BancABC Botswana Pillar III Disclosures

31 December 2016

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Pillar III Disclosure

1. Risk Management Processes

Risk taking is an essential part of the business and BancABC adopted the Enterprise Risk Management (ERM) framework which is the process applied across the bank, designed to identify potential events that may affect the bank, and to manage risk to be within the bank's risk appetite and provide reasonable assurance regarding the achievement of the bank's objectives. Effective identification, assessment, monitoring and managing risks are key to the successful execution of strategy. Thus the bank promotes a risk culture in the organization.

The Board is responsible for formulating the underpinning objectives of the risk appetite framework. Risk accepted by the institution should be within the tolerance level set by the Board of directors in accordance with the Strategy, Existing Capital Constraints, Sustainable Earnings and Maintenance of desired Regulator and Credit Ratings for BancABC Botswana.

The Business Units are responsible and accountable for the risks associated with the running of their operations. They should promote risk awareness and ensure that risk decisions are taken in accordance with established delegated authorities.

It is the responsibility of every bank employee to ensure that all risks that the bank is exposed to are managed effectively as directed by various policies and procedures and also, where applicable, in accordance with relevant regulatory requirements.

BancABC Botswana's ERM philosophy is about the establishment and execution of bank-wide criteria for the acceptance, monitoring, control and management of risk. The guiding principles of ERM are:

a. Decisions should be made with appropriate consideration of the impact on the overall organisation, not just the individual lines of business;
b. The governance model should provide a forum for risks to be appropriately considered, discussed, debated, and factored into strategic business decisions;
c. Governance should focus on and enable making risk management processes proactive rather than reactive;
d. The risk governance structure should consider and reflect the roles and interaction with related functions, including compliance and internal audit;
e. There should be a clear understanding of the requirements and appropriate resources to provide independent assurance (e.g. independent audit);
f. The governance model must reflect separation of the three main areas of:
    i. Business Units (BUs) that take risk and manage the risks they take;
    ii. Risk Management that provides policy, guidance, recommendations, risk reporting and analysis; and
    iii. Independent Assurance by Internal Audit.

The risk governance model should evolve over time, as the organisation changes.

The bank uses a five tier colouring code (GLYOR), to allow for a more granular assessment and classification of risk. GLYOR is short for Green, Lime, Yellow, Orange and Red. Below is the risk rating key:

Risk Classification key (GLYOR)				
Minor	Low	Moderate	High	Extreme

1.1 Capital/Solvency Risk Management

In line with Basel II the bank ensures that it is adequately capitalized in line with regulatory requirements to cover for credit, operational and market risks. The bank recognizes that it is exposed to other risks and thus strives to maintain a capital buffer so as to have additional capital to cover for those risks.

The target risk status for solvency risk is minor. The strategy is to maintain strong capital levels and focus on growing quality, profitable assets.

Mitigation

Growth is carefully aligned to available financial resources. The impacts of growing risk weighted assets on capital adequacy are continuously assessed. Actions are taken to reduce leverage or raise additional capital. The bank has set a soft limit of 17% capital adequacy ratio against the regulatory 15%. As at end of December 2016 the solvency risk rating was minor as CAR, at 20%, was above the soft limit. The bank has a strong capital position with Tier I accounting for 66% of total capital and Tier II, 34% as at end of December, 2016; Tier II is restricted to 50% of total capital. The bank managed to raise BWP55 million Tier II capital through a bond issue in October 2016.

1.2 Credit Risk Management

Credit approval limits are set to designated committees. Independent credit risk committees are responsible for managing, measuring and mitigating credit risk.

Consumer Credits: These are assessed using a scorecard and credit granted according to affordability.

The bank has the following credit committees:

a. RETCO (Retail Credit Committee) that considers credit applications for small and medium enterprises up to a limit of the equivalent of US$250,000;
b. MANCO (Management Credit Committee) that considers credit applications for corporates and approves up to a limit of US$500,000 otherwise recommends to CREDCO. MANCO also considers credit applications for SMEs for amounts that are higher than US$250,000 that are recommended by RETCO;
c. CREDCO (Board Credit Committee) that considers credit applications recommended by MANCO and approves up to a limit of US$1 million otherwise recommends to EXCO;
d. Executive Credit Committee (EXCO) that considers applications recommended by CREDCO and approves up to a limit of US$5 million otherwise recommends to ABCH Board; and
e. The ABCH Board Credit committee considers applications above US$5 million as recommended by EXCO.

The composition of these different committees is as follows:

COMMITTEE	RETCO	MANCO	CREDCO
Chairperson	Head of Finance	Managing Director	Non-executive Director
Members	Head of Credit	Head of Finance	Non-executive Director
	Head of Risk	Head of Credit	Managing Director
	Head of Retail	Head of Risk	

Head of Corporate attends MANCO as a proposer but does not vote.

