Mercantile Bank Holdings Limited

The Business Bank inspired by entrepreneurs

Exceptional growth while doing what we love

INTEGRATED ANNUAL REPORT 2016

for the year ended 31 December

2014

2015

2016

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.

The Group provides niche business and commercial banking that is differentiated through great service underpinned by a deep understanding of the banking needs of the South African entrepreneur. While it operates exclusively within South Africa, Mercantile 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.

Our mission

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

Our vision

We grow entrepreneurs through successful partnerships.

Our values

We grow entrepreneurs, build great relationships with all our stakeholders and love what we do.

- We are Curious
- We are Connected
- We are Committed

Registration number: 1989/000164/06 | Member of the CDG Group
Web: **www.mercantile.co.za** | Email: **info@mercantile.co.za**

Contents

The December 2016 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.

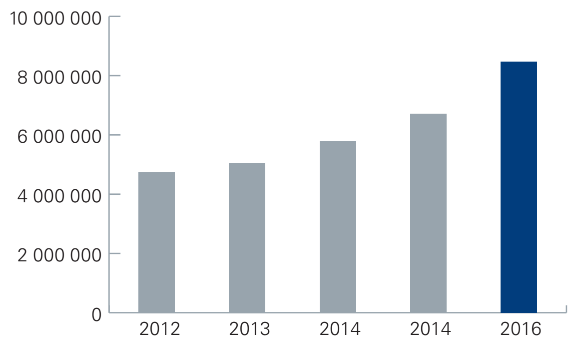
Five-year Group salient features

years ended 31 December

	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000
Statement of financial position					
Total assets	**12 216 009**	10 034 386	8 767 662	7 733 848	7 240 349
Loans and advances	**8 661 812**	7 250 043	6 223 991	5 227 941	5 291 748
Cash and cash equivalents	**2 247 070**	1 586 798	1 518 444	1 490 690	1 223 016
Total equity	**2 155 878**	2 020 612	1 899 911	1 792 260	1 673 904
Long-term funding	**837 699**	646 215	527 559	583 173	581 876
Debt securities	**241 009**	202 810	202 764	–	–
Deposits	**8 473 034**	6 721 913	5 792 204	5 041 649	4 736 758
Statement of comprehensive income					
Profit before tax	**247 184**	205 227	180 675	188 988	208 098
Profit after tax	**177 018**	146 889	127 653	136 309	155 801
Financial performance ratios (%)					
Return on average equity (ROE)	**8,4**	7,4	6,9	7,9	9,0
Return on average assets (ROA)	**1,6**	1,6	1,5	1,8	2,3
Cost to income	**63,2**	63,6	63,2	62,3	60,3
Share statistics (cents)					
Net asset value per share	**59,7**	55,9	52,6	49,6	46,3
Tangible net asset value per share	**54,7**	50,6	47,4	44,2	40,8

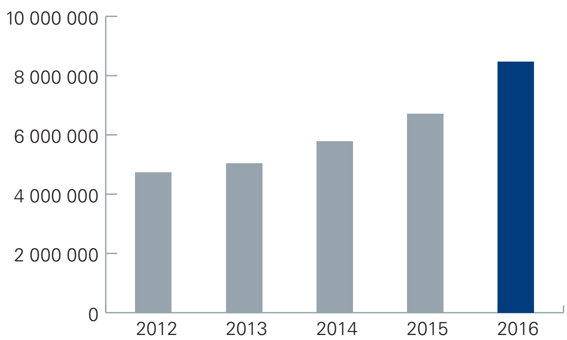
Deposits

R'000



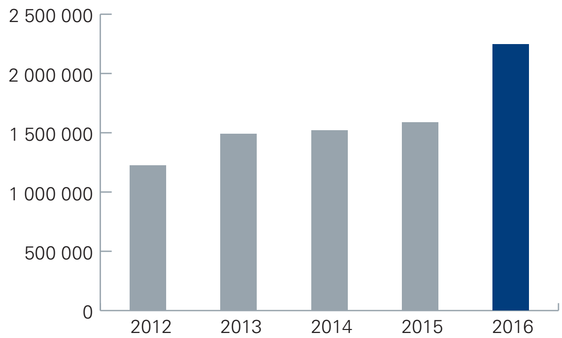
Loans and advances

R'000



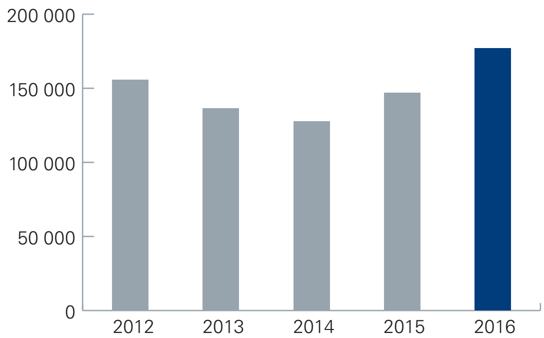
Cash and cash equivalents

R'000



Profit after tax

R'000



Mercantile growth in 2016

21%
Increase in profit after tax

19%
Increase in net interest and non-interest income

20%
Increase in loans and advances

26%
Increase in deposits

30%
Increase in long-term funding

2,1%
Non-performing loans as a percentage of loans and advances

0,5%
Credit loss ratio

8,4%
ROE

1,6%
ROA

63,2%
Cost to income

Achievements and awards

We have been proud recipients of prestigious **accolades** and **awards**

We are **rated number one in service** for business and commercial banking

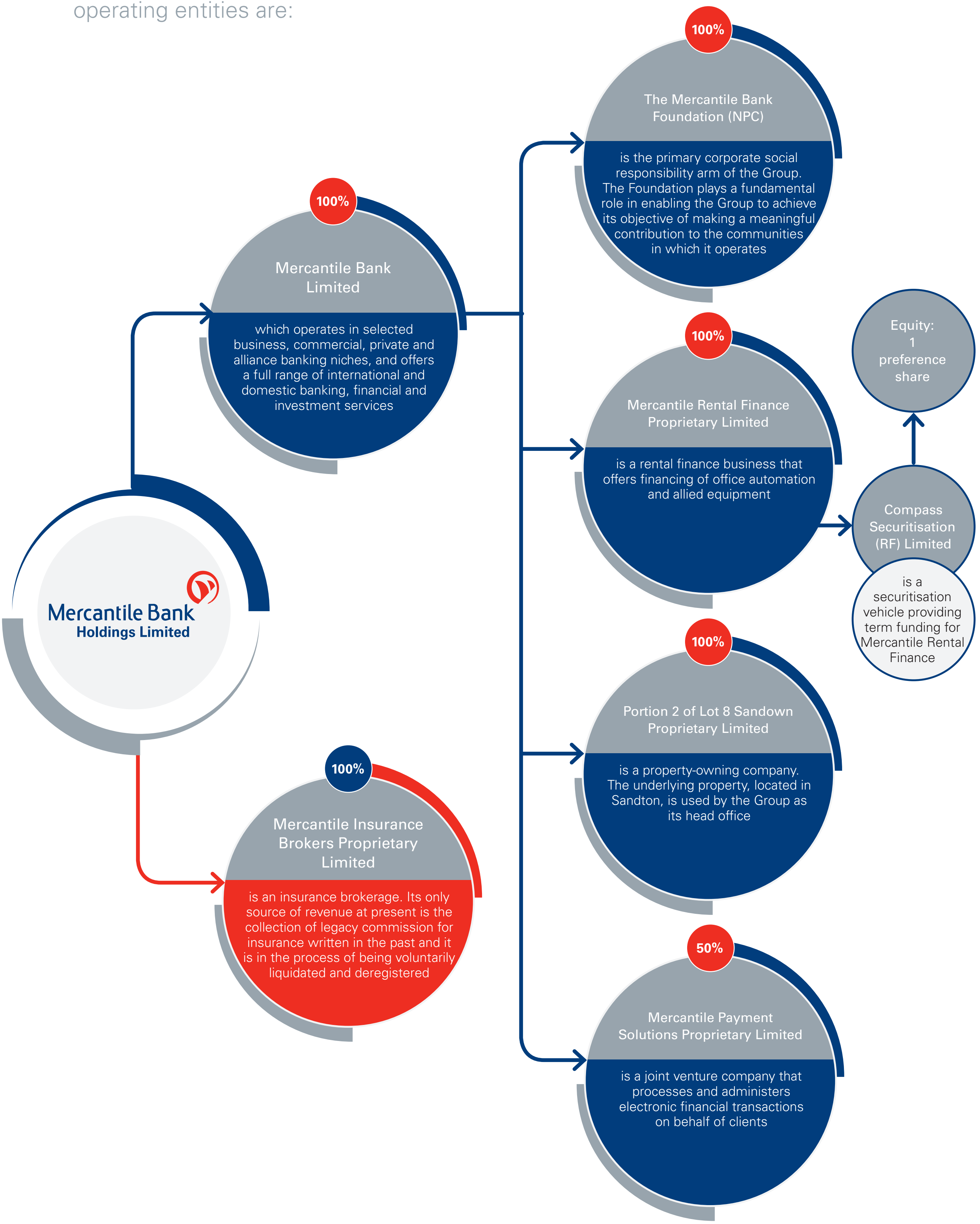
We won the **Master Card Data Integrity award** for Middle East and Africa for two consecutive years

We are ranked the **13th largest acquiring bank** in Middle East and Africa

Group structure

for the year ended 31 December 2016

Mercantile Bank Holdings Limited is a registered bank-controlling and investment-holding company. Its holding company is CGD and its principal operating entities are:



Mercantile Bank
privatepractice

We're putting entrepreneurially-minded professionals first with our new offering.

That's why we created a unique service offering designed to provide a holistic banking service to medical practitioners both in their personal (via Private Banking) and professional (Business Banking) capacities.

This offering will highlight the fact that professionals are also entrepreneurs.

Inspired by entrepreneurs. Partnering with professionals in private practice.

Board of Directors

GP de Kock (62)

Acting Chairman, 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 working as an independent consultant in the retail and financial services industries.

KR Kumbier (45)

CEO

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 (44)

Deputy CEO, 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.

AT Ikalafeng (50)

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.

Administration

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

DR Motsepe (59)
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 (41)
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 currently serves as a director of W Consulting, which offers various professional services across Africa, the United Kingdom and Australia. Tapiwa has over 21 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.

L Hyne (73)
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.

A year of exceptional growth

Holding company

CGD, a Portuguese fully state-owned banking corporation established in 1876, is the Group's sole shareholder.

CGD is the largest bank in Portugal, with four million customers in Portugal, a presence in 23 countries spanning four continents, a global network of 1 212 branches and consolidated assets of €93,5 billion (as at December 2016).

Trading conditions

The trading year saw the rand recover quite dramatically from a R17 to the US dollar low in January to close out the year on R13,8 (a 19% appreciation); this was mainly due to an improvement in commodity demand from China and the USA.

Unfortunately, it was not all plain sailing locally. Political rhetoric, some surprise results in the municipal elections, the release of the Public Protector's report into "The State of Capture", the Finance Minister's difficulties with the Hawks and the South African Revenue Service, as well as pressure on the banks and the South African Reserve Bank, contributed to many significant decision points for the markets, including the possibility that the country's credit rating could be downgraded to junk status. Capital outflows reached a 10-year peak, with total foreign exchange transactions rising from 9% of market turnover to 28%.

Expectations of inflation growth above the 6% threshold, coupled with the weak currency, placed local rates under pressure; however, this subsided later in the year as the rand strengthened and consumer demand slowed. Inflation is, for the time being, back under control and rates are being driven mainly by the US Fed decisions around US interest rates.

Overall, the year ended on a reasonably positive note, which is expected to continue in 2017.

Financial overview

Even with the weak economic growth in South Africa in 2016, Mercantile has delivered an excellent set of results. All of the strategic initiatives undertaken over the past few years to grow our business through sustainable earnings are starting to bear fruit. Enormous effort has gone into improving our systems and processes to create a far better banking experience for our clients; work in this regard will continue. These initiatives, among others, have resulted in Mercantile being rated number 1 in service for both Business Banking and Commercial Banking in the 2016 Consulta CSI survey of the Big 4 banks and Mercantile. We have also grown our business ahead of expectations and every business unit has recorded good growth and achieved or exceeded budget.

Although the charge for credit losses increased from R35 million in 2015 to R40 million in 2016, the credit loss ratio of 0,5% (as a percentage of average lending) remained the same year-on-year. The quality of the Group's lending portfolio remains sound in a difficult economic and trading environment. Further, the Group's coverage ratio (specific impairments as a percentage of non-performing loans and advances) has increased from 19% as at December 2015 to 35% as at December 2016.

Growing net non-interest income is an ongoing key focus for the Group, and various initiatives are continuously explored to boost this revenue stream. Non-interest income increased from R252 million in 2015 to R291 million in 2016, which is a year-on-year growth of 16% (2015: increase of 8%).

Operating expenditure increased by 18% for the year, mainly due to staff costs that increased by 22% year-on-year. This is as a result of increases in headcount from 475 in 2015 to 510 in 2016 (which increase is largely related to our expanded Card Acquiring business and Private Bank, and the newly launched Private Practice initiative) and in short- and long-term incentives payable to staff as a result of the Group's strong performance.

Despite the inherent difficulty that banks of our size experience in maintaining liquidity and raising deposits, the Bank has benefited tremendously from some innovative new deposit products launched over the past three years. These new products and focused campaigns to attract new deposits resulted in an increase of 26% in the Bank's deposit base over the year. This has placed the Group in a very solid cash and cash equivalents position of R2,2 billion at year-end.

The long-term funding of the Group increased by 30% due to an additional three-year USD20 million loan (2015: USD15 million) secured from our sister company, Banco National Ultramarino S.A. in Macau. All foreign currency long-term funding is hedged against currency risk.

During 2016, Mercantile Rental Finance, through its securitisation vehicle, raised an additional R38 million through the issuance of Class A notes to the International Finance Corporation.

In June 2016, the Bank increased its shareholding in Mercantile Rental Finance from 74,9% to 100% as the minority shareholders early exercised their put-option to sell their shareholding; consequently this is now a wholly owned subsidiary of the Bank. Mercantile Rental Finance more than doubled its profits in 2016 and grew its rental finance assets by 25% year-on-year. A significant effort is currently being made to improve systems and processes at Mercantile Rental Finance to help us achieve our goal of becoming the number-one rental finance company in South Africa. As with the Bank, we do not necessarily want to be the biggest, but we do want to be the best.

Initiatives and projects

Strategic initiatives are focused on two key themes: "Building the Bank" and "Growing the Bank", for the purpose of creating greater operational capacity, which will improve the Bank's existing product and service offering and enable the Bank to expand its business footprint. These initiatives are all driven by the goal of becoming the number one business bank in South Africa.

The BaNCS Digital project was the largest and most important key strategic project that Mercantile has embarked on in the last six years. The project was planned to enable the implementation of new platforms for state-of-the-art internet- and mobile banking. BaNCS Digital was implemented successfully – on time and with only minimal disruption to normal operations. We now have a world-class electronic and mobile banking offering, with additional features such as SARS e-Filing and advanced security. Initial feedback from clients has been overwhelmingly positive.

Consistent improvement of the client experience remains paramount. The positive impact of BaNCS Digital in this regard will be felt over time. However, other initiatives to improve the client interface and operational efficiency have also contributed to enhancing the client experience by making banking a much easier and more efficient exercise.

To this end, the Client On-boarding Project was launched to simplify and reduce the number of documents a client has to sign when opening an account. This was augmented by a universal application template from which multiple accounts can be opened, and secure electronic document signing, which has allowed the Bank to make the normally tedious process of signing agreements and forms, etc. far more convenient for clients, and thereby also reduce costs and turnaround times.

In addition, the Credit Lifecycle Project was initiated to facilitate internal operational efficiencies in the credit fulfilment process, which has reduced turnaround times and contributes to a great client experience. Further automation and workflow improvement is planned for 2017.

In regard to the Bank's ongoing business centre revamp/relocation programme, the new business centre concept was rolled out in a further three business centres. Over and above the new, modern "look and feel", the concept allows for smaller, more automated business centres to be opened quickly and more effectively, resulting in greater efficiencies, reduced cost and improved client experience.

New products and services were added, including:

- the Global Traveller Card, a card-based foreign exchange product that is available in three currencies, i.e. pound sterling, US dollar and euro;
- Cash Solutions, an innovative product that enables clients to deposit cash in a secure safe on their premises and receive

same-day value, while reducing the risk of keeping cash on hand; and

- Private Practice, a unique service offering designed to offer a holistic banking service to medical practitioners in both their personal (via Private Banking) and professional (via Business Banking) capacities. The visual and marketing components of the product are exceptional and these, supported by the internal sales and operational capability that has been built to market and sell the service, should ensure substantial take-up when it launches in the first quarter of 2017.

IFRS 9 will become effective from 1 January 2018 and the Bank has made good progress with its implementation project, which should ensure compliance with the requirements of this new accounting standard. To date, comprehensive technical and functional specifications have been developed and are being implemented in a phased approach.

Directorate and Company Secretary

NF Thomaz, who was appointed as the Chairman of the Board on 28 May 2014, resigned with effect from 1 June 2016. GP de Kock, the Deputy Chairman, was appointed as the Acting Chairman of the Board, effective from 1 June 2016. 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 2 November 2016:

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

Apart from Moody's Investor Services' 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

There is likely to be considerable uncertainty in the market in 2017. The effects of some surprise events in 2016, including the election of Republican Donald Trump as US President and the United Kingdom's exit from the European Union (Brexit), will likely only be felt in the coming year. Additionally, in South Africa, the African National Congress leadership race is expected to heat up dramatically and the risk of an economic downgrade still looms on the horizon. However, together with this uncertainty, there is some optimism that new policies that are expected to be introduced – particularly in the US, UK and Europe – will improve the outlook for business as a whole, albeit after a global growth slowdown; emerging markets and the BRICS nations may well benefit.

