

Basel Pillar 3 Disclosure

For The Year Ended 30 June 2017

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1. OVERVIEW OF RISK MANAGEMENT PROCESSES

Introduction

First National Bank of Botswana Limited (FNBB or the Bank) is a subsidiary of FirstRand EMA Holdings (Pty) Ltd (FREMA). FREMA is a wholly owned subsidiary of FirstRand Limited (FirstRand or the Group). This Pillar 3 disclosure report covers the operations of FNBB and is consistent with:

- i. the Bank of Botswana's Directive on the Revised International Convergence of Capital Measurement and Capital Standards for Botswana (Basel II Directive); and
- ii. the Basel Committee on Banking Supervision's (BCBS) Revised Pillar 3 Disclosure Requirements.

This disclosure is designed to capture the capital position of the Bank as well as the qualitative and quantitative aspects of the various risks the Bank is exposed to.

This report has been internally verified by the Bank's governance processes in line with the FNBB Pillar 3 disclosure policy, which describes the responsibilities and duties of senior management and the Board in the preparation and review of the Pillar 3 disclosure. It aims to ensure that:

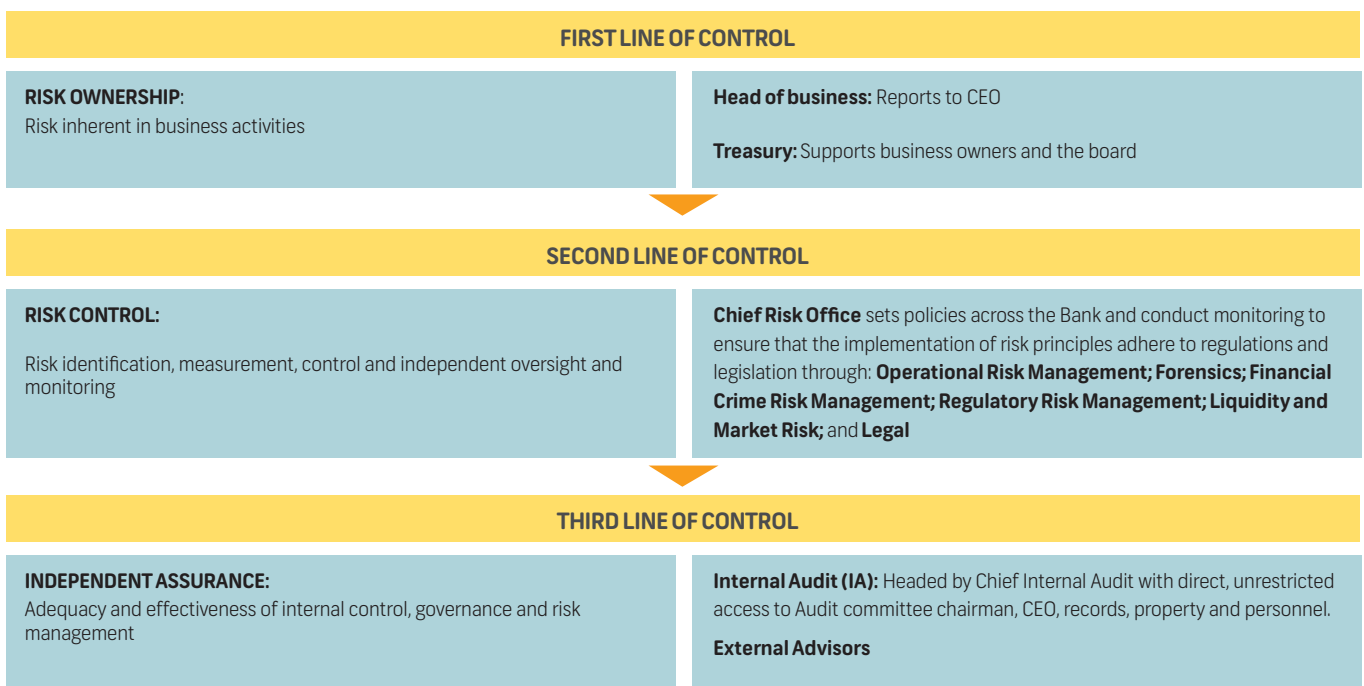
- minimum disclosure requirements of the Regulations, standards and directives are met;
- disclosed information is consistent with the manner in which the Board assesses the Bank's risk portfolio;
- the disclosure provides a true reflection of the Bank's financial condition and risk profile; and
- the quantitative and qualitative disclosures are appropriately reviewed.

1.1 Risk Governance

Risk governance framework

The Bank's *Business Performance and Risk Management Framework* (BPRMF) describes the Bank's approach to risk management. Effective risk management also requires multiple points of control or safeguards that should be consistently applied at various levels throughout the organisation. The Bank's Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. The Bank believes that effective risk management is predicated on a culture focused on risk paired with an effective governance structure.

There are three lines of control across the Bank's operations, which are recognised in the BPRFM. The following diagram illustrates the three lines of risk control.



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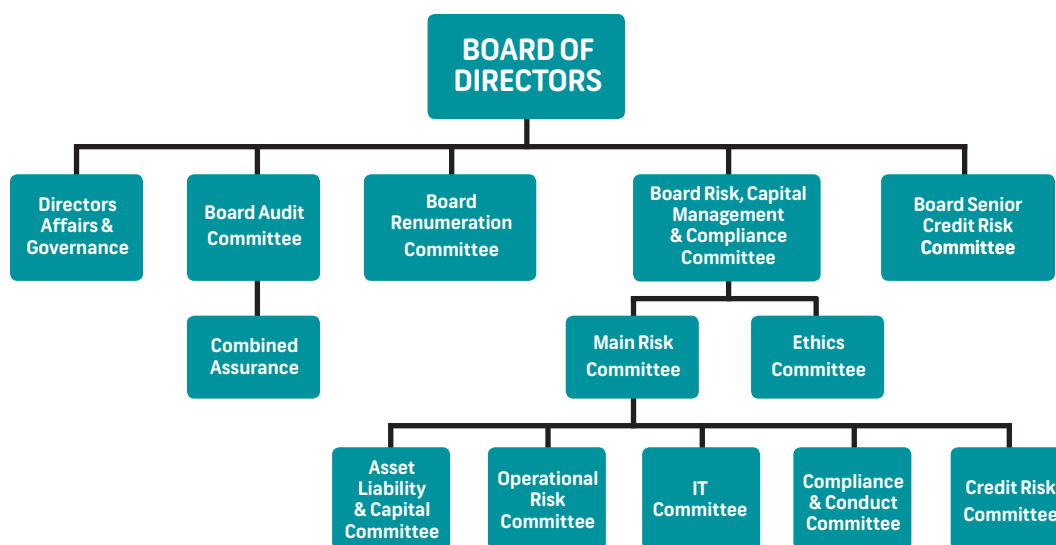
Risk Governance Structure

The risk management structure is set out in the BPRMF. As a policy of the Board, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the Bank.

