First Capital BANK

Basel Pillar 3 Disclosures

For the Quarter Ended 30 September 2018

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1.0 Background and Scope

First Capital Bank's Pillar 3 disclosure is made in accordance with the requirements of the revised capital directive, which is based on Basel II, and became effective 1st January 2016, read together with the Basel Committee on Banking Supervision's Revised Pillar 3 disclosure requirements issued on 28 January 2015.

Pillar III is vital in providing information to the market about the bank's capital; risk assessment and management; and the underlying methodologies. The key objective of Pillar III is to allow market discipline to operate as sharing of information facilitates assessment of the bank by other parties such as investors, analysts, customers, other banks, and ratings agencies, leading to improved transparency and corporate governance . This will enhance market discipline, efficiency and confidence.

2.0 Regulatory Capital Requirements

2.1 Capital Structure

Bank of Botswana sets and monitors the capital requirements for the Bank. The revised capital directive, which is based on Basel II, became effective 1st January 2016. It requires the Bank to maintain a minimum of 15 percent of risk weighted assets covering operational, market and credit risks. The Bank's regulatory capital is analysed into two parts:-

- Tier I capital, which includes paid-up stated capital, retained earnings and other reserves less goodwill or any intangible asset.
- Tier II capital, which includes property revaluation reserve, loan loss reserve, general provisions and subordinated debt.

First Capital Bank Regulatory Capital Structure for the quarter ended 30 September 2018:

Basel III Common Equity Tier I Disclosure Template

Common Equity Tier I capital: instruments and reserves (P'000)		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	90 000
2	Retained earnings	72 595
3	Accumulated other comprehensive income (and other reserves)	-
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 group CET1 CAPITAL)	-
6	**Common Equity Tier I capital before regulatory adjustments**	**162 595**
	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)	8 128
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 (as set out in paragraph 562 of Basel II framework)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-

17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27.a	Regulatory adjustments applied to Common Equity Tier I due to insufficient Additional Tier I and Tier II to cover deductions	-
27.b	Transitional IFRS9 Adjustment Amount Added Back to CET1	12 679
28	**Total regulatory adjustments to Common equity Tier I**	**4 551**
29	**Common Equity Tier I capital (CET1 CAPITAL)**	**167 146**
	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 I instruments (and CET1 CAPITAL instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-
36	**Additional Tier 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 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	-
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)**	**167 146**
	Tier II capital: instruments and provisions	
46	Directly issued qualifying Tier II instruments plus related stock surplus	39 000
47	*Directly issued capital instruments subject to phase out from Tier II*	-
48	Tier II instruments (and CET1 CAPITAL and AT1 instruments not included in rows 5 or 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*	-
	Unpublished Current Year's Profits	29 461
50	Provisions	16 321
51	**Tier II capital before regulatory adjustments**	**84 782**
	Tier II capital: regulatory adjustments	**-**
52	Investments in own Tier II instruments	-
53	Reciprocal cross-holdings in Tier II instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold).	-
55	Significant investments in the First 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)**	**84 782**
59	**Total capital (TC = T1 + T2)**	**251 928**
60	**Total risk-weighted assets**	**1 677 280**
	Capital ratios and buffers	
61	Common Equity Tier I (as a percentage of risk weighted assets)	9.97%
62	*Tier I (as a percentage of risk-weighted assets)*	9.97%
63	*Total capital (as a percentage of risk weighted assets)*	15.02%
64	*Institution specific buffer requirement (minimum CET1 CAPITAL requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)*	-
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 I available to meet buffers (as a percentage of risk weighted assets)	
69	*National Common Equity Tier I minimum ratio (if different from Basel III minimum)*	4.50%
70	*National Tier I minimum ratio (if different from Basel III minimum)*	7.50%
71	*National total capital minimum ratio (if different from Basel III minimum)*	15.00%
	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 standardised approach (prior to application of cap)*	-
77	*Cap on inclusion of provisions in Tier II under standardised 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 1 Jan 2015 and 1 Jan 2020)	
80	*Current cap on CET1 CAPITAL instruments subject to phase out arrangements*	-
81	*Amount excluded from CET1 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 AT1 due to cap (excess over cap after redemptions and maturities)*	-

84	*Current cap on T2 instruments subject to phase out arrangements*	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-

2.2 Capital Adequacy

2.2.1 Qualitative Disclosures

First Capital Bank Limited (First Capital) continues to maintain good capital position. The bank is in continuous monitoring of the capital adequacy requirements. It has issued an additional sub debt of P15 million in July 2017 which is Basel II Tier 2 compliant.

