

**Mercantile Bank Holdings Limited and its subsidiaries
("the Group")
unaudited bi-annual disclosure
as at 30 June 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 made 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 document published by the Mercantile Holdings Group, available under the financial results link on the website <https://www.mercantile.co.za/>, and 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 period ending 30 June 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:

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

30 June 2018

| 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 |

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.

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

30 June 2018

3. Key prudential information

The Group’s key prudential metrics related to regulatory capital, leverage ratio, liquidity ratios and risk weighted assets as at 30 June 2018 are disclosed below.

3.1 Overview of risk management, key prudential metrics

| | | Mercantile Bank Holdings Limited | | | | |
|---|--|----------------------------------|------------|-----|-----|-----|
| | | a | b | c | d | e |
| | | 30-Jun-18 | 31-Mar-18 | T-2 | T-3 | T-4 |
| Available capital (amounts) R'000 | | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 2,153,549 | 2,185,406 | | | |
| 1a | Fully loaded ECL accounting model | (27,035) | (23,657) | | | |
| 2 | Tier 1 | 2,153,549 | 2,060,259 | | | |
| 2a | Fully loaded accounting model Tier 1 | (27,035) | (23,657) | | | |
| 3 | Total capital | 2,249,668 | 2,131,130 | | | |
| 3a | Fully loaded ECL accounting model total capital | 96,119 | 70,871 | | | |
| Risk-weighted assets (amounts) R'000 | | | | | | |
| 4 | Total risk-weighted assets (RWA) | 11,309,228 | 10,911,211 | | | |
| Risk-based capital ratios as a percentage of RWA | | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 19.042 | 18.882 | | | |
| 5a | Fully loaded ECL accounting model CET1 (%) | (0.013) | (0.011) | | | |
| 6 | Tier 1 ratio (%) | 19.042 | 18.882 | | | |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | (0.013) | (0.011) | | | |
| 7 | Total capital ratio (%) | 19.892 | 19.532 | | | |
| 7a | Fully loaded ECL accounting model total capital ratio (%) | 0.043 | 0.033 | | | |
| Additional CET1 buffer requirements as a percentage of RWA | | | | | | |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 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 | | | |
| 12 | CET1 available after meeting the bank’s minimum capital requirements (%) | 11.667 | 11.507 | | | |
| Basel III Leverage Ratio | | | | | | |
| 13 | Total Basel III leverage ratio measure | 14,420,870 | 13,641,976 | | | |
| 14 | Basel III leverage ratio (%) (row 2/row 13) | 14.93% | 15.10% | | | |
| 14a | Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13) | (0.187) | (0.173) | | | |
| Liquidity Coverage Ratio | | | | | | |
| 15 | Total HQLA | 1,268,966 | 1,073,509 | | | |
| 16 | Total net cash outflow | 496,448 | 413,222 | | | |
| 17 | LCR ratio (%) | 256% | 260% | | | |
| Net Stable Funding Ratio | | | | | | |
| 18 | Total available stable funding | 10,692,650 | 9,774,400 | | | |
| 19 | Total required stable funding | 8,612,662 | 8,309,443 | | | |
| 20 | NSFR ratio (%) | 124 | 118 | | | |

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 97 of the 2017 integrated annual report.

| Line # | R'000 | Mercantile Bank Holdings Limited | | | Mercantile Bank Limited | | |
|--------|---|----------------------------------|-------------------|---|-------------------------|-------------------|---|
| | | RWA | | Minimum capital requirements ⁽¹⁾ | RWA | | Minimum capital requirements ⁽¹⁾ |
| | | Jun-18 | Jun-17 | Jun-18 | Jun-18 | Jun-17 | Jun-18 |
| 1 | Credit risk (excluding counterparty credit risk) (CCR) | 9,004,067 | 8,803,161 | 1,001,702 | 8,979,100 | 8,764,628 | 998,925 |
| 2 | - Of which standardised approach (SA) | 9,004,067 | 8,803,161 | 1,001,702 | 8,979,100 | 8,764,628 | 998,925 |
| 3 | - Of which internal rating-based (IRB) approach | - | - | - | - | - | - |
| 4 | Counterparty credit risk | 38,702 | 40,364 | 4,306 | 38,702 | 40,364 | 4,306 |
| 5 | - Of which standardised approach for counterparty credit risk (SA-CCR) ⁽²⁾ | 38,702 | 40,364 | 4,306 | 38,702 | 40,364 | 4,306 |
| 6 | - Of which internal model method (IMM) | - | - | - | - | - | - |
| 16 | Market risk | 15,163 | 7,738 | 1,687 | 15,163 | 7,738 | 1,687 |
| 17 | - Of which standardised approach (SA) | 15,163 | 7,738 | 1,687 | 15,163 | 7,738 | 1,687 |
| 18 | - Of which internal model approaches (IMM) | - | - | - | - | - | - |
| 19 | Operational risk | 1,524,915 | 1,416,419 | 169,647 | 1,543,303 | 1,373,491 | 171,692 |
| 20 | - Of which Basic Indicator Approach | - | - | - | - | - | - |
| 21 | - Of which standardised Approach | 1,524,915 | 1,416,419 | 169,647 | 1,543,303 | 1,373,491 | 171,692 |
| 22 | - Of which Advanced Measurement Approach | - | - | - | - | - | - |
| 23 | Other risk | 726,381 | 632,961 | 80,810 | 878,942 | 730,808 | 97,782 |
| 25 | Total | 11,309,228 | 10,900,642 | 1,258,152 | 11,455,208 | 10,917,028 | 1,274,391 |

(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 (1.250%), plus the conservation buffer (1.875%).