The primary Board committee overseeing risk matters across the Bank is the Board Risk, Capital and Compliance committee (BRCCC). It has delegated responsibility for a number of specialist topics to various sub-committees.

The governance structures are in place to ensure a common understanding of the challenges business face and how these are addressed across the bank.

The following diagram illustrates how the risk committees fit into the board committee structure and the risk coverage of each committee. Other board committees also exist, with clearly defined responsibilities. The strategic executive committee ensures alignment of the bank's strategy, sets risk appetite and is responsible for optimal deployment of the bank's financial and non-financial resources.



Responsibilities of the Board Risk Committees

Committee	Responsibility
Audit Committee	<ul style="list-style-type: none"> • assists the board with its duties relating to the safeguarding of assets, operation of adequate systems and controls, assessment of going concern status and ensuring that relevant compliance and risk management processes are in place; • oversees and reviews work performed by the external auditors and internal audit function; and • oversees financial risks and internal financial controls including the integrity, accuracy and completeness of the financial information and the annual integrated report, which is provided to shareholders and other stakeholders.
Risk, Capital Management and Compliance Committee (RCCC)	<ul style="list-style-type: none"> • approves risk management policies, frameworks, strategies and processes; • monitors containment of risk exposures within the risk appetite framework; • reports on assessment of the adequacy and effectiveness of risk appetite, risk management, and compliance processes to the board; • monitors the implementation of the risk management strategy, risk appetite limits and effectiveness of risk management; • initiates and monitors corrective action, where appropriate; • monitors that the bank takes appropriate action to manage its regulatory and supervisory risks, and complies with applicable laws, rules, codes and standards; • approves regulatory capital models, risk and capital targets, limits and thresholds; and • monitors capital adequacy and ensures that a sound capital management process exists.

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Committee	Responsibility
Senior Credit Risk Committee	<ul style="list-style-type: none">• reviews and approves applications or renewals for investments, advances or other credit instruments in excess of 10% of the bank's qualifying capital and reserves;• reviews and approves transactions with a related party; and• delegates the mandate for approval of group and individual facilities to the bank's credit approval committees.
Directors Affairs and Governance Committee	<ul style="list-style-type: none">• Assesses the adequacy, effectiveness and appropriateness of corporate governance structures of the Bank and alignment with best practice.
Remuneration Committee	<ul style="list-style-type: none">• Advises the Board on various aspects of the Bank's people strategy including remuneration of executive directors;• Makes recommendations regarding non-executive director's fees; and• Evaluates the adequacy, effectiveness and appropriateness of the reward and remuneration policies and ensures its alignment to best practice.

1.2 Combined Assurance

The Audit committee oversees formal enterprise-wide governance structures for enhancing the practice of combined assurance. The primary objective is for the assurance providers to work together with management to deliver the appropriate assurance cost effectively. Assurance providers in this model include Internal Audit, senior management, Operational Risk Management (ORM), Regulatory Risk Management (RRM) and external auditors. The combined outcome of independent oversight, validation and audit tasks performed by the assurance providers ensure a high standard across methodological, operational and process components of the bank's risk and financial resource management.

The bank established a combined assurance forum with its duties, responsibilities, membership and reporting lines articulated in the combined assurance forum charter. The forum's primary objective is to assist the audit committee in discharging its responsibilities relative to the integration, coordination, and alignment of the various risk management and assurance processes and activities across the group.

Combined assurance results in a more efficient assurance process through the elimination of duplication, more focused risk-based assurance against key risk themes and control areas and heightened awareness of emerging issues, resulting in the implementation of appropriate preventative and corrective action plans.

1.3 Risk Information Reporting

Process of Risk Reporting

The Bank's robust and transparent risk reporting process enables key stakeholders (including the board and senior management) to get an accurate, complete and reliable view of the Bank's financial, non-financial and risk profile and to make appropriate strategic and business decisions.

Specialised risk committees report to the RCCC, as well as to relevant executive committees on risk profile, material risk exposures, risk-adjusted business performance and key risk issues. The RCC committee submits its reports and findings to the board and highlights control issues to the audit committee.

Regular risk reporting enables the board, senior management, RCCC and relevant subcommittees to evaluate and understand the level and trend of material risk exposures and its impact on the Bank's capital adequacy, and to make timely adjustments to the Bank's future capital requirements and strategic plan.

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The RCCC, in turn, submits reports to the board on:

- the Bank's risk profile, significant issues, key risk exposures, risk rating trends, board risk appetite principles and board risk limits;
- effectiveness of processes relating to corporate governance, risk management, capital management and capital adequacy;
- level of compliance or non-compliance with laws and regulations and supervisory requirements;
- internal control and regulatory material malfunction;
- contravention of codes of conduct or ethics, personal trading, or unethical behaviour by any of the directors; and
- limits, authorities and delegations granted to the RCCC.

Internal Audit (IA) provides a written assessment regarding the adequacy and effectiveness of the system of internal controls (including financial controls) and risk management to the audit committee. This enables the board to report on the effectiveness of the system of internal controls in the annual report.

