Mercantile Bank Holdings Limited and its subsidiaries
("the Group")
Unaudited bi-annual disclosure
31 December 2012
(incorporates 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 2.5 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 2012.

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 Ltd	100	Banking	Yes
Mercantile Insurance Brokers (Pty) Ltd	100	Insurance and assurance brokers	Yes
LSM (Troyeville) Properties (Pty) Ltd	100	Property holding	Yes
Portion 2 of Lot 8 Sandown (Pty) Ltd	100	Property holding	Yes
Custom Capital (Pty) Ltd	74.9	Rental finance	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 2012

	Gross exposure (2)	Risk-weighted exposure	Total capital required (@ 9.5%)
	R'000	R'000	R'000
Portfolios			
Corporate (1)	**1 116 027**	**966 111**	**91 781**
SME Corporate	**2 139 424**	**1 940 377**	**184 336**
Public Sector Entities	**12 341**	**6 171**	**586**
Sovereigns (Treasury bills & Government Stock)	**257 515**	**-**	**-**
Banks (1)	**948 586**	**190 382**	**18 086**
Retail	**3 075 971**	**1 890 672**	**179 613**
-Residential mortgage advances	992 753	404 696	38 446
-Retail revolving credit (Overdrafts & credit cards)	50 552	15 772	1 498
-SME retail	1 885 141	1 371 284	130 272
-Retail – other	147 525	98 920	9 397
Total	**7 549 864**	**4 993 713**	**474 402**

(1) Included in Banks and Corporate exposures are money market funds of R743 million and R110 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.

Table 3.1.2 Aggregate credit exposure after set off but before and after credit mitigation techniques
As at 31 December 2012

	Gross credit exposure after set off (2) R'000	Credit risk mitigation (3) R'000	Credit exposure after risk mitigation R'000
Major types of credit exposure			
Corporate (1)	**1 116 027**	**23 598**	**1 092 429**
SME Corporate	**2 139 424**	**18 606**	**2 120 818**
Public Sector Entities	**12 341**	**-**	**12 341**
Sovereigns (Treasury bills & Government Stock)	**257 515**	**-**	**257 515**
Banks (1)	**948 586**	**-**	**948 586**
Retail	**3 075 971**	**56 556**	**3 019 415**
-Residential mortgage advances	992 753	6 094	986 659
-Retail revolving credit (Overdrafts & credit cards)	50 552	-	50 552
-SME retail	1 885 141	37 187	1 847 954
-Retail – other	147 525	13 275	134 250
Total	**7 549 864**	**98 760**	**7 451 104**

(1) Included in Banks and Corporate exposures are money market funds of R743 million and R110 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) 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 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 2012, 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 2012

	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
Geographical area				
South Africa	6 626 171	865 975	9 832	7 501 978
Other	47 886	-	-	47 886
- Africa (excl South Africa)	118	-	-	118
- Asia	829	-	-	829
- Australia	1 211	-	-	1 211
- Europe - CGD	719	-	-	719
- Other institutions	28 651	-	-	28 651
- North America	16 358	-	-	16 358
Total	**6 674 057**	**865 975**	**9 832**	**7 549 864**

Table 3.1.4 Analyses of credit exposure based on industry sector
As at 31 December 2012

	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	147 915	16 534	99	164 548
Mining and quarrying	277 193	40 504	8	317 705
Manufacturing	471 215	92 587	969	564 771
Electricity, gas and water supply	17 301	111	17	17 429
Construction	250 285	37 567	143	287 995
Wholesale and retail trade, repair of specified items, hotels and restaurants	868 126	287 830	3 168	1 159 124
Transport, storage and communication	184 284	17 844	-	202 128
Financial intermediation and insurance	1 608 211	30 499	3 568	1 642 278
Real estate	1 096 917	63 965	6	1 160 888
Business services	326 156	4 273	394	330 823
Community, social and personal services	73 746	4 301	1 428	79 475
Private households	342 433	24 523	-	366 956
Other	1 010 275	245 437	32	1 255 744
Total	**6 674 057**	**865 975**	**9 832**	**7 549 864**

Table 3.1.5 Derivatives exposing the bank to counterparty credit risk
As at 31 December 2012

Counterparty credit risk	**Total derivative instruments R'000**	**Maximum counterparty credit exposure R'000**
Total Notional Principal amount	439 006	557 143
Gross replacement cost	5 442	9 877
Net replacement cost	5 442	9 877
Gross potential future exposure add-on	4 390	5 571
Net potential future exposure add-on	4 390	5 571
Adjusted exposure amount	9 832	15 448
Risk weighted exposure	7 667	10 676

Derivative exposures are only incurred with Mercantile clients 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.

