

**Mercantile Bank Holdings Limited and its subsidiaries
("the Group")
unaudited bi-annual disclosure
as at 31 December 2018
(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 2018

- 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 2018.

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:

Company name	Effective Holding %	Nature of business	Fully consolidated
Mercantile Bank Limited	100	Banking	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

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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. Key prudential information

The Group’s key prudential metrics related to regulatory capital, leverage ratio, liquidity ratios and risk weighted assets as at 31 December 2018 are disclosed below.

3.1 Overview of risk management, key prudential metrics

		Mercantile Bank Holdings Limited				
		31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18	T-4
Available capital (amounts) R'000						
1	Common Equity Tier 1 (CET1)	2,347,258	2,260,483	2,153,549	2,185,406	
1a	Fully loaded ECL accounting model	(35,586)	(35,586)	(27,035)	(23,657)	
2	Tier 1	2,234,014	2,149,616	2,153,549	2,060,259	
2a	Fully loaded accounting model Tier 1	(35,586)	(35,586)	(27,035)	(23,657)	
3	Total capital	2,333,660	2,251,921	2,249,668	2,131,130	
3a	Fully loaded ECL accounting model total capital	99,646	102,305	96,119	70,871	
Risk-weighted assets (amounts) R'000						
4	Total risk-weighted assets (RWA)	12,347,184	11,579,783	11,309,228	10,911,211	
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	18.093	18.564	19.042	18.88	
5a	Fully loaded ECL accounting model CET1 (%)	(0.015)	(0.016)	(0.013)	(0.011)	
6	Tier 1 ratio (%)	18.093	18.564	19.042	18.88	
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	(0.015)	(0.016)	(0.013)	(0.011)	
7	Total capital ratio (%)	18.900	19.447	19.892	19.53	
7a	Fully loaded ECL accounting model total capital ratio (%)	0.043	0.045	0.043	0.03	
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.875	1.875	1.875	1.875	
9	Countercyclical buffer requirement (%)	-	-	-	-	
10	Bank D-SIB additional requirements (%)	-	-	-	-	
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	1.875	1.875	1.875	1.875	
12	CET1 available after meeting the bank's minimum capital requirements (%)	10.718	11.189	11.667	11.51	
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	15,576,933	15,196,102	14,420,870	13,641,976	
14	Basel III leverage ratio (%) (row 2/row 13)	14.34%	14.15%	14.93%	0.15	
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	(0.228)	(0.234)	(0.187)	(0.173)	
Liquidity Coverage Ratio						
15	Total HQLA	1,067,990	1,579,276	1,268,966	1,073,509	
16	Total net cash outflow	477,349	538,132	496,448	413,222	
17	LCR ratio (%)	224%	293%	256%	260%	
Net Stable Funding Ratio						
18	Total available stable funding	11,421,973	11,128,111	10,692,650	9,774,400	
19	Total required stable funding	8,828,810	8,818,044	8,612,662	8,309,443	
20	NSFR ratio (%)	124	126	124	118	

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3.2 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 104 of the 2018 integrated annual report.

Line #	R'000	Mercantile Bank Holdings Limited			Mercantile Bank Limited		
		RWA		Minimum capital requirements ⁽¹⁾	RWA		Minimum capital requirements ⁽¹⁾
		Dec-18	Dec-17	Dec-18	Dec-18	Dec-17	Dec-18
1	Credit risk (excluding counterparty credit risk) (CCR)	9,717,469	8,913,615	1,081,068	9,894,371	8,891,428	1,100,749
2	- Of which standardised approach (SA)	9,717,469	8,913,615	1,081,068	9,894,371	8,891,428	1,100,749
3	- Of which internal rating-based (IRB) approach	-	-	-	-	-	-
4	Counterparty credit risk	23,622	144,858	2,628	23,622	144,858	2,628
5	- Of which standardised approach for counterparty credit risk (SA-CCR) ⁽²⁾	23,622	144,858	2,628	23,622	144,858	2,628
6	- Of which internal model method (IMM)	-	-	-	-	-	-
16	Market risk	14,338	55,863	1,595	14,338	55,863	1,595
17	- Of which standardised approach (SA)	14,338	55,863	1,595	14,338	55,863	1,595
18	- Of which internal model approaches (IMM)	-	-	-	-	-	-
19	Operational risk	1,735,251	1,524,915	193,047	1,648,930	1,455,297	183,444
20	- Of which Basic Indicator Approach	-	-	-	-	-	-
21	- Of which standardised Approach	1,735,251	1,524,915	193,047	1,648,930	1,455,297	183,444
22	- Of which Advanced Measurement Approach	-	-	-	-	-	-
23	Other risk	856,504	979,989	95,286	1,032,290	1,113,572	114,842
25	Total	12,347,184	11,619,240	1,373,624	12,613,551	11,661,019	1,403,258