Scope and main content of risk reporting pick what is applicable

Risk reports to the board, board risk committees, audit committees, and senior management include the following:

- feedback on the implementation and monitoring of risk management processes;
- comparison of risk management performance against risk appetite, limits and indicators;
- periodical review of process against and deviation from the risk management plan;
- changes in the external and internal environment and its possible impact on the risk profile;
- impact of environmental changes on the strategic risk profile of the Bank;
- assessment that risk responses are effective and efficient in both design and operation;
- tracking the implementation of risk responses;
- analysing and learning lessons from changes, trends, successes, failures and events; and
- identifying emerging risks.

Risk data aggregation and risk reporting

The BCBS published the principles for effective risk data aggregation and risk reporting (BCBS239) in January 2013. This paper presents a set of principles to strengthen banks' risk data aggregation capabilities and internal risk reporting practices. In turn, effective implementation of the principles is expected to enhance risk management and decision-making processes at banks. FNBB is currently in the early stages of complying with the requirements of the principles.

1.4 Internal Capital Adequacy Assessment Process (ICAAP)

As per the Basel II Directive issued by Bank of Botswana, all banks should fully implement Pillar II of the directive, by imbedding a Board approved ICAAP into the business activities by 2018.

The overall objective of capital management is to maintain sound capital ratios, a strong credit rating, ensure confidence in the solvency of the Bank, comply with regulatory requirements and instill confidence during periods of uncertainty and turmoil in financial markets. In order to achieve this objective the Bank needs to:

- ensure that at least the minimum amount of regulatory capital is held at all times for Bank of Botswana (BoB) and South African Reserve Bank (SARB) to allow the Bank to conduct business;
- hold sufficient capital that will instill confidence in all stakeholders in the Bank's ongoing solvency and status as a creditworthy counterparty;

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- allocate capital to businesses based on an understanding of the risk and reward drivers of the income streams and to ensure that appropriate returns are earned on the capital deployed;
- ensure that the buffer over the minimum regulatory capital requirement is sufficient to cater for income and capital volatility and economic risk which may manifest through business disruption, regulatory intervention or credit downgrades, where applicable;
- to consider the returns on a risk-adjusted basis to assess business performance; and
- ensure that the Bank's capital adequacy ratios and other sub-limits remain above appropriate (and approved) limits during different economic and business cycles.

The optimal level and composition of capital is determined after taking into account business units organic growth plans, as well as investor expectations, targeted capital ratios, future business plans, plans for the issuance of additional capital instruments, the need for appropriate buffers in excess of minimum requirements, rating agencies considerations and proposed regulatory changes.

Additionally, this requires that the Bank develops and maintains a capital plan that incorporates, among others, the following:

- anticipated capital utilisation;
- planned issuance of capital instruments;
- stress tests and scenario analysis;
- appropriation of profits and dividend payments;
- desired level of capital, inclusive of a buffer;
- expansion and strategic initiatives; and
- general contingency plan for dealing with divergences and unexpected events.

ICAAP is an integral tool in meeting the above capital management objectives and key to the Bank's risk and capital management processes.

ICAAP allows and facilitates:

- the link between business strategy, risk introduced and capital required to support the strategy;
- the establishment of frameworks, policies and procedures for the effective management of material risks;
- the embedding of a responsible risk culture at all levels in the organisation;
- the effective allocation and management of capital in the organisation;
- the development of plausible stress tests to provide useful information which serve as early warnings/triggers, so that contingency plans can be implemented; and
- the determination of the capital management strategy and how the Bank will manage its capital, including during periods of stress, determination of the capital management strategy and how the Bank will manage its capital including during periods of stress.

FNBB is currently in the process of fully implementing Pillar II of the directive, by imbedding a Board approved ICAAP into the business activities by 2018.

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1.5 Risk profile analysis

Capital adequacy	
- FNBB has maintained its strong capital position. The group continues to actively manage capital composition and to this end, issued P202 million Basel II-compliant Tier 2 instruments in the domestic market during the past 12 months. This results in a more efficient composition which is closely aligned with the group's internal targets.	For a detailed analysis of capital adequacy refer to page 11 of this report.
Credit risk	
- Group credit loss rates increased as expected, impacted by a more challenging macroeconomic environment. - Performance is acceptable and is within risk appetite. - Credit origination strategies are aligned to the group's macroeconomic outlook.	For a detailed analysis of credit risk refer to page 15 of this report.
Market risk in the trading book	
- The interest rate risk asset class represents the most significant market risk in the trading book exposure at June 2017. The group's market risk profile remained within risk appetite.	For a detailed analysis of market risk in the trading book refer to page 27 of this report.

2. REGULATORY CAPITAL REQUIREMENTS

Consolidation of all group entities for accounting purposes is in accordance with IFRS and for regulatory purposes in accordance with the requirements of the Basel II Regulations. There are no differences in the manner in which entities are consolidated for accounting and regulatory purposes.

There are no restrictions, or other major impediments, on the transfer of funds or regulatory capital within the group.

There are no capital deficiencies in any of the subsidiaries that are not included in the consolidation for regulatory purposes.

There are no interests in insurance entities.

The capital planning process ensures that the total capital adequacy and Common Equity Tier 1 (CET1) capital ratios remain within or above targets across economic and business cycles. Capital is managed on a forward-looking basis, and the Bank remains appropriately capitalised under a range of normal and severe stress scenarios, which includes ongoing regulatory developments, expansion initiatives and corporate transactions. The Bank aims to back all economic risk with loss absorbing capital and remains well capitalised in the current environment.

The currency used in this report is Pula and lowest denomination used is thousand (P'000).

