

**Mercantile Bank Limited and its subsidiaries
("the Bank")
unaudited bi-annual disclosure
as at 29 February 2020
(incorporating quarterly disclosure)**

**Disclosure in terms of Regulation 43 relating to banks, issued
under section 90 of the Banks Act, No. 94 of 1990, as amended.**

1. Basis of compilation

The following information is compiled in terms of Regulation 43 relating to banks, issued under section 90 of the Banks Act, No. 94 of 1990 (as amended) (“the Regulations”), which incorporates the Basel 3 Pillar Three requirements on market discipline.

All disclosures presented below are consistent with those disclosed in terms of International Financial Reporting Standards (“IFRS”), unless otherwise stated. In the main, differences between IFRS and information disclosed in terms of the Regulations relate to the definition of capital and the calculation and measurement thereof.

These disclosures have been prepared in compliance with the Bank’s disclosure policy.

Additional information providing context for disclosures contained herein is included in the following documents published by Mercantile Bank Limited, available under the financial results link on the website <https://www.mercantile.co.za/>, which contains information as listed under each section.

Mercantile Bank Limited 2020 Audited Financial Statements for the 14-month period ended 29 February (2020 Audited Financial Statements)

- Accounting policies,
- Notes to the financial statements, and
- Risk management and control.

2. Scope of reporting

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 xx 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.

This report covers the consolidated results of Mercantile Bank Limited and its subsidiaries (“the Bank”) for the period ending 29 February 2020.

The consolidated approach adopted for accounting purposes is consistent with the approach adopted for regulatory purposes. The descriptions and details of the consolidated entities within the group are as follows:

Company name	Effective Holding %	Nature of business	Fully Consolidated
Portion 2 of Lot 8 Sandown (Pty) Ltd	100	Property holding	Yes
Mercantile Rental Finance (Pty) Ltd	100	Rental finance	Yes
Compass Securitisation (RF) Ltd	100	Securitisation vehicle	Yes

Other than Regulatory capital adequacy requirements, there are currently no restrictions or other major impediments on the transfer of funds or capital within the Bank.

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3. Key prudential information

The Bank's key prudential metrics related to regulatory capital, leverage ratio, liquidity ratios, and risk weighted assets as at 29 February 2020 are disclosed in the following sections.

3.1 Overview of risk management, key prudential metrics

		Mercantile Bank Consolidated	Mercantile Bank Consolidated
		29-Feb-20	30-Nov-19
	Available capital (amounts) R'000		
1	Common Equity Tier 1 (CET1)	2,564,312	2,466,144
1a	Fully loaded ECL accounting model	(35,586)	(35,586)
2	Tier 1	2,485,991	2,389,159
2a	Fully loaded accounting model Tier 1	(35,586)	(35,586)
3	Total capital	2,613,058	2,485,227
3a	Fully loaded ECL accounting model total capital	127,067	96,068
	Risk-weighted assets (amounts) R'000		
4	Total risk-weighted assets (RWA)	12,290,278	13,019,012
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	20.227	18.351
5a	Fully loaded ECL accounting model CET1 (%)	(0.014)	(0.014)
6	Tier 1 ratio (%)	20.227	18.351
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	(0.014)	(0.014)
7	Total capital ratio (%)	21.261	19.089
7a	Fully loaded ECL accounting model total capital ratio (%)	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
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
12	CET1 available after meeting the bank's minimum capital requirements (%)	12.727	10.851
	Basel III Leverage Ratio		
13	Total Basel III leverage ratio measure	16,579,928	17,774,661
14	Basel III leverage ratio (%) (row 2/row 13)	14.99%	13.44%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	(0.215)	(0.200)
	Liquidity Coverage Ratio		
15	Total HQLA	1,145,864	935,754
16	Total net cash outflow	550,701	599,939
17	LCR ratio (%)	208	156
	Net Stable Funding Ratio		
18	Total available stable funding	12,093,178	13,043,849
19	Total required stable funding	8,213,283	8,535,168
20	NSFR ratio (%)	147	153

3.2 Overview of risk weighted assets

The table below provides an overview of the risk weighted asset requirements at the respective reporting date. The detailed qualitative information can be found under Capital Management on page 64 of the 2020 Audited Financial Statements.

Line #	R'000	Mercantile Bank Consolidated		Mercantile Bank Limited	
		RWA	Minimum capital requirements ⁽¹⁾	RWA	Minimum capital requirements ⁽¹⁾
		Feb-20	Feb-20	Feb-20	Feb-20
1	Credit risk (excluding counterparty credit risk) (CCR)	9,296,118	1,069,054	9,248,325	1,063,557
2	- Of which standardised approach (SA)	9,296,118	1,069,054	9,248,325	1,063,557
3	- Of which internal rating-based (IRB) approach	-	-	-	-
4	Counterparty credit risk	53,535	6,157	53,535	6,157
5	- Of which standardised approach for counterparty credit risk (SA-CCR) ⁽²⁾	53,535	6,157	53,535	6,157
6	- Of which internal model method (IMM)	-	-	-	-
16	Market risk	14,500	1,668	14,500	1,668
17	- Of which standardised approach (SA)	14,500	1,668	14,500	1,668
18	- Of which internal model approaches (IMM)	-	-	-	-
19	Operational risk	2,036,469	234,194	1,908,192	219,442
20	- Of which Basic Indicator Approach	-	-	-	-
21	- Of which standardised Approach	2,036,469	234,194	1,908,192	219,442
22	- Of which Advanced Measurement Approach	-	-	-	-
23	Other risk	889,656	102,310	975,244	112,153
25	Total	12,290,278	1,413,383	12,199,797	1,402,977

(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 risk.

4. Credit risk

This section outlines the regulatory view of the risk associated with advances. These balances are reflected on the Bank balance sheet. The Bank primarily advances funds to unrated counterparties. In the case of exposures to rated counterparties, the process for risk weighting these exposures is in accordance with the requirements set out in the Regulations.

For an overview of credit risk for the Bank, as well as related qualitative information, please refer to “risk management and control”, which can be found on pages 50 to 64 of the 2020 Audited Financial Statements.

