



PILLAR 3 DISCLOSURE

Stanbic Bank Botswana Limited

QUARTERLY STATUTORY RETURN



JUNE 2021



Stanbic Bank **IT CAN BE™**

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01. Background and Scope

1.1 Background

Bank of Botswana (BoB) Basel II guidelines introduced three reinforcing pillars namely, the minimum capital requirement (Pillar 1), Supervisory Review Process (SRP) (Pillar 2) and the Market Discipline (Pillar 3). The Pillar 3, Market Discipline guidelines and requirements are summarised in the section 12 of the directive.

The Sections 12.1 and 12.2 of the Basel II guidelines are as per below:

- The primary purpose of Pillar 3 is to supplement the minimum capital requirements (Pillar 1) and SRP (Pillar 2) by introducing a set of disclosure requirements, which will allow market participants to influence the level of capital, risk assessment processes, capital adequacy and remuneration practices of a bank.
- Improved transparency, underpinned by high quality and timely market disclosures will enhance market discipline, efficiency, and confidence. The key objective is, therefore, to provide a market driven incentive for a bank to conduct business in a safe and sound manner. A bank is, therefore, responsible, beyond the disclosure requirements set out in this directive, for conveying adequate information regarding its actual risk profile and how risks relate to capital.

1.2 Scope of application

This document is designed to capture the capital positions of the bank in terms of the capital structure and adequacy as at end of June 2021. The document further provides the main features of the regulatory capital instruments and explanation of each feature, respectively.



02. Regulatory Capital Requirements

2.1 Capital Structure

According to the Basel II guidelines, a bank is required to maintain adequate capital adequacy of not less than 12.5% of its risk weighted assets. The SBBL board of directors have approved internal buffer over the regulatory requirements (CAR, Tier 1, additional Tier 1 capital, and core capital).

Tier 1 (primary capital) represents permanent forms of capital such as common shares, share premium and retained earnings, and other accumulated comprehensive income.

Tier II (secondary capital) includes instruments issued by the bank, general debt provisions and current unpublished profits.

The bank's capital structure and position as at 30 June 2021, is as shown below:

Table 1: Basel III Common Equity Tier 1 Disclosure Template

	Common Equity Tier I: Instruments and reserves	P 000s
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	390,177
2	Retained earnings	1,112,526
3	Accumulated other comprehensive income (and other reserves)	-
4	Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 CAPITAL)	-
6	Common Equity Tier I capital before regulatory adjustments	1,502,703
	Common Equity Tier 1: regulatory adjustments	
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (Net of related tax liability)	27,000
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)	-

02. Regulatory Capital Requirements... Cont

2.1 Capital Structure... cont

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	Total regulatory adjustments to Common equity Tier I	27,000
29	Common Equity Tier I capital (CET1 CAPITAL)	1,475,703
	Additional Tier 1 capital (CET 1 CAPITAL)	
30	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	-
31	of which: classified as equity under applicable accounting standards	-
32	of which : classified as liabilities under applicable accounting standards	-
33	Directly issued capital subject to phase out from additional Tier 1	-
34	Additional Tier 1 instruments (and CET 1 CAPITAL instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group ATI)	-
35	of which: instruments issued by subsidiaries subject phase out	-
36	Additional Tier 1 capital before regulatory adjustments	-
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier I instruments	-
38	Reciprocal cross-holding in Additional Tier I instruments	-
39	Investments in the capital 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%)	-
40	significant investment 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 adjustment	-
42	Regulatory adjustment applied to Additional Tier I due it insufficient Tier II to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1	-
44	Additional Tier 1 Capital (ATI)	-
45	Tier 1 (T1=CET 1 CAPITAL + AT1)	1,475,703
	Tier II capital : instruments and provisions	
46	Directly issued qualifying Tier II instruments plus related stock surplus	500,000
47	directly issued capital instruments subject to phase out from Tier II	-
48	Tier II instruments (and CET 1 CAPITAL and AT 1 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	275,229
51	Tier II capital before regulatory adjustments	775,229
	Tier II capital: regulatory adjustments	
52	Investments in own Tier II instruments	-
53	Reciprocal cross-holdings in Tier II instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold).	-

