

Mercantile Bank Consolidated

("the Bank")

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")

As at 6 November 2019, the Bank's holding company was Mercantile Bank Holdings Limited and its ultimate holding company was Caixa Geral de Depósitos S.A., a company registered in Portugal. On 7 November 2019, Capitec Bank Limited, a company incorporated in the Republic of South Africa, acquired the entire issued share capital of Mercantile Bank Holdings Limited. Post-acquisition, all the assets and liabilities of Mercantile Bank Holdings Limited, including the shareholding in the Bank, were transferred to Capitec Bank Limited.

The Prudential Authority and the Financial Sector Conduct Authority gave their permission on 12 February 2020 to deregister Mercantile Bank Holdings Limited as the Bank's controlling company. The company was placed under deregistration on 31 March 2020.

In addition, to align to the financial year-end of the Bank's new shareholder, the financial year-ends for all active entities within the Bank have been changed from 31 December to the last day of February.

In terms of Regulation 43(1)(e)(ii), the Bank is required to publicly report on its capital management plan, capital structure, capital adequacy, and leverage and liquidity ratios.

The Bank's key prudential metrics relating to regulatory capital, leverage, liquidity and risk weighted assets as at 30 November 2020 are disclosed below.

Effective 1 December 2020, all the Bank's assets and liabilities were transferred to Capitec Bank Limited in terms of section 54 of the Banks Act, no. 94 of 1990 ("the Integration"). The effect of this is that the Bank's business has been incorporated into Capitec Bank Limited as a going concern to form that bank's business banking division. Mercantile Bank Limited will therefore no longer operate as a separate company on its banking license which will be cancelled by the Prudential Authority and, in due course, an application will be made to the Companies and Intellectual Properties Commission to deregister it.

Overview of risk management and key prudential metrics

		Mercantile Bank Consolidated				
		30-Nov-20	31-Aug-20	31-May-20	29-Feb-20	30-Nov-19
Available capital (amounts) R'000						
1	Common Equity Tier 1 (CET1)	2,559,093	2,564,156	2,564,095	2,564,312	2,466,144
1a	Fully loaded ECL accounting model	(35,586)	(35,586)	(35,586)	(35,586)	(35,586)
2	Tier 1	2,429,976	2,472,591	2,496,570	2,485,991	2,389,159
2a	Fully loaded accounting model Tier 1	(35,586)	(35,586)	(35,586)	(35,586)	(35,586)
3	Total capital	2,561,770	2,600,721	2,613,234	2,613,058	2,485,227
3a	Fully loaded ECL accounting model total capital	131,794	128,130	116,664	127,067	96,068
Risk-weighted assets (amounts) R'000						
4	Total risk-weighted assets (RWA)	14,518,357	13,229,740	12,174,458	12,290,278	13,019,012
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	16.737	18.690	20.507	20.227	18.351
5a	Fully loaded ECL accounting model CET1 (%)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
6	Tier 1 ratio (%)	16.737	18.690	20.507	20.227	18.351
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
7	Total capital ratio (%)	17.645	19.658	21.465	21.261	19.089
7a	Fully loaded ECL accounting model total capital ratio (%)	0.051	0.049	0.045	0.049	0.039
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.500	2.500	2.500	2.500	2.500
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	2.500	2.500
12	CET1 available after meeting the bank's minimum capital requirements (%)	9.737	11.690	13.507	12.727	10.851
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	18,393,708	17,802,633	16,727,301	16,579,928	17,774,661
14	Basel III leverage ratio (%) (row 2/row 13)	13.21%	13.89%	14.93%	14.99%	13.44%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	(0.193)	(0.200)	(0.213)	(0.215)	(0.200)
Liquidity Coverage Ratio						
15	Total HQLA	1,135,436	906,150	877,510	1,145,864	935,754
16	Total net cash outflow	616,561	534,816	556,938	550,701	599,939
17	LCR ratio (%)	184	169%	158	208	156
Net Stable Funding Ratio						
18	Total available stable funding	13,343,567	13,174,753	12,379,218	12,093,178	13,043,849
19	Total required stable funding	8,297,608	8,302,520	8,040,063	8,213,283	8,535,168
20	NSFR ratio (%)	161	159	154	147	153

