Disclosures under Pillar 3 in terms of New Capital Adequacy Framework (Basel II) as on 31.03.2018

1. Capital Adequacy

(a) Bank maintains capital to cushion the risk of loss in value of exposure, businesses etc. so as to protect the interest of depositors, general creditors and stake holders against any unforeseen losses. Bank has a well defined Internal Capital Adequacy Assessment Process (ICAAP) policy to comprehensively evaluate and document all risks and to provide appropriate capital so as to evolve a fully integrated risk/ capital model for regulatory capital.

In line with the guidelines of the Bank of Botswana, the Bank has adopted Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Standardized Measurement Method for Market Risk for computing CRAR.

The capital requirement is affected by the economic environment, regulatory requirement and by the risk arising from bank's activities. Capital Planning exercise of the bank is carried out every year to ensure the adequacy of capital at the times of changing economic conditions, even at the time of economic recession. In capital planning process the bank reviews:

- Current capital requirement of the bank
- The targeted and sustainable capital in terms of business strategy, policy and risk appetite.

The future capital planning is done on a three-year outlook and is revised on an annual basis. The policy of the bank is to maintain capital as prescribed in the ICAAP Policy (minimum 15% Capital Adequacy Ratio). At the same time, Bank has a policy to maintain capital to take care of the future growth in business so that the minimum capital required is maintained on continuous basis. On the basis of the estimation bank raises capital in Tier-1 or Tier-2 with due approval of its Board of Directors.

(b) Capital requirements for credit risk:

• Portfolios subject to Standardized approach: P1143891 (000)

• Securitizations exposures: Nil

(c) Capital requirements for market risk:

- Foreign exchange risk (including gold): P1712 (000)
- Equity risk: NIL

(d) Capital requirements for operational risk:

• Basic Indicator Approach. P60760 (000)

• The Standardized Approach (if applicable): NA

(e) Common Equity Tier 1, and Total Capital ratios:

- Common Equity Tier I capital to Total RWA: 28.97%
- Tier I capital to Total RWA: 28.97%
- Un impaired capital to total RWA:30.18%

General disclosures in respect of Credit Risk

The policy of the bank for classifying bank's loan assets is as under:

NON PERFORMING ASSETS (NPA): A non performing asset (NPA) is a loan or an advance where:

I. Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

II. The account remains 'out of order' in respect of an Overdraft (OD),

III. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

An OD account is treated as **'out of order'** if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for more than 90 days. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest and/or charges debited during the same period, these accounts are treated as **'out of order'**.

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

Non Performing Assets of the Bank is further classified in to three categories as under:

► Sub standard Assets

A sub standard asset is one which has remained NPA for a period less than or equal to 12 months.

► **Doubtful Assets**

An asset would be classified as doubtful if it has remained in the sub standard category for 12 months.

► **Loss Assets**

A loss asset is one where loss has been identified by the bank wherein the realizable value of security available is less than 10% of balance outstanding.

Strategies and Processes:

The bank has a well defined Loan Policy covering the important areas of credit risk management as under:

- Exposure ceilings to different sectors of the economy, different types of borrowers and their group and industry.
- Discretionary Lending Powers for different levels of authority of the bank
- Processes involved in dispensation of credit – pre-sanction inspection, rejection, appraisal, sanction, documentation, monitoring, and recovery.
- Fixation of pricing.

The Credit Risk philosophy, architecture and systems of the bank are as under:

Credit Risk Philosophy:

- To optimize the risk and return envisaged in order to see that the Economic Value Addition to Shareholders is maximized and the interests of all the stakeholders are protected alongside ensuring corporate growth and prosperity with safety of bank's resources.
- To regulate and streamline the financial resources of the bank in an orderly manner to enable the various channels to incline and achieve the common goal and objectives of the Bank.
- To instill a sense of credit culture enterprise-wide and to assist the operating staff.
- To provide need-based and timely availability of credit to various borrower segments.
- To strengthen the credit management skills namely pre-sanction, post-sanction monitoring, supervision and follow-up measures so as to promote a healthy credit culture and maintain quality credit portfolio in the bank.

- To deal with credit proposals more effectively with quality assessment, speedy delivery, in full compliance with extant guidelines.
- To comply with various regulatory requirements, Exposure norms, Income Recognition and Asset Classification guidelines and Capital Adequacy.