For Mercantile, we expect another year of healthy, although more conservative, growth. The various measures – including improved back-office approaches, technological developments and enhancements, and key partnerships – put in place over the past six years have put the Bank on a strong footing to continue providing value-adding service to its existing clients and to draw new clients with its tailored approach to banking.

Appreciation

Mercantile applies a stakeholder relationship management model that is premised on knowing who our stakeholders are and on building extraordinary relationships with them; it is as a result of these relationships that we have grown our business and delivered a strong set of results for the 2016 year. We would like to take this opportunity to extend our sincere thanks to all our stakeholders for partnering with us and helping us work toward building the best Business bank in the country.

We have a fantastic team of people at Mercantile! They are passionate about service and go the extra mile to give our clients the excellent service they deserve. Our staff exemplify our culture – one into which a great deal of work has gone to enable us to achieve our strategic goals into the future.
It is because of our staff that we have been able to achieve these great results. A special thanks to each of them for their efforts in 2016.

GP de Kock
Acting Chairman

KR Kumbier
CEO

22 February 2017

Why do we exist?

We **GROW** entrepreneurs

in ...

Market focus

Established business and **commercial clients**

through ...

Products and services

- Transactional banking
- Lending
- Forex
- Deposits
- Payment services
- Rental finance

2017

achieving ...

guided by ...

Values

enacted through ...

Our values

"We grow entrepreneurs, build great relationships with all our stakeholders and love what we do"

- We are **curious**
- We are **connected**
- We are **committed**

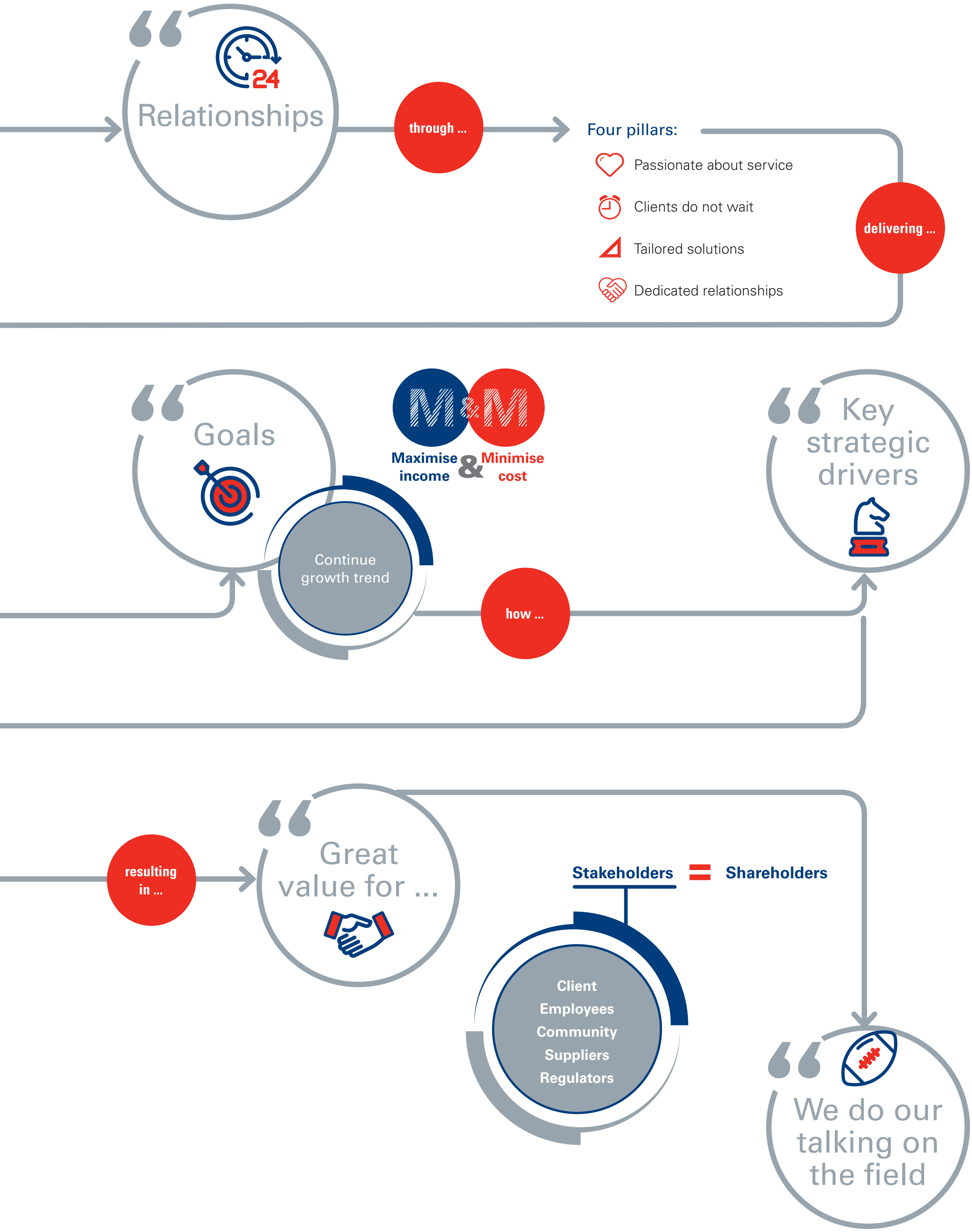
Service standards

Do more than expected

Quick and efficient

Make a plan

Here when needed



Relationships
through ...
Four pillars:
Passionate about service
Clients do not wait
Tailored solutions
Dedicated relationships
delivering ...
Goals
M&M
Maximise income
&
Minimise cost
Continue growth trend
how ...
Key strategic drivers
resulting in ...
Great value for ...
Stakeholders
=
Shareholders
Client
Employees
Community
Suppliers
Regulators
We do our talking on the field

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, while aligned 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.**

Responsible business

Areas of action | Indicators | What we did in 2016

1 Ethics and compliance

Areas of action

- Definition of Corruption Prevention Policy
- Review of the Code of Conduct
- Prevention Plan Against Corruption Risks and Related Offences
- Reporting of breaches to the Code of Conduct
- Training and internal communication on ethics and conduct

Indicators

- Practices against corruption and money laundering
- Code of Conduct

What we did in 2016

- The Group has an anti-corruption policy and an anti-money laundering policy in place
- The Ethics Officer conducts awareness training on the Code of Conduct at the induction sessions. A Group-wide Ethics training programme commenced in quarter three of 2016
- Training and awareness is conducted by the Compliance function
- The Code of Conduct is reviewed annually. Employees are required to sign an annual declaration that they are aware of the provisions of the Code
- A whistle-blowing hotline is in place. Breaches are monitored by Internal Audit and Compliance Management

2 Client relationship management

Areas of action

- Definition of the Privacy Policy
- Measurement of the relationship between income and customer retention
- Integration of environmental, social and governance (ESG) aspects into investment products

Indicators

- Service quality and customer satisfaction
- Safety of clients and their financial assets
- Clarity of information provided to clients on products and services

What we did in 2016

- Client confidentiality policies are in place and the processes have been largely embedded through the Group's compliance with the Banking Association of South Africa's Code of Banking Practice
- Customer satisfaction is measured by an external independent party

Areas of action · Indicators · What we did in 2016

3 Risk management

Areas of action

Integration of social and environmental risks into risk policies, including training the teams involved

Integration of environmental and social criteria into credit risk assessment

Indicators

- Risk management
- Monitoring and prevention of non-compliance risks over responsibilities
- Environmental and social criteria in the analysis of credit risks
- Sector financing policies
- Environmental and social criteria in the analysis of Project Finance risks

What we did in 2016

A robust risk management policy is in place and monitored on a regular basis (see the Enterprise-wide Risk Management Framework and the Group's 'Top 10 Risks'). An Environmental Risk Management Policy is in place and environmental and social risk criteria are in place for certain lending portfolios

4 Human capital development

Areas of action

Leadership Development Programme

Training the sales network

Definition of sustainability objectives in the performance management system

Assessment of the effectiveness of training

Monitoring the return on investment in human capital

Assessing employee satisfaction

Indicators

- Human capital development
- Career management, compensations and incentives
- Balancing personal and professional life
- Diversity and equal opportunities
- Occupational health and safety
- Talent attraction and retention

What we did in 2016

Various leadership training programmes (Leading the Mercantile Way, etc.) were rolled out by the Human Resources Learning and Development function. A client service training programme, linked to The Mercantile Way and the Group's service standards, was commenced in 2015 and continued for the 2016 year

The Strategic Portfolio Management training implemented in 2016 aimed to help sales employees overcome the challenges that prevented them from maximising portfolio effectiveness and provided them with the knowledge and practical workplace tools needed to realise the untapped potential within their respective portfolios

Preparation classes were arranged to assist employees to write and pass their Regulatory FAIS exams (according to the requirements of their roles)

Practical application of knowledge gained during training interventions was assessed through workplace presentations and knowledge sharing sessions, and included in the performance scorecards of individuals

Employee engagement surveys are conducted

Policies are in place for diversity management

Talent attraction and retention is closely monitored and reported upon. Talent discussions and reviews are conducted annually

5 Responsible supplier management

Areas of action

Identification of suppliers with greater exposure to environmental and social risks in the Group's supply chain and definition of social and environmental criteria to be included in contracts

Implementation of a supplier monitoring and compliance process with regard to the Group's requirements.

Involvement of strategic suppliers

Definition of incentives to suppliers for compliance with sustainability requirements

Development of a portal for supplier management, integrating the various stages of the process (from qualification to evaluation)

Indicators

- Responsible supplier management

What we did in 2016

A procurement policy is in place. The policy is under review to ensure that social and environmental risks are included in contracts. Monitoring and compliance will follow thereafter

Community

Areas of action | Indicators | What we did in 2016

6 Social and financial inclusion

Areas of action
- Promotion of banking products that contribute towards fighting social and financial exclusion
- Development of a platform for centralising applications for entrepreneurs (including training to the teams involved)
- Quantification of the impact of measures to support entrepreneurship
- Development of corporate volunteering of skills, to support the establishment of the entrepreneurial businesses

Indicators
- Financial inclusion practices
- Support to SMEs, institutional clients and answers to society's emerging challenges

What we did in 2016
- The Group is committed to the Financial Sector Code's empowerment financing provisions
- The Group has a Corporate Social Responsibility Policy in place and various initiatives are undertaken through the Mercantile Bank Foundation
- Through the Corporate Social Responsibility programme and the Bank's partnership with the Hope Factory, the Group engages in various initiatives that support, train and develop entrepreneurs

7 Financial education and literacy

Areas of action
- Promoting financial education of a broad group of clients, and non-customers, individuals and companies
- Strengthening the financial education of children and youths
- Developing a corporate plan for financial education and literacy
- Development of corporate volunteering of skills, in the field of financial literacy

Indicators
- Financial literacy practices

What we did in 2016
- The Group, through its Corporate Social Responsibility programme partner, The Hope Factory, engages in financial and other education of entrepreneurs

8 Support to the social economy

Areas of action
- Creation of a pool of internal volunteers, and implementation of training initiatives

Indicators
- Social-oriented activities for the benefit of the community

What we did in 2016
- The Group, through its Corporate Social Responsibility programme, supports various community initiatives
- During 2016, the Group participated with the Partners for Possibility (PfP) Leadership Development and Principal Support Programme, where corporate volunteers partner with and mentor school principals by sharing their skills and knowledge. The Group sponsored one business leader and one school principal in 2016

Environment

Areas of action | Indicators | What we did in 2016

9 Eco-efficiency

Areas of action
- Promoting eco-efficiency of the Group's operations
- Promoting energy efficiency in the data centre
- Promoting energy efficiency at corporate level
- Environmental training and awareness for employees and suppliers at corporate level

Indicators
- Environmental Management System
- Eco-efficiency

What we did in 2016

The Group's direct environmental impact is limited. However, the Group is focused on minimising its carbon footprint and paying attention to its financial sustainability. These matters are elaborated upon throughout our integrated report. An environmental management and eco-efficiency system is under development and it was agreed at the August 2016 Board meeting that there would be greater focus on environmental matters, going forward

10 Adapting to climate change

Areas of action
- Knowledge of suppliers' practices to adapt to climate change
- Active support of environmental awareness initiatives
- Review of the criteria for the creation of the service fleet, integrating environmental criteria

Indicators
- Environmental Management System
- Eco-efficiency

What we did in 2016

The process has commenced investigating an environmental management system that will include adapting to climate change

11 Sustainability management

Areas of action
- Operation and monitoring of the Corporate Sustainability Programme
- Integration of sustainability indicators in the current management information systems in the Group
- Monitoring the definition of the sustainability strategy for the Group's international structures
- Extension of the scope of the strategy of engaging stakeholders, and measurement of the respective performance

Indicators
- Brand and reputation management
- Governance model
- Sustainability strategy and commitments
- Systematic practices of dialogue with stakeholders

What we did in 2016

The monitoring of an integrated sustainability programme was implemented in 2016

12 Communication and training

Areas of action
- Internal and external communication on sustainability
- Training on sustainability, including the Group's international structures
- Development of an integrated report
- Enlargement of the scope of information reported at corporate level

Indicators
- Environmental training and awareness for employees, community and clients

What we did in 2016

The Integrated Annual Report includes sustainability reporting and the scope of reporting is being increased in a phased-in manner as the Group's Sustainability Framework matures

The environmental training and awareness for employees, community and clients will be investigated in 2017

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 client 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 (including the global Equator Principles). The Equator Principles have three categories of projects: Category A (high risk) includes projects with potential for 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 for 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 reputation 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 King III Report on Corporate Governance indicate that corporate governance is rooted in an ethical foundation, and also set guidelines on the management of ethics in organisations. The Group is committed to high moral, ethical and legal standards. It expects all of 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, clients, 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.

In 2015, the Group became a member of The Ethics Institute, previously known as The Ethics Institute of South Africa, and, in 2016, two of its employees were certified as Ethics Officers by The Ethics Institute in partnership with the University of Stellenbosch Business School. The Group has also taken up membership of the Coalition for Ethical Operations, whose aim is to promote ethical business and reduce bribery and corruption across sub-Saharan Africa. The specific objectives of the Coalition for Ethical Operations are to share best practices, to promote training of small and medium enterprises (including company suppliers), and to engage in occasional and voluntary collective/collaborative action.

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.

Fraud prevention measures

Payment card fraud

The Bank is an issuer and acquirer 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 real-time fraud monitoring system. Rules 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. Clients are contacted to confirm the validity of transactions whenever an alert is raised.

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 Fraud Department is actively involved in industry fraud prevention collaborations and makes use of knowledge acquired from the banking industry to assist with fraud prevention and detection within the Bank.

For any internet or mobile transactions (also known as e-Commerce transactions), the approval of the transaction requires a One-Time PIN (OTP) to be entered by the cardholder to validate and authenticate that it is the cardholder approving the transaction.

The Bank has also implemented the VISA risk management solution to detect and automatically block certain fraudulent automated teller machine transaction attacks before the transactions reach the Bank.

Fraud other than on payment cards

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 Internal Audit.

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 of 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 client 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 clients when required. Fraud awareness material on prevalent modus operandi is also made available to clients 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, 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 on various forums, 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.

Twice a year all employees receive 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.

Safety and health

The Group continues to strive to improve its facilities to ensure the safety and wellbeing of its employees in the execution of their duties, and of persons who may enter any of its premises. Regular inspections of the workplace are carried out

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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 has implemented a revised talent review process that has enabled us to identify growth opportunities for talented employees to move into more senior roles; for the transfer of some employees to different roles aligned to their skills; and for nominating some employees for specific initiatives sponsored by the Company and BankSeta, thereby driving retention of these key individuals.

In terms of leadership development, the Bank has launched a customised, accredited leadership development programme and this year the "First Line Managers – Leading the Mercantile Way" course was implemented. A total of 31 junior and middle managers enrolled for the programme and their graduation is planned for 2017.

In a drive to increase and sustain the talent pool and enhance the management skills of newly appointed junior and middle managers, four employees were nominated to participate in the BankSeta Certificate in Management Development, which focuses on building a pipeline of managers and leaders; graduation is scheduled for 2017. Three talented employees were nominated to participate in the BankSeta International Executive Development Programme. The programme creates an opportunity where senior managers spend time learning from senior executives of selected companies, supplemented with formal learning through business schools operating locally and in the host countries.

For the first time, Mercantile nominated four employees to participate in the CGD Global Management Challenge Business Simulation, which is one of the largest international management and strategy competitions. The teams who participated in the challenge came from various operations, i.e. South Africa, USA, Macau and Angola, among others, and gained valuable knowledge on how to drive a business and work together as a team. We are very proud of the team representing Mercantile, who ultimately won the challenge.

In 2016, Mercantile provided training and workplace experience to 16 BankSeta graduate learners who will complete their learnerships in January 2017. A total of 87% of the learners will be retained on a permanent or contract basis.

Employee engagement

The employee engagement score for 2016 is 76% compared to 77% in 2014. This remains a key driver in the improved culture and performance of the Bank. High levels of engagement lead to improved client satisfaction, increased productivity and higher profits.