Table 22: Basel III Common Equity Tier I Disclosure Template

Common Equity Tier I capital: instruments and reserves as at June 30, 2017		(P'000)
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	51,088
2	Retained earnings	2,272,016
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	2,323,104

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Common Equity Tier I capital: regulatory adjustments		
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	(26,963)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-
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	Total regulatory adjustments to Common equity Tier I	(26,963)
29	Common Equity Tier I capital (CET1 CAPITAL)	2,296,141
Additional Tier I capital: instruments		
30	Directly issued qualifying Additional Tier I instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	<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>	-

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Additional Tier I capital before regulatory adjustments		
36	Investments in own Additional Tier I instruments	-
37	Reciprocal cross-holdings in Additional Tier I instruments	-
38	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)	-
39	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
40	National specific regulatory adjustments	-
41	Regulatory adjustments applied to Additional Tier I due to insufficient Tier II to cover deductions	-
42	Total regulatory adjustments to Additional Tier I capital	-
43	Additional Tier I capital (AT1)	-
44	Tier I capital (T1 = CET1 CAPITAL + AT1)	2,296,141
Tier II capital: instruments and provisions		
45	Directly issued qualifying Tier II instruments plus related stock surplus	201,840
46	<i>Directly issued capital instruments subject to phase out from Tier II</i>	-
47	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)	-
48	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
49	<i>Unpublished Current Year's Profits</i>	218,512
50	Provisions	133,446
51	Tier II capital before regulatory adjustments	553,798
Tier II capital: regulatory adjustments		
52	Investments in own Tier II instruments	-
53	Reciprocal cross-holdings in Tier II instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold).	-
55	Significant investments in the 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)	553,798
59	Total capital (TC = T1 + T2)	2,849,939
60	Total risk-weighted assets	16,132,654

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Capital ratios and buffers		
61	Common Equity Tier I (as a percentage of risk weighted assets)	14.23%
62	Tier I (as a percentage of risk-weighted assets)	14.23%
63	Total capital (as a percentage of risk weighted assets)	17.67%
64	Institution specific buffer requirement (minimum CET1 CAPITAL requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	-
65	<i>of which: capital conservation buffer requirement</i>	-
66	<i>of which: bank specific countercyclical buffer requirement</i>	-
67	<i>of which: G-SIB buffer requirement</i>	-
Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)		
68	National Common Equity Tier I minimum ratio (if different from Basel III minimum)	-
69	National Tier I minimum ratio (if different from Basel III minimum)	-
70	National total capital minimum ratio (if different from Basel III minimum)	-
Amounts below the thresholds for deduction (before risk-weighting)		
71	Non-significant investments in the capital of other financials	-
72	Significant investments in the common stock of financials	-
73	Mortgage servicing rights (net of related tax liability)	-
74	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier II		
75	Provisions eligible for inclusion in Tier II in respect of exposures subject to standardised approach (prior to application of cap)	133,446
76	Cap on inclusion of provisions in Tier II under standardised approach	176,926
77	Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
78	Cap for inclusion of provisions in Tier II under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2015 and 1 Jan 2020)		
79	Current cap on CET1 CAPITAL instruments subject to phase out arrangements	-
80	Amount excluded from CET1 CAPITAL due to cap (excess over cap after redemptions and maturities)	-
81	Current cap on AT1 instruments subject to phase out arrangements	-
82	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
83	Current cap on T2 instruments subject to phase out arrangements	-
84	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

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2.1 Capital requirements for credit risk

Portfolios subject to the standardised approach are disclosed separately for each portfolio.

Table 24: Capital Adequacy Quantitative Disclosures As at 30 June 2017		(P'000)
Portfolio	RWA	Minimum Capital Requirement
ON-BALANCE SHEET EXPOSURES		
Claims on Sovereign or Central banks	101,726	15,270
Claims on Public Sector Entities (PSEs) - one risk weight less favourable than sovereign	40,766	6,119
Claims on Banks	1,202,662	180,525
Claims on Corporates	2,977,526	446,939
Claims Included in the Retail Portfolios	5,417,458	813,184
Claims Secured by Residential Mortgage Property	1,071,645	160,859
Claims Secured by Commercial Real Estate	2,067,021	310,269
Other Assets	724,364	108,730
TOTAL ON-BALANCE SHEET AMOUNT	13,603,169	2,041,894
OFF BALANCE SHEET EXPOSURES		
Commitments	75,601	11,348
Certain transaction-related contingent items such as performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions.	390,485	58,614
OTC Derivative transactions and credit derivative contracts	84,841	12,735
Total Failed Trades (sum Unsettled non-DvP trades and Failed non-DvP Trades)	-	-
TOTAL OFF-BALANCE SHEET AMOUNT	550,927	82,696
TOTAL EXPOSURE	14,154,095	2,124,591

2.2 Capital requirements for market risk

Standardised Measurement Approach

As at June 30, 2017 (P'000)	
RWA	Minimum Capital Requirement
78,962	11,785

2.3 Capital requirements for operational risk

Basic Indicator Approach

As at June 30, 2017 (P'000)	
RWA	Minimum Capital Requirement
1,899,596	286,522

2.4 Capital Adequacy ratio

Total and Tier I capital ratio – Standardised approach

Tier I capital	2,296,141
Tier II capital	553,798
Total Qualifying capital	2,849,939
Total Risk weighted Asset	16,132,653
Tier I capital ratio	14.23%
Total capital ratio	17.67%

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2.5 Expanded Regulatory Balance Sheet

There is no difference between the regulatory consolidation and accounting consolidation.

Table 26: Expanded Regulatory Balance Sheet

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
(P'000)	As at period end 30 June 2017	As at period end 30 June 2017	
Assets			
Cash and balances at central banks	1,227,225	1,227,225	
Items in the course of collection from other banks	110,065	110,065	
Trading portfolio assets	80,647	80,647	
Financial assets designated at fair value	-	-	
Financial assets held to maturity	1,008,364	1,008,364	
Derivative financial instruments	64,028	64,028	
Loans and advances to banks	3,169,661	3,169,661	
Loans and advances to customers	14,997,373	14,997,373	
Reverse repurchase agreements and other similar secured lending	-	-	
Available for sale financial investments	2,224,683	2,224,683	
Current and deferred tax assets	8,641	8,641	
Prepayments, accrued income and other assets	188,214	188,214	
Investments in associates and joint ventures	-	-	
Goodwill and intangible assets	26,963	26,963	
of which goodwill	26,963	26,963	a
of which other intangibles (excluding MSRs)	-	-	b
of which MSRs	-	-	c
Property, plant and equipment	505,496	505,496	
Total assets	23,611,359	23,611,359	
Liabilities			
Deposits from banks	1,397,685	1,397,685	
Items in the course of collection due to other banks	-	-	
Customer accounts	17,613,532	17,613,532	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	
Derivative financial instruments	28,065	28,065	
Debt securities in issue	237,710	237,710	
Other borrowings	619,577	619,577	
Accruals, deferred income and other liabilities	633,527	633,527	
Current and deferred tax liabilities	208,774	208,774	
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	201,840	201,840	
Provisions	71,606	71,606	
Retirement benefit liabilities	-	-	
Total liabilities	21,012,316	21,012,316	
Shareholders' Equity			
Paid-in share capital	51,088	51,088	
of which amount eligible for CET1 CAPITAL	51,088	51,088	h
of which amount eligible for AT1	-	-	i
Retained earnings	2,503,633	2,503,633	
Revaluation Reserve	44,322	44,322	
Accumulated other comprehensive income	-	-	
Total shareholders' equity	2,599,043	2,599,043	

