Mercantile Bank Holdings Limited and its subsidiaries
("the Group")
Unaudited bi-annual disclosure
31 December 2009

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 31 December 2009.

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) Limited	100	Property holding	Yes
Mercantile Bank Limited	100	Banking	Yes
Mercantile Insurance Brokers (Pty) Limited	100	Insurance and assurance 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

* *Dormant*

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 2009

	Gross exposure	Risk-weighted exposure	Total capital required (@ 8%)
	R'000	R'000	R'000
Portfolios			
SME Corporate	2,842,136	2,584,887	206,791
Public Sector Entities	51,309	25,655	2,052
Sovereigns	216,592	-	-
Banks	725,885	146,166	11,693
Retail	702,204	282,913	22,633
SME Retail	1,167,035	878,141	70,251
Total	**5,705,161**	**3,917,762**	**313,420**

Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques
As at 31 December 2009

	Gross credit exposure after set off	Credit risk mitigation (1)	Credit exposure after risk mitigation
	R'000	R'000	R'000
Major types of credit exposure			
SME Corporate	2,842,136	102,216	2,739,920
Public Sector Entities	51,309	-	51,309
Sovereigns	216,592	-	216,592
Banks	725,885	-	725,885
Retail	702,204	36,021	666,183
SME Retail	1,167,035	62,187	1,104,848
Total	**5,705,161**	**200,424**	**5,504,737**

Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques (continued)
As at 31 December 2009

([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 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 Banks Regulations. As at 31 December 2009, 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, suretyships 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 31 December 2009

	On balance sheet exposure	Off balance sheet exposure	Derivative instruments	Total
	R'000	R'000	R'000	R'000
Geographical area				
South Africa	4,625,176	508,907	32,218	5,166,301
Other	538,847	-	13	538,860
- Africa (excluding South Africa)	3,694	-	-	3,694
- Asia	616	-	-	616
- Australia	1,872	-	-	1,872
- Europe - CGD	455,930	-	13	455,943
- Other institutions	29,238	-	-	29,238
- North America	47,497	-	-	47,497
Total	**5,164,023**	**508,907**	**32,231**	**5,705,161**

Table 3.1.4 Analyses of credit exposure based on industry sector
As at 31 December 2009

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	49,418	69	88	49,575
Mining and quarrying	9,977	33	-	10,010
Manufacturing	482,597	57,743	4,944	545,284
Electricity, gas and water supply	16,642	125	108	16,875
Construction	369,989	152,208	1,353	523,550
Wholesale and retail trade, repair of specified items, hotel	478,812	98,386	10,438	587,636
Transport, storage and communication	38,404	3,548	340	42,292
Financial intermediation and insurance	1,158,077	5,480	9,565	1,173,122
Real estate	510,764	28,290	8	539,062
Business services	321,781	13,806	589	336,176
Community, social and personal services	21,199	43	937	22,179
Private households	745,741	46,922	365	793,028
Other	960,622	102,254	3,497	1,066,372
Total	**5,164,023**	**508,907**	**32,232**	**5,705,161**

Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 31 December 2009

Counterparty credit risk	Total derivative instruments R'000	Maximum counterparty credit exposure R'000
Gross positive fair value	**21,406**	**39,262**
Current netting benefits	**-**	**-**
Netted current credit exposure (pre-mitigation)	**21,406**	**39,262**
Collateral value after haircut	**-**	**-**
Current exposure method	**32,232**	**43,648**
Credit exposure	**13,658**	**11,835**

Table 3.1.6 Daily average gross credit exposure
For the year ended 31 December 2009

	Average gross credit exposure R'000
Summary of on-balance sheet and off-balance sheet credit exposure	
Asset class	
Liquid assets	**1,433,311**
Cash and cash equivalents and bank term deposits - Rand denominated	366,752
Cash and cash equivalents and bank term deposits - Foreign currency denominated	807,314
Negotiable securities	259,245
Gross loans and other advances	**3,386,370**
Current accounts	640,508
Credit card	21,101
Mortgage loans	1,591,457
Instalment sales and leases	340,051
Other advances	793,253
Gross other assets	**81,794**
Investments	27,840
Derivative financial assets	53,954
On-balance sheet exposure	**4,901,475**
Guarantees	269,309
Committed undrawn facilities	262,935
Letters of credit	9,503
Off-balance sheet exposure	**568,747**
Total gross credit exposure	**5,470,222**

Table 3.1.7 Impairments of loans and advances per geographical area
As at 31 December 2009

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	**199,157**	**-**
Impairments for credit losses		
Portfolio impairments	20,750	-
Specific impairments	44,078	-
Interest in suspense	20,233	-
	85,061	**-**

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	**23,004**	**22,294**	**5,022**	**50,320**
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 2009

