

---

## Basel Pillar 3 Disclosures

**For the Quarter Ended 30 June 2019**

## Table of Contents

1.0	Background and Scope .....	3
2.0	Regulatory Capital Requirements.....	4
2.1	Capital Structure.....	4
2.2	Capital Adequacy .....	9
2.2.1	Qualitative Disclosures .....	9
2.2.2	Quantitative disclosures .....	9
3.0	Credit Risk.....	18
3.1	Credit Risk Mitigation.....	22
4.0	Market Risk .....	24
5.0	Operational risk .....	26
6.0	Remuneration.....	27

## **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 1<sup>st</sup> 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 1<sup>st</sup> 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 June 2019:*

#### Basel III Common Equity Tier I Disclosure Template

<b>Common Equity Tier I capital: instruments and reserves</b>		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	140,000
2	Retained earnings	96,736
3	Accumulated other comprehensive income (and other reserves)	9,190
4	<i>Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non-joint stock companies)</i>	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 CAPITAL)	-
6	<b>Common Equity Tier I capital before regulatory adjustments</b>	<b>245,926</b>
<b>Common Equity Tier I capital: regulatory adjustments</b>		
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9.a	Other intangibles other than mortgage-servicing rights (net of related tax liability)	8,885
	IFRS 9 Provisions Transitional Adjustments	
9.b	a. Transitional Adjustment Amount Added Back to CET1	4,714
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	Regulatory adjustments applied to Common Equity Tier I due to insufficient Additional Tier I and Tier II to cover deductions	-
28	<b>Total regulatory adjustments to Common equity Tier I</b>	<b>(4,171)</b>
29	<b>Common Equity Tier I capital (CET1 CAPITAL)</b>	<b>241,755</b>
	<b>Additional Tier I capital: instruments</b>	
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	<i>Directly issued capital instruments subject to phase out from Additional Tier I</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	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
36	<b>Additional Tier I capital before regulatory adjustments</b>	-
<b>Additional Tier I capital: regulatory adjustments</b>		
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	<b>Total regulatory adjustments to Additional Tier I capital</b>	-
44	<b>Additional Tier I capital (AT1)</b>	
45	<b>Tier I capital (T1 = CET1 CAPITAL + AT1)</b>	<b>241,755</b>
<b>Tier II capital: instruments and provisions</b>		
46	Directly issued qualifying Tier II instruments plus related stock surplus	196,132
47	<i>Directly issued capital instruments subject to phase out from Tier II</i>	-
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	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
	Unpublished Current Year's Profits	20,057
50	Provisions	3,170
51	<b>Tier II capital before regulatory adjustments</b>	<b>219,359</b>

	<b>Tier II capital: regulatory adjustments</b>	-
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 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	<b>Total regulatory adjustments to Tier II capital</b>	-
58	<b>Tier II capital (T2)</b>	<b>219,359</b>
59	<b>Total capital (TC = T1 + T2)</b>	<b>461,114</b>
60	<b>Total risk-weighted assets</b>	<b>2,387,573</b>
<b>Capital ratios and buffers</b>		
61	Common Equity Tier I (as a percentage of risk weighted assets)	10.13%
62	<i>Tier I (as a percentage of risk-weighted assets)</i>	10.13%
63	<i>Total capital (as a percentage of risk weighted assets)</i>	19.31%
64	<i>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)</i>	
65	<i>of which: capital conservation buffer requirement</i>	2.50%
66	<i>of which: bank specific countercyclical buffer requirement</i>	-
67	<i>of which: G-SIB buffer requirement</i>	-
68		
	<b>Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)</b>	

