

Mercantile Bank Holdings Limited

("the Group")

UNAUDITED QUARTERLY DISCLOSURE IN TERMS OF REGULATION 43 RELATING TO BANKS, ISSUED UNDER SECTION 90 OF THE BANKS ACT, NO. 94 OF 1990, AS AMENDED ("REGULATION 43")

In terms of Regulation 43(1)(e)(ii), the Group is required to publicly report on its capital management plan, capital structure, capital adequacy, and leverage and liquidity ratios. Detailed qualitative information regarding the Group's risk and capital management plan can be found under *Risk management and control* on page 90 of the 2018 integrated annual report (available at www.mercantile.co.za).

The Group's key prudential metrics relating to regulatory capital, leverage, liquidity and risk weighted assets as at 30 September 2019 are disclosed below.

Overview of risk management and key prudential metrics

		Mercantile Bank Holdings Limited				
		30-Sep-19	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18
Available capital (amounts) R'000						
1	Common Equity Tier 1 (CET1)	2,467,259	2,375,531	2,347,258	2,347,258	2,260,483
1a	Fully loaded ECL accounting model	(35,586)	(35,586)	(35,586)	(35,586)	(35,586)
2	Tier 1	2,382,642	2,375,531	2,245,120	2,234,014	2,149,616
2a	Fully loaded accounting model Tier 1	(35,586)	(35,586)	(35,586)	(35,586)	(35,586)
3	Total capital	2,475,886	2,485,843	2,347,931	2,333,660	2,251,921
3a	Fully loaded ECL accounting model total capital	93,244	110,312	102,811	99,646	102,305
Risk-weighted assets (amounts) R'000						
4	Total risk-weighted assets (RWA)	15,810,440	13,743,625	13,409,975	12,347,184	11,579,783
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	15.070	17.285	16.742	18.093	18.564
5a	Fully loaded ECL accounting model CET1 (%)	(0.014)	(0.015)	(0.015)	(0.015)	(0.016)
6	Tier 1 ratio (%)	15.070	17.285	16.742	18.093	18.564
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	(0.014)	(0.015)	(0.015)	(0.015)	(0.016)
7	Total capital ratio (%)	15.660	18.087	17.509	18.900	19.447
7a	Fully loaded ECL accounting model total capital ratio (%)	0.038	0.044	0.044	0.043	0.045
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.500	2.500	2.500	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)	2.500	2.500	2.500	1.875	1.875
12	CET1 available after meeting the bank's minimum capital requirements (%)	7.570	9.785	9.242	10.718	11.189
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	16,535,878	16,136,794	15,620,148	15,576,933	15,196,102
14	Basel III leverage ratio (%) (row 2/row 13)	14.409%	14.720%	14.370%	14.342%	14.146%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	(0.215)	(0.221)	(0.228)	(0.228)	(0.234)
Liquidity Coverage Ratio						
15	Total HQLA	1,226,478	1,145,557	1,032,090	1,067,990	1,579,276
16	Total net cash outflow	521,914	546,653	524,788	477,349	538,132
17	LCR ratio (%)	235	210	197	224	293
Net Stable Funding Ratio						
18	Total available stable funding	12,270,281	11,888,629	11,217,239	11,421,973	11,128,111
19	Total required stable funding	8,406,984	8,304,542	7,506,341	8,828,810	8,818,044
20	NSFR ratio (%)	146	143	149	124	126

Overview of risk weighted assets

Line #	R'000	Mercantile Bank Holdings Limited			Mercantile Bank Limited		
		RWA		Minimum capital requirements ⁽¹⁾	RWA		Minimum capital requirements ⁽¹⁾
		Sep-19	Sep-18	Sep-19	Sep-19	Sep-18	Sep-19
1	Credit risk (excluding counterparty credit risk) (CCR)	12,998,367	9,036,275	1,494,812	13,142,685	9,164,824	1,511,409
2	- Of which standardised approach (SA)	12,998,367	9,036,275	1,494,812	13,142,685	9,164,824	1,511,409
3	- Of which internal rating-based (IRB) approach	-	-	-	-	-	-
4	Counterparty credit risk	29,701	41,149	3,416	29,701	41,149	3,416
5	- Of which standardised approach for counterparty credit risk (SA-CCR) ⁽²⁾	29,701	41,149	3,416	29,701	41,149	3,416
6	- Of which internal model method (IMM)	-	-	-	-	-	-
16	Market risk	15,363	5,650	1,767	15,363	5,650	1,767
17	- Of which standardised approach (SA)	15,363	5,650	1,767	15,363	5,650	1,767
18	- Of which internal model approaches (IMM)	-	-	-	-	-	-
19	Operational risk	1,828,669	1,610,095	210,297	1,719,937	1,543,303	197,793
20	- Of which Basic Indicator Approach	-	-	-	-	-	-
21	- Of which standardised Approach	1,828,669	1,610,095	210,297	1,719,937	1,543,303	197,793
22	- Of which Advanced Measurement Approach	-	-	-	-	-	-
23	Other risk	938,340	886,614	107,909	1,025,668	1,045,247	117,952
25	Total	15,810,440	11,579,783	1,818,201	15,933,354	11,800,173	1,832,337

(1) The minimum capital requirement per risk category is 11.50%, which comprises the base minimum (8.00%), plus the pillar 2A systemic risk add-on (1.00%), plus the conservation buffer (2.50%).

