of its business activities and the activities of all stakeholders, both external and internal. Our Sustainability Policy identifies and documents the themes, principles, strategy, objectives, management, performance and reporting of sustainability, with the aim of integrating sustainability into Mercantile's culture, and aligning our sustainability strategy with our business strategy. During the latter part of 2015, the Group adopted a new sustainability reporting framework which, whilst aligning to CGD's sustainability reporting framework, remains cognisant of South Africa's unique nuances, including transformation of the economy and society.

The Group's sustainability programme is based on three themes – responsible business, community and environment.

"We lead by example"

Case study
Karl Kumbier
CEO SleepOut™

We are so proud to have the Mercantile Bank CEO – Karl Kumbier taking part in the first ever CEO SleepOut in South Africa. The campaign was started in Australia 10 years ago and has since gone global. It's a worldwide call to action to end homelessness by asking CEOs, influential business leaders and decision makers to sleep out on the street. The Foundation donated R100,000 towards the initiative which raised over R25 million for Boys and Girls Town South Africa, a dynamic non-profit organisation that focuses on the development and strengthening of youth, families and communities in difficulty.

Responsible business

1	2	3	4	5
ETHICS, COMPLIANCE	**CLIENT RELATIONSHIP MANAGEMENT**	**RISK MANAGEMENT**	**DEVELOPMENT OF HUMAN CAPITAL**	**RESPONSIBLE SUPPLIER MANAGEMENT**
Promote the existence of a strong culture of ethics and compliance within the MBHL Group	Promote trusting relationships with clients, while providing financial solutions to suit their needs	Integrate environment and social aspects in assessing credit risk, by promoting the awareness of environmental and social risks with various stakeholders	Seek to develop employees as a distinguishing factor and recognise them, by promoting diversity and equal opportunities	Manage the supply chain, by including sustainability criteria in supplier management

Community

6	7	8
SOCIAL AND FINANCIAL INCLUSION	**FINANCIAL EDUCATION AND LITERACY**	**SUPPORT TO THE SOCIAL ECONOMY**
Create inclusion and financial accessibility mechanisms, including access to products promoting entrepreneurship, social business and response to social emergencies	Proceed with investment in financial education and literacy, by promoting education around saving and informed consumption	Support the development of social projects motivated by the creation of sustained value for society

Environment

9	10
ECO-EFFICIENCY	**ADAPTING TO CLIMATE CHANGE**
Promote eco-efficiency in operations, awareness-raising and the involvement of concerned parties	Pursue a strategy, including the availability of products and services that promote the adoption of low-carbon behaviours and technologies

As a member of the Banking Association of South Africa, the Group subscribes to the Association's Code of Conduct for Managing Environmental and Social Risk. The Group's sustainability themes consider the Association's Code and recommendations set out in King III, read with the JSE Sustainability Reporting Index criteria, and take into account the size of our business and the community and industry in which the Group operates.

The Board is responsible for ensuring that the Group operates as a responsible corporate citizen and has set strategic guidelines for meeting sustainability requirements recognised by the Group, with the aim of translating its corporate values into sustainable business practices and interaction with all its stakeholders, incorporating key focus areas covering the short, medium and long term as follows:

Environmental principles

The Group acknowledges that the sound management of natural resources is a cornerstone of sustainable development. As a financial institution, the Group recognises that its direct environmental impacts are associated primarily with the operation of its office infrastructure. Systems aimed at reducing resource consumption over time are in place. The Group continuously explores ways to reduce paper, energy and water usage.

The Group is also cognisant of the fact that, through its lending practices, it impacts indirectly on the environment. Assessment and management of environmental risks associated with a particular customer or credit application is integral to the credit decision-making process. To apply these environmental standards, the Group adheres to its Environmental Risk Management Policy, which adopts elements of the International Finance Corporation's Sustainability Framework (which includes the global Equator Principles). The Equator Principles have three categories of projects: Category A (high risk) includes projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. Issues relating to these risks may lead to work stoppages, legal authorisations being withdrawn, and reputational damage. Category B (medium risk) projects have potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures. Category C (low risk) projects have minimal or no social or environmental impacts. The Group has a policy of withholding financial assistance from any organisation that it considers to be engaged in socially, morally or environmentally reprehensible activities and would only finance category A projects in exceptional circumstances and then only after due consideration of all related risk and reputational concerns.

The Group is committed to complying with relevant environmental legislation and regulations applicable to all its operations, as well as incorporating best practice, where appropriate.

Ethical standards

The Group is committed to high moral, ethical and legal standards. It expects all its representatives to observe the highest standards of personal and professional integrity and honesty in all aspects of their activities; to be accountable for their actions; and to comply with all applicable laws, regulations and the Group's policies in the performance of its banking activities with all its stakeholders, i.e. shareholders, customers, employees, alliance partners, service providers, joint venture partners, the community, government, and society at large.

The Group's Code of Conduct (Ethics) is the cornerstone of its Ethics management framework. The Group's commitment is clearly stated in its Code, which contains a set of standards that the Group believes will contribute to its commercial success, as adherence thereto is a strategic business imperative and a source of competitive advantage. The Code is a constantly evolving document that is intended to be a permanent fixture in the daily activities of the Group and its employees. It is reviewed and benchmarked on an annual basis to ensure compliance with legislative requirements/good governance principles and best practice. The Compliance function undertakes an annual exercise whereby all staff and the Board are required to reaffirm their commitment to the standards enshrined in the Code of Conduct to ensure adequate levels of awareness of, and commitment to, the Code.

The standards in the Code are designed to preserve the highest standards of professional confidentiality in terms of access to, as well as management and processing of, all information and, in general, in the performance of our banking activity as a whole through adoption of best banking and financial practice, and transparent, responsible and prudent business and risk management. This contributes to the promotion of an organisational culture of compliance with legislation and conformity with the values and principles adopted, as well as the development of best corporate governance principles and ethical conduct.

The Board's Social, Ethics and Transformation Committee plays an active oversight role in respect of the Group's Ethics management framework and is confident that the Group has adhered to Mercantile's ethical standards during the year under review.

Safety and health

The Group continues to strive to improve its facilities to ensure the safety and wellbeing of its employees during the execution of their duties, and of persons who may enter any of its premises. Regular inspections of the workplace are carried out to identify potential hazards and the Group does not hesitate to take action and enforce practical measures to eliminate or mitigate any hazard or potential hazard to the safety of its employees and others.

Talent management

The Bank follows an industry-aligned talent review process which has enabled it to identify growth opportunities for talented employees to move into more senior roles, culminating in promotion opportunities for employees and driving retention of these key individuals.

In terms of leadership development, the Bank has launched a customised, accredited leadership development programme, "Leading the Mercantile Way". To date, a total of 47 middle managers have successfully completed the programme, which was originally launched in 2014.

In a drive to increase and sustain the talent pool, the BANKSETA Certificate in Management Development focuses on building a pipeline of managers and leaders who, in the medium to long term, will become eligible to apply for more senior positions within the Bank. Two employees participated in the 2015 programme and their graduation is scheduled for 2016.

During 2015, Mercantile provided training and up-skilling to 14 BANKSETA learners (a group of nine matriculants and five graduates) who completed learnerships. Of the learners, 57% were offered permanent employment and 21% have been employed on a contract basis.

Employee engagement

The Bank's culture has transformed significantly. We not only focus on superior service to customers, but also emphasise "Living the Mercantile Way", which has become an integral part of the way in which management and employees conduct themselves on a day-to-day basis. The Mercantile Way entails the following behaviours, which align to the values: Committed, Curious and Connected:

- Teamwork
- Trust
- Mutual respect
- Empowerment
- Appropriate risk-taking
- Continuous improvement
- Sense of urgency
- Keep it simple
- Have fun
- Make money

With the sustained focus on a Total Reward approach, the flexible work arrangement policy that was implemented in 2009 continues to provide employees the flexibility to address family needs and personal obligations, and to avoid traffic and the stress of commuting during peak hours, thereby increasing personal control over their work schedule, reducing potential burnout, and allowing them to work when they accomplish the most. For the Group, it increases morale, engagement and commitment while at the same time, reducing absenteeism and staff turnover.

In April 2011, the Group introduced a reward and recognition programme, the Wings Awards, through which employees are given the opportunity to nominate their colleagues who show commitment and exceptional performance. The programme allows for at least three winners to be selected per month. In December 2015, the Group held a function where annual winners were selected from the monthly winners for each of the three Wings categories: Service, Sales and Living the Mercantile Way.

In 2015, Mercantile launched the Service Premio Awards as part of its 100% Zero Campaign, which gave employees an opportunity to nominate colleagues who demonstrated one or all of the Bank's service standards: make a plan, quick and efficient, here when needed, and do more than expected. Monthly winners were rewarded for their efforts.

Mercantile also implemented a customised client service training programme which incorporates various elements, i.e. Living the Mercantile Way and our service standards and 100% Zero, to enhance the customer experience for internal and external customers.

Employee health and wellness

We view the health, wellness and productivity of our employees as essential to our business and hence offer a comprehensive Employee Assistance Programme, provided by an external company, to all employees and immediate family members residing with them. This programme contributes to a reduction in healthcare costs and absenteeism; thus potentially increasing productivity. A 24-hour telephone counselling service is supplemented by face-to-face counselling (if required). Issues raised by employees are monitored by the service provider and the Bank receives quarterly reports indicating trends and frequency of usage. Employees receive health and wellness information by email on a monthly basis. A Financial Awareness and Education Day was implemented and employees were given the opportunity to benefit from services such as employee wellness, financial planning, wills and estate planning, credit bureau access, legal advice, as well as insurance and other offerings.

The Group runs an absenteeism management programme to assist management and employees in understanding the impact of absenteeism. It actively monitors trends and engages employees to potentially reduce this impact. The programme also supports a sustainable and value-adding approach to the way the Group manages its absenteeism and employee wellness. It assists management and employees to understand the impact of unplanned absenteeism, as well as why it is important for them to take a more proactive stance. It supports the effective use of the Employee Assistance Programme to address potential external drivers causing absenteeism, and timely identification of incapacity cases, thereby reducing the direct and indirect costs of absenteeism and working towards creating a wellness culture. Sick leave data is analysed on a monthly basis. The absenteeism rate was recorded at 1,52% for 2015 (2014: 1,57%).

Transformation

The Group is fully committed to social and economic transformation and regards it as a key business imperative. Initiatives are driven and directed by the Board and integrated into the Group's strategic business plans. The Social, Ethics and Transformation Committee receives regular and detailed reports on progress from the Group's executive team, and monitors the progress of transformation in the Group. The Committee's charter stipulates how transformation will be implemented, monitored and integrated across the Group. The Group subscribes to, and is bound by, the objectives of the Financial Sector Code. During the year under review, the Group improved its position from a level 7 to a level 5 Broad-Based Black Economic Empowerment (B-BBEE) contributor. The Group will be reviewing its transformation strategy to ensure alignment with the revised Financial Sector Code, during 2016. The broad-based black economic empowerment performance was independently verified by the registered agency, Empowerdex.

Employment equity

Transformation in the workplace is an important aspect of employment equity, and the Group strives to provide an environment that values and fosters diversity and equality. This includes developing a culture that supports mutual trust, respect and dignity for all employees.

Adherence to the Employment Equity Act and associated skills development, basic conditions of employment, and labour relations legislation is regarded as essential. The desired results of the implementation of the employment equity

"Work harder than the next person"

STAN FERREIRA – Stan Ferreira Group

plan are to improve the representation of black people, women and people with disabilities, toward reflecting the demographic profile of the country and prioritising the development and career advancement of designated groups.

As employment equity is regarded as a key business imperative, new targets have been set for 2015 to 2018, and progress is monitored on a quarterly basis. Good progress has been made in the employment of black people in the Junior Management and Semi-skilled categories. The overall level of representation of black people in the Bank has increased from 35% in 2004 to 64% in 2015. Although some progress has been made on Junior Management and Semi-skilled levels, the challenge remains to attract, employ and retain suitably experienced and skilled employment equity candidates for Middle and Senior Management positions – see tables on page 40.

Procurement

A targeted procurement strategy to enhance B-BBEE has been adopted, with its principles detailed in the Group's Procurement Charter and Procurement Policy. The objective is to actively promote the effective support of suppliers and contractors from BEE-accredited enterprises as set out in the Financial Sector Code (FSC) and the Department of Trade and Industry's (DTI) Broad-Based Black Economic Empowerment Codes of Good Practice. The Group will also, where appropriate, focus on enterprise development as a means to increasing its empowerment supplier base. The Group has successfully met the DTI and FSC procurement targets since 2008, and has achieved the 2015 targets in respect of procurement spend with BEE enterprises.

Loan approval to black SMEs and BEE transaction financing

Small and medium black enterprises play a critical role in job creation, income generation and the economic growth of the country. The Group extends support to such SMEs across the country, giving them access to dedicated, skilled bankers who are supported by a team of finance and business specialists. The Group's projected share of the Industry Target Growth has been confirmed by the Banking Association during 2014: BEE SME Financing to be R198,3 million and BEE Transaction Financing to be R132,2 million, to be achieved by the end of 2017.

In 2015, the Group achieved R270 million (2014: R279 million) and R432 million (2014: R263 million), respectively, of the projected targets. The 2014 figures were restated to align with the certification by the rating agency, Empowerdex.

Corporate social responsibility

One of the Group's objectives is to make a meaningful contribution to the society in which it operates and the communities that are, in essence, its key stakeholders. The Group's Corporate Social Responsibility (CSR) Policy ensures a close link to its market positioning so that the various initiatives it supports are aligned to all its stakeholders, both external and internal. The purpose of the CSR Policy is to identify and document the themes, principles, strategy, objectives, management, performance and reporting of the Group's CSR, to ensure that the maximum value is extracted for all stakeholders from the spend made by the Group. To this end, the following CSR objectives have been identified:

- Adoption, implementation and ongoing refinement of a CSR strategy;
- Compliance with the Financial Sector Charter and the associated outlined contributions to CSR;
- Ensuring we continue to behave, and be viewed, as a good corporate citizen in the eyes of our various stakeholders;
- Making a meaningful contribution to the society in which we operate and the market which we serve;
- Creating a targeted and focused outlet point for staff-led community outreach projects;
- Optimising the value of our Group CSR spend in our core focus areas; and
- Ensuring close alignment to the agreed strategy of the Group.

In the year in review, Mercantile supported a number of enterprise development and socio-economic development initiatives through financial contributions, direct and/or matched funding, as well as employee volunteerism.

Financial contributions were made to the Hope Factory, with the spend divided between enterprise development and socio-economic development programmes, as well as to various staff and/or Bank-initiated programmes, which were measured under socio-economic development.

Employees' time is precious – it represents a sacrifice for both the employees and the Bank: employees often have to put considerable effort into the projects they are supporting and, for the employer, this means time away from business. Every employee is allocated a number of hours that may be "taken as leave" so that the contribution can be accurately measured. In 2015, employees contributed more than 300 hours to assisting in community initiatives or providing guidance to such programmes as the Hope Factory.

Enterprise development and socio-economic development: The Hope Factory

As part of an existing three-year contract, Mercantile contributed R0,8 million to the Hope Factory's enterprise development and socio-economic development programmes in 2015.

During the year a total of 86 black-owned businesses received mentorship and other service offerings through this programme. While mentorship remains the key and compulsory element of every programme, a further eight new offerings are available to facilitate growth during the four-year journey with the entrepreneur. These include:

- networking to facilitate interaction among entrepreneurs. Networking events held to date have had influential entrepreneurs talking about issues affecting business owners in various sectors. One of the beneficiaries, Brimstone, won an award for its "Social Enterprise Meets Business" idea and the overall achievement award went to Gemini GIS and Environmental Services, a company that was nominated in every category;
- access to markets to develop sustainable businesses by facilitating the integration of entrepreneurs into the mainstream economy. In all, 86 businesses have benefited directly from using each other's services or by offering services to funders of the programme through the entrepreneur catalogue or the annual supplier expo;
- industry expertise and professional services to improve the knowledge and growth of businesses by facilitating the link between industry experts, with years of experience, and entrepreneurs in need of that experience to make sound business decisions;
- business development workshops to provide insights and create awareness regarding the important functions of business;
- specialist training to improve the competence of the entrepreneurs by providing them with the opportunities to up-skill themselves in their area of business;
- financial mentoring and services to allow entrepreneurs to achieve their strategic financial goals and objectives and make sound financial decisions for their businesses;
- in-depth business analysis to develop intervention strategies that are reviewed quarterly; and
- operational investments that provide entrepreneurs with a type of grant to cover certain operational needs. To date, over R0,8 million has been invested in qualifying businesses.

This holistic approach has shown notable successes:

- 49% of businesses in the programme have created new jobs;
- 53% of businesses have increased their turnover; and
- 49% of businesses have grown in profitability.

These results affirm the importance of entrepreneurial development and the key role such programmes play in improving the success rate of entrepreneurial businesses in South Africa and hence their contribution to the country's economy.

In all, 164 beneficiaries benefited from this programme, of which 38 attended an informal business development programme; 40 received basic computer training; 36 participated in a brain booster programme; and 134 attended life skills workshops.

Socio-economic development: employee initiatives

During 2015, Mercantile participated in a number of CSR projects initiated by employees and/or the Bank. A cross-section of staff from different levels and business units participated and R0,5 million was allocated for this purpose and used for the following initiatives:

Education is a key priority in Mercantile's CSR programme as it is essential to creating and developing future leaders. Mercantile contributed to the following initiatives during the year under review:

- ReDineo, an organisation that aims to provide scholarships, tuition, mentorship and leadership skills to promising youth in Johannesburg;
- Gahlanso Primary School, based in Tembisa, which has been making great strides to improve its academic results; and
- Mercantile's CEO participated in the first-ever South African CEO SleepOut. This initiative raised over R25 million for Boys and Girls Town South Africa, a dynamic non-profit organisation that focuses on the development and strengthening of youth, families and communities in difficulty.

Vulnerable and orphaned children

South Africa has an extremely high rate of abuse and abandonment of children from disadvantaged backgrounds. Organisations that help to relieve their plight are critical and need considerable assistance. To this end Mercantile contributed to the following worthy initiatives:

- Tsoaranang Community Centre, a children's home started by Florinah Padi, a pensioner, in the informal settlement of Finetown, about 30km south of Johannesburg,
- Jubilee Community Services, an organisation assisting abandoned and orphaned children and the elderly in the Westbury and Maraisburg areas;
- Dove's Nest, a foster home for abandoned and orphaned babies; and
- Azuriah Foundation, a feeding scheme and community upliftment programme based in Westbury/Newclare.

Early childhood development

Mercantile and its employees donated cash and baby clothes and toys to Baby Moses Baby Sanctuary, which cares for abused, neglected, abandoned and orphaned children.

Health

Donations were made to the following organisations working in the health services sector:

- Peace Haven, an inter-denominational organisation that cares for the aged and physically and/or mentally challenged;
- CHOC Childhood Cancer Foundation, a support group established by parents of children with cancer for parents of children with cancer; and
- Lar Rainha Santa Isabel Old Age Home, through the Portuguese Welfare Society, to build a ward for the physically disabled and the elderly who are at risk of losing their independence.

Chartered Accountant Graduate Programme

Mercantile launched the graduate programme in 2015, when the first recipient started her studies at the University of Johannesburg. The bursary includes tuition and residence fees, textbooks and a laptop computer. She has a mentor at Mercantile and Deloitte and will also do vacation work at both companies. Once she completes her degree and postgraduate diploma in accounting, she will start her three-year trainee accountant contract at Deloitte and, after qualifying as a chartered accountant; will join Mercantile on a two-year contract.

Ownership and control

The Group remains committed to empowerment at shareholder level and will continue to explore opportunities in this regard.

"Be honest, walk in integrity"

MILTON AND MARIA CALDEIRA

Case study

Milton and Maria Caldeira

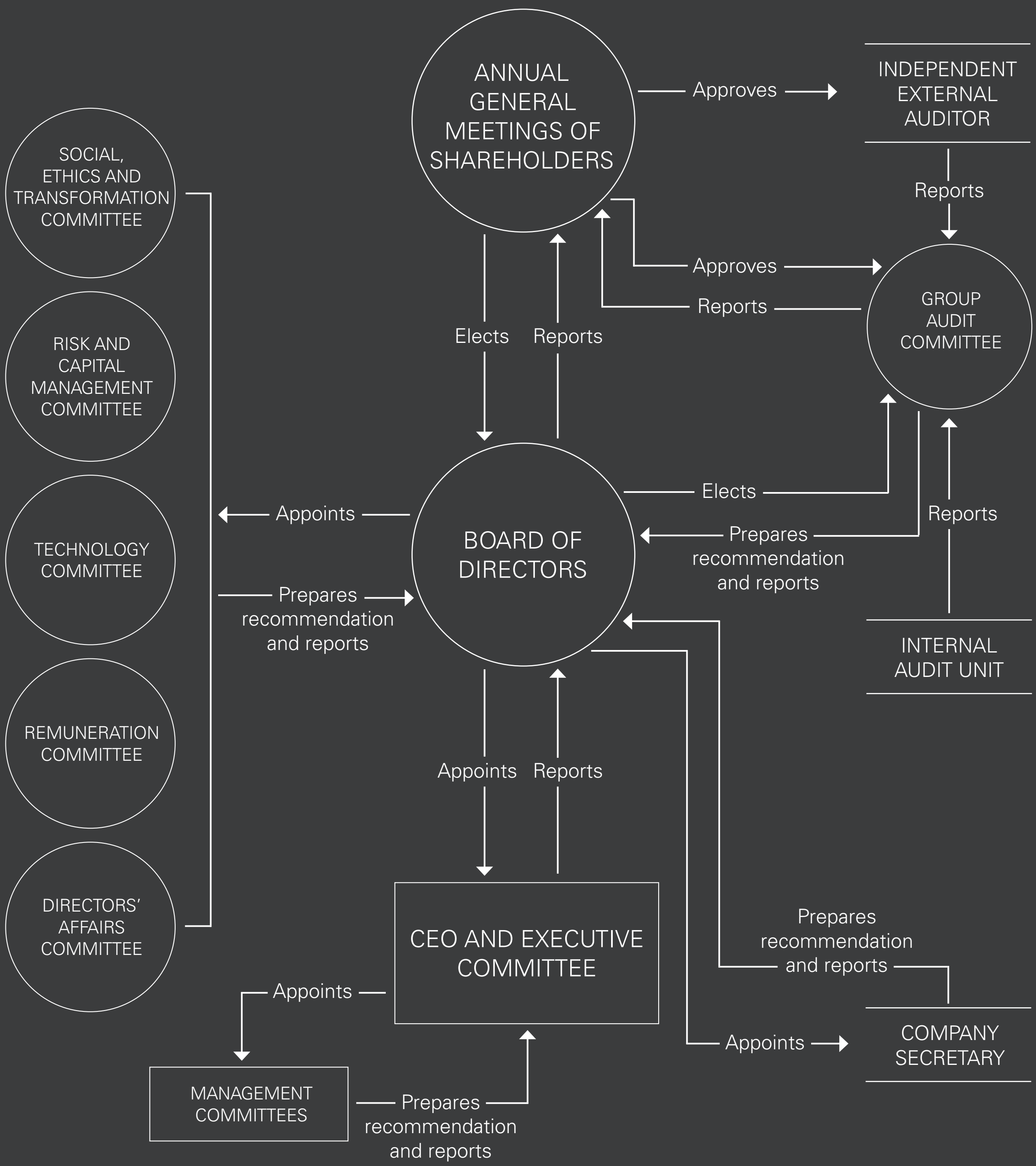
Caldeira and Associates Attorneys

It was Milton Caldeira's family and friends in the community who inspired Milton to start his own business. "We started off as a husband and wife team, myself and Maria," says Milton. "We got into business straight out of our articles. It was in May 1987 when we decided to take the plunge and opened our office on the 27th floor of the Carlton Centre. We had no money, but Mercantile Bank gave us a R25 000 loan with my father standing surety for us. We bought furniture and equipment. Soon after that, we moved out of the Carlton Centre and we bought a floor in Ilpa House, Commissioner Street. In 2002, as the CBD's appeal started to deteriorate, many of our clients become uncomfortable to drive into the city centre, so we relocated to Bruma." As with most new businesses, finance was always an issue. "We had no surplus to hire staff," adds Milton.

"We had to do everything ourselves. Also, we did not have a mentor so we had to reach out to more experienced people. But we survived and succeeded. I'm proud to say many of our clients that we had in the beginning are still with us because of the relationships we have built with them. For anyone starting out, I would suggest that they be patient. Manage your cash flow well. And be honest – walk in integrity. You stand and fall by your reputation. There's no shortcut. It's about hard work and being true to your business and yourself."

CORPORATE GOVERNANCE

Overview of the corporate governance system




T Singh *Company Secretary*

The Boards of Directors of the Company and the Bank (collectively "the Board") hold joint Board meetings. The Board aims to entrench the collective behaviours and practices in the Group that will ensure delivery of our obligation to sound governance. The Board subscribes, and is committed, to ensuring that the Group complies with the corporate governance principles of fairness, accountability, responsibility and transparency, as set out in King III.

In accordance with the principles of King III, the Board, acting in the best interests of the Company and the Bank, has followed the "apply or explain" approach.

The corporate governance processes of the Group for the year ended 31 December 2015 are summarised below.

Board of Directors

The Board exercises effective control over the Group and gives strategic direction to the Bank's management.

