

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 capital management plan can be found under *Capital Management* on page 93 of the 2016 integrated annual report (available at www.mercantile.co.za).

The Group and Mercantile Bank Limited (“the Bank”) capital structure, capital adequacy, leverage and liquidity ratios as at 31 March 2017 are disclosed below.

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-17	Dec-16	Mar-17	Mar-17	Dec-16	Mar-17
1	Credit risk (excluding counterparty credit risk) (CCR)	8 444 069	8 672 682	907 737	8 641 881	8 837 485	929 002
2	- Of which standardised approach (SA)	8 444 069	8 672 682	907 737	8 641 881	8 837 485	929 002
3	- Of which internal rating-based (IRB) approach	-	-	-	-	-	-
4	Counterparty credit risk	53 449	53 160	5 746	53 449	53 160	5 746
5	- Of which standardised approach for counterparty credit risk (SA-CCR) (2)	53 449	53 160	5 746	53 449	53 160	5 746
6	- Of which internal model method (IMM)	-	-	-	-	-	-
16	Market risk	6 163	36 288	662	6 163	36 288	662
17	- Of which standardised approach (SA)	6 163	36 288	662	6 163	36 288	662
18	- Of which internal model approaches (IMM)	-	-	-	-	-	-
19	Operational risk	1 283 143	1 283 143	137 938	1 283 143	1 283 143	137 938
20	- Of which Basic Indicator Approach	-	-	-	-	-	-
21	- Of which standardised Approach	1 283 143	1 283 143	137 938	1 283 143	1 283 143	137 938
22	- Of which Advanced Measurement Approach	-	-	-	-	-	-
23	Other risk	566 667	634 935	60 917	474 750	669 005	51 036
25	Total	10 353 491	10 680 208	1 113 000	10 459 386	10 879 081	1 124 384

- (1) The minimum capital requirement per risk category is 10.75%, which comprises the base minimum (8.00%) plus the pillar 2A systemic risk add-on (1.50%) plus the conservation buffer (1.25%).
- (2) The Bank applies the current exposure method to calculate counterparty risk.

The capital positions of the Group (consolidated) and the Bank, are set out below.

COMPOSITION OF CAPITAL DISCLOSURE TEMPLATE			
Mercantile Bank Holdings Limited			
Three months* ended.....(2017-03-31)			
Basel III common disclosure template to be used during the transition of regulatory adjustments (ie from 1 June 2013 to 1 January 2018)			
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	823 527	697 080
3	Accumulated other comprehensive income (and other reserves)	125 793	11 154
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	2 156 590	2 191 534
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)	138 911	138 571
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	138 911	138 571
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	138 911	138 571
	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	138 911	138 571
29	Common Equity Tier 1 capital (CET1)	2 017 679	2 052 963
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)	2 017 679	2 052 963
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	27 262	26 987
51	Tier 2 capital before regulatory adjustments	27 262	26 987
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)	27 262	26 987
59	Total capital (TC = T1 + T2)	2 044 941	2 079 950
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	10 353 491	10 459 386
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH:		
60	Total risk weighted assets	10 353 491	10 459 386
Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	19.49	19.63
62	Tier 1 (as a percentage of risk weighted assets)	19.49	19.63
63	Total capital (as a percentage of risk weighted assets)	19.75	19.89
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)	1.250	1.250
65	of which: capital conservation buffer requirement	1.250	1.250
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)	19.49	19.63
National Minima (if different from Basel 3)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	6.000	6.000
70	National Tier 1 minimum ratio	7.250	7.250
71	National total capital minimum ratio	9.500	9.500
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 *	-	57 506
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
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)	27 262	26 987
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	-	

* only applicable to the Bank for its investment in entities within the Group; however, at Group level the investments are eliminated.

Leverage ratio disclosure

	Group	Bank
	R'000	R'000
Total qualifying tier 1 capital	2 017 679	2 052 963
Total exposures	12 796 430	12 439 566
Leverage ratio (%)	15.8	16.5

Liquidity coverage ratio (LCR) disclosure

	Group	Bank
	R'000	R'000
High Quality Liquid Assets (HQLA)	933 247	933 247
Net cash outflows	442 406	442 406
Required LCR (%)	80.0	80.0
Actual LCR (%)	211.0	211.0

Johannesburg
25 May 2017