Mercantile Bank Holdings Limited and its subsidiaries
(“the Group”)
unaudited bi-annual disclosure
as at 30 June 2013
(incorporating quarterly disclosure)

Disclosure in terms of Regulation 43 relating to banks, issued under section 90 of the Banks Act, No. 94 of 1990, as amended

1. Basis of compilation

The following information is compiled in terms of Regulation 43 relating to banks, issued under section 90 of the Banks Act, No.94 of 1990 (as amended) ("the Regulations"), which incorporates the Basel 3 Pillar Three requirements on market discipline.

All disclosures presented below are consistent with those disclosed in terms of International Financial Reporting Standards ("IFRS"), unless otherwise stated. In the main, differences between IFRS and information disclosed in terms of the Regulations relate to the definition of capital and the calculation and measurement thereof.

These disclosures have been prepared in compliance with the Group's disclosure policy.

2. Scope of reporting

This report covers the consolidated results of Mercantile Bank Holdings Limited and its subsidiaries ("the Group") for the period ending 30 June 2013.

Mercantile Bank Holdings Limited is a registered bank controlling and investment holding company. Its 100% holding company is Caixa Geral de Depósitos S.A. ("CGD"), a company registered in Portugal.

The consolidated approach adopted for accounting purposes is consistent with the approach adopted for regulatory purposes. The descriptions and details of the consolidated entities within the Group are as follows:

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

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

3. Detailed disclosures

3.1 Credit risk

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

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

Table 3.1.1 Gross credit risk exposures
As at 30 June 2013

	Gross exposure (2)	Risk-weighted exposure	Total capital required (@ 9.5%)
	R'000	R'000	R'000
Portfolios			
Corporate (1)	**1 440 905**	**1 347 340**	**127 997**
SME Corporate	**2 168 358**	**1 900 858**	**180 582**
Public Sector Entities	**55 535**	**27 767**	**2 638**
Local government and municipalities	**2 195**	**1 098**	**104**
Sovereigns (Treasury bills & Government Stock)	**284 012**	**-**	**-**
Banks (1)	**637 158**	**128 694**	**12 226**
Retail	**2 997 141**	**1 858 473**	**176 555**
-Residential mortgage advances	946 937	368 800	35 036
-Retail revolving credit (Overdrafts & credit cards)	48 575	16 356	1 554
-SME retail	1 862 742	1 378 493	130 957
-Retail – other	138 887	94 824	9 008
Total	**7 585 304**	**5 264 230**	**500 102**

(1) Included in 'Corporate' and 'Banks' exposures are money market funds of R523 million and R497 million, respectively.
(2) Gross Exposure includes the total on-balance sheet, off-balance sheet and derivative fair values as well as the derivative risk factor.

Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques
As at 30 June 2013

	Gross credit exposure after set off (2) R'000	Credit risk mitigation (3) R'000	Credit exposure after risk mitigation R'000
Major types of credit exposure			
Corporate (1)	**1 440 905**	**1 718**	**1 439 187**
SME Corporate	**2 168 358**	**15 666**	**2 152 692**
Public Sector Entities	**55 535**	**-**	**55 535**
Local government and municipalities	**2 195**	**-**	**2 195**
Sovereigns (Treasury bills & Government Stock)	**284 012**	**-**	**284 012**
Banks (1)	**637 158**	**1**	**637 157**
Retail	**2 997 141**	**72 264**	**2 924 877**
-Residential mortgage advances	946 937	5 302	941 635
-Retail revolving credit (Overdrafts & credit cards)	48 575	-	48 575
-SME retail	1 862 742	50 435	1 812 307
-Retail – other	138 887	16 527	122 360
Total	**7 585 304**	**89 649**	**7 495 655**

(1) Included in 'Corporate' and 'Banks' exposures are money market funds of R523 million and R497 million, respectively
(2) Gross Exposure includes the total on-balance sheet, off-balance sheet and derivative fair values as well as the derivative risk factor.
(3) Only inward bank guarantees and eligible pledged investments and/or liquid funds are taken into account as credit risk mitigation. Inward guarantees are mainly received from CGD. Other forms of credit risk mitigation are non-qualifying collateral items in terms of the Regulations and are commented on below.