For the Quarter ended 30 September 2018, the bank's capital ratios were well above the minimum prudential ratios as outlined below;

2.2.2 Quantitative disclosures

Portfolio	**Approach**	**Amount (P'000)**	**Capital Requirement**
Credit Risk	Simple	1 539 115	230 867
Market Risk	Standardised	21 621	3 243
Operational Risk	Basic Indicator	116 544	17 482
TOTAL		1 677 280	251 592

a) Capital requirements for Credit Risk

First Capital Bank uses the Simple Approach as per the Basel II framework to calculate Credit RWA. The RWA is the addition of the totals of the On-balance and Off-balance sheet subject to various credit risk mitigants.

Portfolio	**Exposures**	**Risk-Weights of Original Counterparties**	**Risk Weighted Assets**
On-Balance Sheet Exposures	**P'000**		**P'000**
Cash	33,829	0%	-
Balances with Bank of Botswana	162,587	0%	-
Claims on Sovereign or Central banks	7,482	150%	11,223
Balances with domestic banks	127,236	20%	25,447
Balances with Domestic Public Sector Entities	19,490	20%	3,898
Balances with foreign bank(credit rating AAA to AA-)	334,310	20%	66,862
Balances with foreign bank (credit rating BBB+ to BB-)	171,078	100%	171,078

Commercial loans (credit rating BBB+ to BB-)	738,069	100%	738,069
Residential mortgage loans	38,108	35%	13,338
Other non-qualifying Residential Mortgages	20,517	75%	15,388
Past due (qualifying mortgage loans) for more than 90 days and specific provision is less than 20% of the loan	32,490	150%	48,735
Past due (qualifying mortgage loans) for more than 90 days and specific provision is more than 20% of the loan.	8,606	100%	8,606
Past due for more than 90 and specific provision is less than 20% of loan	4,643	50%	2,322
Past due exposure where specific provision is equal to or greater than 20% but less than 50% of the loan.	510	50%	255
Past due exposure where specific provision is equal to 50% or more of the loan.	434,782	75%	326,086
Retail loans	32,490	150%	48,735
Total On-Balance Sheet Exposures	**2,133,736**		**1,431,305**

Off-Balance Sheet Exposures	30,888	100%	30,888
Other assets	29,976	100%	29,976
Property, plant and equipment	128,012	20%	25,602
Commitments – Original maturity up to 1 year	21,343	100%	21,343
Commitments – Direct assistance	112,111	0%	0
Performance and bid bonds	30,888	100%	30,888
Total Off-Balance Sheet Exposures	**322,329**		**107,809**
Total credit risk weighted assets	**2,456,065**		**1,539,115**

b) Capital requirements for market risk

The bank's market risk is calculated using the Standardised Approach. A market risk capital charge is computed for foreign exchange risks in the Banking book. The sum is then calibrated by a risk weight factor 6.7.

Risk	**Amount**	**Risk Weighted Factor**	**RWA**
	P'000		**P'000**
Foreign exchange risk	3,227	6.7	21,621

c) Capital requirement for Operational Risk

The bank has adopted the Basic Indicator Approach (BIA) in computing the Operational Risk. The regulatory operational risk capital charge risk is equal to 15% of the average of the previous three years bank's positive annual gross income. The three year average gross income is calculated on the basis of the last three 12 month's monthly observations at the end of the financial year. Where audited financials are not available, submitted returns are used.

Year	Gross Income
	P'000
1	89 212
2	110 422
3	148 259
Total Gross Income	**347 893**
operational risk factor -denoted alpha (α)	15%
Aggregate Gross Income multiplied by α	52 184
No. of years with Positive Gross Income (n)	3
Operational Risk Capital Charge: BIA	17 395
Risk weight factor	6.7
Operational risk weight assets	**116 544**

d) Total and Tier I Capital ratios:

Capital	Transitional Adjustment Capital Ratios	Fully Loaded Capital Ratios
Tier 1 Capital	167,146	154,467
Tier II Capital	84,782	84,782
Total Qualifying Capital	**251,928**	**239,249**
Total Risk Weighted Asset	**1,677,280**	**1,677,280**
Tier I Capital Ratio	**9.97%**	**9.21%**
Total Capital Ratio	**15.02%**	**14.26%**

