

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, 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 86 of the 2017 integrated annual report (available at www.mercantile.co.za).

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

Overview of risk management, key prudential metrics

| | | a | b | c | d | e |
|---|--|------------|-----|-----|-----|-----|
| | | T | T-1 | T-2 | T-3 | T-4 |
| Available capital (amounts) R'000 | | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 2,185,406 | | | | |
| 1a | Fully loaded ECL accounting model | (23,657) | | | | |
| 2 | Tier 1 | 2,060,259 | | | | |
| 2a | Fully loaded accounting model Tier 1 | (23,657) | | | | |
| 3 | Total capital | 2,131,130 | | | | |
| 3a | Fully loaded ECL accounting model total capital | 70,871 | | | | |
| Risk-weighted assets (amounts) R'000 | | | | | | |
| 4 | Total risk-weighted assets (RWA) | 10,911,211 | | | | |
| Risk-based capital ratios as a percentage of RWA | | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 18.882 | | | | |
| 5a | Fully loaded ECL accounting model CET1 (%) | (0.011) | | | | |
| 6 | Tier 1 ratio (%) | 18.882 | | | | |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | (0.011) | | | | |
| 7 | Total capital ratio (%) | 19.532 | | | | |
| 7a | Fully loaded ECL accounting model total capital ratio (%) | 0.033 | | | | |
| Additional CET1 buffer requirements as a percentage of RWA | | | | | | |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 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 | | | | |
| 12 | CET1 available after meeting the bank's minimum capital requirements (%) | 11.507 | | | | |
| Basel III Leverage Ratio | | | | | | |
| 13 | Total Basel III leverage ratio measure | 13,641,976 | | | | |
| 14 | Basel III leverage ratio (%) (row 2/row 13) | 15.10% | | | | |
| 14a | Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13) | (0.173) | | | | |
| Liquidity Coverage Ratio | | | | | | |
| 15 | Total HQLA | 1,073,509 | | | | |
| 16 | Total net cash outflow | 413,222 | | | | |
| 17 | LCR ratio (%) | 260% | | | | |
| Net Stable Funding Ratio | | | | | | |
| 18 | Total available stable funding | 9,774,400 | | | | |
| 19 | Total required stable funding | 8,309,443 | | | | |
| 20 | NSFR ratio (%) | 118 | | | | |

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⁾ |
| | | Mar-18 | Dec-17 | Mar-18 | Mar-18 | Dec-17 | Mar-18 |
| 1 | Credit risk (excluding counterparty credit risk) (CCR) | 8,444,124 | 8,913,615 | 939,409 | 8,429,533 | 8,891,428 | 937,786 |
| 2 | - Of which standardised approach (SA) | 8,444,124 | 8,913,615 | 939,409 | 8,429,533 | 8,891,428 | 937,786 |
| 3 | - Of which internal rating-based (IRB) approach | - | - | - | - | - | - |
| 4 | Counterparty credit risk | 53,364 | 144,858 | 5,937 | 53,364 | 144,858 | 5,937 |
| 5 | - Of which standardised approach for counterparty credit risk (SA-CCR) ⁽²⁾ | 53,364 | 144,858 | 5,937 | 53,364 | 144,858 | 5,937 |
| 6 | - Of which internal model method (IMM) | - | - | - | - | - | - |
| 16 | Market risk | 4,550 | 55,863 | 506 | 4,550 | 55,863 | 506 |
| 17 | - Of which standardised approach (SA) | 4,550 | 55,863 | 506 | 4,550 | 55,863 | 506 |
| 18 | - Of which internal model approaches (IMM) | - | - | - | - | - | - |
| 19 | Operational risk | 1,524,915 | 1,524,915 | 169,647 | 1,455,297 | 1,455,297 | 161,902 |
| 20 | - Of which Basic Indicator Approach | - | - | - | - | - | - |
| 21 | - Of which standardised Approach | 1,524,915 | 1,524,915 | 169,647 | 1,455,297 | 1,455,297 | 161,902 |
| 22 | - Of which Advanced Measurement Approach | - | - | - | - | - | - |
| 23 | Other risk | 884,258 | 979,989 | 98,374 | 1,051,020 | 1,113,573 | 116,926 |
| 25 | Total | 10,911,211 | 11,619,240 | 1,213,872 | 10,993,764 | 11,661,019 | 1,223,057 |

- (1) The minimum capital requirement per risk category is 11.125%, which comprises the base minimum (8.00%) plus the pillar 2A systemic risk add-on (1.25%) plus the conservation buffer (1.875%).
- (2) The Bank applies the current exposure method to calculate counterparty 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 31 March 2018, are set out below. For additional detail in this regard, please refer to annexure A.