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

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

30 June 2018

4 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 Report 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.

4.1 Credit quality of assets

The following table shows the classification of the gross carrying value of the total of the 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 | 442,374 | 12,267,104.22 | 245,499 | 12,463,979 |
| 2 | Debt securities | - | - | - | - |
| 3 | Off-balance sheet exposures | - | 1,558,086 | - | 1,558,086 |
| 4 | Total | 442,374 | 13,825,190 | 245,499 | 14,022,065 |

4.2 Changes in stock of defaulted loans and debt securities

| | | a |
|----------|--|----------------|
| 1 | Defaulted loans and debt securities at end of the previous reporting period | 321,871 |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 75,403 |
| 3 | Returned to non-defaulted status | (1,276) |
| 4 | Amounts written off | (20,300) |
| 5 | Other changes | 66,676 |
| 6 | Defaulted loans and debt securities at end of the reporting period | 442,374 |

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
30 June 2018

4.3 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 | 12 074 136 | 1 558 086 | 71 205 | 13 703 427 |
| Other | 564 137 | - | - | 564 137 |
| - Africa (excl South Africa) | 647 | - | - | 647 |
| - Asia | 140 | - | - | 140 |
| - Australia | 6 004 | - | - | 6 004 |
| - Europe | 177 541 | - | - | 177 541 |
| - North America | 379 805 | - | - | 379 805 |
| Total | 12 638 273 | 1 558 086 | 71 205 | 14 267 564 |

4.4 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 | 38 005 | 901 | 97 | 39 003 |
| Mining and quarrying | 175 160 | 35 518 | - | 210 678 |
| Manufacturing | 934 999 | 305 019 | 5 314 | 1 245 332 |
| Electricity, gas and water supply | 36 241 | 7 037 | 113 | 43 391 |
| Construction | 469 274 | 83 068 | - | 552 342 |
| Wholesale and retail trade, repair of specified items, hotels and restaurants | 1 488 625 | 450 338 | 4 997 | 1 943 960 |
| Transport, storage and communication | 152 318 | 28 057 | 36 | 180 411 |
| Financial intermediation and insurance | 3 362 566 | 48 139 | 50 846 | 3 461 551 |
| Real estate | 2 356 182 | 71 644 | - | 2 427 826 |
| Business services | 446 751 | 32 327 | 951 | 480 029 |
| Community, social and personal services | 609 834 | 72 335 | 18 | 682 187 |
| Private households | 1 407 999 | 190 732 | 2 | 1 598 733 |
| Other | 1 160 319 | 232 971 | 8 831 | 1 402 121 |
| Total | 12 638 273 | 1 558 086 | 71 205 | 14 267 564 |

4.5 Past due loans and advances by geographical area

| | South Africa Gross amount R'000 | Other Gross amount R'000 |
|---|--|--------------------------------|
| Individually impaired loans and advances | 442 374 | - |

4.6 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 | 72 132 | 54 115 | 4 328 | 130 575 |
| 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.

4.7 Ageing analysis of gross loans and advances

| | Gross R'000 |
|------------------------|------------------------|
| Not past due | 13,694,615 |
| Past due 1 -30 days | 72,132 |
| Past due 31 -90 days | 58,443 |
| Past due 91 - 182 days | 216,069 |
| Past due > 182 days | 226,305 |
| Total | 14,267,564 |

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
30 June 2018

4.8 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 |
| Loans | 8,096,586 | 6,170,976 | 267,436 | - | - | - | - |
| Debt securities | - | - | - | - | - | - | - |
| Total | 8,096,586 | 6,170,976 | 267,436 | - | - | - | - |
| Of which defaulted | 162,934 | 279,440 | 6,762 | - | - | - | - |