Table 25: Regulatory and IFRS publication for First Capital Bank

There is no difference between regulatory and IFRS publication for First Capital

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	As at period end 30 September 2018	As at period end 30 September 2018
Assets	P'000	P'000
Cash and balances at central banks	122,433	122,433
Items in the course of collection from other banks	763,685	763,685
Trading portfolio assets	-	-

Financial assets designated at fair value	107,482	107,482
Derivative financial instruments	-	-
Loans and advances to banks	-	-
Loans and advances to customers	1,441,311	1,441,311
Reverse repurchase agreements and other similar secured lending	73,983.47	73,983
Available for sale financial investments	-	-
Current and deferred tax assets	-	-
Prepayments, accrued income and other assets	30,888	30,888
Investments in associates and joint ventures	-	-
Goodwill and intangible assets	8,128	8,128
Property, plant and equipment	29,976	29,976
Total assets	**2,577,887**	**2,577,887**
		Liabilities
Deposits from banks	75,019	75,019
Items in the course of collection due to other banks	-	-
Customer accounts	2,242,904	2,242,904
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	18,215	18,215
Current and deferred tax liabilities	4,692	4,692
Subordinated liabilities	45,000	45,000
Provisions	-	-
Retirement benefit liabilities	-	-
Total liabilities	**2,385,831**	**2,385,831**

Shareholders' Equity		
Paid-in share capital	90,000	90,000
Retained earnings	102,056	102,056
Accumulated other comprehensive income	-	-
Total shareholders' equity	**192,056**	**192,056**

Table 26: Expanded Regulatory Balance Sheet

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period end	As at period end	
Assets			
Cash and balances at central banks	122,433	122,433	
Items in the course of collection from other banks	763,685	763,685	
Trading portfolio assets	-	-	
Financial assets designated at fair value	-	-	
Derivative financial instruments	-	-	
Loans and advances to banks	-	-	
Loans and advances to customers	1,441,311	1,441,311	
Reverse repurchase agreements and other similar secured lending	181,465	181,465	
Available for sale financial investments	-	-	
Current and deferred tax assets	-	-	
Prepayments, accrued income and other assets	30,888	30,888	
Investments in associates and joint ventures	-	-	
Goodwill and intangible assets	-	-	
of which goodwill	-	-	a
of which other intangibles (excluding MSRs)	8,128	8,128	b
of which MSRs	-	-	c
Property, plant and equipment	29,976	29,976	
Total assets	**2,577,887**	**2,577,887**	
Liabilities			
Deposits from banks	75,019	75,019	
Items in the course of collection due to other banks	-	-	
Customer accounts	2,242,904	2,242,904	
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	18,215	18,215	
Current and deferred tax liabilities	75,019	75,019	
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	45,000	45,000	
Provisions	-	-	
Retirement benefit liabilities	-	-	
Total liabilities	**2,385,831**	**2,385,831**	
Shareholders' Equity			
Paid-in share capital			
of which amount eligible for CET1 CAPITAL	90,000	90,000	h
of which amount eligible for AT1	-	-	i
Retained earnings	102,056	102,056	
Accumulated other comprehensive income	-	-	
Total shareholders' equity	**192,056**	**192,056**	

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

Common Equity Tier I capital: instruments and reserves			
P'000		Component of regulatory capital reported by bank	Source based on Reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2.
1	Directly issued qualifying common share (and equivalent for non-joint stock	90 000	h
2	Retained earnings	72 595	
3	Accumulated other comprehensive income (and other reserves)		
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 group CET1 CAPITAL)		
6	**Common Equity Tier I capital before regulatory adjustments**	162 595	
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	8 128	a-d

Table 28: Main features of regulatory capital instruments

The bank has issued subordinated debt instruments as outlined in the table below.

