

**Mercantile Bank Holdings Limited and its subsidiaries
("the Group")
unaudited bi-annual disclosure
as at 31 December 2017
(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.

Additional information providing context for disclosures contained herein is included in the following documents published by the Mercantile Holdings Group, available under the financial results link on the website <https://www.mercantile.co.za/>, which contains information as listed under each section.

Mercantile Bank Holding Limited Integrated Annual Report 2017

- Group review
- Strategy
- Sustainability
- Corporate governance
- Accounting policies
- Notes to the annual financial statements
- Risk management and control

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 2017.

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:

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

Company name	Effective Holding %	Nature of business	Fully consolidated
Mercantile Bank Limited	100	Banking	Yes
Mercantile Insurance Brokers (Pty) Ltd	100	Insurance and assurance brokers	Yes
Portion 2 of Lot 8 Sandown (Pty) Ltd	100	Property holding	Yes
Mercantile Rental Finance (Pty) Ltd	100	Rental finance	Yes
Compass Securitisation (RF) Ltd	100	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.

Regulatory capital adequacy

3. Overview of risk weighted assets

The following table provides an overview of the risk weighted asset requirements at the respective reporting date. The detailed qualitative information can be found under Capital Management on page 97 of the integrated annual report.

Line #	R'000	Mercantile Bank Holdings Limited			Mercantile Bank Limited		
		RWA		Minimum capital requirements (1)	RWA		Minimum capital requirements (1)
		Dec-17	Sep-17	Dec-17	Dec-17	Sep-17	Dec-17
1	Credit risk (excluding counterparty credit risk) (CCR)	8,913,615	8,779,269	958,214	8,891,428	8,765,958	955,829
2	- Of which standardised approach (SA)	8,913,615	8,779,269	958,214	8,891,428	8,765,958	955,829
3	- Of which internal rating-based (IRB) approach	-	-	-	-	-	-
4	Counterparty credit risk	144,858	34,002	15,572	144,858	34,002	15,572
5	- Of which standardised approach for counterparty credit risk (SA-CCR) (2)	144,858	34,002	15,572	144,858	34,002	15,572
6	- Of which internal model method (IMM)	-	-	-	-	-	-
16	Market risk	55,863	45,338	6,005	55,863	45,338	6,005
17	- Of which standardised approach (SA)	55,863	45,338	6,005	55,863	45,338	6,005
18	- Of which internal model approaches (IMM)	-	-	-	-	-	-
19	Operational risk	1,524,915	1,416,419	163,928	1,455,297	1,373,491	156,444
20	- Of which Basic Indicator Approach	-	-	-	-	-	-
21	- Of which standardised Approach	1,524,915	1,416,419	163,928	1,455,297	1,373,491	156,444
22	- Of which Advanced Measurement Approach	-	-	-	-	-	-
23	Other risk	979,989	701,004	105,349	1,113,573	809,166	119,709
25	Total	11,619,240	10,976,032	1,249,068	11,661,019	11,027,955	1,253,559

(1) The minimum capital requirement per risk category is 10.75%, which comprises the base minimum (8.000%), plus the pillar 2A systemic risk add-on (1.50%), plus the conservation buffer (1.25%).

(2) The Bank applies the current exposure method to calculate counterparty risk.

4. Linkages between financial statements and regulatory exposures

This section outlines the treatment and the carrying values as published in the financial statements and used for the various regulatory risk categories and the carrying values of the items for the calculation of regulatory capital. Certain differences arise as a result of differing treatment under regulatory and IFRS rules as further explained below.