| | Group | Bank |
|---|------------------|------------------|
| | R'000 | R'000 |
| Tier 1 capital | 2 060 259 | 2 090 839 |
| Total regulatory capital | 2 131 130 | 2 159 124 |
| Tier 1 capital adequacy ratio (%) | 18.9 | 19.0 |
| Total capital adequacy ratio (%) | 19.5 | 19.6 |
| Total capital requirement prior to buffer (@ 9.25%) | 1 009 287 | 1 016 923 |
| Add-on countercyclical buffer (0.0%) | - | - |
| Add-on capital conservation buffer (1.875%) | 204 585 | 206 133 |
| Total capital requirement ratio (@ 11.125%) | <u>1 213 872</u> | <u>1 223 056</u> |

Components of capital:

Tier 1

| | | |
|---|------------------|------------------|
| Ordinary share capital and share premium | 1 207 270 | 1 483 300 |
| Appropriated retained earnings | 849 867 | 733 423 |
| Unrealised gains and losses on available for sale items | 5 186 | 5 236 |
| Actuarial reserve | (6 218) | (6 218) |
| Property revaluation reserve | 129 301 | - |
| | 2 185 406 | 2 215 741 |
| Less: Deductions | (125 147) | (124 902) |
| | 2 060 259 | 2 090 839 |

Tier 2

| | | |
|---|---------------|---------------|
| General allowance for credit impairment after deferred tax: standardised approach | 70 871 | 68 285 |
|---|---------------|---------------|

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 31 March 2018. These are set out over the page.

| Line # | R'000 | Mercantile Bank Holdings Limited | Mercantile Bank Limited |
|--------|---|----------------------------------|-------------------------|
| | | 31-Mar-18 | 31-Mar-18 |
| 1 | Total consolidated assets as per published financial statements | 13,141,981 | 12,646,568 |
| 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 | (9,852) | (9,852) |
| 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) | 547,320 | 646,037 |
| 7 | Other adjustments | (37,474) | (37,836) |
| 8 | Leverage ratio exposure | 13,641,976 | 13,244,917 |

| Line # | R'000 | Mercantile Bank Holdings Limited | | Mercantile Bank Limited | |
|---|--|----------------------------------|-------------------|-------------------------|-------------------|
| | | 31-Mar-18 | 31-Dec-17 | 31-Mar-18 | 31-Dec-17 |
| On balance sheet exposures | | | | | |
| 1 | On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 13,175,174 | 13,270,662 | 12,679,153 | 12,812,893 |
| 2 | Asset amounts deducted in determining Basel III Tier 1 capital | (125,147) | (130,301) | (124,902) | (130,031) |
| 3 | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2) | 13,050,027 | 13,140,361 | 12,554,251 | 12,682,862 |
| Derivative exposures | | | | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 34,777 | 104,016 | 34,777 | 104,016 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions | 9,852 | 24,339 | 9,852 | 24,339 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework | - | - | - | - |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | - | - | - | - |
| 8 | (exempted CCP leg of clients-cleared trade exposures) | - | - | - | - |
| 9 | Adjusted effective notional amount of written credit derivatives | - | - | - | - |
| 10 | (Adjusted effective notional offsets and add on deductions for written credit derivatives) | - | - | - | - |
| 11 | Total derivatives exposures (sum of lines 4 to 10) | 44,629 | 128,355 | 44,629 | 128,355 |
| Securities financing transaction exposures | | | | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | - | - | - | - |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - | - | - | - |
| 14 | CCR exposure for SFT assets | - | - | - | - |
| 15 | Agent transaction exposures | - | - | - | - |
| 16 | Total securities financing transaction exposures (sum of lines 12 to 15) | - | - | - | - |
| Other off-balance sheet exposures | | | | | |
| 17 | Off balance sheet exposures at gross notional amount | 1,756,337 | 1,822,822 | 1,933,420 | 1,917,458 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (1,209,017) | (1,313,132) | (1,287,383) | (1,317,299) |
| 19 | Off balance sheet items (sum of lines 17 and 18) | 547,320 | 509,690 | 646,037 | 600,160 |
| Capital and total exposures | | | | | |
| 20 | Tier 1 capital | 2,060,259 | 2,078,765 | 2,090,839 | 2,099,366 |
| 21 | Total exposures (sum of lines 3,11, 16 and 19) | 13,641,976 | 13,778,405 | 13,244,917 | 13,411,376 |
| 22 | Leverage ratio | | | | |
| | Basel III leverage ratio | 15.10% | 15.09% | 15.79% | 15.65% |

