# STANBIC BANK BOTSWANA
## CAPITAL DISCLOSURE AS AT 31 MARCH 2020

## Basel II Pillar III Disclosure – 31 March 2020

### 1. Introduction

This report sets out the Stanbic Bank Botswana ( SBBL) quarterly capital discloser in accordance with the Basel II guidelines on the revised international convergence of capital measurement and capital standards for Botswana.

This main purpose of this disclosure is to supplement the minimum requirements ( Pillar 1) and supervisory review process ( Pillar 2) to influence the level of capital and risk assessment processes.

During the quarter ending March 2020, the Bank closed in excess of both the regulatory and internal requirements at 17.44%, lower than 17.70% that was reported the previous quarter.

The currency used in this report is Pula and the lowest denomination is in thousands (P'000) unless otherwise stated.

Table 1: Basel III Common Equity Tier I Disclosure Template

| Common Equity Tier I: Instruments and reserves | | P '000 |
|---|---|---|
| 1 | Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus. | 390,177 |
| 2 | Retained earnings | 924,228 |
| 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** | 1,314,405 |
| **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) | 148,759 |
| 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 | - |

| Common Equity Tier I capital: regulatory adjustments (cont’) | | P’000 |
|---|---|---|
| 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 | **Total regulatory adjustments to Common equity Tier I** | **148,759** |
| 29 | **Common Equity Tier I capital (CET1 CAPITAL)** | **1,165,646** |

| Additional Tier 1 capital ( CET 1 CAPITAL) | | P’000 |
|---|---|---|
| 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 | | P'000 |
|---|---|---|
| 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)** | **1,165,646** |

| Tier II capital : instruments and provisions | | P'000 |
|---|---|---|
| 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 | 118,187 |
| 51 | **Tier II capital before regulatory adjustments** | **703,702** |

| Tier II capital: regulatory adjustments | | P'000 |
|---|---|---|
| 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 | - |

| Tier II capital: Regulatory Adjustments (cont’) | | P’000 |
|---|---|---|
| 57 | **Total regulatory adjustments to Tier II capital** | - |
| 58 | **Tier II capital (T2)** | 703,702 |
| 59 | **Total capital (TC = T1 + T2)** | 1,869,348 |
| 60 | **Total risk-weighted assets** | **10,720,206** |

| Capital ratios and buffers | | |
|---|---|---|
| 61 | Common Equity Tier I ( as a percentage of risk weighted assets) | **10.87%** |
| 62 | Tier I ( as a percentage of risk weighted assets ) | **10.87%** |
| 63 | Total capital ( as a percentage of risk weighted assets) | **17.44%** |
| 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 assists) | 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) | **15.00%** |

| 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 previsions 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 | | |
|---|---|---|
| 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) | - |

## 2. IFRS 9 Transitional Arrangement

Effective 1 January 2018, the IFRS 9 financial instruments replaced the accounting treatment of financial instruments under IAS 39. SBBL transitioned on 1 January 2018 in line with the standard. Subsequent to the implementation of IFRS 9, Bank of Botswana issued a circular pursuant to Sections 13 and 14 of the Banking Act ( CAP 46:04). To cushion the banks against any significant shocks to capital, a three year transitional period was offered for the new provisions. The period of transition would run from 1 January 2018 to 31 December 2020. SBBL opted for the transitional arrangement.

Table 2: SBBL IFRS 9 Transitional Arrangement

| Available Capital (P'000) | T | T - 1 | T - 2 | T - 3 | T - 4 |
|---|---|---|---|---|---|
| | 31/3/20 | 31/12/19 | 30/9/19 | 30/6/19 | 31/3/19 |
| Common Equity Tier 1 (CET1) | 1,165,646 | 1,165,646 | 1,030,294 | 1,084,277 | 1,084,277 |
| Fully loaded ECL accounting model | 970,536 | 1,105,889 | 970,536 | 994,640 | 994,640 |
| Tier 1 | 1,165,646 | 1,165,646 | 1,030,294 | 1,084,277 | 1,084,277 |
| Fully loaded ECL accounting model Tier 1 | | - | - | - | - |
| **Total capital** | 1,869,348 | 1,776,635 | 1,765,222 | 1,833,824 | 1,760,985 |
| Fully loaded ECL accounting model total capital | 1,810,590 | 1,716,579 | 1,705,464 | 1,744,186 | 1,671,347 |
| **Risk weighted asset assets (P'000)** | | | | | |
| Total risk-weight assets (RWA) | 10,720,206 | 10,036,127 | 10,361,165 | 10,218,835 | 9,821,291 |
| **Risk-based capital ratios as a percentage of RWA (%)** | | | | | |
| Common Equity Tier 1 (CET1) ratio | 10.87% | 11.61% | 9.94% | 10.61% | 11.04% |
| Fully loaded ECL accounting model common Equity tier 1 | 9.05% | 11.02% | 9.37% | 9.73% | 10.13% |
| Tier 1 | 10.87% | 11.61% | 9.94% | 10.61% | 11.04% |
| Fully loaded ECL accounting model Tier 1 | | | | | |
| Total capital | 17.44% | 17.70% | 17.04% | 17.95% | 17.93% |
| Fully loaded ECL accounting model total capital | 16.89% | 17.10% | 16.46% | 17.07% | 17.02% |
| **Additional CET1 Bufffer requirement as a Percentage of RWA** | | | | | |
| Capital conservation buffer requirements [2.5% from 2019 (%)] | | | | | |
| Countercyclical requirements (%) | | | | | |
| Bank G-SIB and /or D-SIB additional reqiurements (%) | | | | | |
| Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10) | | | | | |
| CET1 available after meeting the bank's minimum capital requirement (P'000) | | | | | |