4.1 Difference between accounting and regulatory scopes of consolidation and mapping of financial categories with regulatory risk categories

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

31 December 2017

	a	c	d	e	f	g	h
	Carrying values as reported in published financial statements & under scope of regulatory consolidation	Carrying values of items:					
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deductions from capital	Subject to other risk
R'000							
Assets							
Cash and cash equivalents	1,750,165	1,514,131	17,612	-	-	-	363,559
Derivative financial instruments	104,016	-	108,786	-	4,469	-	-
Negotiable securities	904,166	904,166	-	-	-	-	-
Loans and advances	9,459,819	9,848,153	-	-	-	-	121,993
Other investments	6,985	-	-	-	-	-	6,985
Other accounts receivable	689,688	-	-	-	-	-	705,771
Non-current assets held for sale	22,500	-	-	-	-	-	22,500
Current tax receivable	32	-	-	-	-	-	32
Property and equipment	244,176	-	-	-	-	-	244,701
Intangible assets	153,533	-	-	-	-	153,533	-
Deferred tax assets	15,090	-	-	-	-	-	15,090
Total assets	13,350,170	12,266,450	126,398	-	4,469	153,533	1,480,631
Liabilities							
Other accounts payable	511,712	-	-	-	-	-	-
Derivative financial instruments	128,044	-	-	-	-	-	-
Current tax payable	6,280	-	-	-	-	-	-
Provisions and other liabilities	119,723	-	-	-	-	-	-
Deposits	9,337,177	37,720	-	-	-	-	-
Debt securities	241,594	-	-	-	-	-	-
Long-term funding	609,395	-	-	-	-	-	-
Deferred tax liabilities	60,219	-	-	-	-	-	-
Total equity							
Share capital and share premium	1,207,270	-	-	-	-	-	-
Employee benefits reserve	(6,218)	-	-	-	-	-	-
Property revaluation reserve	129,301	-	-	-	-	-	-
Available-for-sale reserve	5,186	-	-	-	-	-	-
Retained earnings	1,000,487	-	-	-	-	-	-
Total liabilities and equity	13,350,170	37,720	-	-	-	-	-

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

31 December 2017

(1) The carrying values of the items subject to the regulatory framework are based on average daily balances (where applicable) as required in terms of the Regulations relating to banks (Reg 23 & Reg 24). The Off-Balance Sheet amounts are post application of Credit Conversion Factors (CCF) and Credit Risk Mitigation (CRM) to derivative exposures under counterparty credit risk.

4.2 Difference between accounting and regulatory scopes of consolidation and mapping of financial categories with regulatory risk categories

		a	b	c	d	e	f
		Total	Items subject to:				
			Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework	Other risk framework
R'000							
1	Asset carrying value amount under scope of regulatory consolidation	13,350,170	12,266,450	126,398	-	4,469	1,480,631
2	Liabilities carrying value amount under scope of regulatory consolidation	13,350,170	37,720	-	-	-	-
3	Total net amount under regulatory scope of consolidation	-	12,228,730	126,398	-	4,469	1,480,631
4	Off-balance sheet amounts	1,822,822	400,958	-	-	-	-
5	Exposure amounts considered for regulatory purposes	-	12,629,689	126,398	-	4,469	1,480,631

5. Credit risk

This section outlines the regulatory view of the risk associated with advances. These balances are reflected on the Mercantile Bank Holdings Limited balance sheet. The Group primarily advances funds to unrated counterparties. In the case of exposures to rated counterparties, the process for risk weighting these exposures is in accordance with the requirements of the Regulations.

For an overview of credit risk for the Group as well as related qualitative information, please refer to “risk management and control”, which can be found on pages 86 to 89 of the Mercantile Bank Holdings Limited Integrated Annual Financial Statements for the year ended 31 December 2017.

The Group has adopted the standardised approach to determine the capital requirement for credit risk on all portfolios.

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

5.1 Credit quality of assets

The following table shows the classification of the gross carrying value of the total of advances and interbank deposits split between defaulted and non-defaulted exposures, as well as the impairments raised in respect of the defaulted exposures.

	a	b	c	d
	Gross carrying values of		Allowances/ Impairments	Net values (a + b - c)
	Defaulted exposures	Non-defaulted exposures		
Loans	321,871	12,166,379	120,966	12,367,284
Debt securities	-	-	-	-
Off-balance sheet exposures	-	1,822,822	-	1,822,822
Total	321,871	13,989,201	120,966	14,190,106

5.2 Changes in stock of defaulted loans and debt securities

R'000		a
1	Defaulted loans and debt securities at end of the previous reporting period	181,434
2	Loans and debt securities that have defaulted since the last reporting period	167,380
3	Returned to non-defaulted status	(3,498)
4	Amounts written off	(13,155)
5	Other changes	(10,290)
6	Defaulted loans and debt securities at end of the reporting period	321,871

