Mercantile Bank Holdings Limited and its subsidiaries
(“the Group”)
unaudited bi-annual disclosure
as at 30 June 2016
(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 2016.

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

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

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

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

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 2016

	Gross exposure (2)	Risk-weighted exposure	Total capital required (@ 9.75%)
	R'000	R'000	R'000
Portfolios			
Corporate (1)	**2 013 669**	**1 818 767**	**177 330**
SME Corporate (3)	**3 772 054**	**3 234 169**	**315 332**
Public Sector Entities (3)	**3 873**	**1 937**	**189**
Sovereigns (Treasury bills & Government Stock)	**448 316**	**-**	**-**
Banks (1)	**1 205 400**	**449 062**	**43 784**
Retail	**4 573 746**	**2 897 805**	**282 535**
-Residential mortgage advances	1 726 850	835 746	81 485
-Retail revolving credit (Overdrafts & credit cards)	103 037	30 302	2 954
-SME retail (3)	2 486 130	1 872 082	182 528
-Retail – other (3)	257 729	159 675	15 568
Total	**12 017 058**	**8 401 740**	**819 170**

(1) Included in 'Corporate' and 'Banks' exposures are money market funds of R598 million and R873 million, respectively.
(2) Gross exposure includes the total on-balance sheet, off-balance sheet and derivative fair values as well as the derivative risk factor.
(3) Included in the above are securitised rental assets to the value of R340 million held in Compass Securitisation (RF) Ltd, which is consolidated for Group purposes.

Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques
As at 30 June 2016

	Gross credit exposure after set off (2) R'000	Credit risk mitigation (4) R'000	Credit exposure after risk mitigation R'000
Major types of credit exposure			
Corporate (1)	**2 013 669**	**2 718**	**2 010 951**
SME Corporate (3)	**3 772 054**	**30 270**	**3 741 784**
Public Sector Entities (3)	**3 873**	**-**	**3 873**
Sovereigns (Treasury bills & Government Stock)	**448 316**	**-**	**448 316**
Banks (1)	**1 205 400**	**-**	**1 205 400**
Retail	**4 573 746**	**59 760**	**4 513 986**
-Residential mortgage advances	1 726 850	9 214	1 717 636
-Retail revolving credit (Overdrafts & credit cards)	103 037	-	103 037
-SME retail (3)	2 486 130	36 999	2 449 131
-Retail – other (3)	257 729	13 547	244 182
Total	**12 017 058**	**92 748**	**11 924 310**

(1) Included in 'Corporate' and 'Banks' exposures are money market funds of R598 million and R873 million, respectively.

(2) Gross exposure includes the total on-balance sheet, off-balance sheet and derivative fair values as well as the derivative risk factor.

(3) Included in the above are securitised rental assets to the value of R340 million held in Compass Securitisation (RF) Ltd, which is consolidated for Group purposes.

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

The Group uses on- and off-balance sheet netting to restrict its exposure to credit losses. When a client maintains both debit and credit balances with the Group and the Group enters into a netting agreement in respect of the relevant loans and deposits with the said counterparty, the Group may regard the exposure as a collateralised exposure in accordance with Regulation 23 of the Regulations. As at 30 June 2016, 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, 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 cessions 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 2016

	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
Geographical area				
South Africa	9 912 787	1 767 647	56 678	11 737 112
Other	279 946	-	-	279 946
- Africa (excl South Africa)	147	-	-	147
- Asia	94	-	-	94
- Australia	7 140	-	-	7 140
- Europe	55 500	-	-	55 500
- North America	217 065	-	-	217 065
Total	**10 192 733**	**1 767 647**	**56 678**	**12 017 058**

Table 3.1.4 Analyses of credit exposure based on industry sector
As at 30 June 2016