The bank produces a credit rating for its customers and this goes on a scale of A+ to G as demonstrated below. The rating is a reflection of a company's financial performance, particularly its ability to generate cash to service debt. In determining the risk rating a company's financial results are scored.

BancABC Rating Scale	BancABC Defaults Rates	BancABC Retail Score	Standard & Poor's ratings	S&P 1-year default rates
A+	0.10%	246 - 255	AAA - AA	0.01%
A	0.25%	236 – 245	AA+	0.05%
A-	0.33%	226 – 235	AA	0.11%
B+	0.40%	216 – 225	AA-	0.08%
B	0.50%	201 – 215	A+	0.05%
B-	0.66%	191 – 200	A	0.11%
C+	0.80%	181 – 190	A-	0.08%
C	0.96%	166 – 180	BBB+	0.16%
C-	1.30%	156 – 165	BBB	0.26%
D+	1.80%	146 – 155	BBB-	0.36%
D	2.65%	136 – 145	BB+	0.53%
D-	3.80%	126 – 135	BB	0.76%
E+	7.85%	116 – 125	BB-	1.57%
E	12.90%	106 – 115	B+	2.58%
E-	16.88%	96 – 105	B	6.75%
F+	26.00%	86 – 95	B-	10.40%
F	38.67%	76 – 85	CCC+	25.78%
F-	45.00%	61 – 75	CCC	30.00%
G	Default	0 – 60	CCC-	35.00%

The target risk status for credit risk is moderate or better. The strategy is to align credit origination to macroeconomic indicators and client capacity to service debt.

Mitigation

The bank has set for itself a risk appetite of D- or better. Credits are discussed extensively at the respective committees to ensure understanding of credit application and taking calculated risks.

Once funds are disbursed, performance is monitored to avoid deterioration of asset quality. The loan monitoring process is continuously being improved to enable early identification of potentially bad loans so that these are managed before being adversely classified. The business, as the first line of defence, manages performing credits up to 30 days arrears. When the accounts have arrears above 30 days, they are handed over to Credit Administration. Once arrears exceed 90 days the accounts are handed over to debt collectors in the case of Corporate and SME credits and 60 days in the case of individuals. The Corporate Recoveries department takes over exposures of at least US$500,000 that are more than 90 days overdue.

Credit concentrations are carefully managed. While the bank may lend up to a maximum of 30% to any single client all exposures are managed below this level. The largest exposure to a single client made up 16.8% of capital as at end of December 2016.

The bank has set itself a threshold NPL ratio of 3%. Credit risk was rated high in December; the NPL ratio improved to 4.4% from 4.7% in September. The direction was considered to be decreasing in light of expected recoveries from non performing accounts as well as growth in the loan book.

1.3 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 in place a comprehensive liquidity and funding policy whose primary objective is to be able to fund the bank and to enable the bank 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 asset-based liquidity to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. 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 LAR is 10%, the bank has set for itself a soft limit of 12%; 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; and

Contingency Funding Plan (CFP) – 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 CFP 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.

Mitigation

A Liquidity Risk Committee meets on a weekly basis to assess and manage the overall liquidity. Liquidity ratios are closely monitored. LAR should be at least 12% in line with the set soft limit. The LDR should be at most 90%.

A stressed liquidity report is produced and assessed; it is a forward looking measure of liquidity after considering imminent maturities and disbursements. This shows the liquidity coverage ratio (LCR); that is the extent with which available high quality liquid assets can cover net outgoing cash. The required liquidity contingency funding is also indicated in the report. The bank aims to have a LCR of at least 50%.

Liquidity risk is rated; the bank targets a liquidity rating of moderate or better. As at 31 December 2016 the liquidity risk rating was moderate. The LAR was 14% and sufficiently above the internal limit of 12%, the LDR was 84% and the LCR was 65%.

1.4 Interest Rate Risk Management

Changes in interest rates impact on the net interest margin of the bank. 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 but this is a challenge because investor appetite is for short periods; they do not want to lock in for long periods so as to enjoy the compounding effect on interest income and to be able to access their funds quicker in the event of alternative attractive investment instruments becoming available.

Mitigation

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. The bank has set for itself the following limits:

	Limit	Actual Mar 2016	Actual Jun 2016	Actual Sep 2016	Actual Dec 2016
Up to 30 days	60% max	57.2%	46.2%	45.2%	38.6%
Plus 30 days up to 90 days	40% max	29.0%	31.2%	28.7%	41.5%
Plus 90 days up to six months	10% min	6.1%	11.7%	14.1%	7.9%
More than 6 months	10% min	7.7%	8.8%	12.0%	12.0%

Continuous efforts are made to identify new sources of deposits and to lengthen the liability profile.