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

5.3 Breakdown of gross credit exposure by geographic areas

Geographical area	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
South Africa	11 550 990	1 822 822	126 398	13 500 210
Other	810 862	-	-	810 862
- Africa (excl South Africa)	3 022	-	-	3 022
- Asia	222	-	-	222
- Australia	23 932	-	-	23 932
- Europe	169 394	-	-	169 394
- North America	614 292	-	-	614 292
Total	12 361 852	1 822 822	126 398	14 311 072

5.4 Breakdown of gross credit exposure by industry sector

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	251 173	38 844	6	290 023
Mining and quarrying	144 550	80 646	-	225 196
Manufacturing	1 081 302	337 674	9 056	1 428 032
Electricity, gas and water supply	25 120	22 830	1 102	49 052
Construction	434 789	94 755	969	530 513
Wholesale and retail trade, repair of specified items, hotels and restaurants	1 229 300	429 158	56 611	1 715 069
Transport, storage and communication	101 344	26 439	2 383	130 166
Financial intermediation and insurance	3 613 725	53 897	17 796	3 685 418
Real estate	2 600 610	167 973	921	2 769 504
Business services	392 571	56 303	2 721	451 595
Community, social and personal services	371 509	95 449	346	467 304
Private households	1 390 173	174 016	120	1 564 309
Other	725 686	244 838	34 367	1 004 892
Total	12 361 852	1 822 822	126 398	14 311 072

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

5.5 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	321 871	-
Impairments for credit losses		
Portfolio impairments	24 439	-
Specific impairments	96 527	-
	120 966	-

5.6 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	12 429	57 426	2 113	71 968
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.

5.7 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	26 583	62 882	89 465
Movements for the year			
Credit losses written-off	-	(3 742)	(3 742)
Net impairments raised/(released)	(2 144)	37 387	35 243
Credit impairments: balance at the end of the year	24 439	96 527	120 966

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

5.8 Ageing analysis of gross advances

	Gross
	R'000
Not past due	13,669,713
Past due 31 -90 days	318,222
Past due 91 - 182 days	153,265
Past due > 182 days	169,872
Total	14,311,072

5.9 Credit risk mitigation techniques

	a	b	c	d	e	f	g
	Exposures Unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposure secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	7,827,181	6,483,891	260,109	-	-	-	-
Debt securities	-	-	-	-	-	-	-
Total	7,827,181	6,483,891	260,109	-	-	-	-
Of which defaulted	24,650	298,487	6,774	-	-	-	-

5.10 Aggregate credit exposure after set off but before and after credit mitigation techniques

	Asset classes	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign and their central banks	904,166	-	904,166	-	-	0.00%
2	Non-central government public sector entities	2,701	-	2,701	-	1,351	50.00%
3	Multilateral development banks	-	-	-	-	-	0.00%
4	Banks	1,531,743	8,502	1,531,742	4,110	323,892	21.09%
5	Securities firms	61	200	-	-	50	0.00%
6	Corporates	2,648,306	827,311	2,747,291	111,383	2,768,664	96.85%
7	Regulatory retail portfolios	2,191,981	806,603	2,538,403	134,692	1,837,419	68.74%
8	Secured by residential property	2,157,634	47,895	1,718,191	47,251	1,026,687	58.15%
9	Secured by commercial real estate	2,728,947	131,885	2,685,297	103,519	2,828,373	101.42%
10	Equity	-	-	-	-	-	0.00%
11	Past-due loans	322,711	427	227,335	4	244,359	107.49%
12	Higher-risk categories	-	-	-	-	-	0.00%
13	Other assets	1,523,341	-	1,056,143	-	626,249	59.30%
14	Total	14,011,591	1,822,822	13,411,270	400,958	9,657,046	69.92%

- Included in ‘Corporates’ and ‘Banks’ exposures are money market funds of R458 million and R699 million, respectively.
- Included in the above are securitised rental assets to the value of R344 million held in Compass Securitisation (RF) Ltd, which is consolidated for Group purposes.
- Only inward bank guarantees and eligible pledged investments and/or liquid funds are taken into account as credit risk mitigation (CRM). 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 2017, 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 client 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

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

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. Refer to note 5.10 on page 64 of the integrated annual report.