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2.6 Extract of Basel III common disclosure

Table 27: Extract of Basel III common disclosure

Common Equity Tier I capital: instruments and reserves as at June 30, 2017			
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 companies) capital plus related stock surplus.	51,088	h
2	Retained earnings	2,272,016	
3	Accumulated other comprehensive income (and other reserves)		
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	Common Equity Tier I capital before regulatory adjustments	2,323,104	
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	26,963	a-d

2.7 Main features of the regulatory capital instruments

Table 28: Main features of regulatory capital instruments

FNBB005		
1	Issuer	FIRST NATIONAL BANK BOTSWANA
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: BW0000001510
3	Governing law(s) of the instrument	Botswana
4	Regulatory treatment	Senior Debt
5	Transitional Basel III rules	Not Applicable
6	Post-transitional Basel III rules	Not Applicable
7	Eligible at solo/group/group and solo	Group
8	Instrument type (types to be specified by each jurisdiction)	Unsecured Senior Notes
9	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BWP 125.59
10	Par value of instrument	BWP100
11	Accounting classification	Borrowings
12	Original date of issuance	11 November 2015
13	Perpetual or dated	5 Years
14	Original maturity date	11 November 2020
15	Issuer call subject to prior supervisory approval	Non-Callable
16	Optional call date, contingent call dates and redemption amount	Not Applicable
17	Subsequent call dates, if applicable	Not Applicable
18	Coupons / dividends	Coupons Paid Quarterly
19	Fixed or floating dividend/coupon	Floating
20	Coupon rate and any related index	75 Basis Points Above the Bank Rate
21	Existence of a dividend stopper	None
22	Fully discretionary, partially discretionary or mandatory	Mandatory
23	Existence of step up or other incentive to redeem	Not Applicable
24	Noncumulative or cumulative	Not Applicable

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FNBB005		
25	Convertible or non-convertible	Not Applicable
26	If convertible, conversion trigger (s)	Not Applicable
27	If convertible, fully or partially	Not Applicable
28	If convertible, conversion rate	Not Applicable
29	If convertible, mandatory or optional conversion	Not Applicable
30	If convertible, specify instrument type convertible into	Not Applicable
31	If convertible, specify issuer of instrument it converts into	Not Applicable
32	Write-down feature	Not Applicable
33	If write-down, write-down trigger(s)	Not Applicable
34	If write-down, full or partial	Not Applicable
35	If write-down, permanent or temporary	Not Applicable
36	If temporary write-down, description of write-up mechanism	Not Applicable
37	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to Subordinated Notes
38	Non-compliant transitioned features	Not Applicable
39	If yes, specify non-compliant features	Not Applicable
FNBB006		
1	Issuer	First National Bank Botswana
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: BW0000001528
3	Governing law(s) of the instrument	Botswana
4	Regulatory treatment	Senior Debt
5	Transitional Basel III rules	Not Applicable
6	Post-transitional Basel III rules	Not Applicable
7	Eligible at solo/group/group and solo	Group
8	Instrument type (types to be specified by each jurisdiction)	Unsecured Senior Notes
9	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BWP 112.12
10	Par value of instrument	BWP100
11	Accounting classification	Borrowings
12	Original date of issuance	11 November 2015
13	Perpetual or dated	7 Years
14	Original maturity date	11 November 2022
15	Issuer call subject to prior supervisory approval	Non-Callable
16	Optional call date, contingent call dates and redemption amount	Not Applicable
	Subsequent call dates, if applicable	Not Applicable
17	Coupons / dividends	Coupons Paid Quarterly
18	Fixed or floating dividend/coupon	Floating
19	Coupon rate and any related index	100 Basis Points Above the Bank Rate
20	Existence of a dividend stopper	None
21	Fully discretionary, partially discretionary or mandatory	Mandatory
22	Existence of step up or other incentive to redeem	Not Applicable
23	Noncumulative or cumulative	Not Applicable
24	Convertible or non-convertible	Not Applicable
25	If convertible, conversion trigger (s)	Not Applicable
26	If convertible, fully or partially	Not Applicable

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27	If convertible, conversion rate	Not Applicable
28	If convertible, mandatory or optional conversion	Not Applicable
29	If convertible, specify instrument type convertible into	Not Applicable
30	If convertible, specify issuer of instrument it converts into	Not Applicable
31	Write-down feature	Not Applicable
32	If write-down, write-down trigger(s)	Not Applicable
33	If write-down, full or partial	Not Applicable
34	If write-down, permanent or temporary	Not Applicable
35	If temporary write-down, description of write-up mechanism	Not Applicable
36	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior to Subordinated Notes
37	Non-compliant transitioned features	Not Applicable
38	If yes, specify non-compliant features	Not Applicable

3. CREDIT RISK

Table 30(a) Qualitative Disclosures

Credit risk is the risk of loss due to the non-performance of counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk.

Credit risk management across the bank is split into three distinct portfolios, which are aligned to customer profiles. These portfolios are retail, business and corporate:

- Retail credit is offered by FNB to individuals.
- Business (SME & Commercial) credit focuses on relationship banking offered by FNB to companies;
- Corporate credit is offered through the RMB Division to large corporates.

Credit risk is one of the core risks assumed as part of achieving the bank's business objectives. It is the most significant risk type in terms of regulatory and economic capital requirements. Credit risk management objectives are two-fold:

- Risk control: Appropriate limits are placed on the assumption of credit risk and steps taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
- Management: Credit risk is taken within the constraints of the Credit Risk Appetite Framework. The credit portfolio is managed at an aggregate level to optimize the exposure to this risk. Business units and deployed risk functions, overseen by the bank's credit risk management committee & ERM and the Board committees, fulfill this role.