The Bank has adopted the standardised approach to determine the capital requirement for credit risk on all portfolios.

4.1 Credit quality of assets

The table over the page shows the classification of the gross carrying value of the total of advances and interbank deposits split between defaulted and non-defaulted exposures and shows the impairments raised in respect of the defaulted exposures.

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CR1 29 Feb 2020 R'000	Month Average / Month-end exposure	a	b	c	d
		Credit Exposure Value			
		Defaulted exposures (1)	Non-defaulted exposures	Impairments	Net
Stage 1		-	13 983 697	(85,208)	13 898 489
Retail term loans	Period-end	-	248,884	(3,301)	245,583
Retail revolving credit	Average	-	37,167	(628)	36,539
Sovereigns and their central banks	Average	-	877,407	-	877,407
Banks	Average	-	3,571,482	(161)	3,571,320
Corporate exposures	Period-end and Average	-	3,011,294	(39,481)	2,971,813
Residential mortgage advances	Period-end	-	2,458,661	(5,036)	2,453,624
SME Secured lending	Period-end	-	3,306,343	(29,095)	3,277,248
Securitisation and securitisation exposure	Period-end	-	-	-	-
Other Exposures (SME Unsecured lending)	Period-end and Average	-	472,460	(7,505)	464,954
Stage 2		-	448,162	(41,858)	406,304
Retail term loans	Period-end	-	14 547	(1,038)	13 509
Retail revolving credit	Average	-	1 852	(260)	1 592
Sovereigns and their central banks	Average	-	-	-	-
Banks	Average	-	-	-	-
Corporate exposures	Period-end and Average	-	242,800	(21,211)	221,589
Residential mortgage advances	Period-end	-	98,666	(3 373)	95,293
SME Secured lending	Period-end	-	61,345	(7,210)	54,135
Securitisation and securitisation exposure	Period-end	-	-	-	-
Other Exposures (SME Unsecured lending)	Period-end and Average	-	28,953	(8,766)	20,187
Stage 3		595 195	-	(188,562)	406 633
Retail term loans	Period-end	5 333	-	(4,639)	693
Retail revolving credit	Average	3,849	-	(3,460)	389
Sovereigns and their central banks	Average	-	-	-	-
Banks	Average	-	-	-	-
Corporate exposures	Period-end and Average	176,283	-	(63 848)	112,435
Residential mortgage advances	Period-end	220,557	-	(36,243)	184,315
SME Secured lending	Period-end	151,597	-	(61,332)	90,265
Securitisation and securitisation exposure	Period-end	-	-	-	-
Other Exposures (SME Unsecured lending)	Period-end	37,576	-	(19,040)	18,535
Debt securities		-	-	-	-
Off balance sheet items		-	1,809,950	-	1,809,950
Total		595 195	16 241 810	(315,628)	16 521 376

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4.2 Changes in stock of defaulted loans and debt securities

R'000		a
1	Defaulted loans and debt securities at end of the previous reporting period	381,783
2	Loans and debt securities that have defaulted since the last reporting period	158,100
3	Returned to non-defaulted status	(122,705)
4	Amounts written off	124,299
5	Other changes	39,067
6	Defaulted loans and debt securities at end of the reporting period	580,544

4.3 Breakdown of gross credit exposure by geographic areas

Geographical area	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
South Africa	13 833 065	1 809 950	42 720	15 685 735
Other	1 151 268	-	-	1 151 268
- Africa (excl South Africa)	1 593	-	-	1 593
- Asia	1 241	-	-	1 241
- Australia	21 320	-	-	21 320
- Europe	344 982	-	-	344 982
- North America	782 132	-	-	782 132
Total	14 984 333	1 809 950	42 720	16 837 003

4.4 Breakdown of gross credit exposure by industry sector

Industry sector	On balance sheet exposure R'000	Off balance sheet exposure R'000	Derivative instruments R'000	Total R'000
Agriculture, hunting, forestry and fishing	45 099	19 714	-	64 813
Mining and quarrying	144 186	43 417	-	187 603
Manufacturing	915 834	254 254	1 214	1 171 302
Electricity, gas and water supply	45 504	10 327	20	55 851
Construction	347 391	80 841	-	428 232
Wholesale and retail trade, repair of specified items, hotels and restaurants	1 137 806	363 643	3 014	1 504 463
Transport, storage and communication	125 667	34 525	268	160 460
Financial intermediation and insurance	5 218 941	78 029	28 606	5 325 576
Real estate	2 435 147	170 105	24	2 605 276
Business services	599 711	28 709	2 300	630 720
Community, social and personal services	481 653	182 544	58	664 255
Private households	1 484 951	145 132	4	1 630 087
Other	2 002 443	398 710	7 212	2 408 365
Total	14 984 333	1 809 950	42 720	16 837 003

4.5 Impaired and past due loans and advances by geographical area

	South Africa Gross amount R'000	Other Gross amount R'000
Individually impaired loans and advances	580 544	-
Impairments for credit losses		
Expected credit loss (Stage 1)	85 208	-
Expected credit loss (Stage 2)	41 858	-
Expected credit loss (Stage 3)	188 562	-
	315 628	-

4.6 Category age analysis of loans and advances that are past due but not individually impaired

Past due for:	1 – 30 days R'000	31 - 60 days R'000	61 -90 days R'000	Total gross amount R'000
South Africa	58 285	34 098	5 813	98 196
Other	-	-	-	-

A financial asset is past due when the counterparty has failed to make a payment that is contractually due; this is based on appropriate rules and assumptions per product type. An impairment loss is recognised if there is objective evidence that a financial asset or group of financial assets is impaired. Impaired exposure relates to assets that are individually determined to be impaired at reporting date.