Composition, date of appointment and attendance

Name	Date of appointment	Meeting attendance
NF Thomaz (Chairman)	28 May 2014	3/4 (via teleconference for May and October 2015 meetings)
GP de Kock (Deputy Chairman)	23 November 2000	4/4
KR Kumbier (CEO)	1 June 2010	4/4
RS Caliço (Deputy CEO)	1 July 2014	4/4
L Hyne	1 June 2003	4/4
AT Ikalafeng	16 November 2004	4/4
TH Njikizana	6 November 2008	4/4
DR Motsepe	1 October 2014	4/4

Responsibility

Key responsibilities of the Board, assisted by its Board Committees, are to:

- approve the Group's strategy, vision and objectives, and monitor/review the implementation thereof;
- approve and annually review the Group's limits of authorities;
- annually review corporate governance processes and assess, the achievement of these against objectives set;
- annually review its charter and approve changes to the charters of the Board Committees;
- annually review and approve the Executive and Non-Executive Directors' remuneration and submit this for approval and ratification by the shareholder at the AGM;
- consider, approve, govern and review long-term incentive remuneration policies for the Group;
- annually approve the Group's financial budget (including capital expenditure);
- be accountable for financial, operational and internal systems of control and overall risk management;
- approve changes to the Group's financial and accounting policies;

- review and approve the audited financial statements and interim results;
- be responsible for ensuring that the Group complies with all relevant laws, regulations, and codes of business practice and ethics;
- appoint appropriate Board Committees and determine the composition thereof; and
- annually review and approve the Board and Board Committees' self-evaluations of their effectiveness.

"Have a vision and a good strategy"

EDDY KHOSA – Magelevendze

The Board comprises Non-Executive and Executive Directors with different skills, professional knowledge and experience, with independent Non-Executive Directors comprising the majority on the Board, and ensuring that no individual director has unfettered powers of decision-making. The roles of the Chairman of the Board and his deputy, and that of the CEO, are clearly defined and separated, thereby ensuring a clear division of responsibilities at the head of the Group.

Independence

The cyclical and specialist nature of banking necessitates the retention of directors with long-serving Board experience, making it impractical, and not in stakeholders' best interests, for directors to resign after nine years of service. A robust annual evaluation of director independence is undertaken in accordance with the criteria set out in King III and the requirements of the Companies Act. The evaluation process includes the completion of a comprehensive self-assessment questionnaire and personal declaration by each Director, as well as deliberation by the Board to consider the results of the self-assessment where circumstances deem it appropriate.

The Chairman of the Board, as Deputy CEO of the CGD Group, is not seen as independent in terms of the criteria as set out in King III, and as such, an independent Non-Executive Deputy Chairman (Lead Independent Director) has been appointed to assist the Chairman, *inter alia*, where independence is required. Non-Executive Directors offer independent and objective judgement. Independent Board members have no other financial or business relationships with the Group, other than to act in their capacities as Directors, which could materially affect their judgement. If there is an actual or potential conflict of interest, the Director (Executive or Non-Executive) concerned, after declaring his/her interest in terms of the Companies Act, is excluded from the related decision-making process. With the exception of the Chairman, all the Non-Executive Directors are classified as independent. The Board is satisfied that its composition currently reflects an appropriate balance in this respect.

Board appointments

The process of identification of suitable candidates to fill vacancies on the Board and to reappoint Directors upon termination of their term of office is conducted by the DAC. This Committee's nominations are submitted to the Board for approval, subject to the SARB having no objections to the nominations of new appointments.
Any person appointed to fill a casual vacancy, or as an addition to the Board, will retain office only until the next AGM, unless the appointment is confirmed at that meeting. In terms of the Company's Memorandum of Incorporation, one-third of the Non-Executive Directors are required to retire at each AGM and may offer themselves for re-election.

Mr RS Caliço, who was appointed as an Executive Director effective from 1 July 2014, was appointed as Deputy CEO of the Group in July 2015.

Directors are required to retire from the Board at age 70, subject to the Board's discretion to allow a Director to continue in office beyond this age. The Board has invoked its discretion in this regard in respect of Mr L Hyne. Such Director is still subject to the retirement by rotation provisions as set out above.

Board and Director evaluations

The Board operates in terms of a charter that defines its duties, responsibilities and powers. The charter is reviewed annually. The evaluation of the performance of the Board as a whole is conducted annually by means of a self-evaluation process. An evaluation of the Chairman and Deputy Chairman is conducted by the other Directors and the evaluation of the performance of individual Non-Executive Directors is conducted on a bilateral basis between the Chairman and each Director. At 31 December 2015, the Board, which has a unitary Board structure, comprised eight Directors, of which two were Executives.

The Board has unrestricted access to all Company information, records, documents, property and management. If required, Directors are entitled to obtain independent professional advice at the Group's expense.

Group Secretary

The appointment and removal of the Group Secretary is a matter for consideration by the Board as a whole. The Group Secretary ensures that statutory and regulatory procedures are complied with, and acts as custodian of good governance. The Group Secretary attends all Board and Board Committee meetings, and has unrestricted access to the Chairman. The Group Secretary provides a central source of advice and guidance on business ethics, compliance with good corporate governance, and changes in legislation, assisting the Board as a whole, and its members individually, with guidance as to how their duties, responsibilities and powers should be adequately discharged and exercised in the best interests of the Group.

The Group Secretary also maintains and regularly updates a corporate governance manual, copies of which are distributed to all Directors, and organises and conducts a Board-approved induction programme to familiarise new Directors with the Group's operations, their fiduciary duties and responsibilities, and the Group's corporate governance processes. The Group Secretary assists the Board in developing an annual training framework to assist the Non-Executive Directors with continuous development as directors and, in particular, in a banking environment.

The Group Secretary is not a Director of Mercantile and maintains an arm's length relationship with the Board members as far as is reasonably possible.

Board objectives for 2016

- Review the progress of the implementation of the Group strategy, with a particular focus on our growth objectives, within the framework of a sound control and risk management environment, and ethical and transparent leadership;
- Ensure that the risk management and capital management processes are appropriate in the context of a challenging local and global economy, the current risk environment and a changing business landscape;
- Monitor the implementation of the Group's information technology strategy and the ongoing development of the IT governance and cyber security frameworks; and
- Monitor the impact and implementation of legislative and regulatory changes.

The Board will continue to follow a philosophy of continuous improvement as regards governance practices and structures to ensure the reasonable expectations of stakeholders are met.

Board Committees

The Board has appointed a number of Board Committees to assist it in carrying out its duties and responsibilities. This does not relieve the Board of any of its responsibilities, and the Board critically evaluates the recommendations and reports of these committees before approving such recommendations or accepting such reports. These committees all operate in terms of Board-approved charters, which define their roles. All Board Committees' charters are reviewed annually by the Board.

The performance of Board Committees, based on the duties and responsibilities as set out in the respective charters, is evaluated annually by means of a self-evaluation process and the results are discussed at the Board Committee concerned and then reviewed and approved by the Board.

All Directors who are not members of the Board Committees may attend Board Committee meetings; however, they will not be able to participate in the proceedings without the consent of the relevant Chairman and will not have a vote.

All Directors who are not Board Committee members receive copies of all documentation sent to the Board Committees.

Further details on the Board Committees are provided below.

GAC

Composition and attendance

Name	Meeting attendance
TH Njikizana (Chair)	5/5
L Hyne	5/5
GP de Kock	5/5
DR Motsepe	5/5

The GAC comprises four independent Non-Executive Directors, one of whom acts as Chairman. The Chairman of the Board is not a member of the GAC. Mr TH Njikizana was appointed Chairman of the GAC with effect from 1 May 2015. The CEO and Deputy CEO attend GAC meetings as permanent invitees. The Board is satisfied that the collective skills of the members of the GAC are appropriate, relative to the size and circumstances of the Company.

The meetings of the GAC are attended by the CFO, the heads of Internal Audit and Risk, and the External Auditors. If a special meeting is called, the attendance of non-members is at the discretion of the Chairman of the GAC. The CFO, the heads of Internal Audit and Risk, the CEO, the Deputy CEO, and the External Auditors have unrestricted access to the Chairman of the GAC.

As defined in its charter, the primary objective of the GAC is to assist the Board in fulfilling its responsibilities relative to:

- financial control and integrated reporting;
- compliance with statutory and regulatory legislation, which includes but is not limited to the Banks Act, Companies Act, common law, IFRS, and tax legislation;
- corporate governance;
- risk management; and
- shareholder reporting.

The GAC reviews, *inter alia*, accounting policies, the audited annual financial statements, interim results, Internal and External Auditors' reports, regulatory public disclosures required in terms of the Regulations to the Banks Act, the adequacy and effectiveness of internal control systems, the effectiveness of management information systems, the internal audit process, the Bank's continuing viability as a going concern, and its complaints handling duties in terms of the Companies Act.

The External Auditors' appointment is recommended by the GAC and approved at the AGM. The GAC reviews the External Auditors' terms of engagement and fees and also pre-approves an engagement letter on the principles of what non-audit services the External Auditors may provide. The GAC meets with the External Auditors, separate from management, at least annually.

The GAC carried out its function during the year by considering all information provided by management for discussion, decision and/or recommendation to the Board for approval at its meetings. The GAC has fulfilled its statutory duties and responsibilities in terms of its charter during the year under review.

The report of the GAC (included in the annual financial statements section on pages 50 and 51) provides comprehensive details of its terms of reference, composition, meetings, statutory duties and delegated duties with respect to internal financial controls and internal audit, regulatory compliance, external audit, the Finance function and financial statements.

RMC

Composition and attendance

Name	Meeting attendance
L Hyne (Chair)	4/4
GP de Kock	4/4
TH Njikizana	4/4
KR Kumbier	4/4
RS Caliço	4/4

The RMC comprises five members, three of whom are Non-Executive Directors (one of whom acts as Chairman), the CEO, and the Deputy CEO. Mr L Hyne was appointed Chairman of the RMC with effect from 1 April 2015.

RMC meetings are held at least four times per annum. The RMC meetings are attended by the heads of Risk, Credit, Treasury, Treasury Middle Office and Asset and Liability Management, and Internal and External Audit, as well as the CFO and the Compliance Officer.

As defined in its charter, the RMC's objectives are to:

- assist the Board to fulfil its responsibilities in the discharge of its duties relating to risk and control management, monitoring and reporting of all risks identified and managed through the Enterprise-wide Risk Management Framework;
- monitor and oversee the risk management process;
- facilitate communication between the Board, the GAC, Internal Auditors, Compliance and other parties engaged in the risk management activities;
- ensure the quality, integrity and reliability of the Group's risk management and control;
- review the Group's process and allocation of capital and capital management;
- provide independent and objective oversight and review of the information presented by management on risk management, generally and specifically taking into account reports by management and the GAC to the Board on financial, operational and strategic risks; and
- monitor, oversee and provide an independent and objective oversight over the Compliance function and processes.

The RMC has fulfilled its responsibilities in terms of its charter during the year under review.

For more detailed information relating to the risk management of the Group, refer to pages 101 to 115.

DAC

Composition and attendance

Name	Meeting attendance
NF Thomaz (Chair)	1/4
GP de Kock	4/4
L Hyne	4/4
TH Njikizana	4/4
AT Ikalafeng	4/4
DR Motsepe	4/4

The DAC comprises all the Non-Executive Directors. The Chairman of the Board chairs the DAC and the CEO attends the meetings by invitation. Meetings are held at least four times per annum.

As defined in its charter, the primary objectives of the DAC are to:

- assist the Board in its determination, evaluation and monitoring of the appropriateness and effectiveness of the corporate governance structures, processes, practices and instruments of the Group;
- establish and maintain a continuity plan for the Board;
- be responsible for the process of Board nominations and appointments for recommendation to the Board and, in so doing, review the skills, experience and other qualities required for the effectiveness of the Board;
- ensure that a management succession plan is in place; and
- assist the Board in determining whether the employment/appointment of any Directors should be terminated (excluding resignations).

The DAC has fulfilled its responsibilities in terms of its charter during the year under review.

Remuneration Committee

Composition and attendance

Name	Meeting attendance
AT Ikalafeng (Chair)	4/4
GP de Kock	4/4
L Hyne	4/4
TH Njikizana	4/4
DR Motsepe	4/4

The Remuneration Committee comprises all the independent Non-Executive Directors. The CEO attends the meetings by invitation. Mr AT Ikalafeng was appointed chairman of the Remuneration Committee with effect from 1 April 2015. In terms of its charter, the Remuneration Committee must meet at least twice per annum.

As defined in its charter, this committee's primary objectives are to:

- assist the Board in determining the broad policy for executive and senior management remuneration, and oversee the Bank's remuneration philosophy;
- ensure alignment of the remuneration strategy/ philosophy and policy with Mercantile's business strategy, risk and reward, desired culture, shareholders' interests and commercial wellbeing;
- assist the Board in the consideration of performance-related incentive schemes, performance criteria and measurements, including allocations in terms of the Conditional Phantom Share Plan (CPSP) and other long-term awards;
- assist the Board in reviewing CEO performance against set management and performance criteria, and:
  - recommend guaranteed and performance-based individual remuneration, including CPSP and other long-term award allocations of the Deputy CEO and Company Secretary;
  - ensure full disclosure of Directors' remuneration in the Integrated Annual Report on an individual basis, giving details of earnings, long-term awards, restraint payments and other benefits. There are no designated prescribed officers other than the Executive Directors; and
  - approve guaranteed and performance-based individual remuneration, including CPSP and other long-term award allocations of senior management; and
- assist the Board in reviewing the Non-Executive Directors' fees.

The Remuneration Committee has fulfilled its responsibilities in terms of its charter during the year under review.

Social, Ethics and Transformation Committee (SETCom)

Composition and attendance

Name	Meeting attendance
DR Motsepe (Chair)	4/4
GP de Kock	4/4
AT Ikalafeng	4/4
KR Kumbier	4/4
RS Caliço	4/4

This committee comprises three Non-Executive Directors, of which one acts as Chairman, and the CEO and the Deputy CEO. Ms DR Motsepe was appointed Chairman of the SETCom with effect from 1 April 2015. This committee must meet at least four times per annum.

As defined in its charter, the SETCom's primary objectives are to monitor Mercantile's activities with regard to:

- social and economic development, including the goals and purposes of:
  - the United Nations Global Compact principles;
  - the OECD recommendations regarding corruption;
  - the Employment Equity Act; and
  - the Broad-Based Black Economic Empowerment Act;
- good corporate citizenship, including:
  - the promotion of equality, prevention of unfair discrimination, and reduction of corruption;
  - contribution to development of the communities in which its products and services are predominantly marketed; and
  - sponsorship, donations and charitable giving;.
- the environment, health and public safety, including the impact of Mercantile's products or services;
- consumer relationships, including advertising, public relations and compliance with consumer protection laws; and
- labour and employment, including:
  - Mercantile's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; and

"A deep sense of commitment to achieve"

HERSCHEL JAWITZ – Jawitz Properties

– Mercantile's employment relationships and its contribution toward the educational development of its employees.

The SETCom has fulfilled its responsibilities in terms of its charter during the year under review.

Technology Committee

Name	Meeting attendance
GP de Kock (Chair)	4/4
TH Njikizana	4/4
KR Kumbier	4/4
RS Caliço	4/4

This committee is mandated to assist the Board in its duties with regard to the governance of Information Technology (IT) in accordance with the provisions of King III. The Technology Committee comprises two independent Non-Executive Directors, the CEO and the Deputy CEO. An independent Non-Executive Director chairs this committee. The heads of IT and Internal Audit, and the Managers of IT Security and Governance are permanent invitees. Mr GP de Kock was appointed Chairman of the Technology Committee with effect from 1 April 2015.

As defined in its charter, the Technology Committee's primary objectives are to:

- strategically align IT with the performance and sustainability objectives of the Bank;
- ensure that prudent and reasonable steps have been taken with regard to IT governance by developing and implementing an IT governance framework;
- concentrate on optimising expenditure and proving the business value of IT;
- ensure appropriate IT risk assessment and management;
- address the safeguarding and security of IT assets, continuity of IT operations and disaster recovery; and
- adequately protect and manage information.

The Technology Committee has fulfilled its responsibilities in terms of its charter during the year under review.

Management Committees

A number of Management Committees have been formed to assist executive management and the Board in carrying out its duties and responsibilities. These are:

- Group EXCO;
- ALCO;
- CREDCOM;
- Employment Equity Committee;
- Human Resources Committee;
- IT Steering Committee;
- New Product Committee;
- Procurement Committee; and
- Project EXCO.

All these committees operate in terms of their charters, which define their duties and responsibilities. Directors may attend any Management Committee meetings.

Remuneration philosophy and governance principles

The Remuneration Committee approves and oversees the remuneration philosophy of the Group. The main purpose of the remuneration philosophy adopted by the Group is to:

- promote performance-based and equitable remuneration practices;
- ensure compliance with relevant legislation and contractual obligations contained in the contracts of employment and conditions of service;
- promote talent attraction and retention; and
- play a vital role in the Group's achievement of its strategic objectives.

The remuneration philosophy encapsulates five elements: compensation, benefits, work-life balance, performance-based recognition, and development of career opportunities to help attract, motivate and retain the talent needed to achieve the Group's objectives, and optimise management of employees, i.e. grow curious, committed, and connected employees who are enthusiastic about work and who will further the Group's interests. Bonus pools and long-term incentives are reviewed and monitored on a regular basis to align with the Company's risk management strategy.

To attract, motivate and retain employees, the Group strives to ensure that remuneration practices are fair, equitable and competitive, and align risk with reward where appropriate. The three main components of remuneration are described below:

The total guaranteed package

The total guaranteed package includes the monthly salary plus non-cash fringe benefits and gives all employees a certain degree of flexibility as they can structure their packages to include a 13th cheque, select the appropriate level of travel allowance (in accordance with income tax regulations), and have the option to choose between two medical aid schemes. It also includes a retirement contribution, where the employer contributes 11% to the retirement fund and the employee contributes 7,5%. External equity is ensured by comparing packages to market levels through salary surveys. This is done every year prior to the annual salary review processes. Market benchmarking information compiled by Remchannel is used to judge the appropriateness and competitiveness of guaranteed packages.

Increases and movements in individual pay levels are based on performance, levels of competence, and current position/pay level within the market. The market median pay level for the comparative position is used as a guideline.

Short-term incentives

Short-term incentives (bonus pools) form an important component of variable pay. The objective of the short-term incentive scheme is to reward performance, and to motivate employees to perform beyond expectations and drive the Company results. It is also an important element of establishing a performance culture and retaining the services of key contributors who assist in achieving the goals of the Group. Measurement criteria are aligned to strategic objectives and financial growth and performance targets, as well as customer service satisfaction targets and culture transformation. The rules include a range of payouts as a percentage of the guaranteed package according to job level. Whereas the Bank's performance determines the size of the bonus pool and the range of incentive percentages per broadband (job grade) that may be awarded, individual performance determines the actual incentive percentage (of total guaranteed pay) that is awarded within the determined range. In 2015, the Bank changed its remuneration approach to ensure that every employee who performed well receives a bonus in the years where the Bank does well and meets its performance targets.

The new bonus allocation principle for non-managerial employees was in the form of a value share, which is dependent on the Bank's financial performance and the individual's performance. Individual performance is measured by way of a Performance Management process, incorporating an aligned Balanced Scorecard framework through which Key Result Areas are agreed and documented in a Personal Performance Contract. Financial performance is measured by reference to the annual budget cycle. No deferral of short-term incentive payments takes place, unless the Board should be of the view that revenues recognised during the budget year may be reversed in future years. Periodic reviews of the short-term incentive scheme take place at the discretion of the Board Remuneration Committee and/or Executive Directors, to ensure market competitiveness and alignment to regulatory requirements/good governance.

Long-term incentives

The third component of the remuneration mix is long-term incentives. The purpose of this element is to attract and reward key staff members whose contribution within the next three to five years is viewed as critical, and whose retention is regarded as a priority. A long-term incentive scheme, the Conditional Share Plan (CSP), was introduced in 2008 in place of the previous share option scheme, and was amended in 2009. Due to ongoing lack of liquidity of the Company's shares in the market and the consequential impact on the share price, the Board decided during November 2011 to discontinue new awards under the CSP scheme for an indefinite period and to convert existing unvested awards to a new performance-based Conditional Phantom Share Plan (CPSP) – a deferred bonus scheme settled in cash. Conditional awards are made annually to participants on the basis of their job grade as a percentage of their total guaranteed packages. Participants are selected from eligible employees (earning above R300 000 per annum) who can have an impact on the future strategic growth of the Company. Awards will normally vest three years after the grant date and will be settled in cash.

The value of a phantom share is a function of the net asset value of the Company on vesting date, and a percentage (as determined by the Remuneration Committee) of the median price to book ratio of the four major banks in South Africa. The number of phantom shares vesting to determine the cash settlement will be subject to performance criteria set by the Remuneration Committee, and approved by the Board. Vesting of awards will occur within a range of 25% to 175% of the original conditional awards made, depending on whether performance conditions are achieved. Performance conditions are based on the achievement of specified targets for growth in Group earnings and return on equity. The key drivers of earnings and return on equity, measured over a three-year period, would allow for the longer-term impact of short-term decisions to manifest. PwC Remchannel provided expert input to the Remuneration Committee as part of the design of the CSP and the CPSP schemes. In September 2015, the remuneration philosophy and policy, as well as the short- and long-term incentive schemes, were reviewed within the context of best practices and corporate governance considerations. The review concluded that the Bank's reward principles are aligned to market best practices.

The CSP scheme and/or the share option scheme may be reinstituted by the Board, at their discretion, at a future date. All the long-term incentive schemes include protection of participants in the event of a change of control or similar corporate action. The CPSP scheme is considered to be particularly suitable to the Group following its delisting from the JSE in 2012.

The remuneration of Non-Executive Directors takes into account the responsibilities of the role and the skills and experience of the individual, without losing sight of the requirement for market-related, fair and defendable compensation from a regulatory and stakeholder viewpoint. King III requires fair and responsible remuneration policies in relation to Non-Executive Director remuneration and consequently the Remuneration Committee advises the Board on appropriate remuneration for Non-Executive Directors. Incentives such as share options/plans or rewards geared to the Company's share price or performance do not form part of the remuneration of Non-Executive Directors. Shareholders annually approve all Directors' fees.

With reference to Basel III disclosure requirements for remuneration, the aggregate compensation for the year is:

Employees receiving variable awards (number of employees)	366
Sign-on awards (number of employees)	2
Value of sign-on awards (R'000)	40
Severance payments (number of employees)	2
Value of severance awards (R'000)	914
Portion of 2015 compensation not deferred	
Guaranteed compensation (R'000)	178 138
Variable compensation (R'000)	5 041
Portion of 2015 compensation deferred: Incentive bonus (R'000)	19 476
2012 CPSP awards vested and settled in cash in 2015 (R'000)	3 075
Estimated value of CPSP awards awarded in 2015, not yet forfeited at 31 December 2015 and assuming 100% vesting (R'000)	18 245

The Remuneration Committee is responsible for remuneration in respect of Mercantile, but the Board has the ultimate authority to approve the proposals considered and recommended by the Remuneration Committee. In addition, there is cross-representation of non-executive members of the RMC on the Remuneration Committee.

Risk measures are part of determining the bonus pool value and also of individual Key Result Area measures. Risk decision-making is separated from sales. There is a clear separation between the management and approval of risk, and the sale of risk products. Credit risk is the main risk that the Group faces (as there is no proprietary trading activity) and it is managed through different levels of governance, ranging from the mandates of Credit Managers and the head of Risk, to the mandates of the CREDCOM and the approval by the RMC of the Board. All these risk mandates are informed by the risk appetite defined by the Company.

Due to the nature of the Bank's business, material risk-taking is confined to the two Executive Directors and the head of Risk. In the case of the Executive Directors, risk-taking is informed by their discretion in terms of managing the business, individual mandates and executive capacity, particularly as it pertains to execution on strategy. In the case of the head of Risk, the risk-taking revolves primarily around the relevant mandate in the area of credit risk.

"You need the ability and determination to stay the course"

YOSSI HASSON – Synaq

Management and staff of the Risk, Compliance, and Internal Audit functions operate in accordance with the provisions of the Banks Act and Regulations, as well as industry best practices and King III requirements and are effectively independent of sales and are compensated appropriately. Performance measurements for these functions are principally based on the achievement of the objectives of their function. The overall size of the bonus pool in which they participate is a function of the overall performance of the Bank; hence, if there is no bonus pool for the Bank, there can be no bonus participation for these functions. There are no guaranteed bonuses.

Business units are allocated capital on an annual basis as part of the budget process. This capital is charged out to the respective units at the Bank's deemed cost of capital; therefore, the business units' performance targets take this cost into consideration. In turn, the overall capital position of the Bank is taken into consideration as part of the structure of targets and performance measures set for the Bank. The cost of capital takes credit and operational risk into account.

Impact of European regulation

As CGD, the Group's parent company, is headquartered in Europe, the Capital Requirements Directive (CRD) IV (the Directive), a European regulation that became effective on 1 January 2014, together with the Portuguese legal standards arising from the Directive, is applicable to the Group. From a remuneration perspective, it imposes a maximum ratio between variable and fixed remuneration for identified senior managers and material risk-takers of European banking organisations (including their international subsidiaries).