The target interest rate risk rating is moderate and interest rate risk was rated high as at 31 December 2016 in recognition of the reliance in short dated wholesale deposits amidst rising cost of funding.

1.5 Foreign Exchange Risk

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, 2016, was minor. The bank continually monitors the net open position and adheres to net open position limits.

1.6 Operational Risk Management

Operational risks are present in all levels of the business and are taken into consideration in all business decisions. Operational risk is the risk of losses resulting from inadequate or failed internal processes, people or systems or the risk arising from external events.

Key Risk Indicators have been rolled out across business units and are fundamental to the management of operational risk. Thresholds are set and events are continuously monitored against the set thresholds. All business unit heads are responsible for operational risk management in their respective units and have to ensure that losses are recorded, rated, monitored and tracked until they are closed.

The bank has a recovery site at Continuity SA in Phakalane that exists as a contingency plan for unanticipated business disruptions such as fire that would render the head office building

inaccessible. The business continuity plan would be invoked such that operations continue at the recovery site without causing much disruption to the business. The recovery site is set up with all requisite infrastructure and all component tests have been conducted. During the first half of 2017, IT will be upgrading the DR hardware to increase capacity to support data replication. Branches have their own separate business continuity plans. In the case of business disruption, service would be referred to alternative branches and each branch business plan states exactly which branch business is to be referred to. BancABC has a total of eight branches.

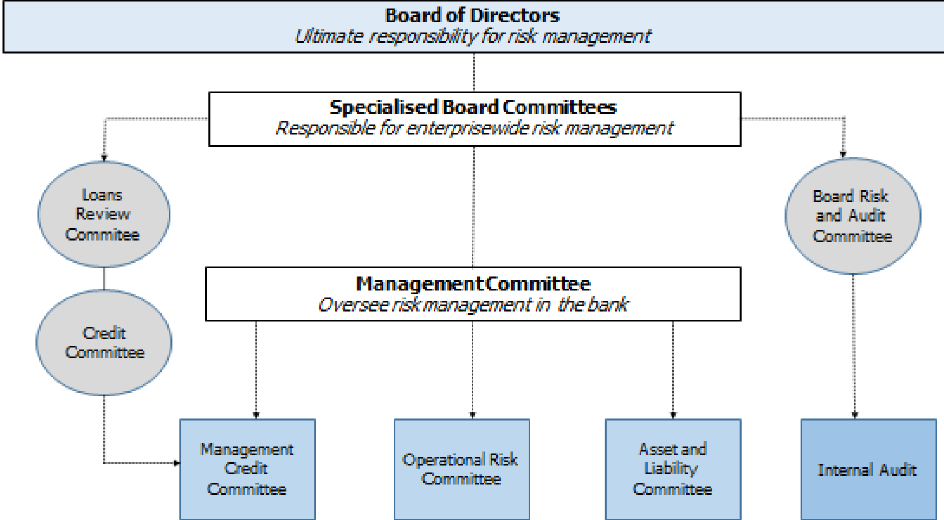
Mitigation
Risk Control Self Assessments (RCSAs) are conducted at Business Unit level and results recorded in a risk register. Identified risks are measured according to severity and frequency or probability of occurrence. Staff are encouraged to report operational risk incidents. This is done in the form of an incident report stating the risk, loss impact and cause. Events reported through the incident report form are also captured in the risk register and monitored for closure.

The bank's target operational risk rating is low. The threshold of realized operational loss is 1% of bank revenue. In the year ended 31 December 2016 the operational loss to revenue ratio was 0.50% and operational risk was rated high largely due to assessed inherent risks.

