Mercantile Bank Holdings Limited and its subsidiaries
(“the Group”)
unaudited bi-annual disclosure
as at 31 December 2015
(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 year ending 31 December 2015.

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
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	74.9	Rental finance	Yes
Compass Securitisation (RF) Ltd	74.9	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 31 December 2015

	Gross exposure (2)	**Risk-weighted exposure**	**Total capital required (@ 10.0%)**
	R'000	**R'000**	**R'000**
Portfolios			
Corporate (1)	**1 257 226**	**1 138 746**	**113 875**
SME Corporate (3)	**4 304 863**	**3 595 999**	**359 600**
Public Sector Entities (3)	**97 624**	**48 812**	**4 881**
Sovereigns (Treasury bills & Government Stock)	**453 870**	**-**	**-**
Banks (1)	**1 001 417**	**446 646**	**44 665**
Retail	**3 585 728**	**2 177 011**	**217 701**
-Residential mortgage advances	1 419 658	623 207	62 321
-Retail revolving credit (Overdrafts & credit cards)	81 214	19 354	1 935
-SME retail (3)	1 904 474	1 420 725	142 073
-Retail – other (3)	180 382	113 725	11 372
Total	**10 700 728**	**7 407 214**	**740 722**

(1) Included in 'Corporate' and 'Banks' exposures are money market funds of R410 million and R733 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 R288 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 31 December 2015

	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)	**1 257 226**	**1 717**	**1 255 509**
SME Corporate (3)	**4 304 863**	**21 969**	**4 282 894**
Public Sector Entities (3)	**97 624**	**-**	**97 624**
Sovereigns (Treasury bills & Government Stock)	**453 870**	**-**	**453 870**
Banks (1)	**1 001 417**	**-**	**1 001 417**
Retail	**3 585 728**	**64 303**	**3 521 425**
-Residential mortgage advances	1 419 658	9 302	1 410 356
-Retail revolving credit (Overdrafts & credit cards)	81 214	81	81 133
-SME retail (3)	1 904 474	41 599	1 862 875
-Retail – other (3)	180 382	13 321	167 061
Total	**10 700 728**	**87 989**	**10 612 739**

(1) Included in ‘Corporate’ and ‘Banks’ exposures are money market funds of R410 million and R733 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 R288 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 31 December 2015, 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 31 December 2015

	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
Geographical area				
South Africa	8 293 569	1 774 094	63 832	10 131 495
Other	569 233	-	-	569 233
- Africa (excl South Africa)	241 067	-	-	241 067
- Asia	570	-	-	570
- Australia	2 117	-	-	2 117
- Europe	25 463	-	-	25 463
- North America	300 016	-	-	300 016
Total	**8 862 802**	**1 774 094**	**63 832**	**10 700 728**

Table 3.1.4 Analyses of credit exposure based on industry sector
As at 31 December 2015

	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	144 964	29 510	-	174 474
Mining and quarrying	304 210	108 015	-	412 225
Manufacturing	678 952	253 558	-	932 510
Electricity, gas and water supply	51 999	3 764	-	55 763
Construction	263 120	283 537	-	546 657
Wholesale and retail trade, repair of specified items, hotels and restaurants	966 148	301 733	192	1 268 073
Transport, storage and communication	79 496	40 928	-	120 424
Financial intermediation and insurance	2 190 741	122 986	27 763	2 341 490
Real estate	1 352 155	60 057	-	1 412 212
Business services	381 182	74 164	-	455 346
Community, social and personal services	129 203	51 796	97	181 096
Private households	474 618	61 615	1 000	537 233
Other	1 846 014	382 431	34 780	2 263 225
Total	**8 862 802**	**1 774 094**	**63 832**	**10 700 728**

Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 31 December 2015

Counterparty credit risk	Total derivative instruments R'000	Maximum counterparty credit exposure R'000
Total Notional Principal amount	1 136 508	1 306 985
Gross replacement cost	52 466	60 336
Net replacement cost	52 466	60 336
Gross potential future exposure add-on	11 365	13 070
Net potential future exposure add-on	11 365	13 070
Adjusted exposure amount	63 832	73 406
Standardised CVA	18 133	20 853
Risk weighted exposure	52 227	60 062

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 year ended 31 December 2015