69	<i>National Common Equity Tier I minimum ratio (if different from Basel III minimum)</i>	4.50%
70	<i>National Tier I minimum ratio (if different from Basel III minimum)</i>	7.50%
71	<i>National total capital minimum ratio (if different from Basel III minimum)</i>	15.00%
<b>Amounts below the thresholds for deduction (before risk-weighting)</b>		
72	<i>Non-significant investments in the capital of other financials</i>	-
73	<i>Significant investments in the common stock of financials</i>	-
74	<i>Mortgage servicing rights (net of related tax liability)</i>	-
75	<i>Deferred tax assets arising from temporary differences (net of related tax liability)</i>	-
<b>Applicable caps on the inclusion of provisions in Tier II</b>		
76	<i>Provisions eligible for inclusion in Tier II in respect of exposures subject to standardised approach (prior to application of cap)</i>	-
77	<i>Cap on inclusion of provisions in Tier II under standardised approach</i>	-
78	<i>Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap)</i>	-
79	<i>Cap for inclusion of provisions in Tier II under internal ratings-based approach</i>	-
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2015 and 1 Jan 2020)</b>		
80	<i>Current cap on CET1 CAPITAL instruments subject to phase out arrangements</i>	-
81	<i>Amount excluded from CET1 CAPITAL due to cap (excess over cap after redemptions and maturities)</i>	-
82	<i>Current cap on AT1 instruments subject to phase out arrangements</i>	-
83	<i>Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)</i>	-
84	<i>Current cap on T2 instruments subject to phase out arrangements</i>	-
85	<i>Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>	-



## 2.2 Capital Adequacy

### 2.2.1 Qualitative Disclosures

First Capital Bank 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 P104 million and preference shares of P5 million in June 2019 which are Basel II Tier 2 compliant.

For the Quarter ended 30 June 2019, the bank's capital ratios are outlined below;

### 2.2.2 Quantitative disclosures

Portfolio	Approach	Amount (P'000)	Capital Requirement
Credit Risk	Simple	2,237,928	335,689
Market Risk	Standardised	9,621	1,443
Operational Risk	Basic Indicator	140,025	21,004
<b>TOTAL</b>		<b>2,387,573</b>	<b>358,136</b>

#### 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 before CRM	Risk-Weights of Original Counterparties	Risk Weighted Assets
On-Balance Sheet Exposures	P'000		P'000
Cash	25,228	0%	-
Balances with Bank of Botswana	194,077	0%	-
Claims on Sovereign or Central banks	7,459	150%	11,189
Balances with domestic banks	362,843	20%	72,569
Balances with Domestic Public Sector Entities	55,847	20%	11,169
Balances with foreign bank(credit rating AAA to AA-)	119,874	20%	23,975
Balances with foreign bank (credit rating BBB+ to BB-)	202,047	100%	202,047
Commercial loans (credit rating BBB+ to BB-)	426,050	100%	426,050
Commercial real estate	295,198	100%	295,198
Residential mortgage loans	12,337	35%	4,318
Other non-qualifying Residential Mortgages	43,630	75%	32,722

Past due (qualifying mortgage loans) for more than 90 days and specific provision is more than 20% of the loan.	0	50%	0
(i) Past due non-qualifying residential mortgages where specific provision is less than 20% of the loan.	1,220	150%	1,829
(ii) Past due non-qualifying residential mortgages where specific provision is equal to or greater than 20% but less than 50% of the loan.	2,507	100%	2,507
Past due for more than 90 and specific provision is less than 20% of loan	28,045	150%	42,068
Past due exposure where specific provision is equal to or greater than 20% but less than 50% of the loan.	774	100%	774
Past due exposure where specific provision is equal to 50% or more of the loan.	4,745	50%	2,373
Past due commercial real estate where specific provision is equal to 20% but less than 50% of the loan.	10,400	150%	15,600
Past due non-qualifying residential mortgages where specific provision is equal to 50% or more of the loan.	139	50%	70
Retail loans	619,644	75%	464,733
Past due exposure where specific provision is less than 20% of the loan.	193	150%	289
Past due exposure where specific provision between 20% and 50% of outstanding amount of the loan.	150	100%	150
Past due exposure where specific provision is more than 50% of the outstanding loan.	244	50%	122
<b>Total On-Balance Sheet Exposures</b>	<b>2,412,650</b>		<b>1,609,751</b>
<b>Off-Balance Sheet Exposures</b>			
Other assets	50,547	100%	50,547
Property, plant and equipment	75,302	100%	75,302
Commitments – Original maturity up to 1 year	75,629	20%	15,126
Commitments – Direct assistance	91,924	100%	91,924
Performance and bid bonds	56,239	0%	0
<b>Total Off-Balance Sheet Exposures</b>	<b>349,641</b>		<b>232,899</b>
<b>Total credit risk weighted assets</b>	<b>2,762,291</b>		<b>1,842,649</b>