The Group uses on- and off-balance sheet netting to restrict its exposure to credit losses. When a client maintains both debit and credit balances with the Group and the Group enters into a netting agreement in respect of the relevant loans and deposits with the said counterparty, the Group may regard the exposure as a collateralised exposure in accordance with Regulation 23 of the Regulations. As at 30 June 2013, the Group did not recognise any netting arrangements to reduce its credit risk exposures for capital adequacy requirements.

Policies and processes for collateral valuation and management

Dependent upon the risk profile of the customer and their track record/payment history, and the risk inherent in the product offering, varying types and levels of security are taken to reduce credit-related risks. These include, inter alia, pledges of investments, mortgage and notarial bonds, guarantees and cession of debtors. Various levels of security value are attached to the different categories of security taken. The value of the security is reviewed regularly and the Group does not have any material concentration risk in respect of collateral used to reduce credit risk. Clean or unsecured lending will only be considered for financially strong borrowers.

Table 3.1.3 Geographical distribution of credit exposure
As at 30 June 2013

	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
Geographical area				
South Africa	6 567 623	884 234	13 386	7 465 243
Other	120 061	-	-	120 061
- Africa (excl South Africa)	149	-	-	149
- Asia	867	-	-	867
- Australia	2 718	-	-	2 718
- Europe - CGD	664	-	-	664
- Other institutions	54 046	-	-	54 046
- North America	61 617	-	-	61 617
Total	**6 687 684**	**884 234**	**13 386**	**7 585 304**

Table 3.1.4 Analyses of credit exposure based on industry sector
As at 30 June 2013

	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
Industry sector				
Agriculture, hunting, forestry and fishing	134 750	11 627	2	146 379
Mining and quarrying	253 841	33 059	414	287 314
Manufacturing	482 554	79 676	981	563 211
Electricity, gas and water supply	13 352	1 098	-	14 450
Construction	230 802	37 258	186	268 246
Wholesale and retail trade, repair of specified items, hotels and restaurants	960 223	256 441	1,080	1 217 744
Transport, storage and communication	106 503	13 325	17	119 845
Financial intermediation and insurance	1 657 630	67 617	9 978	1 735 225
Real estate	1 119 610	61 157	8	1 180 775
Business services	352 000	17 337	123	369 460
Community, social and personal services	71 630	3 602	61	75 293
Private households	312 328	23 171	411	335 910
Other	992 461	278 866	125	1 271 452
Total	**6 687 684**	**884 234**	**13 386**	**7 585 304**

Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 30 June 2013

Counterparty credit risk	Total derivative instruments R'000	Maximum counterparty credit exposure R'000
Total Notional Principal amount	66 807	91 807
Gross replacement cost	12 718	14 218
Net replacement cost	12 718	14 218
Gross potential future exposure add-on	668	918
Net potential future exposure add-on	668	918
Adjusted exposure amount	13 386	15 136
Risk weighted exposure	7 945	12 260

Derivative exposures are only incurred with Mercantile clients of sound financial standing.

These derivative risks are done on a back-to-back basis with the five major banks in South Africa. No concentration risk exists and no additional capital has been allocated.

Table 3.1.6 Daily average gross credit exposure
For the period ended 30 June 2013

	Average gross credit exposure R'000
Summary of on-balance sheet and off-balance sheet credit exposure	
Asset class	
Liquid assets	**1 564 043**
Cash and cash equivalents - Rand denominated	1 160 949
Cash and cash equivalents - Foreign currency denominated	115 691
Negotiable securities	287 403
Gross loans and other advances	**5 578 396**
Current accounts	1 394 975
Credit card	21 441
Mortgage loans	2 425 028
Instalment sales and leases	654 831
Other advances	1 082 121
Gross other assets	**14 878**
Investments	7 445
Derivative financial assets	7 433
On-balance sheet exposure	**7 157 317**
Guarantees	**299 898**
Letters of credit	**21 318**
Committed undrawn facilities	**68 246**
Revocable overdraft facilities	**473 057**
Operating lease commitment	**8 792**
Off-balance sheet exposure	**871 311**
Total gross credit exposure	**8 028 628**

Table 3.1.7 Impairments of loans and advances per geographical area
As at 30 June 2013

