Mercantile Bank Holdings Limited and its subsidiaries
(“the Group”)
Unaudited bi-annual disclosure
31 December 2011

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 II 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 31 December 2011.

Mercantile Bank Holdings Limited is a registered bank controlling and investment holding company. Its 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 entities within the Group are as follows:

Company name	Effective holding %	Nature of business	Fully consolidated
LSM (Troyeville) Properties (Pty) Ltd	100	Property holding	Yes
Mercantile Bank Ltd	100	Banking	Yes
Mercantile Insurance Brokers (Pty) Ltd	100	Insurance and assurance brokers	Yes
Portion 2 of Lot 8 Sandown (Pty) Ltd	100	Property holding	Yes
Custom Capital (Pty) Ltd	74.9	Rental finance	Yes
Multi Risk Investment Holdings (Pty) Ltd	51	Insurance and assurance brokers	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 Bank Regulations.

Table 3.1.1 Gross credit risk exposures
As at 31 December 2011

	Gross exposure R'000	Risk-weighted exposure R'000	Total capital required (@ 9.5%) R'000
Portfolios			
Corporate	673,442	510,817	48,528
SME Corporate	2,270,336	1,913,375	181,771
Public Sector Entities	9,704	4,852	461
Sovereigns	192,589	-	-
Banks	898,868	280,384	26,636
Retail	647,111	291,809	27,722
SME Retail	2,108,539	1,370,501	130,198
Total	**6,800,589**	**4,371,738**	**415,316**

Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques
As at 31 December 2011

	Gross credit exposure after set off R'000	Credit risk mitigation (1) R'000	Credit exposure after risk mitigation R'000
Major types of credit exposure			
Corporate	673,442	13,068	660,374
SME Corporate	2,270,336	5,419	2,264,917
Public Sector Entities	9,704	-	9,704
Sovereigns	192,589	-	192,589
Banks	898,868	-	898,868
Retail	647,111	22,897	624,214
SME Retail	2,108,539	44,530	2,064,009
Total	**6,800,589**	**85,914**	**6,714,675**

Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques (continued)
As at 31 December 2011

(1) 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 in the form of collateral are non-qualifying in terms of the Bank 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 Bank Regulations. As at 31 December 2011, 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, 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 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 31 December 2011

	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
Geographical area				
South Africa	5,662,638	1,058,885	18,714	6,740,237
Other	49,240	-	11,112	60,352
- Africa (excl South Africa)	169	-	-	169
- Asia	1,646	-	-	1,646
- Australia	1,158	-	-	1,158
- Europe - CGD	4,518	-	-	4,518
- Other institutions	31,554	-	11,112	42,666
- North America	10,195	-	-	10,195
Total	**5,711,878**	**1,058,885**	**29,826**	**6,800,589**

Table 3.1.4 Analyses of credit exposure based on industry sector
As at 31 December 2011

Industry sector	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
Agriculture, hunting, forestry and fishing	148,825	11,853	52	160,730
Mining and quarrying	255,891	29,801	4	285,696
Manufacturing	670,396	146,856	1,130	818,382
Electricity, gas and water supply	21,880	114	202	22,196
Construction	418,188	37,842	2,342	458,372
Wholesale and retail trade, repair of specified items, hotels and restaurants	758,917	364,738	3,714	1,127,369
Transport, storage and communication	74,211	17,808	9	92,028
Financial intermediation and insurance	1,359,504	100,816	19,124	1,479,444
Real estate	740,812	15,313	171	756,296
Business services	151,519	10,124	876	162,519
Community, social and personal services	54,921	6,085	52	61,058
Private households	344,103	48,476	138	392,717
Other	712,711	269,059	2,012	983,782
Total	**5,711,878**	**1,058,885**	**29,826**	**6,800,589**

Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 31 December 2011

Counterparty credit risk	Total derivative instruments R'000	Maximum counterparty credit exposure R'000
Gross positive fair value	**17,647**	**22,127**
Current netting benefits	**-**	**-**
Netted current credit exposure (pre-mitigation)	**18,328**	**33,804**
Collateral value after haircut	**-**	**-**
Current exposure method	**29,826**	**32,158**
Credit exposure	**12,611**	**14,502**

Derivative exposures are only incurred with clients of Mercantile which are 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.

The derivative exposure is currently margined to the extent of R3.1 million at December 2011 and no variation in margin is required in the event of credit rating changes for the Bank.

Table 3.1.6 Daily average gross credit exposure
For the year ended 31 December 2011

	Average gross credit exposure R'000
Summary of on-balance sheet and off-balance sheet credit exposure	
Asset class	
Liquid assets	**1,568,256**
Cash and cash equivalents - Rand denominated	932,407
Cash and cash equivalents - Foreign currency denominated	399,074
Negotiable securities	236,775
Gross loans and advances	**4,099,318**
Current accounts	786,913
Credit card	19,568
Mortgage loans	1,955,935
Instalment sales and leases	423,938
Other advances	912,964
Gross other assets	**81,017**
Investments	56,405
Derivative financial assets	24,612
On-balance sheet exposure	**5,748,591**
Guarantees	**308,950**
Letters of credit	**14,991**
Committed undrawn facilities	**102,268**
Revocable overdraft facilities	**508,279**
Operating lease commitments	**14,494**
Off-balance sheet exposure	**948,982**
Total gross credit exposure	**6,697,573**

Table 3.1.7 Impairments of loans and advances per geographical area
As at 31 December 2011

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	**226,399**	**-**
Impairments for credit losses		
Portfolio impairments	4,399	-
Specific impairments	72,151	-
	76,550	**-**