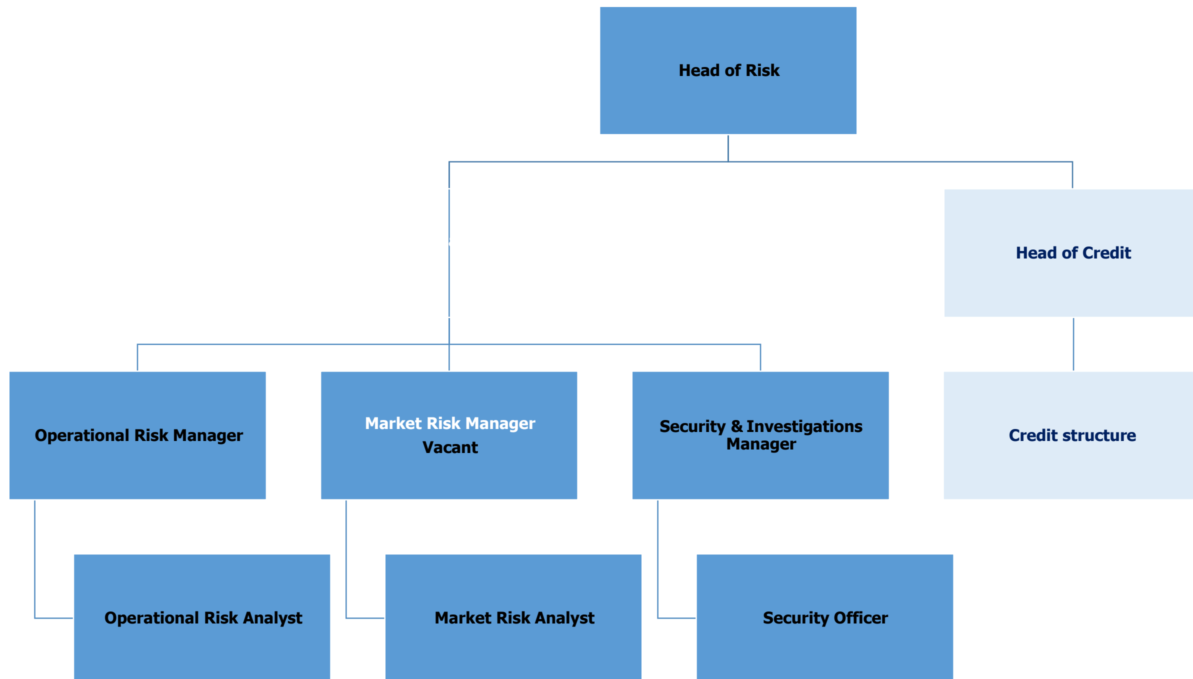
2. Structure and Organisation of the Risk Management Function

Risk Governance

The BancABC board manages the bank's risk exposure directly and through various other delegated committees as depicted in the following diagram:



The structure of the Risk Department is depicted in the following diagram.



3. Scope and Nature of Risk Reporting and Measurement Systems

The ERM methodology within the bank uses the three lines of defence or control approach.

i. The business as first line of defence is responsible for the day to day management of risks and bear the consequence of loss through capital allocation

ii. Risk Management as the second line of defence assists in developing risk capacity, risk appetite, strategies and policies. It provides oversight support, monitoring and control. Risk Management ensures that pertinent risk information is accurately and timely captured, compiled and escalated appropriately through the governance structures to enable the Board to retain effective control of the bank's risk position.

iii. Internal Audit is the third line of defence and provides independent assurance on the overall effectiveness of the risk governance framework, design and implementation.

4. Policies for hedging and mitigating risks

To manage the risk spectrum, the bank deploys the following risk policies:

a. Enterprise Risk Framework
b. Risk Appetite Statement
c. Stress Testing
d. Credit
e. Market Risk
f. Capital Management
g. Liquidity Framework
h. Compliance
i. Operational Risk
j. Strategic Risk
k. Business Continuity

These policies are complemented by various Business Unit specific policies and guidelines where procedures and processes for managing internal controls are clearly articulated. The effectiveness or weaknesses of controls are monitored through the Risk Control Self Assessments.

5. The Internal Capital Adequacy Assessment

BancABC Botswana has put in place an Internal Capital Adequacy Assessment Process (ICAAP) to ensure that appropriate levels of capital are set for the risks faced in its portfolios. The ICAAP process assesses the bank's overall capital adequacy in relation to its risk profile, as well as a strategy for maintaining adequate capital levels.
Capital management includes the management of the supply of capital versus the demand for the capital, that is, it involves the execution of the Capital Management Plan. The primary objectives of Capital Management are the following:

a. Actively managing the gap between supply and demand for capital so as to reduce capital costs and increase capital velocity;
b. Increasing strategic and tactical flexibility in the deployment of capital to allow for the timely re-allocation of capital;
c. Improving the liquidity of Risk Weighted Assets (RWA) to ensure that the balance sheet remains flexible; and
d. Reporting on developments as well as advising ALCO on both the supply and demand for capital.

The regular monitoring of capital adequacy are integral to the process.

Actual results and capital developments are measured versus the actual and forecasted capital position on an ongoing basis. Appropriate actions are proposed and subsequently executed to correct any potential imbalance, i.e. the need to raise either capital or relief capital.