Overview of risk weighted assets

Line #	R'000	Mercantile Bank Consolidated		Mercantile Bank Limited	
		RWA	Minimum capital requirements ⁽¹⁾	RWA	Minimum capital requirements ⁽¹⁾
		Nov-20	Nov-20	Nov-20	Nov-20
1	Credit risk (excluding counterparty credit risk) (CCR)	10,475,459	1,099,923	9,914,124	1,040,983
2	- Of which standardised approach (SA)	10,475,459	1,099,923	9,914,124	1,040,983
3	- Of which internal rating-based (IRB) approach	-	-	-	-
4	Counterparty credit risk	104,920	11,017	104,920	11,017
5	- Of which standardised approach for counterparty credit risk (SA-CCR) ⁽²⁾	104,920	11,017	104,920	11,017
6	- Of which internal model method (IMM)	-	-	-	-
16	Market risk	35,638	3,742	35,638	3,742
17	- Of which standardised approach (SA)	35,638	3,742	35,638	3,742
18	- Of which internal model approaches (IMM)	-	-	-	-
19	Operational risk	2,063,470	216,664	1,920,702	201,674
20	- Of which Basic Indicator Approach	-	-	-	-
21	- Of which standardised Approach	2,063,470	216,664	1,920,702	201,674
22	- Of which Advanced Measurement Approach	-	-	-	-
23	Other risk	1,838,871	193,081	1,874,808	196,855
25	Total	14,518,358	1,524,427	13,850,190	1,454,271

- (1) The minimum capital requirement per risk category is 10.50%, which comprises the base minimum (8%), 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 Bank is required to disclose quantitative information on its capital adequacy ratios on a quarterly basis. The Bank Consolidated capital position and the capital position of Mercantile Bank Limited, as at 30 November 2020, are set out below. For additional detail in this regard, please refer to annexure A.

	November 2020	
	Mercantile Bank Consolidated	Mercantile Bank Limited
	R'000	R'000
Tier 1 capital	2,429,976	2,443,173
Total regulatory capital	2,561,770	2,567,951
Tier 1 capital adequacy ratio (%)	16.74	17.64
Total capital adequacy ratio (%)	17.65	18.54
Total capital requirement prior to buffer (@ 8.00%)	1,161,469	1,108,015
Add-on countercyclical buffer (0.0%)	-	-
Add-on capital conservation buffer (2.50%)	362,959	346,255
Total capital requirement ratio (@ 10.50%)	1,524,427	1,454,270
<u>Components of capital:</u>		
Tier 1		
Ordinary share capital and share premium	1,483,299	1,483,300
Appropriated retained earnings	1,080,596	1,093,416
Unrealised gains and losses on available for sale items	421	421
Actuarial reserve	(5,223)	(5,223)
Property revaluation reserve	-	-
	2,559,093	2,571,914
Less: Deductions	-129,117	-128,741
	2,429,976	2,443,173
Tier 2		
General allowance for credit impairment: standardised approach	131,794	124,778

Leverage Ratio Disclosure

In terms of Regulation 43(1)(e)(iii)(G), the Bank is required to provide a summarised comparison of the accounting assets and the regulatory leverage ratio differences, as well as the Leverage Ratio of the Bank Consolidated position and of the Bank as at 30 November 2020. These are set out below and over the page.