## 3. Risk Weighted Assets

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, market and operational risks. The amount of the risk weighted assets from both operational and market risks are determined by multiplying the respective capital requirement by 6.7, the result of which is added to the credit risk weighted assets in order to determine the total risk weighted assets of the bank.

## 4. Credit Risk weighted Assets

The credit risk weighted assets are determined by multiplying the credit exposures by the appropriate risk weights dependent on the counterparty risk rating.

Table 3: Summary of Credit RWA

| **Credit Risk** | **P'000** |
|---|---|
| Total On-Balance Sheet Amount | 8,640,049 |
| Total Off-Balance Sheet Amount | 814,926 |
| **Total Credit Risk Weighted Assets** | **9,454,975** |

## 5. Market Risk RWA

The market risk capital charge is divided into four components being interest rates, equity, foreign exchange and commodity risks capital. Therefore the capital charge for market risk is determined by the sum of individually calculated charges for these four components.

Table 4: Market Risk RWA

| **Summary Information** | **P'000** |
|---|---|
| **Standardised Measurement Method** | **35,817** |
| **Interest rate risk** | **17,558** |
| *Specific risk* | 17,558 |
| *General risk* | - |
| **Foreign exchange risk** | **18,259** |
| *Foreign exchange risk* | **18,259** |
| **Total capital charge** | **35,817** |
| Risk-weighted amount factor | 6.70 |
| **Market risk-weighted assets** | **239,974** |
| | |
| **Total Pillar 1 Market Risk Capital Requirements** | **35,817** |

## 6. Operational Risk RWA

The regulatory capital charge for operational risk is equal to 15 percent of the average of the previous banks' positive annual gross income.

Table 5: Operational risk RWA

| P'000 | Gross income | Aggregate gross income | Risk Weight Factor |
|---|---|---|---|
| Total Gross Income for Year 1 | 927,833 | | |
| Total Gross Income for Year 2 | 986,919 | | |
| Total Gross Income for Year 3 | 1,145,718 | | |
| | | | |
| Aggregate Gross Income ($\Sigma G_1 \ldots n$) | | 3,060,470 | |
| Operational Risk Factor denoted alpha (α) | 0 | 15% | |
| Aggregate Gross Income multiplied by α | | 459,071 | |
| No. of Years with Positive Gross Income (n) | | 3 | |
| Operational Risk Capital Charge: BIA | | 153,024 | |
| Risk Weight Factor | | | 6.70 |
| **Operational Risk RWA** | | | **1,025,257** |

## 7. Subsequent Events

On March 11, 2020 the World Health Organisation declared the Coronavirus COVID-19 outbreak pandemic. Many governments took stringent steps to help contain the spread of the virus, including: requiring self – isolation/ quarantine by those potentially affected, implemented social distancing measures, controlling or closing boarders and 'locking –down' cities/ regions. The President of the Republic of Botswana declared a State of Emergency (SOE) initially for a month. This started with a 28-day period of extreme social distancing starting on April 2 2020 initially for 28 days which was later extended to May 20 2020. The main purpose of extreme social distancing was to prevent, control and suppress the spread of COVID-19. Subsequently, to intensively combat the spread of this pandemic, the President declared a six month SOE.

As at June 15 2020, Botswana had reported 60 COVID-19 cases, 24 recoveries and 1 death as the activate contact tracing initiative continues. Due to this pandemic, the Botswana economy is expected to contract by 13% in 2020, significantly lower than the initial forecast growth of 4.5%. This is mainly due to expected depression in the mining and tourism sectors.

Due to the pandemic, most economic indices have become very volatile and it remains difficult to predict how long this situation will last. The national extreme social distancing which ended in May is expected impact the ability of the customers, both corporates or individuals to meet their loan obligations with the Bank. This will result in increased impairments and reduced market liquidity. However, the Bank has been proactive and continues to monitor all potential effects of the pandemic and reviewed its entire value chain and subjected the business to stress tests under various impact scenarios. Based on the re-assessment performed, management has concluded that the significant doubt associated with the current uncertainties related to COVID-19 does not result in a material uncertainty related to such events or condition that may cast significant doubt on the entity's ability to continue as a going concern. The Bank is currently well capitalised and well-funded to sustain the effect of the pandemic in the foreseeable future.

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