	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	179 155	47 027	-	226 182
Mining and quarrying	323 816	62 814	2 128	388 758
Manufacturing	981 058	260 650	4 127	1 245 835
Electricity, gas and water supply	69 545	3 834	145	73 524
Construction	415 268	326 069	1 293	742 630
Wholesale and retail trade, repair of specified items, hotels and restaurants	1 402 907	295 933	12 719	1 711 559
Transport, storage and communication	96 626	24 868	430	121 924
Financial intermediation and insurance	2 872 240	66 631	22 740	2 961 611
Real estate	2 051 652	160 430	-	2 212 082
Business services	478 997	45 673	-	524 670
Community, social and personal services	405 877	47 528	1 253	454 658
Private households	683 220	168 403	522	852 145
Other	232 372	257 787	11 321	501 480
Total	**10 192 733**	**1 767 647**	**56 678**	**12 017 058**

Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 30 June 2016

Counterparty credit risk	Total derivative instruments R'000	Maximum counterparty credit exposure R'000
Total Notional Principal amount	2 434 137	2 799 257
Gross replacement cost	32 336	37 187
Net replacement cost	32 336	37 187
Gross potential future exposure add-on	24 341	27 993
Net potential future exposure add-on	24 341	27 993
Adjusted exposure amount	56 678	65 179
Standardised CVA	12 223	14 056
Risk weighted exposure	55 436	63 751

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

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

Table 3.1.6 Daily average gross credit exposure
For the six months ended 30 June 2016

	Average gross credit exposure R'000
Summary of on-balance sheet and off-balance sheet credit exposure	
Asset class	
Liquid assets	**2 110 169**
Cash and cash equivalents - Rand denominated	975 862
Cash and cash equivalents - Foreign currency denominated	616 327
Negotiable securities	517 980
Gross loans and other advances	**7 861 061**
Current accounts	1 910 558
Credit cards	27 886
Mortgage loans	3 475 065
Instalment sales and leases	977 785
Other advances	1 469 767
Gross other assets	**47 713**
Investments	5 754
Derivative financial assets	41 959
On-balance sheet exposure	**10 018 943**
Guarantees	**614 241**
Letters of credit	**18 483**
Committed undrawn facilities	**330 395**
Revocable overdraft facilities	**710 743**
Operating lease commitment	**15 014**
Off-balance sheet exposure	**1 688 876**
Total gross credit exposure	**11 707 819**

Table 3.1.7 Impairments of loans and advances per geographical area
As at 30 June 2016

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	**192 727**	**-**
Impairments for credit losses		
Portfolio impairments	25 752	-
Specific impairments	46 341	-
	72 093	**-**

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	**43 543**	**4 252**	**4 754**	**52 549**
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 six months ended 30 June 2016

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	**25 530**	**34 124**	**59 654**
Movements for the period			
Credit losses written-off	-	(1 942)	(1 942)
Net impairments raised	222	14 159	14 381
Credit impairments: balance at the end of the period	**25 752**	**46 341**	**72 093**

Table 3.1.9 Write-offs and recoveries reflected in the statement of comprehensive income
For the six months ended 30 June 2016

	South Africa R'000
Net charge for credit losses in statement of comprehensive income	
Movements for the period:	
Bad debts recovered	**1 575**
Net impairments raised	**(14 381)**
Amounts directly written off to other comprehensive income	**(4 615)**
Net charge for credit losses	**(17 421)**

Table 3.1.10 Credit portfolio maturity analysis
As at 30 June 2016

	Cash and cash equivalents and current accounts(1) R'000	Credit cards R'000	Mortgage loans R'000	Instalment sales and leases R'000	Other advances (2) R'000	Negotiable securities R'000	Total Advances R'000
Maturing up to one month	1 878 585	31 070	17	2 430	1 658 133	-	3 570 235
Maturing between one and three months	-	-	181 758	2 815	12 599	189 334	386 506
Maturing between three and six months	-	-	1 018	9 190	228 671	-	238 879
Maturing between six months and one year	-	-	4 555	34 249	24 256	-	63 060
Maturing after one year	-	-	3 415 531	962 335	1 492 916	258 982	6 129 764
	1 878 585	**31 070**	**3 602 879**	**1 011 019**	**3 416 575**	**448 316**	**10 388 444**

(1) "Cash and cash equivalents" includes money market funds, Rand- and foreign currency-denominated bank balances.

