

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 belonging to Mercantile Bank Holdings Limited 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 now-dormant 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 Company 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 31 May 2020 are disclosed below.

Overview of risk management and key prudential metrics

		Mercantile Bank Consolidated			Mercantile Bank Holdings Limited	
		31-May-20	29-Feb-20	30-Nov-19	30-Sep-19	30-Jun-19
Available capital (amounts) R'000						
1	Common Equity Tier 1 (CET1)	2,564,095	2,564,312	2,466,144	2,467,259	2,467,256
1a	Fully loaded ECL accounting model	(35,586)	(35,586)	(35,586)	(35,586)	(35,586)
2	Tier 1	2,496,570	2,485,991	2,389,159	2,382,642	2,375,531
2a	Fully loaded accounting model Tier 1	(35,586)	(35,586)	(35,586)	(35,586)	(35,586)
3	Total capital	2,613,234	2,613,058	2,485,227	2,475,886	2,485,843
3a	Fully loaded ECL accounting model total capital	116,664	127,067	96,068	93,244	110,312
Risk-weighted assets (amounts) R'000						
4	Total risk-weighted assets (RWA)	12,174,458	12,290,278	13,019,012	12,525,221	12,590,123
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	20.507	20.227	18.351	19.023	18.868
5a	Fully loaded ECL accounting model CET1 (%)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
6	Tier 1 ratio (%)	20.507	20.227	18.351	19.023	18.868
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
7	Total capital ratio (%)	21.465	21.261	19.089	19.767	19.744
7a	Fully loaded ECL accounting model total capital ratio (%)	0.045	0.049	0.039	0.038	0.044
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	1.875
12	CET1 available after meeting the bank's minimum capital requirements (%)	13.507	12.727	10.851	11.523	11.368
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	16,727,301	16,579,928	17,774,661	16,535,878	16,136,794
14	Basel III leverage ratio (%) (row 2/row 13)	14.93%	14.99%	13.44%	14.41%	14.72%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	(0.213)	(0.215)	(0.200)	(0.215)	(0.221)
Liquidity Coverage Ratio						
15	Total HQLA	877,510	1,145,864	935,754	1,226,478	1,145,557
16	Total net cash outflow	556,938	550,701	599,939	521,914	546,653
17	LCR ratio (%)	158	208	156	235	210
Net Stable Funding Ratio						
18	Total available stable funding	12,379,218	12,093,178	13,043,849	12,270,281	11,888,629
19	Total required stable funding	8,040,063	8,213,283	8,535,168	8,406,984	8,304,542
20	NSFR ratio (%)	154	147	153	146	143

Overview of risk weighted assets

Line #	R'000	Mercantile Bank Consolidated		Mercantile Bank Limited	
		RWA	Minimum capital requirements ⁽¹⁾	RWA	Minimum capital requirements ⁽¹⁾
		May-20	May-20	May-20	May-20
1	Credit risk (excluding counterparty credit risk) (CCR)	9,283,159	974,732	9,230,368	969,189
2	- Of which standardised approach (SA)	9,283,159	974,732	9,230,368	969,189
3	- Of which internal rating-based (IRB) approach	-	-	-	-
4	Counterparty credit risk	73,359	7,703	73,359	7,703
5	- Of which standardised approach for counterparty credit risk (SA-CCR) ⁽²⁾	73,359	7,703	73,359	7,703
6	- Of which internal model method (IMM)	-	-	-	-
16	Market risk	17,763	1,865	17,763	1,865
17	- Of which standardised approach (SA)	17,763	1,865	17,763	1,865
18	- Of which internal model approaches (IMM)	-	-	-	-
19	Operational risk	2,036,469	213,829	1,908,192	200,360
20	- Of which Basic Indicator Approach	-	-	-	-
21	- Of which standardised Approach	2,036,469	213,829	1,908,192	200,360
22	- Of which Advanced Measurement Approach	-	-	-	-
23	Other risk	763,708	80,189	989,414	103,888
25	Total	12,174,458	1,278,318	12,219,097	1,283,005

- (1) The minimum capital requirement per risk category is 10.50%, which comprises the base minimum (8.00%), plus the pillar 2A systemic risk add-on (0.00%), 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 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 ("Bank"), as at 31 May 2020, are set out below. For additional detail in this regard, please refer to annexure A.