1	Issuer	First Capital Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not Applicable
3	Governing law(s) of the instrument	Botswana Law
	Regulatory treatment	Subordinated debt
4	Transitional Basel III rules	Not Applicable
5	Post-transitional Basel III rules	Not Applicable

6	Eligible at solo/group/group and solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	44 580
9	Par value of instrument	45,000
10	Accounting classification	Subordinated debt
11	Original date of issuance	18/01/2012 01/07/2017
12	Perpetual or dated	Dated
13	Original maturity date	18/01/2022 07/01/2027
14	Issuer call subject to prior supervisory approval	Non-callable
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
	Coupons / dividends	Coupon
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Floating rate earning interest at 70 basis points below the bank rate for 5 years and there after 20 basis point below the basis point Floating rate earning interest at 270 basis points above the bank rate
19	Existence of a dividend stopper	Not Applicable

20	Fully discretionary, partially discretionary or mandatory	Not Applicable
21	Existence of step up or other incentive to redeem	Not Applicable
22	Noncumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Not Applicable
24	If convertible, conversion trigger (s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable
30	Write-down feature	Not Applicable
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated notes
36	Non-compliant transitioned features	Not Applicable
37	If yes, specify non-compliant features	Not Applicable

3.0 Credit Risk

Table 30 (a): Qualitative Disclosures

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and its investment in securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreements.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established by the Bank of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Impairment policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when Bank Credit determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Net exposure to credit risk without taking into account any collateral or other credit enhancements

In respect of certain financial assets, the Bank has legally enforceable rights to offset them with financial liabilities. However, in normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, the financial assets are not offset against the respective financial liabilities for financial reporting purposes.

Table 30 (b): Quantitative Disclosures

Exposures by major types of credit exposures (P'000)

Risk Type	Domestic	International	Total Exposure
Claims on Domestic & Foreign Banks	-	-	-
Claims on Corporates	792 767	128 016	920 783
Claims included in the Retail Portfolios	434 782	-	434 782
Claims Secured by Residential Mortgage Property	59 688	-	59 688
Claims on Public Sector Entities (PSEs) - one risk weight less favourable than sovereign	58 326	-	58 326
TOTAL	**1 345 563**	**128 016**	**1 473 579**

Geographic Distribution

Category	As at 31 March 2018
Botswana	1 229 190
Malawi	116 069
Zambia	112 789
Mauritius	15 530
Total Gross Exposures	**1 473 579**

Industry or counter-party type distribution of exposures, broken down by major types of credit exposures

Industry	As at 30 September 2018
Central Government	-
Local Government	-
Public Non-Financial Corporations	-
Agriculture, Forestry, Fishing	32 171
Mining and Quarrying	1
Manufacturing	65 871
Construction	119 973
Commercial real estate	163 910
Electricity	9 916
Water	320
Telecommunication and post	2 848
Tourism and hotels	32 821
Transport and storage	57 178
Trade, restaurants and bars	195 926
Business services	115 845
Other community, social and personal services	65 544
Residential property (owner occupied)	47 125
Residential property (rented)	12 564
Personal loans	268 532
Motor vehicle	7 395
Household goods	-
Credit card loans	-
Non-Profit Institutions Serving Households	-

Non-Residents	112 485
Finance companies	163 153
TOTAL	**1 473 579**

Residual contractual maturity breakdown by major types of credit exposures (P'000)

	Claims on Retail & Corporates	Claims on Domestic & Foreign Banks	Total Exposure
Overdrafts	270 765	-	270 765
Loans			
>0 to 6 months	66 177	-	66 177
>6 months to 12 months	182 393	-	182 393
>1 to 2 years	76 028		76 028
>2 to 3 years	214 314	-	214 314
>3 to 5 years	472 390	-	472 390
>5 to 7 years	60 955	-	60 955
>7 to 10 years	83 035	-	83 035
Over 10 years	47 523	-	47 523
TOTAL	**1 473 579**	**-**	**1 473 579**

By major industry or counter party type: Amount of Impaired loans and if available, Past Due Loans (P'000)

Impairments/Past due	Total Value of Past Due Loans	Total Value of Non-Performing Loans
Central Government	-	-
Local Government	-	-
Public Non-Financial Corporations	-	-
Agriculture, Forestry, Fishing	-	-
Mining and Quarrying		1,184
Manufacturing	4,755	-
Construction	64	8,868
Commercial real estate	18,108	3,184
Electricity	932	145
Water	-	-
Telecommunication and post	-	-
Tourism and hotels	-	104
Transport and storage	-	1,370
Trade, restaurants and bars	7,091	30,624
Business services	-	2,326
Other community, social and personal services	-	124
Residential property (owner occupied)	-	1,064
Residential property (rented)	306	1,427
Personal loans	28,585	10,755
Motor vehicle	75	-
Household goods	-	-
Credit card loans	-	-
Non-Profit Institutions Serving Households	-	-