The Bank's culture has transformed significantly. We not only focus on superior service to clients, 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 when engaging with internal and external clients. 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

The Bank continues to have a sustained focus on a Total Reward approach. In this regard, the flexible work arrangement policy provides employees the flexibility to address family needs and personal obligations and to avoid traffic and the stress of commuting during peak hours. This gives them an opportunity to increase personal control over their work schedule, reduce the potential for burnout, and allows them to work when they are able to accomplish the most. For the Group, it increases morale, engagement and commitment, while at the same time reducing absenteeism and staff turnover.

The Wings Awards reward and recognition programme provides an opportunity for employees to recognise their colleagues who show commitment and exceptional performance. The programme allows for winners to be selected in three categories (i.e. Service, Sales and Living the Mercantile Way) every month, and from these, the selection of annual winners who are announced at the Bank's year-end function.

Employee health and wellness

We offer a comprehensive Employee Assistance Programme, facilitated through external specialists, to all employees and their immediate family members residing with them because the health, wellness and productivity of our employees are essential to our business. 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). Employees receive monthly information via email, which contains information on how to improve their health and wellness. Two health and wellness days were held during 2016 to give employees the opportunity to benefit from services such as health screening assessments, employee wellness, fitness experts and other offerings. Employees are continuously encouraged to live healthy and be productive.

The Group runs a training programme to assist management and employees in understanding the impact of absenteeism. It actively monitors trends on a monthly basis and engages with employees to potentially reduce this impact. The programme also supports a sustainable and value-adding approach to the way the Group manages its absenteeism, employee wellness and potential incapacity cases. 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. The absenteeism rate was 1,6% in January 2016 and declined to 1,1% in December 2016 due to awareness sessions held with employees, wellness days arranged and health information shared with employees.

Transformation

The Group is fully committed to social and economic transformation and regards it as a key national and 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 (FSC). During the year under review, the Group improved its rating from a level 5 to a level 4 Broad-Based Black Economic Empowerment (B-BBEE) contributor. During 2017, the Group will review its transformation strategy to ensure alignment with the revised FSC. The B-BBEE performance was independently verified by a 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 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. We have seen positive progress on the Middle and Senior Management level due to a concerted focus on recruitment. The overall level of representation of black people in the Bank has increased from 35% in 2004 to 69% in 2016 (see tables on page 34).

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 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 2016 targets in respect of procurement spend with BEE enterprises.

Loan approval to black-owned SMEs and BEE transaction financing

Small and medium black-owned 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 was 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 2016, the Group achieved R285 million (2015: R270 million) and R410 million (2015: R432 million) respectively, against the projected targets. These empowerment financing initiatives exclude the Group's investments into Transformational Infrastructure, i.e. the second leg of the Empowerment Financing commitment by the financial services sector. The Group also invested R510 million (2015: R454 million) in Transformational Infrastructure through its investments in government bonds and treasury bills.

Ownership and control

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

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 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 under 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. Further contributions were divided between enterprise development and socio-economic development programmes, as well as contributions 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 2016, employees contributed more than 1 200 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 2016.

The Hope Factory continued to sow seeds of hope this year, despite the environment being one of slow economic growth. Its goal and purpose is still set on seeing real economic transformation through advancing the growth of entrepreneurial black businesses. While mentorship remains the key and compulsory element of every programme, the following new initiatives were introduced to facilitate growth during their four-year journey with entrepreneurs:

- The first specialised Enterprise Development Programme tailored specifically for disabled entrepreneurs has been developed;
- The Mentorship model has been restructured to clarify the service offering and improve entrepreneur development during the business life cycle;
- A new campaign – BuildHopeSA – has been developed and has assisted the organisation to increase brand awareness and give clarity on what the brand is about;
- Business development workshops have been hosted to provide insights and create awareness regarding the important functions of business;
- Specialist training has been arranged to improve the competence of entrepreneurs by providing them with the opportunities to up-skill themselves in their area of business;
- Financial mentoring and services have been provided to allow entrepreneurs to achieve their strategic financial goals and objectives and make sound financial decisions for their businesses;

- In-depth business analysis has been undertaken to develop intervention strategies that are reviewed quarterly; and
- Operational investments that provide entrepreneurs with a type of grant to cover certain operational needs have been introduced. To date, over R0,8 million has been invested in qualifying businesses.

The key achievements of the Hope Factory for 2016 were:

- 50% of businesses mentored in the programme have grown in profitability;
- 25% of businesses mentored have increased in turnover; and
- 25% of businesses grew in full-time employment.

Socio-economic development: employee initiatives

During 2016, 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 R0,7 million was allocated for this purpose and used for a number of initiatives:

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

- ReDineo, an organisation that aims to provide scholarships, tuition, mentorship and leadership skills to promising youth in Johannesburg;
- 'Partners for Possibility', where our head of IT has been registered on their programme to assist a school in Reiger Park. The organisation partners business leaders with principals of struggling schools to grow the school into a community anchor;
- Lelethu Zulu Trust, which is a new trust that was formed to assist with educating the infant daughter of Gugu Zulu, who died tragically in 2016, and, in the long run, many other deserving South African children;
- Mampoti, an early childhood development centre based in Diepsloot; and
- Sparrow Schools, which cater for children from disadvantaged backgrounds with learning disabilities.

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:

- Lighthouse Baby Centre, which caters for abandoned and orphaned babies;
- 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
- Portuserve, through the Portuguese Welfare Society, to raise funds for elderly Portuguese persons in various centres.

Entrepreneurship and community development

These are initiatives that create enterprise opportunities in communities with a high level of unemployment.

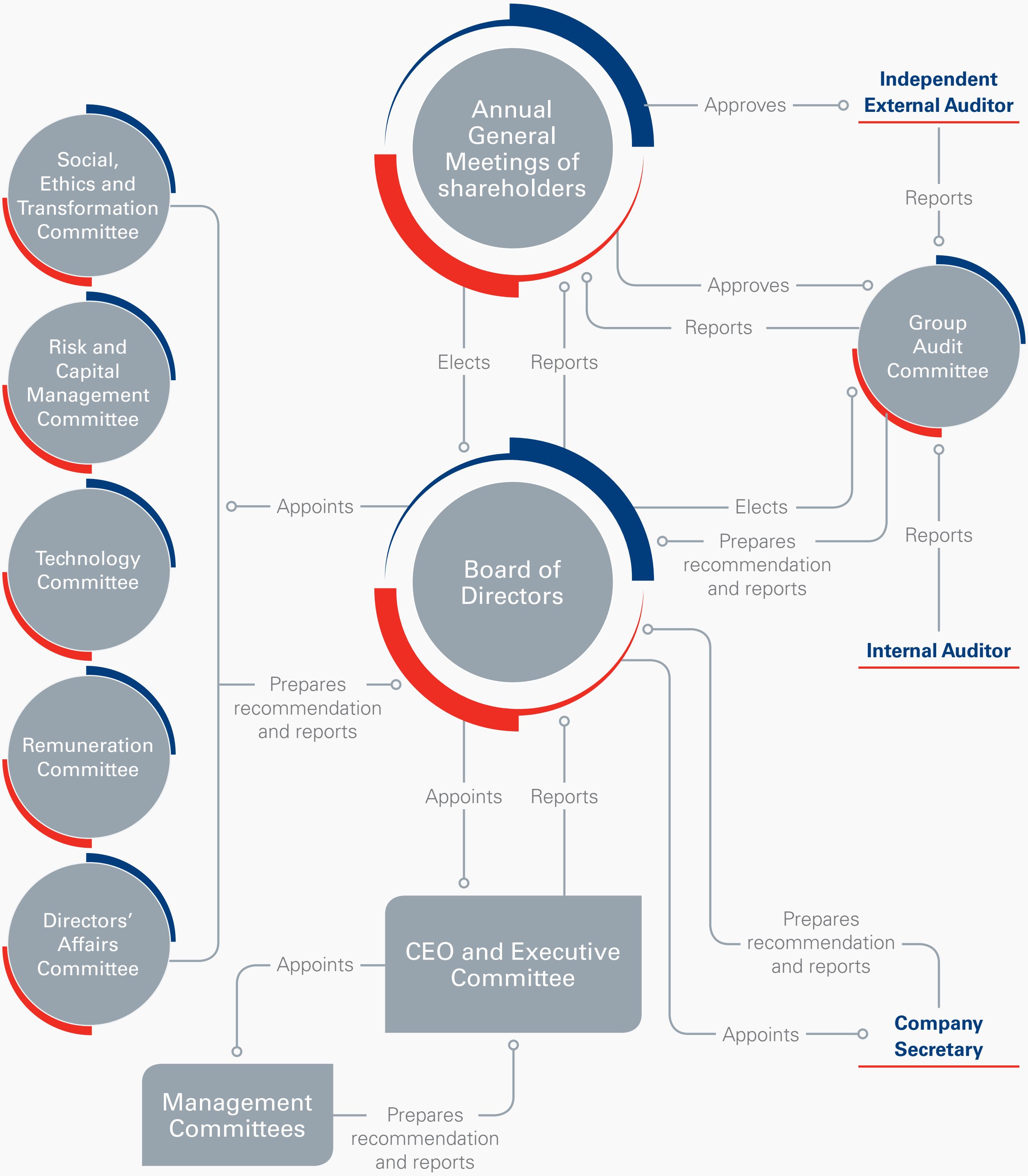
- Zimeli is an organisation based in KwaZulu-Natal that assists communities to make jewellery to be sold in the open market. The profits are then used for the business, for training young and old community members, and also providing a small stipend for the employees.

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. An additional student joined the programme in 2016. The students have mentors at Mercantile and Deloitte and will also do vacation work at both companies. Once they complete their degrees and postgraduate diplomas in accounting, they will start their three-year trainee accountant contracts at Deloitte and, after qualifying as chartered accountants; will join Mercantile on a two-year contract.

T Singh
Group Secretary

Overview of the corporate governance system



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 Board has commenced its journey to adopt the principles of King IV as closely as possible and, following a high-level review post the Report's launch in November 2016, is specifically focusing on sustaining the following:

- An ethical culture and effective leadership;
- Performance and value creation in a sustainable manner;
- Adequate and effective controls; and
- Trust, good reputation and legitimacy.

The corporate governance processes of the Group for the year ended 31 December 2016 are summarised below.

Board of Directors

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

The Board of Directors has a collective responsibility to create and deliver sustainable value for our stakeholders in a manner that is supported by the right culture, values and behaviour throughout the Group. To support our role in determining the strategic objectives and policies of the Group, there exists a well-defined Corporate Governance Framework. We aim to achieve long-term and sustainable value and it is our responsibility as the Board to ensure that management delivers effectively on short-term objectives, while promoting the long-term growth of the Group. In addition, we have further responsibility for ensuring that management maintains both an effective system of internal control and an effective risk management and oversight process. In carrying out these responsibilities, we consider the Group's business and reputation, the materiality of risks that are inherent in the business and the relevant costs and benefits of implementing controls. The Group's internal control system provides assurance of the effective operation of adequately designed internal financial controls, compliance with law and regulation, and efficient operations.

The Board is the decision-making body for those matters that are considered of significance to the Group owing to their strategic, financial or reputational implications or consequences. To retain control of these key decisions, certain matters have been identified that only the Board can approve and there is in place a formal schedule of powers reserved to the Board. Directors act in accordance with the Group's constitution and only exercise powers for the purposes for which they have been conferred. These matters include the approval of Group strategy, interim and full-year financial statements, and any major acquisitions, mergers, disposals or capital expenditure. Specific responsibilities have been delegated to Board Committees and each Committee has its own terms of reference.

Composition, date of appointment and attendance

Name	Date of appointment	Meeting attendance
NF Thomas *(Chairman) (resigned 1 June 2016 as Chairman and as Director)*	28 May 2014	1/2
GP de Kock *(Acting Chairman) (appointed 1 June 2016 as Acting Chairman, formerly appointed as 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 Ikalefeng	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 Annual General Meeting (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.

The Board comprises Non-Executive and Executive Directors with different skills, professional knowledge and experience. Non-Executive Directors comprise the majority on the Board, thereby ensuring that no individual director has unfettered powers of decision-making. The roles of the Chairman of the Board and the Chief Executive Officer (CEO) are clearly defined and separated, thereby making a clear division of responsibilities at the head of the Group. At 31 December 2016, the Board, which has a unitary board structure, comprised seven Directors, of which two were executives.

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, with the overarching yardstick being "independence of mind".

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. 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 Directors' Affairs Committee (DAC). This committee's nominations are submitted to the Board for approval, subject to the South African Reserve Bank (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 NF Thomaz resigned as Chairman of the Board with effect from 1 June 2016 and Mr GP de Kock was appointed as the Acting Chairman effective from 1 June 2016.

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 retirement by the 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 is conducted by the other Directors. The evaluation of the performance of individual Non-Executive Directors is conducted by the other Directors and on a bilateral basis between the Chairman and each Director.

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, the Group's corporate governance processes, and emerging topics about which the Directors should be aware. 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

Since 2015, in addition to measuring the effectiveness of the performance of the Board, the Board has set objectives for measuring its performance. The Board objectives for 2016, together with an overview of its performance, follow:

Rating | What we did in 2016

Objective	What we did in 2016	Rating
1 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	The Board engaged with management in strategy sessions. An in-depth, dedicated session (that was externally facilitated) was held in May 2016. Updates on the implementation of the strategy were presented by management at every Board meeting, thus enabling the Board to fulfil its responsibilities in regard to reviewing the progress of the implementation of the Group strategy Relevant committees played a key role in monitoring the risks, with input from management forums An ethics management framework was approved by the Board during 2016 and the progress of the implementation of the framework was reviewed at every Board meeting	Substantively achieved
2 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	Management annually undertakes a diligent assessment of the risks facing the Bank, which was reviewed and approved, by the Board, for enhanced monitoring. The 2016 risks included: information technology risk; funding risk; credit risk; regulatory and legal risk; operational risk; business continuity management (BCM) and DR; strategic risk; human resource risk; capital risk; interest rate risk; reputational risk; and social media risk Additional areas of focus during 2016 included the economic environment, trends in banking, cybercrime, IFRS 9 and Basel III updates The Board approved the Internal Capital Adequacy Assessment Policy and reviews it quarterly	Fully achieved
3 Monitor the implementation of the Group's information technology (IT) strategy and the ongoing development of the IT governance and cyber security frameworks	The Technology Committee has oversight of the execution of the Bank's IT strategy, which in 2016 was split into 'Run the Bank' focused on operational stability and 'Grow the Bank' focused on innovation The Board focused on reviewing and endorsing the plans to implement/maintain the Bank's cyber security framework and to monitor developments in the area of cybercrime	Substantively achieved
4 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	In 2016, the Board paid significant attention to Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) compliance, the increase in regulatory costs (emanating from the payments systems), making compliance work for the Bank, conduct risk (Treating Customers Fairly), adherence to all statutory requirements in the exchange control environment; and current and potential litigation against the Bank	Substantively achieved

The Board has set the following objectives for 2017:

- 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. Each Committee reports to the Board and the minutes of Committee meetings are shared with the Board. The main Board Committees are the Group Audit Committee (GAC); the Risk and Capital Management Committee (RMC); the DAC; the Social, Ethics and Transformation Committee (SETCom); the Remuneration Committee and the Technology Committee.

The performance of Board Committees, based on the duties and responsibilities as set out in the respective charters, is evaluated annually through 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 Acting Chairman of the Board is a member of the GAC. Condonation for this temporary arrangement was granted by the SARB. The CEO, Deputy CEO, Chief Financial Officer (CFO), heads of Internal Audit, Risk, Compliance Management and Treasury and the External Auditors attend GAC meetings as permanent invitees.

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 and Compliance Management, the CEO, the Deputy CEO, and the External Auditors have unrestricted access to the Chairman of the GAC.

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.

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 including, but 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. In 2016, the GAC oversaw the rotation of the Lead Audit Partner of the External Auditors.

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 Group continues to face an unprecedented level of change and it will be critical to ensure that a culture of strong control is maintained as the Group implements its strategy and also as it positions itself for growth. The GAC will continue to seek to ensure that management maintains its focus on building personal accountability for upholding a strong and effective control environment.

The GAC's performance during 2016 was evaluated as part of the annual Board effectiveness review and the outcomes were positive. The GAC was regarded as effective and considered to be very thorough and detailed. 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 41 and 42) 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 reporting.

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.

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.

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; and
- 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.

The RMC ensured that the Group operated in a strong control environment and assumed primary responsibility for assessing and tracking the progress of embedding the Enterprise-wide Risk Management Framework, which is the way in which the Group approaches enterprise-wide risk management and is the bedrock of our management of internal risk and control. In terms of specific control issues, areas of focus for the RMC during 2016 were credit risk, operations and technology. Risk appetite, as well as country, sector and individual exposures, were carefully monitored to ensure that business activity and limits appropriately reflected external risks. The RMC has concluded that there are no control issues that are considered to be a material weakness and that would merit specific disclosure.

The RMC's performance during 2016 was evaluated as part of the annual Board effectiveness review, and the outcomes were positive. The Committee was regarded as effective and as taking a thorough and detailed approach to its responsibilities. The main area identified for improvement was ensuring that the papers presented to the Committee strike the right balance between providing data for information and providing insight and analysis to encourage greater debate. The RMC has fulfilled its responsibilities in terms of its charter during the year under review.

The RMC will continue, in 2017, to supervise the level and deployment of risk appetite, as well as the Group's funding and capital position, as we respond to regulatory requirements and our expectations of continued volatility in external conditions.

For more detailed information relating to the risk management of the Group, refer to pages 82 to 93.

DAC

Composition and attendance

Name	Meeting attendance
NF Thomaz *(Chair)*	1/2 *(resigned 1 June 2016)*
GP de Kock *(Acting Chair)*	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 Acting Chairman of the Board chairs the DAC and the CEO attends the meetings by invitation. Meetings are held at least four times per annum.