Based on the bank's credit risk appetite, as measured on a ROE, NIACC and volatility-of-earnings basis, credit risk management principles include holding the appropriate level of capital and pricing for risk at an individual level and on a portfolio basis. The scope of credit risk identification and management practices across the bank, therefore, spans the credit value chain, including risk appetite, credit origination strategy, risk quantification and measurement as well as collection and recovery of delinquent accounts.

Credit risk is managed through the implementation of comprehensive policies, processes and controls to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement, monitoring and reporting of credit risk exposure.

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Credit risk appetite measures are set in line with overall risk appetite. The aim of the credit risk appetite is to deliver an earnings profile that will perform within acceptable levels of earnings volatility determined by the bank's overall risk appetite. In setting credit risk appetite measures:

- The bank's credit risk appetite is aligned to the current performance of the portfolio;
- Credit risk appetite is determined using both a top-down group credit risk appetite and an aggregated bottom-up assessment of the business unit level credit risk appetites; and
- Stress testing is used to enable the measurement of the financial performance and the credit volatility profile of the different credit business units at a portfolio, segment and franchise basis.

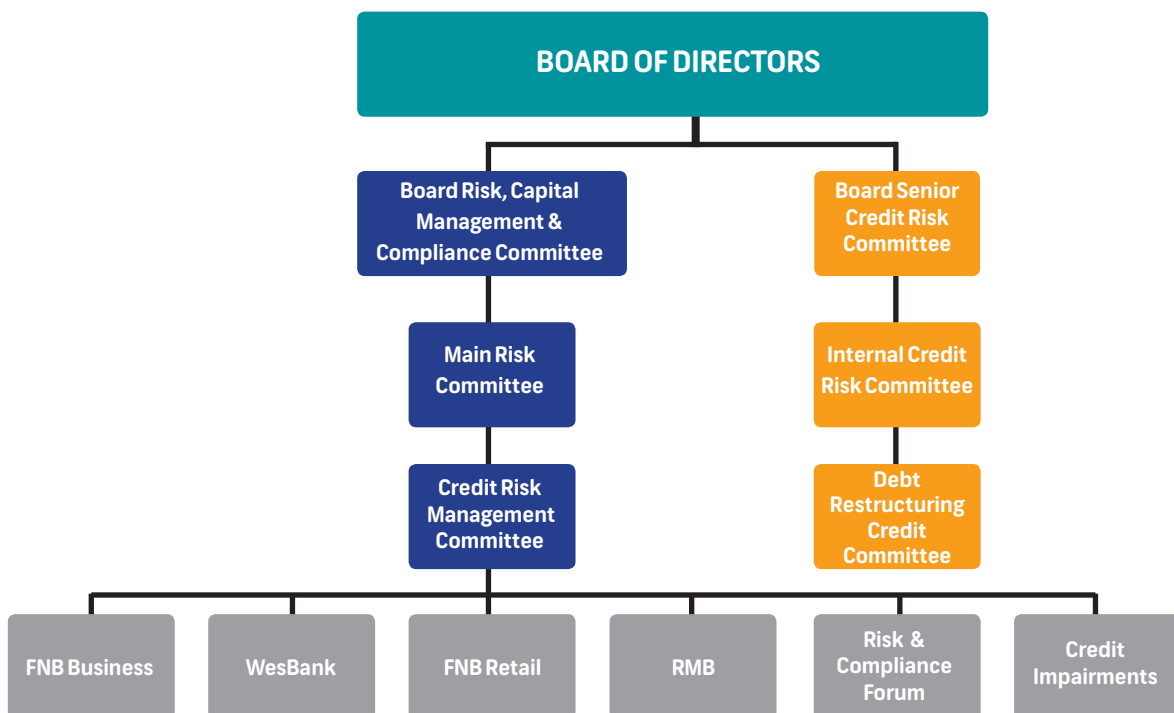
Credit risk limits include the following:

Business Unit Limits	
Counterparty limits	Borrower's risk grades are mapped to the FirstRand rating scale.
Collateral limits	For secured loans, limits are based on collateral profiles, e.g. loan-to-value bands.
Capacity limits	Measures of customer affordability.
Concentration limits	Limits for concentrations to, e.g. customer segments or high collateral risk.

3.1 Credit risk reporting

Reporting of credit risk information follows the credit governance structure illustrated below. The credit portfolio committees (retail, business and corporate) report to the Credit Risk Management Committee on the risk profile of the advances in each portfolio on a quarterly basis. These reports include a review of portfolio trends and quality of new business originated to enable an aggregated credit portfolio view for the bank.

Credit Governance Structure



*Credit impairment is currently a proposed committee

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Past due exposures and impairments

Advances are considered past due in the following circumstances:

- The definition of default is consistently applied across the FirstRand Group and is stated as “any account that is 3 or more instalments in arrears”.
- For non-fixed instalment due (Overdrafts) the account is classified as an NPL account when the account has been in continuous excess for more than 90 days. All of the products have specific events that also triggers an NPL for example, absconding, insurance claims, death etc.

Past due but not specifically impaired

Advances past due but not specifically impaired include accounts in arrears by one or two full repayments.

Age analysis of credit exposures

A past due analysis is performed for advances with specific expiry or instalment repayment dates. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed and reported with reference to the counterparty ratings of the exposures.

Impairment of financial assets

Adequacy of impairments is assessed through the ongoing review of the quality of credit exposures in line with the requirements of the related accounting standard (IAS 39). Individual advances are classified on at least a monthly basis into one of the following three categories:

- past due;
- defaulted (also referred to as NPLs); or
- neither past due nor impaired with associated criteria and impairment assessments as illustrated in the following table.

Impairment Classification

Type of advance	Past Due	Default
Loans repayable by regular instalments (e.g. mortgage loans and personal loans)	More than one instalment in arrears as at reporting date.	Three or more instalments in arrears as at reporting date.
Loans payable on demand (e.g. credit cards)	Repayment has not been made in accordance with the stipulated requirements for more than 30 days.	Repayment has not been made in accordance with the stipulated requirements for more than 90 days.
Revolving facilities	Exposure is in excess of approved limits for more than 30 days.	Exposure is in excess of approved limits for more than 90 days.