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

Capital adequacy

In terms of Regulation 43, the Group is required to disclose quantitative information on its capital adequacy ratios on a quarterly basis. The consolidated capital position of the Group and the capital position of Mercantile Bank Limited ("Bank"), as at 30 September 2019, are set out below. For additional detail in this regard, please refer to annexure A.

	Group	Bank
	R'000	R'000
Tier 1 capital	2,382,642	2,392,963
Total regulatory capital	2,475,886	2,472,205
Tier 1 capital adequacy ratio (%)	15.070	15.019
Total capital adequacy ratio (%)	15.660	15.516
Total capital requirement prior to buffer (@ 9.00%)	1,422,940	1,434,002
Add-on countercyclical buffer (0.0%)	-	-
Add-on capital conservation buffer (2.50%)	395,261	398,334
Total capital requirement ratio (@ 11.50%)	1,818,201	1,832,336
<u>Components of capital:</u>		
Tier 1		
Ordinary share capital and share premium	1,207,270	1,483,300
Appropriated retained earnings	1,114,545	993,419
Unrealised gains and losses on available for sale items	5,707	5,758
Actuarial reserve	-5,631	-5,631
Property revaluation reserve	145,368	-
	2,467,259	2,476,846
Less: Deductions	-84,617	-83,883
	2,382,642	2,392,963
Tier 2		
General allowance for credit impairment: standardised approach	93,244	79,242

Leverage Ratio Disclosure

In terms of Regulation 43(1)(e)(iii)(G), the Group is required to provide 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 September 2019. These are set out over the page.

Line #	R'000	Mercantile Bank Holdings Limited		Mercantile Bank Limited	
		30-Sep-19	30-Sep-18	30-Sep-19	30-Sep-18
1	Total consolidated assets as per published financial statements	15,895,839	14,664,967	15,309,994	14,167,144
2	Adjustment for investment in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-	-	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-	-	-
4	Adjustment for derivative financial instruments	(9,410)	(12,344)	(9,410)	(12,344)
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-	-	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	605,845	541,079	702,700	636,754
7	Other adjustments	43,604	2,400	14,187	(8,820)
8	Leverage ratio exposure	16,535,878	15,196,102	16,017,471	14,782,734
Line #	R'000	Mercantile Bank Holdings Limited		Mercantile Bank Limited	
		30-Sep-19	30-Sep-18	30-Sep-19	30-Sep-18
On balance sheet exposures					
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	15,986,147	14,731,147	15,370,151	14,221,741
2	Asset amounts deducted in determining Basel III Tier 1 capital	(84,617)	(110,867)	(83,883)	(110,503)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	15,901,530	14,620,280	15,286,268	14,111,238
Derivative exposures					
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	19,093	22,398	19,093	22,398
5	Add-on amounts for PFE associated with all derivatives transactions	9,410	12,344	9,410	12,344
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-	-	-
8	(exempted CCP leg of clients-cleared trade exposures)	-	-	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-	-	-
10	(Adjusted effective notional offsets and add on deductions for written credit derivatives)	-	-	-	-
11	Total derivatives exposures (sum of lines 4 to 10)	28,503	34,741	28,503	34,741
Securities financing transaction exposures					
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-	-	-
14	CCR exposure for SFT assets	-	-	-	-
15	Agent transaction exposures	-	-	-	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-	-	-	-
Other off-balance sheet exposures					
17	Off balance sheet exposures at gross notional amount	1,835,346	1,756,337	1,988,410	1,933,420
18	(Adjustments for conversion to credit equivalent amounts)	(1,229,501)	(1,215,258)	(1,285,710)	(1,296,666)
19	Off balance sheet items (sum of lines 17 and 18)	605,845	541,079	702,700	636,754
Capital and total exposures					
20	Tier 1 capital	2,382,642	2,149,616	2,392,963	2,185,630
21	Total exposures (sum of lines 3,11, 16 and 19)	16,535,878	15,196,101	16,017,471	14,782,733
22	Leverage ratio				
22	Basel III leverage ratio	14.41%	14.15%	14.94%	14.79%

Liquidity Coverage Ratio (LCR) Disclosure

In terms of Regulation 43(1)(e)(iii)(F), the Bank's Liquidity Coverage Ratio ("LCR") positions, as at 30 September 2019, are set out below.