In 2014, the Group considered the maximum ratio and the corresponding impact on our remuneration structure and our CEO was found to be the only employee falling within the scope of the Directive. We comply with the spirit and letter of the regulation in a simple and transparent manner and, in 2014, the CEO's remuneration was restructured to ensure compliance with the Directive. The CEO's long-term incentive awards were cancelled and a role-based, non-pensionable allowance was introduced as compensation for the cancellation of the long-term incentive. The role-based, non-pensionable allowance has the flexibility to be increased or decreased to reflect changes in role. Role-based pay will not be adjusted for performance and will not be considered as salary for pension and benefits purposes. It will be reviewed and fixed annually. Our approach will assist us to remain competitive in terms of total remuneration, which is essential when considering that this regulatory requirement does not apply to the majority of our local competitors and the increasingly competitive market for talent in financial services.

Internal Audit activity

The Internal Audit activity is an integral component of the Group's overall risk management and governance processes. The head of Internal Audit reports functionally to the Chairman of the GAC, and administratively to the CEO, and has direct and unrestricted access to the CEO and the Chairmen of the GAC, the RMC and the Board. The GAC must concur with any decision to appoint or dismiss the head of Internal Audit.

The Internal Audit Charter, which governs Internal Audit activities in the Group, was reviewed and revised by the Board during the year. The charter defines the purpose, authority and responsibility of the Internal Audit activity in line with the requirements of the International Professional Practices Framework of the Institute of Internal Auditors Inc., as well as the requirements of Regulation 48 of the Banks Act.

All operations, business activities and support functions are subject to Internal Audit review. The internal audit plan is risk-based and is approved by the GAC. Audits are conducted according to a risk-based approach, and the audit plan is updated quarterly or as needed to reflect any changes in the risk profile of the Group. Updated plans are then presented to the GAC for review and approval.

The Internal Audit activity is responsible for reviewing the adequacy and effectiveness of control and governance processes throughout the Group. Any significant or material control weaknesses are reported to management, the GAC and/or the RMC for consideration and remedial action, if necessary.

The activity also works closely with the Risk and Compliance Management functions to ensure that audit issues of an ethical, compliance or governance nature are made known and are appropriately resolved. The Risk and Compliance Management processes are also reviewed by the Internal Audit activity in accordance with the annual internal audit plan.

External Auditors' services: non-audit services

The Group will not contract its External Auditors for non-audit services where such an engagement compromises their independence and, in particular, the following areas are specifically excluded from the services that are procured from the External Auditors:

- Bookkeeping or other services related to accounting records or annual financial statements;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports for financial reporting purposes;
- Actuarial services;
- Internal audit outsourcing and/or co-sourcing;
- Performance of management functions;
- Staff-recruitment agents;
- Broker-dealer, investment advisor or investment banking services; and
- Legal services.

The following is a summary of the policy adopted by the GAC to ensure proper governance and approval of the use of external auditors to provide non-audit services:

The GAC approved a "blanket" engagement letter for non-audit services (the Engagement Letter) on the basis that the External Auditors confirm, in writing, prior to providing a service contained in the Engagement Letter, that such service does not impair their independence and that they may provide such service. The GAC has approved that non-audit services which the External Auditors may provide in terms of the Engagement Letter, with a value of R250 000 or less, may be provided subject to the CEO's approval. A report on these services provided is submitted to the GAC meetings for notification. The GAC requires that all non-audit services that the External Auditors may provide in terms of the Engagement Letter with a value of more than R250 000 must be submitted to the GAC for approval prior to the External Auditors providing the service.

The Code of Banking Practice

As a member of the Banking Association of South Africa, the Group subscribes to the Code that promotes good banking practices by setting standards for disclosure and conduct, thereby providing valuable safeguards for its customers. The Group aims to conduct its business with uncompromising integrity and fairness to promote complete trust and confidence. In meeting this fundamental objective, the Group conducts its relationships with the regulatory authorities, customers, competitors, employees, shareholder, suppliers and the community at large, by striving for high service levels, and encourages its employees to acquaint themselves with the Code and honour its precepts.

Employment equity

The table below illustrates the number of staff per occupational level as at 31 December 2015:

Occupational levels	Male				Female				Foreign nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	–	–	–	1	–	–	–	–	1	–	2
Senior management	–	2	1	12	1	–	2	3	–	–	21
Middle management	13	5	8	30	11	6	5	40	1	–	119
Junior management	36	11	10	9	72	28	24	51	–	3	244
Semi-skilled	11	5	–	4	33	10	4	11	–	1	79
Unskilled	3	–	–	–	2	–	–	–	–	–	5
Total permanent	63	23	19	56	119	44	35	105	2	4	470
Temporary employees	2	–	–	1	–	–	–	2	–	–	5
Grand total	**65**	**23**	**19**	**57**	**119**	**44**	**35**	**107**	**2**	**4**	**475**

A = African, C = Coloured, I = Indian, W = White

The effective management of key talent and succession planning remain a focus to achieve the Bank's strategic objectives. Talent management is also a key lever to ensure achievement of the Bank's transformation objectives in relation to the Financial Sector Code targets and Employment Equity plan.

Skills development

A significant number of employees benefited from in-house and external training programmes, as reflected in the skills development statistics schedule below:

Training category	Number of EE employees trained	Number of employees trained
Customer interface	189	271
Legislation	33	44
Information technology	2	6
Management and leadership	26	50
Specialist financial skills	17	28
Professional development	6	10
Bursaries	26	32
In-house	255	352

Annual financial statements

Accounting policies, and the basis of preparation for the annual financial statements, are set out on pages 53 to 61 of this report.

Regulation

The Bank Supervision Department of the SARB is the lead regulator of the Group. The Financial Services Board, the National Credit Regulator, and the Registrar of Companies also regulate the various activities of the Group. The Group strives to establish and maintain open and active dialogue with regulators and supervisors. Processes are in place to respond proactively and pragmatically to emerging issues, and the Group reports regularly to regulators and supervisory bodies. Where appropriate, the Group participates in industry associations and discussion groups to maintain and enhance the regulatory environment in which it operates.

Communication with stakeholders

The Board communicates with its shareholders in accordance with the Companies Act; and with the employees of the Bank from time to time, as appropriate. The Board has delegated authority to the CEO to speak to the press. Communication with the SARB and the Registrar of Companies is done in compliance with the respective laws/guidelines.

“Growing entrepreneurs. It’s what we know. It’s what we do”

MERCANTILE BANK

COMPLIANCE
OFFICER'S REPORT

Compliance risk is the risk to earnings, capital and reputation arising from violations of, or non-compliance with, laws, rules, regulations, supervisory requirements, prescribed practices, or ethical standards. The role of the Compliance function is to identify, assess and monitor the statutory and regulatory risks faced by the Group, and to advise and report to senior management and the Board on these risks.

The objective of the Compliance function is to ensure that the Group continuously manages and complies with existing and emerging regulations impacting on business activities.

To ensure the independence of the Compliance function from the business activities of the Group, in accordance with the requirements stipulated in section 60A of the Banks Act, read with the provisions of regulation 49, the Board has authorised the Compliance function to:

- carry out its responsibilities on its own initiative in all areas of the Group in which regulatory risk may or may not exist;
- ensure it is provided with sufficient resources to enable it to carry out its responsibilities effectively; and
- not have direct business line responsibilities.

The head of Compliance reports to the CEO and has unrestricted and unfettered access to the Chairmen of the Board, the GAC and the RMC. The head of Compliance is supported by two Compliance Officers, a Money Laundering Control Officer, a Compliance Monitoring Specialist, and a Money Laundering Reporting Officer. The Compliance function at Mercantile follows a centralised structure co-ordinating activities across the Group and business units.

A Compliance Charter has been approved, and is annually reviewed by the Board to assess the extent to which the Group is managing its regulatory risks effectively.

The GAC annually reviews and approves a Compliance plan. The RMC monitors the progress against the Compliance plan, which sets out training, monitoring and review of compliance with the regulatory requirements in the Group.

A successful compliance function is built on relationships – through senior management, Board and staff buy-in; relationships with industry bodies, the regulators, and other governance functions (such as Internal Audit). The Compliance function keeps senior management and the Board informed about significant regulatory issues and any trends exhibited, and identifies where urgent intervention is needed. The Group's Compliance Officers are charged with developing and maintaining constructive working relationships with regulators, supervisors and Compliance staff, and work closely with business and operational units to ensure consistent management of compliance risk.

Compliance risk is managed within the Group through the following key activities:

- Creating awareness by training employees in respect of the impact and responsibilities related to legislative requirements;
- Monitoring and reporting on the level of compliance with regulatory requirements, including reporting specific incidents of non-compliance to senior management and the Board;
- Providing assurance that the risks relating to regulatory requirements are identified, understood and effectively managed; and
- Consulting with the business units and providing compliance opinions with regard to new business ventures and processes.

The Compliance risk management tools provided to management include a comprehensive and consolidated Compliance Manual, Compliance Risk Management Plans, Compliance Opinions, and Compliance Monitoring Reports.

Reporting to the Board is done in the form of several Compliance Reports via Board Sub-Committees. Certain reports are also submitted to the SARB, once they have been presented to the Sub-Committees.

The key Acts making up the focus area for the Compliance function during the year under review were:

- The Banks Act, No. 94 of 1990;
- The Companies Act, No. 71 of 2008;
- The National Credit Act, No. 34 of 2005 (NCA);
- The Financial Intelligence Centre Act, No.38 of 2001 (FICA);
- The Financial Advisory and Intermediary Services Act, No. 37 of 2002 (FAIS);
- The Occupational Health and Safety Act, No. 85 of 1993 (OHS); and
- The Protection of Personal Information Act, No. 4 of 2013 (POPI).

The most notable development and focus area in respect of regulatory reforms during the upcoming year continues to be the anticipated implementation of the FICA amendment bill, POPI, the Foreign Account Tax Compliance Act (FATCA), the Organisation for Economic Co-operation & Development's (OECD) Common Reporting Standard (CRS) and the Twin Peaks model as part of the FAIS Act.

The aim of POPI is to "promote the protection of personal information processed by public and private bodies; to introduce certain conditions so as to establish minimum requirements for the processing of personal information; to provide for the establishment of an Information Regulator to exercise certain powers and to perform certain duties and functions in terms of this Act and the Promotion of Access to Information Act, No. 2 of 2000; to provide for the issuing of codes of conduct; to provide for the rights of persons regarding unsolicited electronic communications and automated decision-making; to regulate the flow of personal information across the borders of the Republic; and to provide for matters connected therewith". POPI becomes effective and enforceable at a date to be set by the President. We anticipate the appointment of a Regulator and publication of the Regulations in 2016.

FATCA is intended to detect and deter the evasion of US tax by US persons who hold money outside the US. FATCA has greatly impacted the South African financial services sector due to the Inter-Governmental Agreement (IGA) that was signed between South Africa and the USA in June 2014, which now requires mandatory annual reporting by financial institutions to avoid a 30% withholding tax should FATCA not be observed.

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and potential risks. The OECD's CRS is the standard for Automatic Exchange of Financial Account Information amongst member countries. The purpose of the CRS is to obtain financial account information of member countries' citizens that hold bank accounts in foreign financial institutions and automatically exchange that information with the revenue office of the account holder's country of citizenship on an annual basis.

The Twin Peaks model of the financial sector regulation bill will see the creation of a prudential regulator in 2016 – the Prudential Authority – housed in the SARB, while the Financial Services Board (FSB) will be transformed into a dedicated market conduct regulator – the Financial Sector Market Conduct Authority. The implementation of the Twin Peaks model in South Africa has two fundamental objectives:

- To strengthen South Africa's approach to consumer protection and market conduct in financial services; and
- To create a more resilient and stable financial system.

"Relook, rethink and consider all the options but never give up"

LARRY AND BIANCA SHAKINOVSKY – Pentafloor

The Prudential Authority's objective will be to promote and enhance the safety and soundness of regulated financial institutions; while the Financial Sector Market Conduct Authority will be tasked with protecting clients by:

- ensuring that financial institutions Treat Customers Fairly (TCF);
- enhancing the efficiency and integrity of the financial system; and
- providing clients and potential clients with financial education programmes, and otherwise promoting financial literacy and financial capability.

Compliance with FICA, as amended, and the Protection of Constitutional Democracy against Terrorist and Related Activities Act, No. 12 of 2004, is ongoing. The requirements to attain compliance with these pieces of legislation are set out in the Group's anti-money laundering and anti-terrorist financing policy, which also incorporates Mercantile's customer acceptance policy. The electronic Anti-Money Laundering (AML) system focuses on transaction monitoring and the detection of potential money laundering activity. Such activity is further investigated to determine whether a report must be made to the Financial Intelligence Centre (FIC), as required by legislation. The AML system also cross-references customers against international databases comprising adverse customer information (including persons named on the United Nations Security Council's lists). In addition thereto, the Group deployed a dedicated real time cross-border transaction screening system to detect property owned by or under the control of terrorists. Possible matches originating from both screening systems are investigated to determine whether a reporting obligation exists. The AML system is further used to discharge the Bank's cash threshold reporting obligation. All cash threshold reports and suspicious transaction reports are submitted online to the FIC by the Money Laundering Control Officer.

Further amendments to FICA, accompanied by the FIC's new online reporting system (goAML), expected to come into effect around mid 2016, are bound to have an impact on Mercantile's business processes. In preparation, the Compliance function has attended industry forum workshops and meetings on the proposed amendments, and feedback sessions at the FIC regarding the new online reporting system.

Training of staff on anti-money laundering and the combating of terrorist financing remains a key focus area, and the training material is constantly updated to provide for any changes in legislation, international best practice, and industry trends.

Consumer protection regulation continued to be a key focus in 2015, with the introduction and commencement of the deposit campaign drives. The Compliance function carried out extensive monitoring reviews throughout the year and the Group remains in material compliance with the CPA. The NCA has imposed strict requirements on credit and service providers, including standardised affordability assessments, stringent ITC time frames, disclosures to consumers, advertising and marketing practices, complaints, pricing, and reporting to the respective regulators. Business processes have been reformulated, and undergo ongoing enhancements to ensure compliance with these pieces of legislation. The Compliance function carried out extensive training and monitoring reviews throughout the year.

The ongoing implementation of the FAIS Fit and Proper requirements, and especially the requirement for all Key Individuals and Representatives to undertake regulatory examinations, continued as a major imperative for Business and the Compliance function during the year. The Group has a declaration of interest process designed to proactively identify potential conflicts of interest. Emphasis is placed on declaring outside business interests and gifts.

Through the Banking Association of South Africa, a Code of Banking Practice has been endorsed by its members to provide safeguards for consumers. A revised Code came into operation on 1 January 2012, which was an area of focus and will remain so in the coming year.

The Group's business is built on trust and integrity as perceived by our stakeholders, especially our customers, the Board, CGD and the regulators. An important element of trust and integrity is ensuring that the Group conducts its business in accordance with the values and Code of Conduct that it has adopted, in compliance with applicable laws, rules and standards. In 2014, a Market Conduct Policy was introduced to comply with applicable statutory and regulatory obligations across the Group. This policy forms part of the Group's Enterprise-wide Risk Management Framework.

Compliance risk is managed through internal policies and processes, which include legal, regulatory and business-specific requirements. A compliance tool was developed to assist management in reporting compliance breaches electronically, and thereby supporting their Compliance function in fulfilling its obligations. The Compliance Officers provide regular training to ensure that all employees are familiar with their regulatory obligations, and provide advice on regulatory issues. The Compliance staff independently monitor the business units to ensure adherence to policies and procedures, and other technical requirements. The Compliance staff work closely with business and operational units to ensure consistent management of compliance risk.

No material incidents of non-compliance were reported during the year under review.

The Group places paramount importance on the health and safety of its employees and constantly strives to improve their safety standards. The Group's aim is to eliminate all work-related injuries and illnesses. All our operations are guided by the Occupational Health and Safety Policy, which is based on leading safety practices at the workplace. This policy was formulated with the co-operation and participation of management. In our efforts to continually improve our safety performance, each operation is monitored monthly through a formal review system. Safety is a key performance indicator and a key element of performance reward for the vast majority of the Group's employees.

H Stoffberg
Head: Compliance

24 February 2016

Annual financial statements

In terms of section 29(1)(e)(ii) of the Companies Act, it is confirmed that the preparation of these annual financial statements is the responsibility of the CFO, MEL Teixeira (CA)SA.

These annual financial statements have been audited in compliance with the requirements of section 29(1)(e)(i) of the Companies Act.

"Say what you mean, and mean what you say"

RONNIE APTEKER

Case study

Ronnie Apteker

Internet Solutions (IS)

Back in 1993, while still at Wits University, Ronnie Apteker convinced a few computer science graduates to explore what it would mean to connect companies to the Internet. The company they formed was Internet Solutions (IS) which today is the leading Internet Service Provider in South Africa, and Africa. "The inspiration for IS was an innocent and natural thing," says Ronnie. "It was not some big eureka moment. It was about labours of love and about creating magic in the world. Now, as I look back at the things I have done over the past 20 years or so, I understand clearly the word "risk", which is what entrepreneurs do. I also understand what it means to lead people and to be responsible for the people you lead."

Those involved in IS in the early days spent late nights, weekends and holidays at the office, which Ronnie still does. "It's not a big sacrifice to make when you are heading in a clear direction," adds Ronnie. "The biggest challenge, in my view, always is about people: how do you find good people? In the beginning we persuaded all our friends at university to join us. And they then inspired their friends to also join, and so it grew. The key to any success is very simple: just keep your promises. Say what you mean, and mean what you say."

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of the Companies Act, the Directors are required to maintain adequate accounting records and prepare annual financial statements that fairly present the financial position at year-end, and the results and cash flows for the year of the Company and the Group.

To enable the Board to discharge its responsibilities, management has developed, and continues to maintain, a system of internal controls. The Board has ultimate responsibility for this system of internal controls, and reviews the effectiveness of its operations, primarily through the GAC and other risk-monitoring committees and functions.

The internal controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with sound business practices, and the Group's written policies and procedures. These controls are implemented by trained and skilled staff, with clearly defined lines of accountability and appropriate segregation of duties. The controls are monitored by management, and include a budgeting and reporting system operating within strict deadlines and an appropriate control framework. As part of the system of internal controls, the Group's internal audit function conducts risk-based audits and co-ordinates audit coverage with the external auditors.

The External Auditors are responsible for reporting on the fair presentation of the Company and Group annual financial statements.

The Company and Group annual financial statements are prepared in accordance with IFRS, issued by the International Accounting Standards Board, and incorporate responsible disclosures in line with the accounting policies of the Group. The Company and Group annual financial statements are based on consistently-applied, appropriate accounting policies, except as otherwise stated, and are supported by reasonable and prudent judgements and estimates. The Board believes that the Group will be a going concern in the year ahead. For this reason, they continue to adopt the going concern basis in preparing the annual financial statements.

These annual financial statements, set out on pages 52 to 115, have been approved by the Board of Mercantile Bank Holdings Limited, and are signed on their behalf by:

NF Thomaz
Chairman

KR Kumbier
Chief Executive Officer

24 February 2016

CERTIFICATE FROM THE COMPANY SECRETARY

In terms of the provisions of the Companies Act, I certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies, for the financial year ended 31 December 2015, all such returns as are required of a public company in terms of the Companies Act, and that all such returns are true, correct and up to date.

T Singh
Company Secretary

24 February 2016

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Mercantile Bank Holdings Limited

Report on the financial statements

We have audited the consolidated and separate financial statements of the Company set out on pages 53 to 115, which comprise the statements of financial position at 31 December 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Company's Directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with IFRS and the requirements of the Companies Act of South Africa, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Mercantile Bank Holdings Limited as at 31 December 2015, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with IFRS and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2015, we have read the Directors' report, the Audit Committee's report and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of the Company for 14 years.

Deloitte & Touche
Registered Auditor
Per: Diana Jorge
Partner

24 February 2016

Building 8, Deloitte Place, The Woodlands, Woodmead Drive, Sandton 2196

National Executive: *LL Bam Chief Executive, *AE Swiegers Chief Operating Officer, *GM Pinnock Audit, N Singh Risk Advisory, *NB Kader Tax, TP Pillay Consulting, S Gwala BPaaS, *K Black Clients & Industries, *JK Mazzocco Talent & Transformation, *MJ Jarvis Finance, *M Jordan Strategy, MJ Comber Reputation & Risk, *TJ Brown Chairman of the Board

A full list of partners and directors is available on request

**Partner and Registered Auditor*

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

AUDIT COMMITTEE REPORT

for the year ended 31 December 2015

The GAC's duties include its statutory duties in terms of section 94(7) of the Companies Act as well as additional duties assigned to it by the Board. It is a committee of the Board and has assumed the responsibilities of an audit committee in respect of all subsidiaries of Mercantile, with the exception of the securitisation vehicle, Compass Securitisation (RF) Limited, which has a separate audit committee. The GAC assists the Board in fulfilling its monitoring and controlling responsibilities in terms of applicable legislation.

Terms of reference

The GAC is both a statutory and a Board Committee. Its powers and terms of reference are derived from the Companies Act and are formalised in its charter, which is reviewed annually and approved by the Board. The GAC has executed its duties during the past financial year in accordance with its charter and the Companies Act.

Composition

The GAC comprises four Independent Non-Executive Directors. At 31 December 2015, the members were:

- TH Njikizana (Chairman) CA(SA)
- L Hyne CA(SA)
- GP de Kock
- DR Motsepe

The CEO, Deputy CEO, CFO, heads of Risk and Internal Audit, and representatives from the External Auditors attend the Committee meetings by invitation. The External and Internal Auditors have unrestricted access to the GAC Chairman, or any other member of the Committee, as required.

Meetings

The GAC held five meetings during the period under review. During their tenure as members of the Committee, all members attended each of these meetings.

Statutory duties

In execution of its statutory duties during the financial year under review, the GAC:

- nominated for appointment, as External Auditor, Deloitte & Touche, which, in its opinion, is independent of the Company;
- determined the fees to be paid to Deloitte & Touche as disclosed in note 26 to the annual financial statements;
- determined Deloitte & Touche's terms of engagement;
- believes the appointment of Deloitte & Touche complies with the relevant provisions of the Companies Act and King III;
- pre-approved all non-audit service contracts with Deloitte & Touche in accordance with its policy;
- received no complaints with regard to accounting practices and the internal audit of the Company, the content or auditing of its financial statements, the internal financial controls of the Company, and any other related matters; and
- advised the Board that, regarding matters concerning the Company's accounting policies, financial control, records and reporting, it concurs that the adoption of the going concern premise in the preparation of the financial statements, is appropriate.

Internal financial control and internal audit

In the execution of its delegated duties in this area, the GAC has:

- reviewed and recommended the Internal Audit Charter for approval;
- evaluated the independence, effectiveness and performance of the Internal Audit function;
- reviewed the effectiveness of the Company's system of internal financial controls;
- reviewed significant issues raised by the External and Internal Audit process, and the adequacy of corrective action in response to such findings; and
- reviewed policies and procedures for preventing and detecting fraud.

The head of Internal Audit reported functionally to the GAC, had unrestricted access to the GAC Chairman, and is of the opinion that significant internal financial controls operated effectively during the period under review.

Based on the processes and assurances obtained, the GAC believes that significant internal financial controls are effective.

Regulatory compliance

The GAC has complied with all applicable legal, regulatory and other responsibilities.

External audit

Based on processes followed and assurances received, the GAC is satisfied that both Deloitte & Touche and the audit partner, D Crowther (resigned 1 November 2015) and D Jorge (appointed 1 November 2015), are independent of the Group. The GAC confirmed that no reportable irregularities were identified and reported by the External Auditors, in terms of the Auditing Professions Act, No. 26 of 2005.

Based on its satisfaction with the results of the activities outlined above, the GAC has recommended to the Board that Deloitte & Touche should be reappointed for 2016.

Finance function

The GAC believes that the CFO, MEL Teixeira, who is responsible for Finance, possesses the appropriate expertise and experience to meet her responsibilities in that position. We are also satisfied with the expertise and adequacy of resources within the Finance function.

In making these assessments, we have obtained feedback from both External and Internal Audit.

Based on the processes and assurances obtained, we believe that the accounting practices are effective.

Financial statements

Based on the processes followed and assurances obtained, we recommend the current annual financial statements be approved by the Board.

On behalf of the GAC

TH Njikizana
Chairman of the GAC

24 February 2016

DIRECTORS' REPORT

for the year ended 31 December 2015

The Directors have pleasure in presenting their report, which forms part of the audited annual financial statements of the Company and the Group for the year ended 31 December 2015.

1. Nature of business

The Company is a registered bank-controlling and investment-holding company incorporated in the Republic of South Africa. Through its subsidiaries, the Company is involved in the full spectrum of domestic and international banking and financial services to niche markets in business, commercial and alliance banking.

2. Holding company

The 100% shareholder of the Company is CGD.

3. Financial results

An overview of the financial results is set out in the Group Review, commencing on page 13 of the Integrated Annual Report. Details of the Company and Group financial results are set out on pages 53 to 115 and, in the opinion of the Directors, require no further comment.

4. Share capital

There were no changes to the authorised and issued share capital of the Company during the current and previous year. The authorised and issued share capital of the Company and the Group is detailed in note 14 to the annual financial statements.