Advances are also categorised as defaulted where there are material indicators of unlikelihood to pay, e.g. the counterparty is under judicial management or declared insolvent. This classification is consistently used for both accounting and regulatory purposes. All defaulted exposures are considered impaired.

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Impairment Assessment

Impairment Classification	Description
Defaulted	Exposure is in default; hence an account-level specific impairment is raised. This is based on the difference between the exposure and the net present value of expected recoveries.
Past due	Exposures reflect objective evidence of the occurrence of an impairment event; hence a portfolio specific impairment is raised. This is based on a pooled level assessment (by grouping homogeneous pools), considering the proportion of exposure that is expected to subsequently default and the associated net present value of expected recoveries.
Neither defaulted nor past due	Exposures do not reflect objective evidence of the occurrence of an impairment event, however, historical analysis indicates that an impairment event has incurred on some exposures, with an associated loss expected. An associated pooled level incurred-but-not-reported (IBNR) impairment is, therefore, calculated. This considers the proportion of exposures expected to migrate to either a past due or defaulted state over an emergence period with subsequent allowance for required impairments once in a past due or defaulted state.

Income statement impairment charge

Impairments are recognised through the creation of an impairment reserve and an impairment charge in the income statement. Exposures considered uncollectable are written off against the reserve for loan impairments. Subsequent recoveries against these facilities decrease the credit impairment charge in the income statement in the year of recovery.

3.2 Credit Risk Exposure

Table 30 (b&i) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure.

Category	As at June 30, 2017 (P'000)
Term Loans	7,014,779
Suspensive sale debtors	1,356,681
Property loans	5,155,480
Overdrafts and managed accounts debtors	1,085,756
Lease payments receivable	788,190
Banks and Government	7,710,579
Other	611,038
Total Gross Exposures	23,722,503

All portfolios use the standardised approach

Table 30 (c): Geographic distribution of exposures, broken down in significant areas by major types of credit exposure.

Category	As at June 30, 2017 (P'000)
Botswana	21,023,111
Southern Africa	879,969
North America	1,638,683
Europe	178,446
Rest of the world	2,294
Total Gross Exposures	23,722,503

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Table 30 (d): Industry or counter-party type distribution of exposures, broken down by major types of credit exposure.

Industry/Sector	As at June 30, 2017 (P'000)
Agriculture	359,104
Building and property development	449,747
Business and trade	4,342,778
Individuals	9,413,004
Manufacturing	487,590
Mining	152,396
Transport and communications	444,997
Banks and Government	7,710,579
Other	362,308
Total Gross Exposures	23,722,503

Table 30 (e): Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.

Maturity	As at June 30, 2017 (P'000)
• Maturity within one year	8,680,331
• Maturity between one and five years	6,655,357
• Maturity more than five years	8,386,815
Total Gross Exposures	23,722,503

Table 30 (f): By major industry or counterparty type: Amount of impaired loans and if available, past due loans provided; separately; Specific and general allowances; and Charges for specific allowances and charge-offs during the period.

Impairments and Past Due Loans	As at June 30, 2017 (P'000)
Agriculture	108,531
Building and property development	199,083
Business and trade	561,535
Individuals	1,001,408
Manufacturing	484,379
Mining	16,841
Transport and communications	117,313
Total	2,489,090

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Table 30 (g): Impaired loans by geographical areas

All impaired and past due advances relate to credit risk exposure the Bank has in Botswana.

Table 30 (h): Reconciliation of changes in the allowances for loan impairment

	As at June 30, 2017 (P'000)
Specific Impairments	
Opening Balance	189,493
Write Offs	223,165
	(33,672)
Add: New charges	395,539
Add: PV of Security Adjustment	55,442
Add: Charge to Income Statement	26,043
Less: Release of provisions	50,184
Total Specific Impairment	393,168
Portfolio impairment	
Opening Balance	42,843
Less: Charge to profit and loss	15,863
	58,706
IBNR impairment	
Opening Balance	77,117
Less: Release to income statement	2,377
	74,740
Total impairment at the end of the year	526,614

Table 31: Credit risk: disclosures for portfolio subject to the standardised approach

The Bank employs eligible ratings issued by nominated ECAIs to risk weight its exposures where the use is permitted. The ECAIs nominated by the Bank for this purpose are Moody's Investor Services (Moody's), Standard & Poor and Fitch. If the risk weights of the three assessments are different, the assessment corresponding to the two lowest risk-weights is referred to and the higher of those two risk-weights is applied.

Table 31 (b): Exposure amount subject to the standardised approach (rated and unrated)

As at June 30, 2017 (P'000)	Rated	Unrated	Total
Banks and Government	7,710,579	-	7,710,579
Other	9,448	16,002,476	16,011,924
Total Gross Exposures	7,720,027	16,002,476	23,722,503

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3.3 Credit Risk Mitigation

Table 32(a) – The general qualitative disclosure requirement with respect to credit risk mitigation

Credit origination

Credit origination strategy and articulation of credit risk appetite

The overall credit risk appetite approach requires the business units to articulate the impairment capacity (i.e. bad debt charge) for different points in the cycle namely:

- Through the cycle conditions (i.e. mean of expected loss distribution)
- Turbulent conditions; (mild downturn commensurate with a 1-in-7 year severity stress level) and
- Stressed Conditions (severe downturn commensurate with a 1-in-20 year severity stress level)

The credit impairment targets are established with reference to historical and expected interest rate margins, cost to assets, capital levels, capital costs as well as desired ROE and NIACC levels at particular confidence levels.

Credit portfolio heads are responsible for the development of aggregation methodologies of credit capacities between product, brand and portfolio levels.

Sign off and monitoring of credit risk appetites

The business unit risk appetite thresholds should be signed off annually at the business unit's credit meetings / EXCO's, including business unit level approval of the expected earnings volatility before being presented for approval at the portfolio committee. The committee will approve the overall credit risk profile before it is presented to the RCCC for ultimate approval.