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

| | Asset classes | 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 | 886,992 | - | 886,992 | - | - | 0.00% |
| 2 | Non-central government public sector entities | 2,145 | - | 2,145 | - | 1,073 | 50.01% |
| 3 | Multilateral development banks | - | - | - | - | - | 0.00% |
| 4 | Banks | 1,421,752 | 13,943 | 1,421,752 | 1,297 | 340,087 | 23.90% |
| 5 | Securities firms | 174 | 188 | - | - | 106 | 0.00% |
| 6 | Corporates | 2,800,490 | 518,257 | 2,867,252 | 97,949 | 2,934,006 | 98.95% |
| 7 | Regulatory retail portfolios | 2,270,498 | 843,795 | 2,462,495 | 156,989 | 1,882,407 | 71.86% |
| 8 | Secured by residential property | 2,274,688 | 52,088 | 2,066,701 | 51,364 | 882,319 | 41.66% |
| 9 | Secured by commercial real estate | 2,610,552 | 129,628 | 2,508,921 | 88,179 | 2,668,004 | 102.73% |
| 10 | Equity | - | - | - | - | - | 0.00% |
| 11 | Past-due loans | 442,187 | 187 | 281,579 | - | 320,902 | 113.97% |
| 12 | Higher-risk categories | - | - | - | - | - | 0.00% |
| 13 | Other assets | 1,240,643 | - | 1,239,663 | - | 718,975 | 58.00% |
| 14 | Total | 13,950,121 | 1,558,086 | 13,737,499 | 395,779 | 9,747,880 | 68.97% |

- Included in ‘Corporates’ and ‘Banks’ exposures are, respectively, money market funds of R429 million and R779 million.
- 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.

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

30 June 2018

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 30 June 2018, 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 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. Please refer to note 5.10 on page 64 of the 2017 integrated annual report.

4.10 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 | 886,992 | - | - | - | - | - | - | - | - | 886,992 |
| 2 | Non-central government public sector entities (PSEs) | - | - | - | - | 2,145 | - | - | - | - | 2,145 |
| 3 | Multilateral development banks (MDBs) | - | - | - | - | - | - | - | - | - | - |
| 4 | Banks | - | - | 1,305,513 | - | 77,107 | - | 40,424 | 4 | - | 1,423,049 |
| 5 | Securities firms | - | - | - | - | - | - | - | - | - | - |
| 6 | Corporates | - | - | - | - | 9,067 | - | 2,956,133 | - | - | 2,965,201 |
| 7 | Regulatory retail portfolios | - | - | - | - | - | 2,189,149 | 430,335 | - | - | 2,619,484 |
| 8 | Secured by residential property | - | - | - | 2,118,065 | - | - | - | - | - | 2,118,065 |
| 9 | Secured by commercial real estate | - | - | - | - | - | - | 2,597,100 | - | - | 2,597,100 |
| 10 | Equity | - | - | - | - | - | - | - | - | - | - |
| 11 | Past-due loans | - | - | - | - | 35,328 | - | 141,131 | 105,120 | - | 281,579 |
| 12 | Higher-risk categories | - | - | - | - | - | - | - | - | - | - |
| 13 | Other assets | 520,688 | - | - | - | - | - | 718,975 | - | - | 1,239,663 |
| 14 | Total | 1,407,680 | - | 1,305,513 | 2,118,065 | 123,648 | 2,189,149 | 6,884,099 | 105,124 | - | 14,133,278 |

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
30 June 2018

4.11 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 | 2 145 105 | 43 998 | 2 924 | 5 401 | 2 042 987 | 59 834 | 4 300 249 |
| Maturing between one and three months | - | - | 634 | 5 721 | 5 971 | 301 315 | 313 641 |
| Maturing between three and six months | - | - | 137 963 | 12 888 | 36 575 | 270 635 | 458 061 |
| Maturing between six months and one year | - | - | 22 064 | 40 779 | 29 024 | 229 443 | 321 310 |
| Maturing after one year | - | - | 4 742 215 | 1 606 350 | 1 158 345 | 25 765 | 7 532 675 |
| | 2 145 105 | 43 998 | 4 905 800 | 1 671 139 | 3 272 902 | 886 992 | 12 925 936 |

(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.

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
30 June 2018

4.12 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 | 2 561 493 |
| Cash and cash equivalents - Rand denominated | 982 098 |
| Cash and cash equivalents - Foreign currency denominated | 700 978 |
| Negotiable securities | 878 417 |
| Gross loans and other advances | 10 189 941 |
| Current accounts | 2 433 703 |
| Credit cards | 39 450 |
| Mortgage loans | 5 038 593 |
| Instalment sales and leases | 1 522 441 |
| Other advances | 1 155 754 |
| Gross other assets | 62 854 |
| Investments | 6 781 |
| Derivative financial assets | 56 073 |
| On-balance sheet exposure | 12 814 288 |
| Guarantees | 590 437 |
| Letters of credit | 13 034 |
| Committed undrawn facilities | 166 786 |
| Revocable overdraft facilities | 916 593 |
| Operating lease commitment | 19 780 |
| Off-balance sheet exposure | 1 706 630 |
| Total gross credit exposure | 14 520 918 |

5. 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 respectively can be found in the 2017 integrated report on pages 44 and 86 to 91.