Liquidity Coverage Ratio (LCR) Disclosure

In terms of Regulation 43(1)(e)(iii)(F), the Bank's Liquidity Coverage Ratio ("LCR") positions, as at 31 March 2018, are set out below.

| Liquidity coverage ratio (LCR) - common disclosure template | | | |
|---|---|--|--|
| Line # | | Total Unweighted Value (Average) 31 March 2018 | Total Weighted Value (Average) 31 March 2018 |
| R'000 | | | |
| High-Quality Liquid Assets | | | |
| 1 | Total high-quality liquid assets (HQLA) | | 1,073,509 |
| Cash Outflows | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 3,550,143 | 189,654 |
| 3 | Stable deposits | - | - |
| 4 | Less-stable deposits | 3,550,143 | 189,654 |
| 5 | Unsecured wholesale funding, of which: | 6,079,602 | 1,382,511 |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | - | - |
| 7 | Non-operational deposits (all counterparties) | 6,079,602 | 1,382,511 |
| 8 | Unsecured debt | - | - |
| 9 | Secured wholesale funding | - | - |
| 10 | Additional requirements, of which: | - | - |
| 11 | Outflows related to derivative exposures and other collateral requirements | - | - |
| 12 | Outflows related to loss of funding on debt products | - | - |
| 13 | Credit and liquidity facilities | 1,213,153 | 45,008 |
| 14 | Other contractual funding obligations | - | - |
| 15 | Other contingent funding obligations | 720,267 | 35,716 |
| 16 | Total Cash Outflows | 11,563,165 | 1,652,889 |
| Cash Inflows | | | |
| 17 | Secured lending (e.g. reverse repos) | - | - |
| 18 | Inflows from fully performing exposures | 3,911,357 | 2,590,702 |
| 19 | Other cash inflows | - | - |
| 20 | Total Cash Inflows | 3,911,357 | 2,590,702 |
| | | | Total Adjusted Value |
| 21 | Total HQLA | | 1,073,509 |
| 22 | Total Net Cash Outflows ⁽²⁾ | | 413,222 |
| 23 | Liquidity Coverage Ratio (%) ⁽³⁾ | | 260% |

1. Average balances are based on month-end averages in line with condonation received from the South African Reserve Bank.
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

Three months* ended.....(2018-03-31)

| 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 | | 849,867 | 733,423 |
| 3 | Accumulated other comprehensive income (and other reserves) | | 128,269 | -982 |
| 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 | | 2,185,406 | 2,215,741 |
| 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) | | 125,147 | 124,902 |
| 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 | | 125,147 | 124,902 |
| 29 | Common Equity Tier 1 capital (CET1) | | 2,060,259 | 2,090,839 |

| 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) | 2,060,259 | 2,090,839 |
| 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 | 70,871 | 68,285 |
| 51 | Tier 2 capital before regulatory adjustments | 70,871 | 68,285 |
| 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) | 70,871 | 68,285 |
| 59 | Total capital (TC = T1 + T2) | 2,131,130 | 2,159,124 |
| | RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT | 10,911,211 | 10,993,764 |
| | OF WHICH: [INSERT NAME OF ADJUSTMENT] | | |
| | OF WHICH: | | |
| 60 | Total risk weighted assets | 10,911,211 | 10,993,764 |

| Capital ratios | | | |
|---|---|--------|---------|
| 61 | Common Equity Tier 1 (as a percentage of risk weighted assets) | 18.88 | 19.02 |
| 62 | Tier 1 (as a percentage of risk weighted assets) | 18.88 | 19.02 |
| 63 | Total capital (as a percentage of risk weighted assets) | 19.53 | 19.64 |
| 64 | 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) | 1.875 | 1.875 |
| 65 | of which: capital conservation buffer requirement | 1.875 | 1.875 |
| 66 | of which: bank specific countercyclical buffer requirement | - | - |
| 67 | of which: G-SIB buffer requirement | - | - |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets) | 18.88 | 19.02 |
| National Minima (if different from Basel 3) | | | |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum) | 5.500 | 5.500 |
| 70 | National Tier 1 minimum ratio | 7.000 | 7.000 |
| 71 | National total capital minimum ratio | 9.250 | 9.250 |
| 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) | - | 47,521 |
| 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) | 70,871 | 68,285 |
| 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 | - | - |