Impaired and past due loans and advances by geographical area

	South Africa Gross amount R'000	Other Gross amount R'000
Individually impaired loans and advances	**200 164**	**-**
Impairments for credit losses		
Portfolio impairments	11 162	-
Specific impairments	68 379	-
	79 541	**-**

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

Past due for:	1 – 30 days R'000	31 - 60 days R'000	61 -90 days R'000	Total gross amount R'000
South Africa	**77 276**	**1 044**	**56 193**	**134 513**
Other	**-**	**-**	**-**	**-**

A financial asset is past due when the counterparty has failed to make a payment that is contractually due; this is based on appropriate rules and assumptions per product type. An impairment loss is recognised if there is objective evidence that a financial asset or group of financial assets is impaired. Impaired exposure relates to assets that are individually determined to be impaired at reporting date.

Table 3.1.8 Reconciliation of changes in specific and portfolio impairments
For the period ended 30 June 2013

Impairments for credit losses

Reconciliation of credit impairment balances	Portfolio impairment R'000	Specific impairment R'000	Total R'000
Credit impairments: balance at the beginning of the period	**12 302**	**62 931**	**75 233**
Movements for the period:			
Credit losses written-off	-	(490)	(490)
Net impairments raised	(1 140)	5 938	4 798
Credit impairments: balance at the end of the period	**11 162**	**68 379**	**79 541**

Table 3.1.9 Write-offs and recoveries reflected in the statement of comprehensive income
For the period ended 30 June 2013

	South Africa R'000
Net charge for credit losses in statement of comprehensive income	
Movements for the period:	
Bad debts recovered	(977)
Net impairments raised	4 798
Amounts directly written off to other comprehensive income	1 721
Net charge for credit losses	**5 542**

Table 3.1.10 Credit portfolio maturity analysis
As at 30 June 2013

	Money market and current accounts R'000	Credit cards R'000	Mortgage loans R'000	Instalment sales and leases R'000	Other advances (1) R'000	Negotiable securities R'000	Total Advances R'000
Maturing up to one month	2 328 403	20 811	190 670	9 468	53 060	216 240	2 818 652
Maturing between one and three months	-	-	2 597	4 072	3 170	95 599	105 438
Maturing between three and six months	-	-	20 555	6 367	100 365	-	127 287
Maturing between six months and one year	-	-	5 579	25 398	22 736	-	53 713
Maturing after one year	-	-	2 139 977	628 871	909 345	17 262	3 695 455
	2 328 403	**20 811**	**2 359 378**	**674 176**	**1 088 676**	**329 101**	**6 800 545**

(1) Other advances includes medium-term and structured loans

3.2 Operational risk

The Group currently holds R93.3 million in operational risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 9.5%).

3.3 Market risk

The portfolios that are subject to market risk are foreign exchange and interest rate contracts for which the Group currently holds R2.3 million in market risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 9.5%).

3.4 Equity positions

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

Table 3.4.1 Equity investments
As at 30 June 2013

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 9.5%) R'000
Investments				
Unlisted	Shares	5 052	5 052	480
		5 052	**5 052**	**480**

Table 3.4.2 Realised and unrealised gains on equity investments
For the period ended 30 June 2013

	Total R'000
Realised gains and losses in profit and loss for the period	
Listed	16 310
	16 310
Unrealised cumulative gains and losses recognised directly in equity	
Listed	33
Unlisted	4 815
	4 848

3.5 Liquidity risk

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

Table 3.5 Liquidity maturity analyses
As at 30 June 2013

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	3 282 742	3 001 919	280 823
Maturing between one and three months	109 470	826 915	(717 445)
Maturing between three and six months	132 542	432 365	(299 823)
Maturing between six months and one year	53 726	656 112	(602 386)
Maturing after one year	3 695 473	839 360	2 856 113
Non-contractual	280 829	97 250	183 579
	7 554 782	**5 853 921**	**1 700 861**

3.6 Interest rate risk

Interest rate sensitivity analyses

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

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

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

Table 3.6 Net interest income sensitivity
As at 30 June 2013

	Impact on economic value of equity R'000	Impact on net interest income for twelve months R'000
Net interest income sensitivity of a parallel shock		
Interest rate increase (200bps increase)	**32 529**	**32 529**
Interest rate decrease (200bps decrease)	**(22 157)**	**(22 157)**