02. Regulatory Capital Requirements... Cont

2.1 Capital Structure... cont

55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions).	-
56	National specific regulatory adjustments	-
57	Total regulatory adjustments to Tier II capital	-
58	Tier II capital (T2)	775,299
59	Total capital (TC = T1 + T2)	2,251,002
60	Total risk-weighted assets	12,982,182
	Capital ratios and buffers	
61	Common Equity Tier I (as a percentage of risk weighted assets)	11.37%
62	Tier I (as a percentage of risk weighted assets)	11.37%
63	Total capital (as a percentage of risk weighted assets)	17.34%
64	Institution specific buffer requirement (minimum CET 1 CAPITAL requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	N/A
65	of which: capital conservation buffer requirement	N/A
66	of which: bank specific countercyclical buffer requirement	N/A
67	of which: G-SIB buffer requirement	N/A
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)		
69	National Common Equity Tier I minimum ratio (if different from Basel III minimum)	4.50%
70	National Tier I minimum ratio (if different from Basel III minimum)	7.50%
71	National total capital minimum ratio (if different from Basel III minimum)	15.0%
Amounts below the threshold for deduction (before risk-weighting)		
72	Non -significant investments in the capital of other financials	N/A
73	significant investments in the common stock financials	N/A
74	Mortgage servicing rights (net of related tax liability)	N/A
75	Deferred tax assets arising from temporary differences (net of related tax liability)	N/A
Applicable caps on the inclusion of provisions in Tier II		
76	Provisions eligible for inclusion in Tier II in respect of exposures subject to standardised approach (prior to application of cap)	N/A
77	Cap on inclusion of provisions in Tier II under standardised approach	N/A
78	Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap)	N/A
79	Cap for inclusion of provisions in Tier II under internal ratings-based approach	N/A
Capital Instruments subject to phase -out arrangements (only applicable between 1 Jan 2015 and 1 Jan 2020)		
80	Current cap on CET 1 CAPITAL instruments subject to phase out arrangements	N/A
81	Amount excluded from CET 1 CAPITAL due to cap (excess over cap after redemption and maturities)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A
84	current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemption and maturities)	-

02. Regulatory Capital Requirements... Cont

2.2 Capital Adequacy

2.2.1 Qualitative Disclosures

Through the robust capital management and monitoring the bank has remained well capitalised, maintaining the CAR well above the minimum regulatory requirement. The management of capital through the Treasury and Capital Management (TCM) unit forecasts the position regularly so that business is not surprised by the positions at month end. The capital planning which forms part of the bank funding plan looks at the budgeted balance sheet growth and determines feasibility looking at the capital supply.

For the period ended 30 June 2021, the bank's capital ratios were well reported above the minimum requirement as shown below :

Table 2: Summary of Capital Ratios

Capital	Minimum requirement	Actual Ratio
Common Tier 1 capital (CET1)	4.5%	11.37%
Tier 1 Capital	7.50%	11.37%
Total unimpaired capital	12.50%	17.34%

2.2.2 Quantitative Disclosures

The risk weighted assets represent an aggregated measure of different risk factors affecting the evaluation of financial products and transactions in the bank. The aggregation considers credit, operational and market risks.

Table 3: Composition of RWA as at June 2021

Portfolio	Approach	RWA P'000
Credit Risk	Simple Approach	11,672,881
Market Risk	Standardised Approach	230,465
Operational Risk	Basic Indicator Approach	1,078,836
Total		12,982,182

a) Capital requirement for Credit Risk

According to the Basel II directive, the risk weights for credit risk is determined by multiplying the credit exposures by the appropriate risk weights, dependent on the counterparty's risk rating as applicable.

Table 4: Summary of Credit RWA as at 30 June 2021

Credit risk in BWP 000	Exposure amounts	Specific provisions	Credit Risk mitigation	RWA
Sovereign or Central bank	2,700,656			-
Public Sector entities	319,625			58,237
Exposure to banks	3,525,815			1,125,381
Corporates	2,413,381			2,413,381
Retail loans and Mortgages	10,033,874	177,553	10,021	7,127,890
Other assets	455,846	-		337,459
Off balance sheet exposures	2,277,605		512,171	610,533
Total Credit Risk RWA	21,726,802	177,553	522,192	11,672,881

02. Regulatory Capital Requirements... Cont

2.2.2 Capital Structure... cont

b) Capital requirement for Market Risk

The bank computes the market risk capital using the Standardised Measurement Method. A capital charge is computed for both the Foreign Exchange and Interest Rate Risk in the trading book and the sum is calibrated by a risk weighted factor of 6.7 to give the Market Risk RWAs. The bank does not hold Commodity and Equity Positions that could pose additional market risk exposure.