- (1) The minimum capital requirement per risk category is 11.125%, which comprises the base minimum (8.000%), plus the pillar 2A systemic risk add-on (1.25%), plus the conservation buffer (1.875%).
- (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, along with 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

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	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	3,178,571	2,173,115	17,447	-	-	-	334,816
Derivative financial instruments	17,903	-	15,112	-	1,147	-	-
Negotiable securities	790,810	790,822	-	-	-	-	-
Loans and advances	9,879,115	10,745,017	-	-	-	-	138,820
Other investments	8,078	-	-	-	-	-	8,078
Other accounts receivable	523,413	-	-	-	-	-	569,701
Non-current assets held-for-sale	22,500	-	-	-	-	-	22,500
Property and equipment	256,226	-	-	-	-	-	256,226
Intangible assets	128,917	-	-	-	-	128,917	-
Deferred tax assets	42,434	-	-	-	-	-	42,434
Total assets	14,847,967	13,708,954	32,559	-	1,147	128,917	1,372,575
Liabilities							
Other accounts payable	440,847	-	-	-	-	-	-
Derivative financial instruments	15,437	-	-	-	-	-	-
Current tax payable	5,716	-	-	-	-	-	-
Provisions and other liabilities	139,639	-	-	-	-	-	-
Deposits	10,417,469	62,318	-	-	-	-	-
Debt securities	352,076	-	-	-	-	-	-
Long-term funding	883,927	-	-	-	-	-	-
Deferred tax liabilities	68,272	-	-	-	-	-	-
Total equity							
Share capital and share premium	1,207,270	-	-	-	-	-	-
Employee benefits reserve	(5,631)	-	-	-	-	-	-
Property revaluation reserve	145,367	-	-	-	-	-	-
Available-for-sale reserve	5,707	-	-	-	-	-	-
Retained earnings	1,171,871	-	-	-	-	-	-
Total liabilities and equity	14,847,967	62,318	-	-	-	-	-

(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.

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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	14,847,967	13,708,954	32,559	-	1,147	1,372,575
2	Liabilities carrying value amount under scope of regulatory consolidation	14,847,967	62,318	-	-	-	-
3	Total net amount under regulatory scope of consolidation	-	13,646,636	32,559	-	1,147	1,372,575
4	Off-balance sheet amounts	2,222,064	632,237	-	-	-	-
5	Exposure amounts considered for regulatory purposes	-	14,278,873	32,559	-	1,147	1,372,575

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 92 to 97 of the Mercantile Bank Holdings Limited Integrated Annual Financial Statements for the year ended 31 December 2018.

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

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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 and shows 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		
1	Loans	381,783	13,473,142	205,450	13,649,475
2	Debt securities	-	-	-	-
3	Off-balance sheet exposures	-	2,222,066	-	2,222,066
4	Total	381,783	15,695,208	205,450	15,871,541

5.2 Changes in stock of defaulted loans and debt securities

		a
1	Defaulted loans and debt securities at end of the previous reporting period	442,374
2	Loans and debt securities that have defaulted since the last reporting period	31,173
3	Returned to non-defaulted status	(14,109)
4	Amounts written off	(19,533)
5	Other changes	58,122
6	Defaulted loans and debt securities at end of the reporting period	381,783

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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	12 959 227	2 222 066	32 560	15 213 853
Other	863 138	-	-	863 138
- Africa (excl South Africa)	812	-	-	812
- Asia	181	-	-	181
- Australia	21 510	-	-	21 510
- Europe	231 032	-	-	231 032
- North America	609 603	-	-	609 603
Total	13 822 365	2 222 066	32 560	16 076 991