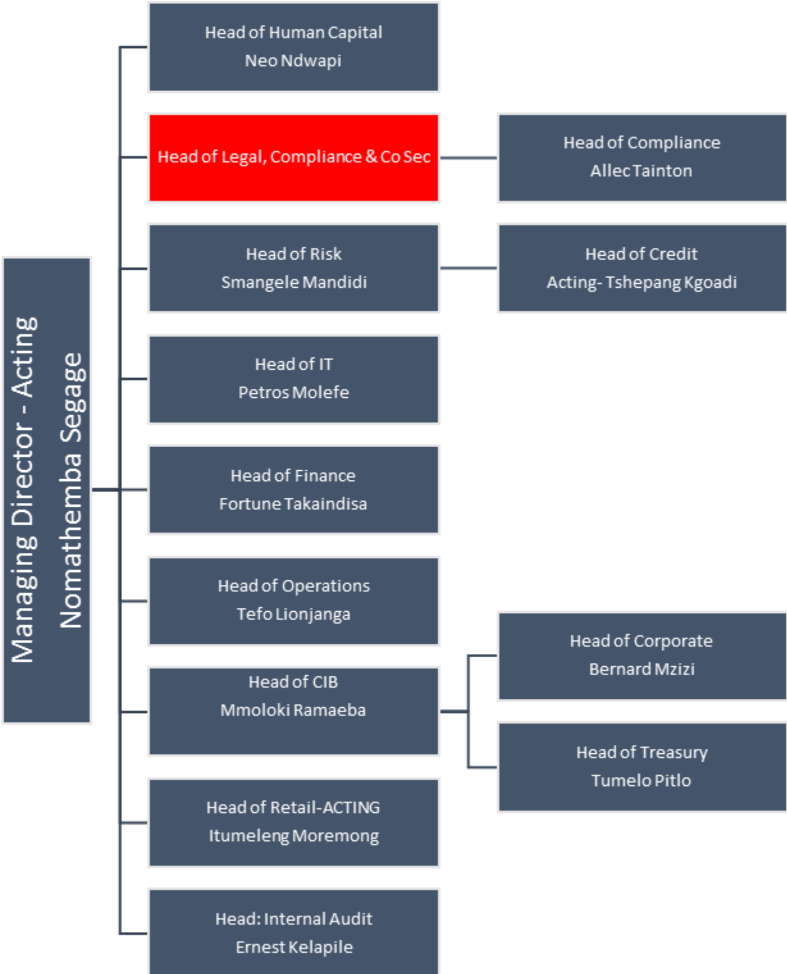
In assigning capital for credit risk, the bank is guided by the Basel II principles of assigning risk weights to the different credit exposures.

The bank adopted the Basic Indicator Approach for assigning capital to operational risk; whereby the average gross revenue over a three year period for which revenue was positive is taken and multiplied by an operational risk factor of 0.15 to come up with the capital charge for operational risk. A risk weight factor of 6.7 associated with operational risk is then applied to come up with the associated risk weighted assets for operational risk.

In assigning capital for market risk the bank uses the standardized measurement method whereby the absolute value of the net open position is taken as the capital charge and a factor of 6.7 applied to come up with the respective risk weighted assets for market risk.

The bank does not yet assign a capital charge to interest rate risk in the banking book.

MANCO STRUCTURE



Remuneration and Nominations Committee (REMCO)

BancABC is committed to creating, sustaining and maintaining a high performance culture in accordance with the Bank's strategy of ensuring that the bank has the right people in the right roles at the right time. The Bank's remuneration policy sets out the purpose, framework, procedures and standards related to remuneration. Its objectives include to –:

- attract and retain high calibre staff;
- assist in creating a high-performance culture, where consistent good or excellent performance is rewarded;
- ensure that all employees are remunerated fairly;
- compete for talent in an increasingly competitive labour market, through ensuring that remuneration compares satisfactorily with the market realities; and
- motivate individual and team performance that creates stakeholder value for the organisation.

Remuneration Committee (REMCO) which is responsible to lead the process for Board appointments and to ensure that the Board and its committees have an appropriate balance of skills, experience, availability, independence and knowledge of the Company to enable them to discharge their respective responsibilities effectively.

The remuneration committee also advises the Board on developing an overall remuneration policy that is aligned with the business strategy and objectives, risk appetite, values and long term interests of the Company, recognizing the interests of all stakeholders.

As part of their mandate, REMCO ensures that the remuneration policy covers the following objectives:

- attract and retain high caliber staff;
- assist in creating a high-performance culture, where consistent good or excellent performance is rewarded;
- ensure that all employees are remunerated fairly;
- compete for talent in an increasingly competitive labour market, through ensuring that remuneration compares satisfactorily with the market realities; and
- Motivate individual and team performance that creates stakeholder value for the organization.