**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	1 436	6.7	9 621

--	--	--	--

**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.

<b>Year</b>	<b>Gross Income</b>
	<b>P'000</b>
1	104 182
2	136 908
3	176 895
<b>Total Gross Income</b>	<b>417 985</b>
operational risk factor -denoted alpha ( $\alpha$ )	15%
Aggregate Gross Income multiplied by $\alpha$	62 698
No. of years with Positive Gross Income (n)	3
Operational Risk Capital Charge: BIA	20 899
Risk weight factor	6.7
<b>Operational risk weight assets</b>	<b>140 025</b>

**d) Total and Tier I Capital ratios:**

<b>Capital</b>	<b>Transitional Capital Ratios</b>	<b>Adjustment</b>	<b>Fully Loaded Capital Ratios</b>
Tier I Capital		241,755	237,456
Tier II Capital		219,359	219,359
<b>Total Qualifying Capital</b>		<b>461,114</b>	<b>456,815</b>
<b>Total Risk Weighted Asset</b>		<b>2,387,573</b>	<b>2,387,573</b>
<b>Tier I Capital Ratio</b>		<b>10.13%</b>	<b>9.95%</b>
<b>Total Capital Ratio</b>		<b>19.31%</b>	<b>19.13%</b>

**Table 25: Regulatory and IFRS publication for First Capital Bank***There is no difference between regulatory and IFRS publication for First Capital*

	<b>Balance sheet as in published financial statements</b>	<b>Under regulatory scope of consolidation</b>
	<b>As at period ended 30 June 2019</b>	<b>As at period ended 30 June 2019</b>
<b>Assets</b>		
Cash and balances at central banks	113 748	113 748
Items in the course of collection from other banks	1 100 834	1 100 834
Trading portfolio assets	-	-
Financial assets designated at amortised cost	100 000	100 000
Derivative financial instruments	-	-
Loans and advances to banks	-	-
Loans and advances to customers	1 747 095	1 747 095
Reverse repurchase agreements and other similar secured lending	50 923	50 923
Available for sale financial investments	-	-
Current and deferred tax assets	-	-
Prepayments, accrued income and other assets	53 810	53 810
Investments in associates and joint ventures	-	-
Goodwill and intangible assets	8 885	8 885
Property, plant and equipment	84 027	84 027
<b>Total assets</b>	<b>3 259 322</b>	<b>3 259 322</b>
<b>Liabilities</b>		
Deposits from banks	193 097	193 097
Items in the course of collection due to other banks	-	-
Customer accounts	2 478 036	2 478 036
Repurchase agreements and other similar secured borrowing	-	-
Trading portfolio liabilities	-	-
Financial liabilities designated at fair value	-	-
Derivative financial instruments	-	-
Debt securities in issue	26 132	26 132

Accruals, deferred income and other liabilities	109 267	109 267
Current and deferred tax liabilities	3 604	3 604
Subordinated liabilities	182 000	182 000
Provisions	1 071	1 071
Retirement benefit liabilities	-	-
<b>Total liabilities</b>	<b>2 993 206</b>	<b>2 993 206</b>
<b>Shareholders' Equity</b>		
Paid-in share capital	140 000	140 000
Retained earnings	96 736	96 736
Accumulated other comprehensive income	29 380	29 380
<b>Total shareholders' equity</b>	<b>266 116</b>	<b>266 116</b>