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	**29,232**	**13,142**	**35,840**	**78,214**
Other	**-**	**-**	**-**	**-**

A financial asset is past due when the counterparty has failed to make a payment when contractually due and is based on appropriate rules and assumptions per product type. An impairment loss is recognised if and only 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 year ended 31 December 2011

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 year	**5,513**	**62,071**	**67,584**
Movements for the year:			
Credit losses written-off	-	(1,982)	(1,982)
Net impairments raised/(released)	(1,114)	12,062	10,948
Credit impairments: balance at the end of the year	**4,399**	**72,151**	**76,550**

Table 3.1.9 Write-offs and recoveries reflected in the statement of comprehensive income
For the year ended 31 December 2011

	South Africa R'000
Net charge for credit losses in statement of comprehensive income	
Movements for the period:	
Bad debts recovered	(778)
Net impairments raised	10,948
Amounts directly written off to other comprehensive income	1,448
Net charge for credit losses	**11,618**

Table 3.1.10 Credit portfolio maturity analysis
As at 31 December 2011

	Current accounts R'000	Credit card R'000	Mortgage loans R'000	Instalment sales and leases R'000	Other advances R'000	Total Advances R'000
Maturing up to one month	938,645	19,777	139,193	4,545	12,144	1,114,304
Maturing between one and three months	-	-	5	3,864	4,913	8,782
Maturing between three and six months	-	-	2,839	4,791	4,030	11,660
Maturing between six months and one year	-	-	23,127	17,707	31,774	72,608
Maturing after one year	-	-	1,917,165	475,221	966,673	3,359,059
	938,645	**19,777**	**2,082,329**	**506,128**	**1,019,534**	**4,566,413**

3.2 Operational risk

The Group currently holds R76.2 million in operational risk capital in terms of the standardised approach for the calculation of this 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 R16.2 million in market risk capital in terms of the standardised approach for the calculation of this capital (based on a capital requirement of 9.5%).

3.4 Equity positions

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

Table 3.4.1 Equity investments
As at 31 December 2011

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 9.5%) R'000
Investments				
Listed	Shares	18,912	18,912	1,797
Unlisted	Shares	44,877	44,877	4,263
		63,789	**63,789**	**6,060**

Table 3.4.2 Realised and unrealised gains on equity investments
For the year ended 31 December 2011

	Total R'000
Unrealised gains and losses in profit and loss for the year	
Listed	-
Unlisted	39,849
	39,849
Unrealised cumulative gains and losses recognised directly in equity	
Listed	18,945
Unlisted	4,215
	23,160

3.5 Liquidity risk

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

Table 3.5 Liquidity maturity analyses
As at 31 December 2011

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	1,972,944	3,118,764	(1,145,820)
Maturing between one and three months	377,610	612,864	(235,254)
Maturing between three and six months	13,428	286,658	(273,230)
Maturing between six months and one year	72,800	423,980	(351,180)
Maturing after one year	3,377,932	34,915	3,343,017
Non-contractual	400,561	62,505	338,056
	6,215,275	**4,539,686**	**1,675,589**

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 borrowings in the banking book.

Table 3.6 Net interest income sensitivity
As at 31 December 2011

	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)	**34,680**	**34,680**
Interest rate decrease (200bps decrease)	**(31,404)**	**(31,404)**

3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 31 December 2011

	Mercantile Bank Holdings Limited Group	Mercantile Bank Limited Company
	R'000	R'000
Primary share capital		
Qualifying primary capital and reserve funds and deductions		
Issued primary share capital	**32,194**	**124,969**
Ordinary shares	32,194	124,969
Primary unimpaired reserve funds	**1,562,857**	**1,499,350**
Share premium	1,170,754	1,358,331
Retained earnings	251,726	11,570
Current year appropriated profits	129,111	117,218
General reserve	7,478	12,231
Other capital reserve funds	3,788	-
Total primary share capital and unimpaired reserve funds, before deductions, specified approved amounts and non qualifying amounts	**1,595,051**	**1,624,319**
Non-controlling interests	**(3,185)**	**(804)**
Deductions against primary share capital and primary unimpaired reserve funds	**(266,018)**	**(212,828)**
Intangible assets - computer software	(216,086)	(206,817)
Goodwill	(49,932)	-
Qualifying capital instruments held in banks	-	(6,011)
Net qualifying primary share capital and reserve funds	**1,325,848**	**1,410,687**
Qualifying secondary capital and reserve funds		
Secondary unimpaired reserve funds	**34,692**	**3,509**
Revaluation surplus	31,217	34
General allowance for credit impairment, after deferred tax	3,475	3,475
Net qualifying secondary capital and reserve funds	**34,692**	**3,509**
Aggregate amount of qualifying primary and secondary capital and reserve funds	**1,360,540**	**1,414,196**
Capital adequacy ratio	**24.10%**	**25.56%**
Primary capital	23.49%	25.50%
Secondary capital	0.61%	0.06%

3.7.2 Total risk weighted exposure and required regulatory capital

As at 31 December 2011

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	Mercantile Bank Holdings Limited Group		Mercantile Bank Limited Company	
	Total risk weighted exposure R'000	Minimum regulatory capital R'000	Total risk weighted exposure R'000	Minimum regulatory capital R'000
Total	**5,644,462**	**536,224**	**5,532,127**	**525,552**

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 were evaluated as well as mitigating controls that are in place.

4. Financial performance and financial position

Information pertaining to the financial performance and financial position for the year ended 31 December 2011 was publicly disclosed on SENS on 23 February 2012 and in the Group integrated annual report for the financial year ended 31 December 2011.

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 2011.

The above disclosures should be read in conjunction with these 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 2011.

23 March 2012