Remuneration is reviewed regularly to ensure the Bank remains competitive with market prevailing conditions. The reviews are based on regular performance reviews against set deliverables over certain periods. The bank participates in remuneration market surveys to ensure

competitiveness and alignment to market movements and trends. The remuneration market data is used to determine salary reviews depending on the bank's affordability and the overall bank's performance.

In determining salary reviews; the following are considered:

- Bank's affordability/ ability to pay
- Market movements - internal and external benchmarking
- Individual and unit's performance
- Bank's bonus provisions

Executive Directors and senior management's remuneration is approved by REMCO and their contracts of employment do not contain unusual benefits provisions and they have reasonable termination clauses with reasonable notice periods.

Remuneration of Risk and Compliance staff is part of the general bank's remuneration policy and they have agreed Cost to Company (CTC) remuneration at the time of employment. Any additional variable pay in the form of Annual Cash Incentives or Long term incentives is based on individual performance against set targets.

The Group Long-Term Incentive Plan ("LTIP") forms part of variable compensation and is used to attract, retain and motivate staff that influence the long-term sustainability and strategic objectives of BancABC and Group. The purpose of the LTIP is to foster sustainable performance, or value creation, over the long term, which is aligned with BancABC's strategy and which enhances shareholder value. Its main characteristic is the promise to deliver value over a future vesting period once performance criteria are met or exceeded. This award is applicable to Senior Staff (MDs, Directors, Regional and Group Heads). The LTIP is a conditional cash based incentive scheme, which contains bonus unit and performance unit elements. The LTIP is discretionary and vesting will occur after three (3) years of the bonus grant subject to continued employment by the eligible employee. Settlement of the bonus grant will be in cash.

The bank has a guaranteed 13th cheque for eligible staff. Total paid as at December 2016 was BWP 4,122,632.48.

Severance payments amounting to BWP 8,916,651.00 were made during the financial period ending 31 December 2016.

We had no employees with deferred remuneration, split into cash, shares and share-linked instruments and other forms during the financial period ending 31 December 2016.

Breakdown of amount of remuneration awards for the financial Period ending 31 December 2016:

	BWP'000
Staff costs	112,054
Variable costs- bonus	5,270

Perfomance Management

The Bank's performance Management Policy aims to promote the achievement of BancABC's objectives through the effective management of employee performance.

All employees are expected to perform their duties in a competent and efficient manner in line with their respective employment contractual requirements; inherent duties and responsibilities of the position; organizational requirements, policies and processes; legislative requirements and acceptable standards with reference to - quality, timelines, attitude and behavior; and key performance contract indicators (KPI's) or outcomes.

As a high performance driven organization, staff contracts are reviewed on a regular basis with agreed Key Performance Indicators ("KPI's") with the organization. The main purpose of the Performance Assessment and Appraisal Process is to determine whether the agreed KPIs have been reached, and if reached; the remuneration will be reviewed and staff member awarded accordingly.

Corporate Banking: as underwriters of credit they take credit risk and have to manage the risk they take within the bank's risk appetite. There are 6 Loan officers (Account Relationship Managers) at Corporate Banking including the Head of the Unit. The unit also takes deposits and has to ensure that the customers they take on board are not in violation of the AML guidelines.

Retail and Business Banking: This business unit likewise underwrites credit and has to manage the credit risks they take as well as ensure that customers boarded fit the bank's risk profile.

There are set procedures that have to be followed in the conduct of their duties, violation of which exposes the bank to risks. It is the responsibility of every staff member to follow set procedures.

Treasury: This business unit manages the bank's balance sheet. It has to ensure the bank is adequately funded to manage liquidity risks. Failure to manage the book exposes the bank to liquidity and funding risk, interest rate risk and foreign exchange risk. The staff complement at Treasury including the Head is 8. Deals have to be done within approved mandates and mismatches managed within limits.

Finance Head: in charge of capital management and planning, has to advise on e.g. potential capital actions and dividend strategy.

All business heads / senior management are considered to be risk takers. They have a

responsibility to identify, measure, monitor and report risks inherent in their units and are responsible for implementing board approved policies and ensuring their staff understand and implement risk mitigating strategies. There are 13 Members of senior management, who are part of the total staff compliment of 293.