3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 30 June 2013

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Common equity tier 1 capital and reserve funds attributable to common shareholder:		
Paid up capital	**1 207 270**	**1 483 299**
Ordinary shares	36 140	124 969
Share premium	1 171 130	1 358 330
Qualifying retained profits	**386,521**	**178,756**
Retained earnings	402 783	194 630
Less: unappropriated profits	(16 262)	(15 874)
Accumulated other comprehensive income and reserves	**91 302**	**36 400**
Unrealised gains and losses on available for sale items	3 162	24 100
Property revaluation reserve	76 874	69
General reserve	7 478	12 231
Other capital reserve funds	3 788	-
Minority interest recognised in common equity tier 1 capital and reserve funds	**(494)**	**-**
Total common equity tier 1 capital and unimpaired reserve funds prior to regulatory adjustment	**1 684 599**	**1 698 455**
Total of specified adjustments to and deductions from common equity tier 1 capital and reserve funds	**(199 139)**	**(199 139)**
Intangibles assets	(199 139)	(199 139)
Total common equity tier 1 capital and unimpaired reserve funds post regulatory adjustment	**1 485 460**	**1 499 316**
Total Additional Tier 1 capital and reserve funds:	**-**	**-**
Additional Tier 1 capital and reserve funds	-	-
Additional Tier 1 regulatory adjustments	-	-
Tier 2 capital and unimpaired reserve funds prior to adjustments and deductions	**9 028**	**8 628**
General allowance for credit impairment, after deferred tax: standardised approach	9 028	8 628
Tier 2 regulatory adjustments	-	-
Total qualifying capital and reserve funds	**1 494 488**	**1 507 944**

The Bank does not have a countercyclical buffer requirement as this has not been imposed by the Bank Supervision Department of the South African Reserve Bank and will only be phased in from 1 January 2016.

3.7 Capital management (continued)

Table 3.7.1 Capital structure and regulatory capital adequacy (continued)
As at 30 June 2013

		Mercantile Bank Holdings Limited Group	Mercantile Bank Limited Company
Capital adequacy ratio (%)			
Common Equity Tier 1		22.42%	22.75%
Tier 1		22.42%	22.75%
Total		22.56%	22.88%
Minimum required ratio (amount R'000)			
Common Equity Tier 1	**@ 4.5%**	298 124	296 552
Tier 1	**@ 6.0%**	397 499	395 403
Total	**@ 9.5%**	629 373	626 054

Table 3.7.2 Total risk weighted exposure and required regulatory capital
As at 30 June 2013

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Risk weighted exposure equivalent amount prior to concentration risk	6 624 975	6 590 042
Risk weighted exposure amount in respect of threshold items	-	3
Aggregate risk weighted exposure equivalent amounts	6 624 975	6 590 045
Minimum required capital and reserve funds	**629 373**	**626 054**

The Group has documented its Internal Capital Adequacy Assessment Process ("ICAAP"), which was approved by the Board of Directors. Various direct, indirect and associated risks faced by the Bank and the mitigating controls that are in place were evaluated.