	May 2020	
	Mercantile Bank Consolidated	Mercantile Bank Limited
	R'000	R'000
Tier 1 capital	2,496,570	2,504,909
Total regulatory capital	2,613,234	2,620,913
Tier 1 capital adequacy ratio (%)	20.51	20.50
Total capital adequacy ratio (%)	21.46	21.45
Total capital requirement prior to buffer (@ 8.00%)	973,957	977,528
Add-on countercyclical buffer (0.0%)	-	-
Add-on capital conservation buffer (2.50%)	304,361	305,477
Total capital requirement ratio (@ 10.50%)	1,278,318	1,283,005
<u>Components of capital:</u>		
Tier 1		
Ordinary share capital and share premium	1,483,299	1,483,300
Appropriated retained earnings	937,135	1,093,418
Unrealised gains and losses on available for sale items	421	421
Actuarial reserve	-5,223	-5,223
Property revaluation reserve	148,463	-
	2,564,095	2,571,916
Less: Deductions	-67,525	-67,007
	2,496,570	2,504,909
Tier 2		
General allowance for credit impairment: standardised approach	116,664	116,004

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 31 May 2020. These are set out below and over the page.

Line #	R'000	Mercantile Bank Consolidated	Mercantile Bank Limited
		31-May-20	31-May-20
1	Total consolidated assets as per published financial statements	16,087,749	15,359,671
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	(51,144)	(51,144)
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)	508,775	524,500
7	Other adjustments	181,920	157,722
8	Leverage ratio exposure	16,727,300	15,990,749

Line #	R'000	Mercantile Bank Consolidated	Mercantile Bank Limited
		31-May-20	31-May-20
On balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	16,234,907	15,482,112
2	Asset amounts deducted in determining Basel III Tier 1 capital	(67,525)	(67,007)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	16,167,382	15,415,105
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	40,689	40,689
5	Add-on amounts for PFE associated with all derivatives transactions	10,455	10,455
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)	51,144	51,144
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	1,756,473	1,913,631
18	(Adjustments for conversion to credit equivalent amounts)	(1,247,698)	(1,389,131)
19	Off balance sheet items (sum of lines 17 and 18)	508,775	524,500
Capital and total exposures			
20	Tier 1 capital	2,496,570	2,504,909
21	Total exposures (sum of lines 3,11, 16 and 19)	16,727,301	15,990,749
	Leverage ratio		
22	Basel III leverage ratio	14.93%	15.66%

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 May 2020 are set out below.

Liquidity coverage ratio (LCR) - common disclosure template			
Line		Total Unweighted Value (Average) 31 May 2020	Total Weighted Value (Average) 31 May 2020
#			
	R'000		
High-Quality Liquid Assets			
1	Total high-quality liquid assets (HQLA)		877,510
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	5,016,840	331,427
3	Stable deposits	-	-
4	Less-stable deposits	5,016,840	331,427
5	Unsecured wholesale funding, of which:	7,308,982	1,806,996
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	7,308,982	1,806,996
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	1,423,420	63,116
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	530,425	26,211
16	Total Cash Outflows	14,279,667	2,227,750
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	5,962,561	5,010,407
19	Other cash inflows	-	-
20	Total Cash Inflows	5,962,561	5,010,407
			Total Adjusted Value
21	Total HQLA		877,510
22	Total Net Cash Outflows ⁽²⁾		556,938
23	Liquidity Coverage Ratio (%) ⁽³⁾		158%

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.

Johannesburg
03 July 2020

COMPOSITION OF CAPITAL DISCLOSURE TEMPLATE

3rd month* ended.....(2020-05-31)

Basel III common disclosure template to be used during the transition of regulatory adjustments				
Common Equity Tier 1 capital: instruments and reserves			Mercantile Bank 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		937,135	1,093,418
3	Accumulated other comprehensive income (and other reserves)		143,661	-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		2,564,095	2,571,916
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)		67,525	67,007
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		67,525	67,007
29	Common Equity Tier 1 capital (CET1)		2,496,570	2,504,909
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)	2,496,570	2,504,909
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	116,664	116,004
51	Tier 2 capital before regulatory adjustments	116,664	116,004
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)	116,664	116,004
59	Total capital (TC = T1 + T2)	2,613,234	2,620,913
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	12,174,458	12,219,097
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH:		
60	Total risk weighted assets	12,174,458	12,219,097

Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	20.51	20.50
62	Tier 1 (as a percentage of risk weighted assets)	20.51	20.50
63	Total capital (as a percentage of risk weighted assets)	21.46	21.45
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)	20.51	20.50
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	-	162,194
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)	116,664	116,004
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)	-	