Mercantile Bank Holdings Limited and its subsidiaries
(“the Group”)
Unaudited bi-annual disclosure
30 June 2008

Disclosure in terms of the Banks Act, Regulation 43

1. Basis of compilation

The following information is compiled in terms of Regulation 43 of the Banks Act 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 the six months ended June 2008.

Mercantile Bank Holdings Limited ("the Company") 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) Limited	100	Property holding	Yes
Mercantile Bank Limited	100	Banking	Yes
Mercantile Insurance Brokers (Pty) Limited	100	Insurance brokers	Yes
Mercantile Nominees (Pty) Limited	100	Nominee company	Yes
Mercantile Registrars Limited	100	Investment company	Yes
Portion 2 of Lot 8 Sandown (Pty) Limited	100	Property holding	Yes

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.

Table 3.1.1 Gross credit risk exposures
As at 30 June 2008

	Gross exposure R'000	Risk-weighted exposure R'000	Total capital required R'000
Portfolios			
SME Corporate	1,350,477	1,276,143	102,091
Sovereigns	223,883	-	-
Banks	1,486,880	297,376	23,790
Retail	733,898	291,356	23,308
SME Retail	1,696,153	1,206,597	96,529
Total	**5,491,291**	**3,071,472**	**245,718**

Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques
As at 30 June 2008

	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			
SME Corporate	1,350,477	22,493	1,327,984
Sovereigns	223,883	-	223,883
Banks	1,486,880	-	1,486,880
Retail	733,898	36,544	697,354
SME Retail	1,696,153	83,148	1,613,005
Total	**5,491,291**	**142,185**	**5,349,106**

(1) Only inward guarantees and 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 is non-qualifying in terms of the Bank Regulations and is 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 Banks Regulations. As at 30 June 2008, the Group did not recognise any netting arrangements to reduce its credit risk exposures.

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 mitigate 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 offered by a client. The value of the security is reviewed regularly and the values are maintained on an electronic security register. The Group does not have any material concentration risk in respect of collateral used to mitigate 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 2008

	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
Geographical area				
South Africa	3,665,662	592,537	37,216	4,295,415
Other	1,195,876	-	-	1,195,876
- Asia	2,351	-	-	2,351
- Australia	2,691	-	-	2,691
- Europe - CGD	1,073,084	-	-	1,073,084
- Other institutions	38,184	-	-	38,184
- North America	79,566	-	-	79,566
Total	**4,861,538**	**592,537**	**37,216**	**5,491,291**

Table 3.1.4 Analyses of credit exposure based on industry sector
As at 30 June 2008

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	22,085	133	-	22,218
Mining and quarrying	9,149	-	-	9,149
Manufacturing	429,193	17,005	1,731	447,929
Electricity, gas and water supply	2,946	132	-	3,078
Construction	333,665	63,285	2,566	399,516
Wholesale and retail trade, repair of specified items, hotel	327,762	74,767	13	402,542
Transport, storage and communication	35,186	3,166	-	38,352
Financial intermediation and insurance	774,506	13,770	32,906	821,182
Real estate	477,404	36,100	-	513,504
Business services	1,274,712	19,621	-	1,294,333
Community, social and personal services	16,211	138	-	16,349
Private households	670,516	80,620	-	751,136
Other	488,203	283,800	-	772,003
Total	**4,861,538**	**592,537**	**37,216**	**5,491,291**

Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 30 June 2008

Counterparty credit risk	Total derivative instruments R'000	Maximum counterparty credit exposure R'000
Gross positive fair value	29,041	35,882
Current netting benefits	-	-
Netted current credit exposure (pre-mitigation)	29,041	35,882
Collateral value after haircut	-	-
Current exposure method	37,216	40,810
Credit exposure	30,569	30,569

Table 3.1.6 Daily average gross credit exposure
Six months ending 30 June 2008

	Average gross credit exposure
Summary of on-balance sheet and off-balance sheet credit exposure	R'000
Asset class	
Liquid assets	**1,798,190**
Cash and cash equivalents - Rand denominated	336,485
Cash and cash equivalents - Foreign currency denominated	1,217,832
Negotiable securities	243,873
Gross loans and other advances	**3,070,894**
Current accounts	789,221
Credit card	21,829
Mortgage loans	1,319,635
Instalment sales and leases	314,882
Foreign currency loans	1,693
Other advances	623,634
Gross other assets	**137,045**
Investments	91,148
Derivative financial assets	45,897
On-balance sheet exposure	**5,006,129**
Guarantees	432,510
Committed undrawn facilities	229,943
Letters of credit	11,208
Off-balance sheet exposure	**673,661**
Total gross credit exposure	**5,679,790**

Table 3.1.7 Impairments of loans and advances per geographical area
As at 30 June 2008

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	**64,940**	
Impairments for credit losses		
Portfolio impairments	32,691	-
Specific impairments	20,430	-
Interest in suspense	38,363	
	91,484	**-**

Past due loans and advances

Category age analysis of loans and advances that are past due but not impaired	Past due for: 0 – 30 days R'000	31 - 60 days R'000	61 -90 days R'000	Total gross amount R'000
South Africa	**7,478**	**9,599**	**991**	**18,068**
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
As at 30 June 2008