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	33 523	3 142	41	36 706
Mining and quarrying	138 799	44 002	-	182 801
Manufacturing	887 180	379 698	2 252	1 269 130
Electricity, gas and water supply	35 847	3 571	158	39 576
Construction	390 865	101 790	-	492 655
Wholesale and retail trade, repair of specified items, hotels and restaurants	1 407 649	426 053	4 604	1 838 306
Transport, storage and communication	162 743	34 381	208	197 332
Financial intermediation and insurance	4 441 103	78 647	17 576	4 537 326
Real estate	2 121 510	245 145	353	2 367 008
Business services	488 905	44 821	2 196	535 922
Community, social and personal services	833 793	128 786	-	962 579
Private households	1 440 288	148 595	-	1 588 883
Other	1 440 160	583 435	5 172	2 028 767
Total	13 822 365	2 222 066	32 560	16 076 991

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	382 108	-
Impairments for credit losses		
Expected credit loss (Stage 1)	78 291	-
Expected credit loss (Stage 2)	21 230	-
Expected credit loss (Stage 3)	105 805	-
	205 326	-

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	94 907	24 082	17 406	136 395
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 Ageing analysis of gross advances

	Gross R'000
Not past due	15,483,612
Past due 31 -90 days	211,596
Past due 91 - 182 days	208,859
Past due > 182 days	172,924
Total	16,076,991

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5.8 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
1	Loans	9,123,298	6,953,692	441,471	-	-	-
2	Debt securities	-	-	-	-	-	-
3	Total	9,123,298	6,953,692	441,471	-	-	-
4	Of which defaulted	127,837	253,946	4,177	-	-	-

5.9 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	790,822	-	790,822	-	-	0.00%
2	Non-central government public sector entities	1,538	-	1,538	-	1,154	75.02%
3	Multilateral development banks	-	-	-	-	-	0.00%
4	Banks	2,190,562	34,933	2,190,557	-	443,342	20.24%
5	Securities firms	30	170	-	-	32	0.00%
6	Corporates	3,016,258	1,146,973	3,081,156	289,940	3,290,571	97.61%
7	Regulatory retail portfolios	2,473,297	730,507	2,587,710	125,989	1,999,131	73.67%
8	Secured by residential property	2,414,514	60,881	2,235,206	58,249	936,173	40.82%
9	Secured by commercial real estate	2,586,121	248,136	2,517,462	158,065	2,753,484	102.91%
10	Equity	-	-	-	-	-	0.00%
11	Past-due loans	381,783	465	274,732	-	310,881	113.16%
12	Higher-risk categories	-	-	-	-	-	0.00%
13	Other assets	1,312,160	-	1,239,663	-	879,208	70.92%
14	Total	15,167,085	2,222,066	14,918,846	632,243	10,613,977	68.25%

- Included in ‘Corporates’ and ‘Banks’ exposures are money market funds of R805 million and R1 257 million, respectively.
- Included in the above are securitised rental assets to the value of R505 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 2018, the Group did not recognise any netting arrangements to reduce its credit risk exposures for capital adequacy requirements.

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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 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 6.11 on page 70 of the integrated annual report.

5.10 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)
1	Sovereign and their central banks	790,822	-	-	-	-	-	-	-	-	790,822
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	1,538	-	-	-	1,538
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	2,183,990	-	58	-	6,509	-	-	2,190,557
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	2,103	-	3,368,993	-	-	3,371,096
7	Regulatory retail portfolios	-	-	-	-	-	2,326,273	387,426	-	-	2,713,699
8	Secured by residential property	-	-	-	2,293,455	-	-	-	-	-	2,293,455
9	Secured by commercial real estate	-	-	-	-	-	-	2,675,527	-	-	2,675,527
10	Equity	-	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	19,591	-	165,292	89,850	-	274,732
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	520,688	-	-	-	-	-	718,975	-	-	1,239,663
14	Total	1,311,510	-	2,183,990	2,293,455	21,752	2,327,812	7,322,721	89,850	-	15,551,089

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5.11 Credit portfolio maturity analysis

	Cash and cash equivalents and current accounts⁽¹⁾	Credit cards	Mortgage loans	Instalment sales and leases	Other advances⁽²⁾	Negotiable securities	Total Advances
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Maturing up to one month	1 870 471	21 874	2 094	5 764	2 870 976	149 668	4 920 847
Maturing between one and three months	-	4 919	152	4 080	12 840	341 074	363 065
Maturing between three and six months	-	7 379	96 387	11 714	17 256	245 979	378 715
Maturing between six months and one year	-	9 840	24 597	44 391	20 787	28 300	127 915
Maturing after one year	-	-	4 898 667	1 797 137	1 202 182	25 801	7 923 787
	1 870 471	44 012	5 021 897	1 863 086	4 124 041	790 822	13 714 329

(1) “Cash and cash equivalents” includes money market funds and Rand- and foreign currency-denominated bank balances.