5.1 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⁾ | 22,233 | 11,910 | | | 24,837 | 38,702 |
| 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 | | | | | | 38,702 |

5.2 Credit valuation adjustment (CVA) charge

Credit valuation adjustment is the difference between the risk-free portfolio value and the true portfolio value that considers 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 | 24,837 | 13,865 |
| 4 | Total subject to the CVA capital charge | 24,837 | 13,865 |

5.3 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 | - | - | 11,632 | - | - | - | 22,511 | - | - | 34,143 |
| 5 | Securities firms | - | - | - | - | - | - | - | - | - | - |
| 6 | Corporates | - | - | - | - | - | - | - | - | - | - |
| 7 | Regulatory retail portfolios | - | - | - | - | - | - | - | - | - | - |
| 13 | Other assets | - | - | - | - | - | - | - | - | - | - |
| 14 | Total | - | - | 11,632 | - | - | - | 22,511 | - | - | 34,143 |

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

30 June 2018

6. Securitisation risk

The Group has exposure in 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 the 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 notes amounting to R240 million, of R1 million each, are unsubordinated, secured, compulsorily redeemable and asset-backed. They are linked to JIBAR with interest repayable quarterly and maturing on 06 June 2020.

6.1 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 | 344,118 | - | 344,118 | - | - | - | - | - | - |
| 2 | residential mortgage | - | - | - | - | - | - | - | - | - |
| 3 | credit card | - | - | - | - | - | - | - | - | - |
| 4 | other retail exposures | 344,118 | - | 344,118 | - | - | - | - | - | - |
| 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”)
30 June 2018

6.2 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 | - | - | 257,605 | - | - | - | - | - | - | - | - | 257,605 | - | - | - | - | - |
| 2 | Traditional securitisation | - | - | 257,605 | - | - | - | - | - | - | - | - | 257,605 | - | - | - | - | - |
| 3 | Of which securitisation | - | - | 257,605 | - | - | - | - | - | - | - | - | 257,605 | - | - | - | - | - |
| 4 | Of which retail underlying | - | - | 257,605 | - | - | - | - | - | - | - | - | 257,605 | - | - | - | - | - |
| 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”)

30 June 2018

7. Operational risk

The Group currently holds the base minimum required capital and reserve funding of R141 million related to operational risk in terms of the standardised approach. (Based on a capital requirement of 11.125%).

8. Market risk

The portfolios that are subject to market risk are foreign exchange and interest rate contracts for which the Group currently holds R1.4 million in market risk capital in terms of the standardised approach. (Based on a capital requirement of 11.125%).

| R'000 | | a |
|----------|---|---------------|
| | | RWA |
| | Outright products | 15,163 |
| 1 | - Interest rate risk (general and specific) | - |
| 2 | - Equity risk (general and specific) | - |
| 3 | - Foreign exchange risk | 15,163 |
| 4 | - Commodity risk | - |
| | Options | - |
| 5 | - Simplified approach | - |
| 6 | - Delta-plus method | - |
| 7 | - Scenario approach | - |
| 8 | Securitisation | - |
| 9 | Total | 15,163 |

9. 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 (@ 11.125%) R'000 |
|--------------------|--------|--------------------------|---------------------|---|
| Investments | | | | |
| Unlisted | Shares | 7 406 | 7 406 | 824 |
| | | 7 406 | 7 406 | 824 |

Realised and unrealised gains on equity investments

| | Total R'000 |
|---|----------------|
| Realised gains and losses in profit and loss for the period | - |
| Unrealised cumulative gains and losses recognised directly in equity | |
| Listed | 133 |
| Unlisted | 6 648 |
| <hr/> | |
| | 6 781 |

10. 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 | 5 152 646 | 7 463 988 | (2 311 342) |
| Maturing between one and three months | 327 927 | 1 014 516 | (686 589) |
| Maturing between three and six months | 465 959 | 170 783 | 295 176 |
| Maturing between six months and one year | 321 570 | 361 870 | (40 300) |
| Maturing after one year | 7 532 677 | 2 519 095 | 5 013 582 |
| Non-contractual | 190 609 | 65 814 | 124 795 |
| | 13 991 388 | 11 596 066 | 2 395 322 |

11. Interest rate risk

Interest rate sensitivity analyses

For regulatory purposes, the assessment and measurement of interest rate risk is based on the accumulated impact of interest rate sensitive instruments resulting from a parallel movement of plus or minus 200 basis points on the yield curve.

In addition, the impact on equity and profit and loss resulting from a change in interest rates is calculated monthly based on management’s forecast of the most likely change in interest rates.