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 the year	**19,768**	**39,081**	**58,849**
Movements for the year:			
Credit losses written-off	**-**	**(4,255)**	**(4,255)**
Net impairments raised	**982**	**9,252**	**10,234**
Credit impairments: balance at the end of the year	**20,750**	**44,078**	**64,828**
Interest in suspense at the end of the year	**-**	**20,233**	**20,233**
Credit impairments: balance at the end of the year (including interest in suspense)	**20,750**	**64,311**	**85,061**

Table 3.1.9 Write-offs and recoveries reflected in the income statement
For the year ended 31 December 2009

	South Africa R'000
Net credit losses on loans and advances	
Movements for the year:	
Bad debts recovered	**(911)**
Net impairments raised	**10,234**
Net credit losses	**9,323**

3.2 Operational risk

The Group currently holds R73.7 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, equity positions and interest rate contracts, where the standardised approach is applied.

Table 3.3 Banks capital requirements for the identified market risk
As at 31 December 2009

	Total R'000
Market risk	
Interest rate products	372,187
Equity positions	2,238
Foreign exchange positions	182
Total	**374,607**

3.4 Equity positions

Investments consist of unlisted and listed equity investments. Investments which are an integral part of the Groups structured loan portfolio are designated at fair value through profit and loss. All other investments have been designated as available-for-sale.

Table 3.4.1 Equity investments
As at 31 December 2009

	Type	Carrying amount R'000	Fair value R'000	Capital requirement R'000
Investments				
Listed	Shares	15,637	15,637	1,486
Unlisted	Shares	7,953	7,953	755
Total		**23,590**	**23,590**	**2,241**

Table 3.4.2 Realised and unrealised gains on equity investments
For the year ended 31 December 2009

	Total R’000
Realised gains and losses in profit and loss for the year	
Listed	-
Unlisted	1,583
Gain	**1,583**
Unrealised cumulative gains and losses recognised directly in equity	
Listed	15 636
Unlisted	68
Gain	**15,704**

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 31 December 2009

	Assets R’000	Liabilities R’000	Total mismatch R’000
Maturing up to one month	2,150,817	3,382,879	(1,232,062)
Maturing between two and three months	122,559	298,338	(175,779)
Maturing between four months and six months	122,715	270,899	(148,184)
Maturing between seven months and twelve months	89,494	396,940	(307,446)
Maturing after one year	2,986,362	13,137	2,973,225
Non-contractual	346,787	1,456,541	(1,109,754)
	5,818,734	**5,818,734**	**-**

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 2009

	Impact on economic value of equity	Impact on net interest income for twelve months
	R'000	R'000
Net interest income sensitivity		
Interest rate increase (200bps increase)	39,049	39,049
Interest rate decrease (200bps decrease)	(39,049)	(39,049)

3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 31 December 2009

	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	**31,817**	**124,969**
Ordinary shares	31,817	124,969
Primary unimpaired reserve funds	**1,337,369**	**1,370,561**
Share premium	1,170,753	1,358,330
Retained earnings	155,350	
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	**1,369,186**	**1,495,530**
Deductions against primary share capital and primary unimpaired reserve funds	**171,076**	**269,781**
Accumulated losses	-	92,310
Intangible assets - computer software	170,325	170,325
Qualifying capital instruments held in banks	751	7,146
Net qualifying primary share capital and reserve funds	**1,198,110**	**1,225,749**
Qualifying secondary capital and reserve funds		
Secondary unimpaired reserve funds	**55,900**	**19,331**
Revaluation surplus	36,603	34
General allowance for credit impairment, after deferred tax	19,297	19,297
Total secondary capital and unimpaired reserve funds before deductions and non qualifying amounts	**55,900**	**19,331**
Net qualifying secondary capital and reserve funds	**55,900**	**19,331**
Aggregate amount of qualifying primary and secondary capital and reserve funds and qualifying tertiary capital	**1,254,010**	**1,245,080**
Capital adequacy ratio	**26.28%**	**25.47%**
Primary capital	25.11%	25.07%
Secondary capital	1.17%	0.40%

3.7.2 Total risk weighted exposure and required regulatory capital

As at 31 December 2009

	Mercantile Bank Holdings Limited Group		Mercantile Bank Limited Company	
	Total risk weighted exposure R'000	Minimum regulatory capital (@ 9.5%) R'000	Total risk weighted exposure R'000	Minimum regulatory capital (@ 9.5%) R'000
Total	**4,771,015**	**453,246**	**4,888,320**	**464,390**

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 2009 has been publicly disclosed on SENS on 25 February 2010 and in the Group annual report for the financial year ended 31 December 2009.

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 2009.

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 annual report at 31 December 2009.

12 March 2010