Architecture and Systems of the Bank:

- A Sub-Committee of Directors has been constituted by the Board to specifically oversee and co-ordinate Risk Management functions in the bank.
- Credit Policy Committee has been set up to formulate and implement various credit risk strategy including lending policies and to monitor Bank's Enterprise-wide Risk Management function on a regular basis.
- Formulating policies on standards for credit proposals, financial covenants, rating standards and benchmarks.
- Enforcement and compliance of the risk parameters and prudential limits set by the Board/regulator etc.,
- Laying down risk assessment systems, developing MIS, monitoring quality of loan portfolio, identification of problems and correction of deficiencies.
- Improving credit delivery system upon full compliance of laid down norms and guidelines.

The Scope and Nature of Risk Reporting and / or Measurement System:

The Bank has in place a robust credit risk rating system for its credit exposures. An effective way to mitigate credit risks is to identify potential risks in a particular asset, maintain healthy asset quality and at the same time impart flexibility in pricing assets to meet the required risk-return parameters as per the bank's overall strategy and credit policy.

Quantitative Disclosures in respect of Credit Risk:-

(a) Total Gross Credit Risk Exposure:

(P000)

Particulars	Fund Based	Non-Fund Based
Total Gross Credit Risk : (Exposure)	1 143 891	35201

(b) Industry type distribution of exposures (Consolidated):

Industry	Amt (P000)
Agriculture Forestry Fishing	660
Mining and Quarrying	48161
Manufacturing	162808
Construction	12313
Commercial Real Estate	194834
Tourism and Hotels	70273
Transport and Storage	7645
Trade, Restaurants and bars	387349
Business Services	40322
Residential Property	125402
Motor Vehicles	25198
Household goods	68926
Total Loans & Advances	1143891

(c) Amount of NPAs (Gross):

Sr. No.	Asset Category	Amount in P 000
(a)	**NPAs (Gross):**	100129
	Substandard	5102
	Doubtful	9646
	Loss	85381
(b)	Net NPA's	1776
(c)	**NPA Ratios**	
	Gross NPAs to gross advances	8.75%

	Net NPAs to net advances	0.17%
(e)	**Movement of NPA(Gross)**	
	Opening balance	46400
	Additions	57710
	Reductions	3981
	Closing balance	100129
(f)	**Specific Provision**	
	Opening balance	40361
	Provision made during the year	57992
	Write off(Deduction & Exch Diff)	-
	Write back of excess provision / any other adjustment	-
	Closing balance	98353
(g)	**General Provision**	
	Opening balance	9302
	Provision made during the year	--
	Write off	--
	Write back of excess provision	--
	Closing balance	9302
(h)	**Non Performing Investments**	
	Amount of Non-Performing Investments	NIL
	Amount of provisions held for non-performing investment	NIL

Credit Risk: Disclosures for Portfolios Subject to the Standardized Approaches

The exposure amounts after risk mitigation subject to Standardized Approach (rated and unrated) in the following three major risk buckets are as under:

Category of Risk Weight	**TOTAL (Amt In 000)**
Below 100% risk weight	187245
100% risk weight	704871
More than 100 % risk weight	0
Total Fund based exposure	892116

Non fund Based exposure 100% risk weight	19809
Total Exposure (FB+NFB)	911925

Credit risk mitigation: Disclosures for Standardized Approaches

Bank obtains various types of securities (which may also be termed as collaterals) to secure the exposures (Fund based as well as Non-Fund based) on its borrowers. Wherever corporate guarantee is available as credit risk mitigant, the credit risk is transferred to the guarantor to the extent of guarantee available. Generally following types of securities (whether as primary securities or collateral securities) are taken:

1. Moveable assets like stocks, moveable machinery etc.
2. Immoveable assets like land, building, plant & machinery.
3. Book debts.
4. Shares and debentures of listed companies.
5. Bank's own deposits
6. Cash Margin against Non-fund based facilities.
7. Life Insurance Policies.
8. Debt Securities issued by Bank

The securities mentioned at Sr. No. 5 to 8 above are recognized as Credit Risk Mitigants for on-balance sheet netting under Basel-II standardized approach for credit risk, following Comprehensive Approach of Basel II norms.

The main types of guarantors against the credit risk of the bank are:

Individuals (Personal guarantees)

Corporate

CRM securities are also taken in non fund based facilities like Guarantees and Letters of Credit.

Operational risk

Bank has adopted the Basic Indicator Approach to compute the capital requirements for Operational Risk. Under Basic Indicator Approach, average income of last 3 years is taken into consideration for arriving at Risk Weighted Assets.