Quantitative information about employees' exposure to implicit (e.g.
Fluctuations in the value of shares or performance units) and explicit adjustments (e.g., malus, claw backs or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration:
None

Financial Disclosures

Table 22-Capital Structure

	Common Equity Tier I capital: instruments and reserves	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	222 479
2	Retained earnings	692 592
3	Accumulated other comprehensive income (and other reserves)	6 091
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**	**921 161**
	Common Equity Tier I capital: regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	-
28	**Total regulatory adjustments to Common equity Tier I**	-
29	**Common Equity Tier I capital (CET1 CAPITAL)**	**921 161**
43	**Total regulatory adjustments to Additional Tier I capital**	-
44	**Additional Tier I capital (AT1)**	-
45	**Tier I capital (T1 = CET1 CAPITAL + AT1)**	**921 161**
	Tier II capital: instruments and provisions	
46	Directly issued qualifying Tier II instruments plus related stock surplus	195 686
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	
50	Provisions	25 757
51	Tier II capital before regulatory adjustments	**221 443**
	Tier II capital: regulatory adjustments	
52	Investments in own Tier II instruments	
53	Reciprocal cross-holdings in Tier II instruments	
57	**Total regulatory adjustments to Tier II capital**	-
58	**Tier II capital (T2)**	**221 443**
59	**Total capital (TC = T1 + T2)**	**1 142 604**
60	**Total risk-weighted assets**	**5 648 897**
	Capital ratios and buffers	
61	Common Equity Tier I (as a percentage of risk weighted assets)	**16.31%**
62	Tier I (as a percentage of risk-weighted assets)	**16.31%**
63	Total capital (as a percentage of risk weighted assets)	**20.23%**
	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)	
71	National total capital minimum ratio (if different from Basel III minimum)	**15.00%**

Table 21- Qualitative and Quantitative Disclosures

Qualitative Disclosures	(a)	African Banking Corporation Of Botswana Limited
	(b)	An outline of the difference in the basis of consolidation for accounting and regulatory purposes, within the group (a) that are fully consolidated. (b) that are pro-rata consolidated; (c) that are given a deduction treatment, and (d) equity accounted.
	(c)	Any restrictions, or other major impediments, on the transfer of funds or regulatory capital within the group.
Quantitative Disclosures	(d)	The aggregate amount of capital deficiencies in all subsidiaries, that are not included in the consolidation for regulatory purposes (i.e., that are deducted) and the name (s) of such subsidiaries.
	(e)	The aggregate amounts (e.g., current book value) of a bank's total interests insurance entities, which are risk-weighted, rather than deducted from capital, as well as their names, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities.

Table 23- Explanation of Capital disclosures

	Explanation of each row of the common disclosure Row number	
1	Instruments issued by the parent company of the reporting group that meet all of the CET1 CAPITAL entry criteria set out in the Directive. This should be equal to the sum of common stock (and related surplus only) and other instruments for non-joint stock companies, both of which must meet the common stock criteria. This should be net of treasury stock and other investments in own shares to the extent that these are already derecognised on the balance sheet under the relevant accounting standards. Other paid-in capital elements must be excluded. All minority interest must be excluded.	222 479
2	Retained earnings, prior to all regulatory adjustments. In accordance with the Directive, this row should include interim profit and loss that has met any audit, verification or review procedures that the Bank has put in place. Dividends are to be removed in accordance with the applicable accounting standards, i.e. they should be removed from this row when they are removed from the balance sheet of the bank.	692 592
3	Accumulated other comprehensive income and other disclosed reserves, prior to all regulatory adjustments.	6 091
4	Directly issued capital instruments subject to phase-out from CET1 CAPITAL in accordance with the requirements of the Directive. This is only applicable to non-joint stock companies. Banks structured as joint-stock companies must report zero in this row.	-
5	Common share capital issued by subsidiaries and held by third parties. Only the amount that is eligible for inclusion in group CET1 CAPITAL should be reported here, as determined by the application of the Directive.	-
6	Sum of rows 1 to 5.	**921 161**
29	Common Equity Tier I capital (CET1 CAPITAL), to be calculated as row 6 minus row 28.	**921 161**
30	Instruments issued by the parent company of the reporting group that meet all of the AT1 entry criteria set out in the Directive and any related stock surplus as set out in the Directive. All instruments issued by subsidiaries of the consolidated group should be excluded from this row. This row may include Additional Tier I capital issued by an SPV of the parent company only if it meets the requirements set out in the Directive.	**-**
43	The sum of rows 37 to 42.	**-**
44	Additional Tier I capital, to be calculated as row 36 minus row 43.	-
45	Tier I capital, to be calculated as row 29 plus row 44.	**921 161**
46	Instruments issued by the parent company of the reporting group that meet all of the Tier II entry criteria set out in the Directive and any related stock surplus as set out in the Directive. All instruments issued of subsidiaries of the consolidated group should be excluded from this row. This row may include Tier II capital issued by an SPV of the parent company only if it meets the requirements set out in the Directive.	**195 686**
50	Provisions included in Tier II, calculated in accordance with the Directive.	**25 757**
51	The sum of rows 46 to 48 and row 50.	**221 443**
57	The sum of rows 52 to 56.	**-**
58	Tier II capital, to be calculated as row 51 minus row 57.	**221 443**
59	Total capital, to be calculated as row 45 plus row 58.	**1 142 604**
60	Total risk weighted assets of the reporting group.	**5 648 897**
61	Common Equity Tier I (as a percentage of risk weighted assets), to be calculated as row 29 divided by row 60 (expressed as a percentage).	**16.31%**
62	Tier I ratio (as a percentage of risk weighted assets), to be calculated as row 45 divided by row 60 (expressed as a percentage).	**16.31%**
63	Total capital ratio (as a percentage of risk weighted assets), to be calculated as row 59 divided by row 60 (expressed as a percentage).	**20.23%**