Impairments for credit losses

Reconciliation of credit impairment Balance sheet	Portfolio impairment R'000	Specific impairment R'000	Total R'000
Credit impairments: balance at the beginning of period	32,663	24,524	57,187
Movements for the period:	28	(4,094)	(4,066)
Credit impairments: balance at the end of period	**32,691**	**20,430**	**53,121**
Interest in suspense at end of period	19,918	18,445	38,363
Credit impairments: balance at the end of period (including interest in suspense)	**52,609**	**38,875**	**91,484**

Table 3.1.9 Write-offs and recoveries reflected in the income statement
Six months ending 30 June 2008

	South Africa R'000
Net impairment recovery on loans and advances	
Movements for the period:	
Credit losses (written-off)	(3,683)
Bad debts recovered	380
Net impairments released	4,066
Net impairment recovery	**763**

3.2 Operational risk

The Group currently holds R48,2 million in operational risk capital in terms of the standardised approach for the calculation of this capital.

3.3 Market risk

The portfolios that are subject to market risk are foreign exchange, equity positions and interest rate contracts, where the standardised approach is applied.

Table 3.2 Banks capital requirements for the identified market risk
As at 30 June 2008

	Total R'000
Market risk	
Interest rate products	245,718
Equity positions	1,768
Foreign exchange positions	337
Total	**247,823**

3.4 Equity positions

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

Table 3.4.1 Equity investments
As at 30 June 2008

	Type	Carrying amount R'000	Fair value R'000	Capital requirement R'000
Investments				
Listed	Shares	17,827	17,827	1,426
Unlisted	Shares	308	308	25
		18,135	**18,135**	**1,451**

Table 3.4.2 Realised and unrealised gains on equity investments
Six months ending 30 June 2008

	Total R'000
Cumulative gains and losses realised in profit and loss	
Listed	9,838
Unlisted	-
	9,838
Cumulative gains and losses unrealised recognised directly in equity	
Listed	14,859
Unlisted	15
	14,874

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 balance sheet date:

Table 3.5 Liquidity maturity analyses
As at 30 June 2008

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	1,786,088	2,372,735	(586,647)
Maturing between two and three months	450,571	814,429	(363,858)
Maturing between four months and six months	295,380	568,083	(272,703)
Maturing between seven months and twelve months	58,553	250,993	(192,440)
Maturing after one year	2,365,892	147,847	2,218,045
Non-contractual	192,361	994,758	(802,397)
	5,148,845	**5,148,845**	**-**

3.6 Interest rate risk

3.6.1 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 lending and borrowings in the banking book.

Table 3.6.2 Net interest income sensitivity
As at 30 June 2008

	Impact on economic value of equity R'000	Impact on net interest income for twelve months R'000
Net interest income sensitivity		
Interest rate increase (200bps increase)	33,424	33,424
Interest rate decrease (200bps decrease)	(33,424)	(33,424)

3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 30 June 2008

	Mercantile Bank Holdings Limited Group R'000	Mercantile Bank Limited Company R'000
Primary share capital		
Qualifying primary capital and reserve funds and deductions		
Issued primary share capital	36,765	124,969
Ordinary shares	36,765	124,969
Primary unimpaired reserve funds	1,182,020	1,370,562
Share premium	1,170,754	1,358,331
Other general reserve	7,478	12,231
Other capital reserve fund	3,788	-
Total primary share capital and unimpaired reserve funds, before deductions, specified approved amounts and non qualifying amounts	1,218,785	1,495,531
Deductions against primary share capital and primary unimpaired reserve funds	359,717	616,439
Accumulated losses	306,263	551,463
Other deductions - Intangible assets - computer software	53,454	64,976
Net qualifying primary share capital and reserve funds	**859,068**	**879,092**
Qualifying secondary capital and reserve funds		
Secondary unimpaired reserve funds	64,047	38,427
Revaluation surplus	26,852	34
General allowance for credit impairment, after deferred tax	37,195	38,393
Total secondary capital and unimpaired reserve funds before deductions and non qualifying amounts	64,047	38,427
Net qualifying secondary capital and reserve funds	**64,047**	**38,427**
Aggregate amount of qualifying primary and secondary capital and reserve funds and qualifying tertiary capital	**923,115**	**917,519**
Capital adequacy ratio	**24.97%**	**24.19%**
Primary capital	23.24%	23.18%
Secondary capital	1.73%	1.01%

3.7.2 Total risk weighted exposure and required regulatory capital

As at 30 June 2008

	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	**3,696,574**	**351,175**	**3,792,442**	**360,282**

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 six months ended 30 June 2008 has been publicly disclosed on SENS on the 24 July 2008.

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 annual report for the financial year ended 31 December 2007 and have remained applicable for the six months to 30 June 2008 unless stated otherwise above.

The above disclosures should be read in conjunction with these qualitative disclosures made in the corporate governance, risk management and control and statements on Group accounting policy contained in the Group annual report at 31 December 2007.