**Table 26: Expanded Regulatory Balance Sheet**

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period end 30 June 2019	As at period end 30 June 2019	
<b>Assets</b>			
Cash and balances at central banks	113 748	113 748	
Items in the course of collection from other banks	1 100 834	1 100 834	
Trading portfolio assets	-	-	
Financial assets designated at fair value	100 000	100 000	
Derivative financial instruments	-	-	
Loans and advances to banks	-	-	
Loans and advances to customers	1 747 095	1 747 095	
Reverse repurchase agreements and other similar secured lending	50 923	50 923	
Available for sale financial investments	-	-	
Current and deferred tax assets	-	-	
Prepayments, accrued income and other assets	53 810	53 810	

Investments in associates and joint ventures	-	-	
Goodwill and intangible assets	-		
of which goodwill	-	-	a
of which other intangibles (excluding MSRs)	8 885	8 885	b
of which MSRs	-	-	c
Property, plant and equipment	84 027	84 027	
<b>Total assets</b>	<b>3 259 322</b>	<b>3 259 322</b>	
<b>Liabilities</b>			
Deposits from banks	193 097	193 097	
Items in the course of collection due to other banks	-	-	
Customer accounts	2 478 036	2 478 036	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	
Derivative financial instruments	-	-	
Debt securities in issue	26 132	26 132	
Accruals, deferred income and other liabilities	109 267	109 267	
Current and deferred tax liabilities	3 604	3 604	
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	182 000	182 000	
Provisions	1 071	1 071	
Retirement benefit liabilities	-	-	
<b>Total liabilities</b>	<b>2 993 206</b>	<b>2 993 206</b>	
<b>Shareholders' Equity</b>			
Paid-in share capital			
of which amount eligible for CET1 CAPITAL	140 000	140 000	h
of which amount eligible for AT1	-	-	i
Retained earnings	96 736	96 736	
Accumulated other comprehensive income	29 380	29 380	
<b>Total shareholders' equity</b>	<b>266 116</b>	<b>266 116</b>	

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

<b>Common Equity Tier I capital: instruments and reserves</b>			
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)	140 000	h
2	Retained earnings	96 736	
3	Accumulated other comprehensive income (and other reserves)	9 190	
4	<i>Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non-joint stock companies)</i>	-	
5	Common share capital issued by subsidiaries and held by third parties (amount) allowed in group CET1 CAPITAL)	-	

6	<b>Common Equity Tier I capital before regulatory adjustments</b>	245 926	
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	8 885	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
	<i>Regulatory treatment</i>	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)	170 000
9	Par value of instrument	182 000
10	Accounting classification	Subordinated debt
11	Original date of issuance	18/01/2012 01/07/2017 01/06/2019



12	Perpetual or dated	Dated
13	Original maturity date	18/01/2022 07/01/2027 30/07/2029
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
	<i>Coupons / dividends</i>	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  Floating rate earning interest at 325 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 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)**

<b>Risk Type</b>	<b>Domestic</b>	<b>International</b>	<b>Total Exposure</b>
Claims on Domestic & Foreign Banks			
Claims on Corporates	439,542	169,068	608,610
Claims included in the Retail Portfolios	702,821		702,821
Claims Secured by Commercial Real Estate	340,807		340,807
Claims Secured by Residential Mortgage Property	66,332		66,332

Claims on Public Sector Entities (PSEs) - one risk weight less favourable than sovereign	58,386		58,386
<b>TOTAL</b>	<b>1,607,889</b>	<b>169,068</b>	<b>1,776,957</b>

### Geographic Distribution

Category	As at 30 June 2019
Botswana	1,607,889
Malawi	83,407
Zambia	85,661
Mauritius	0.00
<b>Total Gross Exposures</b>	<b>1,776,957</b>

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

Industry	As at 30 June 2019
Central Government	-
Local Government	-
Public Non-Financial Corporations	-
Agriculture, Forestry, Fishing	6,457
Mining and Quarrying	2
Manufacturing	53,311
Construction	96,463
Commercial real estate	340,807
Electricity	7,977
Water	240
Telecommunication and post	2,149
Tourism and hotels	12,241
Transport and storage	32,013
Trade, restaurants and bars	173,787
Business services	77,359
Other community, social and personal services	47,855
Residential property (owner occupied)	50,224
Residential property (rented)	16,126
Personal loans	499,569
Motor vehicle	24,089