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>
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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 reviewed the Board and Board Committee composition, including potential new Non-Executive Directors, during 2016. In addition, the DAC monitored the skills and experience the Group needed to be able to deliver its strategic aims, to govern the Group appropriately, to ensure that risks threatening performance were identified and addressed or mitigated, and to set 'the tone from the top' in terms of the Group's corporate culture and values.

The DAC is responsible for considering new appointments to the Board and, when doing so, relies on assessments of the current Board and Board Committee composition to assess the timeline for appointments, and a skills matrix that identifies the core competencies, skills, experience and diversity required for the Board to function effectively. The approach to recruiting new Non-Executive Directors is to create an individual specification with reference to the role requirements, including time commitment, the key competencies and behaviours, and the desired key skills and experience identified from the skills matrix.

The Directors in office at the end of 2016 were subject to an effectiveness review. Based on the results of the review, the Board accepted the view of the DAC that each Director proposed for re-election continued to be effective and that they had each demonstrated the level of commitment required in connection with their role on the Board and the needs of the business.

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. 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, shareholder's 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 for 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 for senior management; and
- assist the Board in reviewing the Non-Executive Directors' fees.

The Remuneration Committee reviewed the Group's remuneration philosophy during 2016, and approved a revised philosophy that articulates the Group's overarching approach to remuneration. The Remuneration Committee's priorities were to ensure that the Group pays for sustainable performance, aligns remuneration with risk, and aligns to the shareholder's remuneration policies and practices. The Remuneration Committee's 2016 reward decisions took full consideration of financial performance and non-financial performance.

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

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. 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
  - – 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

Composition and attendance

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 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, Risk and Internal Audit, and the Managers of IT Security and Governance are permanent invitees.

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.

Directors' conflicts of interest

The Group requires Directors to declare any potential or actual conflict of interest that could interfere with their ability to act in the best interests of the Group. The Board has adopted procedures for ensuring that its powers to authorise Directors' conflicts operate effectively. A register of actual and potential conflicts and of any authorisation of a conflict granted by the Board is maintained by the Company Secretary and is reviewed annually by the Board.

Management Committees

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

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

All of 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 enable the attraction, motivation and retention of suitably qualified staff to achieve strategic objectives and agreed short- and long-term business results. In addition to this, specific remuneration practices are required for executives and senior management as they make a direct impact on driving business results, profitability and increased stakeholder value.

The guiding principles of the remuneration philosophy are to:

- support the achievement of the Group's strategic objectives;
- help communicate the Group's values and performance expectations;
- drive and support desired employee behaviour and actions;
- achieve and maintain market competitiveness of pay;
- motivate and engage all employees in the organisation;
- manage remuneration costs;
- reward high performers;
- recruit and retain high performers; and
- ensure internal equity.

These policy objectives are achieved by ensuring remuneration is reflective of applicable market conditions, the Company's statutory obligations, the level of accountability (responsibility, objectives, goals, etc.) assigned to individuals, and the provision of incentives to deliver outstanding performance, while providing organisational flexibility and operational efficiency.

The policy furthermore aligns to the CGD Group Remuneration Policy, which is based on the following guiding principles:

- The structure of the remuneration does not encourage excessive and imprudent risk-taking;
- The decision-making process on remuneration is robust, well-reasoned, compliant with relevant laws and regulations and approved by competent corporate bodies; and
- The balance of remuneration composition through:
  - adequacy between remuneration and performance; and
  - alignment between remuneration and long-term corporate interest.

All remuneration elements are reviewed periodically and monitored to align with the Group's risk management strategy. The review and recommendations take into account changes in legislation, competitive practices in the market and the results of comprehensive research on the factors driving employee satisfaction, commitment and productivity in the organisation. Remuneration is based on performance and market information (an assessment of what other companies pay for the job), which is drawn from remuneration surveys. The focus is therefore on pay for position, competence and performance.

The Remuneration Policy has been drafted taking into account the European Union Regulations and applicable South African labour legislation, i.e. the Constitution of South Africa, the Employment Equity Act and Basic Conditions of Employment Act, as well the Labour Relations Act. The amended Employment Equity Act of 2013 refers to equal pay for work of equal value, which stipulates that it is unfair for an employer, based on a prohibited ground, or equivalent arbitrary ground, to have different terms and conditions of employment for employees doing the same work, similar work or work of equal value. The Group endeavours to review/monitor and put measures in place to progressively reduce income differentials, taking into account any guidance provided by the Minister of Labour. The Group aims to ensure that remuneration practices are fair, equitable and competitive, and align risk and reward.

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. The four 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. Internal equity is equally important to ensure fairness and compliance with the principles of "equal pay for work of equal value" as contained in the 2013 amendments to the Employment Equity Act, No. 55 of 1998. 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, potential of the employee and current position/pay level within the market.

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 superior performance, and to motivate employees to perform beyond expectations and drive the Group 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. An employee will not be eligible to participate in the scheme if there is serious evidence of misconduct by the employee. Financial performance is measured by reference to the annual budget cycle. 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. An employee will not be eligible to participate in the scheme if there is serious evidence of misconduct by the employee.

A long-term incentive scheme, the CPSP, which is a deferred bonus scheme, is 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 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 CPSP scheme. The remuneration philosophy and policy, as well as the short- and long-term incentive schemes, are reviewed periodically, within the context of best practices and corporate governance considerations. The last review concluded that the Bank's reward principles are aligned to market best practices.

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. The shareholder annually approves all Directors' fees.

For 2016, the compensation for senior managers, including the CEO and Deputy CEO, is:

Total value of remuneration	Senior managers Number	Unrestricted R'000	Deferred R'000
Fixed remuneration			
Cash-based guaranteed compensation	27	46 441	–
Variable remuneration			
Cash-based performance incentive relating to the 2015 financial year paid in 2016	26	13 914	–
2016 performance incentive deferred portion to be converted into shares or an equivalent ownership instrument	1	–	2 050
Performance incentive deferred portion in prior years paid in 2016	1	567	–
CPSP awards granted in 2013 and cash settled in 2016	17	2 988	–
Estimated value of CPSPs awarded in 2016 and vesting in 2019 (assuming that 100% of the awards will vest)	20	–	15 559

The Chairman of the Remuneration Committee's fee for 2016 was R160 000, and the fee for each of the other four members was R85 000. The Acting Chairman of Mercantile, who is also a member of this committee, is not remunerated per committee meeting but earns an aggregate fee.

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 Credit, 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.

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 governance 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.

Impact of European regulation

As CGD, the Group's parent company, is headquartered in Europe, 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).

The Group complies 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 adviser 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 that 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 clients. 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, clients, 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.

Annual financial statements

Accounting policies, and the basis of preparation for the annual financial statements, are set out on pages 44 to 49 of this report.

Regulation

The Bank Supervision Department of the SARB is the lead regulator of the Group. The Financial Surveillance Department of the SARB, 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 stakeholders 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.

Employment equity

The table below illustrates the number of staff per occupational level as at 31 December 2016:

	Male				Female				Foreign nationals		
Occupational levels	**A**	**C**	**I**	**W**	**A**	**C**	**I**	**W**	**Male**	**Female**	**Total**
Top management	–	–	–	1	–	–	–	–	1	–	2
Senior management	1	2	1	7	2	1	2	5	–	–	21
Middle management	17	6	10	29	16	9	8	42	–	–	137
Junior management	47	17	9	12	89	35	28	51	–	2	290
Semi-skilled	8	2	–	1	14	8	2	6	–	1	42
Unskilled	3	–	–	–	2	–	–	–	–	–	5
Total permanent	**76**	**27**	**20**	**50**	**123**	**53**	**40**	**104**	**1**	**3**	**497**
Temporary employees	2	1	–	–	5	2	2	1	–	–	13
Grand total	**78**	**28**	**20**	**50**	**128**	**55**	**42**	**105**	**1**	**3**	**510**

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
Client interface	178	262
Legislation	67	83
Information technology	3	5
Management and leadership	65	87
Specialist financial skills	20	22
Professional development	4	4
Bursaries	21	24
In-house	266	383

During 2016, employees participated in the following initiatives:

BankSeta initiative	Number of learners enrolled
BankSeta Kuyasa Learnership	16 were upskilled in the workplace
International Executive Development Programme	3
Operational Risk Management Learnership	2
Certificate Management Development Programme	4

Mercantile Bank initiative	Number of learners enrolled
Internal Audit Learnership	1 employed and 1 unemployed learner
Leadership and Management Development Programme	31

We currently have two CA(SA) bursary students and they are currently completing their second and first year of studies respectively. Compulsory training initiatives launched in 2016 for all employees included ethics, anti-money laundering, cyber security and fraud awareness training.

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 these risks.

The objective of the Compliance function is to ensure that the Group continuously manages and complies with existing and emerging regulations impacting 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 Chief Executive Officer (CEO) and has unrestricted and unfettered access to the Chairmen of the Board, the Group Audit Committee (GAC) and the Risk and Capital Management Committee (RMC). The head of Compliance is supported by two Compliance Officers, a Money Laundering Control Officer, a Compliance Monitoring Specialist and two Money Laundering Reporting Officers. 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 and monitors the progress against the Compliance plan, which sets out training, monitoring and review of compliance with the regulatory requirements of 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 and Risk).

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 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.

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

- Creating awareness by training employees in respect of the impact of, and their 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 Compliance and Anti-Money Laundering/Combating the Financing of Terrorism 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.

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);
- The Protection of Personal Information Act, No. 4 of 2013 (POPI); and
- The Foreign Accounts Tax Compliance Act (FATCA).

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 FATCA, the Organisation for Economic Co-operation and 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. The Regulator has been appointed and we still await the publication of the Regulations in 2017.

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 adhered to.

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 among member countries. CRS focuses on tax residency as opposed to US citizenship, and the main 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 2017 – the Prudential Authority – housed in the South African Reserve Bank (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.

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 legislation to combat money laundering, including 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 a risk-based approach policy. The policies are executed by various business units and centres supported by the Compliance function, and a matrix was developed to assist the Group to focus more of its resources and Compliance efforts on areas of higher money laundering and terrorist financing (ML/TF) risks.

Client on-boarding is performed by a centralised function, which helps ensure conformity in client identification and verification (CIV), otherwise known as Know Your Customer (KYC), requirements. A review by the Compliance function on the level of CIV compliance commenced toward the end of the year.

Financial crime surveillance is conducted with the aid of an electronic Anti-Money-Laundering (AML) system and a dedicated real-time cross-border transaction screening system. The AML system generates alerts and reports for further investigation to determine whether a report must be made to the Financial Intelligence Centre (FIC), including cash threshold and suspicious transaction reporting.

The AML system and the cross-border transaction screening system also cross-reference clients against international databases comprising high ML/TF risk persons to determine, inter alia, if a terrorist property reporting obligation exists. Compliance with phase one of the FIC's new reporting system (goAML online system) was completed successfully. This allowed the Group to meet its registration and reporting obligations. Phase two of the FIC's goAML online system has commenced and the Group is in the process of developing systems and processes to meet a new cross-border transaction reporting obligation set to become effective from the second quarter of 2017.

Awareness training on AML and the combating of terrorist financing obligations remained a prominent aspect during 2016. Training initiatives are provided through an online platform as well as classroom style presentations, and all staff members are involved.

The long-awaited enactment of the FICA Amendment Bill is anticipated to occur early in 2017. The move from a predominately rule-based approach to a risk-based approach is both challenging and exciting and will certainly impact current business systems and processes.

Consumer protection regulation continued to be a key focus in 2016, 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 Consumer Protection Act (CPA).

The NCA has imposed strict requirements on credit and service providers, including standardised affordability assessments, stringent credit bureau enquiry time frames, disclosures to consumers, advertising and marketing practices, complaints, pricing, and reporting to the respective regulators. Business processes have been reformulated, and will 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. This Code remains a focus area in the coming year.

The Group's business is built on trust and integrity as perceived by our stakeholders, especially our clients, the Board, Caixa Geral de Depósitos S.A.(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.

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

22 February 2017

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 Group Audit Committee (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 the Companies Act and International Financial Reporting Standards (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, it continues to adopt the going concern basis in preparing the annual financial statements.

These annual financial statements, set out on pages 44 to 93, have been approved by the Board of Mercantile Bank Holdings Limited, and are signed on its behalf by:

GP de Kock
Acting Chairman

KR Kumbier
CEO

22 February 2017

MEL Teixeira
CFO

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 Chief Financial Officer (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.

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 2016, 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

22 February 2017

To the shareholder of Mercantile Bank Holdings Limited

Report on the financial statements

Opinion

We have audited the consolidated and separate financial statements of Mercantile Bank Holdings Limited and its subsidiaries (the Group) set out on pages 44 to 92, which comprise the statements of financial position as at 31 December 2016, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 December 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Directors are responsible for the other information. The other information comprises the Directors' report, as required by the Companies Act of South Africa, Certificate from the Company Secretary, Audit Committee report and Supplementary information as disclosed on page 93. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated and separate financial statements

The Directors are responsible for the preparation and fair presentation of the 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.

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit 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 Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 15 years.

Deloitte & Touche
Registered Auditor
Per: Diana Jorge
Partner

22 February 2017

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

National Executive: *LL Bam *Chief Executive Officer*, *TMM Jordan *Deputy Chief Executive Officer*, *MJ Jarvis *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 Comber *Reputation & Risk*, *TJ Brown *Chairman of the Board*

**Partner and Registered Auditor*

A full list of partners and directors is available on request

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

The Group Audit Committee's (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 2016, the members were:

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

The Chief Executive Officer (CEO), Deputy CEO, Chief Financial Officer (CFO), heads of Risk, Internal Audit, Compliance Management, Treasury and representatives from the External Auditors are permanent attendees to the Committee meetings. 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 25 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;
- reviewed policies and procedures for preventing and detecting fraud; and
- undertaken a deep dive on the requirements of IFRS 9: Financial instruments and reviewed a detailed project plan, including principles, major risks, timelines and resources, in advance of the implementation in 2018.

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

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

- reviewed and recommended the Compliance Charter for approval; and
- evaluated the effectiveness and performance of the Compliance function.

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 Jorge, 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 2017.

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

The GAC remains satisfied with the overall control environment, including those supporting the financial statements for 2016, as confirmed by Internal and External Audit.

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

22 February 2017

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 2016.

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 Caixa Geral de Depósitos S.A. (CGD).

3. Financial results

An overview of the financial results is set out in the Group Review, commencing on page 6 of the Integrated Annual Report. Details of the Company and Group financial results are set out on pages 44 to 93 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 12 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 – resigned 1 June 2016)*
GP de Kock °	*(Deputy Chairman and Acting Chairman as of 1 June 2016)*
KR Kumbier #	*Chief Executive Officer (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 22 February 2017, and details of their backgrounds, are shown on pages 4 and 5.

T Singh is the Company Secretary.

The registered addresses of the Company are:

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

6. Dividends

A dividend of R35,226 million was declared on 22 February 2017 in respect of the year ended 31 December 2016 (2015: R29,197 million – paid in 2016).

7. Special resolutions

Two special resolutions were adopted during 2016. The first was at the Annual General Meeting (AGM) held on 1 June 2016: to approve the fees and remuneration respectively payable to Non-Executive Directors and Executive Directors, and the second was on 14 September 2016, to approve the voluntary liquidation of the wholly owned subsidiary, Mercantile Insurance Brokers Proprietary Limited.

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

1. Basis of presentation

The Company financial statements, as well as the consolidated financial statements for the Group, are prepared in accordance with International Financial Reporting Standards (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.

IFRSs 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.

4.1 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 South African Reserve Bank (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 which 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, properties in possession, structured loans, accrued income, prepayments and deposits that 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 that 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.

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 the net carrying amounts from the proceeds, 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. Tax

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

9.1 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.

9.2 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.

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 used.

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.

9.3 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.

10. Instalment sales and leases

10.1 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.

10.2 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.

11. 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.

12. 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.

13. 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.

14. 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) is 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.

15. 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.

15.1 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.

15.2 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.

15.3 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.