Liquidity coverage ratio (LCR) - common disclosure template			
Line #		Total Unweighted Value (Average) 30 September 2019	Total Weighted Value (Average) 30 September 2019
R'000			
High-Quality Liquid Assets			
1	Total high-quality liquid assets (HQLA)		1,226,478
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	4,679,599	303,561
3	Stable deposits	-	-
4	Less-stable deposits	4,679,599	303,561
5	Unsecured wholesale funding, of which:	7,401,472	1,613,568
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	7,401,472	1,613,568
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	75,884	75,884
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	1,226,023	52,834
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	838,737	41,808
16	Total Cash Outflows	14,221,715	2,087,655
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	5,772,630	4,641,940
19	Other cash inflows	-	-
20	Total Cash Inflows	5,772,630	4,641,940
			Total Adjusted Value
21	Total HQLA		1,226,478
22	Total Net Cash Outflows ⁽²⁾		521,914
23	Liquidity Coverage Ratio (%) ⁽³⁾		235%

1. Average balances are based on month-end averages.
2. The Bank has a net cash inflow after applying the run-off factors. Outflows for the purpose of the ratio are, therefore, deemed to be 25% of gross outflows.
3. There is no material difference between Bank and Group.

COMPOSITION OF CAPITAL DISCLOSURE TEMPLATE

Nine months* ended.....(2019-09-30)

Basel III common disclosure template to be used during the transition of regulatory adjustments			Mercantile Bank Holdings Limited	Mercantile Bank Limited
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	1,483,300
2	Retained earnings		1,114,545	993,419
3	Accumulated other comprehensive income (and other reserves)		145,444	127
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies) <i>Public sector capital injections grandfathered until 1 January 2018</i>		-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		-	-
6	Common Equity Tier 1 capital before regulatory adjustments		2,467,259	2,476,846
Common Equity Tier 1 capital: regulatory adjustments				
7	Prudential valuation adjustments		-	-
8	Goodwill (net of related tax liability)		-	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)		84,617	83,883
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		-	-
11	Cash-flow hedge reserve		-	-
12	Shortfall of provisions to expected losses		-	-
13	Securitisation gain on sale		-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities		-	-
15	Defined-benefit pension fund net assets		-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		-	-
17	Reciprocal cross-holdings in common equity		-	-
18	Investments in the 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 share capital (amount above 10% threshold)		-	-
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 (amount above 10% threshold)		-	-
20	Mortgage servicing rights (amount above 10% threshold)		-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		-	-
22	Amount exceeding the 15% threshold		-	-
23	of which: significant investments in the common stock of financials		-	-
24	of which: mortgage servicing rights		-	-
25	of which: deferred tax assets arising from temporary differences		-	-
26	National specific regulatory adjustments		-	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		-	-
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)		-	-
	OF WHICH:		-	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		-	-
28	Total regulatory adjustments to Common equity Tier 1		84,617	83,883
29	Common Equity Tier 1 capital (CET1)		2,382,642	2,392,963

Additional Tier 1 capital : instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-
31	of which: classified as equity under applicable accounting standards	-	-
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
34	Additional Tier 1 instruments (and CET1 instruments not included in line 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
35	of which: instruments issued by subsidiaries subject to phase out	-	-
36	Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the 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 10% threshold)	-	-
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)	-	-
41	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
	OF WHICH:	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	Total regulatory adjustments to Additional Tier 1 capital	-	-
44	Additional Tier 1 capital (AT1)	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	2,382,642	2,392,963
Tier 2 capital and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
47	Directly issued capital instruments subject to phase out from Tier 2	-	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in lines 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49	of which: instruments issued by subsidiaries subject to phase out	-	-
50	Provisions	93,244	79,242
51	Tier 2 capital before regulatory adjustments	93,244	79,242
Tier 2 capital : regulatory adjustments			
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the 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)	-	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
	OF WHICH:	-	-
57	Total regulatory adjustments to Tier 2 capital	-	-
58	Tier 2 capital (T2)	93,244	79,242
59	Total capital (TC = T1 + T2)	2,475,886	2,472,205
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	15,810,440	15,933,354
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH:		
60	Total risk weighted assets	15,810,440	15,933,354

Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)		15.070	15.019
62	Tier 1 (as a percentage of risk weighted assets)		15.070	15.019
63	Total capital (as a percentage of risk weighted assets)		15.660	15.516
	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)		2.500	2.500
64	of which: capital conservation buffer requirement		2.500	2.500
65	of which: bank specific countercyclical buffer requirement		-	-
66	of which: G-SIB buffer requirement		-	-
67	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)		15.070	15.019
68				
National Minima (if different from Basel 3)				
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)		5.000	5.000
70	National Tier 1 minimum ratio		6.750	6.750
71	National total capital minimum ratio		9.000	9.000
Amounts below the threshold for deductions (before risk weighting)				
72	Non-significant investments in the capital of other financials		-	-
73	Significant investments in the common stock of financials		-	107,194
74	Mortgage servicing rights (net of related tax liability)		-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)		58,637	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)		93,244	79,242
77	Cap on inclusion of provisions in Tier 2 under standardised approach		-	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		-	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements		-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		-	
82	Current cap on AT1 instruments subject to phase out arrangements		-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		-	
84	Current cap on T2 instruments subject to phase out arrangements		-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		-	