Non-Residents	-	-
Finance companies	-	1
TOTAL	**59,916**	**61,176**

Impaired/ Past Due Loans by Geography, including the amounts of specific and general provisions for the Geography (P'000)

Geographical	Past Due	Non-performing	Specific Provision	General Provision
International	-	-	-	-
Domestic	59,916	61,176	15,437	16 321
TOTAL	**59,916**	**61,176**	**15,437**	**16 321**

Exposure amount subject to the standardised approach (rated and unrated)

As at 30 September 2018 (P'000)	Rated	Unrated	Total
Banks and Government	1	-	1
Other	58 326	1 415 253	1 473 579
Total Gross Exposures	58 326	1 415 253	1 473 579

3.1 Credit Risk Mitigation

Table 32: The General Qualitative disclosure requirement with respect to credit risk mitigation

The Board of Directors of the Bank have delegated responsibility for the management of credit risk to their Credit Committee. A separate credit department, reporting to the Credit Committee is responsible for oversight of the credit risk, including:-

- *Formulating credit policies*, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to Head of Credit, Chief Executive Officers. Larger facilities require approval by the Local Credit Committee and the Board Credit Committee as appropriate.
- *Reviewing and assessing credit risk.* The Credit Department assesses all credit exposures prior to facilities being committed to customers by Relationship Managers concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Reviewing compliance* of business units with agreed exposure limits.

Types of Collateral

The primary consideration in the assessment of any lending opportunity should be the borrower's financial position and ability to repay from own resources and cash flow, credit mitigation instruments are used, where appropriate, to reduce the Bank's lending risk resulting in security against the majority of exposures. These include financial or other collateral, netting or set-off agreements, guarantees or cash collateral. The collateral types are driven by portfolio, product or counterparty type:

- The underlying assets financed secure mortgage and instalment sale finance portfolios.
- Personal loans and overdrafts exposures are generally unsecured or secured via guarantees and sureties as well as by salary deduction.
- Commercial and Corporate credit facilities are mostly secured by the assets of the counterparties and cash flow of the projects.

Concentration Risk

Concentration risk means that the portfolio has individual or small groups of exposures, which are large in relation to the rest of the portfolio or in relation to the capital of the Bank and the default or loss of which would have a detrimental effect on the performance of the entire portfolio. The portfolio could, for example be concentrated in a few borrowers or the portfolio could be concentrated in one or more industries or sectors or the portfolio could be concentrated in a customer segment or the portfolio could be concentrated in new or existing borrowers. **Credit concentration** means a limit or exposure to a single customer or group of customers

- Concentration Risk is managed in the credit portfolios in accordance with the policy and directives of Bank of Botswana. Besides, the Board shall approve credit risk strategy spelling out the Bank's plan to grant credit based on various customer segments and products, economic sectors, geographical location, currency and maturity. The target market within each lending segment preferred level of diversification and/or concentration should be defined. Each portfolio should must be measured and reported to the board credit committee every quarter.

  Such Concentrations include

  - Significant exposure to an Individual counterparty or a group of related counterparties as prescribed by BOB
  - Credit Exposure to counterparties in the same economic sector

Table 33: General disclosures related to counter party credit risk

(a) Qualitative Disclosures

Counterparty Credit risk is the risk that a counterparty fails to meet its contractual obligations. The risk that counterparties might default on their obligations is monitored on an on-going basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and the volatility of the fair value of trading instruments.

The counterparty credit risk management ensures that the risk is measured, analysed and monitored appropriately within specified and approved limits in line with the bank's risk appetite guidelines as mandated by the board.

The Board Credit Committee utilises the approved risk quantifying methodologies and assessments to assign individual counterparty risk limits as guided. Counterparty exposure monitoring is done by the relevant credit function on a continuous basis.

(b) Quantitative Disclosures

The bank aligns the credit risk measurement standard with the counterparty credit risk and set limits are adhered to.

4.0 Market Risk

(a) Qualitative Disclosures

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and other comprehensive income prices will affect the Bank's income or the value of its holding of financial instruments. The objective is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

The treasury department ensures the following:-

- Setting the foreign exchange risk management strategy and tolerance levels.
- Ensuring that effective risk management systems and internal controls are in place.
- Monitoring significant foreign exchange exposure.
- Ensuring that foreign exchange operations are supported by adequate management information systems which complement the risk management strategy.
- Reviewing the policies, procedures and currency limits regularly in line with changes in the economic environment.