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

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5.12 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	3 114 818
Cash and cash equivalents - Rand denominated	1 504 326
Cash and cash equivalents - Foreign currency denominated	707 553
Negotiable securities	902 939
Gross loans and other advances	10 269 877
Current accounts	2 377 239
Credit cards	41 967
Mortgage loans	5 021 772
Instalment sales and leases	1 668 764
Other advances	1 160 135
Gross other assets	53 541
Investments	7 532
Derivative financial assets	46 009
On-balance sheet exposure	13 438 236
Guarantees	632 363
Letters of credit	10 892
Committed undrawn facilities	171 025
Revocable overdraft facilities	1 008 498
Operating lease commitment	17 455
Off-balance sheet exposure	1 840 233
Total gross credit exposure	15 278 469

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 page 45 and pages 90 to 92 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⁾	13,952	12,099			17,301	23,622
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						23,622

6.2 Credit valuation adjustment (CVA) charge

Credit valuation adjustment is the difference between the risk-free portfolio value and the true portfolio value considering 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
1 Total portfolios subject to the Advanced CVA capital charge	-	-
2 (i) VaR component (including the 3 x multiplier)	-	-
3 (ii) Stressed VaR component (including the 3 x multiplier)	-	-
4 All portfolios subject to the Standardised CVA capital charge	17,301	6,321
4 Total subject to the CVA capital charge	17,301	6,321

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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
1 Sovereigns	-	-	-	-	-	-	-	-	-	-
2 Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3 Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4 Banks	-	-	10,938	-	-	-	15,113	-	-	26,051
5 Securities firms	-	-	-	-	-	-	-	-	-	-
6 Corporates	-	-	-	-	-	-	-	-	-	-
7 Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
13 Other assets	-	-	-	-	-	-	-	-	-	-
14 Total	-	-	10,938	-	-	-	15,113	-	-	26,051

7. Securitisation risk

The Group has exposure to securitised rental assets to the value of R505 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. 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 6 June 2020. In December 2018, an additional R110 million in notes were issued. These notes are also linked to JIBAR with interest repayable quarterly and maturing on 6 December 2021.

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2018

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	505,363	-	505,363	-	-	-	-	-	-
2	residential mortgage	-	-	-	-	-	-	-	-	-
3	credit card	-	-	-	-	-	-	-	-	-
4	other retail exposures	505,363	-	505,363	-	-	-	-	-	-
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”)
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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			
		<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%
R'000																		
1	Total exposures	-	-	374,162	-	-	-	-	-	-	-	-	374,162	-	-	-	-	-
2	Traditional securitisation	-	-	374,162	-	-	-	-	-	-	-	-	374,162	-	-	-	-	-
3	Of which securitisation	-	-	374,162	-	-	-	-	-	-	-	-	374,162	-	-	-	-	-
4	Of which retail underlying	-	-	374,162	-	-	-	-	-	-	-	-	374,162	-	-	-	-	-
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 2018

8. Operational risk

The Group currently holds R193 million in operational risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 11.125%).

9. Market risk

The portfolios that are subject to market risk are foreign exchange and interest rate contracts for which the Group currently holds R1.6 million in market risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 11.125%).

R'000		a
		RWA
	Outright products	14,338
1	- Interest rate risk (general and specific)	-
2	- Equity risk (general and specific)	-
3	- Foreign exchange risk	14,338
4	- Commodity risk	-
	Options	-
5	- Simplified approach	-
6	- Delta-plus method	-
7	- Scenario approach	-
8	Securitisation	-
9	Total	14,338

10. Equity positions

Investments consist of unlisted equity investments and these have been designated as fair value through profit or loss.