Table 24- Reference notes

REF 1	General Provision Deducted from Gross loans in the Annual financial Statements, and reported under Capital in the Regulatory report, under Tier II
REF 2	Tier II Capital of 192 610 reported under Capital In the Regulatory return and under Borrowings in the Annual Financial Statements
REF 3	50% reserves of 3078 reported under capital and other Liabilities in the Regulatory Report but reported as 6152 as Revaluation Reserves on the Financial Statements
REF 4	General Provision Deducted from Gross loans in the Annual financial Statements, and reported under Capital in the Regulatory report, under Tier II and 50% reserves of 3078 reported under capital and other Liabilities in the Regulatory Report but reported as 6152 as Revaluation Reserves on the Financial Statements
REF 5	Tier II Capital of 192 610 reported under Capital In the Regulatory return and under Borrowings in the Annual Financial Statements

NO DIFFERENCE BETWEEN REGULATORY AND IFRS. MOVE TO TABLE 26		
	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**
	As at period end	**As at period end**
Assets		
Cash and balances at central banks		
Items in the course of collection from other banks		
Trading portfolio assets		
Financial assets designated at fair value		
Derivative financial instruments		
Loans and advances to banks		
Loans and advances to customers		
Reverse repurchase agreements and other similar secured lending		
Available for sale financial investments		
Current and deferred tax assets		
Prepayments, accrued income and other assets		
Investments in associates and joint ventures		
Goodwill and intangible assets		
Property, plant and equipment		
Total assets		
Liabilities		
Deposits from banks		
Items in the course of collection due to other banks		
Customer accounts		
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		
Current and deferred tax liabilities		
Subordinated liabilities		
Provisions		
Retirement benefit liabilities		
Total liabilities		
Shareholders' Equity		
Paid-in share capital		
Retained earnings		
Accumulated other comprehensive income		
Total shareholders' equity		

Table 26- Financial compared to regulatory disclosure

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period end 31 December 2016	As at period end 31 December 2016	
Assets			
Cash and balances at central banks	451 782	451 782	
Items in the course of collection from other banks	658 694	658 694	
Trading portfolio assets	1 027 132	1 027 132	
Derivative financial instruments	64 445	64 445	
Loans and advances to banks	281 911	281 911	
Loans and advances to customers	5 678 033	5 703 791	ref 1
Current and deferred tax assets	6 738	6 738	
Prepayments, accrued income and other assets	12 896	12 896	
Goodwill and intangible assets	59 126	59 126	
of which goodwill	-	-	a
of which other intangibles (excluding MSRs)	59 126	59 126	b
Property, plant and equipment	76 848	76 848	
Total assets	**8 317 605**	**8 343 363**	
Liabilities			
Deposits from banks	97 599	97 599	
Items in the course of collection due to other banks	109 542	109 542	
Customer accounts	6 771 611	6 771 611	
Borrowed funds	296 803	104 193	ref 2
Derivative financial instruments	61 510	61 510	
Accruals, deferred income and other liabilities	46 477	49 553	ref 3
Subordinated liabilities	-	-	
Provisions	6 750	6 750	
Total liabilities	**7 390 292**	**7 200 758**	
Shareholders' Equity			
Paid-in share capital	**222 479**	**222 479**	
of which amount eligible for CET1 CAPITAL	222 479	222 479	h
of which amount eligible for AT1	-	-	i
Retained earnings	522 318	522 318	
Accumulated other comprehensive income	182 516	205 197	ref 4
Subordinated liabilities	-	192 610	ref 5
Total shareholders' equity	**927 313**	**1 142 605**	

Table 27- Common equity composition

Common Equity Tier I capital: instruments and reserves			
		Component of regulatory capital reportedby 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 companies) capital plus related stock surplus.	222 479	
2	Retained earnings	692 592	
3	Accumulated other comprehensive income (and other reserves)	6 091	
6	**Common Equity Tier I capital before regulatory adjustments**	**921 161**	