4.7 Ageing analysis of gross advances

Ageing analysis	
	Gross R'000
Not past due	16,158,263
Past due not individually impaired (1-90 days)	98,196
Past due 91 - 182 days	224,640
Past due > 182 days	355,904
Total	16,837,003

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4.8 Credit risk mitigation techniques

	a	b	c	d	e	f	g
	Exposures unsecured: Carrying amount	Exposures secured by collateral	Exposures secured by collateral: of which secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees :of which secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives:of which secured amount
1	Total Net Loans and Advances						
	Retail term loans	212,907	118,961	78,244	-	-	-
	Retail revolving credit	128,034	-	-	-	-	-
	Sovereign and their central banks	877,407	-	-	-	-	-
	Banks	3,604,713	-	-	-	-	-
	Corporate exposures	1,493,397	2,831,472	122,663	-	-	-
	Residential mortgage advances	109,631	2,696,518	18,890	-	-	-
	SME Secured lending	1,261,517	2,671,329	208,889	-	-	-
	Other Exposures (SME Unsecured lending)	831,118	-	-	-	-	-
2	Debt Securities	-	-	-	-	-	-
3	Total	8,518,724	8,318,280	428,686	-	-	-
4	<i>Of which defaulted(Net of credit impairment)</i>	86,443	494,102	3,624	-	-	-

4.9 Aggregate credit exposure after set off but before and after credit mitigation techniques

Asset classes	a	b	c	d	e	f
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1 Sovereign and their central banks	877,407	-	877,407	-	-	0.00%
2 Non-central government public sector entities	1,755	-	1,755	-	1,316	75.00%
3 Multilateral development banks	-	-	-	-	-	0.00%
4 Banks	3,571,482	33,231	3,571,481	40	728,607	20.40%
5 Securities firms	-	-	-	-	-	0.00%
6 Corporates	2,137,724	743,621	2,124,758	208,020	2,332,778	100.00%
7 Regulatory retail portfolios	2,710,880	752,306	2,665,270	99,724	2,171,147	78.52%
8 Secured by residential property	2,557,326	28,265	2,544,236	25,632	945,856	36.81%
9 Secured by commercial real estate	2,575,285	252,287	2,574,022	146,264	2,718,786	99.94%
10 Equity	-	-	-	-	-	0.00%
11 Past-due loans	595,195	240	415,277	-	431,340	103.87%
12 Higher-risk categories	-	-	-	-	-	0.00%
13 Total	15,027,054	1,809,950	14,774,205	479,681	9,329,829	61.16%

- Included in ‘Corporates’ exposures are money market funds averaging R260 million.
- Included in the above are securitised rental assets to the value of R522 million held in Compass Securitisation (RF) Ltd.
- Only inward bank guarantees and eligible pledged investments and/or liquid funds are taken into account as credit risk mitigation (CRM). Other forms of credit risk mitigation are non-qualifying collateral items in terms of the Regulations and are commented on below.

The Bank uses on- and off-balance sheet netting to restrict its exposure to credit losses. When a client maintains both debit and credit balances with the Bank and the Bank enters into a netting agreement in respect of the relevant loans and deposits with the said counterparty, the Bank may regard the exposure as a collateralised exposure in accordance with Regulation 23 of the Regulations. As at 29 February 2020, the Bank did not recognise any netting arrangements to reduce its credit risk exposures for capital adequacy requirements.

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Policies and processes for collateral valuation and management

Dependent upon the risk profile of the client and their track record/payment history, and the risk inherent in the product offering, varying types and levels of security are taken to reduce credit-related risks. These include, inter alia, pledges of investments, mortgage and notarial bonds, guarantees and cession of debtors. Various levels of security value are attached to the different categories of security taken. The value of the security is reviewed regularly and the Bank does not have any material concentration risk in respect of collateral used to reduce credit risk. Clean or unsecured lending will only be considered for financially-strong borrowers. Refer to note 6.12 on page 30 of the 2020 Audited Financial Statements.

4.10 Exposures by asset class and risk weights

R'000		a	b	c	d	e	f	g	h	i	j
Asset classes by Risk weights		0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereign and their central banks	877,407	-	-	-	-	-	-	-	-	877,407
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	1,755	-	-	-	1,755
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	3,552,923	-	1,182	-	17,417	-	-	3,571,521
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-	2,332,778	-	-	2,332,778
7	Regulatory retail portfolios	-	-	-	-	-	2,381,390	383,604	-	-	2,764,994
8	Secured by residential property	-	-	-	2,464,478	-	82,408	22,982	-	-	2,569,868
9	Secured by commercial real estate	-	-	-	-	-	6,000	2,714,286	-	-	2,720,286
10	Equity	-	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	67,660	-	247,833	99,785	-	415,277
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Total	877,407	-	3,552,923	2,464,478	68,842	2,471,553	5,718,899	99,785	-	15,253,886

4.11 Credit portfolio maturity analysis

	Cash and cash equivalents and current accounts (1)	Credit cards	Mortgage loans	Instalment sales and leases	Other advances (2)	Negotiable securities	Total Advances
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Maturing up to one month	1,583,765	43,297	18	913	3,911,634	89,925	5,629,552
Maturing between one and three months	-	85	18	5,173	15,497	147,670	168,443
Maturing between three and six months	-	127	93,307	13,947	2,049	175,688	285,118
Maturing between six months and one year	-	170	31,948	53,573	16,585	464,125	566,401
Maturing after one year	-	-	5,000,777	1,860,816	1,042,648	-	7,904,241
Non-contractual	55,456	5,486	311,724	81,464	126,414	-	580,544
	1 639 221	49 165	5 437 792	2 015 886	5 114 827	877 407	15 134 298

(1) “Cash and cash equivalents” includes money market funds and Rand- and foreign currency-denominated bank balances.

(2) “Other advances” includes medium-term and structured loans.

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4.12 Daily average gross credit exposure

<u>Asset Class</u>	29-Feb-20 <u>Average Gross</u> <u>credit exposure</u> <u>R'000</u> <u>Mercantile Bank Consolidated</u>
Liquid assets	4,688,761
Cash and cash equivalents - Banks	3,542,893
Cash and cash equivalents - Sovereign	-
Resale agreements with banks	-
Resale agreements with corporates	-
Other balances with central banks	268,460
Negotiable securities	877,407
Gross loans and advances	10,564,033
Retail personal term loans	2,320,304
Retail credit card loans	33,618
Mortgage loans	2,777,884
Instalment sales and leases	2,000,171
Other advances	3,432,056
Gross other assets	42,720
Term deposit investments - Banks	-
Financial investments - Sovereign	-
Derivative financial assets	42,720
On-balance sheet exposure	15,295,515
Guarantees	745,894
Letters of credit	5,115
Committed undrawn facilities	281,176
Conditionally revocable commitments	914,584
Off Balance sheet exposure	1,946,769
Total credit exposure	17,242,284

Included in “conditionally revocable commitments” is an Operating lease commitment of R2.2m.