	Average gross credit exposure R'000
Summary of on-balance sheet and off-balance sheet credit exposure	
Asset class	
Liquid assets	**1 978 991**
Cash and cash equivalents - Rand denominated	1 032 858
Cash and cash equivalents - Foreign currency denominated	424 915
Negotiable securities	521 218
Gross loans and other advances	**6 931 281**
Current accounts	1 585 435
Credit cards	21 108
Mortgage loans	2 868 302
Instalment sales and leases	884 258
Other advances	1 572 178
Gross other assets	**20 594**
Investments	5 754
Derivative financial assets	14 840
On-balance sheet exposure	**8 930 866**
Guarantees	**504 505**
Letters of credit	**24 939**
Committed undrawn facilities	**101 618**
Revocable overdraft facilities	**757 015**
Operating lease commitment	**10 728**
Off-balance sheet exposure	**1 398 805**
Total gross credit exposure	**10 329 671**

Table 3.1.7 Impairments of loans and advances per geographical area
As at 31 December 2015

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	**176 511**	**-**
Impairments for credit losses		
Portfolio impairments	25 530	-
Specific impairments	34 124	-
	59 654	**-**

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	**9 404**	**36 573**	**-**	**45 977**
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 year ended 31 December 2015

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	**11 727**	**27 998**	**39 725**
Movements for the year			
Credit losses written-off	-	(17 694)	(17 694)
Net impairments raised	13 803	23 820	37 623
Credit impairments: balance at the end of the year	**25 530**	**34 124**	**59 654**

Table 3.1.9 Write-offs and recoveries reflected in the statement of comprehensive income
For the year ended 31 December 2015

	South Africa R'000
Net charge for credit losses in statement of comprehensive income	
Movements for the year:	
Bad debts recovered	3 373
Net impairments raised	(37 913)
Amounts written off directly to comprehensive income	(5 500)
Reversal of impairment for properties in possession previously impaired	5 000
Net charge for credit losses	**(35 040)**

Table 3.1.10 Credit portfolio maturity analysis
As at 31 December 2015

	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	1 491 182	26 579	179 584	846	871 938	-	2 570 129
Maturing between one and three months	-	-	3	3 416	393 334	-	396 753
Maturing between three and six months	-	-	22 251	17 097	13 773	97 624	150 745
Maturing between six months and one year	-	-	4 429	35 504	34 256	194 373	268 562
Maturing after one year	-	-	2 945 419	901 518	1 604 915	259 497	5 711 349
	1 491 182	**26 579**	**3 151 686**	**958 381**	**2 918 216**	**551 494**	**9 097 538**

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

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

3.2 Operational risk

The Group currently holds R113 million in operational risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 10.0%).

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 R2.1 million in market risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 10.0%).

3.4 Equity positions

Investments consist of unlisted equity investments and these have been designated as available-for-sale.

Table 3.4.1 Equity investments
As at 31 December 2015

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 10.0%) R'000
Investments				
Unlisted	Shares	5 958	5 958	596
		5 958	**5 958**	**596**

Table 3.4.2 Realised and unrealised gains on equity investments
For the year ended 31 December 2015

	Total R'000
Realised gains and losses in profit and loss for the year	**-**
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 31 December 2015

	Assets R'000	Liabilities R'000	Total mismatch R'000
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**

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 31 December 2015

	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)	**37 854**	**37 854**
Interest rate decrease (200bps decrease)	**(61 417)**	**(61 417)**

3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 31 December 2015

	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	**657 698**	**448 588**
Retained earnings	707 698	498 588
Less: unappropriated profits	(50 000)	(50 000)
Accumulated other comprehensive income and reserves	**106 809**	**56 656**
Unrealised gains and losses on available for sale items	2 683	65 010
Actuarial reserve	(8 354)	(8 354)
Property revaluation reserve	112 480	-
Minority interest recognised in common equity tier 1 capital and reserve funds	**(1 165)**	**-**
Total common equity tier 1 capital and unimpaired reserve funds prior to regulatory adjustment	**1 970 612**	**1 988 544**
Total of specified adjustments to and deductions from common equity tier 1 capital and reserve funds	**(154 739)**	**(154 474)**
Intangible assets	(154 739)	(154 474)
Total common equity tier 1 capital and unimpaired reserve funds post regulatory adjustment	**1 815 873**	**1 834 070**
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	**25 530**	**25 340**
General allowance for credit impairment, after deferred tax: standardised approach	25 530	25 340
Tier 2 regulatory adjustments	-	-
Total qualifying capital and reserve funds	**1 841 403**	**1 859 410**

3.7 Capital management (continued)

Table 3.7.1 Capital structure and regulatory capital adequacy (continued)
As at 31 December 2015

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.

