

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, and 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 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 31 March 2019 are disclosed below.

Overview of risk management and key prudential metrics

		Mercantile Bank Holdings Limited				
		31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18
Available capital (amounts) R'000						
1	Common Equity Tier 1 (CET1)	2,347,258	2,347,258	2,260,483	2,153,549	2,185,406
1a	Fully loaded ECL accounting model	(35,586)	(35,586)	(35,586)	(27,035)	(23,657)
2	Tier 1	2,245,120	2,234,014	2,149,616	2,153,549	2,060,259
2a	Fully loaded accounting model Tier 1	(35,586)	(35,586)	(35,586)	(27,035)	(23,657)
3	Total capital	2,347,931	2,333,660	2,251,921	2,249,668	2,131,130
3a	Fully loaded ECL accounting model total capital	102,811	99,646	102,305	96,119	70,871
Risk-weighted assets (amounts) R'000						
4	Total risk-weighted assets (RWA)	12,237,074	12,347,184	11,579,783	11,309,228	10,911,211
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	18.347	18.093	18.564	19.042	18.882
5a	Fully loaded ECL accounting model CET1 (%)	(0.015)	(0.015)	(0.016)	(0.013)	(0.011)
6	Tier 1 ratio (%)	18.347	18.093	18.564	19.042	18.882
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	(0.015)	(0.015)	(0.016)	(0.013)	(0.011)
7	Total capital ratio (%)	19.187	18.900	19.447	19.892	19.532
7a	Fully loaded ECL accounting model total capital ratio (%)	0.044	0.043	0.045	0.043	0.033
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.500	1.875	1.875	1.875	1.875
9	Countercyclical buffer requirement (%)	-	-	-	-	-
10	Bank D-SIB additional requirements (%)	-	-	-	-	-
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.500	1.875	1.875	1.875	1.875
12	CET1 available after meeting the bank's minimum capital requirements (%)	10.847	10.718	11.189	11.667	11.507
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	15,620,148	15,576,933	15,196,102	14,420,870	13,641,976
14	Basel III leverage ratio (%) (row 2/row 13)	14.37%	14.34%	14.15%	14.93%	15.10%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	(0.228)	(0.228)	(0.234)	(0.187)	(0.173)
Liquidity Coverage Ratio						
15	Total HQLA	1,032,090	1,067,990	1,579,276	1,268,966	1,073,509
16	Total net cash outflow	524,788	477,349	538,132	496,448	413,222
17	LCR ratio (%)	197%	224%	293%	256%	260%
Net Stable Funding Ratio						
18	Total available stable funding	11,217,239	11,421,973	11,128,111	10,692,650	9,774,400
19	Total required stable funding	7,506,341	8,828,810	8,818,044	8,612,662	8,309,443
20	NSFR ratio (%)	149	124	126	124	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-19	Mar-18	Mar-19	Mar-19	Mar-18	Mar-19
1	Credit risk (excluding counterparty credit risk) (CCR)	9,522,440	8,444,124	1,095,081	9,629,923	8,429,533	1,107,441
2	- Of which standardised approach (SA)	9,522,440	8,444,124	1,095,081	9,629,923	8,429,533	1,107,441
3	- Of which internal rating-based (IRB) approach	-	-	-	-	-	-
4	Counterparty credit risk	36,757	53,364	4,227	36,757	53,364	4,227
5	- Of which standardised approach for counterparty credit risk (SA-CCR) ⁽²⁾	36,757	53,364	4,227	36,757	53,364	4,227
6	- Of which internal model method (IMM)	-	-	-	-	-	-
16	Market risk	8,700	4,550	1,001	8,700	4,550	1,001
17	- Of which standardised approach (SA)	8,700	4,550	1,001	8,700	4,550	1,001
18	- Of which internal model approaches (IMM)	-	-	-	-	-	-
19	Operational risk	1,735,251	1,524,915	199,554	1,648,930	1,455,297	189,627
20	- Of which Basic Indicator Approach	-	-	-	-	-	-
21	- Of which standardised Approach	1,735,251	1,524,915	199,554	1,648,930	1,455,297	189,627
22	- Of which Advanced Measurement Approach	-	-	-	-	-	-
23	Other risk	933,926	884,258	107,401	1,116,330	1,051,020	128,378
25	Total	12,237,074	10,911,211	1,407,264	12,440,640	10,993,764	1,430,674

(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 31 March 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	2 245 120	2 255 431
Total regulatory capital	2 347 931	2 344 853
Tier 1 capital adequacy ratio (%)	18.3	18.1
Total capital adequacy ratio (%)	19.2	18.9
Total capital requirement prior to buffer (@ 9.00%)	1 101 337	1 119 658
Add-on countercyclical buffer (0.0%)	-	-
Add-on capital conservation buffer (2.50%)	305 927	311 016
Total capital requirement ratio (@ 11.50%)	<u>1 407 264</u>	<u>1 430 674</u>