Household goods	-
Credit card loans	-
Non-Profit Institutions Serving Households	-
Non-Residents	169,068
Finance companies	167,227
<b>TOTAL</b>	<b>1,776,957</b>

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

	Claims on Retail & Corporates	Claims on Domestic & Foreign Banks	Total Exposure
Overdrafts	254,172	-	190 687
Loans			
>0 to 6 months	165,857	-	181 183
>6 months to 12 months	22,027	-	59 539
>1 to 2 years	193,350	-	156 498
>2 to 3 years	245,029	-	200 970
>3 to 5 years	358,717	-	292 500
>5 to 7 years	431,024	-	403 207
>7 to 10 years	67,169	-	79 868
Over 10 years	39,612	-	39 527
<b>TOTAL</b>	<b>1,776,957</b>	<b>-</b>	<b>1,776,957</b>

**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	2	2
Manufacturing	865	865
Construction	1,585	1,470
Commercial real estate	14,328	10,096
Electricity	251	-
Water	-	-
Telecommunication and post	-	-
Tourism and hotels	-	-
Transport and storage	804	802
Trade, restaurants and bars	36,512	28,809

Business services	4,124	628
Other community, social and personal services	99	99
Residential property (owner occupied)	5,558	3,215
Residential property (rented)	562	562
Personal loans	36,919	13,483
Motor vehicle	-	-
Household goods	-	-
Credit card loans	-	-
Non-Profit Institutions Serving Households	-	-
Non-Residents	-	-
Finance companies	-	-
<b>TOTAL</b>	<b>101,609</b>	<b>60,031</b>

**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	101,609	60,031	26,692	3,759
<b>TOTAL</b>	<b>101,609</b>	<b>60,031</b>	<b>26,692</b>	<b>3,759</b>

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

As at 30 June 2019 (P'000)	Rated	Unrated	Total
Banks and Government	-	-	-
Other	58,386	1,718,571	<b>1,776,957</b>
Total Gross Exposures	58,386	1,718,571	<b>1,776,957</b>

**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 30 June 2019 was low. The net open position on foreign currency of the bank as a percentage of unimpaired capital was 15.11% in March 2019 up from 10.92% for December 2018. 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 21% and sufficiently above the internal limit of 12%; the LDR was 73%.

#### **Market Risk under Standardised Approach- Risk Weighted Assets**

<b>P'000</b>	<b>Risk</b>	<b>Amount</b>	<b>Risk Weighted Factor</b>	<b>RWA</b>
	Foreign exchange risk	1 436	6.7	9 621
	Interest Rate Risk			-
	Specific Risk			-
	General Risk			-
	<b>Total Market RWA</b>			<b>9 621</b>

## **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**

### **(a) Qualitative Disclosures**

#### **i. Overseeing Body**

The newly established Appointment and Remuneration Board Committee is the overseeing body for remuneration decisions within First Capital Bank. The committee has the following functions:

- (a) To determine remuneration structures for executive directors and senior executive officers of the Bank and to review these annually.

- (b) To ensure that directors receive commensurate market related remuneration subject to the concept of capacity to pay.
  - (c) To review and approve recommendations on employee remuneration framework and parameters.
  - (d) Evaluate the performance of the senior executive management in light of their annually set goals and targets and set each Executive's performance related reward based on such evaluation
  - (e) Oversee the establishment of the remuneration policy that will promote the achievement of strategic objectives and encourage individual performance
  - (f) Oversee and review all aspects of any share option scheme or share based payments operated by or to be established by the Company, including but not limited to:
    - the selection of eligible Executive Directors, Executive Officers and other employees to whom awards should be granted;
    - the timing of any grant;
    - the number of awards to be granted; and
    - The exercise price at which options are to be granted.
- (a) Regularly review incentive schemes to ensure continued alignment to creation of shareholder value and ensure that these are administered in terms of the rules.
  - (b) Approval of the cost of general salary increments, and remain apprised of the mandates for negotiations with the representative Unions or Workers Committees.