16. 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 and ongoing assessments in respect of IFRS 9, the impact of initial application of the following standards and interpretations has not been assessed as at the date of authorisation of the annual financial statements:

	Standard	Effective date
IFRS 1 IFRS 12 IAS 28	Amendments resulting from annual improvements 2014 – 2016 cycle	Annual periods beginning on or after 1 January 2017 and 2018
IFRS 2	**Share-based payment:** Amendments to clarify the classification and measurement of share-based payment transactions	Annual periods beginning on or after 1 January 2018
IFRS 4	**Insurance contracts:** Amendments regarding the interaction of IFRS 4 and IFRS 9	Annual periods beginning on or after 1 January 2018
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 15	**Revenue from contracts with customers**	Annual periods beginning on or after 1 January 2018
IFRS 16	**Leases**	Annual periods beginning on or after 1 January 2019
IAS 7	**Statement of cash flows:** Amendments as a result of the disclosures initiative	Annual periods beginning on or after 1 January 2017
IAS 12	**Income taxes:** Amendments regarding the recognition of deferred tax assets for unrealised assets	Annual periods beginning on or after 1 January 2017
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 40	**Investment property:** Amendments to clarify transfers of property to, or from, investment property	Annual periods beginning on or after 1 January 2018
IFRIC 22	**Foreign currency transactions and advance consideration**	Annual periods beginning on or after 1 January 2018

Statements of financial position

at 31 December 2016

		GROUP		COMPANY	
	Note	**2016 R'000**	2015 R'000	**2016 R'000**	2015 R'000
Assets					
Intangible assets	2	**178 813**	192 064	**–**	–
Property and equipment	3	**254 604**	223 404	**–**	–
Current tax receivable	4	**681**	572	**–**	–
Other accounts receivable	5	**327 001**	167 278	**–**	–
Interest in subsidiaries	6	**–**	–	**2 191 588**	2 039 084
Other investments	7	**6 712**	5 958	**62**	62
Loans and advances	8	**8 661 812**	7 250 043	**–**	–
Derivative financial instruments	9	**29 442**	56 775	**–**	–
Negotiable securities	10	**509 874**	551 494	**–**	–
Cash and cash equivalents	11	**2 247 070**	1 586 798	**4 134**	4 120
Total assets		**12 216 009**	10 034 386	**2 195 784**	2 043 266
Equity and liabilities					
Total equity attributable to equity holders of the parent		**2 155 878**	2 021 777	**2 192 224**	2 039 682
Share capital and share premium	12	**1 207 270**	1 207 270	**1 207 270**	1 207 270
Employee benefits reserve		**(7 319)**	(8 354)	**–**	–
Property revaluation reserve		**128 229**	112 480	**–**	–
Available-for-sale reserve		**4 727**	2 683	**1 445 351**	1 292 702
Retained earnings/(accumulated loss)		**822 971**	707 698	**(460 397)**	(460 290)
Non-controlling interests		**–**	(1 165)	**–**	–
Total equity		**2 155 878**	2 020 612	**2 192 224**	2 039 682
Liabilities		**10 060 131**	8 013 774	**3 560**	3 584
Deferred tax liabilities	13	**54 693**	51 889	**–**	–
Long-term funding	14	**837 699**	646 215	**–**	–
Debt securities	15	**241 009**	202 810	**–**	–
Deposits	16	**8 473 034**	6 721 913	**–**	–
Derivative financial instruments	9	**43 733**	63 305	**–**	–
Provisions and other liabilities	17	**94 072**	94 736	**–**	–
Current tax payable	4	**7 324**	12 245	**–**	–
Other accounts payable	19	**308 567**	220 661	**3 560**	3 584
Total equity and liabilities		**12 216 009**	10 034 386	**2 195 784**	2 043 266

Statements of comprehensive income

for the year ended 31 December 2016

		GROUP		COMPANY	
	Note	**2016 R'000**	2015 R'000	**2016 R'000**	2015 R'000
Interest income	21	**1 003 841**	773 313	**39**	39
Interest expense	22	**(513 699)**	(366 010)	**–**	–
Net interest income		**490 142**	407 303	**39**	39
Net charge for credit losses	8.4	**(40 254)**	(35 040)	**–**	–
Net interest income after credit losses		**449 888**	372 263	**39**	39
Net non-interest income		**291 181**	252 075	**29 197**	25 668
Non-interest income	23	**516 781**	412 869	**29 197**	25 668
Fee and commission expenditure	24	**(225 600)**	(160 794)	**–**	–
Net interest and non-interest income		**741 069**	624 338	**29 236**	25 707
Operating expenditure	25	**(493 885)**	(419 111)	**(146)**	(149)
Profit before tax		**247 184**	205 227	**29 090**	25 558
Tax	26	**(70 166)**	(58 338)	**–**	–
Profit after tax		**177 018**	146 889	**29 090**	25 558
Other comprehensive income					
Revaluation of owner-occupied properties		**21 874**	3 241	**–**	–
Remeasurement of defined benefit obligation		**1 438**	(1 251)	**–**	–
Gains/(Losses) on remeasurement to fair value on financial assets designated as available-for-sale		**3 077**	(2 623)	**152 649**	122 905
Tax relating to other comprehensive income	13	**(7 561)**	113	**–**	–
Other comprehensive income net of tax		**18 828**	(520)	**152 649**	122 905
Total comprehensive income		**195 846**	146 369	**181 739**	148 463
Profit after tax attributable to:					
Equity holder of the parent		**176 132**	145 984	**29 090**	25 558
Non-controlling interests		**886**	905	**–**	–
		177 018	146 889	**29 090**	25 558
Total comprehensive income attributable to:					
Equity holder of the parent		**194 960**	145 464	**181 739**	148 463
Non-controlling interests		**886**	905	**–**	–
		195 846	146 369	**181 739**	148 463

Statements of changes in equity

for the year ended 31 December 2016

	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 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**
Net movement for the year	**–**	**–**	**1 035**	**–**	**15 749**	**2 044**	**115 273**	**134 101**	**1 165**	**135 266**
Total comprehensive income for the year	**–**	**–**	**1 035**	**–**	**15 749**	**2 044**	**144 470**	**163 298**	**1 165**	**164 463**
Profit after tax	**–**	**–**	**–**	**–**	**–**	**–**	**176 132**	**176 132**	**886**	**177 018**
Increase in shareholding of Mercantile Rental Finance from 74,9% to 100%	**–**	**–**	**–**	**–**	**–**	**–**	**(31 662)**	**(31 662)**	**279**	**(31 383)**
Other comprehensive income	**–**	**–**	**1 438**	**–**	**21 874**	**3 077**	**–**	**26 389**	**–**	**26 389**
Tax relating to other comprehensive income	**–**	**–**	**(403)**	**–**	**(6 125)**	**(1 033)**	**–**	**(7 561)**	**–**	**(7 561)**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(29 197)**	**(29 197)**	**–**	**(29 197)**
Balance at 31 December 2016	**1 207 270**	**–**	**(7 319)**	**–**	**128 229**	**4 727**	**822 971**	**2 155 878**	**–**	**2 155 878**

	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 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**
Net movement for the year	**–**	**–**	**152 649**	**(107)**	**152 542**
Total comprehensive income for the year	**–**	**–**	**152 649**	**29 090**	**181 739**
Profit after tax	**–**	**–**	**–**	**29 090**	**29 090**
Other comprehensive income	**–**	**–**	**152 649**	**–**	**152 649**
Dividend paid	**–**	**–**	**–**	**(29 197)**	**(29 197)**
Balance at 31 December 2016	**1 207 270**	**–**	**1 445 351**	**(460 397)**	**2 192 224**

Statements of cash flows

for the year ended 31 December 2016

		GROUP		COMPANY	
	Note	**2016 R'000**	2015 R'000	**2016 R'000**	2015 R'000
Cash flows from operating activities					
Cash receipts from clients	27.1	**1 531 861**	1 192 667	**39**	39
Cash paid to clients, suppliers and employees	27.2	**(1 161 131)**	(879 231)	**(146)**	(149)
Cash generated from/(utilised in) operations	27.3	**370 730**	313 436	**(107)**	(110)
Dividends received		**–**	–	**29 197**	25 668
Tax (paid)	27.4	**(79 953)**	(65 362)	**–**	–
Net (increase) in income-earning assets	27.5	**(1 411 557)**	(1 181 564)	**–**	–
Net increase in deposits and other accounts	27.6	**1 634 132**	964 703	**121**	64
Net cash inflow from operating activities		**513 352**	31 213	**29 211**	25 622
Cash flows from investing activities					
Purchase of intangible assets	2	**(27 117)**	(37 413)	**–**	–
Purchase of property and equipment	3	**(32 120)**	(25 046)	**–**	–
Proceeds on disposal of property and equipment		**5 671**	6 566	**–**	–
Net cash (outflow) from investing activities		**(53 566)**	(55 893)	**–**	–
Cash flows from financing activities					
Dividends paid		**(29 197)**	(25 668)	**(29 197)**	(25 668)
Increase in long-term funding	14	**191 484**	118 656	**–**	–
Increase in debt securities	15	**38 199**	46	**–**	–
Net cash inflow/(outflow) from financing activities		**200 486**	93 034	**(29 197)**	(25 668)
Net cash inflow/(outflow) for the year		**660 272**	68 354	**14**	(46)
Cash and cash equivalents at the beginning of the year		**1 586 798**	1 518 444	**4 120**	4 166
Cash and cash equivalents at the end of the year	11	**2 247 070**	1 586 798	**4 134**	4 120

1. Categories and fair values of financial instruments

1.1 Category analysis of financial instruments

	GROUP			
	2016		2015	
	Fair value R'000	**Carrying amount R'000**	Fair value R'000	Carrying amount R'000
Assets				
Available-for-sale	**58 109**	**58 109**	169 771	169 771
Other investments	**6 712**	**6 712**	5 958	5 958
Negotiable securities – Government stock	**51 397**	**51 397**	163 813	163 813
Held-to-maturity				
Negotiable securities – Government stock	**204 549**	**206 314**	282 098	290 057
Loans and receivables	**11 487 178**	**11 487 316**	9 096 533	9 096 533
Loans and advances				
Current accounts	**1 745 478**	**1 745 478**	1 474 221	1 474 221
Credit cards	**30 945**	**30 945**	24 198	24 198
Mortgage loans	**4 266 096**	**4 266 096**	3 139 299	3 139 299
Instalment sales and leases	**1 135 894**	**1 135 894**	953 341	953 341
Structured loans	**210 584**	**210 584**	211 019	211 019
Medium-term loans	**1 272 085**	**1 272 085**	1 442 755	1 442 755
Negotiable securities				
Treasury bills	**252 025**	**252 163**	–	–
Land Bank promissory notes	**–**	**–**	97 624	97 624
Cash and cash equivalents	**2 247 070**	**2 247 070**	1 586 798	1 586 798
Other accounts receivable	**327 001**	**327 001**	167 278	167 278
Designated at fair value through profit and loss				
Loans and advances				
Mortgage loans	**730**	**730**	5 210	5 210
Held-for-trading				
Derivative financial instruments	**29 442**	**29 442**	56 775	56 775
	11 780 008	**11 781 911**	9 610 387	9 618 346
Liabilities				
Held-for-trading				
Derivative financial instruments	**43 733**	**43 733**	63 305	63 305
Amortised cost	**9 619 300**	**9 619 300**	7 588 789	7 588 789
Long-term funding	**837 699**	**837 699**	646 215	646 215
Deposits	**8 473 034**	**8 473 034**	6 721 913	6 721 913
Other accounts payable	**308 567**	**308 567**	220 661	220 661
	9 663 033	**9 663 033**	7 652 094	7 652 094

1. Categories and fair values of financial instruments continued

1.1 Category analysis of financial instruments continued

	COMPANY			
	2016		2015	
	Fair value R'000	**Carrying amount R'000**	Fair value R'000	Carrying amount R'000
Assets				
Available-for-sale	**2 191 650**	**2 191 650**	2 039 146	2 039 146
Other investments	**62**	**62**	62	62
Interest in subsidiaries	**2 191 588**	**2 191 588**	2 039 084	2 039 084
Loans and receivables				
Cash and cash equivalents	**4 134**	**4 134**	4 120	4 120
	2 195 784	**2 195 784**	2 043 266	2 043 266
Liabilities				
Amortised cost				
Other accounts payable	**3 560**	**3 560**	3 584	3 584
	3 560	**3 560**	3 584	3 584

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 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 and securities 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.

1.3 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).

1. Categories and fair values of financial instruments continued

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

	GROUP			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2016				
Assets				
Available-for-sale				
Other investments	–	–	6 712	6 712
Negotiable securities – Government stock	51 397	–	–	51 397
Designated at fair value through profit and loss				
Loans and advances				
Mortgage loans	–	–	730	730
Held-for-trading				
Derivative financial instruments	–	29 442	–	29 442
	51 397	29 442	7 442	88 281
Liabilities				
Held-for-trading				
Derivative financial instruments	–	43 733	–	43 733
	–	43 733	–	43 733
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

	COMPANY			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2016				
Assets				
Available-for-sale				
Other investments	–	–	62	62
2015				
Assets				
Available-for-sale				
Other investments	–	–	62	62

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

1. Categories and fair values of financial instruments continued

1.4 Reconciliation of Level 3 fair value measurements of financial assets

	GROUP	
	2016 R'000	2015 R'000
Available-for-sale		
Other investments – unlisted equities		
Balance at the beginning of the year	**5 958**	6 388
Gains/(Losses) on remeasurement to fair value in other comprehensive income	**754**	(430)
Balance at the end of the year	**6 712**	5 958

	COMPANY	
	2016 R'000	2015 R'000
Available-for-sale		
Other investments – unlisted equities		
Balance at the end of the year	**62**	62

	GROUP	
	2016 R'000	2015 R'000
Fair value through profit and loss		
Loans and advances – mortgage loans		
Balance at the beginning of the year	**5 210**	14 406
Repayment of loans and advances	**(4 732)**	(9 664)
Gains on remeasurement to fair value in comprehensive income	**252**	468
Balance at the end of the year	**730**	5 210

2. Intangible assets

	GROUP	
	2016 R'000	2015 R'000
Computer software		
Cost at the beginning of the year	**355 128**	317 772
Additions	**27 117**	37 413
Write-off of obsolete computer software	**(12)**	(57)
Cost at the end of the year	**382 233**	355 128
Accumulated amortisation and impairment losses at the beginning of the year	**(163 064)**	(129 296)
Amortisation	**(40 368)**	(33 825)
Write-off of obsolete computer software	**12**	57
Accumulated amortisation and impairment losses at the end of the year	**(203 420)**	(163 064)
Net carrying amount at the end of the year	**178 813**	192 064

During 2015 and 2016, 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

	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
Group							
2016							
Open market value/cost at the beginning of the year	186 332	11 464	36 068	12 118	31 505	1 071	278 558
Revaluations	18 425	–	–	–	–	–	18 425
Additions	1 233	3 759	22 763	1 448	2 659	258	32 120
Write-off of obsolete assets	–	(1 943)	(5 295)	(511)	(939)	–	(8 688)
Disposals	–	–	–	(216)	(1 360)	(280)	(1 856)
Open market value/cost at the end of the year	205 990	13 280	53 536	12 839	31 865	1 049	318 559
Accumulated depreciation and impairment losses at the beginning of the year	(3 232)	(4 709)	(26 219)	(2 927)	(17 530)	(537)	(55 154)
Depreciation – disclosed in operating expenditure	(6 308)	(1 263)	(3 717)	(1 192)	(4 314)	(196)	(16 990)
Depreciation – disclosed in fee and commission expenditure	–	–	(986)	–	–	–	(986)
Revaluation	3 450	–		–	–	–	3 450
Write-off of obsolete assets	–	1 422	1 428	497	832	–	4 179
Disposals	–	–	–	132	1 355	59	1 546
Accumulated depreciation and impairment losses at the end of the year	(6 090)	(4 550)	(29 494)	(3 490)	(19 657)	(674)	(63 955)
Net carrying amount at the end of the year	199 900	8 730	24 042	9 349	12 208	375	254 604

3. Property and equipment continued

	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
Group							
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

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

The historical cost of owner-occupied properties that have been revalued is R59,552 million (2015: R58,319 million).

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 2015 and 31 December 2016.

A mortgage bond in the amount of R150 million (2015: R90 million) has been registered over a property included in owner-occupied properties (refer to note 14).

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

4. Current tax receivable/payable

	GROUP	
	2016 R'000	2015 R'000
South African Revenue Service		
Current tax receivable	**681**	572
Current tax payable	**7 324**	12 245

5. Other accounts receivable

	GROUP	
	2016 R'000	2015 R'000
Items in transit	**164 437**	80 499
Properties in possession	**18 550**	18 491
Prepayments and deposits	**33 824**	25 515
Structured loans accrued income	**9 996**	–
Other receivables	**100 194**	42 773
	327 001	167 278

The Directors consider that the carrying amount of other accounts receivable approximates their fair value.

The other accounts receivable are all current and not past due; therefore, no age analysis has been prepared for past due but not impaired receivables.

Structured loans accrued income relates to the present value of future cash flows.

6. Interest in subsidiaries

	COMPANY	
	2016 R'000	2015 R'000
Unlisted		
Shares at fair value	**2 191 535**	2 038 886
Mercantile Bank Limited	**2 191 185**	2 038 545
Mercantile Insurance Brokers Proprietary Limited	**350**	341
Loan – Mercantile Bank Limited	**53**	198
	2 191 588	2 039 084

A list of principal subsidiary companies is contained in note 28. The loan is interest-free and repayable on demand.