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 11.125%) R'000
Investments				
Unlisted	Shares	8 078	8 078	899
		8 078	8 078	899

Realised and unrealised gains on equity investments

	Total R'000
Realised gains and losses in profit or loss for the year	-
Unrealised cumulative gains and losses recognised directly in equity	
Listed	-
Unlisted	7 453
	7 453

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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	5 784 556	7 990 736	(2 206 180)
Maturing between one and three months	370 514	1 192 461	(821 947)
Maturing between three and six months	381 069	202 477	178 592
Maturing between six months and one year	127 927	328 467	(200 540)
Maturing after one year	7 931 206	2 537 444	5 393 762
Non-contractual	252 695	71 798	180 897
	14 847 967	12 323 383	2 524 584

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)	76 959	45 832
Interest rate decrease (200bps decrease)	(91 337)	(74 034)

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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 2018, are set out below.

	Total unweighted value 31 December 2018	Total weighted value (average) 31 December 2018
High-quality liquid assets		
1 Total HQLA		1,067,990
Cash outflows		
2 Retail deposits and deposits from small business customers, of which:	3,938,001	225,885
3 Stable deposits	-	-
4 Less stable deposits	3,938,001	225,885
5 Unsecured wholesale funding, of which:	7,295,582	1,499,117
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7 Non-operational deposits (all counterparties)	7,295,582	1,499,117
8 Unsecured debt	-	-
9 Secured wholesale funding	-	-
10 Additional requirements, of which:	-	64,863
11 Outflows related to derivative exposures and other collateral requirements	-	-
12 Outflows related to loss of funding of debt products	-	-
13 Credit and liquidity facilities	1,601,306	64,863
14 Other contractual funding obligations	-	-
15 Other contingent funding obligations	1,011,935	50,391
16 TOTAL CASH OUTFLOWS	13,915,962	1,840,256
Cash inflows		
17 Secured lending (eg reverse repo)	-	-
18 Inflows from fully performing exposures	5,166,226	3,968,380
19 Other cash inflows	-	-
20 TOTAL CASH INFLOWS	5,166,226	3,968,380
		Total adjusted value
21 Total HQLA		1,067,990
22 Total net cash outflows		477,349
23 Liquidity coverage ratio (%)		224%

1. Average balances are based on month-end averages.
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 2018, the Bank has implemented a countercyclical buffer of 0.00% and a capital conservation buffer of 1.875%.

The Group has documented its Internal Capital Adequacy Assessment Process (“ICAAP”), which was 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 2018.

15.1 Summarised comparison of accounting assets and leverage ratio exposure measure

Line #	R'000	Mercantile Bank Holdings Limited	Mercantile Bank Limited
		Dec-18	Dec-18
1	Total consolidated assets as per published financial statements	14,847,968	14,257,712
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but 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	Adjustments for derivative financial instruments	(26,051)	(26,051)
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-	-
6	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	734,270	832,097
7	Other adjustments	20,745	8,977
8	Leverage ratio exposure measure	15,576,933	15,072,734

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
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15.2 Leverage ratio of Group and Bank

		Mercantile Bank Holdings	Mercantile Bank Limited
		Dec-18	Dec-18
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	14,929,855	14,327,308
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(113,244)	(112,721)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)	14,816,611	14,214,587
Derivative exposures			
4	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	13,952	13,952
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	12,099	12,099
6	Gross-up for derivatives collateral provide where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-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 derivative exposures (sum of rows 4 to 10)	26,051	26,051
Securities financing transactions			
12	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale 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 rows 12 to 15)	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	2,411,566	2,704,246
18	(Adjustments for conversion to credit equivalent amounts)	(1,677,296)	(1,872,149)
19	Off-balance sheet items (sum of rows 17 and 18)	734,270	832,097
Capital and total exposures			
20	Tier 1 capital	2,234,014	2,254,121
21	Total exposures (sum of rows 3, 11, 16 and 19)	15,576,933	15,072,734
Leverage ratio			
22	Basel III leverage ratio	14.34	14.95

16. Financial performance and financial position

Information pertaining to the financial performance and financial position for the year ended 31 December 2018 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 2018.

18. Qualitative disclosures and accounting policies

The Regulations require that certain qualitative disclosures and statements on accounting policy be made. These regulatory qualitative disclosures and statements on accounting policy were made in the Group integrated annual report for the financial year ended 31 December 2018.