5. Directors, Company Secretary and registered addresses

The Directors of the Company during the year were as follows:

NF Thomaz *+ *(Chairman)*

GP de Kock° *(Deputy Chairman)*

KR Kumbier# *(CEO)*

RS Caliço *# *(Deputy CEO)*

L Hyne°

AT Ikalafeng°

TH Njikizana^°

DR Motsepe°

** Portuguese ^ Zimbabwean # Executive,*
° Independent Non-Executive + Non-Executive

The Directors of the Company, as at 24 February 2016, and details of their backgrounds, are shown on pages 8 and 9.

T Singh is the Company Secretary.

The registered addresses of the Company are:

Postal	**Physical**
PO Box 782699	1st Floor
Sandton	Mercantile Bank
2146	142 West Street
	Sandown
	2196

6. Dividends

A dividend of R29,197 million was declared on 24 February 2016 in respect of the year ended 31 December 2015 (2014: R25,668 million – paid in 2015).

7. Going concern

The Directors, in performing their assessment of the Group and Company's ability to continue as a going concern, considered the approved operating budget for the next financial year, as well as the cash flow forecast for the year ahead. The approved operating budget was reviewed and analysed based on the current developments in the market and operating model for the Group and the Company. The Directors believe the Group and the Company will have sufficient capital and cash resources to operate as a going concern in the year ahead.

8. Special resolutions

One special resolution was adopted at the AGM held on 27 May 2015: to approve the fees and remuneration respectively payable to Non-Executive Directors and Executive Directors.

ACCOUNTING POLICIES

for the year ended 31 December 2015

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

1. Basis of presentation

The consolidated financial statements for the Group and for the Company are prepared in accordance with IFRS adopted by the International Accounting Standards Board; the South African Institute of Chartered Accountants' Financial Reporting Guides as issued by the Accounting Practices Committee; Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council; and the Companies Act.

IFRS that became effective in the current reporting period have had no impact on the Group.

2. Basis of consolidation

Subsidiaries are entities over which the Group has exposure to variable returns and the power to direct relevant activities that affect those returns. The existence and effect of potential voting rights that are currently exercisable or convertible, are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

3. Recognition of assets and liabilities

3.1 Assets

The Group recognises an asset when it obtains control of a resource as a result of past events and from which future economic benefits are expected to flow to the Group.

3.2 Liabilities

The Group recognises a liability when it has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

3.3 Provisions

A provision is recognised when the Group has a present legal, or constructive, obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

3.4 Contingent liabilities

A contingent liability is disclosed where the Group has a; possible obligation as a result of past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or an obligation in terms of which it is merely possible that an outflow of resources will be required to settle the obligation, or the amount of an obligation cannot be measured with sufficient reliability.

4. Financial instruments

A financial asset or financial liability is recognised in the Group's statement of financial position when the Group has become a party to the contractual provisions of that financial instrument. Regular way purchases or sales of financial assets are recognised using settlement date accounting. On initial recognition, financial instruments are recognised at fair value and, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instruments are included.

The Group derecognises a financial asset when:

- the contractual rights to the cash flows arising from the financial asset have expired or have been forfeited by the Group; or
- it transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- it transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retaining control of the asset.

A financial liability is derecognised when, and only when, the liability is extinguished; that is, when the obligation specified in the contract is discharged, cancelled or has expired.

The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

4. Financial instruments continued

4.1 Derivative financial instruments

Derivative financial assets and liabilities are classified as held-for-trading.

The Group uses the following derivative financial instruments to reduce its underlying financial risks and/or to enhance returns:

- Forward exchange contracts;
- Foreign currency swaps;
- Interest rate swaps; and
- Unlisted equity instruments.

Derivative financial instruments (derivatives) are not entered into for trading or speculative purposes. All derivatives are recognised in the statement of financial position. Derivatives are initially recorded at cost and are subsequently measured to fair value, excluding transaction costs, at each reporting date. Changes in the fair value of derivatives are recognised in profit or loss.

Derivatives related to unlisted equity instruments whose fair value cannot be reliably determined are measured at cost less impairment.

A derivative's notional principal amount reflects the value of the Group's investment in derivative financial instruments, and represents the amount to which a rate or price is applied to calculate the exchange of cash flows.

4.2 Financial assets

The Group's principal financial assets are cash and cash equivalents, bank term deposits, other investments, negotiable securities, loans and advances, and other accounts receivable.

Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss, primarily to eliminate or significantly reduce an accounting mismatch. The Group seeks to demonstrate that, by applying the fair value option, which measures fair value gains and losses in profit or loss, it significantly reduces measurement inconsistency that would otherwise arise from measuring such designated financial assets at amortised cost.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative instruments that are so designated or those that are not otherwise classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held by the Group with the SARB, domestic banks, foreign banks and money market funds. These financial assets have been designated as loans and receivables and are measured at amortised cost.

Other investments

Investments consist of unlisted equity investments. Other investments, which are an integral part of the Group's structured loan portfolio, are designated at fair value through profit or loss. All other investments have been designated as available-for-sale. These assets are measured at fair value at each reporting date, with the resultant gains or losses being recognised in other comprehensive income until the financial asset is sold or otherwise disposed of. At that time, the cumulative gains or losses previously recognised in other comprehensive income are included in profit or loss.

Negotiable securities

Negotiable securities consist of government stock, treasury bills and promissory notes.

Government stock acquired prior to 31 December 2014 has been designated as available-for-sale. These assets are measured at fair value at each reporting date, with the resultant gains or losses being recognised in other comprehensive income until sold or otherwise disposed of. At that time, the cumulative gains or losses previously recognised in other comprehensive income are included in profit or loss.

Government stock acquired from 1 January 2015 has been designated as held-to-maturity and is carried at amortised cost.

All other negotiable securities are classified as loans and receivables and carried at amortised cost subject to impairment.

Loans and advances

Loans and advances principally comprise amounts advanced to third parties in terms of certain products.

Fixed rate loans and advances are designated at fair value through profit or loss, with resultant gains and losses being included in profit or loss.

Variable rate loans and advances are designated as loans and receivables and are measured at amortised cost.

Interest on non-performing loans and advances is not recognised to profit or loss, but is suspended. In certain instances, interest is also suspended where portfolio impairments are recognised.

Other accounts receivable

Other accounts receivable comprise items in transit, prepayments and deposits which meet the definition of financial assets, and other receivables. These assets have been designated as loans and receivables and are measured at amortised cost.

4.3 Financial liabilities

The Group's financial liabilities include deposits and other accounts payable, consisting of accruals, product-related credits, and sundry creditors. These financial liabilities are measured at amortised cost. Derivative instruments are measured at fair value through profit or loss; the resultant gains and losses are included in profit or loss.

4.4 Fair value estimation

The fair value of publicly traded derivatives, securities and investments is based on the quoted market prices at the reporting date. In the case of an asset held by the Group, the exit price is used as a measure of fair value. In the case of a liability held, the current offer or asking price is used as a measure of fair value. Mid-market prices are used as a measure of fair value where there are matching asset and liability positions.

In assessing the fair value of non-publicly traded financial instruments, the Group uses a variety of valuation methods which take into consideration input assumptions which are based, as far as possible, on objective market information and risks existing at each reporting date. Quoted market prices or dealer quotes for the same or similar instruments are used for the majority of securities, long-term investments and long-term debt. Other valuation techniques, such as earnings multiples, option pricing models, discounted cash flows, replacement cost, and net asset values of underlying investee entities are used to determine fair values.

4.5 Amortised cost

Amortised cost is determined using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

4.6 Impairment

Specific impairments are made against identified financial assets. Portfolio impairments are maintained to cover potential losses which, although not specifically identified, may be present in the advances portfolio.

Advances that are deemed uncollectible are written off against the specific impairments. A direct reduction of an impaired financial asset occurs when the Group writes off an impaired account. The Group's policies set out the criteria for write-offs, which involve an assessment of the likelihood of commercially viable recovery of the carrying amount of impaired financial assets. Both the specific and portfolio impairments raised during the year, less the recoveries of advances previously written off, are charged to profit or loss.

The recoverable amount is the sum of the estimated future cash flows, discounted to their present value, using a pre-tax discount rate that reflects the portfolio's effective interest rate.

4. Financial instruments continued

4.6 Impairment continued

If the recoverable amount of the advance is estimated to be less than the carrying amount, the carrying amount of the advance is reduced to its recoverable amount by recognising a specific impairment expense. Where the impairment subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, subject to the increased carrying amount not exceeding the carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of an impairment is recognised through profit or loss, except for the reversal of an impairment of equity instruments designated as available-for-sale, which reversal is recognised in other comprehensive income.

5. Foreign currency transactions

Transactions in foreign currencies are converted to the functional currency at the prevailing exchange rate on the transaction date. Monetary assets, liabilities and commitments in foreign currencies are translated to the functional currency using the rate of exchange at reporting date. Gains and losses on foreign exchange are recognised in profit or loss.

6. Subsidiaries

Investments in subsidiaries in the Company's annual financial statements are designated as available-for-sale measured at fair value.

7. Property and equipment

Owner-occupied properties are held for use in the supply of services or for administrative purposes, and are reflected in the statement of financial position at fair value, less any subsequent accumulated depreciation and/or impairment. The fair value is based on capitalisation rates for net rentals for each property. Revaluations are performed annually by independent registered professional valuators.

Any revaluation increase is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case it is recognised in profit or loss to the same extent with the excess recognised in other comprehensive income. A decrease in the carrying amount arising from a valuation is recognised in other comprehensive income, except to the extent that it exceeds the related non-distributable reserve of that asset recognised in equity, in which case the excess is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the revaluation surplus relating to that property is transferred to distributable reserves.

All equipment is stated at historical cost, less accumulated depreciation and subsequent accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount, or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss as incurred.

Depreciation on equipment is calculated using the straight-line method. Leasehold improvements are depreciated over the period of the lease, or over such lesser period as is considered appropriate.

The residual values and useful lives of property and equipment are reviewed and adjusted, if appropriate, at each reporting date.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates that the asset is classified as held for sale or derecognised. The estimated useful lives of property and equipment are as follows:

Leasehold improvements	5 – 10 years
Computer equipment	3 – 5 years
Furniture and fittings	10 years
Office equipment	5 – 10 years
Motor vehicles	5 years
Owner-occupied properties	50 years
Land	Not depreciated

Gains and losses on the disposal of property and equipment are determined by deducting from the proceeds the net carrying amounts, and are recognised in profit or loss.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value, less costs to sell, or its value in use.

8. Intangible assets

8.1 Computer software

Direct costs associated with purchasing, developing and enhancing computer software programs, and the acquisition of software licences, are recognised as intangible assets if they are expected to generate future economic benefits that exceed related costs beyond one financial period.

Computer software and licences that are recognised as intangible assets are amortised on a straight-line basis over a period of three to five years but, where appropriate, to a maximum of 10 years. These intangible assets are carried at historical cost less accumulated amortisation and/or impairment.

8.2 Derecognition of intangible assets

An intangible asset is derecognised on disposal or when future economic benefits are no longer expected from its use or disposal. Gains and losses on the disposal of intangible assets are determined by deducting from the proceeds the net carrying amounts, and are recognised in profit or loss.

8.3 Impairment of intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, or its value in use.

9. Non-current assets held for sale

Non-current assets are classified as held for sale if they are to be recovered principally through a sale transaction, rather than through continuing use. This condition is regarded as met only when; the sale is highly probable within 12 months, the asset is available for immediate sale in its present condition, the asset is being marketed at a reasonable price, and management is committed to the sale and actively looking for buyers.

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

10. Tax

Income tax expense represents the sum of current and deferred tax.

10.1 Current tax

Current tax is determined based on taxable profits for the period. Taxable profit may differ from accounting profit as it may exclude, or include, items of income or expense that are taxable or deductible in other periods, and it would further exclude items that are neither taxable nor deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

10.2 Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases of such items, and is determined using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences, to the extent that it is probable that sufficient taxable temporary differences or taxable profits will be available against which those deductible temporary differences may be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill, or from a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences, and that they are expected to reverse in the foreseeable future.

10. Tax continued

10.2 Deferred tax continued

The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that it will be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same tax authority, and the Group intends to settle its current tax assets and liabilities on a net basis.

10.3 Current and deferred tax

Current and deferred tax are recognised in profit or loss, except when they relate to items recognised in other comprehensive income or directly in equity, in which case, the tax is recognised in the same statements as the related item.

11. Instalment sales and leases

11.1 The Group as the lessee

Leases entered into by the Group (including rental assets) are primarily operating leases. The total payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

11.2 The Group as the lessor

Leases and instalment sale agreements are regarded as financing transactions with rentals and instalments receivable, less unearned finance charges, being included in advances. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

12. Interest income and interest expense

Except where interest income is suspended, interest income and expense are recognised in profit or loss for all interest-bearing instruments measured at amortised cost, using the effective interest rate method.

13. Fee, commission and dividend income

Fees and commissions are recognised on an accrual basis, unless included in the effective interest rate. Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

14. Retirement funds

The Group operates a defined contribution fund that is funded by payments from employees and by the relevant Group companies. The Group contributions to the retirement funds are based on a percentage of the payroll, and are charged to profit or loss as accrued.

15. Post-retirement medical benefits

The Group provides for post-retirement medical benefits to certain retired employees. These benefits are only applicable to employees who were members of the Group's medical aid scheme prior to May 2000, and who elected to retain the benefits in 2005, and are based on these employees remaining in service up to retirement age. The Group provides for the present value of the obligations in excess of the fair value of the plan assets, which is intended to offset the expected costs relating to the post-retirement medical benefits. The costs of the defined benefit plan are assessed using the projected unit credit method. Under this method, the current service cost of providing post-retirement medical benefits is recognised in profit or loss. The interest cost and expected return on plan assets, as well as the effect of settlements on the liability and plan assets, are recognised in profit or loss and any remeasurement of the defined benefit liability and assets (which include actuarial gains and losses) are recognised in other comprehensive income. The net post-retirement asset or liability recognised in the consolidated statement of financial position reflects the full value of the plan deficit or surplus.

16. Key assumptions and estimates applied by management

The Group makes assumptions and estimates that affect the reported amounts of assets and liabilities. Assumptions and estimates are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

16.1 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease can be attributed to an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when forecasting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

16.2 Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. The models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. However, management is required to make estimates in areas such as credit risk, volatilities and correlations. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

16.3 Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

17. Recent accounting developments

There are a number of new and revised standards in issue that are not yet effective and that the Group has no plans to early adopt. These include the following standards that could be applicable to the business of the Group and that may have an impact on future financial statements. Except for preliminary assessments in respect of IFRS 9, the impact of initial application of the following standards has not been assessed as at the date of authorisation of the annual financial statements.

	Standard	Effective date
IFRS 5 IFRS 7 IAS 19 IAS 34	Amendments resulting from September 2014 annual improvements to IFRSs	Annual periods beginning on or after 1 January 2016
IFRS 7	**Financial instruments: additional hedge accounting disclosures**	Annual periods beginning on or after 1 January 2018
IFRS 9	**Financial instruments**	Annual periods beginning on or after 1 January 2018
IFRS 10	**Consolidated financial statements:** Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Deferred indefinitely
IFRS 10	**Consolidated financial statements:** Amendments regarding the application of the consolidation exception	Annual periods beginning on or after 1 January 2016
IFRS 11	**Joint arrangements:** Amendments regarding the accounting for acquisitions of an interest in a joint operation	Annual periods beginning on or after 1 January 2016
IFRS 12	**Disclosure of interests in other entities:** Amendments regarding the application of the consolidation exception	Annual periods beginning on or after 1 January 2016
IFRS 14	**Regulatory deferral accounts**	Annual periods beginning on or after 1 January 2016
IFRS 15	**Revenue from contracts with customers**	Annual periods beginning on or after 1 January 2018
IFRS16	**Leases**	Annual periods beginning on or after 1 January 2019
IAS 1	**Presentation of financial statements:** Amendments resulting from the disclosure initiative	Annual periods beginning on or after 1 January 2016
IAS 16	**Property, plant and equipment:** Amendments regarding the clarification of acceptable methods of depreciation and amortisation; and amendments bringing bearer plants into the scope of IAS 16	Annual periods beginning on or after 1 January 2016
IAS 27	**Separate financial statements:** Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements	Annual periods beginning on or after 1 January 2016

	Standard	Effective date
IAS 28	**Investments in associates and joint ventures:** Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Deferred indefinitely
IAS 28	**Investments in associates and joint ventures:** Amendments regarding the application of the consolidation exception	Annual periods beginning on or after 1 January 2016
IAS 38	**Intangible assets:** Amendments regarding the clarification of acceptable methods of depreciation and amortisation	Annual periods beginning on or after 1 January 2016
IAS 41	**Agriculture:** Amendments bringing bearer plants into the scope of IAS 16	Annual periods beginning on or after 1 January 2016

STATEMENTS OF FINANCIAL POSITION

at 31 December 2015

	Note	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
Assets					
Intangible assets	2	**192 064**	188 476	**–**	–
Property and equipment	3	**223 404**	214 994	**–**	–
Current tax receivable	4	**572**	133	**–**	–
Other accounts receivable	5	**167 278**	154 359	**–**	–
Interest in subsidiaries	6	**–**	–	**2 039 084**	1 916 328
Other investments	7	**5 958**	6 388	**62**	62
Deferred tax assets	8	**–**	496	**–**	–
Non-current assets held for sale	9	**–**	13 482	**–**	–
Loans and advances	10	**7 250 043**	6 223 991	**–**	–
Derivative financial instruments	11	**56 775**	6 132	**–**	–
Negotiable securities	12	**551 494**	440 767	**–**	–
Cash and cash equivalents	13	**1 586 798**	1 518 444	**4 120**	4 166
Total assets		**10 034 386**	8 767 662	**2 043 266**	1 920 556
Equity and liabilities					
Total equity attributable to equity holders of the parent		**2 021 777**	1 901 981	**2 039 682**	1 916 887
Share capital and share premium	14	**1 207 270**	1 207 270	**1 207 270**	1 207 270
Capital redemption reserve fund		**–**	3 788	**–**	3 788
Employee benefits reserve		**(8 354)**	(7 453)	**–**	–
General reserve		**–**	7 478	**–**	–
Property revaluation reserve		**112 480**	110 147	**–**	–
Available-for-sale reserve		**2 683**	4 635	**1 292 702**	1 169 797
Retained earnings/(Accumulated loss)		**707 698**	576 116	**(460 290)**	(463 968)
Non-controlling interests		**(1 165)**	(2 070)	**–**	–
Total equity		**2 020 612**	1 899 911	**2 039 682**	1 916 887
Liabilities		**8 013 774**	6 867 751	**3 584**	3 669
Deferred tax liabilities	8	**51 889**	66 115	**–**	–
Long-term funding	15	**646 215**	527 559	**–**	–
Debt securities	16	**202 810**	202 764	**–**	–
Deposits	17	**6 721 913**	5 792 204	**–**	–
Derivative financial instruments	11	**63 305**	8 727	**–**	–
Provisions and other liabilities	18	**94 736**	79 085	**–**	–
Current tax payable	4	**12 245**	5 213	**–**	–
Other accounts payable	20	**220 661**	186 084	**3 584**	3 669
Total equity and liabilities		**10 034 386**	8 767 662	**2 043 266**	1 920 556

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

		GROUP		COMPANY	
	Note	**2015 R'000**	2014 R'000	**2015 R'000**	2014 R'000
Interest income	22	**773 313**	640 240	**39**	40
Interest expense	23	**(366 010)**	(290 858)	**–**	–
Net interest income		**407 303**	349 382	**39**	40
Net charge for credit losses	10.4	**(35 040)**	(34 029)	**–**	–
Net interest income after credit losses		**372 263**	315 353	**39**	40
Net non-interest income		**252 075**	234 100	**25 668**	27 501
Non-interest income	24	**412 869**	418 179	**25 668**	27 501
Fee and commission expenditure	25	**(160 794)**	(184 079)	**–**	–
Net interest and non-interest income		**624 338**	549 453	**25 707**	27 541
Operating expenditure	26	**(419 111)**	(368 778)	**(149)**	(114)
Profit before tax		**205 227**	180 675	**25 558**	27 427
Tax	27	**(58 338)**	(53 022)	**–**	–
Profit after tax		**146 889**	127 653	**25 558**	27 427
Other comprehensive income					
Revaluation of owner-occupied properties		**3 241**	14 492	**–**	–
Remeasurement of defined benefit obligation		**(1 251)**	(1 760)	**–**	–
(Losses)/Gains on remeasurement to fair value on financial assets designated as available-for-sale		**(2 623)**	(688)	**122 905**	109 757
Tax relating to other comprehensive income		**113**	(4 545)	**–**	–
Other comprehensive income net of tax		**(520)**	7 499	**122 905**	109 757
Total comprehensive income		**146 369**	135 152	**148 463**	137 184
Profit after tax attributable to:					
Equity holder of the parent		**145 984**	128 339	**25 558**	27 427
Non-controlling interests		**905**	(686)	**–**	–
		146 889	127 653	**25 558**	27 427
Total comprehensive income attributable to:					
Equity holder of the parent		**145 464**	135 838	**148 463**	137 184
Non-controlling interests		**905**	(686)	**–**	–
		146 369	135 152	**148 463**	137 184

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Share capital and share premium R'000	Capital redemption reserve fund R'000	Employee benefits reserve R'000	General reserve R'000	Property revaluation reserve R'000	Available-for-sale reserve R'000	Retained earnings R'000	Attributable to equity holders of the parent R'000	Non-controlling interests R'000	Total R'000
Group										
Balance at 31 December 2013	1 207 270	3 788	(6 186)	7 478	99 364	6 652	475 278	1 793 644	(1 384)	1 792 260
Net movement for the year	–	–	(1 267)	–	10 783	(2 017)	100 838	108 337	(686)	107 651
Total comprehensive income/(loss) for the year	–	–	(1 267)	–	10 783	(2 017)	128 339	135 838	(686)	135 152
Profit after tax	–	–	–	–	–	–	128 339	128 339	(686)	127 653
Other comprehensive income/(loss)	–	–	(1 760)	–	14 492	(688)	–	12 044	–	12 044
Tax relating to other comprehensive income/loss	–	–	493	–	(3 709)	(1 329)	–	(4 545)	–	(4 545)
Dividend paid	–	–	–	–	–	–	(27 501)	(27 501)	–	(27 501)
Balance at 31 December 2014	**1 207 270**	**3 788**	**(7 453)**	**7 478**	**110 147**	**4 635**	**576 116**	**1 901 981**	**(2 070)**	**1 899 911**
Net movement for the year	**–**	**–**	**(901)**	**–**	**2 333**	**(1 952)**	**120 316**	**119 796**	**905**	**120 701**
Total comprehensive income/(loss) for the year	**–**	**–**	**(901)**	**–**	**2 333**	**(1 952)**	**145 984**	**145 464**	**905**	**146 369**
Profit after tax	**–**	**–**	**–**	**–**	**–**	**–**	**145 984**	**145 984**	**905**	**146 889**
Other comprehensive income/(loss)	**–**	**–**	**(1 251)**	**–**	**3 241**	**(2 623)**	**–**	**(633)**	**–**	**(633)**
Tax relating to other comprehensive income/loss	**–**	**–**	**350**	**–**	**(908)**	**671**	**–**	**113**	**–**	**113**
Transfer between reserves	**–**	**(3 788)**	**–**	**(7 478)**	**–**	**–**	**11 266**	**–**	**–**	**–**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(25 668)**	**(25 668)**	**–**	**(25 668)**
Balance at 31 December 2015	**1 207 270**	**–**	**(8 354)**	**–**	**112 480**	**2 683**	**707 698**	**2 021 777**	**(1 165)**	**2 020 612**

	Share capital and share premium R'000	Capital redemption reserve fund R'000	Available-for-sale reserve R'000	Accumulated loss R'000	Total R'000
Company					
Balance at 31 December 2013	1 207 270	3 788	1 060 040	(463 894)	1 807 204
Net movement for the year	–	–	109 757	(74)	109 683
Total comprehensive income for the year	–	–	109 757	27 427	137 184
Profit after tax	–	–	–	27 427	27 427
Other comprehensive income	–	–	109 757	–	109 757
Dividend paid	–	–	–	(27 501)	(27 501)
Balance at 31 December 2014	**1 207 270**	**3 788**	**1 169 797**	**(463 968)**	**1 916 887**
Net movement for the year	**–**	**–**	**122 905**	**(110)**	**122 795**
Total comprehensive income for the year	**–**	**–**	**122 905**	**25 558**	**148 463**
Profit after tax	**–**	**–**	**–**	**25 558**	**25 558**
Other comprehensive income	**–**	**–**	**122 905**	**–**	**122 905**
Transfer between reserves	**–**	**(3 788)**	**–**	**3 788**	**–**
Dividend paid	**–**	**–**	**–**	**(25 668)**	**(25 668)**
Balance at 31 December 2015	**1 207 270**	**–**	**1 292 702**	**(460 290)**	**2 039 682**