7. Other investments

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
Available-for-sale				
Unlisted equities	**6 712**	5 958	**62**	62
	6 712	5 958	**62**	62

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

8. Loans and advances

8.1 Product analysis

	GROUP 2016 R'000	GROUP 2015 R'000
Amortised cost	**8 750 546**	7 304 486
Current accounts	**1 765 592**	1 491 182
Credit cards	**33 971**	26 579
Mortgage loans	**4 303 120**	3 146 475
Instalment sales and leases	**1 144 073**	958 381
Structured loans	**211 189**	211 361
Medium-term loans	**1 292 601**	1 470 508
Designated at fair value through profit and loss		
Mortgage loans	**731**	5 211
Gross loans and advances	**8 751 277**	7 309 697
Less: Portfolio impairments for credit losses	**(26 583)**	(25 530)
Specific impairments for credit losses	**(62 882)**	(34 124)
	8 661 812	7 250 043

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

8.2 Maturity analysis

	2016 R'000	2015 R'000
Repayable on demand and maturing within one month	**1 844 298**	1 723 099
Maturing after one month but within six months	**233 249**	60 555
Maturing after six months but within 12 months	**74 691**	74 189
Maturing after 12 months	**6 599 039**	5 451 854
	8 751 277	7 309 697

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

8.3 Detailed product analysis of loans and advances

	Gross amount R'000	Portfolio impairments R'000	Specific impairments R'000	Net balance R'000
Group				
2016				
Current accounts	**1 765 592**	**(7 861)**	**(12 253)**	**1 745 478**
Credit cards	**33 971**	**(842)**	**(2 184)**	**30 945**
Mortgage loans	**4 303 851**	**(4 965)**	**(32 060)**	**4 266 826**
Instalment sales and leases	**1 144 073**	**(3 145)**	**(5 034)**	**1 135 894**
Structured loans	**211 189**	**(605)**	**–**	**210 584**
Medium-term loans	**1 292 601**	**(9 165)**	**(11 351)**	**1 272 085**
	8 751 277	**(26 583)**	**(62 882)**	**8 661 812**
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

8. Loans and advances continued

8.4 Impairments for credit losses

	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
Group							
2016							
Balance at the beginning of the year	**(59 654)**	**(16 961)**	**(2 381)**	**(7 177)**	**(5 040)**	**(342)**	**(27 753)**
Movements for the year							
Credit losses written off	**3 303**	**1 183**	**143**	**547**	**495**	**–**	**935**
Net impairments (raised)/ released	**(33 114)**	**(4 336)**	**(788)**	**(30 395)**	**(3 634)**	**(263)**	**6 302**
Balance at the end of the year	**(89 465)**	**(20 114)**	**(3 026)**	**(37 025)**	**(8 179)**	**(605)**	**(20 516)**
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)

	GROUP	
	2016 R'000	2015 R'000
Net charge for credit losses in the statement of comprehensive income		
Net impairments raised	**(33 114)**	(37 913)
Amounts written off directly to comprehensive income	**(10 288)**	(5 500)
Reversal of impairment for properties in possession previously impaired	**–**	5 000
Recoveries in respect of amounts previously written off	**3 148**	3 373
	(40 254)	(35 040)

8. Loans and advances continued

8.5 Product analysis of performing loans and advances

	Gross amount R'000	Portfolio impairment R'000	Net balance R'000
Group			
2016			
Current accounts	**1 741 703**	**(7 861)**	**1 733 842**
Credit cards	**31 787**	**(842)**	**30 945**
Mortgage loans	**4 180 982**	**(4 965)**	**4 176 017**
Instalment sales and leases	**1 136 050**	**(3 145)**	**1 132 905**
Structured loans	**211 189**	**(605)**	**210 584**
Medium-term loans	**1 268 132**	**(9 165)**	**1 258 967**
	8 569 843	**(26 583)**	**8 543 260**
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

8.6 Product analysis of performing loans and advances excluding loans and advances with renegotiated terms

	GROUP	
	2016 R'000	2015 R'000
Current accounts	**1 689 251**	1 416 724
Credit cards	**31 787**	25 081
Mortgage loans	**4 156 120**	3 014 421
Instalment sales and leases	**1 135 763**	952 473
Structured loans	**211 189**	211 361
Medium-term loans	**1 173 963**	1 377 498
	8 398 073	6 997 558

8.7 Product analysis of loans and advances with renegotiated terms that would otherwise be past due or impaired

	GROUP	
	2016 R'000	2015 R'000
Current accounts	**52 452**	60 844
Credit cards	**–**	–
Mortgage loans	**24 862**	6 589
Instalment sales and leases	**287**	349
Structured loans	**–**	–
Medium-term loans	**94 169**	67 846
	171 770	135 628

8. Loans and advances continued

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

	Past due for: 1 – 30 days R'000	31 – 60 days R'000	61 – 90 days R'000	Total gross amount R'000	Fair value of collateral and other credit enhancements R'000
Group					
2016					
Current accounts	–	–	–	–	–
Credit cards	–	–	–	–	–
Mortgage loans	**21 531**	**15 546**	**9 557**	**46 634**	**38 263**
Instalment sales and leases	**138**	**404**	–	**542**	**466**
Structured loans	–	–	–	–	–
Medium-term loans	**3 555**	–	**38 062**	**41 617**	**35 280**
	25 224	**15 950**	**47 619**	**88 793**	**74 009**
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

8.9 Product analysis of loans and advances that are individually impaired

	Gross amount R'000	Specific impairment R'000	Net balance R'000	Fair value of collateral and other credit enhancements R'000
Group				
2016				
Current accounts	**23 889**	**(12 253)**	**11 636**	**15 120**
Credit cards	**2 184**	**(2 184)**	–	–
Mortgage loans	**122 869**	**(32 060)**	**90 809**	**114 889**
Instalment sales and leases	**8 023**	**(5 034)**	**2 989**	**3 076**
Structured loans	–	–	–	–
Medium-term loans	**24 469**	**(11 351)**	**13 118**	**15 508**
	181 434	**(62 882)**	**118 552**	**148 593**
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

8. Loans and advances continued

8.10 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 clients of the Bank are accorded a risk grading. The risk grading is dependent upon the client'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 client 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.

9. Derivative financial instruments

	Notional principal of assets R'000	Fair value of assets R'000	Notional principal of liabilities R'000	Fair value of liabilities R'000
Group				
2016				
Held-for-trading				
Foreign exchange contracts	**809 652**	**29 442**	**1 156 396**	**43 731**
Interest rate swaps	**175**	**–**	**240 175**	**2**
	809 827	**29 442**	**1 396 571**	**43 733**
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

10. Negotiable securities

	GROUP	
	2016 R'000	2015 R'000
Loans and receivables		
Treasury bills	**252 163**	–
Land Bank promissory notes	**–**	97 624
Available-for-sale		
Government stock	**51 397**	163 813
Held-to-maturity		
Government stock	**206 314**	290 057
	509 874	551 494
Maturity analysis		
Maturing within one month	**–**	–
Maturing after one month but within six months	**252 163**	97 624
Maturing after six months but within 12 months	**206 583**	194 373
Maturing after one year but within five years	**51 128**	259 497
	509 874	551 494

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

11. Cash and cash equivalents

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
Cash on hand	**37 287**	28 577	**–**	–
Central Bank balances	**500 587**	321 873	**–**	–
Money market funds	**1 022 498**	723 365	**–**	–
Rand-denominated bank balances	**86 726**	25 648	**4 134**	4 120
Foreign currency-denominated bank balances	**599 972**	487 335	**–**	–
	2 247 070	1 586 798	**4 134**	4 120

12. Share capital and share premium

	Number of issued ordinary shares R'000	**Share capital R'000**	**Share premium R'000**	**Total R'000**
12.1 Issued – Group and Company				
At 31 December 2015 and 31 December 2016	**3 614 018 195**	**36 140**	**1 171 130**	**1 207 270**

12.2 Authorised

The total authorised number of ordinary shares is 4 465 955 440 shares (2015: 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 (2015: 15 150 486 shares) with a par value of 25 cents each.

12.3 Unissued

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

13. Deferred tax liabilities

	GROUP 2016 R'000	GROUP 2015 R'000
Balance at the beginning of the year	**(51 889)**	(65 619)
Current year charge		
Per the statement of comprehensive income	**4 757**	13 617
Per the statement of changes in equity/other comprehensive income	**(7 561)**	113
	(54 693)	(51 889)
Tax effects of temporary differences between tax and book value for:		
Intangible assets	**(31 281)**	(37 326)
Property and equipment	**(893)**	(497)
Provisions and other liabilities	**18 246**	22 630
Impairments on loans and advances	**7 004**	5 321
Current assets	**5 595**	(1 402)
Revaluations	**(64 309)**	(50 604)
Leased assets	**2 587**	3 222
Other	**8 358**	6 767
	(54 693)	(51 889)

14. Long-term funding

	GROUP 2016 R'000	GROUP 2015 R'000
International Finance Corporation (IFC)	**207 017**	322 519
Short-term portion payable in the next 12 months	**117 053**	117 845
Portion payable after 12 months but within five years	**89 964**	204 674
Standard Bank of South Africa Limited (Standard Bank)	**150 078**	90 022
Short-term portion payable in the next 12 months	**3 770**	7 500
Portion payable after 12 months but within five years	**146 308**	82 522
Banco Nacional Ultramarino S.A. (BNU Macau)		
Portion payable after 12 months but within five years	**480 604**	233 674
	837 699	646 215

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 original loan obtained from Standard Bank in 2012 was renegotiated and extended in 2016. The loan, with interest repayable monthly and linked to JIBAR, is repayable from 16 November 2017 to 16 November 2021. The loan is secured by a mortgage over the Group's owner-occupied property (refer to note 3).

The three-year foreign currency loans obtained from BNU Macau in 2015 of USD15 million and an additional loan of USD20 million obtained in 2016, with interest payable quarterly and linked to LIBOR, are renewable annually with an option of early settlement.

15. Debt securities

	GROUP 2016 R'000	GROUP 2015 R'000
Unrated class A notes	**241 009**	202 810
	241 009	202 810

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

The notes issued in 2014 (R202 million) and an additional issue of R38 million in 2016, are linked to JIBAR with interest repayable quarterly, and mature on 15 March 2017.

16. Deposits

	GROUP 2016 R'000	GROUP 2015 R'000
Call deposits and current accounts	**4 596 068**	3 616 061
Savings accounts	**179 471**	175 795
Term and notice deposits	**3 072 586**	2 721 297
Negotiable certificates of deposit	**22 246**	19 979
Foreign currency deposits	**602 663**	188 781
	8 473 034	6 721 913
Maturity analysis		
Repayable on demand and maturing within one month	**5 795 769**	4 469 117
Maturing after one month but within six months	**1 287 633**	914 727
Maturing after six months but within 12 months	**314 387**	342 065
Maturing after 12 months but within five years	**1 075 245**	996 004
	8 473 034	6 721 913

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

17. Provisions and other liabilities

	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
Group							
At 1 January 2015	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**
Provision raised	**19 202**	**30 737**	**8 431**	**1 875**	**4 174**	**1 536**	**65 955**
Reversal of provision	**–**	**–**	**–**	**–**	**–**	**(1 944)**	**(1 944)**
Charged to provision	**(3 453)**	**(23 209)**	**(8 908)**	**(3 331)**	**(3 633)**	**(22 141)**	**(64 675)**
At 31 December 2016	**24 127**	**31 294**	**4 490**	**20 624**	**13 352**	**185**	**94 072**

17. Provisions and other liabilities continued

Post-retirement medical benefits

Refer to note 18 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.

18. Post-retirement medical benefits

The Bank operates a partly funded post-retirement medical scheme. In the years prior to 2015 the assets of the funded plans were 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 2016). The actuary's opinion is that the plan is in a sound financial position.

	GROUP				
	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000
The amounts recognised in the statement of financial position are as follows (refer to note 17):					
Present value of total service liabilities	**20 624**	22 080	21 715	19 900	21 575
Fair value of plan assets	**–**	–	(1 226)	(1 630)	(2 103)
Provident fund	**–**	–	(914)	(782)	(1 315)
Endowment bond	**–**	–	(312)	(848)	(788)
Liability in the statement of financial position	**20 624**	22 080	20 489	18 270	19 472
The amounts recognised in the statement of comprehensive income are as follows:					
Staff cost (refer to note 25)	**(1 871)**	(1 204)	(1 060)	(1 030)	(1 494)
Current service cost	**22**	22	19	22	13
Benefits paid	**–**	540	540	540	–
Employer benefit payments	**(1 893)**	(1 766)	(1 619)	(1 592)	(1 507)
Net interest cost (refer to note 22)	**1 853**	1 544	1 519	1 369	1 232
Interest costs	**1 853**	1 619	1 636	1 502	1 466
Expected return on plan assets	**–**	(75)	(117)	(133)	(234)
Total included in comprehensive income	**(18)**	340	459	339	(262)
The amounts recognised in the statement of other comprehensive income are as follows:					
Remeasurement of defined benefit obligation	**(1 438)**	1 251	1 760	(1 541)	3 685
Total included in other comprehensive income	**(1 438)**	1 251	1 760	(1 541)	3 685

18. Post-retirement medical benefits continued

	GROUP				
	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 R'000
Reconciliation of the movement in the present value of total service liabilities:					
At the beginning of the year	**22 080**	21 715	19 900	21 575	18 577
Current service cost	**22**	22	19	22	13
Interest costs	**1 853**	1 619	1 636	1 502	1 466
Remeasurement of defined benefit obligation	**(1 438)**	490	1 779	(1 607)	3 026
Employer benefit payments	**(1 893)**	(1 766)	(1 619)	(1 592)	(1 507)
At the end of the year	**20 624**	22 080	21 715	19 900	21 575
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
Expected return on plan assets	**–**	75	117	133	234
Payments from plan assets	**–**	(540)	(540)	(540)	–
Remeasurement of defined benefit obligation	**–**	(761)	19	(66)	(659)
At the end of the year	**–**	–	1 226	1 630	2 103

The principal actuarial assumptions used were as follows:

Discount rate	**9,2%**	(2015: 8,8%) compounded annually
Rate of medical inflation	**8,6%**	(2015: 8,6%) compounded annually
Salary inflation	**8,1%**	(2015: 8,1%) 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 R1,967 million (2015: R2,050 million) and a decrease of R1,677 million (2015: R1,726 million), respectively.

19. Other accounts payable

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
Accruals	**27 600**	22 583	**–**	–
Product-related credits	**182 837**	157 794	**–**	–
Sundry creditors	**94 570**	36 700	**–**	–
Previous minority shareholders (share buy-back during 2012)	**3 560**	3 584	**3 560**	3 584
	308 567	220 661	**3 560**	3 584

** To better reflect the nature of the underlying items, an amount of R65,6 million, relating largely to electronic fund transfer (EFT) control accounts and rental finance products, previously included in the comparative results under sundry creditors, has been reclassified to product-related credits.*

20. Contingent liabilities and commitments

20.1 Guarantees, letters of credit and committed undrawn facilities

	GROUP	
	2016 R'000	2015 R'000
Guarantees	**457 473**	507 551
Lending-related	**1 631**	6 684
Mortgage	**85 017**	166 425
Performance	**370 825**	334 442
Letters of credit	**20 979**	22 112
Committed undrawn facilities	**302 372**	307 592
	780 824	837 255

20.2 Commitments under operating leases

The total minimum future lease payments under operating leases are as follows:

	GROUP	
	2016 R'000	2015 R'000
Property rentals		
Due within one year	**5 625**	3 612
Due between one and five years	**15 731**	9 024
	21 356	12 636
After tax effect on operating leases	**15 376**	9 098

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.

21. Interest income

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
Loans and receivables at amortised cost	**977 432**	746 547	**39**	39
Cash and cash equivalents	**86 372**	69 194	**39**	39
Negotiable securities	**8 157**	8 086	**–**	–
Loans and advances	**882 903**	669 267	**–**	–
Loans and receivables designated as available-for-sale				
Negotiable securities	**10 568**	10 929	**–**	–
Loans and receivables designated as held-to-maturity				
Negotiable securities	**15 561**	14 842	**–**	–
Loans and receivables designated at fair value through profit and loss				–
Loans and advances	**280**	995	**–**	–
	1 003 841	773 313	**39**	39

22. Interest expense

	GROUP 2016 R'000	GROUP 2015 R'000
Deposits	**427 204**	295 853
Debt securities	**22 059**	17 636
Long-term funding	**58 986**	44 945
Held-for-trading		
Interest rate swaps	**232**	212
Net interest on defined benefit obligation	**1 853**	1 544
Other	**3 365**	5 820
	513 699	366 010

23. Non-interest income

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
Fee and commission income	**335 874**	290 216	**–**	–
Loans and receivables	**335 659**	290 060	**–**	–
Insurance-related products	**215**	156	**–**	–
Trading income	**180 907**	122 653	**–**	–
Held-for-trading	**180 935**	123 180	**–**	–
Foreign currency	**180 577**	123 476	**–**	–
Derivative assets and liabilities	**358**	(296)	**–**	–
Designated at fair value through profit and loss	**(28)**	(527)	**–**	–
Loans and advances	**(28)**	(527)	**–**	–
Investment income	**–**	–	**29 197**	25 668
Dividends	**–**	–	**29 197**	25 668
	516 781	412 869	**29 197**	25 668

24. Fee and commission expenditure

	GROUP 2016 R'000	GROUP 2015 R'000
Relating to non-interest income earned from:		
Foreign currency	**113 614**	63 756
Fees and commissions	**111 986**	97 038
	225 600	160 794

25. Operating expenditure

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
Amortisation (refer to note 2)	**40 368**	33 825	**–**	–
Auditors' remuneration				
Audit fees – Current year	**8 236**	7 649	**–**	–
– Prior year	**150**	–	**–**	–
Fees for other services – Tax advisory fees	**239**	236	**–**	–
– Regulatory reviews	**–**	400	**–**	–
– Securitisation vehicle reviews	**204**	202	**–**	–
– Other	**35**	311	**–**	–
	8 864	8 798	**–**	–
Depreciation (refer to note 3)	**16 990**	15 460	**–**	–
Directors' remuneration (refer to note 28.3)				
Executive Directors	**17 037**	15 671	**–**	–
Non-Executive Directors' fees	**4 231**	3 970	**–**	–
	21 268	19 640	**–**	–
Indirect tax				
Non-claimable value-added tax	**15 244**	7 541	**–**	–
Skills development levy	**2 193**	1 954	**–**	–
	17 437	9 495	**–**	–
(Profit) on sale and write-off of intangible assets and property and equipment	**(852)**	(1 520)	**–**	–
Marketing	**8 002**	7 820	**146**	149
Operating leases for premises and other related costs	**15 278**	14 639	**–**	–
Other operating costs	**58 720**	55 768	**–**	–
Professional fees				
Consulting	**1 443**	1 653	**–**	–
Legal and collection	**5 378**	6 151	**–**	–
Computer consulting and services	**50 062**	41 069	**–**	–
	56 883	48 873	**–**	–
Staff costs				
Salaries, allowances and incentives	**227 733**	199 393	**–**	–
Post-retirement medical benefits (refer to notes 17 and 18)	**(1 871)**	(1 204)	**–**	–
Deferred bonus scheme expense for staff and Executive Directors	**19 201**	3 930	**–**	–
Other	**5 864**	4 194	**–**	–
	250 927	206 313	**–**	–
Total operating expenditure	**493 885**	419 111	**146**	149
Number of persons employed by the Group at year-end	**510**	475		