5.11 Exposures by asset class and risk weights

R'000	a	b	c	d	e	f	g	h	i	j
Asset classes by Risk weights	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
Sovereign and their central banks	904,166	-	-	-	-	-	-	-	-	904,166
Non-central government public sector entities (PS)	-	-	-	-	2,701	-	-	-	-	2,701
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Banks	-	-	1,486,920	-	44,849	-	4,082	1	-	1,535,852
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	2,858,674	-	-	2,858,674
Regulatory retail portfolios	-	-	-	-	-	1,909,388	763,707.61	-	-	2,673,095
Secured by residential property	-	-	-	1,765,442	-	-	-	-	-	1,765,442
Secured by commercial real estate	-	-	-	-	-	-	2,788,816	-	-	2,788,816
Equity	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	17,348	-	158,502	51,489	-	227,339
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	429,893	-	-	-	-	-	626,249	-	-	1,056,143
Total	1,334,059	-	1,486,920	1,765,442	64,898	1,909,388	7,200,031	51,490	-	13,812,228

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

5.12 Credit portfolio maturity analysis

	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	1 858 856	39 505	32	2 792	1 445 843	29 901	3 376 929
Maturing between one and three months	-	-	179	3 795	2 760	197 674	204 408
Maturing between three and six months	-	-	113 987	8 167	10 003	359 122	491 279
Maturing between six months and one year	-	-	49 944	44 511	60 629	291 707	446 791
Maturing after one year	-	-	4 655 151	1 441 322	1 227 104	25 762	7 349 339
	1 858 856	39 505	4 819 293	1 500 587	2 746 339	904 166	11 868 746

(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.

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

5.13 Daily average gross credit exposure

Average gross
credit
exposure
R'000

Summary of on-balance sheet and off-balance sheet credit exposure

Asset class

Liquid assets

2 668 173

Cash and cash equivalents - Rand denominated

1 435 189

Cash and cash equivalents - Foreign currency denominated

664 408

Negotiable securities

568 576

Gross loans and other advances

9 533 932

Current accounts

2 303 914

Credit cards

35 780

Mortgage loans

4 600 860

Instalment sales and leases

1 332 189

Other advances

1 261 189

Gross other assets

45 708

Investments

6 781

Derivative financial assets

38 927

On-balance sheet exposure

12 247 813

Guarantees

592 222

Letters of credit

15 496

Committed undrawn facilities

188 817

Revocable overdraft facilities

936 076

Operating lease commitment

20 482

Off-balance sheet exposure

1 753 093

Total gross credit exposure

14 000 906

6. Counterparty credit risk (CCR)

Derivative exposures are only entered into with 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. The Group’s accounting policy and other related qualitative information can be found in the integrated report on pages 44 to 45 and pages 86 to 89 respectively.

6.1 Analysis of counterparty credit risk (CCR) exposure by approach

	a	b	c	d	e	f
	Replacement Cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD ppost-CRM	RWA
1 SA-CCR (for derivatives) ⁽¹⁾	104,016	24,339			117,181	144,858
2 Internal Model Method (for derivatives and SFTs)			-	-	-	-
3 Simple Approach for credit risk mitigation (for SFTs)					-	-
4 Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5 VaR for SFTs					-	-
6 Total						144,858

6.2 Credit valuation adjustment (CVA) charge

Credit valuation adjustment is the difference between the risk-free portfolio value and the true portfolio value, taking into account the possibility of counterparty default. CVA is the market value of counterparty credit risk. The RWA of the CVA is added to the risk-weighted amount for counterparty credit exposure.

	a	b
	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	-	-
1 (i) VaR component (including the 3 x multiplier)	-	-
2 (ii) Stressed VaR component (including the 3 x multiplier)	-	-
3 All portfolios subject to the Standardised CVA capital charge	117,181	27,677
4 Total subject to the CVA capital charge	117,181	27,677