5. Counterparty credit risk (CCR)

Derivative exposures are only entered into with clients of sound financial standing. These derivative risks are taken on a back-to-back basis with the five major banks in South Africa. No concentration risk exists and no additional capital has been allocated. The Bank’s accounting policy and other related qualitative information can be found in the 2020 Audited Financial Statements on page 23 and pages 58 to 59 respectively.

5.1 Analysis of counterparty credit risk (CCR) exposure by approach

	a	b	c	d	e	f
	Replacement Cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD ppost-CRM	RWA
1 SA-CCR (for derivatives) ⁽¹⁾	31,727	10,993			33,711	53,535
2 Internal Model Method (for derivatives and SFTs)			-	-	-	-
3 Simple Approach for credit risk mitigation (for SFTs)					-	-
4 Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5 VaR for SFTs					-	-
6 Total						53,535

5.2 Credit valuation adjustment (CVA) charge

Credit valuation adjustment is the difference between the risk-free portfolio value and the true portfolio value considering the possibility of counterparty default. CVA is the market value of counterparty credit risk. The RWA of the CVA is added to the risk-weighted amount for counterparty credit exposure.

	a	b
	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	-	-
1 (i) VaR component (including the 3 x multiplier)	-	-
2 (ii) Stressed VaR component (including the 3 x multiplier)	-	-
3 All portfolios subject to the Standardised CVA capital charge	33,711	19,824
4 Total subject to the CVA capital charge	33,711	19,824

5.3 CCR exposures by regulatory portfolios and risk weights

	a	b	c	d	e	f	g	h	i	j
Regulatory portfolios by Risk weights	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit
1 Sovereigns	-	-	-	-	-	-	-	-	-	-
2 Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3 Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4 Banks	-	-	11,262	-	-	-	31,458	-	-	42,720
5 Securities firms	-	-	-	-	-	-	-	-	-	-
6 Corporates	-	-	-	-	-	-	-	-	-	-
7 Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
13 Other assets	-	-	-	-	-	-	-	-	-	-
14 Total	-	-	11,262	-	-	-	31,458	-	-	42,720

6. Securitisation risk

The Bank has exposure to securitised rental assets to the value of R522 million held in Compass Securitisation (RF) Ltd, which is consolidated for Group purposes and is reported as part of Loans and Advances in the integrated annual report. The Bank has adopted the standardised approach to calculate regulatory capital for the securitisation vehicle. The Bank’s securitisation is categorised as a traditional securitisation structure, i.e. assets are sold to Compass Securitisation (RF) Ltd in tranches. The securitisation, in the amount of R240 million, consists of notes of R1 million each that are unsubordinated, secured, compulsorily-redeemable, and asset-backed. These notes are linked to JIBAR with interest repayable quarterly and they mature on 6 June 2020. In December 2018, additional notes to the value of R110 million were issued. These notes are also linked to JIBAR with interest repayable quarterly and maturing on 6 December 2021.

6.1 Securitisation exposure at Mercantile Bank Holdings level

R'000		a	b	c	d	e	f	g	h	i
		Bank acts as originator			Bank acts as sponsor			Bank acts as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1	Retail (total)									
	-of which	521,803	-	521,803	-	-	-	-	-	-
2	residential mortgage	-	-	-	-	-	-	-	-	-
3	credit card	-	-	-	-	-	-	-	-	-
4	other retail exposures	521,803	-	521,803	-	-	-	-	-	-
5	re-securitisation	-	-	-	-	-	-	-	-	-
6	Wholesale (total)									
	- of which	-	-	-	-	-	-	-	-	-
7	loans to corporate	-	-	-	-	-	-	-	-	-
8	commercial mortgage	-	-	-	-	-	-	-	-	-
9	lease and receivables	-	-	-	-	-	-	-	-	-
10	other wholesale	-	-	-	-	-	-	-	-	-
11	re-securitisation	-	-	-	-	-	-	-	-	-

6.2 Securitisation exposure and associated regulatory capital requirements

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWA (by regulatory approach)				Capital charge after cap			
R'000		<20% RW	<20% to 50% RW	<50% to 100% RW	>100% to 1250% RW	1250% RW	IRB RBA (include NG1AA)	IRB SFA	SA/SSFA	1250%	IRB RBA (include NG1AA)	IRB SFA	SA/SSFA	1250%	IRB RBA (include NG1AA)	IRB SFA	SA/SSFA	1250%
1	Total exposures	-	-	376,089	-	-	-	-	-	-	-	-	376,089	-	-	-	-	-
2	Traditional securitisation	-	-	376,089	-	-	-	-	-	-	-	-	376,089	-	-	-	-	-
3	Of which securitisation	-	-	376,089	-	-	-	-	-	-	-	-	376,089	-	-	-	-	-
4	Of which retail underlying	-	-	376,089	-	-	-	-	-	-	-	-	376,089	-	-	-	-	-
5	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Of which non senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Of which securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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7. Operational risk

The Bank currently holds R163 million in operational risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 11.50%).

8. Market risk

The portfolios that are subject to market risk are foreign exchange and interest rate contracts for which the Bank currently holds R1.2 million in market risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 11.50%).

R'000		a
		RWA
	Outright products	14,500
1	- Interest rate risk (general and specific)	-
2	- Equity risk (general and specific)	-
3	- Foreign exchange risk	14,500
4	- Commodity risk	-
	Options	-
5	- Simplified approach	-
6	- Delta-plus method	-
7	- Scenario approach	-
8	Securitisation	-
9	Total	14,500

9. Equity positions

Investments consist of unlisted equity investments and these have been designated as fair value through profit or loss.