Table 22

Basel III Common Equity Tier I Disclosure Template

	Common Equity Tier I capital: instruments and reserves	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	181000
2	Retained earnings	101242
3	Accumulated other comprehensive income(and other reserves)	
4	*Directly issued capital subject to phase out fromCET1 CAPITAL(only applicable to non-joint stock companies)*	
5	Common share capital issued by subsidiaries and held by third parties(amount allowed in group CET1 CAPITAL)	
6	**Common Equity Tier I capital before regulatory adjustments**	282242
	Common Equity Tier I 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)	
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	Short fall of provisions to expected losses	
13	Securitisation gain on sale (as set out in paragraph562of Basel II frame work)	
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 above10% threshold)	
20	Mortgage servicing rights(amount above10%threshold)	
21	Deferred tax assets arising from temporary differences (amount above10%threshold,net of related tax liability)	
22	Amount exceeding the15%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	
27	Regulatory adjustments applied to Common Equity Tier I due to insufficient Additional Tier I and Tier II to cover deductions	
28	**Total regulatory adjustments to Common equity Tier I**	
29	**Common Equity Tier I capital(CET1 CAPITAL)**	282242
	Additional Tier I capital :instruments	
30	Directly issued qualifying Additional Tier I 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 I*	
34	Additional Tier Instruments(andCET1 CAPITAL instruments not included in row5) issued by subsidiaries and held by third parties(amount allowed in group AT1)	
35	*Of which: instruments issued by subsidiaries subject to phase out*	
36	**Additional Tier I capital before regulatory adjustments**	
	Additional Tier I capital: regulatory adjustments	
37	Investments in own Additional Tier I instruments	
38	Reciprocal cross-holdings in Additional Tier I 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 than10% of the issued common share capital of the entity (amount above10%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	
42	Regulatory adjustments applied to Additional Tier I due to insufficient Tier II to cover deductions	
43	**Total regulatory adjustments to Additional Tier I capital**	
44	**Additional Tier I capital(AT1)**	
45	**Tier I capital(T1=CET1 CAPITAL+AT1)282 242**	
	Tier II capital: instruments and provisions	
46	Directly issued qualifying Tier II instruments plus related stock surplus	
47	*Directly issued capital instruments subject to phase out from Tier II*	
48	Tier II instruments(andCET1 CAPITALandAT1instruments not included in rows 5or 34)issued by subsidiaries and held by third parties(amount allowed in group Tier II)	
49	*Of which: instruments issued by subsidiaries subject to phase out*	
50	Provisions	11876
51	**Tier II capital before regulatoryadjustments**	**11876**
	Tier II capital: regulatory adjustments	

52	Investments in own Tier II instruments	
53	Reciprocal cross-holdings in Tier I 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 than10% of the issued common share capital of the entity (amount above the10% 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	
57	**Total regulatory adjustments to Tier II capital**	
58	**Tier II capital(T2)**	11876
59	**Total capital(TC=T1+T2)**	294 118
60	**Total risk-weighted assets**	974 395
	Capital ratios and buffers	
61	Common Equity Tier I (as a percentage of risk weighted assets)	28.97%
62	*Tier I(as a percentage of risk-weighted assets)*	28.97%
63	*Total capital (as a percentage of risk weighted assets)*	30.18%
64	*Institution specific buffer requirement (minimumCET1 CAPITAL requirement plus capital conservation buffer plus counter cyclical buffer requirements plus G-SIB buffer requirement ,expressed as a percentage of risk weighted assets)*	
65	*Of which :capital conservation buffer requirement*	
66	*Of which: bank specific counter cyclical buffer requirement*	
67	*Of which: G-SIB buffer requirement*	
68		
	Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)	
	National Common Equity Tier I minimum ratio(if different from Basel III minimum)	13.97%
70	*National Tier I minimum ratio(if different from Basel III minimum)*	13.97%
71	*National total capital minimum ratio(if different from Basel III minimum)*	
	Amounts below the thresholds for deduction(before risk-weighting)	
72	*Non-significant investments in the capital of other financials*	
73	*Significant investments in the 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)*	
	Applicable caps on the inclusion of provisions in Tier II	
76	*Provisions eligible for inclusion in Tier II in respect of exposures subject to standardized approach (prior to application of cap)*	
77	*Cap on inclusion of provisions in Tier II under standardized approach*	
78	*Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach(prior to application of cap)*	