26. Tax

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
South African normal tax	**74 923**	71 955	**–**	–
Current year	**74 206**	70 786	**–**	–
Prior year	**717**	1 169	**–**	–
Deferred tax	**(4 757)**	(13 617)	**–**	–
Current year	**(5 185)**	(15 041)	**–**	–
Prior year	**428**	1 424	**–**	–
	70 166	58 338	**–**	–
Direct tax				
South African normal tax	**74 923**	71 955	**–**	–
South African tax rate reconciliation				
South African standard tax rate (%)	**28,00**	28,00	**28,00**	28,00
Exempt income (%)	**–**	–	**(28,10)**	(28,12)
Expenses not deductible for tax purposes (%)	**0,03**	0,70	**–**	–
Additional allowances for tax purposes (%)	**4,12**	(0,12)	**–**	–
Capital gain inclusion on unrealised portion not taxable (%)	**(4,15)**	(0,23)	**–**	–
Underprovision prior years (%)	**0,13**	0,12	**–**	–
Tax losses (%)	**0,26**	(0,04)	**0,10**	0,12
Effective tax rate (%)	**28,39**	28,43	**(0,00)**	(0,00)
Estimated tax losses available for offset against future taxable income	**34 256**	34 709	**6 879**	6 879

27. Notes to statements of cash flows

27.1 Cash receipts from clients

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
Interest income	**1 003 841**	773 313	**39**	39
Non-interest income	**516 781**	412 869	**29 197**	25 668
Adjusted for: Dividends received	**–**	–	**(29 197)**	(25 668)
Revaluation of fair value financial instruments	**8 091**	3 112	**–**	–
Recoveries in respect of amounts previously written off	**3 148**	3 373	**–**	–
	1 531 861	1 192 667	**39**	39

27.2 Cash paid to clients, suppliers and employees

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
Interest expense	**(513 699)**	(366 010)	**–**	–
Operating expenditure and fee and commission expenditure	**(719 485)**	(579 905)	**(146)**	(149)
Adjusted for: Amortisation	**40 368**	33 825	**–**	–
Depreciation	**17 976**	15 460	**–**	–
Write-off of obsolete property and equipment	**4 819**	565	**–**	–
(Profit) on sale and write-off of obsolete intangible assets and property and equipment	**(852)**	(1 520)	**–**	–
Deferred bonus scheme expense	**19 201**	3 930	**–**	–
(Decrease)/Increase in provisions and other liabilities	**(9 459)**	14 424	**–**	–
	(1 161 131)	(879 231)	**(146)**	(149)

27. Notes to statements of cash flows continued

27.3 Reconciliation of profit before tax to cash generated from/(utilised in) operations

	GROUP		COMPANY	
	2016 R'000	2015 R'000	**2016 R'000**	2015 R'000
Profit before tax	**247 184**	205 227	**29 090**	25 558
Profit before tax adjusted for:				
Dividends received	**–**	–	**(29 197)**	(25 668)
Revaluation of fair value financial instruments	**8 091**	3 112	**–**	–
Net impairments raised	**43 402**	38 413	**–**	–
Amortisation	**40 368**	33 825	**–**	–
Depreciation	**17 976**	15 460	**–**	–
Write-off of obsolete property and equipment	**4 819**	565	**–**	–
(Profit) on sale and write-off of obsolete intangible assets and property and equipment	**(852)**	(1 520)	**–**	–
Deferred bonus scheme expense	**19 201**	3 930	**–**	–
(Decrease)/Increase in provisions and other liabilities	**(9 459)**	14 424	**–**	–
Cash generated from/(utilised in) operations	**370 730**	313 436	**(107)**	(110)

27.4 Tax

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
Amounts paid at the beginning of the year	**(11 673)**	(5 080)	**–**	–
Statement of comprehensive income (charge)	**(74 923)**	(71 955)	**–**	–
Less: Amounts owing at the end of the year	**6 643**	11 673	**–**	–
Total tax (paid)	**(79 953)**	(65 362)	**–**	–

27.5 Net movement in income-earning assets

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
Decrease/(Increase) in negotiable securities	**43 944**	(112 922)	**–**	–
(Increase) in loans and advances	**(1 455 501)**	(1 068 642)	**–**	–
Net (increase) in income-earning assets	**(1 411 557)**	(1 181 564)	**–**	–

27.6 Net movement in deposits and other accounts

	GROUP 2016 R'000	GROUP 2015 R'000	COMPANY 2016 R'000	COMPANY 2015 R'000
Increase in deposits	**1 711 181**	929 709	**–**	–
Decrease in subsidiary loans	**–**	–	**145**	149
(Increase)/Decrease in other accounts receivable	**(156 270)**	2 488	**–**	–
Increase/(Decrease) in other accounts payable	**79 221**	32 506	**(24)**	(85)
Net increase in deposits and other accounts	**1 634 132**	964 703	**121**	64

28. Related party information

28.1 Identity of related parties with whom transactions have occurred

The parent company and material subsidiaries of the Group are identified on pages 2 and 81. 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.

28.2 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	
	2016 R'000	2015 R'000
Balances between the parent company (CGD) and the Bank:		
CGD – Lisbon (Branch of CGD)	**5 778**	243
Nostro accounts	**7 642**	2 114
Vostro accounts	**(1 864)**	(1 717)
Call deposit	**–**	(155)
CGD – Paris (Branch of CGD)		
Vostro accounts	**(10)**	(27)
CGD – New York (Branch of CGD)		
Foreign currency placements	**–**	155 676
CGD – London (Branch of CGD)		
Vostro accounts	**(8)**	(9)
Total CGD branches	**5 760**	155 882
Banco Comercial e de Investimentos – Mozambique (BCI) (Subsidiary of CGD)	**(21 690)**	55 537
Foreign currency placements	**–**	233 642
Local currency placements	**44 020**	–
Nostro accounts	**–**	2
Vostro accounts	**–**	(3 779)
Fixed deposits	**(64 250)**	(170 550)
Call and notice deposits	**(1 460)**	(3 779)
Banco Caixa Geral Totta Angola SA (BCGTA) (subsidiary of CGD)		
Call deposit	**(8 436)**	(7 164)
Banco Nacional Ultramarino S.A. (BNU Macau)		
Long-term funding	**(480 604)**	(233 674)
Net (deposits and funding from) CGD	**(504 970)**	(29 419)
Transactions between the parent company (CGD) and the Bank:		
Interest paid by the Bank to BCI	**1 418**	9 271
Interest paid by the Bank to BCGTA	**247**	105
Interest paid by the Bank to BNU	**11 204**	2 974
Interest received by the Bank from CGD – Lisbon	**103**	456
Interest received by the Bank from CGD – New York	**307**	1 236
Interest received by the Bank from BCI	**6 329**	5 116

28. Related party information continued

28.2 Related party balances and transactions continued

		GROUP 2016 R'000	GROUP 2015 R'000
Balances with the Company, its subsidiaries and joint venture:			
Loan to:	**Loan from:**		
Mercantile Bank Limited	Mercantile Bank Holdings Limited	**53**	198
Portion 2 of Lot 8 Sandown Proprietary Limited	Mercantile Bank Limited	**–**	1 568
Mercantile Bank Limited	Portion 2 of Lot 8 Sandown Proprietary Limited	**64 140**	–
Mercantile Acquiring Proprietary Limited	Mercantile Bank Limited	**–**	17
Mercantile Insurance Brokers Proprietary Limited	Mercantile Bank Limited	**41**	160
Mercantile Rental Finance Proprietary Limited	Mercantile Bank Limited	**479 250**	328 686
Mercantile Payment Solutions Proprietary Limited	Mercantile Bank Limited	**2 292**	2 267
Compass Securitisation (RF) Limited	Mercantile Rental Finance Proprietary Limited	**568**	480
Debt securities issued by:	**Invested in debt securities by:**		
Compass Securitisation (RF) Limited	Mercantile Rental Finance Proprietary Limited	**112 101**	95 848
Deposit with:	**Deposit by:**		
Mercantile Bank Limited	Mercantile Insurance Brokers Proprietary Limited	**463**	605
Mercantile Bank Limited	Mercantile Bank Holdings Limited	**4 134**	4 120
Mercantile Bank Limited	Mercantile Payment Solutions Proprietary Limited	**96**	83
Mercantile Bank Limited	The Mercantile Bank Foundation (NPC)	**39**	1
Transactions with the Company, its subsidiaries and joint venture:			
Interest received by:	**Interest paid by:**		
Mercantile Bank Limited	Portion 2 of Lot 8 Sandown Proprietary Limited	**245**	485
Portion 2 of Lot 8 Sandown Proprietary Limited	Mercantile Bank Limited	**209**	–
Mercantile Bank Limited	Mercantile Acquiring Proprietary Limited	**–**	605
Mercantile Insurance Brokers Proprietary Limited	Mercantile Bank Limited	**11**	10
Mercantile Bank Limited	Mercantile Rental Finance Proprietary Limited	**42 056**	31 075
Mercantile Rental Finance Proprietary Limited	Compass Securitisation (RF) Limited	**16 357**	13 995
Non-interest income earned by:	**Operating expenditure paid by:**		
Portion 2 of Lot 8 Sandown Proprietary Limited	Mercantile Bank Limited	**21 860**	20 207
Mercantile Acquiring Proprietary Limited	Mercantile Bank Limited	**–**	122
Mercantile Bank Limited	Mercantile Insurance Brokers Proprietary Limited	**1**	1
Mercantile Bank Limited	Mercantile Rental Finance Proprietary Limited	**314**	216
Mercantile Bank Limited	Mercantile E–Bureau Proprietary Limited	**55 769**	47 826
Mercantile Rental Finance Proprietary Limited	Compass Securitisation (RF) Limited	**568**	480
Portion 2 of Lot 8 Sandown Proprietary Limited	Mercantile Rental Finance Proprietary Limited	**228**	211

28. Related party information continued

28.2 Related party balances and transactions continued

		GROUP 2016 R'000	GROUP 2015 R'000
Transactions with the Company, its subsidiaries and joint venture continued:			
Donations received by:	**Donations paid by:**		
The Mercantile Bank Foundation (NPC)	Mercantile Bank Limited	**1 161**	1 000
Dividends earned by:	**Dividends paid by:**		
Mercantile Bank Holdings Limited	Mercantile Bank Limited	**29 197**	25 668

Guarantees

Mercantile Bank Limited acted as guarantor over the mortgage bond between Portion 2 of Lot 8 Sandown Proprietary Limited and Standard Bank Limited for a maximum amount of R90 million in respect of the property as per note 3.

Other

Post-retirement medical plan

Details of the post-retirement medical plan are disclosed in note 18.

28.3 Director and Director-related activities

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

	Directors' fees R'000	Salary R'000	Role-based allowance^ R'000	Fringe benefits R'000	Retirement funds and medical aid contri-butions R'000	Perfor-mance bonus# R'000	Total R'000
Group							
2016							
Non-Executive Directors							
NF Thomaz* (resigned 1 June 2016)	–	–	–	–	–	–	–
GP de Kock	**1 150**	–	–	–	–	–	**1 150**
L Hyne	**789**	–	–	–	–	–	**789**
AT Ikalafeng	**668**	–	–	–	–	–	**668**
DR Motsepe	**751**	–	–	–	–	–	**751**
TH Njikizana	**873**	–	–	–	–	–	**873**
Executive Directors							
RS Caliço	–	**3 015**	–	**578**	**85**	**1 800**	**5 478**
KR Kumbier	–	**3 887**	**2 700**	–	**622**	**4 350**	**11 559**
	4 231	**6 902**	**2 700**	**578**	**707**	**6 150**	**21 268**

** 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 did not receive a fee for his Chairmanship of the Mercantile Board.*

^ Refer to page 81 for nature of the role-based allowance.

 # This is the performance bonus earned for the financial year but paid in the following year/s.

28. Related party information continued

28.3 Director and Director-related activities continued

	Directors' fees R'000	Salary R'000	Role-based allowance^ R'000	Fringe benefits R'000	Retirement funds and medical aid contri-butions R'000	Perfor-mance bonus# R'000	Total R'000
Group							
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

** 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 did not receive a fee for his Chairmanship of the Mercantile Board.*

^ Refer to page 81 for nature of the role-based allowance.

 # This is the performance bonus earned for the financial year but paid in the following year/s.

	GROUP 2016 R'000	GROUP 2015 R'000
Deferred bonus scheme expense relating to Executive Directors		
KR Kumbier	**–**	283
Loans to Executive Directors		
RS Caliço	**232**	806
Amounts paid by CGD to Executive Directors		
RS Caliço	**1 470**	1 403

28. Related party information continued

28.3 Director and Director-related activities continued

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 2016, of the 5 000 000 phantom awards granted in 2013 to Mr Kumbier, 1 250 000 phantom awards were cash settled at a proxy price of 65,3 cents each. The balance of awards (3 750 000) were forfeited as performance conditions in terms of the plan were not achieved (2015: 875 000 phantom awards cash settled at a proxy price of 67,2 cents each).

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), the CEO's remuneration structure was revised and the phantom awards granted under the deferred bonus scheme were cancelled. In respect to the 2014 awards that were cancelled, if the parameters for the three-year period ending 2016 were achieved, a further amount of up to R1 million could be payable to the CEO, however, this is dependent on the CPSP's targets achieved in the said period and will be paid pro-rata to the targets achieved. This amount will be added to the short-term incentive payable in 2017. A role-based, non-pensionable allowance of R2,7 million was paid to the CEO in the 2016 financial year (2015: R2,6 million) – (refer to the remuneration table on pages 79 and 80).

RS 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.

29. 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.

The principal consolidated companies are as follows:

Company name	Effective holding %	Nature of business
Compass Securitisation (RF) Limited	100	Securitisation special purpose vehicle
Mercantile Acquiring Proprietary Limited	100	Property holding
Mercantile Bank Limited	100	Banking
Mercantile Rental Finance Proprietary Limited	100	Rental finance
Mercantile Insurance Brokers Proprietary Limited	100	Insurance broking
Portion 2 of Lot 8 Sandown Proprietary Limited	100	Property holding

The Bank owns 50% of Mercantile Payment Solutions Proprietary Limited (MPS) with a third party owning the other 50%. Due to the shareholder requirement to have unanimous consent by both parties in order to make decisions around the relevant activities of the entity, this entity is considered a joint arrangement. MPS is a separate legal entity and both parties have rights to the net assets of the business and as such this entity is considered a joint venture. The earnings related to this joint venture has been accounted for in profit and loss under non-interest income and the investment in joint venture has not been accounted for as it is considered immaterial.

In June 2016, the Group increased its shareholding in Mercantile Rental Finance from 74,9% to 100% as the minority shareholders early exercised their put option to sell their shareholding; consequently, this is now a wholly owned subsidiary of the Group (2015: 74,9%).

30. 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.

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, inter alia:

- the introduction of an automated online tool to monitor compliance with the key risk indicator process;
- further improvements to various risk and control self-assessment templates;
- progress toward the establishment of a combined assurance approach;
- enhancements to the Risk Tolerance Framework as approved by the Board and incorporation into the Group's Internal Capital Adequacy Assessment Process (ICAAP);
- enhancements to various risk reporting and automation of selected regulatory reporting;
- alignment of processes to the requirements set out in the Principles for Effective Risk Data Aggregation and Risk Reporting as published by the Bank for International Settlements;
- additions to the prudential management schedule, including various realignments to new regulatory requirements, wherein all risk-related ratios are monitored and reported to the Asset and Liability Committee (ALCO) and Board on a monthly basis;
- expansion of stress testing;
- further enhancements to the Asset and Liability Management (ALM) monitoring and reporting process, including an increased focus on margin management and the monitoring of the effective net open currency position;
- increased interaction with the Group's holding company's risk departments in Portugal and alignment of some risk management processes;
- streamlining of risk management methodologies and techniques in subsidiary companies together with rewrites of processes and procedures in use. This will remain a focus area during 2017;
- 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 and applying more conservative liquidity buffers;
- expanded use of an online training application to ensure that staff stay abreast of regulatory and other changes;
- entrenching a workflow solution in various departments and the continued expansion of this solution to gain further operational efficiencies;
- further enhancement of the Group's ICAAP and documentation as well as expanded stress testing;
- enhancements and additions to the Group-wide Enterprise-wide Risk Management Framework to factor in changes in risk profiles;
- a comprehensive cyber security assessment was conducted by a specialist service provider. Completion of associated action plans is underway to mitigate isolated gaps that were identified during the assessment;
- entrenching the implementation of a workflow solution (OnBase) in various departments. Further enhancements were made to the workflow solution in the Credit Origination, Credit Assessment and Fulfilment departments. It was also enhanced to include arrears management;
- the IFRS 9 implementation project commenced during 2016. The Group is on track for the completion, including a comprehensive parallel run period, during 2017 and will implement IFRS 9 in January 2018; and
- bedding down the amalgamation and restructure of operational areas of the Group to enhance operational efficiencies.