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2015

	Note	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
Cash flows from operating activities					
Cash receipts from customers	28.1	**1 192 667**	1 063 734	**39**	40
Cash paid to customers, suppliers and employees	28.2	**(879 231)**	(788 943)	**(149)**	(114)
Cash generated from/(utilised in) operations	28.3	**313 436**	274 791	**(110)**	(74)
Dividends received		**–**	103	**25 668**	27 501
Tax (paid)	28.4	**(65 362)**	(51 236)	**–**	–
Net (increase) in income-earning assets	28.5	**(1 181 564)**	(979 167)	**–**	–
Net increase/(decrease) in deposits and other accounts	28.6	**964 703**	711 065	**64**	(52)
Net cash inflow/(outflow) from operating activities		**31 213**	(44 444)	**25 622**	27 375
Cash flows from investing activities					
Purchase of intangible assets	2	**(37 413)**	(15 697)	**–**	–
Purchase of property and equipment	3	**(25 046)**	(32 417)	**–**	–
Acquisition of non-current assets held for sale	9	**–**	(12)	**–**	–
Proceeds on disposal of property and equipment		**6 566**	675	**–**	–
Net cash (outflow) from investing activities		**(55 893)**	(47 451)	**–**	–
Cash flows from financing activities					
Dividends paid		**(25 668)**	(27 501)	**(25 668)**	(27 501)
Increase/(Decrease) in long-term funding	15	**118 656**	(55 614)	**–**	–
Increase in debt securities	16	**46**	202 764	**–**	–
Net cash inflow/(outflow) from financing activities		**93 034**	119 649	**(25 668)**	(27 501)
Net cash inflow/(outflow) for the year		**68 354**	27 754	**(46)**	(126)
Cash and cash equivalents at the beginning of the year		**1 518 444**	1 490 690	**4 166**	4 292
Cash and cash equivalents at the end of the year	13	**1 586 798**	1 518 444	**4 120**	4 166

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2015

	GROUP			
	2015		2014	
	Fair value R'000	**Carrying amount R'000**	Fair value R'000	Carrying amount R'000
1. Categories and fair values of financial instruments				
1.1 Category analysis of financial instruments				
Assets				
Available-for-sale	**169 771**	**169 771**	185 262	185 262
Other investments	**5 958**	**5 958**	6 388	6 388
Negotiable securities – Government stock	**163 813**	**163 813**	178 874	178 874
Held-to-maturity				
Negotiable securities – Government stock	**282 098**	**290 057**	–	–
Loans and receivables	**9 096 533**	**9 096 533**	8 144 378	8 144 281
Loans and advances				
Current accounts	**1 474 221**	**1 474 221**	1 314 639	1 314 639
Credit cards	**24 198**	**24 198**	15 744	15 744
Mortgage loans	**3 139 299**	**3 139 299**	2 431 852	2 431 852
Instalment sales and leases	**953 341**	**953 341**	819 115	819 115
Structured loans	**211 019**	**211 019**	80 539	80 539
Medium-term loans	**1 442 755**	**1 442 755**	1 547 696	1 547 696
Negotiable securities				
Treasury bills	**–**	**–**	205 633	205 565
Land Bank promissory notes	**97 624**	**97 624**	56 357	56 328
Cash and cash equivalents	**1 586 798**	**1 586 798**	1 518 444	1 518 444
Other accounts receivable	**167 278**	**167 278**	154 359	154 359
Designated at fair value through profit and loss				
Loans and advances				
Mortgage loans	**5 210**	**5 210**	14 406	14 406
Held-for-trading				
Derivative financial instruments	**56 775**	**56 775**	6 132	6 132
	9 610 387	**9 618 346**	8 350 178	8 350 081
Liabilities				
Held-for-trading				
Derivative financial instruments	**63 305**	**63 305**	8 727	8 727
Amortised cost	**7 588 789**	**7 588 789**	6 505 847	6 505 847
Long-term funding	**646 215**	**646 215**	527 559	527 559
Deposits	**6 721 913**	**6 721 913**	5 792 204	5 792 204
Other accounts payable	**220 661**	**220 661**	186 084	186 084
	7 652 094	**7 652 094**	6 514 574	6 514 574

	COMPANY			
	2015		2014	
	Fair value R'000	**Carrying amount R'000**	Fair value R'000	Carrying amount R'000
1. Categories and fair values of financial instruments continued				
1.1 Category analysis of financial instruments continued				
Assets				
Available-for-sale	**2 039 146**	**2 039 146**	1 916 390	1 916 390
Other investments	**62**	**62**	62	62
Interest in subsidiaries	**2 039 084**	**2 039 084**	1 916 328	1 916 328
Loans and receivables				
Cash and cash equivalents	**4 120**	**4 120**	4 166	4 166
	2 043 266	**2 043 266**	1 920 556	1 920 556
Liabilities				
Amortised cost				
Other accounts payable	**3 584**	**3 584**	3 669	3 669
	3 584	**3 584**	3 669	3 669

1.2 Valuation techniques and assumptions applied for the purpose of measuring fair value

- Cash and cash equivalents have short terms to maturity and are carried at amortised cost. For this reason, the carrying amounts at the reporting date approximate the fair value.
- Treasury bills and Land Bank promissory notes have short terms to maturity and are carried at amortised cost. Fair value is based on quoted market values at the reporting date.
- The fair value of loans and advances that are carried at amortised cost approximate the fair value reported as they bear variable rates of interest. The fair value is adjusted for deterioration of credit quality through the application of the credit impairment models.
- Long-term funding and debt securities are carried at amortised cost and approximate the fair value reported as they bear variable rates of interest.
- Deposits generally have short terms to maturity and thus the values reported approximate the fair value.
- The fair value of publicly traded derivatives, securities and investments, is based on quoted market values at the reporting date.
- The fair value of other financial assets and financial liabilities, excluding derivatives, is determined in accordance with generally accepted pricing models, based on discounted cash flow analysis, using prices from observable current market transactions and adjusted by relevant market pricing.
- The fair value of other investments and interest in subsidiaries that are unlisted is determined by reference to the net asset value of the entity and/or the underlying net asset value of its investment holdings.
- The fair value of loans and advances, designated at fair value through profit and loss, is calculated using the credit spread observed at origination. The fair value is adjusted for deterioration of credit quality through the application of the credit impairment models.

1. Categories and fair values of financial instruments continued

1.3 Fair value measurements recognised in the statement of financial position

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	GROUP			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2015				
Assets				
Available-for-sale				
Other investments	**–**	**–**	**5 958**	**5 958**
Negotiable securities – Government stock	**163 813**	**–**	**–**	**163 813**
Designated at fair value through profit and loss				
Loans and advances				
Mortgage loans	**–**	**–**	**5 210**	**5 210**
Held-for-trading				
Derivative financial instruments	**–**	**56 775**	**–**	**56 775**
	163 813	**56 775**	**11 168**	**231 756**
Liabilities				
Held-for-trading				
Derivative financial instruments	**–**	**63 305**	**–**	**63 305**
	–	**63 305**	**–**	**63 305**
2014				
Assets				
Available-for-sale				
Other investments	–	–	6 388	6 388
Negotiable securities – Government stock	178 874	–	–	178 874
Designated at fair value through profit and loss				
Loans and advances				
Mortgage loans	–	–	14 406	14 406
Held-for-trading				
Derivative financial instruments	–	6 132	–	6 132
	178 874	6 132	20 794	205 800
Liabilities				
Held-for-trading				
Derivative financial instruments	–	8 727	–	8 727
	–	8 727	–	8 727

Management has assessed the classification of financial instruments in terms of IFRS 13 and classified derivative financial instruments under Level 2 and mortgage loans under Level 3. Comparatives have been reclassified accordingly.

1. Categories and fair values of financial instruments continued

1.3 Fair value measurements recognised in the statement of financial position continued

	COMPANY			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2015				
Assets				
Available-for-sale				
Other investments	–	–	**62**	**62**
2014				
Assets				
Available-for-sale				
Other investments	–	–	62	62

There were no transfers between Levels 1 and 2 during the year.

1.4 Reconciliation of Level 3 fair value measurements of financial assets

	2015 R'000	2014 R'000
Group		
Available-for-sale		
Other investments – unlisted equities		
Balance at the beginning of the year	**6 388**	5 799
(Losses)/Gains on remeasurement to fair value in comprehensive income	**(430)**	589
Balance at the end of the year	**5 958**	6 388
Company		
Available-for-sale		
Other investments – unlisted equities		
Balance at the beginning and end of the year	**62**	62

2. Intangible assets

	GROUP	
	2015 R'000	2014 R'000
Computer software		
Cost at the beginning of the year	**317 772**	323 378
Additions	**37 413**	15 697
Net transfer from property and equipment	**–**	5 955
Write-off of obsolete computer software	**(57)**	(27 258)
Cost at the end of the year	**355 128**	317 772
Accumulated amortisation and impairment losses at the beginning of the year	**(129 296)**	(126 910)
Amortisation	**(33 825)**	(29 238)
Write-off of obsolete computer software	**57**	26 852
Accumulated amortisation and impairment losses at the end of the year	**(163 064)**	(129 296)
Net carrying amount at the end of the year	**192 064**	188 476

During 2014 and 2015, the Group identified no events or circumstances that would indicate that the Group's intangible assets may need to be impaired.

3. Property and equipment

	GROUP						
	Owner-occupied properties R'000	Leasehold improve-ments R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
2015							
Open market value/cost at the beginning of the year	188 548	14 296	30 256	11 307	26 387	943	271 737
Revaluations	2 386	–	–	–	–	–	2 386
Additions	1 562	5 407	7 192	2 029	8 546	310	25 046
Transfer	–	–	1	(10)	9	–	–
Write-off of obsolete assets	–	(8 239)	(1 381)	(1 145)	(3 437)	–	(14 202)
Disposals	(6 164)	–	–	(63)	–	(182)	(6 409)
Open market value/cost at the end of the year	**186 332**	**11 464**	**36 068**	**12 118**	**31 505**	**1 071**	**278 558**
Accumulated depreciation and impairment losses at the beginning of the year	(584)	(11 713)	(23 645)	(3 141)	(17 121)	(539)	(56 743)
Depreciation – disclosed in operating expenditure	(5 856)	(743)	(4 046)	(981)	(3 665)	(169)	(15 460)
Depreciation – disclosed in fee and commission expenditure	–	–	(30)	–	–	–	(30)
Revaluation	3 208	–	–	–	–	–	3 208
Write-off of obsolete assets	–	7 747	1 502	1 132	3 256	–	13 637
Disposals	–	–	–	63	–	171	234
Accumulated depreciation and impairment losses at the end of the year	**(3 232)**	**(4 709)**	**(26 219)**	**(2 927)**	**(17 530)**	**(537)**	**(55 154)**
Net carrying amount at the end of the year	**183 100**	**6 755**	**9 849**	**9 191**	**13 975**	**534**	**223 404**

	GROUP						
	Owner-occupied properties R'000	Leasehold improvements R'000	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
3. Property and equipment continued							
2014							
Open market value/cost at the beginning of the year	160 764	15 967	98 925	9 864	34 118	705	320 343
Revaluations	11 229	–	–	–	–	–	11 229
Additions	16 555	783	3 081	6 215	5 401	382	32 417
Transfer*	–	–	(5 955)	–	–	–	(5 955)
Write-off of obsolete assets	–	(2 454)	(65 795)	(4 772)	(13 132)	–	(86 153)
Disposals	–		–	–	–	(144)	(144)
Open market value/cost at the end of the year	188 548	14 296	30 256	11 307	26 387	943	271 737
Accumulated depreciation and impairment losses at the beginning of the year	–	(13 062)	(84 888)	(7 259)	(26 433)	(560)	(132 202)
Depreciation	(3 847)	(628)	(4 058)	(601)	(3 034)	(123)	(12 291)
Revaluation	3 263	–	–	–	–	–	3 263
Transfer*	–	–	–	–	–	–	–
Write-off of obsolete assets	–	1 977	65 301	4 719	12 346	–	84 343
Disposals	–	–	–	–	–	144	144
Accumulated depreciation and impairment losses at the end of the year	(584)	(11 713)	(23 645)	(3 141)	(17 121)	(539)	(56 743)
Net carrying amount at the end of the year	187 964	2 583	6 611	8 166	9 266	404	214 994

**Transfer between various categories of property and equipment and intangible assets.*

The historical cost of owner-occupied properties that have been revalued is R58,319 million (2014: R59,642 million). The decrease from 2014 to 2015 is as a result of the disposal of one of the properties during 2015.

GJ van Zyl, a valuator with Van Zyl Valuers and a Member of the Institute of Valuers of South Africa, independently valued the properties at 31 December 2014 and 31 December 2015.

A mortgage bond in the amount of R90 million has been registered over a property included in owner-occupied properties (refer to note 15).

A register containing details of owner-occupied properties, and the revaluation thereof, is available for inspection at the registered office of the Company.

	GROUP 2015 R'000	GROUP 2014 R'000
4. Current tax receivable/payable		
South African Revenue Service		
Current tax receivable	**572**	133
Current tax payable	**12 245**	5 213

	GROUP 2015 R'000	GROUP 2014 R'000
5. Other accounts receivable		
Items in transit	**80 499**	72 595
Properties in possession	**18 491**	–
Prepayments and deposits	**25 515**	18 726
Other receivables	**42 773**	63 038
	167 278	154 359

The Directors consider that the carrying amount of other accounts receivable approximates their fair value. The other accounts receivable are not past due, therefore no age analysis has been prepared for past due but not impaired receivables.

	COMPANY 2015 R'000	COMPANY 2014 R'000
6. Interest in subsidiaries		
Unlisted		
Shares at fair value	**2 038 886**	1 915 981
Mercantile Bank Limited	**2 038 545**	1 915 578
Mercantile Insurance Brokers Proprietary Limited	**341**	403
Loan – Mercantile Bank Limited	**198**	347
	2 039 084	1 916 328

A list of principal subsidiary companies is contained in note 30. The loan is interest-free and repayable on demand.

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
7. Other investments				
Available-for-sale				
Unlisted equities	**5 958**	6 388	**62**	62
	5 958	6 388	**62**	62

A register containing details of investments is available for inspection at the registered office of the Company.

8. Deferred tax

	GROUP 2015 R'000	GROUP 2014 R'000
Balance at the beginning of the year	**(65 619)**	(65 493)
Current year charge		
Per the statement of comprehensive income	**13 617**	4 419
Per the statement of changes in equity/other comprehensive income	**113**	(4 545)
	(51 889)	(65 619)
Comprising		
Deferred tax assets	**–**	496
Deferred tax liabilities	**(51 889)**	(66 115)
	(51 889)	(65 619)
Deferred tax is attributable to the following temporary differences:		
Asset/(Liability)		
Intangible assets	**(37 326)**	(41 862)
Property and equipment	**(497)**	(2 302)
Provisions and other liabilities	**22 630**	18 286
Impairments on loans and advances	**5 321**	2 311
Calculated tax losses	**–**	1 246
Current assets	**(1 402)**	(1 502)
Revaluations	**(50 604)**	(51 371)
Leased assets	**3 222**	3 258
Other	**6 767**	6 317
	(51 889)	(65 619)

9. Non-current assets held for sale

	GROUP 2015 R'000	GROUP 2014 R'000
Properties in possession	**–**	13 482
	–	13 482

The Bank intended, during 2013 and 2014, to dispose of a property that it purchased as a result of a loan default but, due to unsatisfactory market conditions, the property has yet to be sold. The property has been reclassified under other accounts receivable (refer to note 5).

	GROUP	
	2015 R'000	2014 R'000

10. Loans and advances

10.1 Product analysis

	2015 R'000	2014 R'000
Amortised cost	**7 304 486**	6 249 304
Current accounts	**1 491 182**	1 326 272
Credit cards	**26 579**	17 942
Mortgage loans	**3 146 475**	2 441 378
Instalment sales and leases	**958 381**	822 632
Structured loans	**211 361**	85 691
Medium-term loans	**1 470 508**	1 555 389
Designated at fair value through profit and loss		
Mortgage loans	**5 211**	14 412
Gross loans and advances	**7 309 697**	6 263 716
Less: Portfolio impairments for credit losses	**(25 530)**	(11 727)
Specific impairments for credit losses	**(34 124)**	(27 998)
	7 250 043	6 223 991

Loans and advances in foreign currencies are converted into South African Rands, at prevailing exchange rates, at the reporting date.

10.2 Maturity analysis

	2015 R'000	2014 R'000
Repayable on demand and maturing within one month	**1 723 099**	1 386 169
Maturing after one month but within six months	**60 555**	19 721
Maturing after six months but within 12 months	**74 189**	288 924
Maturing after 12 months	**5 451 854**	4 568 902
	7 309 697	6 263 716

The maturity analysis is based on the remaining period to contractual maturity at year-end.

10. Loans and advances continued

10.3 Detailed product analysis of loans and advances

	GROUP			
	Gross amount R'000	Portfolio impairments R'000	Specific impairments R'000	Net balance R'000
2015				
Current accounts	**1 491 182**	**(8 971)**	**(7 990)**	**1 474 221**
Credit cards	**26 579**	**(883)**	**(1 498)**	**24 198**
Mortgage loans	**3 151 686**	**(674)**	**(6 503)**	**3 144 509**
Instalment sales and leases	**958 381**	**(2 297)**	**(2 743)**	**953 341**
Structured loans	**211 361**	**(342)**	**–**	**211 019**
Medium-term loans	**1 470 508**	**(12 363)**	**(15 390)**	**1 442 755**
	7 309 697	**(25 530)**	**(34 124)**	**7 250 043**
2014				
Current accounts	1 326 272	(4 197)	(7 436)	1 314 639
Credit cards	17 942	(840)	(1 358)	15 744
Mortgage loans	2 455 790	(1 050)	(8 482)	2 446 258
Instalment sales and leases	822 632	(2 124)	(1 393)	819 115
Structured loans	85 691	(57)	(5 095)	80 539
Medium-term loans	1 555 389	(3 459)	(4 234)	1 547 696
	6 263 716	(11 727)	(27 998)	6 223 991

10. Loans and advances continued

10.4 Impairments for credit losses

	GROUP						
	Total R'000	Current accounts R'000	Credit cards R'000	Mortgage loans R'000	Instalment sales and leases R'000	Structured loans R'000	Medium-term loans R'000
2015							
Balance at the beginning of the year	**(39 725)**	**(11 633)**	**(2 198)**	**(9 532)**	**(3 517)**	**(5 152)**	**(7 693)**
Movements for the year							
Credit losses written off	**17 984**	**8 059**	**293**	**2 477**	**2 740**	**–**	**4 415**
Net impairments (raised)/released	**(37 913)**	**(13 387)**	**(476)**	**(122)**	**(4 263)**	**4 810**	**(24 475)**
Balance at the end of the year	**(59 654)**	**(16 961)**	**(2 381)**	**(7 177)**	**(5 040)**	**(342)**	**(27 753)**
2014							
Balance at the beginning of the year	(40 747)	(22 164)	(3 156)	(4 633)	(4 285)	(377)	(6 132)
Movements for the year							
Credit losses written off	31 797	23 372	962	163	1 339	–	5 961
Net impairments (raised)/released	(30 775)	(12 841)	(4)	(5 062)	(571)	(4 775)	(7 522)
Balance at the end of the year	(39 725)	(11 633)	(2 198)	(9 532)	(3 517)	(5 152)	(7 693)

	GROUP	
	2015 R'000	2014 R'000
Net charge for credit losses in the statement of comprehensive income		
Net impairments raised	**(37 913)**	(30 775)
Amounts written off directly to comprehensive income	**(5 500)**	(7 500)
Reversal of impairment for properties in possession previously impaired	**5 000**	–
Recoveries in respect of amounts previously written off	**3 373**	4 246
	(35 040)	(34 029)

	GROUP		
	Gross amount R'000	Portfolio impairment R'000	Net balance R'000
10. Loans and advances continued			
10.5 Product analysis of performing loans and advances			
2015			
Current accounts	**1 477 568**	**(8 971)**	**1 468 597**
Credit cards	**25 081**	**(883)**	**24 198**
Mortgage loans	**3 021 010**	**(674)**	**3 020 336**
Instalment sales and leases	**952 822**	**(2 297)**	**950 525**
Structured loans	**211 361**	**(342)**	**211 019**
Medium-term loans	**1 445 344**	**(12 363)**	**1 432 981**
	7 133 186	**(25 530)**	**7 107 656**
2014			
Current accounts	1 309 412	(4 197)	1 305 215
Credit cards	16 584	(840)	15 744
Mortgage loans	2 323 572	(1 050)	2 322 522
Instalment sales and leases	813 629	(2 124)	811 505
Structured loans	69 547	(57)	69 490
Medium-term loans	1 520 893	(3 459)	1 517 434
	6 053 637	(11 727)	6 041 910

	GROUP	
	2015 R'000	2014 R'000
10.6 Product analysis of performing loans and advances excluding loans and advances with renegotiated terms		
Current accounts	**1 416 724**	1 255 394
Credit cards	**25 081**	16 584
Mortgage loans	**3 014 421**	2 274 028
Instalment sales and leases	**952 473**	813 629
Structured loans	**211 361**	69 547
Medium-term loans	**1 377 498**	1 505 604
	6 997 558	5 934 786
10.7 Product analysis of loans and advances with renegotiated terms that would otherwise be past due or impaired		
Current accounts	**60 844**	54 018
Credit cards	**–**	–
Mortgage loans	**6 589**	49 544
Instalment sales and leases	**349**	–
Structured loans	**–**	–
Medium-term loans	**67 846**	15 289
	135 628	118 851

10. Loans and advances continued

10.8 Product age analysis of loans and advances that are past due but not individually impaired

	GROUP				
	Past due for				
	1 – 30 days R'000	31 – 60 days R'000	61 – 90 days R'000	Total gross amount R'000	Fair value of collateral and other credit enhance-ments R'000
2015					
Current accounts	–	–	–	–	–
Credit cards	–	–	–	–	–
Mortgage loans	**6 226**	–	–	**6 226**	**6 226**
Instalment sales and leases	**2 315**	–	–	**2 315**	**1 699**
Structured loans	–	–	–	–	–
Medium-term loans	**863**	**36 573**	–	**37 436**	**13 580**
	9 404	**36 573**	–	**45 977**	**21 505**
2014					
Current accounts	–	–	–	–	–
Credit cards	–	–	–	–	–
Mortgage loans	12 365	2 673	1 645	16 683	13 148
Instalment sales and leases	1 206	–	–	1 206	961
Structured loans	–	–	–	–	–
Medium-term loans	6 959	466	406	7 831	6 511
	20 530	3 139	2 051	25 720	20 620

10. Loans and advances continued

10.9 Product analysis of loans and advances that are individually impaired

	GROUP			
	Gross amount R'000	Specific impairment R'000	Net balance R'000	Fair value of collateral and other credit enhancements R'000
2015				
Current accounts	**13 614**	**(7 990)**	**5 624**	**8 609**
Credit cards	**1 498**	**(1 498)**	**–**	**–**
Mortgage loans	**130 676**	**(6 503)**	**124 173**	**127 036**
Instalment sales and leases	**5 559**	**(2 743)**	**2 816**	**5 411**
Structured loans	**–**	**–**	**–**	**–**
Medium-term loans	**25 164**	**(15 390)**	**9 774**	**29 460**
	176 511	**(34 124)**	**142 387**	**170 517**
2014				
Current accounts	16 860	(7 436)	9 424	8 609
Credit cards	1 358	(1 358)	–	–
Mortgage loans	132 218	(8 482)	123 736	127 036
Instalment sales and leases	9 003	(1 393)	7 610	5 411
Structured loans	16 144	(5 095)	11 049	10 851
Medium-term loans	34 496	(4 234)	30 262	29 460
	210 079	(27 998)	182 081	181 367

10. Loans and advances continued

10.10 Collateral held as security and other credit enhancements

Fair value of collateral and other credit enhancements is determined with reference to the realisable value of security.

All customers of the Bank are accorded a risk grading. The risk grading is dependent upon the customer's creditworthiness and standing with the Bank, and is subject to ongoing assessment of their financial standing and the acceptability of their dealings with the Bank, including adherence to repayment terms and compliance with other set conditions.

Description of collateral held as security and other credit enhancements	Method of valuation
Cession of debtors	15% – 75% of debtors due and payable under 90 days and depending on debtor credit quality
Pledge of shares	50% of listed shares value; nil for unlisted shares
Pledge and cession of assets (specific and general)	Variable depending on asset type and value
Cession of life and endowment policies	100% of surrender value
Pledge of call and savings accounts, fixed and notice deposits	100% of asset value
Vacant land	50% of professional valuation
Residential properties	80% of official valuation
Commercial and industrial properties	70% of professional valuation
Catering, industrial and office equipment	Variable depending on asset type and depreciated value
Trucks	Variable depending on asset type and depreciated value
Earthmoving equipment	Variable depending on asset type and depreciated value
Motor vehicles	Variable depending on asset type and depreciated value
General notarial bond	Variable depending on asset type and depreciated value
Special notarial bond	Variable depending on asset type and depreciated value

All collateral held by the Group in respect of a loan and advance can be realised in accordance with the terms of the agreement or the facility conditions applicable thereto. Cash collateral and pledged assets that can be realised in accordance with the terms of the pledge and cession or suretyship are applied in reduction of related exposures. Pledged assets, other than cash or cash equivalent collateral and tangible security articles, are appropriated and disposed of, where necessary, after legal action, in compliance with the applicable Court rules and directives.

A customer in default will be advised of the default and afforded an opportunity to regularise the arrears. Failing normalisation of the account, legal action and repossession procedures will be followed, and all attached assets will be disposed of in accordance with the applicable legislation. In the case of insolvent and deceased estates, the duly appointed liquidator/trustee will dispose of all assets.

10.11 Structured loans

The Group has zero cost equity options attached to certain structured loans that have been recognised at cost in accordance with accounting policy 4.1.