- Foreign Exchange Risk-This part sets out the minimum capital requirement to cover the risk of holding or taking positions in foreign currencies.
- Interest Rate Risk-Interest rate sensitive instruments are affected by general interest rate movement (General Risk) and changes in factors related to a specific issuer (Specific Risk).

The market risk RWA as at 30 June 2021 is illustrated below :

Table 5: Market Risk RWA as at 30 June 2021

Risk	Amount BWP 000	Risk Weighted Factor	RWA BWP 000
Foreign Exchange Risk	34,202	6.7	229,153
Interest Rate Risk	196	6.7	1,313
Equity Position Risk	-	6.7	-
Commodity Risk	-	6.7	-
Total Market Risk RWA	34,398		230,467

c) Capital Requirement for Operational Risk

The Bank uses the Basic Indicator Approach (BIA) in the computation of the Operational Risk Capital. This approach uses the rolling Gross Income (interest and non-interest based excluding provisions) over the previous 36 months of the date of calculation.

The regulatory charge for operational risk is equal to 15% of the average of the previous three years bank's positive annual income. The calculated regulatory charge is then multiplied by Risk Weighted Factor of 6.7 to give the Risk Weighted Assets.

Table 6: Operational Risk RWA as at 30 June 2021

P'000	Gross income	Aggregate gross income	Risk weight factor
Total Gross Income for Year 1	986,919		
Total Gross Income for Year 2	1,145,718		
Total Gross Income for Year 3	1,087,768		
Aggregate Gross Income ($\sum GI_{1...n}$)		3,220,405	
operational risk factor -denoted alpha (α)		15%	
Aggregate Gross Income multiplied by α		483,061	
No. of years with Positive Gross Income (n)		3	
Operational Risk Capital Charge: BIA		161,020	
risk weight factor			6.7
operational risk weight assets			1,078,836

02. Regulatory Capital Requirements... Cont

2.3 Expanded Balance Sheet

For the basis of consolidation for accounting purposes the bank's balance sheet and the regulatory need to be reconciled to identify any differences that might arise.

The differences that exist between the two reconciliations are due to reclassifications of items under the regulatory reporting. Some of the adjusted items between the two reconciliations are on the trading assets, staff fair value, financial assets designated at fair value and intangible assets.

Table 7: Accounting vs regulatory balance sheets 30 June 2021

Risk class	Balance Sheet as in Published Financial Statements As at Period End 30 June 2021	Under Regulatory Scope of Consolidation As at Period End 30 June 2021
Assets	P000	P000s
Cash balances at central banks	196,595	470,822
Items in the course of collection from banks	-	-
Trading portfolio assets	7,065	-
Financial assets designated at fair value	2,436,246	-
Derivatives initial instruments	7,258	7,258
Loans and advances to banks	3,544,577	3,525,815
Loans and advances to customers	12,253,110	12,560,324
Reverse repurchase agreement and other secure Lending	-	-
Available for sale financial investments	-	-
Current and deferred tax asset	74,779	75,156
Prepayments, accrued income and other assets	168,131	8,593
Investments in associations and Joint venture	1,922	4
Goodwill and intangible assets	159,894	132,894
Property, Plant and equipment's	158,426	225,061
Total Assets	19,008,003	19,449,197
Liabilities		
Liabilities		
Deposit from banks	1,594,148	1,593,507
Items in the course of collections due to other banks	-	-
Customer accounts	14,444,167	14,444,809
Repurchase agreement and other secure Lending	-	-
Trading portfolio liabilities	-	-
Financial liabilities designated at fair value	274,228	274,228
Derivatives financial instruments	4,506	4,506
Debt securities in issue	968,402	968,402
Accrual, deferred tax liabilities	-	-
Subordinated liabilities	-	-
Provisions	361,509	558,655
Retirement benefit liabilities		
Total Liabilities	17,372,732	17,844,106

02. Regulatory Capital Requirements... Cont

2.3 Capital Structure... cont

Shareholders 'Equity		
Paid -in share capital	392,095	390,177
Retained earnings	1,113,788	1,085,526
Accumulated other comprehensive income	129,388	129,388
Total Shareholders equity	1,635,271	1,605,091