The ALCO regularly monitors the controls put in place by the treasury department, which are approved and reviewed by the Board from time to time.

(b) Quantitative Disclosures

The capital requirement for:

i. Interest rate risk

Interest rate risk is the exposure of Bank's financial condition to adverse movements in interest rates. It arises from timing differences in the maturity or re-pricing of the Bank's assets and liabilities. The Asset and Liability Committee (ALCO) monitors interest rate risk in the Bank.

ALCO considers the bank's sensitivity to interest rate movements and regularly reviews the re-pricing mismatches. The bank's assets are largely funded by short-dated deposits. Pricing is linked to the prime lending rate so that although the assets are long-term, the bank can re-price immediately upon a change in policy rates and this minimizes the mismatch risk. The bank strives to match asset and liability re-pricing positions as far as possible and have positive gap in initial time buckets.

Changes in interest rates impact on the net interest margin of the bank. The Asset and Liability Committee (ALCO) considers the bank's sensitivity to interest rate movements and regularly reviews the repricing mismatches. The bank's assets are largely funded by short-dated deposits. Pricing is linked to the prime lending rate so that although the assets are long-term, the bank can reprice immediately upon a change in policy rates and this minimizes the mismatch risk. The bank strives to match asset and liability re-pricing positions as far as possible and have positive gap in initial time buckets

ALCO monitors the mismatch positions and actively manages the interest rate in the banking book. Pricing of liabilities is guided by ALCO. Business is encouraged to diversify and improve the deposit mix. Continuous efforts are made to identify new sources of deposits and to lengthen the liability profile.

ii. Foreign Exchange Rate Risk Management

Treasury department monitors foreign exchange risk. Foreign exchange rate risk is the potential impact of adverse currency rates movements on earnings and economic value. This involves the risk of the Bank incurring financial loss on settlement of foreign exchange positions taken in both the trading and banking books. The foreign exchange positions arise from the following activities:-

- Trading in foreign currencies through spot, forward and option transactions as a market maker or position taker, including the unhedged position arising from customer driven foreign exchange transactions.
- Holding foreign currency position in the Bank books (e.g. in the form of loans, deposits, cross border investments, etc.).

The bank's exposure to foreign currency risk is minimal. The bank monitors the unhedged position of the bank in all foreign currencies. The regulator limits the net open position to 15% of regulatory capital for a single currency and to 30% of regulatory capital for an aggregate of currencies. The bank's target rating for foreign exchange risk is low and the rating as at 31 December 2017, was low. The net open position on foreign currency of the bank as a percentage of unimpaired capital was 13% in December 2017, up from 8%, for December 2017. The exposures for all the currencies were within the regulatory requirement of +/- 15% for each currency relative to the unimpaired capital. The bank continually monitors the net open position and adheres to net open position limits.

Liquidity and Funding Risk

The bank is exposed to funding liquidity risk. The bulk of the deposit liabilities are short-term yet the bank's assets are long-term in nature. The bank has a policy in place, whose primary objective is to ensure that the bank is able to fund the bank and enable it to continue to operate and meet obligations under adverse circumstances. The bank has established liquidity guidelines that are intended to ensure that there is sufficient liquidity to withstand the potential impact of deposit attrition or diminished liquidity. The guidelines include maintaining an adequate liquidity reserve to cover potential funding requirements and diversified funding sources to avoid overdependence on volatile, less reliable funding markets.

Liquidity risk is managed according to the following principles:

Excess Liquidity – The bank seeks to maintain excess liquidity to meet a broad and comprehensive range of potential cash outflows and collateral needs in a stressed environment. While the regulatory liquid asset ratio (LAR) is 10%, the bank has set for itself a soft limit of 12%, where the 2% buffer provides a cushion during a stressed liquidity environment.

Asset-Liability Management – The bank has an Asset and Liability Committee (ALCO) through which anticipated holding periods of assets and their potential illiquidity in a stressed environment are assessed. Liquidity maturity mismatches and level of funding diversification across markets, products and counterparties are managed, and efforts are made to maintain liabilities of appropriate tenor relative to the asset base.

Liquidity Contingency Plan – The bank maintains a contingency funding plan to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The framework sets the plan of action to fund normal business activity in emergency and stress situations early enough. It provides management with a set of possible actions to address potential liquidity threats. The LCP operates in conjunction with the finance and treasury management policy and the assets and liabilities management (ALM) policy to ensure a coordinated approach to liquidity management.