	Type	Carrying amount R'000	Fair value R'000	Capital requirement (@ 11.50%) R'000
Investments				
Unlisted	Shares	1 139	1 139	131
		1 139	1 139	131

Realised and unrealised gains on equity investments

	Total R'000
Realised gains and losses in profit or loss for the year	-
Unrealised cumulative gains and losses recognised directly in equity	
Listed	-
Unlisted	542
	542

10. Liquidity risk

The table below summarises assets and liabilities of the Bank into relevant maturity groupings, based on the remaining period to contractual maturity at reporting date:

	Assets R'000	Liabilities R'000	Total mismatch R'000
Maturing up to one month	6,758,559	9,616,521	(2,857,962)
Maturing between one and three months	175,057	1,112,244	(937,187)
Maturing between three and six months	435,744	205,268	230,476
Maturing between six months and one year	539,923	140,617	399,306
Maturing after one year	6,667,761	1,589,269	5,078,492
Non-contractual	695,692	-	695,692
	15,272,736	12,663,919	2,608,817

11. Interest rate risk

Interest rate sensitivity analyses

For regulatory purposes, the assessment and measurement of interest rate risk is based on the accumulated impact of interest rate-sensitive instruments resulting from a parallel movement of plus or minus 200 basis points on the yield curve.

In addition, the impact on equity as well as profit and loss resulting from a change in interest rates is calculated monthly based on management’s forecast of the most likely change in interest rates.

The table below reflects the Bank’s annual net interest income sensitivity for a 200-basis point increase or decrease in interest rates, while all other variables remain constant. The impact is mainly attributable to the Bank’s exposure to interest rates on its capital position and lending and deposits in the banking book.

	Impact on economic value of equity R'000	Impact on net interest income for fourteen months R'000
Net interest income sensitivity of a parallel shock		
Interest rate increase (200bps increase)	34 229	34 536
Interest rate decrease (200bps decrease)	(54 873)	(75 009)

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12. Liquidity disclosures

In terms of Regulation 43(1)(e)(iii)(F), the Liquidity Coverage Ratio (“LCR”) positions of the Bank, as at 29 February 2020, are set out below.

Liquidity coverage ratio (LCR) - common disclosure template			
Line #		Total Unweighted Value (Average) 29 February 2020	Total Weighted Value (Average) 29 February 2020
R'000			
High-Quality Liquid Assets			
1	Total high-quality liquid assets (HQLA)		1,145,864
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	4,953,915	326,525
3	Stable deposits	-	-
4	Less-stable deposits	4,953,915	326,525
5	Unsecured wholesale funding, of which:	7,203,845	1,787,847
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	7,203,845	1,787,847
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	-	-
11	Outflows related to derivative exposures and other collateral requirements	3,996	3,996
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	1,186,734	52,539
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	639,293	31,898
16	Total Cash Outflows	13,987,783	2,202,805
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	6,142,038	4,988,449
19	Other cash inflows	-	-
20	Total Cash Inflows	6,142,038	4,988,449
			Total Adjusted Value
21	Total HQLA		1,145,864
22	Total Net Cash Outflows ⁽²⁾		550,701
23	Liquidity Coverage Ratio (%) ⁽³⁾		208%

1. Average balances are based on month-end averages.
2. The Bank has a net cash inflow after applying the run-off factors; net cash inflows are, however, limited to 75% of total cash outflows for the purpose of this ratio.
3. There is no material difference between Bank and Consolidated.

13. Capital management

In line with the requirements of the Bank Supervision Department of the South African Reserve Bank, and effective from 1 January 2019, the Bank has implemented a countercyclical buffer of 0.00% and a capital conservation buffer of 2.50%.

The Bank has documented its Internal Capital Adequacy Assessment Process (“ICAAP”), which was approved by the Board of Directors. Evaluations were made of the various direct, indirect and associated risks faced by the Bank and the related mitigating controls that are in place.

The disclosures of the composition of capital and main capital features for the Bank, required per Directive 3 of 2015, issued in terms of section 6(6) of the Banks Act of 1990, are set out in Annexures A and B, respectively.

14. Leverage ratio

In the table that follows and in terms of Regulation 43(1)(e)(iii)(G), the Bank provides a summarised comparison of the accounting assets and the regulatory leverage ratio differences, as well as the Leverage Ratio positions of the Bank, as at 29 February 2020.

14.1 Summarised comparison of accounting assets and leverage ratio exposure measure

Line #	R'000	Mercantile Bank Consolidated	Mercantile Bank Limited
		29-Feb-20	29-Feb-20
1	Total consolidated assets as per financial statements	15,954,636	15,272,896
2	Adjustment for investment in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but 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	(42,720)	(42,720)
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off balance sheet exposures)	564,966	567,296
7	Other adjustments ⁽¹⁾	103,046	77,456
8	Leverage ratio exposure	16,579,928	15,874,928

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14.2 Leverage ratio of the Bank

Line #	R'000	Mercantile Bank Consolidated	Mercantile Bank Limited
		29-Feb-20	29-Feb-20
On balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	16,050,563	15,342,639
2	Asset amounts deducted in determining Basel III Tier 1 capital	(78,321)	(77,727)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	15,972,242	15,264,912
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	31,727	31,727
5	Add-on amounts for PFE associated with all derivatives transactions	10,993	10,993
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)	42,720	42,720
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	1,809,950	1,833,190
18	(Adjustments for conversion to credit equivalent amounts)	(1,244,985)	(1,265,894)
19	Off balance sheet items (sum of lines 17 and 18)	564,966	567,296
Capital and total exposures			
20	Tier 1 capital	2,485,991	2,494,187
21	Total exposures (sum of lines 3,11, 16 and 19)	16,579,928	15,874,928
Leverage ratio			
22	BaselIII leverage ratio	14.99%	15.71%