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 2018.

26 March 2019

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
31 December 2018

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Holdings Limited

As at 31 December 2018

Basel III common disclosures template to be used during the transition of regulatory adjustments			
R’000		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1 207 270	
2	Retained earnings	994 544	
3	Accumulated other comprehensive income (and other reserves)	145 444	
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	2 347 258	
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)	113 244	113 244
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”)

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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	113 244	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	113 244	
	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	113 244	
29	Common Equity Tier 1 capital (CET1)	2 234 014	
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”)

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	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)		2 234 014
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		99 646
51	Tier 2 capital before regulatory adjustments		99 646
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)		99 646
59	Total capital (TC= T1 + T2)		2 333 660
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		12 347 184
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:		0
60	Total risk weighted assets		12 347 184
Capital ratios			

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

31 December 2018

61	Common Equity Tier 1 (as a percentage of risk weighted assets)	18.09
62	Tier 1 (as a percentage of risk weighted assets)	18.09
63	Total capital (as a percentage of risk weighted assets)	18.90
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)	1.875
65	of which: capital conservation buffer requirement	1.875
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)	18.09
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	5.50
70	National Tier 1 minimum ratio	7.00
71	National total capital minimum ratio	9.25
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)	99 646
77	Cap on inclusion of provisions in Tier 2 under standardised approach	0
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0
79	Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	0
Capital instruments subject to phase-out arrangement (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	0
81	Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0
82	Current cap on AT1 instruments subject to phase out arrangements	0
83	Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0
84	Current cap on T2 instruments subject to phase out arrangements	0
85	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	0

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

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Mercantile Bank Limited (solo)

As at 31 December 2018

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	883 415	
3	Accumulated other comprehensive income (and other reserves)	127	
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	2 366 842	
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)	112 721	112 721
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0
11	Cash-flow hedge reserve	0	0
12	Shortfall of provisions to expected losses	0	0
13	Securitisation gain on sale	0	0
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0
15	Defined-benefit pension fund net assets	0	0
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	0	0
17	Reciprocal cross-holdings in common equity	0	0
18	Investments in the capital of banking, financial, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	0	0
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amounts above 10% threshold)	0	0
20	Mortgage servicing rights (amount above 10% threshold)	0	0

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

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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	112 721	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	112 721	
	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	112 721	
29	Common Equity Tier 1 capital (CET1)	2 254 121	
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	
	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	

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45	Tier 1 capital (T1= CET1 + AT1)	2 254 121	
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	87 499	
51	Tier 2 capital before regulatory adjustments	87 499	
Tier 2 capital: regulatory adjustments			
52	Investment in own Tier 2 instruments	0	0
53	Reciprocal cross-holdings in Tier 2 instruments	0	0
54	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	0	0
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	0
56	National specific regulatory adjustments	0	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III 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)	87 499	
59	Total capital (TC= T1 + T2)	2 341 620	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	12 613 551	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	0	
60	Total risk weighted assets	12 613 551	
Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	17.87	
62	Tier 1 (as a percentage of risk weighted assets)	17.87	
63	Total capital (as a percentage of risk weighted assets)	18.56	
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)	1.875	
65	of which: capital conservation buffer requirement	1.875	

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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)	17.87
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	5.50
70	National Tier 1 minimum ratio	7.00
71	National total capital minimum ratio	9.25
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)	58 637
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)	87 499
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

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ANNEXURE B: MAIN FEATURES DISCLOSURE TEMPLATE

Mercantile Bank Group and Mercantile Bank Limited (solo)

As at 31 December 2018

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

Disclosure template for main features of regulatory capital instruments			
1	Issuer	Mercantile Bank Limited	Mercantile Bank Holdings Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Unlisted	Unlisted
3	Governing Law(s) of the instrument	Banks Act, Companies Act	Banks Act, Companies Act
Regulatory treatment			
4	Transitional Basel III rules	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group and solo	Group
7	Instrument type (type to be specified by each jurisdiction)	Ordinary share capital	Ordinary share capital
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	R1 483 Million	R1 207 Million
9	Par value of instrument	R2.00	1 cent
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	28/03/2002	13/06/1989
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No Maturity	No Maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A

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	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