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

6.3 CCR exposures by regulatory portfolios and risk weights

	a	b	c	d	e	f	g	h	i	j
Regulatory portfolios by Risk weights	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure
1 Sovereigns	-	-	-	-	-	-	-	-	-	-
2 Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3 Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4 Banks	-	-	4,631	-	14,936	-	108,787	-	-	128,355
5 Securities firms	-	-	-	-	-	-	-	-	-	-
6 Corporates	-	-	-	-	-	-	-	-	-	-
7 Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
13 Other assets	-	-	-	-	-	-	-	-	-	-
14 Total	-	-	4,631	-	14,936	-	108,787	-	-	128,355

7. Securitisation risk

The Group has exposure to securitised rental assets to the value of R344 million held in Compass Securitisation (RF) Ltd, which is consolidated for Group purposes and is reported as part of Loans and Advances in the integrated annual report. The Group has adopted the standardised approach to calculate regulatory capital for the securitisation vehicle. The Group’s securitisation is categorised as a traditional securitisation structure, i.e. assets are sold to Compass Securitisation (RF) Ltd in tranches. During 2017, the first round of notes held by the International Finance Corporation (IFC) matured. A second round was issued and taken up by two new investors. The securitisation, in the amount of R240 million, consist of notes of R1 million each that are unsubordinated, secured, compulsorily redeemable, and asset-backed. These notes are linked to JIBAR with interest repayable quarterly and they mature on 06 June 2020.

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

31 December 2017

7.1 Securitisation exposure at Mercantile Bank Holdings level

R'000		a	b	c	e	f	g	i	j	k
		Bank acts as originator			Bank acts as sponsor			Bank acts as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1	Retail (total)									
	-of which	343,663	-	343,663	-	-	-	-	-	-
2	residential mortgage	-	-	-	-	-	-	-	-	-
3	credit card	-	-	-	-	-	-	-	-	-
4	other retail exposures	343,663	-	343,663	-	-	-	-	-	-
5	re-securitisation	-	-	-	-	-	-	-	-	-
6	Wholesale (total)									
	- of which	-	-	-	-	-	-	-	-	-
7	loans to corporate	-	-	-	-	-	-	-	-	-
8	commercial mortgage	-	-	-	-	-	-	-	-	-
9	lease and receivables	-	-	-	-	-	-	-	-	-
10	other wholesale	-	-	-	-	-	-	-	-	-
11	re-securitisation	-	-	-	-	-	-	-	-	-

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

7.2 Securitisation exposure and associated regulatory capital requirements

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWA (by regulatory approach)				Capital charge after cap			
R'000		<20% RW	<20% to 50% RW	<50% to 100% RW	>100% to 1250% RW	1250% RW	IRB RBA (include NG1AA)	IRB SFA	SA/SSFA	1250%	IRB RBA (include NG1AA)	IRB SFA	SA/SSFA	1250%	IRB RBA (include NG1AA)	IRB SFA	SA/SSFA	1250%
1	Total exposures	-	-	257,420	-	-	-	-	-	-	-	-	257,420	-	-	-	-	-
2	Traditional securitisation	-	-	257,420	-	-	-	-	-	-	-	-	257,420	-	-	-	-	-
3	Of which securitisation	-	-	257,420	-	-	-	-	-	-	-	-	257,420	-	-	-	-	-
4	Of which retail underlying	-	-	257,420	-	-	-	-	-	-	-	-	257,420	-	-	-	-	-
5	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Of which non senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Of which securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

8. Operational risk

The Group currently holds R164 million in operational risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 10.75%).

9. Market risk

The portfolios that are subject to market risk are foreign exchange and interest rate contracts for which the Group currently holds R6 million in market risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 10.75%).