(2) "Other advances" includes medium-term and structured loans.

3.2 Operational risk

The Group currently holds R117 million in operational risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 9.75%).

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 9.75%).

3.4 Equity positions

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

Table 3.4.1 Equity investments
As at 30 June 2016

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 9.75%) R'000
Investments				
Unlisted	Shares	5 958	5 958	581
		5 958	**5 958**	**581**

Table 3.4.2 Realised and unrealised gains on equity investments
For the six months ended 30 June 2016

	Total R'000
Realised gains and losses in profit and loss for the period	**-**
Unrealised cumulative gains and losses recognised directly in equity	
Listed	33
Unlisted	5 721
	5 754

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 2016

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	4 009 158	5 491 855	(1 482 697)
Maturing between one and three months	398 135	744 125	(345 990)
Maturing between three and six months	244 660	739 266	(494 606)
Maturing between six months and one year	65 278	744 735	(679 457)
Maturing after one year	6 129 958	1 389 949	4 740 009
Non-contractual	362 651	58 237	304 414
	11 209 840	**9 168 167**	**2 041 673**

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 2016

	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)	**36 199**	**36 199**
Interest rate decrease (200bps decrease)	**(55 226)**	**(55 226)**

3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 30 June 2016

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Common equity tier 1 capital and reserve funds attributable to common shareholder:		
Paid up capital	**1 207 270**	**1 483 300**
Ordinary shares	36 140	124 969
Share premium	1 171 130	1 358 331
Qualifying retained profits	**721 507**	**545 033**
Retained earnings	725 630	545 033
Less: unappropriated profits	(4 123)	-
Accumulated other comprehensive income and reserves	**108 687**	**60 782**
Unrealised gains and losses on available for sale items	4 562	69 137
Actuarial reserve	(8 355)	(8 355)
Property revaluation reserve	112 480	-
Minority interest recognised in common equity tier 1 capital and reserve funds	**-**	**-**
Total common equity tier 1 capital and unimpaired reserve funds prior to regulatory adjustment	**2 037 464**	**2 089 115**
Total of specified adjustments to and deductions from common equity tier 1 capital and reserve funds	**(148 074)**	**(147 837)**
Intangible assets	(148 074)	(147 837)
Total common equity tier 1 capital and unimpaired reserve funds post regulatory adjustment	**1 889 390**	**1 941 278**
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	**25 752**	**25 256**
General allowance for credit impairment, after deferred tax: standardised approach	25 752	25 256
Tier 2 regulatory adjustments	-	-
Total qualifying capital and reserve funds	**1 915 142**	**1 966 534**

3.7 Capital management (continued)

Table 3.7.1 Capital structure and regulatory capital adequacy (continued)
As at 30 June 2016

In line with the requirements of the Bank Supervision Department of the South African Reserve Bank, and effective from 1 January 2016, the Bank has implemented a countercyclical buffer of 0.00% and a capital conservation buffer of 0.625%.

		Mercantile Bank Holdings Limited Group	Mercantile Bank Limited Company
Capital adequacy ratio (%)			
Common Equity Tier 1		18.73%	19.43%
Tier 1		18.73%	19.43%
Total		18.98%	19.68%
Minimum required ratio (amount R'000)			
Common Equity Tier 1	@6.25%	630 629	624 432
Tier 1	@7.50%	756 755	749 318
Total minimum capital requirement prior to buffer	@9.75%	983 781	974 113
Add-on countercyclical buffer	@0.00%	-	-
Add-on capital conservation buffer	@0.625%	63 063	62 443
Total capital requirement ratio	@10.375%	1 046 844	1 036 556

Table 3.7.2 Total risk weighted exposure and required regulatory capital
As at 30 June 2016

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Risk weighted exposure equivalent amount prior to concentration risk	10 090 065	9 912 444
Risk weighted exposure equivalent amount in respect of concentration risk	-	-
Risk weighted exposure amount in respect of threshold items	-	78 460
Aggregate risk weighted exposure equivalent amounts	10 090 065	9 990 904
Minimum required capital and reserve funds	983 781	974 113

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

The disclosures of the composition of capital and main capital features for the Group and the Bank, required per Directive 3 of 2015, issued in terms of section 6(6) of the Banks Act of 1990, are set out in Annexures A and B, respectively.