Line #	R'000	Mercantile Bank Consolidated	Mercantile Bank Limited
		30-Nov-20	30-Nov-20
1	Total consolidated assets as per published financial statements	17,670,872	16,873,978
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	(71,266)	(71,266)
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)	558,051	584,418
7	Other adjustments	236,051	180,092
8	Leverage ratio exposure	18,393,708	17,567,222

Line #	R'000	Mercantile Bank Consolidated	Mercantile Bank Limited
		30-Nov-20	30-Nov-20
On balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	17,893,508	17,040,278
2	Asset amounts deducted in determining Basel III Tier 1 capital	(129,117)	(128,741)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	17,764,391	16,911,537
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	52,095	52,095
5	Add-on amounts for PFE associated with all derivatives transactions	19,171	19,171
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)	71,266	71,266
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	1,866,938	2,130,531
18	(Adjustments for conversion to credit equivalent amounts)	(1,308,887)	(1,546,113)
19	Off balance sheet items (sum of lines 17 and 18)	558,051	584,418
Capital and total exposures			
20	Tier 1 capital	2,429,976	2,443,173
21	Total exposures (sum of lines 3,11, 16 and 19)	18,393,708	17,567,222
	Leverage ratio		
22	Basel III leverage ratio	13.21%	13.91%

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 November 2020 are set out below.

Liquidity coverage ratio (LCR) - common disclosure template			
Line #		Total Unweighted Value (Average) 30 November 2020	Total Weighted Value (Average) 30 November 2020
R'000			
High-Quality Liquid Assets			
1	Total high-quality liquid assets (HQLA)		1,135,436
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	5,597,061	396,479
3	Stable deposits	-	-
4	Less-stable deposits	5,597,061	396,479
5	Unsecured wholesale funding, of which:	8,221,062	1,969,463
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	8,221,062	1,969,463
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	566	566
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	1,634,882	71,699
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	562,022	28,035
16	Total Cash Outflows	16,015,593	2,466,242
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	6,827,162	5,784,787
19	Other cash inflows	-	-
20	Total Cash Inflows	6,827,162	5,784,787
			Total Adjusted Value
21	Total HQLA		1,135,436
22	Total Net Cash Outflows ⁽²⁾		616,561
23	Liquidity Coverage Ratio (%) ⁽³⁾		184%

1. Average balances are based on month-end averages.
2. The Bank has a net cash inflow after applying 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 Bank Consolidated.

COMPOSITION OF CAPITAL DISCLOSURE TEMPLATE

Quarter ended.....(2020-11-30)

Basel III common disclosure template to be used during the transition of regulatory adjustments			
Common Equity Tier 1 capital: instruments and reserves		Mercantile Bank Consolidated	Mercantile Bank Limited
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1 483 299	1 483 300
2	Retained earnings	1 080 596	1 093 416
3	Accumulated other comprehensive income (and other reserves)	-4 802	-4 802
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 consolidated CET1)	-	-
6	Common Equity Tier 1 capital before regulatory adjustments	2 559 093	2 571 914
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-	-
8	Goodwill (net of related tax liability)	55 000	55 000
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	67 242	66 866
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	6 875	6 875
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	129 117	128 741
29	Common Equity Tier 1 capital (CET1)	2 429 976	2 443 173

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 consolidated 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)	2 429 976	2 443 173
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 Consolidated Tier 2)	-	-
49	of which: instruments issued by subsidiaries subject to phase out	-	-
50	Provisions	131 794	124 778
51	Tier 2 capital before regulatory adjustments	131 794	124 778
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)	131 794	124 778
59	Total capital (TC = T1 + T2)	2 561 770	2 567 951
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	14 518 357	13 850 190
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH:		
60	Total risk weighted assets	14 518 357	13 850 190

Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.74	17.64
62	Tier 1 (as a percentage of risk weighted assets)	16.74	17.64
63	Total capital (as a percentage of risk weighted assets)	17.65	18.54
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)	16.74	17.64
National Minima (if different from Basel 3)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	4.500	4.500
70	National Tier 1 minimum ratio	6.000	6.000
71	National total capital minimum ratio	8.000	8.000
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)	54 717	54 717
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)	131 794	124 778
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)	-	