The table below reflects the Bank’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 Bank’s exposure to interest rates on its capital position and lending and deposits in the banking book.

| | Impact on economic value of equity Bank specific R'000 | Impact on net interest income for twelve months Parallel R'000 |
|---|---|---|
| Net interest income sensitivity shock | | |
| Interest rate increase (200bps increase) | 76 795 | 47 032 |
| Interest rate decrease (200bps decrease) | (90 825) | (73 002) |

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
30 June 2018

12. Liquidity disclosures

In terms of Regulation 43(1)(e)(iii)(F), the Liquidity Coverage Ratio (“LCR”) positions of the Bank, as at 30 June 2018, are set out below.

| Liquidity coverage ratio (LCR) - common disclosure template | | | |
|---|---|-----------------------------|---|
| Line # | | Total Value 30 June 2018 | Total Weighted Value (Average) 30 June 2018 |
| R'000 | | | |
| High-Quality Liquid Assets | | | |
| 1 | Total high-quality liquid assets (HQLA) | | 1,268,966 |
| Cash Outflows | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 3,614,443 | 190,425 |
| 3 | Stable deposits | - | - |
| 4 | Less-stable deposits | 3,614,443 | 190,425 |
| 5 | Unsecured wholesale funding, of which: | 6,965,281 | 1,725,108 |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | - | - |
| 7 | Non-operational deposits (all counterparties) | 6,965,281 | 1,725,108 |
| 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 | 983,323 | 37,047 |
| 14 | Other contractual funding obligations | - | - |
| 15 | Other contingent funding obligations | 674,508 | 33,211 |
| 16 | Total Cash Outflows | 12,237,555 | 1,985,791 |
| Cash Inflows | | | |
| 17 | Secured lending (e.g. reverse repos) | - | - |
| 18 | Inflows from fully performing exposures | 4,935,021 | 3,551,611 |
| 19 | Other cash inflows | - | - |
| 20 | Total Cash Inflows | 4,935,021 | 3,551,611 |
| | | | Total Adjusted Value |
| 21 | Total HQLA | | 1,268,966 |
| 22 | Total Net Cash Outflows ⁽²⁾ | | 496,448 |
| 23 | Liquidity Coverage Ratio (%) ⁽³⁾ | | 256% |

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.

13. 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.

14. Leverage ratio

In terms of Regulation 43(1)(e)(iii)(G), in the table that follows 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 30 June 2018.

14.1 Summarised comparison of accounting assets and leverage ratio exposure measure

| | | Mercantile Bank Holdings Limited | Mercantile Bank Limited |
|----------|---|---|------------------------------------|
| | | Jun-18 | Jun-18 |
| 1 | Total consolidated assets as per published financial statements | 13,991,388 | 13,476,660 |
| 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 | (34,143) | (34,143) |
| 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) | 476,217 | 567,331 |
| 7 | Other adjustments | (12,592) | (6,679) |
| 8 | Leverage ratio exposure measure | 14,420,870 | 14,003,170 |

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
30 June 2018

14.2 Leverage ratio of Group and Bank

| | | Mercantile Bank Holdings Limited | | Mercantile Bank Limited | |
|--|---|----------------------------------|-------------|-------------------------|-------------|
| | | Jun-18 | Jun-17 | Jun-18 | Jun-17 |
| On-balance sheet exposures | | | | | |
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral) | 14,025,990 | 12,944,418 | 13,516,904 | 12,489,310 |
| 2 | (Asset amounts deducted in determining Basel III Tier 1 capital) | (115,479) | (130,551) | (115,208) | (130,238) |
| 3 | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2) | 13,910,511 | 12,813,867 | 13,401,696 | 12,359,072 |
| 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) | 22,233 | 24,700 | 22,233 | 24,700 |
| 5 | Add-on amounts for PFE associated with <i>all</i> derivatives transactions | 11,910 | 21,824 | 11,910 | 21,824 |
| 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) | 34,143 | 46,524 | 34,143 | 46,524 |
| 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 | 1,576,439 | 1,776,176 | 1,765,168 | 1,996,129 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (1,100,222) | (1,250,246) | (1,197,837) | (1,378,634) |
| 19 | Off-balance sheet items (sum of rows 17 and 18) | 476,217 | 525,930 | 567,331 | 617,495 |
| Capital and total exposures | | | | | |
| 20 | Tier 1 capital | 2,153,549 | 2,026,120 | 2,180,921 | 2,061,850 |
| 21 | Total exposures (sum of rows 3, 11, 16 and 19) | 14,420,870 | 13,386,321 | 14,003,170 | 13,023,091 |
| Leverage ratio | | | | | |
| 22 | Basel III leverage ratio | 14.93 | 15.14 | 15.57 | 15.83 |