15. Financial position and performance

15.1 Consolidated financial position and financial performance

STATEMENT OF FINANCIAL POSITION

As at 29 February 2020

	Unaudited R'000
ASSETS	
Cash and cash equivalents	4,182,664
Derivative financial instruments	31,727
Negotiable securities	877,384
Loans and advances	10,029,875
Other investments	1,139
Other accounts receivable	431,448
Non-current assets held for sale	17,169
Current tax receivable	4,550
Property and equipment	235,508
Right-of-use asset	12,093
Intangible assets	83,530
Deferred tax asset	47,549
Total assets	15,954,636
EQUITY AND LIABILITIES	
Liabilities	
Other accounts payable	361,991
Derivative financial instruments	30,005
Lease liability	12,958
Provisions and other liabilities	77,790
Deposits	12,152,296
Debt securities	357,383
Intergroup funding	200,000
Deferred tax liabilities	71,027
Total equity attributable to equity holders of the parent	2,691,186
Share capital and share premium	1,483,299
Employee benefits reserve	(5,223)
Property revaluation reserve	148,463
Other reserves	337
Retained earnings	1,064,310
Total equity	2,691,186
Total equity and liabilities	15,954,636

STATEMENT OF INCOME
for the 14-month period ended 29 February 2020

	R'000
	Unaudited
Interest income	1,601,273
Interest expense	(865,674)
Net interest income	735,599
Net (charge for) credit losses	(211,502)
Net interest income after credit losses	524,097
Net non-interest income	483,607
Non-interest income	1,118,870
Fee and commission expenditure	(635,263)
Other trading related expenditure	(37,734)
Net interest and non-interest income	969,970
Operating expenditure	(661,925)
Profit before tax	308,045
Tax	(88,934)
Profit after tax	219,111
Profit after tax attributable to equity holder of the parent	219,111

No comparative information has been disclosed due to change of control (refer to note 2).

15.2 Unconsolidated financial position and financial performance

Information pertaining to the financial performance and financial position for Mercantile Bank Limited for the year ended 29 February 2020 is available on the Bank’s website: www.mercantile.co.za

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15.3 Linkage between financial statements and regulatory exposures

	a	c	d	e	f	g	h
	Carrying values as reported in financial statements & under scope of regulatory consolidation	Carrying values of items:					
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deductions from capital	Subject to other risk
R'000							
Assets							
Cash and cash equivalents	4,182,664	3,542,893	28,588	-	-	-	268,460
Derivative financial instruments	31,727	-	14,132	-	1,160	-	-
Negotiable securities	877,384	877,407	-	-	-	-	-
Loans and advances	10,029,875	10,654,586	-	-	-	-	162,918
Other investments	1,139	-	-	-	-	-	1,139
Other accounts receivable	431,448	-	-	-	-	-	434,855
Non-current assets held-for-sale	17,169	-	-	-	-	-	17,169
Current tax receivable	4,550	-	-	-	-	-	4,550
Property and equipment	235,508	-	-	-	-	-	235,508
Right-of-use asset	12,093	-	-	-	-	-	12,093
Intangible assets	83,530	-	-	-	-	83,530	-
Deferred tax assets	47,549	-	-	-	-	-	47,549
Total assets	15,954,636	15,074,887	42,720	-	1,160	83,530	1,184,241
Liabilities							
Other accounts payable	361,991	-	-	-	-	-	-
Derivative financial instruments	30,005	-	-	-	-	-	-
Lease liability	12,958	-	-	-	-	-	-
Provisions and other liabilities	77,790	-	-	-	-	-	-
Deposits	12,152,296	428,686	-	-	-	-	-
Intergroup funding	200,000	-	-	-	-	-	-
Debt securities	357,383	-	-	-	-	-	-
Deferred tax liabilities	71,027	-	-	-	-	-	-
Total equity							
Share capital and share premium	1,483,299	-	-	-	-	-	-
Employee benefits reserve	(5,223)	-	-	-	-	-	-
Property revaluation reserve	148,463	-	-	-	-	-	-
Other reserves	337	-	-	-	-	-	-
Retained earnings	1,064,310	-	-	-	-	-	-
Total liabilities and equity	15,954,636	428,686	-	-	-	-	-

15.4 Differences between regulatory amounts and carrying values in financial statements

	a	b	c	d	e	f
R'000	Total	Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework	Other risk framework
1 Asset carrying value amount under scope of regulatory consolidation	15,954,636	15,074,887	42,720	-	1,160	1,184,241
2 Liabilities carrying value amount under scope of regulatory consolidation	15,954,636	428,686	-	-	-	-
3 Total net amount under regulatory scope of consolidation	-	14,646,202	42,720	-	1,160	1,184,241
4 Off-balance sheet amounts	1,809,950	564,966	-	-	-	-
5 Exposure amounts considered for regulatory purposes	-	15,211,167	42,720	-	1,160	1,184,241

16. Remuneration

The Regulations require that the Bank’s remuneration policy, processes and procedures be disclosed to the public.

REMUNERATION REPORT

Remuneration philosophy and governance principles

The remuneration philosophy is designed to enable the attraction, motivation and retention of suitably-qualified employees to achieve the Bank’s strategic objectives. In addition to this, specific remuneration practices are required for executives and senior management as they make a direct impact on driving business results, profitability and increased stakeholder value.

The guiding principles of the remuneration philosophy are to:

- Support the achievement of the Bank’s strategic objectives;
- Help communicate the Bank’s values and performance expectations;
- Drive and support desired employee behaviour and actions;
- Achieve and maintain market competitiveness of pay;
- Motivate and engage all employees in the organisation;
- Manage remuneration costs;
- Reward high performers;
- Recruit and retain high performers; and
- Ensure internal equity.

These policy objectives are achieved by ensuring remuneration is reflective of applicable market conditions, the Bank’s statutory obligations, the level of accountability (responsibility, objectives, goals, etc.) assigned to individuals, and the provision of incentives to deliver outstanding performance, while providing organisational flexibility and operational efficiency.