		Mercantile Bank Holdings Limited Group	Mercantile Bank Limited Company
Capital adequacy ratio (%)			
Common Equity Tier 1		20.07%	20.82%
Tier 1		20.07%	20.82%
Total		20.35%	21.10%
Minimum required ratio (amount R'000)			
Common Equity Tier 1	@ **6.5%**	588 101	572 680
Tier 1	@ **8.0%**	723 816	704 837
Total	@ **10.0%**	904 770	881 046

Table 3.7.2 Total risk weighted exposure and required regulatory capital
As at 31 December 2015

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Risk weighted exposure equivalent amount prior to concentration risk	9 047 703	8 810 455
Risk weighted exposure equivalent amount in respect of concentration risk	-	-
Risk weighted exposure amount in respect of threshold items	-	3
Aggregate risk weighted exposure equivalent amounts	9 047 703	8 810 458
Minimum required capital and reserve funds	**904 770**	**881 046**

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 related mitigating controls that are in place were evaluated.

The Group and Bank's composition of capital and main capital features disclosure, required per directive 8 of 2013, issued in terms of section 6(6) of the Banks Act of 1990, is disclosed 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 are set out below.

Table 3.8 Liquidity disclosures
As at 31 December 2015

	Mercantile Bank Holdings Group R'000	Mercantile Bank Limited Company R'000
High Quality Liquid Assets (HQLA)	799 291	799 291
Net cash outflows	338 215	338 215
Required LCR (%)	60.0	60.0
Actual LCR (%)	236.3	236.3

4. Financial performance and financial position

Information pertaining to the financial performance and financial position for the year ended 31 December 2015 is available on the Group's website: www.mercantile.co.za

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 the statements on Group accounting policy contained in the Group integrated annual report as at 31 December 2015.

30 March 2016

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Group

As at 31 December 2015

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	657 698	
3	Accumulated other comprehensive income (and other reserves)	106 809	
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)	(1 165)	(1 165)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**1 970 612**	
	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)	154 739	154 739
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	154 739	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	154 739	
	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**	**154 739**	
29	**Common Equity Tier 1 capital (CET1)**	**1 815 873**	
	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)**	**1 815 873**	
	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	25 530	
51	Tier 2 capital before regulatory adjustments	25 530	
	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)**	**25 530**	
59	**Total capital (TC= T1 + T2)**	**1 841 403**	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREAMENT	9 047 703	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	**Total risk weighted assets**	**9 047 703**	

	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	20.07
62	Tier 1 (as a percentage of risk weighted assets)	20.07
63	Total capital (as a percentage of risk weighted assets)	20.35
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)	2.50
65	of which: capital conservation buffer requirement	0
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)	20.07
	National Minima (if different from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	6.50
70	National Tier 1 minimum ratio	8.00
71	National total capital minimum ratio	10.00
	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)	25 530
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 31 December 2015

	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	448 588	
3	Accumulated other comprehensive income (and other reserves)	56 656	
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**	**1 988 544**	
	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)	154 474	154 474
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	154 474	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	154 474	
	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**	**154 474**	
29	**Common Equity Tier 1 capital (CET1)**	**1 834 070**	
	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)**	**1 834 070**	
	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	25 340	
51	Tier 2 capital before regulatory adjustments	25 340	
	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)**	**25 340**	
59	**Total capital (TC= T1 + T2)**	**1 859 410**	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREAMENT	8 810 458	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	**Total risk weighted assets**	**8 810 458**	

	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	20.82
62	Tier 1 (as a percentage of risk weighted assets)	20.82
63	Total capital (as a percentage of risk weighted assets)	21.10
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)	2.50
65	of which: capital conservation buffer requirement	0
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)	20.82
	National Minima (if different from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	6.50
70	National Tier 1 minimum ratio	8.00
71	National total capital minimum ratio	10.00
	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)	25 340
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 31 December 2015

Set out below is the template that banks must use to ensure that the key features of all regulatory capital instruments are disclosed. Banks will be required to complete all of the shaded cells for each outstanding regulatory capital instrument (banks should insert "N/A" if the question is not applicable).

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