R'000		a
		RWA
	Outright products	55,863
1	- Interest rate risk (general and specific)	-
2	- Equity risk (general and specific)	-
3	- Foreign exchange risk	55,863
4	- Commodity risk	-
	Options	-
5	- Simplified approach	-
6	- Delta-plus method	-
7	- Scenario approach	-
8	Securitisation	-
9	Total	55,863

10. Equity positions

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

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 10.75%) R'000
Investments				
Unlisted	Shares	6 985	6 985	751
		6 985	6 985	751

Realised and unrealised gains on equity investments

	Total R'000
Realised gains and losses in profit and loss for the year	-
Unrealised cumulative gains and losses recognised directly in equity	
Listed	133
Unlisted	6 648
6 781	

11. 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:

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	4 469 066	7 201 566	(2 732 500)
Maturing between one and three months	248 974	1 343 498	(1 094 524)
Maturing between three and six months	508 170	216 382	291 788
Maturing between six months and one year	452 690	480 344	(27 654)
Maturing after one year	7 349 341	1 708 589	5 640 752
Non-contractual	321 929	63 765	258 164
	13 350 170	11 014 144	2 336 026

12. 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 as well as 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.

	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)	71 542	74 347
Interest rate decrease (200bps decrease)	(85 174)	(88 526)

13. Liquidity disclosures

In terms of Regulation 43(1)(e)(iii)(F), the Liquidity Coverage Ratio (“LCR”) positions of the Bank, as at 31 December 2017, are set out below.

Liquidity coverage ratio (LCR) - common disclosure template			
Line #		Total Value 31 December 2017	Total Weighted Value (Average) 31 December 2017
R'000			
High-Quality Liquid Assets			
1	Total high-quality liquid assets (HQLA)		1,267,722
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	3,396,589	173,878
3	Stable deposits	-	-
4	Less-stable deposits	3,396,589	173,878
5	Unsecured wholesale funding, of which:	6,474,065	1,554,079
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	6,474,065	1,554,079
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	1,234,066	46,341
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	683,393	33,916
16	Total Cash Outflows	11,788,113	1,808,214
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	3,915,155	2,634,721
19	Other cash inflows	-	-
20	Total Cash Inflows	3,915,155	2,634,721
			Total Adjusted Value
21	Total HQLA		1,267,722
22	Total Net Cash Outflows ⁽²⁾		452,054
23	Liquidity Coverage Ratio (%) ⁽³⁾		280%

1. Average balances are based on month-end averages in terms of condonation received from the SARB.
2. The Bank has a net cash inflow after applying the run-off factors; net cash inflows are however limited to 75% of total cash outflows for the purpose of this ratio.
3. There is no material difference between Bank and Group.

14. Capital management

In line with the requirements of the Bank Supervision Department of the South African Reserve Bank, and effective from 1 January 2017, the Bank has implemented a countercyclical buffer of 0.00% and a capital conservation buffer of 1.25%.

The Group has documented its Internal Capital Adequacy Assessment Process (“ICAAP”), which has been approved by the Board of Directors. Evaluations were made of the various direct, indirect and associated risks faced by the Bank and the related mitigating controls that are in place.

The disclosures of the composition of capital and main capital features for the Group and the Bank, required per Directive 3 of 2015, issued in terms of section 6(6) of the Banks Act of 1990, are set out in Annexures A and B, respectively.

15. Leverage ratio

In the table that follows and in terms of Regulation 43(1)(e)(iii)(G), the Group provides a summarised comparison of the accounting assets and the regulatory leverage ratio differences, as well as the Leverage Ratio positions of the Group and of the Bank, as at 31 December 2017.

15.1 Summarised comparison of accounting assets and leverage ratio exposure measure

Line #	R'000	Mercantile Bank Holdings Limited 31 December 2017	Mercantile Bank Limited 31 December 2017
1	Total consolidated assets as per published financial statements	13,350,170	12,825,012
2	Adjustment for investment in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
4	Adjustment for derivative financial instruments	(24,339)	(24,339)
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	509,690	600,160
7	Other adjustments	(57,116)	10,543
8	Leverage ratio exposure	13,778,405	13,411,376