Components of capital:

Tier 1

Ordinary share capital and share premium	1 207 270	1 483 300
Appropriated retained earnings	994 544	873 417
Unrealised gains and losses on available for sale items	5 707	5 758
Actuarial reserve	(5 631)	(5 631)
Property revaluation reserve	145 368	-
	2 347 258	2 356 844
Less: Deductions	<u>(102 138)</u>	<u>(101 413)</u>
	2 245 120	2 255 431

Tier 2

General allowance for credit impairment: standardised approach	<u>102 811</u>	<u>89 422</u>
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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 2019. These are set out over the page.

Line #	R'000	Mercantile Bank Holdings Limited	Mercantile Bank Limited
		31-Mar-19	31-Mar-19
1	Total consolidated assets as per published financial statements	14,926,484	14,299,716
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	(10,306)	(10,306)
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)	678,852	780,487
7	Other adjustments	25,118	8,623
8	Leverage ratio exposure	15,620,148	15,078,519

Line #	R'000	Mercantile Bank Holdings Limited		Mercantile Bank Limited	
		31-Mar-19	31-Mar-18	31-Mar-19	31-Mar-18
On balance sheet exposures					
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	15,007,848	13,175,174	14,363,859	12,679,153
2	Asset amounts deducted in determining Basel III Tier 1 capital	(102,138)	(125,147)	(101,413)	(124,902)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	14,905,710	13,050,027	14,262,446	12,554,251
Derivative exposures					
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	25,280	34,777	25,280	34,777
5	Add-on amounts for PFE associated with all derivatives transactions	10,306	9,852	10,306	9,852
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)	35,586	44,629	35,586	44,629
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	1,988,590	1,756,337	2,194,837	1,933,420
18	(Adjustments for conversion to credit equivalent amounts)	(1,309,738)	(1,209,017)	(1,414,350)	(1,287,383)
19	Off balance sheet items (sum of lines 17 and 18)	678,852	547,320	780,487	646,037
Capital and total exposures					
20	Tier 1 capital	2,245,120	2,060,259	2,255,431	2,090,839
21	Total exposures (sum of lines 3,11, 16 and 19)	15,620,148	13,641,976	15,078,519	13,244,917
Leverage ratio					
22	Basel III leverage ratio	14.37%	15.10%	14.96%	15.79%

Liquidity Coverage Ratio (LCR) Disclosure

In terms of Regulation 43(1)(e)(iii)(F), the Bank's Liquidity Coverage Ratio ("LCR") positions, as at 31 March 2019, are set out below.

Liquidity coverage ratio (LCR) - common disclosure template			
Line #		Total Unweighted Value (Average) 31 March 2019	Total Weighted Value (Average) 31 March 2019
R'000			
High-Quality Liquid Assets			
1	Total high-quality liquid assets (HQLA)		1,032,090
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	4,140,501	249,853
3	Stable deposits	-	-
4	Less-stable deposits	4,140,501	249,853
5	Unsecured wholesale funding, of which:	6,941,639	1,569,446
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	6,941,639	1,569,446
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	183,949	183,949
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	1,290,769	50,206
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	916,773	45,696
16	Total Cash Outflows	13,473,631	2,099,150
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	5,235,780	3,975,342
19	Other cash inflows	-	-
20	Total Cash Inflows	5,235,780	3,975,342
			Total Adjusted Value
21	Total HQLA		1,032,090
22	Total Net Cash Outflows ⁽²⁾		524,788
23	Liquidity Coverage Ratio (%) ⁽³⁾		197%

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

Three months* ended.....(2019-03-31)

Basel III common disclosure template to be used during the transition of regulatory adjustments			
Common Equity Tier 1 capital: instruments and reserves		Mercantile Bank Holdings Limited	Mercantile Bank Limited
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	994,544	873,417
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	2,347,258	2,356,844
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)	102,138	101,413
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	102,138	101,413
29	Common Equity Tier 1 capital (CET1)	2,245,120	2,255,431

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)	2,245,120	2,255,431
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	102,811	89,422
51	Tier 2 capital before regulatory adjustments	102,811	89,422
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)	102,811	89,422
59	Total capital (TC = T1 + T2)	2,347,931	2,344,853
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	12,237,074	12,440,640
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH:		
60	Total risk weighted assets	12,237,074	12,440,640

Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	18.35	18.13
62	Tier 1 (as a percentage of risk weighted assets)	18.35	18.13
63	Total capital (as a percentage of risk weighted assets)	19.19	18.85
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)	2.500	2.500
65	of which: capital conservation buffer requirement	2.500	2.500
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)	18.35	18.13
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
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)	102,811	89,422
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)	-	