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 and 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, Risk and Capital Management Committee (RMC) and Credit Committee (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 South African Reserve Bank (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	Reputational 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 (including cyber) 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 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 internal assessments and regulatory requirements. A comprehensive re-evaluation of the capital requirements under the ICAAP 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. Although there is a focus on small and medium-sized businesses, across a wide variety of industries, the client target market selection includes Corporate/Commercial and the more recently launched Private Banking and Private Practice.

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 the RMC. Mercantile Rental Finance has a similar credit risk assessment and mandate process, which is adopted in the credit risk area managing this subsidiary's loan book. Although no specific targeting of the broader personal retail-based market is done, Private Banking was launched at the end of 2013 and Private Practice will be launched during 2017 – both specifically target entrepreneurs with the view to ultimately acquiring their business accounts. To manage the related credit risk, a dedicated Credit Manager is responsible for these portfolios.

Dependent upon the risk profile of the client across all portfolios/market segments, the risk inherent in the product offering and the track record/payment history of the client, varying types and levels of security are taken to mitigate credit-related risks. Clean or unsecured lending will only be considered for financially strong borrowers or for some facilities, such as overdrafts and credit cards within the Private Bank and Private Practice portfolios.

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 Caixa Geral de Depósitos S.A (CGD) Group companies operating in certain African countries.

Monthly reporting to ALCO includes reporting on large exposures (i.e. in excess of R20 million).

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

The Group continues to adopt 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). This meeting includes reporting on excess reports, arrear reports, insurance-related matters, possible changes in risk grades and any other relevant credit-related matters requiring a specific mention or discussion. 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. Identified accounts with continued behavioural concerns are monitored by way of 'Watch List' reporting supported by monthly update meetings.

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.

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

- CGD amended the Group's Limits of Authority for approval and, as a result, Risk Group Exposures between R93 million and R163 million require approval from the CGD Risk Department. This approval is in addition to approval by the RMC. Approvals in excess of R163 million require approval from the CGD Credit Committee;
- 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; loading of the credit limits including forward exchange contract limits and monthly reporting requirements;
- Further enhancements were made to our workflow solution (OnBase) in the Credit Origination, Assessment and Fulfilment departments. These enhancements include an arrear management workflow;
- A new head of Credit was appointed during the latter part of 2016. The previous head of Credit will remain in the department to provide support and mentorship to the new incumbent for an extended period; and
- Appointment of new Credit Managers in replacement of a retiree and vacancy. This allows for further strengthening of the credit team.

The IFRS 9 project is on track to meet the effective date of 1 January 2018. Specific credit-related requirements have been identified and are being addressed by direct involvement and participation on the IFRS 9 Steering Committee.

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
2016				
Current accounts	**1 765 592**	**196 236**	**–**	**1 961 828**
Credit cards	**33 971**	**78 888**	**–**	**112 859**
Mortgage loans	**4 303 851**	**27 248**	**–**	**4 331 099**
Instalment sales and leases	**1 144 073**	**–**	**–**	**1 144 073**
Structured loans	**211 189**	**–**	**–**	**211 189**
Medium-term loans	**1 292 601**	**–**	**–**	**1 292 601**
Negotiable securities	**–**	**–**	**509 874**	**509 874**
Cash and cash equivalents	**–**	**–**	**2 247 070**	**2 247 070**
Guarantees	**–**	**–**	**457 473**	**457 743**
Letters of credit	**–**	**–**	**20 979**	**20 979**
	8 751 277	**302 372**	**3 235 396**	**12 289 045**

	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

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, among others, 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 reputation 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, challenging the current status quo with regard to operational controls, 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.

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

ITGRC and ISM 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 is consistent across all operations. This enables quick and transparent reporting to all stakeholders and the Board.

The following key milestones were achieved during the year:

- A cyber security health check was performed by a specialist service provider with a specific focus on four domains, namely:
  - Incident management;
  - Information Security Management System – policy library development;
  - Human resources; and
  - Confidentiality and privacy.

These four domains consider technology and security risk as a Group-wide process, and the project has been progressing steadily in improving maturity in these domains. The main deliverable after the health check was the formalisation of policies, standards and procedures that govern a proactive approach to technology and risk mitigation within the Group:

- Successful implementation of Kaspersky workstation anti-virus and USB lockout;
- Assessment of the RiskSecure environment in line with PCI and cyber controls;
- Penetration testing of the Card and SWIFT environments to better understand risk in line with industry breaches;
- Successful take-on of new alliance partners in the Card environment;
- Successful implementation of Checkpoint firewalls for internal, external and disaster recovery for efficient perimeter defence;
- Implementation of an intrusion detection system to assist with threat intelligence in the event of cyber incident;
- Successful implementation of a new on-line banking system; and
- Successful implementation of a new mobile banking system.

In terms of the ITGRC and ISM, the following future steps, among others, have been planned for 2017 to reduce and understand technology-related risks:

- Bank-wide logical access and access governance;
- SWIFT attestation scope and remediation; and
- Audit finding remediation.

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 client 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 88 to 92).

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 R14,4 million (2015: R15,8 million). An adverse movement in the exchange rate of 10% would reduce the Group's income by R1,4 million (2015: R1,6 million).

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

	US dollar R'000	Euro R'000	Pound sterling R'000	Other R'000	Total R'000
2016					
Total foreign exchange assets	**469 139**	**95 369**	**28 377**	**20 722**	**613 607**
Total foreign exchange liabilities	**(928 381)**	**(67 225)**	**(23 380)**	**(11 949)**	**(1 030 935)**
Commitments to purchase foreign currency	**1 067 769**	**125 184**	**30 721**	**21 083**	**1 244 757**
Commitments to sell foreign currency	**(601 866)**	**(149 119)**	**(36 531)**	**(29 455)**	**(816 971)**
Year-end effective net open foreign currency positions	**6 661**	**4 209**	**(813)**	**401**	**10 458**
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

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 clients. 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 clients 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 the 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 intentional 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 repricing 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 2017 – especially due to competitors paying more for deposits that will improve Basel III ratios (liquidity coverage ratio and the net stable funding ratio).

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 R10,4 million or decrease by R16,9 million respectively (2015: increase/decrease by R9,5 million/R15,3 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, although to a lesser extent than previously, 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.

	Up to 1 month R'000	1 to 3 months R'000	4 to 12 months R'000	1 to 5 years R'000	Over 5 years R'000	Non-interest-sensitive R'000	Total R'000	Effective interest rate %
2016								
Assets								
Intangible assets	–	–	–	–	–	178 813	178 813	–
Property and equipment	–	–	–	–	–	254 604	254 604	–
Current tax receivable	–	–	–	–	–	681	681	–
Other accounts receivable	–	–	–	–	–	327 001	327 001	–
Other investments	–	–	–	–	–	6 712	6 712	–
Loans and advances	8 813 547	–	731	–	–	(152 466)	8 661 812	11,0
Derivative financial instruments	–	–	–	–	–	29 442	29 442	–
Negotiable securities	–	140 407	318 339	51 128	–	–	509 874	6,8
Cash and cash equivalents	1 403 859	–	–	–	–	843 211	2 247 070	6,0
Total assets	10 217 406	140 407	319 070	51 128	–	1 487 998	12 216 009	
Equity and liabilities								
Total equity	–	–	–	–	–	2 155 878	2 155 878	–
Deferred tax liabilities	–	–	–	–	–	54 693	54 693	–
Long-term funding	630 682	204 153	–	–	–	2 864	837 699	9,7
Debt securities	–	241 009	–	–	–	–	241 009	9,6
Deposits	5 787 308	346 950	487 908	44 854	–	1 806 014	8 473 034	5,7
Derivative financial instruments	–	–	–	–	–	43 733	43 733	–
Provisions and other liabilities	–	–	–	–	–	94 072	94 072	–
Current tax payable	–	–	–	–	–	7 324	7 324	–
Other accounts payable	–	–	–	–	–	308 567	308 567	–
Total equity and liabilities	6 417 990	792 112	487 908	44 854	–	4 473 145	12 216 009	
Financial position interest sensitivity gap	3 799 416	(651 705)	(168 838)	6 274	–		2 985 147	
Derivative financial instruments	240 000	(240 000)	–	–	–		–	
Total net interest sensitivity gap	4 039 416	(891 705)	(168 838)	6 274	–		2 985 147	

	Up to 1 month R'000	1 to 3 months R'000	4 to 12 months R'000	1 to 5 years R'000	Over 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	

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 on a regular basis. 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:

- Contractual maturity mismatches analysis;
- Monitoring of daily cash flow movements and requirements, including daily settlements and collateral management processes;
- Maintenance of increased levels of readily available, high-quality liquid assets (in excess of the statutory requirements), as well as strong financial position liquidity ratios;
- An assumptions-based sensitivity analysis to assess potential cash flows at risk;
- Graphical analysis of client deposits trend line;
- Deposit campaign management throughout the year to achieve deposit objectives;
- Management of concentration risk (i.e. undue reliance on any single counterparty or counterparty group, sector, market, product, instrument, currency and tenor);
- Maintenance of sources of funding for contingency funding needs;
- Monitoring of daily cash flow movements and requirements, including daily settlements and collateral management processes;
- Targeting of a diversified funding base to avoid undue concentrations by investor, market source and maturity;
- Creation and monitoring of prudential liquidity risk limits;
- Maintenance of an appropriate mix of term-funding; and
- Redefinition of stress testing in line with prudential ratios and possible regulatory requirements in respect of 10-day liquid asset holdings (stressed to 30 days).

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 raising commercial, retail and wholesale funding, while ensuring compliance with the Basel III liquidity requirements.

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 (LR), 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:

	Assets R'000	Liabilities R'000	Total mismatch R'000
2016			
Maturing up to one month	**4 408 624**	**6 212 890**	**(1 804 266)**
Maturing between one and three months	**369 494**	**1 255 196**	**(885 702)**
Maturing between three and six months	**135 664**	**786 558**	**(650 894)**
Maturing between six months and one year	**282 368**	**314 893**	**(32 525)**
Maturing after one year	**6 650 213**	**1 432 341**	**5 217 872**
Non-contractual	**369 646**	**58 253**	**311 393**
	12 216 009	**10 060 131**	**2 155 878**
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

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:

	Up to 1 month R'000	1 to 3 months R'000	4 to 6 months R'000	7 to 12 months R'000	Over 1 year R'000
2016					
Deposits	**5 796 523**	**1 007 419**	**298 859**	**333 041**	**1 179 592**
Long-term funding	**–**	**–**	**500 515**	**–**	**452 016**
Debt securities	**–**	**245 830**	**–**	**–**	**–**
Derivative financial instruments	**9 710**	**17 670**	**15 846**	**507**	**–**
Other accounts payable	**305 007**	**–**	**–**	**–**	**3 560**
Guarantees, letters of credit and committed undrawn facilities	**780 824**	**–**	**–**	**–**	**–**
Operating lease commitments	**467**	**937**	**1 391**	**2 830**	**15 731**
	6 892 531	**1 271 856**	**816 611**	**336 378**	**1 650 899**
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

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.

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 Group 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 surplus capital held. The dividend policy remains insignificant in relation to earnings and capital.

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:

	Unaudited 2016 R'000	Audited 2015 R'000
Risk-weighted assets – banking book		
Credit risk	**8 890 645**	7 407 215
Operational risk	**1 283 143**	1 130 769
Market risk	**36 288**	21 213
Equity	**6 651**	76 618
Other assets	**662 354**	174 640
	10 879 081	8 810 455
Net qualifying capital and reserves		
Tier 1 capital	**1 950 911**	1 834 072
Share capital and share premium	**1 483 300**	1 483 300
Retained earnings	**545 034**	448 591
Other reserves	**69 742**	56 655
Less: Deductions	**(147 165)**	(154 474)
Tier 2 capital	**26 214**	25 341
General allowance for credit impairment	**26 214**	25 341
	1 977 125	1 859 413
Capital adequacy ratio (%)	**18,2**	21,1
Tier 1 capital (%)	**18,0**	20,8
Tier 2 capital (%)	**0,2**	0,3

Glossary of terms

Abbreviation/ Acronym	Definition/ Description
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
AML	Anti-Money Laundering
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
BaNCS	Mercantile's Core Banking System
BEE	Black Economic Empowerment
BRICS	Brazil, Russia, India, China, South Africa
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFT	Combating Financing of Terrorism
CGD	Caixa Geral de Depósitos S.A., a company registered in Portugal, parent company of Mercantile Bank Holdings Limited
CIV	Client identification and verification
Companies Act	Companies Act, No.71 of 2008
CPSP	Conditional Phantom Share Plan
CREDCOM	Credit Committee
CRS	Common Reporting Standard
CSR	Corporate social responsibility
DAC	Directors' Affairs Committee
DTI	Department of Trade and Industry
EXCO	Executive Committee
FAIS	Financial Advisory and Intermediary Services Act, No. 37 of 2002
FATCA	Foreign Accounts Tax Compliance Act
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act, No. 38 of 2001
FSC	Financial Sector Code
GAC	Group Audit Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards and Interpretations

Abbreviation/ Acronym	Definition/ Description
IRBA	Independent Regulatory Board for Auditors
ISO	Information Security Management
ITGRC	IT Governance, Risk, Compliance
JSE	Johannesburg Stock Exchange Limited
King III	King Report on Corporate Governance for South Africa 2009
King IV	King Report on Corporate Governance for South Africa 2016
Mercantile	Mercantile Bank Holdings Limited and its subsidiaries
Mercantile Rental Finance	Mercantile Rental Finance Proprietary Limited
ML	Money laundering
NCA	National Credit Act, No. 34 of 2005
NSFR	Net stable funding ratio
OECD	Organisation for Economic Co-operation and Development
PfP	Partners for Possibility (an initiative which partners business leaders with principals of struggling schools)
POPI	Protection of Personal Information Act
ROA	Return on average assets
ROE	Return on average equity
RMC	Risk and Capital Management Committee
SABRIC	South African Banking Risk Information Centre
SARB	South African Reserve Bank
SETCom	Social Ethics and Transformation Committee
SME	Small and medium enterprise
TF	Terrorist financing
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

Mercantile Bank Group

Head office

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Tel: +27 11 302 0300
Fax: +27 11 883 7765

Mercantile Insurance Brokers

Head office

142 West Street, Sandown 2196
PO Box 782699, Sandton 2146
Tel: +27 11 302 0300
Fax: +27 11 883 7765

Mercantile Rental Finance

Head office

19 Crewkeme Place Office Park
Ground Floor, cnr Keynsham and
Umhlanga Rocks Drive
Umhlanga 4319
PO Box 47290, Greyville 4023
Tel: +27 31 303 2292
Fax: +27 31 303 2612

Business centres

Bedford business centre

Bedford Shopping Centre, Banking Mall
cnr Smith and Van der Linde Roads
Bedfordview 2008
PO Box 31558, Braamfontein 2017
Tel: +27 11 624 1450
Fax: +27 11 614 9611

Boksburg business centre

Atlas Lifestyle Centre, cnr Atlas and
North Rand Roads, Boksburg 1459
PO Box 31558, Braamfontein 2017
Tel: +27 11 918 5276
Fax: +27 11 918 4159

Cape Town City business centre

1 Ground Floor, Roggebaai Place
Jetty Street, Foreshore
Cape Town 2001
PO Box 51, Cape Town 8000
Tel: +27 21 419 9402
Fax: +27 21 419 5929

Cape Town Tygerberg business centre

Ground Floor, The Edge
3 Howick Close, Tyger Waterfront
Bellville 7530
PO Box 5436, Tygervalley 7536
Tel: +27 21 910 0161
Fax: +27 21 910 0163

Comaro Crossing business centre

Shop FF9, Comaro Crossing Shopping
Centre, Orpen and Comaro Roads
Oakdene 2190
PO Box 31558, Braamfontein 2017
Tel: +27 11 435 0640
Fax: +27 11 435 1586

Durban business centre

Shop 25A, The Atrium
430 Peter Mokaba Road
Berea, Durban 2001
PO Box 519, Durban 4000
Tel: +27 31 209 9048
Fax: +27 31 209 9446

Horizon business centre

The Village @ Horizon Shopping Centre
Shop 56, cnr Sonop Street and
Ontdekkers Road, Horizon 1724
PO Box 31558, Braamfontein 2017
Tel: +27 11 763 6000
Fax: +27 11 763 8742

Pretoria Menlyn business centre

Unit C-G01, Menlyn Square Office Park
cnr Lois and Aramist Streets
Menlyn 0181
PO Box 31558, Braamfontein 2017
Tel: +27 12 342 1151
Fax: +27 12 342 1191

Pretoria West business centre

477 Mitchell Street
Pretoria West 0183
PO Box 31558, Braamfontein 2017
Tel: +27 12 327 4671
Fax: +27 12 327 4645

Sandton business centre

Ground Floor, 142 West Street
Sandown 2196
PO Box 31558, Braamfontein 2017
Tel: +27 11 302 0775
Fax: +27 11 884 1821

Strijdom Park business centre

Shop 2, Homeworld Centre
cnr Malibongwe Drive and CR Swart
Road, Strijdom Park
Randburg 2194
PO Box 31558, Braamfontein 2017
Tel: +27 11 791 0854
Fax: +27 11 791 2387

Vanderbijlpark business centre

Office 3, The Palms
274 Louis Trichardt Boulevard
Vanderbijlpark 1911
PO Box 31558, Braamfontein 2017
Tel: +27 16 981 4132/9
Fax: +27 16 981 0767

Welkom business centre

Shop 1 and 1C
Welkom Shopping Centre
Bounded by Bok
Toronto and Arrarat Street
Welkom 9459
PO Box 2207, Welkom 9460
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Fax: +27 57 352 7879

Mercantile Bank
Holdings Limited

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