A liquidity position is produced daily and analysed. Treasury department assess and manage the overall liquidity position of the bank. Liquidity ratios are closely monitored. LAR should be at least 12% and the CD should be at most 85%. The LAR was 14% and sufficiently above the internal limit of 12%; the LDR was 85%, although after considering all available funding it was 75%.

Market Risk under Standardised Approach- Risk Weighted Assets

P'000	**Risk**	**Amount**	**Risk Weighted Factor**	**RWA**
	Foreign exchange risk	3 227	6.7	21 621
	Interest Rate Risk			
	Specific Risk			
	General Risk			
	Total Market RWA			21 621

5.0 Operational risk

Table 35(a): Qualitative Disclosures

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, liquidity, interest rate and market risks such as those arising from legal and regulatory requirements and the requirement to observe generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The objective of the Bank is to manage operational risks so as to balance the avoidance of financial losses and damages to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

i. Management of Operational Risk

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each branch. The responsibility is supported by the development of overall standards in the Bank for the management of operational risks in the following areas:-

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards

Compliance with group standards is supported by a programme of periodic reviews undertaken by Group Internal Audit. The results of Internal Audit reviews are discussed with management of the business unit to which they relate, with summaries submitted to the Audit Committee.

An independent Risk and Compliance function conducts ad-hoc risk assessments on premises, products and processes and reports the findings to business units or respective departments and the Chief Executive Officer. It conducts operational risk assessments as part of the bank-wide risk assessments and reports to the Chief Executive Officer and the Risk Committee on quarterly basis.
The Bank has an operational risk management framework which gives guidelines on how to identify, assess, monitor and control/mitigate operational risk. In addition, there are policies and procedures on operational risk management that are aligned to the overall business strategy and supports continuous improvement of overall risk management in the Bank.

Table 35 (b): Quantitative Disclosures

For Operational Risk capital requirement, the bank uses the Basic Indicator Approach (BIA).
Under the Basic Indicator Approach (BIA), the regulatory operational risk capital charge risk is equal to 15% of the average of the previous three years bank's positive annual gross income. The three year average gross income is calculated on the basis of the last three 12 month's monthly observations at the end of the financial year.

6.0 Remuneration

Table 38: Employee Remuneration

<table>
<tr><th></th><th>Element</th><th>Operation</th></tr>
<tr><td rowspan="2">Fixed Remuneration</td><td>Salary Overseeing Body</td><td>First Capital Bank has finalized formation of the Appointment and Remuneration committee; the committee will hold meetings on a quarterly basis. The remuneration management committee will have oversight on remuneration decisions and the following functions:
• Provides guidance on remuneration policy and strategy
• Ensures fair and robust processes are followed at all times
• Reviews salary increases
• Approves all incentive scheme
• Pension & Benefits

Risk Management :

The following risks are taken into consideration during the remuneration process;
• Risk of losing employees due to remuneration that is below the market
• Unfair and skewed salary structures</td></tr>
<tr><td>Remuneration Process</td><td>The banks remuneration policy ensures that the bank attracts talent and retains it. The bank further participates in the local Salary reviews by external consultants with the aim to establish relevance to the market internal equality of remunerations for staff.

Salaries are reviewed on an annual basis against market information in conjunction with the individual of performance assessment and affordability.

Linking Performance to Remuneration

• The bank uses the balance score card that uses a 5-point rating to measure performance</td></tr>
<tr><td>Employees</td><td>Types Of Employees</td><td>• Permanent
• Temporary/Short term</td></tr>
</table>

Table 38 (a): Senior Management Compensation

Total value of remuneration awards for the current fiscal year	Unrestricted (P'000)	Deferred
Fixed Remuneration		
Cash-based	2 787	-
Shares and share-linked instruments	-	-
Other	-	-
Variable Remuneration		
Cash-Based	224	-
Shares and share-linked instruments	-	-
Other	-	

As at September 30, 2018	Number of Employees	Amount (P'000)
Number of non-senior employees who received variable remuneration during the Financial year	31	156
Number of senior management who received variable remuneration during the financial year	6	224
Number and total amount of sign-on awards made during the financial year	0	0
Number and total amount of severance payments made during the year	2	4
Total pay for non-senior managers	139	4 853
Total pay for senior managers	12	3 011