11. Derivative financial instruments

	GROUP			
	Notional principal of assets R'000	Fair value of assets R'000	Notional principal of liabilities R'000	Fair value of liabilities R'000
2015				
Held-for-trading				
Foreign exchange contracts	**415 850**	**56 771**	**621 270**	**62 936**
Interest rate swaps	**619**	**4**	**207 183**	**369**
	416 469	**56 775**	**828 453**	**63 305**
2014				
Held-for-trading				
Foreign exchange contracts	282 285	6 049	341 281	8 558
Interest rate swaps	183 963	83	14 888	169
	466 248	6 132	356 169	8 727

12. Negotiable securities

	GROUP	
	2015 R'000	2014 R'000
Loans and receivables		
Treasury bills	**–**	205 565
Land Bank promissory notes	**97 624**	56 328
Available-for-sale		
Government stock	**163 813**	178 874
Held-to-maturity		
Government stock	**290 057**	–
	551 494	440 767
Maturity analysis		
Maturing within one month	**–**	–
Maturing after one month but within six months	**97 625**	244 374
Maturing after six months but within 12 months	**194 372**	22 924
Maturing after one year but within five years	**259 497**	173 469
	551 494	440 767

The maturity analysis is based on the remaining period to contractual maturity at year-end.

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
13. Cash and cash equivalents				
Cash on hand	**28 577**	31 836	**–**	–
Central Bank balances	**321 873**	261 651	**–**	–
Money market funds	**723 365**	784 745	**–**	–
Rand-denominated domestic bank balances	**25 648**	33 094	**4 120**	4 166
Foreign currency-denominated bank balances	**487 335**	407 118	**–**	–
	1 586 798	1 518 444	**4 120**	4 166

	GROUP			
	Number of issued ordinary shares	**Share capital R'000**	**Share premium R'000**	**Total R'000**
14. Share capital and share premium				
14.1 Issued – Group and Company				
At 31 December 2014 and 31 December 2015	**3 614 018 195**	**36 140**	**1 171 130**	**1 207 270**

14.2 Authorised

The total authorised number of ordinary shares is 4 465 955 440 shares (2014: 4 465 955 440 shares) with a par value of 1 cent each. The total authorised number of preference shares is 15 150 486 shares (2014: 15 150 486 shares) with a par value of 25 cents each.

14.3 Unissued

The unissued ordinary and preference shares are under the control of the Directors until the next AGM.

	GROUP	
	2015 R'000	2014 R'000
15. Long-term funding		
International Finance Corporation (IFC)	**322 519**	437 539
Short-term portion payable in the next 12 months	**117 845**	117 845
Portion payable after 12 months but within five years	**204 674**	319 694
Standard Bank of South Africa Limited (Standard Bank)	**90 022**	90 020
Short-term portion payable in the next 12 months	**7 500**	–
Portion payable after 12 months but within five years	**82 522**	90 020
Banco Nacional Ultramarino S.A. (BNU Macau)		
Portion payable after 12 months but within five years	**233 674**	–
	646 215	527 559

The loan obtained from the IFC in 2011, with interest repayable quarterly and linked to JIBAR, is repayable between 15 September 2014 and 15 September 2018.

The loan obtained from Standard Bank in 2012, with interest repayable monthly and linked to JIBAR, is repayable from 13 June 2016 to 13 June 2019. The loan is secured by a mortgage over the Group's owner-occupied property (refer to note 3).

The three-year foreign currency loan obtained from BNU Macau in 2015, with interest payable quarterly and linked to LIBOR, is renewable annually with an option for early settlement.

	GROUP	
	2015 R'000	2014 R'000
16. Debt securities		
Unrated class A notes	**202 810**	202 764
	202 810	202 764

The notes, of R1 000 000 each, are unsubordinated, secured, compulsorily redeemable and asset-backed.

The notes were issued in 2014, with interest repayable quarterly and linked to JIBAR, and mature on 15 March 2017.

	GROUP	
	2015 R'000	2014 R'000
17. Deposits		
Call deposits and current accounts	**3 616 061**	2 921 627
Savings accounts	**175 795**	172 436
Term and notice deposits	**2 721 297**	2 543 482
Negotiable certificates of deposit	**19 979**	18 346
Foreign currency deposits	**188 781**	136 313
	6 721 913	5 792 204
Maturity analysis		
Repayable on demand and maturing within one month	**4 469 117**	3 592 354
Maturing after one month but within six months	**914 727**	1 082 529
Maturing after six months but within 12 months	**342 065**	389 230
Maturing after 12 months but within five years	**996 004**	728 091
	6 721 913	5 792 204

The maturity analysis is based on the remaining period to contractual maturity at year-end.

18. Provisions and other liabilities

	GROUP						
	Deferred bonus scheme R'000	Staff incentives R'000	Audit fees R'000	Post-retirement medical benefits R'000	Leave pay R'000	Other risks R'000	Total R'000
At 1 January 2014	7 107	16 000	4 011	18 270	11 143	15 202	71 733
Provision raised	3 620	19 030	7 198	2 219	4 354	2 334	38 755
Reversal of provision	–	–	(82)	–	–	(3 570)	(3 652)
Charged to provision	(3 203)	(16 000)	(5 370)	–	(2 717)	(461)	(27 751)
At 31 December 2014	**7 524**	**19 030**	**5 757**	**20 489**	**12 780**	**13 505**	**79 085**
Provision raised	**4 112**	**23 817**	**7 830**	**–**	**3 622**	**15 501**	**54 882**
Reversal of provision	**(183)**	**–**	**–**	**–**	**–**	**(185)**	**(368)**
Charged to provision	**(3 075)**	**(19 081)**	**(8 620)**	**1 591**	**(3 591)**	**(6 087)**	**(38 863)**
At 31 December 2015	**8 378**	**23 766**	**4 967**	**22 080**	**12 811**	**22 734**	**94 736**

Post-retirement medical benefits

Refer to note 19 for detailed disclosure of this provision.

Leave pay

In terms of Group policy, employees are entitled to accumulate leave not taken during the year within certain limits.

Other risks

Consists of provisions for legal claims and other risks. At any time, there are legal or potential claims against the Group, the outcome of which cannot be foreseen. Such claims are not regarded as material, either on an individual basis, or in aggregate. Provisions are raised for all liabilities that are expected to materialise.

19. Post-retirement medical benefits

The Bank operates a partly funded post-retirement medical scheme. The assets of the funded plans are held independently of the Group's assets in a separate trustee-administered fund. Independent actuaries value this scheme annually (the last valuation was carried out at 31 December 2015). The actuary's opinion is that the plan is in a sound financial position.

	GROUP				
	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
The amounts recognised in the statement of financial position are as follows (refer to note 18):					
Present value of total service liabilities	**22 080**	21 715	19 900	21 575	18 577
Fair value of plan assets	**–**	(1 226)	(1 630)	(2 103)	(2 528)
Provident fund	**–**	(914)	(782)	(1 315)	(1 800)
Endowment bond	**–**	(312)	(848)	(788)	(728)
Liability in the statement of financial position	**22 080**	20 489	18 270	19 472	16 049
The amounts recognised in the statement of comprehensive income, are as follows:					
Staff cost (refer to note 26):	**(1 204)**	(1 060)	(1 030)	(1 494)	(994)
Current service cost	**22**	19	22	13	53
Benefits paid	**540**	540	540	–	–
Employer benefit payments	**(1 766)**	(1 619)	(1 592)	(1 507)	(1 533)
Discharge of liability and related plan asset	**–**	–	–	–	486
Net interest cost (refer to note 23):	**1 544**	1 519	1 369	1 232	1 127
Interest costs	**1 619**	1 636	1 502	1 466	1 636
Expected return on plan assets	**(75)**	(117)	(133)	(234)	(509)
Total included in comprehensive income	**340**	459	339	(262)	133
The amounts recognised in the statement of other comprehensive income, are as follows:					
Remeasurement of defined benefit obligation	**1 251**	1 760	(1 541)	3 685	767
Total included in other comprehensive income	**1 251**	**1 760**	**(1 541)**	**3 685**	**767**

	GROUP				
	2015 R'000	2014 R'000	2013 R'000	2012 R'000	2011 R'000
19. Post-retirement medical benefits continued					
Reconciliation of the movement in the present value of total service liabilities:					
At the beginning of the year	**21 715**	19 900	21 575	18 577	20 648
Current service cost	**22**	19	22	13	53
Interest costs	**1 619**	1 636	1 502	1 466	1 636
Discharge of liability	**–**	–	–	–	(1 891)
Remeasurement of defined benefit obligation	**490**	1 779	(1 607)	3 026	(336)
Employer benefit payments	**(1 766)**	(1 619)	(1 592)	(1 507)	(1 533)
At the end of the year	**22 080**	21 715	19 900	21 575	18 577
Reconciliation of the movement in the fair value of plan assets:					
At the beginning of the year	**1 226**	1 630	2 103	2 528	5 499
Expected return on plan assets	**75**	117	133	234	509
Payments from plan assets	**(540)**	(540)	(540)	–	–
Non-qualifying plan assets as a result of discharge of liability	**–**	–	–	–	(2 377)
Remeasurement of defined benefit obligation	**(761)**	19	(66)	(659)	(1 103)
At the end of the year	**–**	1 226	1 630	2 103	2 528
The principal actuarial assumptions used were as follows:					
Discount rate	**8,8%**	(2014: 7,8%) compounded annually			
Investment return	**–**	(2014: 7,8%) compounded annually			
Rate of medical inflation	**8,6%**	(2014: 7,6%) compounded annually			
Salary inflation	**8,1%**	(2014: 7,1%) compounded annually			

The effect of a 1% increase/decrease on the assumed rate of medical inflation would be an increase in the liability in an amount of R2,050 million (2014: R1,791 million) and a decrease of R1,726 million (2014: R1,510 million), respectively.

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
20. Other accounts payable				
Accruals	**22 583**	29 599	**–**	–
Product-related credits	**52 186**	33 975	**–**	–
Sundry creditors	**142 308**	118 841	**–**	–
Previous minority shareholders (share buy-back during 2012)	**3 584**	3 669	**3 584**	3 669
	220 661	186 084	**3 584**	3 669

	GROUP	
	2015 R'000	2014 R'000
21. Contingent liabilities and commitments		
21.1 Guarantees, letters of credit and committed undrawn facilities		
Guarantees	**507 551**	468 748
Lending-related	**6 684**	6 762
Mortgage	**166 425**	153 739
Performance	**334 442**	308 247
Letters of credit	**22 112**	42 567
Committed undrawn facilities	**307 592**	174 292
	837 255	685 607
21.2 Commitments under operating leases		
The total minimum future lease payments under operating leases are as follows:		
Property rentals		
Due within one year	**3 612**	5 477
Due between one and five years	**9 024**	5 732
	12 636	11 209
After tax effect on operating leases	**9 098**	8 070

A register containing details of the existence and terms of renewal and escalation clauses, is available for inspection at the registered office of the Company.

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
22. Interest income				
Loans and receivables at amortised cost	**746 547**	635 041	**39**	40
Cash and cash equivalents	**69 194**	68 255	**39**	40
Negotiable securities	**8 086**	22 848	**–**	–
Loans and advances	**669 267**	543 938	**–**	–
Loans and receivables designated as available-for-sale				–
Negotiable securities	**10 929**	3 290	**–**	–
Loans and receivables designated as held-to-maturity				–
Negotiable securities	**14 842**	–	**–**	–
Loans and receivables designated at fair value through profit and loss				–
Loans and advances	**995**	1 909	**–**	–
	773 313	640 240	**39**	40

	GROUP	
	2015 R'000	2014 R'000
23. Interest expense		
Deposits	**295 853**	221 552
Debt securities	**17 636**	13 962
Long-term funding	**44 945**	48 713
Held-for-trading		
Interest rate swaps	**212**	552
Net interest on defined benefit obligation	**1 544**	1 519
Other	**5 820**	4 560
	366 010	290 858

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
24. Non-interest income				
Fee and commission income	**290 216**	316 456	**–**	–
Loans and receivables	**290 060**	316 246	**–**	–
Insurance-related products	**156**	210	**–**	–
Trading income	**122 653**	101 620	**–**	–
Held-for-trading	**123 180**	94 070	**–**	–
Foreign currency	**123 476**	93 657	**–**	–
Derivative assets and liabilities	**(296)**	413	**–**	–
Designated at fair value through profit and loss	**(527)**	7 550	**–**	–
Loans and advances	**(527)**	(1 007)	**–**	–
Other investments	**–**	8 557	**–**	–
Investment income	**–**	103	**25 668**	27 501
Dividends	**–**	103	**25 668**	27 501
	412 869	418 179	**25 668**	27 501

	GROUP	
	2015 R'000	2014 R'000
25. Fee and commission expenditure		
Relating to non-interest income earned from:		
Foreign currency	**63 756**	42 393
Fees and commissions	**97 038**	141 686
	160 794	184 079

	GROUP 2015 R'000	GROUP 2014 R'000	COMPANY 2015 R'000	COMPANY 2014 R'000
26. Operating expenditure				
Amortisation (refer to note 2)	**33 825**	29 238	**–**	–
Auditors' remuneration				
Audit fees – Current year	**7 649**	7 117	**–**	–
Fees for other services – Tax advisory fees	**236**	230	**–**	–
– Regulatory reviews	**400**	–	**–**	–
– Securitisation vehicle reviews	**202**	373	**–**	–
– Other	**311**	–	**–**	–
	8 798	7 720	**–**	–
Depreciation (refer to note 3)	**15 460**	12 291	**–**	–
Directors' remuneration (refer to note 29.3)				
Executive Directors	**15 671**	13 531	**–**	–
Non-Executive Directors' fees	**3 970**	3 819	**–**	–
	19 640	17 350	**–**	–
Indirect tax				
Non-claimable value added tax	**7 541**	10 659	**–**	–
Skills development levy	**1 954**	1 720	**–**	–
	9 495	12 379	**–**	–
(Profit)/Loss on sale and write-off of intangible assets and property and equipment	**(1 520)**	1 135	**–**	–
Marketing	**7 820**	4 840	**149**	114
Operating leases for premises and related costs	**14 639**	13 633	**–**	–
Other operating costs	**55 768**	42 899	**–**	–
Professional fees				
Consulting	**1 653**	3 748	**–**	–
Securitisation set-up costs	**–**	911	**–**	–
Legal and collection	**6 151**	5 599	**–**	–
Computer consulting and services	**41 069**	35 715	**–**	–
	48 873	45 973	**–**	–
Staff costs				
Salaries, allowances and incentives	**199 393**	174 355	**–**	–
Post-retirement medical benefits (refer to note 19)	**(1 204)**	(1 060)	**–**	–
Deferred bonus scheme expense including Directors	**3 930**	3 619	**–**	–
Other	**4 194**	4 406	**–**	–
	206 313	181 320	**–**	–
Total operating expenditure	**419 111**	368 778	**149**	114
Number of persons employed by the Group at year-end	**475**	451		

27. Tax

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
South African normal tax	**71 955**	57 441	**–**	–
Current year	**70 786**	57 214	**–**	–
Prior year	**1 169**	227	**–**	–
Deferred tax	**(13 617)**	(4 419)	**–**	–
Current year	**(15 041)**	(5 226)	**–**	–
Prior year	**1 424**	807	**–**	–
	58 338	53 022	**–**	–
Direct tax				
South African normal tax	**71 955**	57 441	**–**	–
South African tax rate reconciliation				
South African standard tax rate (%)	**28,00**	28,00	**28,00**	28,00
Exempt income (%)	**–**	(0,02)	**(28,12)**	(27,97)
Expenses not deductible for tax purposes (%)	**0,70**	0,68	**–**	–
Additional allowances for tax purposes (%)	**(0,12)**	(0,11)	**–**	–
Capital gain inclusion on unrealised portion not taxable (%)	**(0,23)**	(1,79)	**–**	–
Underprovision prior years (%)	**0,12**	0,13	**–**	–
Tax losses (%)	**(0,04)**	2,46	**0,12**	(0,03)
Effective tax rate (%)	**28,43**	29,35	**(0,00)**	0,00
Estimated tax losses available for offset against future taxable income	**34 709**	11 220	**6 879**	6 770

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
28. Notes to statements of cash flows				
28.1 Cash receipts from customers				
Interest income	**773 313**	640 240	**39**	40
Non-interest income	**412 869**	418 179	**25 668**	27 501
Adjusted for:				
Dividends received	**–**	(103)	**(25 668)**	(27 501)
Revaluation of fair value financial instruments	**3 112**	1 172	**–**	–
Recoveries in respect of amounts previously written off	**3 373**	4 246	**–**	–
	1 192 667	1 063 734	**39**	40
28.2 Cash paid to customers, suppliers and employees				
Interest expense	**(366 010)**	(290 858)	**–**	–
Operating expenditure and fee and commission expenditure	**(579 905)**	(552 857)	**(149)**	(114)
Adjusted for:				
Amortisation	**33 825**	29 238	**–**	–
Depreciation	**15 460**	12 291	**–**	–
Write-off of obsolete computer software	**–**	406	**–**	–
Write-off of obsolete property and equipment	**565**	1 810	**–**	–
(Profit)/Loss on sale and write-off of obsolete intangible assets and property and equipment	**(1 520)**	1 135	**–**	–
Deferred bonus scheme expense	**3 930**	3 619	**–**	–
Increase in provisions and other liabilities	**14 424**	6 273	**–**	–
	(879 231)	(788 943)	**(149)**	(114)

	GROUP		COMPANY	
	2015 R'000	2014 R'000	**2015 R'000**	2014 R'000
28. Notes to statements of cash flows continued				
28.3 Reconciliation of profit before tax to cash generated from/(utilised in) operations				
Profit before tax	**205 227**	180 675	**25 558**	27 427
Profit before tax adjusted for:				
Dividends received	**–**	(103)	**(25 668)**	(27 501)
Revaluation of fair value financial instruments	**3 112**	1 172	**–**	–
Net impairments raised	**38 413**	38 275	**–**	–
Amortisation	**33 825**	29 238	**–**	–
Depreciation	**15 460**	12 291	**–**	–
Write-off of obsolete computer software	**–**	406	**–**	–
Write-off of obsolete property and equipment	**565**	1 810	**–**	–
(Profit)/Loss on sale and write-off of obsolete intangible assets and property and equipment	**(1 520)**	1 135	**–**	–
Deferred bonus scheme expense	**3 930**	3 619	**–**	–
Increase in provisions and other liabilities	**14 424**	6 273	**–**	–
Cash generated from/(utilised in) operations	**313 436**	274 791	**(110)**	(74)
28.4 Tax				
Amounts paid at the beginning of the year	**(5 080)**	1 125	**–**	–
Statement of comprehensive income (charge)	**(71 955)**	(57 441)	**–**	–
Less: Amounts owing at the end of the year	**11 673**	5 080	**–**	–
Total tax (paid)	**(65 362)**	(51 236)	**–**	–
28.5 Net movement in income-earning assets				
(Increase)/Decrease in negotiable securities	**(112 922)**	54 564	**–**	–
(Increase) in loans and advances	**(1 068 642)**	(1 033 731)	**–**	–
Net (increase) in income-earning assets	**(1 181 564)**	(979 167)	**–**	–
28.6 Net movement in deposits and other accounts				
Increase in deposits	**929 709**	750 555	**–**	–
Decrease in subsidiary loans	**–**	–	**149**	113
Decrease/(Increase) in other accounts receivable	**2 488**	(60 654)	**–**	–
Increase/(Decrease) in other accounts payable	**32 506**	21 164	**(85)**	(165)
Net increase/(decrease) in deposits and other accounts	**964 703**	711 065	**64**	(52)

29. Related party information

29.1 Identity of related parties with whom transactions have occurred

The parent company and material subsidiaries of the Group are identified on pages 3 and 99. All of these entities and the Directors are related parties. There are no other related parties with whom transactions have taken place, other than as listed below.

29.2 Related party balances and transactions

The Company, its subsidiaries and joint venture, in the ordinary course of business, enter into various financial services transactions with the parent company (CGD) and its subsidiaries and other entities within the Group. Except for the interest-free loan between the Company and the Bank, transactions are governed by commercial terms.

	GROUP	
	2015 R'000	2014 R'000
Balances between the parent company (CGD) and the Bank:		
CGD – Lisbon (Branch of CGD)	**243**	69 083
Nostro accounts	**2 114**	682
Vostro accounts	**(1 717)**	(953)
Call deposit	**(155)**	(152)
Foreign currency placements	**–**	69 506
CGD – Paris (Branch of CGD)		
Vostro accounts	**(27)**	(114)
CGD – New York (Branch of CGD)		
Foreign currency placements	**155 676**	80 968
CGD – London (Branch of CGD)		
Vostro accounts	**(9)**	(11)
Total CGD branches	**155 882**	149 926
Banco Comercial e de Investimentos – Mozambique (BCI) (Subsidiary of CGD)	**55 537**	(52 029)
Foreign currency placements	**233 642**	92 577
Nostro accounts	**2**	–
Vostro accounts	**(3 779)**	(3 900)
Fixed deposits	**(170 550)**	(136 806)
Call and notice deposits	**(3 779)**	(3 900)
Banco Caixa Geral Totta Angola SA (BCGTA) (subsidiary of CGD)		
Call deposit	**(7 164)**	(5 053)
Banco Nacional Ultramarino S.A. (BNU Macau)		
Long-term funding	**(233 674)**	–
Total (deposits and funding from)/placements with CGD	**(29 419)**	92 844
Transactions between the parent company (CGD) and the Bank:		
Interest paid by the Bank to BCI	**9 271**	8 851
Interest paid by the Bank to BCGTA	**105**	115
Interest paid by the Bank to BNU	**2 974**	–
Interest received by the Bank from CGD – Lisbon	**456**	613
Interest received by the Bank from CGD – New York	**1 236**	14
Interest received by the Bank from BCI	**5 116**	59

29. Related party information continued

29.2 Related party balances and transactions continued

Balances with the Company, its subsidiaries and joint venture:

		GROUP	
		2015 R'000	2014 R'000
Loan to:	**Loan from:**		
Mercantile Bank Limited	Mercantile Bank Holdings Limited	**198**	347
Portion 2 of Lot 8 Sandown Proprietary Limited	Mercantile Bank Limited	**1 568**	6 877
Mercantile Acquiring Proprietary Limited	Mercantile Bank Limited	**17**	7 266
Mercantile Insurance Brokers Proprietary Limited	Mercantile Bank Limited	**160**	146
Mercantile Rental Finance Proprietary Limited	Mercantile Bank Limited	**328 686**	275 197
Mercantile Payment Solutions Proprietary Limited	Mercantile Bank Limited	**2 267**	4 071
Compass Securitisation (RF) Limited	Mercantile Rental Finance Proprietary Limited	**480**	13 897
Debt securities issued by:	**Invested in debt securities by:**		
Compass Securitisation (RF) Limited	Mercantile Rental Finance Proprietary Limited	**95 848**	95 495
Deposit with:	**Deposit by:**		
Mercantile Bank Limited	Mercantile Insurance Brokers Proprietary Limited	**605**	648
Mercantile Bank Limited	Mercantile Bank Holdings Limited	**4 120**	4 166
Mercantile Bank Limited	Mercantile Payment Solutions Proprietary Limited	**83**	1 966
Mercantile Bank Limited	The Mercantile Bank Foundation (NPC)	**1**	84

29. Related party information continued

29.2 Related party balances and transactions continued

Transactions with the Company, its subsidiaries and joint venture:

		GROUP 2015 R'000	GROUP 2014 R'000
Interest received by:	**Interest paid by:**		
Mercantile Bank Limited	Portion 2 of Lot 8 Sandown Proprietary Limited	**485**	201
Portion 2 of Lot 8 Sandown Proprietary Limited	Mercantile Bank Limited	**–**	185
Mercantile Bank Limited	Mercantile Acquiring Proprietary Limited	**605**	837
Mercantile Insurance Brokers Proprietary Limited	Mercantile Bank Limited	**10**	59
Mercantile Bank Limited	Mercantile Rental Finance Proprietary Limited	**31 075**	27 828
Mercantile Rental Finance Proprietary Limited	Compass Securitisation (RF) Limited	**13 995**	11 716
Non-interest income earned by:	**Operating expenditure paid by:**		
Portion 2 of Lot 8 Sandown Proprietary Limited	Mercantile Bank Limited	**20 207**	18 546
Mercantile Acquiring Proprietary Limited	Mercantile Bank Limited	**122**	1 897
Mercantile Bank Limited	Mercantile Insurance Brokers Proprietary Limited	**1**	1
Mercantile Bank Limited	Mercantile Rental Finance Proprietary Limited	**216**	90
Mercantile Bank Limited	Mercantile Payment Solutions Proprietary Limited	**47 826**	44 174
Mercantile Rental Finance Proprietary Limited	Compass Securitisation (RF) Limited	**480**	4 835
Portion 2 of Lot 8 Sandown Proprietary Limited	Mercantile Rental Finance Proprietary Limited	**211**	176
Donations received by:	**Donations paid by:**		
The Mercantile Bank Foundation (NPC)	Mercantile Bank Limited	**1 000**	1 000
Dividends earned by:	**Dividends paid by:**		
Mercantile Bank Holdings Limited	Mercantile Insurance Brokers Proprietary Limited	**–**	1 800
Mercantile Bank Holdings Limited	Mercantile Bank Limited	**25 668**	27 501

Other

Post-retirement medical plan

Details of the post-retirement medical plan are disclosed in note 19.