79	*Cap for inclusion of provisions in Tier II under internal ratings-based approach*	
Capital instruments subject to phase-out arrangements(only applicable between 1Jan2015 and 1Jan2020)		
80	*CurrentcaponCET1 CAPITAL instruments subject to phase out arrangements*	
81	*AmountexcludedfromCET1 CAPITAL 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 AT1due 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)*	

Table 25

	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**
	As at period end	**As at period end**
Assets		
Cash and balances at central banks	71,232	71,232
Items in the course of collection from other banks	144,028	144,028
Trading port folio assets	239,894	239,894
Financial assets designated at fair value		
Derivative financial instruments		
Loans and advances to banks		
Loans and advances to customers	1,045,442	1,045,442
Reverse repurchase agreements and other similar Secured lending	191,965	191,965
Available for sale financial investments		
Current and deferred tax assets	10	10
Prepayments, accrued income and other assets	1,433	1,433
Investments in associates and joint ventures		
Goodwill and intangible assets		
Property, plant and equipment	4,919	4,919
Total assets	**1,698,923**	**1,698,923**
Liabilities		
Deposits from banks		
Items in the course of collection due to other banks	9,597	9,597
Customer accounts	1,391,983	1,391,983
Repurchase agreements and other similar secured borrowing		
Trading portfolio liabilities		

Financial liabilities designated at fair value		
Derivative financial instruments		
Debt securities in issue		
Accruals, deferred income and other liabilities	5,799	5,799
Current and deferred tax liabilities		
Subordinated liabilities		
Provisions		
Retirement benefit liabilities		
Total liabilities	**1,407,379**	**1,407,379**
Shareholders' Equity		
Paid-in share capital	181,000	181,000
Retained earnings	101,242	101,242
Accumulated other comprehensive income	9,302	9,302
Total shareholders' equity	**291,544**	**291,544**

Table 26

Expanded Regulatory Balance Sheet

	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Reference**
	As at periodend	**As at periodend**	
Assets			
Cash and balances at central banks	71,232	71,232	
Items in the course of collection from other banks	144,028	144,028	
Trading portfolio assets	239,894	239,894	
Financial assets designated at fair value			
Derivative financial instruments			
Loans and advances to banks			
Loans and advances to customers	1,045,442	1,045,442	
Reverse re purchase agreements and other similar secured lending	191,965	191,965	
Available for sale financial investments			
Current and deferred tax assets	10	10	
Prepayments, accrued income and other assets	1,433	1,433	
Investments in associates and joint ventures			
Good will and intangible assets			
of which goodwill			a

of which other intangibles(excluding MSRs)			b
of which MSRs			c
Property, plant and equipment	4,919	4,919	
Total assets	**1,698,923**	**1,698,923**	
Liabilities			
Deposits from banks			
Items in the course of collection due to other banks	9,597	9,597	
Customer accounts	1,391,983	1,391,983	
Repurchase agreements and other similar secured borrowing			
Trading portfolio liabilities			
Financial liabilities designated at fair value			
Derivative financial instruments			
Debt securities in issue			
Accruals, deferred income and other liabilities	5,799	5,799	
Current and deferred tax liabilities			
Of which DTLs related to goodwill			d
Of which DTLs related to intangible assets (excluding MSRs)			e
Of which DTLs related to MSRs			f
Subordinated liabilities			
Provisions			
Retirement benefit liabilities			
Total liabilities	**1,407,379**	**1,407,379**	
Shareholders' Equity			
Paid-in share capital	181,000	181,000	
of which amount eligible for CET1 CAPITAL	181,000	181,000	h
of which amount eligible for AT1	181,000	181,000	i
Retained earnings	101,242	101,242	
Accumulated other comprehensive income	9,302	9,302	
Total shareholders' equity			

Table 27
Extract of Basel III common disclosure template (with added column)

Common Equity Tier I capital: instruments and reserves			
		Component of regulatory capital reported by bank	Source based on Reference numbers /letters of the balance sheet under the regulatory scope of consolidation fromstep2.
1	Directly issued qualifying common share(and equivalent form on-joint stock companies) capital plus related stock surplus.	181,000	
2	Retained earnings	101,242	
3	Accumulated other comprehensive income(and other reserves)	9,302	
4	*Directly issued capital subject to phase out from CET1 CAPITAL(only applicable to non- joint stock companies)*		
5	Common share capital issued by subsidiaries and held by third parties (amount) allowed in groupCET1 CAPITAL)		
6	**Common Equity Tier I capital before regulatory adjustments**	282242	
7	Prudential valuation adjustments		
8	Goodwill(net of related tax liability)		a-d