The policy is based on the following guiding principles:

- The structure of the remuneration does not encourage excessive and imprudent risk-taking;
- The decision-making process on remuneration is robust (well-reasoned, compliant with relevant laws and regulations, and approved by competent corporate bodies);
- The applicability to identified employees:
 - Ensuring that the total remuneration and respective composition of remuneration are coherent with the Bank’s governing structure and aligned to the risk profile tolerated by the Bank; and
 - Safeguarding the ratio between fixed and variable components of remuneration, and indexing these to the achievement of quantifiable and specific objectives that are aligned with the long-term interests of the Bank;
- The balance of remuneration composition through:
 - Alignment of remuneration and performance; and
 - Alignment of remuneration and long-term corporate interest; and

- Transparent disclosure of the Remuneration Policy and specific objectives as required by relevant competent authorities.

Factors influencing the structural design of the remuneration processes are:

- Attraction, motivation and retention of key talent;
- Reward policies and practices that support achievement of the Bank's strategic objectives;
- Strong link between Group performance and pay;
- Strong link between individual performance and pay;
- Sound governance policies and compliance with all statutory and other relevant regulations;
- Remuneration decisions that are defensible;
- Maintain competitive rates of pay and benefits; and
- Remuneration costs are managed.

All remuneration elements are reviewed periodically and monitored to align with the Bank's risk management strategy. The review and recommendations take into account changes in legislation, competitive practices in the market, and the results of comprehensive research on the factors driving employee satisfaction, commitment and productivity in the organisation. The focus is therefore on pay for position, competence and performance. The Remuneration Policy has been drafted taking into account applicable South African labour legislation. The Bank aims to ensure that remuneration practices are fair, equitable and competitive and align risk and reward.

The remuneration philosophy encapsulates five elements: compensation, benefits, work-life balance, performance-based recognition, and development of career opportunities to help attract, motivate and retain the talent needed to achieve the Bank's objectives. The Bank is committed to providing managers with the tools, training and information necessary to make sound remuneration decisions. Each Manager is responsible for ensuring that performance management processes are completed bi-annually for employees and that remuneration increases are based on performance and within policy guidelines, to ensure equity and consistency throughout the Bank. The Performance Management process is aligned to the Balanced Scorecard through key result areas (KRAs), which include financial and non-financial measurement criteria.

The main components of compensation are described below:

(i) Total guaranteed package

The total guaranteed package includes the monthly salary plus non-cash fringe benefits, which comprise medical aid, risk cover, and retirement savings contributions, and gives all employees a certain degree of flexibility as they can structure their packages to include a 13th cheque, select the appropriate level of travel allowance (in accordance with income tax regulations), and choose to participate in a tax-saving benefit to pay for school or tertiary institution fees (in accordance with income tax regulations).

(ii) Short-term incentives

Short-term incentives form an important component of variable pay. The objectives of the short-term incentive scheme are to reward outstanding performance and motivate employees to perform beyond expectations and drive the Bank's results. It is also an important element of establishing a performance culture and retaining the services of key contributors who assist in achieving the Bank's goals.

Measurement criteria are aligned to strategic objectives and financial growth and performance targets, as well as client service satisfaction targets and culture transformation. Whereas the Bank's performance determines the size of the bonus pool, individual performance determines the actual incentive percentage (of total guaranteed pay) that is awarded within the determined range.

(iii) Long-term incentives

The third component of the remuneration mix is long-term incentives. The purpose of this element is to attract and reward key employees whose contribution within the next three- to five years is viewed as critical, and whose retention is regarded as a priority.

Non-Executive Director’s Fees

The remuneration of Non-Executive Directors takes into account the responsibilities of the role and the skills and experience of the individual, without losing sight of the requirement for market-related, fair and defensible compensation from a regulatory and stakeholder viewpoint, detailed listing of Non-executive directors and fees paid can be found in Note 32.4 of the 2020 Audited Financial Statements on page 45.

Compensation for senior Managers and material risk-takers

The senior managers are employees whose professional activities have a material impact on risk-taking decisions, as well as the senior employees accountable for all of the control functions, as follows: Treasury, Electronic Services, Commercial Banking, Business Banking, Rental Finance, Card, Marketing, Credit, Risk, Compliance, Internal Audit, Legal, Secretariat, Centralised Operations, Information Technology, Finance, and Human Resources.

For 2020, the compensation for senior Managers and material risk-takers, including the CEO and Financial Director are:

Remuneration amount (R'000)		Senior management	Other material risk-takers
Fixed remuneration	Number of employees	24	-
	Total fixed cash-based remuneration: (none of which is deferred or linked to shares or other share-linked instruments)	49 391	-
Variable remuneration	Number of employees	24	-
	Total variable cash-based remuneration (short-term incentive)	17 702	-
	Number of employees	20	-
	Share-linked instruments granted in 2016 and paid in the 2020 financial period	28 448	-
	Number of employees	22	-
	Share-linked instruments granted in 2017 and 2018 and paid in the 2020 financial period as a result of the change in control (refer to note 2)	30 504	-
	21 employees were granted 26.1 million share-linked instruments during the 2020 financial period, 6.7 million of these awards vested pro rata on change of control (refer to note 2) in November 2019 and the balance will vest in 2022.		
Total remuneration (fixed and variable)		67 093	-

Special payments	No special payments were made during the financial period.
Deferred amounts	On change of control (refer to note 2) previously deferred balances were settled (R5.5 million) and the balances at 29 February 2020 are nil.

Risk measures are part of determining the bonus pool value and also of individual KRA measures. Risk decision-making is separated from sales. There is a clear separation between the management and approval of risk and the sale of risk products. Credit risk is the main risk that the Bank faces (as there is no proprietary trading activity) and it is managed through different levels of governance, ranging from the mandates of Credit Managers and the Head of Credit, to the mandates of the Credit Committee and the approval by the Risk and Capital Management Committee of the Board. All these risk mandates are informed by the risk appetite defined by the Bank.

Management and the employees of the Risk, Compliance Management, and Internal Audit functions operate in accordance with the provisions of the Banks Act and Regulations, as well as industry best practices and governance requirements and are effectively independent of sales and are compensated appropriately. Performance measurements for these functions are principally based on the achievement of the objectives of their function.