Table 3.1.6 Daily average gross credit exposure
For the year ended 31 December 2012

	Average gross credit exposure R'000
Summary of on-balance sheet and off-balance sheet credit exposure	
Asset class	
Liquid assets	**1 304 413**
Cash and cash equivalents - Rand denominated	911 240
Cash and cash equivalents - Foreign currency denominated	161 894
Negotiable securities	231 279
Gross loans and other advances	**5 067 599**
Current accounts	1 114 968
Credit card	21 554
Mortgage loans	2 332 127
Instalment sales and leases	570 237
Other advances	1 028 713
Gross other assets	**153 210**
Investments	143 694
Derivative financial assets	9 516
On-balance sheet exposure	**6 525 222**
Guarantees	**325 857**
Letters of credit	**19 788**
Committed undrawn facilities	**87 704**
Revocable overdraft facilities	**424 391**
Operating lease commitment	**10 170**
Off-balance sheet exposure	**867 910**
Total gross credit exposure	**7 393 132**

Table 3.1.7 Impairments of loans and advances per geographical area
As at 31 December 2012

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	**171 903**	**-**
Impairments for credit losses		
Portfolio impairments	12 302	-
Specific impairments	62 931	-
	75 233	**-**

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	**29 909**	**14 002**	**62 001**	**105 912**
Other	**-**	**-**	**-**	**-**

A financial asset is past due when the counterparty has failed to make a payment when 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 2012

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	**4 399**	**72 151**	**76 550**
Movements for the year:			
Credit losses written-off	-	(24 287)	(24 287)
Net impairments raised	7 903	15 067	22 970
Credit impairments: balance at the end of the year	**12 302**	**62 931**	**75 233**

Table 3.1.9 Write-offs and recoveries reflected in the statement of comprehensive income
For the year ended 31 December 2012

	South Africa R'000
Net charge for credit losses in statement of comprehensive income	
Movements for the year:	
Bad debts recovered	(752)
Net impairments raised	22 970
Amounts directly written off to other comprehensive income	6 967
Net charge for credit losses	**29 185**

Table 3.1.10 Credit portfolio maturity analysis
As at 31 December 2012

	Money Market and Current accounts R'000	Credit cards 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	2 087 142	22 227	259	8 132	19 695	2 137 455
Maturing between one and three months	-	-	12	2 746	37 179	39 937
Maturing between three and six months	-	-	218	6 638	90 896	97 752
Maturing between six months and one year	-	-	199 848	22 155	299 976	521 979
Maturing after one year	-	-	2 235 145	600 148	969 858	3 805 151
	2 087 142	**22 227**	**2 435 482**	**639 819**	**1 417 604**	**6 602 274**

3.2 Operational risk

The Group currently holds R90.5 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 R3.2 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 either as available-for-sale or at fair value through profit and loss.

Table 3.4.1 Equity investments
As at 31 December 2012

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 9.5%) R'000
Investments				
Listed	Shares	14 832	14 832	1 409
Unlisted	Shares	5 052	5 052	480
		19 884	**19 884**	**1 889**

Table 3.4.2 Realised and unrealised gains on equity investments
For the year ended 31 December 2012

	Total R'000
Realised gains and losses in profit and loss for the period	
Listed	14 832
Unlisted	26 555
Discontinued operations	2 483
	43 870
Unrealised cumulative gains and losses recognised directly in equity	
Listed	14 864
Unlisted	4 815
	19 679

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 2012

	Assets R'000	**Liabilities R'000**	**Total mismatch R'000**
Maturing up to one month	2 469 494	3 037 557	(568 063)
Maturing between one and three months	41 912	964 353	(922 441)
Maturing between three and six months	98 668	318 340	(219 672)
Maturing between six months and one year	522 557	529 075	(6 518)
Maturing after one year	3 805 150	620 702	3 184 448
Non-contractual	302 568	96 419	206 149
	7 240 349	**5 566 446**	**1 673 903**

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 2012

	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)	**34 354**	**34 354**
Interest rate decrease (200bps decrease)	**(18 323)**	**(18 323)**

3.7 Capital management

Table 3.7.1 Capital structure and regulatory capital adequacy
As at 31 December 2012

	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	**36 140**	**124 969**
Ordinary shares	36 140	124 969
Primary unimpaired reserve funds (1)	**1 542 542**	**1 523 331**
Share premium	1 171 130	1 358 330
Retained earnings	206 999	128 170
Current year appropriated profits	153 147	24 600
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	**1 578 682**	**1 648 300**
Non-controlling interests	**(186)**	**(186)**
Deductions against primary share capital and primary unimpaired reserve funds	**(197 823)**	**(197 823)**
Intangible assets - computer software	(197 823)	(197 823)
Net qualifying primary share capital and reserve funds	**1 380 673**	**1 450 291**
Qualifying secondary capital and reserve funds		
Secondary unimpaired reserve funds	**47 457**	**9 054**
Revaluation surplus	38 437	34
General allowance for credit impairment, after deferred tax	9 020	9 020
Net qualifying secondary capital and reserve funds	**47 457**	**9 054**
Aggregate amount of qualifying primary and secondary capital and reserve funds	**1 428 130**	**1 459 345**
Capital adequacy ratio	**22.83%**	**23.82%**
Primary capital	22.07%	23.67%
Secondary capital	0.76%	0.15%

(1) The primary unimpaired reserve funds are reported post the R172 million share buy-back of minorities in Mercantile Bank Holdings Limited

Table 3.7.2 Total risk weighted exposure and required regulatory capital
As at 31 December 2012

.

	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	**6 255 781**	**609 939**	**6 126 587**	**582 026**

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 were the 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 2012 is available on the Group's website: www.mercantile.co.za

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 2012.

The above disclosures should be read in conjunction with these qualitative disclosures as 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 2012.

20 March 2013