29. Related party information continued

29.3 Director and Director-related activities

There were no material transactions with the Directors, other than the following Directors' fees, salary-related costs and loans:

	GROUP						
	Directors' fees R'000	Salary R'000	Role–based allow-ance** R'000	Fringe benefits R'000	Retirement funds and medical aid contribu–tions R'000	Perfor–mance bonus R'000	Total R'000
2015							
Non-Executive Directors							
NF Thomaz*	–	–	–	–	–	–	–
GP de Kock	**1 063**	–	–	–	–	–	**1 063**
L Hyne	**779**	–	–	–	–	–	**779**
AT Ikalafeng	**654**	–	–	–	–	–	**654**
DR Motsepe	**669**	–	–	–	–	–	**669**
TH Njikizana	**806**	–	–	–	–	–	**806**
Executive Directors							
RS Caliço	–	**2 718**	–	**556**	**104**	**1 431**	**4 808**
KR Kumbier	–	**3 589**	**2 600**	–	**574**	**4 100**	**10 863**
	3 970	**6 306**	**2 600**	**556**	**678**	**5 531**	**19 640**
2014							
Non-Executive Directors							
NF Thomaz (appointed 28 May 2014)*	–	–	–	–	–	–	–
JAS de Andrade Campos (resigned 28 May 2014)	740	–	–	–	–	–	740
GP de Kock	858	–	–	–	–	–	858
L Hyne	762	–	–	–	–	–	762
AT Ikalafeng	594	–	–	–	–	–	594
DR Motsepe (appointed 1 October 2014)	153	–	–	–	–	–	153
TH Njikizana	712	–	–	–	–	–	712
Executive Directors							
RS Caliço (appointed 1 July 2014)	–	1 350	–	212	39	500	2 101
KR Kumbier	–	3 440	2 550	–	322	3 500	9 812
JPM Lopes (resigned 1 July 2014)	–	1 265	–	305	48	–	1 618
	3 819	6 055	2 550	517	409	4 000	17 350

**In line with CGD policy, an executive director of CGD will not be paid a fee for holding a directorship on the board of a subsidiary entity within the group. Accordingly Mr Thomaz does not receive a fee for his Chairmanship of the Mercantile Board.*

***Refer to page 98 for nature of the role-based allowance.*

	GROUP	
	2015 R'000	2014 R'000
29. Related party information continued		
29.3 Director and Director-related activities continued		
Deferred bonus scheme expense relating to Executive Directors		
KR Kumbier	**283**	483
Loans to Executive Directors		
RS Caliço	**806**	956
Amounts paid by CGD to Executive Directors		
RS Caliço (appointed 1 July 2014)	**1 403**	757
JPM Lopes (resigned 1 July 2014)	**–**	477

Service agreements and deferred bonus scheme awards

KR Kumbier, CEO

Mr Kumbier was employed by Mercantile as Executive Director: Finance and Business on 1 June 2010. He was subsequently appointed as Deputy CEO (effective 1 April 2012), and thereafter as CEO from 1 April 2013. The Remuneration Committee's annual bonus decision for Mr Kumbier considered performance during the year against Group and individual performance measures. The Remuneration Committee noted performance against key financial and non-financial measures contained in the balanced scorecard and the strong personal contribution made by Mr Kumbier, particularly in building and embedding a strong leadership team.

During 2015, of the 3 500 000 phantom awards granted in 2012 to Mr Kumbier, 875 000 phantom awards were cash settled at a proxy price of 67,2 cents each. The balance of awards (2 625 000) were forfeited as performance conditions in terms of the plan were not achieved (2014: 1 775 000 phantom awards cash settled at a proxy price of 64,9 cents each).

In terms of the deferred bonus scheme, phantom awards granted to Mr Kumbier, which have not yet vested as at 31 December 2015, are as follows:

- 5 000 000, awarded in 2013, at an estimated proxy price of 76 cents each (of which 25% will vest in 2016).

The CEO's remuneration structure in response to the remuneration regulations outlined under the Capital Requirements Directive IV, a European Union legislative requirement impacting our parent company, CGD (and consequently MBHL) was revised and the phantom awards granted under the deferred bonus scheme were cancelled. A role-based, non-pensionable allowance of R2,6 million was paid to the CEO in the 2015 financial year (2014: R2,55 million) (refer to the remuneration table on page 97).

R Caliço, Deputy CEO

Mr Caliço has been seconded to Mercantile by CGD and took up office at Mercantile on 1 July 2014 as Executive Director. In July 2015, Mr Caliço was appointed the Deputy CEO of the Group. In terms of his service agreement, Mr Caliço has agreed to perform such duties, functions and services as are assigned to him from time to time by the Board of Directors and which are consistent and commensurate with his position as Executive Director/Deputy CEO.

30. Group companies

All Group companies are incorporated in the Republic of South Africa. A register containing details of all non-trading companies is available for inspection at the registered office of the Company.

Aggregate income after tax earned by Group companies consolidated, amounted to R149,5 million (2014: R133,8 million), and aggregate losses amounted to R0,1 million (2014: R2,1 million).

The principal consolidated companies are as follows:

				Shares at cost		Owing to Group companies by MBHL	
Company name	**Issued share capital R'000**	**Effective holding %**	**Nature of business**	**2015 R'000**	2014 R'000	**2015 R'000**	2014 R'000
Compass Securitisation (RF) Limited	–	74,9	Securitisation SPV	**–**	–	**–**	–
Mercantile Acquiring Proprietary Limited	–	100	Property holding	**140**	140	**–**	–
Mercantile Bank Limited	124 969	100	Banking	**1 485 448**	1 485 448	**198**	347
Mercantile Rental Finance Proprietary Limited	–	74,9	Rental finance	**–**	–	**–**	–
Mercantile Insurance Brokers Proprietary Limited	250	100	Insurance broking	**294**	294	**–**	–
Portion 2 of Lot 8 Sandown Proprietary Limited	–	100	Property holding	**8 832**	8 832	**–**	–

Mercantile Payment Solutions Proprietary Limited (previously known as Mercantile E-Bureau Proprietary Limited), in which the Group owns 50%, has not been consolidated into the Group's results as the impact is immaterial.

31. Events after the reporting period

No material events have occurred between the accounting date and the date of this report that require adjustment to the disclosure in the annual financial statements.

"Set realistic goals and don’t give up until you reach them”

PETER BIRCH
Imvula Group

RISK MANAGEMENT AND CONTROL

Group risk management philosophy

The Group recognises that the business of banking and financial services is conducted within an environment of complex inter-related risks that have become all too evident during the extended global financial crisis. Risk management is a key focus of the Group and addresses a wide spectrum of risks that are continually evaluated, and policies and procedures are reviewed and stress tested to adapt to changing circumstances. In any economy, there are sectors that are more vulnerable to cyclical downturns than others. Changing economic variables are monitored to assist in managing exposure to such sectors. The concentration of risk in our target market sectors is managed to achieve a balanced portfolio. However, the Group acknowledges the potential for concentration risk and this is carefully monitored and, where appropriate, corrective action is taken. Our business development efforts are focused on the stronger companies and individuals within established policy criteria, which policy serves to eliminate weaker credit from the portfolio. The Group remains well positioned to effectively manage identified threats in a way that minimises risks to the Group. Continuous risk management and control reviews are undertaken by senior staff members to identify material control weaknesses and action is taken as required to address any areas of weakness.

A philosophy of enterprise-wide risk management within a Risk Management Monitoring and Control Framework has been implemented to ensure that all business and operational risks are managed effectively within acceptable risk profiles, policies and parameters. Risk management policies are essentially conservative, with proper regard to the mix of risk and reward. Existing policies, methodologies, processes, systems and infrastructure are frequently evaluated for relevance and to ensure that they remain at the forefront of risk management and in line with regulatory developments and emerging best practices. The Group takes all necessary steps to safeguard its depositors' funds, its own asset base, and shareholder's funds.

A number of risk initiatives were implemented and others further entrenched during the year. These included:

- further enhancements to the ALM monitoring and reporting process, including an increased focus on margin management and the monitoring of the effective net open currency position;
- compliance with amended regulations introduced as part of Basel III implementation;
- enhancements to the Risk Tolerance Framework as approved by the Board;
- additions to the prudential management schedule, wherein all risk-related ratios are monitored and reported to the ALCO and Board on a monthly basis;
- further improvements to various risk control self-assessment templates;
- the introduction of an automated online tool to monitor compliance with the key risk indicator process;
- streamlining of risk management methodologies and techniques in subsidiary companies together with rewrites of processes and procedures in use;
- expansion of stress testing;
- review of the application of the Principles for the Sound Management of Operational Risk;
- review of the application of the Principles for Sound Liquidity Risk Management and Supervision;
- expanded utilisation of an online training application to ensure that staff stay abreast of regulatory and other changes;
- implementation of a workflow solution in various departments;
- enhancements to operational risk data collection and reporting;
- comprehensive documentation and amalgamation of information relating to the Group's ICAAP;
- enhancements and additions to the Group-wide Enterprise-wide Risk Management Framework to factor in changes in risk profiles; and
- review of the Funding Policy and Contingent Funding Plan.

Enterprise-wide risk management

An Enterprise-wide Risk Management Framework is adopted to ensure appropriate and focused management of all risks. Risk assessment is a dynamic process and is reviewed regularly in line with changing circumstances. Risk dimensions vary in importance, depending upon the business activities of an organisation and the related risks. The overall objective of enterprise-wide risk management is to ensure an integrated and effective risk management framework where all risks are identified, quantified and managed to achieve an optimal risk-reward profile. The presence of accurate measures of risk makes risk-adjusted performance measurement possible, creates the potential to generate increased shareholder returns, and allows risk-taking behaviour to be more closely aligned with strategic objectives.

Risk management is performed on a Group-wide basis, involving the Board and its various committees, Credit Management, senior management, Risk Management, business line management, Finance and Control, Legal/Compliance, Treasury, and Operations, with support from Information Technology. Independent oversight and validation by Internal Audit ensures a high standard of assurance across methodology, operational and process components of the Group's risk and capital management processes.

Risk management life cycle/process

All the Group's policies and procedures manuals are subject to ongoing review and are signed off by the relevant business unit heads. These standards are an integral part of the Group's governance structure and risk management profile, reflecting the expectations and requirements of the Board in respect of key areas of control. The standards and effective maintenance of the risk control self-assessment process ensure alignment and consistency in the way that prevalent risk types are identified and managed, and form part of the various phases of the risk management life cycle, defined as:

Risk identification (and comprehension)

Risk identification focuses on recognising and understanding existing risks, or risks that may arise from positions taken, and future business activity as a continuing practice.

Risk measurement (and evaluation using a range of analytical tools)

Once risks have been identified, they need to be measured. Certain risks will lend themselves more easily to determination and measurability than others, but it is necessary to ascertain the magnitude of each risk to the extent it is quantifiable, whether direct or indirect.

To consider risk appetite and the alignment against broader financial targets, the Group mainly considers the level of earnings, growth and volatility that it is willing to accept from certain risks that are core to its business. Economic and regulatory capital required for such transactions is also considered, together with the resultant return on the required capital. The Group also maintains a capital buffer for unforeseen events and business expansion.

Risk management (as an independent function)

The Group's principal business focuses on the management of liabilities and assets in the statement of financial position. Major risks are managed and reviewed by an independent risk function. The ALCO, RMC and CREDCOM meet on a regular basis to collaborate on risk control and process review, to establish how much risk is acceptable, and to decide how the Group will stay within targets laid down in risk tolerance thresholds.

Risk monitoring (and compliance with documented policies)

Open, two-way communication between the Group and the SARB is fundamental to the entire risk monitoring and supervisory process. To achieve this, responsible line heads are required to document conclusions and communicate findings to the ALCO, RMC and CREDCOM, and to the SARB (through Banks Act returns and periodic meetings).

Risk control (stress and back-testing)

The Group follows a policy of ongoing applicable stress testing. Critical variables are sensitive to market changes, both domestic and international. These are identified and modelled to determine the possible impact of any deterioration of such identified variables on the Group's results. Both internal and external events are considered in formulating appropriate modelling criteria. A policy of back-testing for identified key variables has been approved by the Board and deployed within the Group.

Management of risk

Principal risk categories have been identified, defined and categorised into direct and indirect risks. This set of risk definitions forms the basis of management and control relative to each unit within the Group, and also forms a consistent common language for outside examiners and/or regulators to follow.

Direct risks are found in most banking transactions. They are quantifiable and can be clearly defined. These risks are evaluated through examination of our databases, statistics and other records.

Indirect risks are considered to ensure that a complete risk assessment is carried out. They are present in almost every decision made by management and the Board, and thus impact the Group's reputation and success. These decisions are usually intended to enhance the Group's long-term viability or success and are therefore difficult to quantify at a given point in time.

Board Committees monitor various aspects of the identified risks within the Enterprise-wide Risk Management Framework, which include:

Direct risks	**Indirect risks**
Credit risk	Strategic risk
Counterparty risk	Reputation risk
Currency risk	Legal risk
Liquidity risk	Fraud risk
Interest rate risk	International risk
Market (position) risk	Political risk
Solvency risk	Competitive risk
Operational risk	Pricing risk
Technology risk	Compliance risk
Investment risk	Market conduct risk

The responsibility for understanding the risks incurred by the Group, and ensuring that they are appropriately managed, lies with the Board. The Board approves risk management strategies and delegates the power to take decisions on risks, and to implement strategies on risk management and control, to the RMC. Discretionary limits and authorities are, in turn and within laid-down parameters, delegated to line heads and line managers to enable them to execute the Group's strategic objectives within predefined risk management policies and tolerance levels. Major risks are managed, controlled and reviewed by an independent risk function.

The Board fully recognises that it is accountable for the process of risk management and the system of internal control. Management reports regularly to the Board on the effectiveness of internal control systems and on any significant control weaknesses identified.

A process is in place whereby the top risks faced by the Group are identified. These risks are assessed and evaluated in terms of a risk score attached to inherent risk and residual risk. Action plans are put in place to reduce the identified inherent risks to within acceptable residual risk parameters. The Top 10 risks are re-evaluated quarterly and any changes are approved by the RMC. Business and operating units are integrally involved in the process in both risk identification and evaluation.

The Group subscribes to the Principles for the Sound Management of Operational Risk as defined by the Basel Committee on Banking Supervision.

Business continuity management continues to be an area of focus and ensures the availability of key staff and processes required to support essential activities in the event of an interruption to, or disruption of, business. Business continuity management is an important aspect of risk management, and its value has been proven in creating a more resilient operational platform through activities such as business impact assessments, business continuity planning and implementation, testing of business continuity, and implementing corrective actions. Comprehensive simulations are conducted on an ongoing basis with identified gaps addressed and/or plans put in place to resolve the identified issues.

The ALCO (which incorporates capital management), under the auspices of the RMC, proactively evaluates and manages the capital requirements of the Group as determined by Basel requirements. A comprehensive re-evaluation of the capital requirements under the Internal Capital Adequacy Assessment Process is regularly undertaken with consideration being given to all risks impacting the need for capital reserves within the Group. The outcome of these assessments resulted in the Group identifying different levels of risk related to specific characteristics of the business where it was deemed prudent to hold a capital buffer in addition to the regulatory capital requirements. Such buffer requirements are re-evaluated at least half-yearly and adjusted where appropriate.

The Group employs a size-appropriate approach to stress testing that is a component of business planning. Stress testing measures potential volatility of earnings under various scenarios.

Under the Enterprise-wide Risk Management Framework, the direct risks of the Group have been categorised and those deemed to be of the most significance are reported on below:

Credit risk

The Group offers a spread of banking products common to the banking industry, with a specific focus on small and medium-sized businesses, across a wide variety of industries. The Bank's Credit Risk Strategy, which is contained within our Group Risk and Credit Risk policy manuals, is approved by the CREDCOM and ratified by RMC. In respect of Mercantile Rental Finance, a similar credit risk assessment and mandate process is adopted in the credit risk area managing this subsidiary's loan book. No specific targeting of the broader personal retail-based market is done. However, the Private Bank was launched at the end of 2013 and it specifically targets entrepreneurs with the view to ultimately acquiring their business accounts. To manage the related credit risk, a new head of Credit: Private Bank was appointed with the post reporting to the head of Credit.

Dependent upon the risk profile of the customer, the risk inherent in the product offering and the track record/payment history of the customer, varying types and levels of security are taken to mitigate credit-related risks. Clean or unsecured lending will only be considered for financially strong borrowers. The Group does, however, have a small structured loan portfolio that includes an element of unsecured lending where the Group is financially rewarded for the additional risk taken. This portfolio is carefully managed within agreed RMC limits/parameters.

Counterparties to derivatives expose the Group to credit-related losses in the event of non-performance. The counterparties to these contracts are financial institutions. The Group continually monitors its positions and the credit ratings of its counterparties, and limits the value of contracts it enters into with any one party to within pre-approved transactional limits.

At year-end, the Group did not have any significant concentration of risk that had not been adequately provided for. There were no material exposures in advances made to foreign entities at year-end. The Bank does not lend to foreign registered companies but does provide banking to a number of locally registered companies that have foreign shareholding and, occasionally, to CGD Group companies operating in certain African countries.

"Work harder and smarter than the next guy"

GRANT SALZWEDEL
Mercantile Payment Solutions

A portfolio analysis report is prepared and presented to the RMC analysing the performance and make-up of the book, including customer, geographic, segment and product concentration.

The Group has adopted a conservative approach to credit granting, within a specifically defined and structured approval process. The granting of credit is managed via a mandated approval process, whereby levels of credit approval are determined by the experience of the mandated individual, with dual or multiple sign-off on all material values. An ongoing weekly review is also undertaken by the CREDCOM of all new and renewal proposals for lending in excess of R2 million (in aggregate). In addition, new deals and/or products, as well as requests for substantial increases in credit facilities, are considered at a daily credit meeting. A formal and detailed application will then be submitted through the normal credit process if the Committee considers the proposal to be desirable.

Adverse behavioural patterns such as continual excesses above approved limits are monitored closely by the Credit department and discussed at the weekly CREDCOM meeting with appropriate actions being taken.

During the year, the following changes/reviews were implemented in the Credit department:

- The RMC approved certain changes to the sanctioning levels of various posts. These changes will not have any impact on the risk profile of the Group;
- A retired banker was engaged on a temporary basis in 2014 to undertake a comprehensive review of collateral documentation. The bulk of the shortcomings identified in the review were rectified during 2015;
- A Credit Legal and Compliance area was established at the beginning of 2015 and has enhanced the preparation and execution of our facilities/loan documentation, and the supervision and monitoring of covenants and sanction conditions, particularly in respect of our larger exposures; and
- Further enhancements were made to our workflow solution in the Credit Origination, Assessment and Fulfilment departments.

A philosophy of enterprise-wide risk management within a Risk Management Monitoring and Control Framework has been implemented to ensure that all business and operational risks are managed effectively within acceptable risk profiles, policies and parameters. Risk management policies are conservative, with proper regard to the mix of risk and reward. The Group takes all necessary steps to safeguard its depositors' funds, its own asset base, and shareholder funds.

The table below summarises the Group's maximum exposure to credit risk at reporting date:

	Loans and advances R'000	Committed undrawn facilities R'000	Other R'000	Total R'000
2015				
Current accounts	**1 491 182**	**211 850**	**–**	**1 703 032**
Credit cards	**26 579**	**66 021**	**–**	**92 600**
Mortgage loans	**3 151 686**	**29 721**	**–**	**3 181 407**
Instalment sales and leases	**958 381**	**–**	**–**	**958 381**
Structured loans	**211 361**	**–**	**–**	**211 361**
Medium-term loans	**1 470 508**	**–**	**–**	**1 470 508**
Negotiable securities	**–**	**–**	**551 494**	**551 494**
Cash and cash equivalents	**–**	**–**	**1 586 798**	**1 586 798**
Guarantees	**–**	**–**	**507 551**	**507 551**
Letters of credit	**–**	**–**	**22 112**	**22 112**
	7 309 697	**307 592**	**2 667 955**	**10 285 244**
2014				
Current accounts	1 326 272	–	–	1 326 272
Credit cards	17 942	13 643	–	31 585
Mortgage loans	2 455 790	160 649	–	2 616 439
Instalment sales and leases	822 632	–	–	822 632
Structured loans	85 691	–	–	85 691
Medium-term loans	1 555 389	–	–	1 555 389
Negotiable securities	–	–	440 767	440 767
Cash and cash equivalents	–	–	1 518 444	1 518 444
Guarantees	–	–	468 748	468 748
Letters of credit	–	–	42 567	42 567
	6 263 716	174 292	2 470 526	8 908 534

Operational risk

Operational risk is defined as the risk of loss from inadequate or failed internal processes, people, and systems, or from external events. Operational risks faced by the Group are extensive and include robbery, fraud, theft of data, unauthorised systems access, legal challenges, statutory and legislative non-compliance, ineffective operational processes, and business continuity. Operational risk can also cause reputational damage and therefore efforts to identify, manage and mitigate operational risk are equally sensitive to reputational risk, as well as the risk of financial loss.

The aim of operational risk management is to enhance the level of risk maturity across the Group by implementing and embedding risk-based control identification and assessments, and integrating the operational risk management process in all business units to ensure adequate risk management in an ever-changing business and financial industry. The Operational Risk Committee meets at least quarterly and has representation from all business units.

Strategies, procedures and action plans to monitor, manage and limit the risks associated with operational processes, systems and external events include:

- documented operational policies, processes and procedures with segregation of duties;
- ongoing training and up-skilling of staff on operational procedures and legislative compliance;
- an internal operational loss database, wherein all losses associated with operational issues, including theft and robbery, are recorded and evaluated to facilitate corrective action;
- development of appropriate risk mitigation actions in line with the Group's Risk Appetite as approved by the Board;
- ongoing improvements to the Disaster Recovery and Business Continuity plans, including conducting a variety of simulation exercises in critical operational environments;

- conducting monitoring and reviews by both the Compliance and Internal Audit functions, in line with annual plans approved by the Board;
- comprehensive data security and protection;
- ongoing review of the Group-wide risk and control self-assessment process, rolled out to job functional level in high-risk operational processing areas;
- ongoing review of key risk indicators as a tool to further assist with risk identification and assessment;
- limiting access to systems and enforcing strong password controls; and
- a comprehensive insurance programme to safeguard the Group's financial and non-financial assets.

Disaster recovery and business continuity management facilities are outsourced to specialist service providers.

The Group further benchmarks itself and stays abreast of developments with regard to operational risk by actively participating as a member of the Banking Association of South Africa's (BASA) operational risk forum as well as of industry working groups tasked with investigating and making recommendations to BASA on topical issues.

The Group subscribes to the Principles for the Sound Management of Operational Risk.

Technology risk

Information technology is a key functional enabler in assisting the Group to achieve its strategic and operating objectives and is dependent on the availability of adequately skilled resources. The Group operates within a dynamic operating environment and faces numerous risks that need to be identified, managed and reported on.

IT Governance, Risk, Compliance (ITGRC) and Information Security Management (ISO) are committed to manage risk appropriately within these environments to maximise potential opportunities and minimise the adverse effects of technology risk within the Group.

ITGRC and Information Security are therefore key components in technology-related projects and in business-as-usual activities. Group IT has adopted an ITGRC risk framework that was presented to the Board and integrated into the Enterprise-wide Risk Management Framework – ensuring an integrated risk model whereby risk assessment, management and reporting thereof is consistent across all operations. This enables quick and transparent reporting to all stakeholders and the Board.

During the last quarter, the following key milestones were achieved:

- Successful implementation of the Industry Interchange (IRD) project;
- Migration of Gold and Classic Card credit card products to EMV;
- Masking of all card data on Online reports;
- Acquisition of all necessary PCI policies and a SIEM solution;
- Implementation of a new Postilion HA solution;
- Integration of the Intermediary Trading Platform into BaNCS Treasury to automate foreign exchange deal booking from various intermediaries;
- Multiple inward credits intraday processing (customer accounts credited with inward EFTs intraday and not only during end-of-day); and
- A comprehensive cyber security assessment and report completed.

In terms of the ITGRC and ISO, the following future steps have been planned for 2016 to reduce and understand technology-related risks:

- Alignment of MCF, cyber and regulatory controls – establishing a single view of control requirements and achievements;
- Implementation of a roadmap for controls, with defined ownership and alignment to best practice or recognised standards; and
- Rewrite and update the policy library with regard to structure, standards and procedure.

Market risk

Market risk is the risk of revaluation of any financial instrument as a consequence of changes in market prices or rates, and can be quantified as the potential change in the value of the banking book as a result of changes in the financial environment between now and a future point in time. The Board determines market risk limits, which are reviewed at least annually or more often, depending on prevailing market conditions.

The Group does not currently take proprietary trading positions and therefore has minimal exposure to market risk. Should the Group consider entering into a proprietary trading position, the Trading Committee and RMC will have to evaluate and approve such action. The Trading Committee will ensure that the Group is sensibly positioned, taking into account agreed limits, policies, prevailing market conditions, available liquidity, and the risk-reward trade-off, mainly in respect of changes in foreign currency exchange rates and interest rates.

The Group enters into derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward exchange contracts;
- interest rate and foreign currency swaps; and
- fully hedged currency options.