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
30 June 2018

15. Financial performance and financial position

STATEMENT OF FINANCIAL POSITION

| | Note | Change * % | 30 June 2018 Unaudited R'000 | 30 June 2017 Unaudited R'000 | 31 December 2017 Audited R'000 |
|--|------|---------------|---------------------------------------|---------------------------------------|---|
| ASSETS | | | | | |
| Cash and cash equivalents | | -3.5 | 2,394,787 | 2,482,244 | 1,750,165 |
| Derivative financial instruments | | 133.0 | 57,557 | 24,700 | 104,016 |
| Negotiable securities | | 75.4 | 886,977 | 505,802 | 904,166 |
| Loans and advances | | 7.1 | 9,790,604 | 9,138,459 | 9,459,819 |
| Other investments | | 10.3 | 7,406 | 6,712 | 6,985 |
| Other accounts receivable | | 14.0 | 425,306 | 373,025 | 689,688 |
| Non-current assets held for sale | | | 22,500 | - | 22,500 |
| Current tax receivable | | -97.6 | 32 | 1,353 | 32 |
| Property and equipment | | -3.1 | 240,649 | 248,356 | 244,176 |
| Intangible assets | | -14.3 | 138,711 | 161,832 | 153,533 |
| Deferred tax asset | | | 26,859 | - | 15,090 |
| Total assets | | 8.1 | 13,991,388 | 12,942,483 | 13,350,170 |
| EQUITY AND LIABILITIES | | | | | |
| Liabilities | | | 11,596,066 | 10,721,597 | 11,014,144 |
| Other accounts payable | | 11.8 | 430,947 | 385,536 | 511,712 |
| Derivative financial instruments | | 103.8 | 39,693 | 19,475 | 128,044 |
| Current tax payable | | | 4,423 | - | 6,280 |
| Provisions and other liabilities | | 12.3 | 100,024 | 89,060 | 119,723 |
| Deposits | | 5.4 | 9,665,410 | 9,170,342 | 9,337,177 |
| Debt securities | | -0.1 | 241,448 | 241,712 | 241,594 |
| Long-term funding | | 38.6 | 1,051,849 | 758,945 | 609,395 |
| Deferred tax liabilities | | 10.2 | 62,272 | 56,527 | 60,219 |
| Total equity attributable to equity holders of the parent | | 7.9 | 2,395,322 | 2,220,886 | 2,336,026 |
| Share capital and share premium | | | 1,207,270 | 1,207,270 | 1,207,270 |
| Employee benefits reserve | | | (6,218) | (7,319) | (6,218) |
| Property revaluation reserve | | | 129,301 | 128,229 | 129,301 |
| Available-for-sale reserve | | | 5,186 | 4,965 | 5,186 |
| Retained earnings | 1 | | 1,059,783 | 887,741 | 1,000,487 |
| Total equity | | | 2,395,322 | 2,220,886 | 2,336,026 |
| Total equity and liabilities | | 8.1 | 13,991,388 | 12,942,483 | 13,350,170 |

* represents the percentage change year-on-year to 30 June 2018.

1. Reconciliation of retained earnings

| | | | |
|---|------------------|----------------|------------------|
| Opening balance | 1,000,487 | 822,971 | 822,971 |
| Profit for the period | 128,788 | 99,996 | 212,742 |
| Dividend | (42,458) | (35,226) | (35,226) |
| IFRS 9 transitional adjustment * | (37,548) | - | - |
| Deferred tax on transitional adjustment | 10,514 | - | - |
| Closing balance | 1,059,783 | 887,741 | 1,000,487 |

* This excludes a subsidiary adjustment that is in the process of finalisation.

Mercantile Bank Holdings Limited and its subsidiaries (“the Group”)
30 June 2018

STATEMENT OF INCOME

| | Note | Change * % | Six months ended 30 June 2018 R'000 Unaudited | Six months ended 30 June 2017 R'000 Unaudited | 12 months ended 31 December 2017 R'000 Audited |
|---|------|---------------|---|---|--|
| Interest income | | | 589,516 | 553,346 | 1,139,093 |
| Interest expense | | | (304,291) | (294,083) | (607,300) |
| Net interest income | | 10.0 | 285,225 | 259,263 | 531,793 |
| Net (charge for) credit losses | 2 | 5.5 | (13,354) | (12,660) | (40,134) |
| Net interest income after credit losses | | 10.2 | 271,871 | 246,603 | 491,659 |
| Net non-interest income | | 18.7 | 187,479 | 158,004 | 335,602 |
| Non-interest income | | | 376,497 | 310,307 | 634,614 |
| Fee and commission expenditure | | | (189,018) | (152,303) | (299,012) |
| Net interest and non-interest income | | | 459,350 | 404,607 | 827,261 |
| Operating expenditure | | 6.3 | (281,404) | (264,843) | (534,176) |
| Profit before tax | | 27.3 | 177,946 | 139,764 | 293,085 |
| Tax | | 23.6 | (49,158) | (39,768) | (80,343) |
| Profit after tax | | 28.8 | 128,788 | 99,996 | 212,742 |
| Profit after tax attributable to equity holder of the parent | | | 128,788 | 99,996 | 212,742 |

* represents the percentage change year-on-year to 30 June 2018.

16. Remuneration

The Regulations require that the Group’s remuneration policy, processes and procedures be disclosed to the public. 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.

17. 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 aforementioned disclosures should be read in conjunction with the qualitative disclosures included in the sections on risk management and control, corporate governance, and statements on Group accounting policy as contained in the Group integrated annual report as at 31 December 2017, as well as with the accounting policies that follow and that have been adopted in relation to IFRS 9 Financial Instruments (which replaced IAS 39 and became effective from 1 January 2018)

17.1 Accounting policies

IFRS 9 Financial instruments

a) Recognition and initial measurement

i) Date of recognition

All financial assets and liabilities are initially recognised on the date that the Group becomes a party to the contractual provision of the instrument.

ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose, management’s intention for which the financial instruments were acquired, and their characteristics. All financial instruments are measured initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, which do not include transaction costs.

b) Subsequent measurement

i) Financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. Derivatives not designated as hedges are also classified as held for trading. For financial assets at fair value through profit or loss, gains or losses on assets are recognised in the statement of profit or loss.

Financial assets at amortised cost

The Group has classified loans, trade receivables, negotiable securities and cash at banks as financial assets at amortised cost. Amortised cost is determined using the effective interest rate method. The effective interest rate is the rate that discounts expected future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument.

A provision for impairment of loans and receivables is established using the expected credit loss approach from the date of initial recognition and thereafter on each reporting date for the lifetime of each loan. A provision is raised using either a 12-month expected credit loss or lifetime expected credit loss approach. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

ii) Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where they are designated as such. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near-term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

17.1 Accounting policies (continued)

b) Subsequent measurement (continued)

Loans and advances

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method (EIR). Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the finance costs in the statement of profit or loss and other comprehensive income.

c) Impairment

The Group’s accounting policy for impairment of financial assets changed significantly having adopted IFRS 9, and the expected credit loss model is now applied. The IFRS 9 impairment requirements are based on an expected credit loss model replacing the incurred loss methodology model under IAS 39.

Key principles of the accounting policy for impairment of financial assets are listed below.

The Group assesses whether a financial asset has significantly increased credit risk since initial recognition to determine whether to use a 12-month expected loss approach or a lifetime expected loss approach in order to calculate its impairment provision.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition, by comparing the credit risk of default occurring over the expected life between the reporting date and the date of initial recognition. In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, and expert judgment to forecast information to assess deterioration in the credit quality of a financial asset.

The Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors. Assets migrate through the following three credit stages based on the change in credit quality since initial recognition:

Stage 1: 12-months ECL

Includes financial assets that have not had a significant increase in credit risk since initial recognition, or that have low credit risk at the reporting date. Expected credit losses are calculated and recognised based on their probability of default over 12 months. Interest is recognised on the full amount due.

Stage 2: Lifetime ECL - not credit impaired

Includes financial assets that have had a significant increase in credit risk since initial recognition, unless they have low credit risk at the reporting date, but that do not have objective evidence of impairment. Expected credit losses are calculated and recognised based on their lifetime probability of default. Interest is recognised on the full amount due.

17.1 Accounting policies (continued)

Subsequent measurement (continued)

c) Impairment (continued)

Stage 3: Lifetime ECL - credit impaired

Includes financial assets that have objective evidence of impairment at the reporting date. Expected credit losses are calculated and recognised based on their lifetime probability of default. Interest is only recognised insofar as it is expected to be recovered, i.e. on the net carrying value (value of the exposure less calculated expected credit loss).

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The Group considers its historical loss experience and adjusts this for current observable data. In addition, the Group uses reasonable and supportable expert judgment on future economic conditions, including to estimate the amount of an expected impairment loss.

d) Derecognition

A financial instrument or a portion of a financial instrument will be derecognised and a gain or loss recognised when the Group’s contractual rights expire, financial assets are transferred or financial liabilities are extinguished. On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges and fair value movements for the year. Upon derecognition of equity instruments designated at fair value through other comprehensive income, the cumulative fair value gains/ (losses) recognised in other comprehensive income is not subsequently recycled to profit or loss.

30 August 2018

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

30 June 2018

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Group

As at 30 June 2018

| Basel III common disclosures template to be used during the transition of regulatory adjustments | | |
|---|---|------------------|
| 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 | 933 489 |
| 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) | 0 |
| | <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 |
| 6 | Common Equity Tier 1 capital before regulatory adjustments | 2 269 028 |
| Common Equity Tier 1 capital: regulatory adjustments | | |
| 7 | Prudential valuation adjustments | 0 |
| 8 | Goodwill (net of related tax liability) | 0 |
| 9 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | 115 479 |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | 0 |
| 11 | Cash-flow hedge reserve | 0 |
| 12 | Shortfall of provisions to expected losses | 0 |
| 13 | Securitisation gain on sale | 0 |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities | 0 |
| 15 | Defined-benefit pension fund net assets | 0 |
| 16 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet) | 0 |
| 17 | Reciprocal cross-holdings in common equity | 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 |
| 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 |

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

30 June 2018

| | | |
|--|--|------------------|
| 20 | Mortgage servicing rights (amount above 10% threshold) | 0 |
| 21 | Deferred tax assets arising from temporary differences (amounts above 10% threshold, net of related tax liability) | 0 |
| 22 | Amount exceeding the 15% threshold | 0 |
| 23 | of which: significant investments in the common stock of financials | 0 |
| 24 | of which: mortgage servicing rights | 0 |
| 25 | of which: deferred tax assets arising from temporary differences | 0 |
| 26 | National specific regulatory adjustments | 0 |
| | REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT | 115 479 |
| | OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability) | 115 479 |
| | 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 | 115 479 |
| 29 | Common Equity Tier 1 capital (CET1) | 2 153 549 |
| 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 |
| 38 | Reciprocal cross-holdings in Additional Tier 1 instruments | 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 |
| 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 |
| 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 |