The external consultants for salary survey the bank has been sought and engaged to conduct the remuneration market survey.

## ii. Remuneration Processes

The bank has a remuneration policy in place that ensures the bank attracts, retains and motivates members of staff in order to serve the interest of the bank. Each year the bank participates in the salary survey as conducted by Tsa Badiri. The purpose is to find out how the bank fares against the overall market. Key for the bank is to establish internal equity of remunerations for similar positions.

	Element	Operation
Fixed Remuneration	Salary	<ul style="list-style-type: none"> <li>• Salaries reflect individuals' skills and experience and are reviewed annually against market information and in the context of annual performance assessment and affordability.</li> <li>• Increases may occur where there is a role change, increased responsibility or to ensure market competitiveness.</li> </ul>
	Pension & Benefits	<ul style="list-style-type: none"> <li>• Benefits are provided depending on local market practice. Employees have access to country-specific, company-funded benefits such as pension schemes, private medical insurance, life insurance and cash allowances. The cost of providing the benefits is defined and controlled.</li> <li>• Employees who are relocated or spend a substantial portion of their time in more than one jurisdiction for business purposes are provided with mobility benefits.</li> </ul>
Variable Remuneration	Variable Remuneration	<ul style="list-style-type: none"> <li>• Incentives and bonuses awarded to employees who have performed exceptionally well as per management discretion. This is important for motivation amongst employees within the bank.</li> </ul>

Every year the Human Resource Management Committee meet to salaries and conditions of service, chaired by the Chief executive Officer determines the percentages of increments to be awarded for each element of salary review, depending on:

- The financial ability of the bank to pay
- The inflation and cost of living increases in the economy
- Availability of skills in the market
- Individual performance

### **Rewarding Performance**

In order for the bank to continually reward employees fairly, employees are kept accountable to deliver through a Performance Management System. Employees are scored on five point rating scale, with performance objectives duly discussed, agreed and signed off by employees and their managers.

### **Good governance**

The Bank has formed an Appointment and Remuneration Board committee that sits quarterly. Its primary role among other things shall be to ensure broad human resources policies and principles including remuneration and benefits are put in place and to maintain objectivity and neutrality in determining remuneration and benefits.

### **Variable pay**

- Performance Bonus

### **Employee Types**

- Permanent employees- First Capital Bank had 147 Employees as at 30<sup>th</sup> June, 2019 who are permanent and pensionable
- Temporary/short term employees- The bank had 12 temporary/short-term employees as at 30<sup>th</sup> June, 2019.
- Long term Contracts employees – The bank had 15 employees on long contracts as at 30<sup>th</sup> June 2019.

The following risks are taken into account in the remuneration processes:

- Risk of losing employees due to remuneration that is below the market salaries
- Unfair and skewed salary structures
- Scare skills

The bank has taken the following measures to account for these risks, which include internal equity in salary bands and lower quartile of the salary survey. These measures put in place ensure competitive and fair reward.

### **Linking Performance to Remuneration**

The bank uses the Balance Score Card that uses a 5-point rating scale to measure performance and ultimately used for remuneration considerations.

### **(b) Quantitative Disclosures**

<b>As at June 30, 2019</b>	<b>Number of Employees</b>	<b>Amount (P'000)</b>
Number of non-senior employees	159	1, 596.26

who received variable remuneration during the Financial year		
Number of senior management who received variable remuneration during the financial year	14	3, 513.64
Number and total amount of sign-on awards made during the financial year	-	-
Number and total amount of severance payments made during the year	1	1.13
Total pay for non-senior managers	159	7, 628.03
Total pay for senior managers	15	7, 698.33

**Table 38 (a): SENIOR MANAGEMENT COMPENSATION**

<b>Total value of remuneration awards for the current fiscal year</b>	<b>Unrestricted (P'000)</b>	<b>Deferred</b>
<b>Fixed Remuneration</b>		
Cash-based	7, 698.33	-
Shares and share-linked instruments	-	-
Other	-	-
<b>Variable Remuneration</b>		
Cash-Based	-	-
Shares and share-linked instruments	-	-
Other	-	-