Market risk reports are produced on a daily basis, which allows for monitoring against prescribed prudential and regulatory limits. In the event of a limit violation, the ALM forum records this and it is immediately corrected and reported to the ALCO (a Management Committee accountable to the RMC).

The Group does not perform a detailed sensitivity analysis on the potential impact of a change in exchange rates on a daily basis because the Group does not currently have any proprietary trading positions. The impact of changes in foreign currency customer positions is, however, modelled to take cognisance of credit risks associated with volatility in foreign currency exchange rates, with the purpose of covering adverse positions by calling for initial and variation margins. A detailed sensitivity analysis is performed for interest rate and liquidity risk (described on pages 108 to 112).

There has been no significant change to the Group's exposure to market risks, or the manner in which it manages and measures the risk. Controls are in place to monitor foreign exchange exposures on a real-time basis through the BaNCS Treasury system. Various conservative prudential risk limits are in place and associated exposures relating thereto are reported to the ALCO, RMC and Board on a regular basis.

Foreign currency risk

The Group, in terms of approved limits, manages short-term foreign currency exposures relating to trade imports, exports, and interest flows on foreign liabilities.

The Group has conservative net open foreign currency position limits that are well below the limits allowed by the SARB. For the year under review, the highest net open position recorded, for any single day, was R15,8 million (2014: R15,7 million). An adverse movement in the exchange rate of 10% would reduce the Group's income by R1,6 million (2014: R1,6 million).

The transaction exposures and foreign exchange contracts at the reporting date are summarised as follows:

	GROUP				
	US Dollar R'000	Euro R'000	Pound Sterling R'000	Other R'000	Total R'000
2015					
Total foreign exchange assets	**470 893**	**13 530**	**3 444**	**2 338**	**490 205**
Total foreign exchange liabilities	**(405 614)**	**(12 779)**	**(2 960)**	**(719)**	**(422 072)**
Commitments to purchase foreign currency	**397 036**	**99 055**	**12 418**	**134 832**	**643 341**
Commitments to sell foreign currency	**(452 398)**	**(100 147)**	**(12 490)**	**(135 113)**	**(700 148)**
Year-end effective net open foreign currency positions	**9 917**	**(341)**	**412**	**1 338**	**11 326**
2014					
Total foreign exchange assets	372 055	31 074	1 370	2 434	406 933
Total foreign exchange liabilities	(113 700)	(18 500)	(1 478)	(327)	(134 005)
Commitments to purchase foreign currency	116 601	87 306	8 881	13 942	226 730
Commitments to sell foreign currency	(370 251)	(96 740)	(7 254)	(14 416)	(488 661)
Year-end effective net open foreign currency positions	4 705	3 140	1 519	1 633	10 997

Interest rate risk

Interest rate risk is the impact on net interest earnings and sensitivity to economic value as a result of increases or decreases in interest rates arising from the execution of the core business strategies and the delivery of products and services to customers. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected adverse movements occur. The ALM forum monitors interest rate repricing on a daily basis, and reports back to the ALCO, RMC and the Board.

The Group is exposed to interest rate risk as it takes deposits from customers at both fixed and floating interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and floating rate funds, as well as by using interest rate swap contracts and matching the maturities of deposits and assets, as appropriate.

The objective in management of interest rate risk is to ensure a higher degree of interest rate margin stability and lower interest rate risk over an interest rate cycle. This is achieved by hedging material exposures and by not allowing any proprietary interest rate positions. Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating interest rate amounts, calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The floating rate on the interest rate swaps is based on the three-month JIBAR and/or prime rate. The Group will settle/receive the difference between the fixed and floating interest rate, on a net basis.

Sources of interest rate risk include volatility and changes in interest rate levels, yield curves and spreads. These affect the interest rate margin realised between lending income and borrowing costs when applied to rate-sensitive assets and liabilities. The Group is also exposed to basis risk, which is the difference in re-pricing characteristics of two floating rates, such as the South African prime rate and three-month JIBAR.

To measure interest rate risk, the Group aggregates interest rate-sensitive assets and liabilities into defined time bands, in accordance with the respective interest repricing dates. The Group uses both dynamic maturity gap and duration analysis, which measures the mismatch level between the average time over which the cash inflows are generated and cash outflows are required. Various reports are prepared taking alternative strategies and interest rate forecasts into consideration. These reports are presented to the ALCO and RMC on a regular basis.

To monitor the effect of the gaps on net interest income, a regular forecast of interest rate-sensitive asset and liability scenarios is produced. It includes relevant banking activity performance and trends, different forecasts of market rates and expectations reflected in the yield curve.

South Africa was not immune to the global credit and liquidity crisis or market uncertainty in respect of the longer-term interest rate trends. Pressure on margins is likely to continue during 2016 – especially due to competitors paying more for deposits that will improve Basel III ratios.

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 in the yield curve.

The impact on equity and profit or loss resulting from a change in interest rates is calculated monthly based on management's forecast of the most likely change in interest rates. In addition to the above, the impact of a static bank-specific favourable and unfavourable interest rate movement, of 50 and 200 basis points respectively, is calculated and monitored by the ALM forum. Various approved prudential limits are in place and monitored by the ALM forum. The results are reported regularly to the ALCO and Board.

At the reporting date, a 50 basis point change in prevailing interest rates was applied as a sensitivity analysis to determine the impact on earnings as a result of a change in interest rates. If interest rates increased/decreased by 50 basis points, and all other variables remained constant, the Group's net profit and equity at year-end would increase by R9,5 million or decrease by R15,3 million, respectively (2014: increase/decrease by R11,1 million/R16,3 million). This is mainly attributable to the Group's exposure to interest rates on its surplus capital and lending and borrowings in the banking book.

The table below summarises the Group's exposure to interest rate risk. Assets and liabilities are included at carrying amounts, categorised by the earlier of contractual repricing or maturity dates, and also indicate their effective interest rates at year-end. The repricing profile indicates that the Group remains asset-sensitive as interest-earning assets reprice sooner than interest-paying liabilities, before and after derivative hedging activities. Thus, future net interest income remains vulnerable to a decrease in market interest rates.

	GROUP						
	Up to 1 month R'000	1 – 3 months R'000	4 – 12 months R'000	1 – 5 years R'000	Non-interest sensitive R'000	Total R'000	Effective interest rate %
2015							
Assets							
Intangible assets	–	–	–	–	192 064	192 064	–
Property and equipment	–	–	–	–	223 404	223 404	–
Current tax receivable	–	–	–	–	572	572	–
Other accounts receivable	–	–	–	–	167 278	167 278	–
Other investments	–	–	–	–	5 958	5 958	–
Loans and advances	7 348 561	–	–	5 183	(103 701)	7 250 043	10,0
Derivative financial instruments	–	–	–	–	56 775	56 775	–
Negotiable securities	–	–	291 997	259 497	–	551 494	6,5
Cash and cash equivalents	900 479	389 318	–	–	297 001	1 586 798	5,3
Total assets	**8 249 040**	**389 318**	**291 997**	**264 680**	**839 351**	**10 034 386**	
Equity and liabilities							
Total equity	–	–	–	–	2 020 612	2 020 612	–
Deferred tax liabilities	–	–	–	–	51 889	51 889	–
Long-term funding	323 696	320 699	–	–	1 820	646 215	8,4
Debt securities	–	202 000	–	–	810	202 810	8,7
Deposits	4 590 753	249 015	592 229	24 812	1 265 104	6 721 913	4,8
Derivative financial instruments	–	–	–	–	63 305	63 305	–
Provisions and other liabilities	–	–	–	–	94 736	94 736	–
Current tax payable	–	–	–	–	12 245	12 245	–
Other accounts payable	–	–	–	–	220 661	220 661	–
Total equity and liabilities	**4 914 449**	**771 714**	**592 229**	**24 812**	**3 731 182**	**10 034 386**	
Financial position interest sensitivity gap	**3 334 591**	**(382 396)**	**(300 232)**	**239 868**		**2 891 831**	
Derivative financial instruments	**201 381**	**(196 817)**	**(5 183)**	**619**		**–**	
Total net interest sensitivity gap	**3 535 972**	**(579 213)**	**(305 415)**	**240 487**		**2 891 831**	

	GROUP						
	Up to 1 month R'000	1 – 3 months R'000	4 – 12 months R'000	1 – 5 years R'000	Non-interest sensitive R'000	Total R'000	Effective interest rate %
2014							
Assets							
Intangible assets	–	–	–	–	188 476	188 476	–
Property and equipment	–	–	–	–	214 994	214 994	–
Current tax receivable	–	–	–	–	133	133	–
Other accounts receivable	–	–	–	–	154 359	154 359	–
Other investments	–	–	–	–	6 388	6 388	–
Deferred tax assets	–	–	–	–	496	496	–
Non-current assets held for sale	–	–	–	–	13 482	13 482	–
Loans and advances	6 284 317	–	2 241	11 616	(74 183)	6 223 991	9,7
Derivative financial instruments	–	–	–	–	6 132	6 132	–
Negotiable securities	–	215 074	52 223	173 470	–	440 767	6,1
Cash and cash equivalents	976 536	–	69 506	–	472 402	1 518 444	4,7
Total assets	7 260 853	215 074	123 970	185 086	982 679	8 767 662	
Equity and liabilities							
Total equity	–	–	–	–	1 899 911	1 899 911	–
Deferred tax liabilities	–	–	–	–	66 115	66 115	–
Long-term funding	90 020	437 212	–	–	327	527 559	8,1
Debt securities	–	202 764	–	–	–	202 764	8,3
Deposits	3 577 053	336 299	603 321	79 776	1 195 755	5 792 204	4,2
Derivative financial instruments	–	–	–	–	8 727	8 727	–
Provisions and other liabilities	–	–	–	–	79 085	79 085	–
Current tax payable	–	–	–	–	5 213	5 213	–
Other accounts payable	–	–	–	–	186 084	186 084	–
Total equity and liabilities	3 667 073	976 275	603 321	79 776	3 441 217	8 767 662	
Financial position interest sensitivity gap	3 593 780	(761 201)	(479 351)	105 310		2 458 538	
Derivative financial instruments	180 281	(166 143)	(2 241)	(11 897)		–	
Total net interest sensitivity gap	3 774 061	(927 344)	(481 592)	93 413		2 458 538	

Liquidity risk

Liquidity risk is the risk of being unable to meet current and future cash flow and collateral requirements when they become due, without negatively affecting the normal course of business. The Group is exposed to daily cash needs from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees.

To measure liquidity risk, the Group aggregates assets and liabilities into defined time bands in accordance with the respective maturity dates, which measure the mismatch level between the average time over which the cash inflows are generated and cash outflows are required.

The ALM forum monitors liquidity risk on a daily basis and reports back to the ALCO and RMC. Ultimate responsibility for liquidity risk management rests with the Board. An appropriate liquidity risk management framework has been developed for the management of the Group's short-, medium- and long-term funding and liquidity requirements.

Through active liquidity management, the Group seeks to preserve stable, reliable and cost-effective sources of funding. To accomplish this, management uses a variety of liquidity risk measures that consider market conditions, prevailing interest rates, liquidity needs, and the desired maturity profile of liabilities.

To manage this risk, the Group performs, among others, the following:

- The maintenance of a stock of readily available, high-quality liquid assets (in excess of the statutory requirements), as well as strong statement of financial position liquidity ratios;
- An assumptions-based sensitivity analysis to assess potential cash flows at risk;
- The management of concentration risk (i.e. undue reliance on any single counterparty or counterparty group, sector, market, product, instrument, currency and tenor);
- The maintenance of sources of funding for contingency funding needs;
- The monitoring of daily cash flow movements and requirements, including daily settlements and collateral management processes;
- Targeting a diversified funding base to avoid undue concentrations by investor, market source and maturity;
- The creation and monitoring of prudential liquidity risk limits; and
- The maintenance of an appropriate mix of term-funding.

Overall, the Group's key liquidity risk metrics, which have been formulated to achieve a prudent liquidity profile, were maintained at acceptable levels. Through increased stress testing, scenario analysis and contingency planning, the Group continues to actively manage its stress funding sources and liquidity buffers to ensure that it exceeds the estimated stress funding requirements that could emanate from moderate- to high-stressed liquidity events. The Group subscribes to the Bank of International Settlement's Principles for Sound Liquidity Risk Management and Supervision. Overall, the Group's liquidity position remains strong.

Macro-economic conditions continue to impede growth in advances and deposits as the South African banking sector is characterised by certain structural features, such as a low discretionary propensity to save, and a higher degree of contractual savings with institutions such as pension funds, provident funds and asset management services. The Group was successful in collecting retail customer and longer-term deposits to reshape the structure of the balance sheet, and to ensure compliance with the Basel III liquidity requirements (effective 2015).

The two key liquidity ratios that were introduced by Basel III are the liquidity coverage ratio (LCR), designed to promote short-term resilience of the one-month liquidity profile by ensuring that banks have sufficient high-quality liquid assets to meet potential outflows in a stressed environment; and the net stable funding ratio (NSFR), designed to measure the stability of long-term structural funding.

Both the LCR and the NSFR are subject to phased-in implementation, which commenced in 2015 with full compliance required in 2018. The Group also monitors other Basel III-related ratios, such as the Leverage Ratio, which is a measure of qualifying capital against both on- and off-balance-sheet exposures. The Group currently meets all the requirements of the new regulations.

There were no significant changes in the Group's liquidity position during the current financial year, or in the manner in which it manages and measures the risk. The Group is adequately funded and able to meet all its current and future obligations.

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

	GROUP		
	Assets R'000	Liabilities R'000	Total mismatch R'000
2015			
Maturing up to one month	**3 086 336**	**4 768 272**	**(1 681 936)**
Maturing between one and three months	**426 629**	**937 007**	**(510 378)**
Maturing between three and six months	**158 649**	**257 189**	**(98 540)**
Maturing between six months and one year	**270 874**	**344 222**	**(73 348)**
Maturing after one year	**5 711 351**	**1 610 893**	**4 100 458**
Non-contractual	**380 547**	**96 191**	**284 356**
	10 034 386	**8 013 774**	**2 020 612**
2014			
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

The remaining period to contractual maturity of financial liabilities of the Group at the reporting date, which includes the interest obligation on unmatured deposits and derivatives calculated up to maturity date, is summarised in the table below:

	GROUP				
	Up to 1 month R'000	1 – 3 months R'000	4 – 6 months R'000	7 – 12 months R'000	Over 1 year R'000
2015					
Deposits	**4 469 897**	**666 252**	**260 506**	**359 547**	**1 083 045**
Long-term funding	**–**	**235 104**	**–**	**–**	**485 024**
Debt securities	**–**	**–**	**–**	**–**	**222 237**
Derivative financial instruments	**15 005**	**42 332**	**3 461**	**2 157**	**350**
Other accounts payable	**176 657**	**–**	**–**	**–**	**–**
Guarantees, letters of credit and committed undrawn facilities	**837 255**	**–**	**–**	**–**	**–**
Operating lease commitments	**352**	**708**	**996**	**1 556**	**9 024**
	5 499 166	**944 396**	**264 963**	**363 260**	**1 799 680**
2014					
Deposits	3 593 005	804 138	291 218	408 566	786 504
Long-term funding	–	–	–	–	649 534
Debt securities	–	–	–	–	237 988
Derivative financial instruments	2 257	1 935	4 266	124	145
Other accounts payable	144 777	–	–	–	–
Guarantees, letters of credit and committed undrawn facilities	685 607	–	–	–	–
Operating lease commitments	514	1 031	1 527	2 404	5 733
	4 426 160	807 104	297 011	411 094	1 679 904

Basel III – influencing risk management developments

In today's complex environment, combining effective bank-level management with market discipline and regulatory supervision best achieves systemic safety and soundness. The Group recognises the significance of Basel III in aligning regulatory capital to risk and further entrenching risk-reward principles and practices in bank management and decision-making. This framework focuses on strengthening and harmonising global liquidity standards to ensure that internationally active banks are adequately capitalised.

South Africa embraced the principles of the Basel III Capital Framework, which was successfully implemented by the Group on 1 January 2013. Full compliance with all the regulations will only be required in January 2019.

The Group's capital adequacy was largely unaffected by the new regulations, which impose tighter restrictions on the quality and type of capital that qualifies as Tier 1 capital. The Group's capital still consists almost entirely of Tier 1 capital. The new regulations also increase the required minimum regulatory capital. The Group's internal capital targets remain well in excess of the new minimum requirements.

The banking industry in South Africa will find it difficult to fully meet the new liquidity ratios (LCR and the NSFR) as a result of the structural characteristics and constraints with regard to qualifying liquid assets in South Africa; hence the phase-in approach adopted to allow banks to change the structure of their balance sheets.

The Group currently complies with the requirements of the LCR and NSFR. The Group also calculates various sensitivities on these ratios to identify potential constraints in meeting the requirements timeously.

The Group will continue to seek and adopt market best practice in accordance with these regulatory requirements. The focus in 2016 will remain on lengthening the maturity of the Group's deposits and putting appropriate funding structures in place to further enhance these ratios.

Capital management

The Group is subject to specific capital requirements, as defined in the Banks Act and Regulations. The management of the Group's capital takes place under the auspices of the RMC, through the ALCO. The capital management strategy is focused on maximising shareholder value over time, by optimising the level and mix of capital resources while ensuring sufficient capital is available to support the growth objectives of the Group. Decisions on the allocation of capital resources, conducted as part of the strategic planning and budget review, are based on a number of factors, including growth objectives, return on economic and regulatory capital, and the residual risk inherent to specific business lines. This is conducted on a regular basis as part of the ICAAP and strategic planning review. The RMC considers the various risks faced by the Group and analyses the need to hold capital against these risks while taking account of the regulatory requirements.

Some enhancements to the ICAAP document were undertaken during the year under review, in line with suggestions made by the SARB following an on-site inspection as part of the Supervisory Review and Evaluation Process with additional enhancements, updates and changes due in 2016.

Capital adequacy and the use of regulatory capital are monitored by employing techniques based on the guidelines documented in the Bank Regulations and implemented by the SARB for supervisory purposes. The SARB uses the capital adequacy ratio of banks as a key supervisory signal. Despite the regulations allowing the Group to consider different tiers of capital, the capital of the Bank consists almost entirely of Tier 1 capital. Following the recapitalisation of the Group in 2004, it has remained capitalised well beyond regulatory and internal requirements.

Risk-weighted capital is allocated to the different business units in line with their assessed operational risk profile and targeted growth requirements. Capital to support the Group's needs is currently generated by retained earnings and the surplus capital held.

The approach to capital management has been further enhanced over the past year in line with Basel III, and will remain a focus area for the future. The Group was largely unaffected by the new regulations, which impose tighter restrictions on the quality and type of capital that qualifies as Tier 1 capital and raised the minimum required regulatory capital.

The Group complies with the provisions of section 46 of the Companies Act, whereby all dividends and distributions are authorised by the Board. The Board authorises a distribution after assuring itself that the Group will fulfil the solvency and liquidity test immediately after completing the distribution.

The level of capital for the Bank is as follows:

	2015 R'000	2014 R'000
Risk-weighted assets – Banking book		
Credit risk	**7 407 215**	6 450 327
Operational risk	**1 130 769**	1 055 502
Market risk	**21 213**	11 000
Equity	**76 618**	71 464
Other assets	**174 640**	164 357
	8 810 455	7 752 650
Net qualifying capital and reserves		
Tier 1 capital	**1 834 072**	1 708 073
Share capital and share premium	**1 483 300**	1 483 300
Retained earnings	**448 591**	311 188
Other reserves	**56 655**	60 199
Less: Deductions	**(154 474)**	(146 614)
Tier 2 capital	**25 341**	11 006
General allowance for credit impairment	**25 341**	11 006
	1 859 413	1 719 079
Capital adequacy ratio (%)	**21,1**	22,2
Tier 1 capital	**20,8**	22,0
Tier 2 capital	**0,3**	0,2

Fraud

Payment card fraud

The Bank is an issuer of MasterCard and VISA payment cards and has, in line with the card associations' regulations, adopted proactive measures to prevent fraudulent use of these products. The Bank makes use of a fraud monitoring system. Reports based on a set of parameters prescribed by the card associations and industry best practices are reviewed regularly with the aim of identifying suspicious transactional behaviour.

In addition to standard monitoring measures, the Bank offers an SMS notification service on both its credit and debit card products. Since its introduction, this service has contributed to the early detection of fraudulent transactions and mitigation of losses.

If fraudulent activity is confirmed, action is taken to prevent further use of the card/card number. Confirmed fraudulent transactions are investigated and reported to the relevant card associations and the South African Banking Risk Information Centre (SABRIC), which determines common trends and then alerts the industry accordingly.

The Bank commenced with the migration from magstripe cards to integrated circuit cards (also known as "smart" or "chip" cards) during the first quarter of 2015. These cards use advanced encryption, embedded card risk analysis capabilities, and online and offline authentication. The traditional methods used to steal card data or to clone cards using magstripe technology are counteracted by implementing these cards. This is supported by a One Time PIN (OTP) or personal password service which protects cardholders against unauthorised use when making online purchases (also known as e-Commerce transactions).

Fraud other than payment card fraud

The Group has adopted a zero tolerance approach toward all types of fraud and theft. The Group's Forensic Investigators investigate all incidents relating to external fraud while internal fraud is investigated by the Internal Audit function.

If an incident of fraud is brought to the Bank's attention, it is investigated immediately, evidence is collected, and statements are taken. If the incident was perpetrated externally, criminal charges are laid. If the incident was perpetrated internally, disciplinary action is instituted in addition to laying criminal charges. All fraud incidents are reported to SABRIC and the South African Police Service.

Merchant acquiring fraud

The Bank offers Merchant Services allowing merchants to accept card-based customer purchases. These merchants are thoroughly vetted during the on-boarding process and site visits are performed to confirm the location of the Bank's point-of-sale devices. Merchants are trained on the card association requirements concerning payment card acceptance and use of the point-of-sale terminals. Real-time monitoring of merchant activity is performed seven days a week and action is taken to protect the merchant and the Bank against possible losses emanating from fraud and non-compliance with the card association rules. Actions taken to prevent such losses include further merchant training or termination of the merchant relationship should the training not have the desired outcome.

Fraud awareness

Fraud awareness training is conducted on a regular basis and awareness newsletters on topical issues are compiled and disseminated to all staff. The newsletters address a wide range of topics and are not limited to payment card fraud only. Fraud awareness newsletters are also compiled and distributed to customers when required. Fraud awareness material on prevalent modus operandi is also made available to customers and staff members on the Bank's website in the Fraud Prevention webpage.

Fraud alerts containing warnings of the recently identified fraud trends, as well as relevant fraud prevention and awareness material related to the incident, are disseminated to all staff. The aim of the fraud alerts is to cover specific and current fraud trends as and when they are identified as well as to create awareness of the most prevalent fraud incidents.

Fraud Department staff members attend industry meetings and use Internet-based sources to stay abreast of fraud trends and the prevention thereof. The Bank also works closely with SABRIC, the Payment Association of South Africa and the card associations.

Whistle-blowing

The Group has a comprehensive Protected Disclosures Policy based on the Act of the same name. The policy addresses the reporting of corrupt activities, as well as any improper conduct, under a section on whistle-blowing. Employees are encouraged to make disclosures in good faith and on reasonable grounds.

All employees receive, twice annually, an electronic step-by-step guide on what to report and how to report it.

To this end, an enhanced anonymous web-based reporting system is in place to enable employees to report directly to Compliance and Internal Audit. This system simplifies the anonymous reporting procedure and encourages employees to make use of the process.

GLOSSARY OF TERMS

Abbreviation	Definition/description
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
Bank Regulations	Regulations relating to banks issued under section 90 of the Banks Act, No.94 of 1990, as amended
Banks Act	Banks Act, No. 94 of 1990, as amended
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGD	Caixa Geral de Depósitos S.A., a company registered in Portugal, parent company of Mercantile Bank Holdings Limited
Companies Act	Companies Act, No.71 of 2008
CREDCOM	Credit Committee
DAC	Directors' Affairs Committee
EXCO	Executive Committee
FAIS	The Financial Advisory and Intermediary Services Act, No. 37 of 2002
FICA	The Financial Intelligence Centre Act, No.38 of 2001
GAC	Group Audit Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards and Interpretations
JSE	Johannesburg Stock Exchange Limited
King III	King Report on Corporate Governance for South Africa 2009
Mercantile	Mercantile Bank Holdings Limited and its subsidiaries
Mercantile Rental Finance	Mercantile Rental Finance Proprietary Limited
NCA	The National Credit Act, No. 34 of 2005
RMC	Risk and Capital Management Committee
SARB	South African Reserve Bank
the Bank	Mercantile Bank Limited
the Board	Where applicable, the Board of Directors of Mercantile Bank Holdings Limited or, collectively, the Board of Directors of Mercantile Bank Holdings Limited and Mercantile Bank Limited
the Company	Mercantile Bank Holdings Limited
the Group	Mercantile Bank Holdings Limited and its subsidiaries

GROUP ADDRESSES

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Mercantile Bank business centres

Bedford business centre

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Fax: +27 11 614 9611

Boksburg business centre

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North Rand Roads, Boksburg 1459
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Cape Town City business centre

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Cape Town Tygerberg business centre

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Comaro Crossing business centre

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Durban business centre

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Germiston business centre

The Lake Shopping Centre
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Germiston 1401
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Horizon business centre

The Village @ Horizon Shopping Centre
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