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

30 June 2018

| | | |
|---|--|-------------------|
| 43 | Total regulatory adjustments to Additional Tier 1 capital | 0 |
| 44 | Additional Tier 1 capital (AT1) | 0 |
| 45 | Tier 1 capital (T1= CET1 + AT1) | 2 153 549 |
| 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 | 96 119 |
| 51 | Tier 2 capital before regulatory adjustments | 96 119 |
| 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) | 96 119 |
| 59 | Total capital (TC= T1 + T2) | 2 249 668 |
| | RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT | 11 309 228 |
| | OF WHICH: (INSERT NAME OF ADJUSTMENT) | |
| | OF WHICH: | 0 |
| 60 | Total risk weighted assets | 11 309 228 |

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

30 June 2018

| Capital ratios | | |
|---|--|--------|
| 61 | Common Equity Tier 1 (as a percentage of risk weighted assets) | 19.04 |
| 62 | Tier 1 (as a percentage of risk weighted assets) | 19.04 |
| 63 | Total capital (as a percentage of risk weighted assets) | 19.89 |
| 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) | 19.04 |
| National Minima (if different from Basel 3) | | |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum) | 5.500 |
| 70 | National Tier 1 minimum ratio | 7.000 |
| 71 | National total capital minimum ratio | 9.250 |
| 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) | 96 119 |
| 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

Mercantile Bank Limited (solo)

As at 30 June 2018

| Basel III common disclosures template to be used during the transition of regulatory adjustments | | |
|---|---|------------------|
| 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 | 813 811 |
| 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 |
| 6 | Common Equity Tier 1 capital before regulatory adjustments | 2 296 129 |
| Common Equity Tier 1 capital: regulatory adjustments | | |
| 7 | Prudential valuation adjustments | 0 |
| 8 | Goodwill (net of related tax liability) | 0 |
| 9 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | 115 208 |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | 0 |
| 11 | Cash-flow hedge reserve | 0 |
| 12 | Shortfall of provisions to expected losses | 0 |
| 13 | Securitisation gain on sale | 0 |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities | 0 |
| 15 | Defined-benefit pension fund net assets | 0 |
| 16 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet | 0 |
| 17 | Reciprocal cross-holdings in common equity | 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 |

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

30 June 2018

| | | |
|--|--|------------------|
| 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 |
| 20 | Mortgage servicing rights (amount above 10% threshold) | 0 |
| 21 | Deferred tax assets arising from temporary differences (amounts above 10% threshold, net of related tax liability) | 0 |
| 22 | Amount exceeding the 15% threshold | 0 |
| 23 | of which: significant investments in the common stock of financials | 0 |
| 24 | of which: mortgage servicing rights | 0 |
| 25 | of which: deferred tax assets arising from temporary differences | 0 |
| 26 | National specific regulatory adjustments | 0 |
| | REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT | 115 208 |
| | OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability) | 115 208 |
| | 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 | 115 208 |
| 29 | Common Equity Tier 1 capital (CET1) | 2 180 921 |
| 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 |
| 38 | Reciprocal cross-holdings in Additional Tier 1 instruments | 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 |
| 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 |
| 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 |

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

30 June 2018

| | | |
|---|--|-------------------|
| 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) | 2 180 921 |
| 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 | 96 053 |
| 51 | Tier 2 capital before regulatory adjustments | 96 053 |
| 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 PRE-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) | 96 053 |
| 59 | Total capital (TC= T1 + T2) | 2 276 974 |
| | RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT | 11 455 208 |
| | OF WHICH: (INSERT NAME OF ADJUSTMENT) | |
| | OF WHICH: | 0 |
| 60 | Total risk weighted assets | 11 455 208 |

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

30 June 2018

| Capital ratios | | |
|---|--|---------|
| 61 | Common Equity Tier 1 (as a percentage of risk weighted assets) | 19.04 |
| 62 | Tier 1 (as a percentage of risk weighted assets) | 19.04 |
| 63 | Total capital (as a percentage of risk weighted assets) | 19.88 |
| 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) | 19.04 |
| National Minima (if different from Basel 3) | | |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum) | 5.500 |
| 70 | National Tier 1 minimum ratio | 7.000 |
| 71 | National total capital minimum ratio | 9.250 |
| 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) | 47 520 |
| 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) | 96 053 |
| 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”)

30 June 2018

ANNEXURE B: MAIN FEATURES DISCLOSURE TEMPLATE

Mercantile Bank Group and Mercantile Bank Limited (solo)

As at 30 June 2018

| 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 |

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

30 June 2018

| | 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 |