3.8 Liquidity disclosures

In terms of Regulation 43(1)(e)(iii)(F), the Liquidity Coverage Ratio ("LCR") positions of the Group and of the Bank, as at 30 June 2016, are set out below.

Table 3.8 Liquidity disclosures
As at 30 June 2016

	Mercantile Bank Holdings Group R'000	**Mercantile Bank Limited Company R'000**
High Quality Liquid Assets (HQLA)	658 790	658 790
Net cash outflows	387 979	387 979
Required LCR (%)	70.0	70.0
Actual LCR (%)	169.8	169.8

4. Financial performance and financial position

STATEMENT OF FINANCIAL POSITION

	Note	Change * %	30 June 2016 Unaudited R'000	30 June 2015 Unaudited R'000	31 December 2015 Audited R'000
ASSETS					
Intangible assets			185 399	187 518	192 064
Property and equipment			224 602	217 794	223 404
Tax			3 811	5 841	572
Other accounts receivable			226 068	122 158	167 278
Other investments			5 958	6 388	5 958
Deferred tax assets			-	651	-
Non-current assets held for sale			-	18 452	-
Loans and advances		15.2	8 027 893	6 969 617	7 250 043
Derivative financial instruments			32 131	9 717	56 775
Negotiable securities		(22.9)	448 316	581 547	551 494
Cash and cash equivalents		61.6	2 055 660	1 272 084	1 586 798
Total assets		19.4	**11 209 838**	**9 391 767**	**10 034 386**
EQUITY AND LIABILITIES					
Total equity attributable to equity holders of the parent		5.4	**2 041 673**	**1 937 680**	**2 021 777**
Share capital and share premium			1 207 270	1 207 270	1 207 270
Employee benefits reserve			(8 354)	(7 453)	(8 354)
Property revaluation reserve			112 480	110 147	112 480
Available-for-sale reserve			4 563	1 642	2 683
Retained earnings	1		725 714	626 074	707 698
Non-controlling interests	1		-	(1 568)	(1 165)
Total equity			**2 041 673**	**1 936 112**	**2 020 612**
Liabilities			**9 168 165**	**7 455 655**	**8 013 774**
Deferred tax liabilities			53 611	66 113	51 889
Long-term funding	2	32.4	866 042	653 929	646 215
Debt securities	3	18.4	240 000	202 764	202 810
Deposits		24.1	7 652 632	6 166 123	6 721 913
Derivative financial instruments			33 969	10 737	63 305
Provisions and other liabilities			67 028	76 985	94 736
Tax			-	992	12 245
Other accounts payable			254 883	278 012	220 661
Total equity and liabilities		19.4	**11 209 838**	**9 391 767**	**10 034 386**

*- representing the percentage change year-on-year to 30 June 2016.