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

15.2 Leverage ratio of Group and Bank

Line #	R'000	Mercantile Bank Holdings Limited 31 December 2017	Mercantile Bank Limited 31 December 2017
On balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	13,270,662	12,812,893
2	Asset amounts deducted in determining Basel III Tier 1 capital	(130,301)	(130,031)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	13,140,361	12,682,862
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	104,016	104,016
5	Add-on amounts for PFE associated with all derivatives transactions	24,339	24,339
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(exempted CCP leg of clients-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add on deductions for written credit derivatives)	-	-
11	Total derivatives exposures (sum of lines 4 to 10)	128,355	128,355
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-	-
Other off-balance sheet exposures			
17	Off balance sheet exposures at gross notional amount	1,822,822	1,917,458
18	(Adjustments for conversion to credit equivalent amounts)	(1,313,132)	(1,317,299)
19	Off balance sheet items (sum of lines 17 and 18)	509,690	600,160
Capital and total exposures			
20	Tier 1 capital	2,078,765	2,099,366
21	Total exposures (sum of lines 3,11, 16 and 19)	13,778,405	13,411,376
	Leverage ratio		
22	Basel III leverage ratio	15.09%	15.65%

16. Financial performance and financial position

Information pertaining to the financial performance and financial position for the year ended 31 December 2017 is available on the Group’s website: www.mercantile.co.za

17. 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 2017.

18. 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 2017.

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 2017.

28 March 2018

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Holdings Limited

As at 31 December 2017

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	
R'000			
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	873 527	
3	Accumulated other comprehensive income (and other reserves)	128 269	
4	Directly issued capital subject to phase out from CET 1 (only applicable to non-joint stock companies) <i>Public sector capital injections grandfathered until 1 January 2018</i>	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	2 209 066	
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)	130 301	130 301
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

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

31 December 2017

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 TREATMENT	130 301	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	130 301	
	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	130 301	
29	Common Equity Tier 1 capital (CET1)	2 078 765	
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 TREATMENT	0	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	0	

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

31 December 2017

	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)		2 078 765
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		24 439
51	Tier 2 capital before regulatory adjustments		24 439
Tier 2 capital: regulatory adjustments			
52	Investment in own Tier 2 instruments		0
53	Reciprocal cross-holdings in Tier 2 instruments		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
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
56	National specific regulatory adjustments		0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT		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)		24 439
59	Total capital (TC= T1 + T2)		2 103 204
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		11 619 240
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:		0
60	Total risk weighted assets		11 619 240

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

31 December 2017

Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	17.89
62	Tier 1 (as a percentage of risk weighted assets)	17.89
63	Total capital (as a percentage of risk weighted assets)	18.10
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)	1.25
65	of which: capital conservation buffer requirement	1.25
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)	17.89
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	6.00
70	National Tier 1 minimum ratio	7.25
71	National total capital minimum ratio	9.50
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)	24 439
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

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Limited (solo)

As at 31 December 2017

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	
R’000			
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	747 079	
3	Accumulated other comprehensive income (and other reserves)	(982)	
4	Directly issued capital subject to phase out from CET 1 (only applicable to non-joint stock companies) <i>Public sector capital injections grandfathered until 1 January 2018</i>	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	2 229 397	
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)	130 031	130 031
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

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

31 December 2017

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	38 321	38 321
26	National specific regulatory adjustments	0	0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT	130 031	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	130 031	
	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	130 031	
29	Common Equity Tier 1 capital (CET1)	2 099 366	
	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 TREATMENT	0	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	0	

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

31 December 2017

	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)		2 099 366
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		24 946
51	Tier 2 capital before regulatory adjustments		24 946
Tier 2 capital: regulatory adjustments			
52	Investment in own Tier 2 instruments		0
53	Reciprocal cross-holdings in Tier 2 instruments		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
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
56	National specific regulatory adjustments		0
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT		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)		24 946
59	Total capital (TC= T1 + T2)		2 124 312
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		11 661 019
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:		0
60	Total risk weighted assets		11 661 019

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

31 December 2017

Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	18.00
62	Tier 1 (as a percentage of risk weighted assets)	18.00
63	Total capital (as a percentage of risk weighted assets)	18.22
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)	1.25
65	of which: capital conservation buffer requirement	1.25
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)	18.00
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	6.00
70	National Tier 1 minimum ratio	7.25
71	National total capital minimum ratio	9.50
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	107 194
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	38 321
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)	24 946
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

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2017

ANNEXURE B: MAIN FEATURES DISCLOSURE TEMPLATE

Mercantile Bank Group and Mercantile Bank Limited (solo)

As at 31 December 2017

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

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)

31 December 2017

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