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The overall size of the bonus pool in which they participate is a function of the overall performance of the Bank; hence, if no bonus pool is approved for the Bank, there can be no bonus participation for these functions – there are no guaranteed bonuses. This reflects our commitment to achieving a balance between the prudent management of remuneration within the context of both our risk appetite and risk profile, and the need to attract, retain and motivate key talent to enable the delivery of our strategic objectives.

17. Qualitative disclosures and accounting policies

The Regulations require that certain qualitative disclosures and statements on accounting policy be made. These regulatory qualitative disclosures and statements on accounting policy were made in the Bank’s 2020 Audited Financial Statements.

The above disclosures should be read in conjunction with the qualitative disclosures made in the sections on risk management and control, and the statements on Bank’s accounting policy contained in the Bank’s 2020 Audited Financial Statements.

09 April 2020

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

Mercantile Bank Consolidated

As at 29 February 2020

Basel III common disclosures template to be used during the transition of regulatory adjustments			
R’000		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	
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	1 483 299	
2	Retained earnings	937 352	
3	Accumulated other comprehensive income (and other reserves)	143 661	
4	Directly issued capital subject to phase out from CET 1 (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 third parties (amounts allowed in group CET)	-	-
6	Common Equity Tier 1 capital before regulatory adjustments	2 564 312	
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)	78 321	78 321
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, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, 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 (amounts above 10% threshold)	-	-
20	Mortgage servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amounts above 10% threshold, net of related tax liability)	-	-

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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 PR-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	78 321	
29	Common Equity Tier 1 capital (CET1)	2 485 991	
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 (amounts 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, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, 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 COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-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	-	

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44	Additional Tier 1 capital (AT1)	-	
45	Tier 1 capital (T1= CET1 + AT1)	2 485 991	
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 to 34) issued by subsidiaries and held by third parties (amounts allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	127 067	
51	Tier 2 capital before regulatory adjustments	127 067	
Tier 2 capital: regulatory adjustments			
52	Investment in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in 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 of 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 COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT	-	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	-	
	OF WHICH:	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	127 067	
59	Total capital (TC= T1 + T2)	2 613 058	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	12 290 278	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	-	
60	Total risk weighted assets	12 290 278	
Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	20.23	
62	Tier 1 (as a percentage of risk weighted assets)	20.23	
63	Total capital (as a percentage of risk weighted assets)	21.26	

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64	Institution specific buffers requirements (minimum CET1 requirement plus capital conservation buffers plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.50
65	of which: capital conservation buffer requirement	2.50
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)	20.23
National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	5.00
70	National Tier 1 minimum ratio	6.75
71	National total capital minimum ratio	9.00
Amounts below the threshold for deductions (before risk weighting)		
72	Non-significant investments in the capital of other financials	-
73	Significant investments in common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	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)	127 067
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 on inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangement (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amounts 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	Amounts 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	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

ANNEXURE A: COMPOSITION OF CAPITAL DISCLOSURES TEMPLATE

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Basel III common disclosures template to be used during the transition of regulatory adjustments (i.e. from 1 June 2013 to 1 January 2018)		AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT	
R'000			
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	1 483 300	
2	Retained earnings	1 093 416	
3	Accumulated other comprehensive income (and other reserves)	-4 802	
4	Directly issued capital subject to phase out from CET 1 (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 third parties (amounts allowed in group CET)	-	-
6	Common Equity Tier 1 capital before regulatory adjustments	2 571 914	
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)	77 727	77 727
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, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, 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 (amounts above 10% threshold)	-	-
20	Mortgage servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amounts 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	-	-

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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 PR-BASEL III TREATMENT	77 727	
	OF WHICH: Other intangibles other than mortgage-servicing rights (net of related tax liability)	77 727	
	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	77 727	
29	Common Equity Tier 1 capital (CET1)	2 494 187	
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 (amounts 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, insurance entities that are outside the scope of regulatory consolidation, net of eligible short position, 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 COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PR-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)	2 494 187	
Tier 2 capital and provisions			

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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 to 34) issued by subsidiaries and held by third parties (amounts allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	101 468	
51	Tier 2 capital before regulatory adjustments	101 468	
Tier 2 capital: regulatory adjustments			
52	Investment in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in 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 of 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 COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PR-BASEL III TREATMENT	-	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)	-	
	OF WHICH:	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	101 468	
59	Total capital (TC= T1 + T2)	2 595 655	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	12 199 797	
	OF WHICH: (INSERT NAME OF ADJUSTMENT)		
	OF WHICH:	-	
60	Total risk weighted assets	12 199 797	
Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	20.44	
62	Tier 1 (as a percentage of risk weighted assets)	20.44	
63	Total capital (as a percentage of risk weighted assets)	21.28	
64	Institution specific buffers requirements (minimum CET1 requirement plus capital conservation buffers plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.50	
65	of which: capital conservation buffer requirement	2.50	
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)	20.44	

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National Minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	5.00
70	National Tier 1 minimum ratio	6.75
71	National total capital minimum ratio	9.00
Amounts below the threshold for deductions (before risk weighting)		
72	Non-significant investments in the capital of other financials	-
73	Significant investments in common stock of financials	107 194
74	Mortgage servicing rights (net of related tax liability)	0
75	Deferred tax assets arising from temporary differences (net of related tax liability)	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)	101 468
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 on inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangement (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amounts 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	Amounts 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	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

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ANNEXURE B: MAIN FEATURES DISCLOSURE TEMPLATE

Mercantile Bank Limited (solo)

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Set out below is the template that banks must use to ensure that the key features of all regulatory capital instruments are disclosed. Banks will be required to complete all of the shaded cells for each outstanding regulatory capital instrument (banks should insert "N/A" if the question is not applicable).

Disclosure template for main features of regulatory capital instruments		
1	Issuer	Mercantile Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Unlisted
3	Governing Law(s) of the instrument	Banks Act, Companies Act
Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group and solo
7	Instrument type (type to be specified by each jurisdiction)	Ordinary share capital
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	R1 483 Million
9	Par value of instrument	R2.00
10	Accounting classification	Shareholders' equity
11	Original date of issuance	28/03/2002
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		

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17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated debt, Senior unsecured debt, deposits, creditors
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A