STATEMENT OF INCOME

	Note	Change * %	Six months ended 30 June 2016 R'000 Unaudited	Six months ended 30 June 2015 R'000 Unaudited	12 months ended 31 December 2015 R'000 Audited
Interest income			467 170	364 910	773 313
Interest expense			(230 577)	(173 151)	(366 010)
Net interest income		23.4	**236 593**	**191 759**	**407 303**
Net (charge for) credit losses	4	7.3	(17 421)	(16 231)	(35 040)
Net interest income after credit losses			**219 172**	**175 528**	**372 263**
Net non-interest income		13.2	132 411	116 961	252 075
Non-interest income			233 331	193 537	412 869
Fee and commission expenditure			(100 920)	(76 576)	(160 794)
Net interest and non-interest income			**351 583**	**292 489**	**624 338**
Operating expenditure	5	19.2	(240 393)	(201 637)	(419 111)
Profit before tax		22.4	**111 190**	**90 852**	**205 227**
Tax			(31 429)	(25 990)	(58 338)
Profit after tax		23.0	**79 761**	**64 862**	**146 889**
Profit after tax attributable to:					
Equity holders of the parent		22.6	78 875	64 360	145 984
Non-controlling interests	1		886	502	905
			79 761	**64 862**	**146 889**

*- representing the percentage change year-on-year to 30 June 2016.

Explanatory notes

1. During June 2016, Mercantile Bank acquired the remaining 25.1% shareholding in Mercantile Rental Finance (Pty) Ltd for a consideration of R31.4 million, which was accounted for in line with IFRS 10 and debited against retained earnings.

2. A loan was obtained from the International Finance Corporation in 2011 - repayments in this regard commenced in September 2014 with the final payment due in September 2018. A funding line of USD 15 million was obtained from a CGD group company, Banco Nacional Ultramarino S.A. (Macau), during the first half of 2015 and an additional funding line of USD 20 million was obtained during the first half of 2016. Both funding lines are one-year loans renewable annually for a maximum of three years with the option of early settlement.

3. During the second quarter of 2016, R38 million in notes from the rental finance securitisation vehicle were issued to the International Finance Corporation.

4. The charge for credit losses as a percentage of average loans and advances is 0.46% (June 2015: 0.49%).

5. Operating expenditure increased by 19.2% year-on-year to June 2016, mainly due to higher staff costs and an under-provision of R9.6 million for settlement of a legal matter.

5. Remuneration

The Regulations require that the Group's remuneration policy, processes and procedures be disclosed to the public. Sufficient detail of qualitative and quantitative information has been disclosed as part of the corporate governance section of the Group's integrated annual report for the financial year ended 31 December 2015.

6. 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 2015.

The above disclosures should be read in conjunction with the qualitative disclosures made in the sections on risk management and control, and corporate governance and statements on Group accounting policy contained in the Group integrated annual report as at 31 December 2015.

1 September 2016

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Group
As at 30 June 2016

	R'000 — **Basel III common disclosures template to be used during the transition of regulatory adjustments (i.e. from 1 June 2013 to 1 January 2018)**		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1 207 270	
2	Retained earnings	721 507	
3	Accumulated other comprehensive income (and other reserves)	108 687	
4	Directly issued capital subject to phase out from CET 1 (only applicable to non-joint stock companies)	0	
	Public sector capital injections grandfathered until 1 January 2018	0	
5	Common share capital issued by subsidiaries and held third parties (amounts allowed in group CET)	0	0
6	**Common Equity Tier 1 capital before regulatory adjustments**	**2 037 464**	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	0	0
8	Goodwill (net of related tax liability)	0	0
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	148 074	148 074
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0
11	Cash-flow hedge reserve	0	0
12	Shortfall of provisions to expected losses	0	0
13	Securitisation gain on sale	0	0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0
15	Defined-benefit pension fund net assets	0	0
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet	0	0
17	Reciprocal cross-holdings in common equity	0	0
18	Investments in the capital of banking, financial, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	0