4. Financial performance and financial position

STATEMENT OF FINANCIAL POSITION

	Note	Change %	30 June 2013 Unaudited R'000	30 June 2012 Unaudited R'000	31 December 2012 Audited R'000
ASSETS					
Intangible assets			199 146	200 219	197 833
Property and equipment			140 304	130 018	144 267
Tax			1 203	110	1 251
Other accounts receivable			171 341	79 762	82 521
Other investments			5 052	67 663	19 883
Deferred tax assets			2 399	806	2 368
Non-current assets held for sale			13 470	-	13 453
Loans and advances		5.6	5 251 832	4 975 053	5 291 748
Derivative financial instruments			18 338	7 249	6 495
Negotiable securities			329 101	222 622	257 514
Cash and cash equivalents	1	58.4	1 422 596	898 136	1 223 016
Total assets		14.8	**7 554 782**	**6 581 638**	**7 240 349**
EQUITY AND LIABILITIES					
Total equity attributable to equity holders of the parent		7.8	**1 701 355**	**1 578 050**	**1 674 091**
Share capital and share premium			1 207 270	1 038 217	1 207 270
Property revaluation reserve			76 874	62 433	76 874
Available-for-sale reserve			3 162	25 938	18 533
Capital redemption reserve fund			3 788	3 788	3 788
General reserve			7 478	7 478	7 478
Retained earnings	2		402 783	440 196	360 148
Non-controlling interests			(494)	404	(187)
Total equity			**1 700 861**	**1 578 454**	**1 673 904**
Liabilities			**5 853 921**	**5 003 184**	**5 566 445**
Deferred tax liabilities			60 016	24 497	60 016
Long-term funding	1	50.1	582 362	388 008	581 876
Deposits	1	10.7	4 925 609	4 451 332	4 736 758
Derivative financial instruments			20 433	9 678	7 160
Provisions and other liabilities			65 754	48 519	71 993
Other accounts payable			199 562	79 186	108 642
Tax			185	1 964	-
Total equity and liabilities		14.8	**7 554 782**	**6 581 638**	**7 240 349**

4. Financial performance and financial position (continued)

STATEMENT OF INCOME

	Note	Change %	Six months ended 30 June 2013 R'000 Unaudited	Six months ended 30 June 2012 R'000 Unaudited	12 months ended 31 December 2012 R'000 Audited
Interest income			286 476	249 670	528 361
Interest expense			(117 988)	(96 318)	(209 313)
Net interest income		9.9	**168 488**	**153 352**	**319 048**
Net (charge for) credit losses	3		(5 542)	(16 750)	(29 185)
Net interest income after credit losses			**162 946**	**136 602**	**289 863**
Net gain on disposal of designated through profit and loss investments	4		-	-	26 555
Net gain on disposal of available-for-sale investments	5		16 310	278	14 832
Net non-interest income		-2.1	99 216	101 338	207 111
Non-interest income			161 912	162 977	334 301
Fee and commission expenditure			(62 696)	(61 639)	(127 190)
Net interest and non-interest income			**278 472**	**238 218**	**538 361**
Operating expenditure		11.7	(179 620)	(160 816)	(346 136)
Profit before tax		27.7	**98 852**	**77 402**	**192 225**
Tax			(26 852)	(21 427)	(47 836)
Profit after tax from continuing operations		28.6	**72 000**	**55 975**	**144 389**
Net profit after tax from discontinued operations	6		-	8 759	8 759
Profit after tax			**72 000**	**64 734**	**153 148**
Profit after tax attributable to:					
Equity holders of the parent:		20.2	**72 307**	**60 167**	**148 364**
From continuing operations			72 307	55 574	143 771
From discontinued operations			-	4 593	4 593
Non-controlling interests			**(307)**	**4 567**	**4 784**
From continuing operations			(307)	401	618
From discontinued operations	6		-	4 166	4 166
			72 000	**64 734**	**153 148**

Explanatory notes

1. Cash and cash equivalents increase due to long-term funding and stronger deposit base.
2. A dividend of R29.672 million was declared in February 2013 and paid in March 2013. The reconciliation of the movement of retained earnings is as follows:

	R'000
Balance at 1 January 2013	360 148
Profit for the period	72 307
Dividend paid	(29 672)
Balance at 30 June 2013	402 783

4. Financial performance and financial position (continued)

Explanatory notes (continued)

3. The charge for credit losses as a percentage of average loans and advances is 0.42% (June 2012: 0.68%) which remains well below industry averages.
4. Gains on the disposal of investments in the structured loan portfolio were realised in the second half of 2012.
5. Gains were recognised on the disposal of VISA Inc. shares during the second half of 2012 and during the current period.
6. Mercantile's share of 51% in Multi Risk Holdings (Pty) Ltd, which was acquired on 1 July 2011, was sold with effect 29 June 2012.

5. Qualitative disclosures and accounting policies

The Regulations require that certain qualitative disclosures and statements on accounting policy be made. These required regulatory qualitative disclosures and statements on accounting policy were made in the Group integrated annual report for the financial year ended 31 December 2012.

The above disclosures should be read in conjunction with the qualitative disclosures made in the risk management and control, corporate governance and statements on Group accounting policy contained in the Group integrated annual report as at 31 December 2012.

9 September 2013