Table 8: Expanded Balance Sheet as at 30 June 2021

	Balance Sheet as in Published Financial Statements	Under Regulatory Scope of Consolidation	Reference
Risk class	As at Period End 30 June 2021	As at Period End 30 June 2021	
Assets	P000	P000	
Cash balances at central banks	196,595	470,822	
Items in the course of collection from banks	-		
Trading portfolio assets	7,065	-	
Financial assets designated at fair value	2,436,246	-	
Derivatives financial instruments	7,258	7,258	
Loans and advances to banks	3,544,577	3,525,815	
Loans and advances to customers	12,253,110	12,560,324	
Reverse repurchase agreement and other secure Lending	-	-	
Available for sale financial investments	-		
Current and differed tax asset	74,779	75,156	
Prepayments, accrued income and other assets	168,131	8,593	
Investments in associations and Joint venture	1,922	4	
Goodwill and intangibles assets	159,894	132,894	
of which good will	-	-	a
of which other intangibles (Excluding MSRs)			b
Property ,Plant and equipment	158,426	225,061	c
Total Assets	19,008,003	19,449,197	
Liabilities			
Deposit from banks	1,594,148	1,593,507	
Items in the course of collections due to other banks	-		
customer accounts	14,444,167	14,444,809	
Repurchase agreement and other secure Lending	-		
Trading portfolio liabilities	-		
Financial liabilities designated at fair value	274,228	274,228	
Derivatives financial instruments	4,506	4,506	
Debt securities in issue	968,402	968,402	
current and deferred tax liabilities		-	
of which DTIs related to goodwill		-	d
of which DTIs related intangibles (excluding MSRs)		-	e

02. Regulatory Capital Requirements... Cont

2.3 Capital Structure... cont

of Which DTLs related to MSRs		-	f
Subordinated liabilities	-	-	
Provisions	361,509	558,655	
Retirement benefit liabilities			
Total Liabilities	17,372,732	17,844,106	
Shareholders 'Equity			
Paid -in share capital	392,095	390,177	
of which amount eligible for CET1 CAPITAL			h
of which amount eligible for AT1			l
Retained earnings	1,113,788	1,085,526	
Accumulated other comprehensive income	129,388	129,388	
Total Shareholders equity	1,635,271	1,605,091	

Table 9: Extract of Basel III common disclosure template (with added column)

Common equity Tier 1: Instrument and reserves			
		Component of Regulatory capital reported by bank	Source based on reference number/ letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-stock companies capital plus related stock surplus.	390,177	h
2	Retained earnings	973,256	
3	Accumulated other comprehensive income (and other reserves)	139,270	
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 the group CET1 CAPITAL)	-	
6	Common equity Tier I capital before	1,502,703	
7	Prudential valuation adjustments	27,000	
8	Goodwill (net of related tax liability)	-	a-d

The bank currently has BWP 500 million in subordinated debt, issued locally and listed on the Botswana Stock Exchange (BSE).

Table 10: Main features template

Issuer	Stanbic Bank Botswana Limited
Unique identifier (e.g. CUSIP,ISIN or Bloomberg identifier for private placement)	ZQ 6621812 ZQ 6621895 AO 0733169 AO 07177558"
Governing law(s) of the instrument	Botswana law
Regulatory treatment	Basel II
Transitional Basel III rules	Tier II

02. Regulatory Capital Requirements... Cont

2.3 Capital Structure... cont

Post-transitional Basel III rules	Tier II
Eligible at solo/group/group and solo	Solo
Instrument type (types to be specified by each jurisdiction)	Subordinated Debt
Amount recognised in regulatory capital (Currency in mil as of most recent reporting date)	P212m P140m P60m P88m
Par value of instrument	P212m P140m P60m P88m
Accounting classification	Borrowings (Amortised cost)
Original date of issuance	15-06-2017 28 -11-2019
Perpetual or dated	Dated
Original maturity	15-06-2017 28 -11-2019
Issuer caller subject to prior supervisory approval	
Optional call date ,contingent call dates and redemption amount	After a minimum of 5yrs
Subsequent call dates if applicable	None
coupons/dividends	
Fixed or floating	Floating and Fixed
Coupon rate and related index	Bank and prime rate
Existence of a dividend stopper	None
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	None
Non cumulative or cumulative	Non cumulative
Convertible or non-convertible	No
If convertible ,conversion trigger(s)	Not applicable
If convertible ,conversion rate	Not applicable
If convertible ,fully or Partially	Not applicable
If convertible ,mandatory or optional conversion	Not applicable
If convertible ,specify instrument type convertible into	Not applicable
If convertible ,specify issuer of instrument it converts into	Not applicable
If write down feature	Not applicable
If write down, write-down trigger(s)	Not applicable
If write down, full or partial	Not applicable
If write down, permanent or temporary	Not applicable
If write down, description of write-up mechanism	Not applicable
Positioning subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
Non-compliant transitioned features	Not applicable
If yes, specify non-compliant features	Not applicable

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