19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amounts above 10% threshold)	0	0
20	Mortgage servicing rights (amount above 10% threshold)	0	0
21	Deferred tax assets arising from temporary differences (amounts above 10% threshold, net of related tax liability)	0	0
22	Amount exceeding the 15% threshold	0	0
23	of which: significant investments in the common stock of financials	0	0
24	of which: mortgage servicing rights	0	0
25	of which: deferred tax assets arising from temporary differences	0	0
26	National specific regulatory adjustments	0	0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREAMENT	148 074	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	148 074	
	OF WHICH:	0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0	
28	**Total regulatory adjustments to Common Equity Tier 1**	**145 656**	
29	**Common Equity Tier 1 capital (CET1)**	**1 889 390**	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	0	
34	Additional Tier 1 instruments (and CET1 instruments not included in line 5) issued by subsidiaries and held by third parties (amounts allowed in group AT1)	0	
35	of which: instruments issued by subsidiaries subject to phase out	0	
36	**Additional Tier 1 capital before regulatory adjustments**	0	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	0	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments	0	0
39	Investments in the capital of banking, financial, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	0	0
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
41	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREAMENT	0	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	0	
	OF WHICH:	0	

42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	0	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**0**	
44	**Additional Tier 1 capital (AT1)**	**0**	
45	**Tier 1 capital (T1= CET1 + AT1)**	**1 889 390**	
	Tier 2 capital and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0	
47	Directly issued capital instruments subject to phase out from Tier 2	0	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in lines 5 to 34) issued by subsidiaries and held by third parties (amounts allowed in group Tier 2)	0	
49	of which: instruments issued by subsidiaries subject to phase out	0	
50	Provisions	25 752	
51	Tier 2 capital before regulatory adjustments	25 752	
	Tier 2 capital: regulatory adjustments		
52	Investment in own Tier 2 instruments	0	0
53	Reciprocal cross-holdings in Tier 2 instruments	0	0
54	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	0	0
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
56	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREAMENT	0	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	0	
	OF WHICH:	0	
57	**Total regulatory adjustments to Tier 2 capital**	**0**	
58	**Tier 2 capital (T2)**	**25 752**	
59	**Total capital (TC= T1 + T2)**	**1 915 142**	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREAMENT	10 090 065	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	**Total risk weighted assets**	**10 090 065**	

	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	18.73
62	Tier 1 (as a percentage of risk weighted assets)	18.73
63	Total capital (as a percentage of risk weighted assets)	18.98
64	Institution specific buffers requirements (minimum CET1 requirement plus capital conservation buffers plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	0.625
65	of which: capital conservation buffer requirement	0.625
66	of which: bank specific countercyclical buffer requirement	0
67	of which: G-SIB buffer requirement	0
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	18.73
	National Minima (if different from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	6.25
70	National Tier 1 minimum ratio	7.50
71	National total capital minimum ratio	9.75
	Amounts below the threshold for deductions (before risk weighting)	
72	Non-significant investments in the capital of other financials	0
73	Significant investments in common stock of financials	0
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	0
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	25 752
77	Cap on inclusion of provisions in Tier 2 under standardised approach	0
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	0
	Capital instruments subject to phase-out arrangement (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	0
81	Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	0
85	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Limited (solo)

As at 30 June 2016

R'000	**Basel III common disclosures template to be used during the transition of regulatory adjustments (i.e. from 1 June 2013 to 1 January 2018)**		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1 483 300	
2	Retained earnings	545 033	
3	Accumulated other comprehensive income (and other reserves)	60 782	
4	Directly issued capital subject to phase out from CET 1 (only applicable to non-joint stock companies)	0	
	Public sector capital injections grandfathered until 1 January 2018	0	
5	Common share capital issued by subsidiaries and held third parties (amounts allowed in group CET)	0	0
6	**Common Equity Tier 1 capital before regulatory adjustments**	2 089 115	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	0	0
8	Goodwill (net of related tax liability)	0	0
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	147 837	147 837
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0
11	Cash-flow hedge reserve	0	0
12	Shortfall of provisions to expected losses	0	0
13	Securitisation gain on sale	0	0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0
15	Defined-benefit pension fund net assets	0	0
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet	0	0
17	Reciprocal cross-holdings in common equity	0	0
18	Investments in the capital of banking, financial, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	0

19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amounts above 10% threshold)	0	0
20	Mortgage servicing rights (amount above 10% threshold)	0	0
21	Deferred tax assets arising from temporary differences (amounts above 10% threshold, net of related tax liability)	0	0
22	Amount exceeding the 15% threshold	0	0
23	of which: significant investments in the common stock of financials	0	0
24	of which: mortgage servicing rights	0	0
25	of which: deferred tax assets arising from temporary differences	0	0
26	National specific regulatory adjustments	0	0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREAMENT	147 837	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	147 837	
	OF WHICH:	0	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0	
28	**Total regulatory adjustments to Common Equity Tier 1**	**147 837**	
29	**Common Equity Tier 1 capital (CET1)**	**1 941 278**	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	0	
34	Additional Tier 1 instruments (and CET1 instruments not included in line 5) issued by subsidiaries and held by third parties (amounts allowed in group AT1)	0	
35	of which: instruments issued by subsidiaries subject to phase out	0	
36	**Additional Tier 1 capital before regulatory adjustments**	0	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	0	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments	0	0
39	Investments in the capital of banking, financial, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	0	0
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
41	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREAMENT	0	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	0	
	OF WHICH:	0	

42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	0	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**0**	
44	**Additional Tier 1 capital (AT1)**	**0**	
45	**Tier 1 capital (T1= CET1 + AT1)**	**1 941 278**	
	Tier 2 capital and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	0	
47	Directly issued capital instruments subject to phase out from Tier 2	0	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in lines 5 to 34) issued by subsidiaries and held by third parties (amounts allowed in group Tier 2)	0	
49	of which: instruments issued by subsidiaries subject to phase out	0	
50	Provisions	25 256	
51	Tier 2 capital before regulatory adjustments	25 256	
	Tier 2 capital: regulatory adjustments		
52	Investment in own Tier 2 instruments	0	0
53	Reciprocal cross-holdings in Tier 2 instruments	0	0
54	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	0	0
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
56	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREAMENT	0	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	0	
	OF WHICH:	0	
57	**Total regulatory adjustments to Tier 2 capital**	**0**	
58	**Tier 2 capital (T2)**	**25 256**	
59	**Total capital (TC= T1 + T2)**	**1 966 534**	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREAMENT	9 990 904	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	**Total risk weighted assets**	**9 990 904**	

	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	19.43
62	Tier 1 (as a percentage of risk weighted assets)	19.43
63	Total capital (as a percentage of risk weighted assets)	19.68
64	Institution specific buffers requirements (minimum CET1 requirement plus capital conservation buffers plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	0.625
65	of which: capital conservation buffer requirement	0.625
66	of which: bank specific countercyclical buffer requirement	0
67	of which: G-SIB buffer requirement	0
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	19.43
	National Minima (if different from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	6.25
70	National Tier 1 minimum ratio	7.50
71	National total capital minimum ratio	9.75
	Amounts below the threshold for deductions (before risk weighting)	
72	Non-significant investments in the capital of other financials	0
73	Significant investments in common stock of financials	0
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	0
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	25 256
77	Cap on inclusion of provisions in Tier 2 under standardised approach	0
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	0
	Capital instruments subject to phase-out arrangement (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	0
81	Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	0
85	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

ANNEXURE B: MAIN FEATURES DISCLOSURE TEMPLATE

Mercantile Bank Group and Mercantile Bank Limited (solo)

As at 30 June 2016

Disclosure template for main features of regulatory capital instruments			
1	Issuer	**Mercantile Bank Limited**	**Mercantile Bank Holdings Limited**
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Unlisted	Unlisted
3	Governing Law(s) of the instrument	Banks Act, Companies Act	Banks Act, Companies Act
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group and solo	Group
7	Instrument type (type to be specified by each jurisdiction)	Ordinary share capital	Ordinary share capital
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	R1 483 Million	R1 207 Million
9	Par value of instrument	R2.00	1 cent
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	28/03/2002	13/06/1989
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No Maturity	No Maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A

	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	N/A	N/A
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt, Senior unsecured debt, deposits, creditors	Subordinated debt, Senior unsecured debt, deposits, creditors
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A