On-going monitoring of the credit risk appetite currently occurs through a combination of assessment relative to targeted portfolio characteristics and stress tests. The monitoring occurs at credit portfolio level with each credit portfolio head escalating breaches to the RCCC.

Linking of the credit risk appetite to credit policies and business unit credit strategies

- The bad debt thresholds and acceptable tolerances for the volatility of earnings provide a quantitative measure of credit appetite.
- The targeted earnings profile needs to be supported by a comprehensive set of portfolio limits, linked quantitatively to the achievement of approved earnings profile and measured and monitored on a monthly basis for retail and quarterly basis for the commercial and wholesale portfolios.

The business units articulate their particular credit strategies in the context of the FirstRand House View and within the limits included in the credit policy document. These strategies are debated at the business unit credit committee with active participation by the relevant credit portfolio head, senior business and credit representatives and ERM.

The exact process followed in each business unit will depend on the nature of their business and approval processes. Wholesale credit, as an example, approve transactions on a name by name basis and implement the strategy on an industry basis or certain types of transactions which are regarded as higher risk in the particular economic environment. Retail businesses, may find it more appropriate to articulate the strategy on a portfolio targeted origination approach.

Reporting

This report should provide an overview of the credit strategy currently followed for each of the major credit businesses in the context of the FirstRand House View, the stated credit appetite for each business, new business origination trends, as well as the performance of the underlying "in force" credit portfolio.

The intention is to act as a key focus point in the discussions around credit origination trends and strategy and to act as a record of the strategy followed at a particular point in time on the aggregate credit portfolio.

At credit portfolio level, additional credit portfolio reporting is also performed to support the credit overview and decisioning process. Where appropriate, information from these reports should also be included in the reports mentioned above.

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Credit risk measurement, assessment and mitigation / models

Credit risk models include:

- Application or rule-based scorecards used in the origination of new retail business;
- Behaviour scorecards used in the on-going management of retail business, as well as an input in new business origination; and
- Probability of default, loss given default, and exposure at default rating and quantification systems used in origination and on-going portfolio management
- Use of credit risk measures

The credit risk measures are used extensively in the Group's processes for pricing and credit impairments. The assigned ratings are also used in the setting of credit risk appetite. Credit ratings and loss parameters also provide input into the capital assigned and are used to determine the return on risk adjusted capital.

Rating models

FirstRand uses a number of quantitative models in support of its rating system to allow for robust and consistent estimation of PD, LGD and EAD. These quantitative models range from pure statistical models, such as the behavioral and application scoring systems, to constrained expert judgment models, for example the large corporate ratings which use a combination of structured expert review and quantitative models in order to derive the final rating.

ERM GCRM is responsible for maintaining a master inventory of all rating models in use across the Group. In compiling this, they are supported by the portfolio credit teams including the Retail, Commercial and Wholesale teams, who are responsible for maintaining the inventories for their areas.

All new rating models need to be approved firstly by the business unit, then by the relevant credit technical committee (Retail and SME Retail or Wholesale and SME Corporate as appropriate), before being presented to the MRVC, with ultimate approval being granted by the RCCC which has been appointed as the "designated committee" by the FSR Board for purposes of model approval. In addition, the rating models are subject to an annual review and approval using the same structure.

Definition of default

For the Group's definition of default, please refer to Annexure 4: Group Credit Impairment Framework. This definition of default should be used in the calibration of all probability of default (PD) models, loss given default (LGD) models and exposure at default (EAD) models, unless otherwise justified and approved by the technical credit risk committees (Retail and SME Retail or Wholesale and SME Corporate) and MRVC.

Definition of loss

The definition of loss for purposes of loss given default (LGD) estimation is economic loss and therefore it includes a time value element to reflect the time to recovery, as well as direct costs and an allocation of indirect costs – internal as well as external (e.g. a sub-allocation of the costs of Collection Solutions or other workout department overhead costs).

Non-performing loans

The Group classifies a loan as non-performing when it has been recorded as a defaulted loan (refer definition of default), irrespective of whether any payment(s) are still being made by the counterparty. Only where a loan rehabilitates, i.e. is no longer 90 days or more in arrears through the payment of arrears to a level where the exposure is less than 90 days in arrears, will the loan no longer be reflected as non-performing. Where restructures are performed through the opening of a new account to replace the facility in NPL, such account will still be treated for provision and NPL disclosure as being in NPL.

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The FirstRand credit rating scale (FR scale)

- A master rating scale (called the FR Scale) has been implemented across FirstRand in order to be able to communicate the ratings assigned to counterparties.
- The purpose of this scale is to provide an assessment of the rank order of credit exposures based on counterparty credit worthiness (excluding the impact of collateral).
- The FR rating is a current opinion of an obligor's overall capacity to meet its financial obligations. This opinion focuses on the obligor's ability and willingness to meet its financial commitments. It is furthermore a direct quantification or prediction of the default probability of the counterpart.
- The master rating scale ranges from 1 to 100, with FR 1 being the best credit quality and FR 100 the worst. Ratings of FR1 to FR9 are used for performing loans and FR100 is used for defaulted exposures.
- For purposes of Wholesale lending exposures rating and external reporting this 100 point master rating scale has been bucketed into 18 buckets – similar to Standard and Poor's rating symbols bucketing – to ensure adequate differentiation of risks for each rating category.
- FirstRand applies international scale ratings in the application of its internal credit rating methodologies. This means that ratings assigned are comparable across the FirstRand Group.

Process of assignment of counterparty ratings

As part of the credit assessment process within retail banking, customers' ratings are assigned through the use of various statistical credit scorecards using a combination of information disclosed by the customer, information held on the client by the bank and credit information held at the credit bureaus that operate in Botswana. Such ratings are used in the decision-making process to determine whether customers would be granted a loan being applied for and is one of the most significant determinants of the price that the client would be charged.

Client ratings are also reassigned on a continuous basis through the use of behavioural scoring, updated on a monthly basis. These ratings are also used in other disciplines across the credit value chain such as collections and recoveries in addition to also being an input to origination decisions and the calculation of capital requirements.

A comprehensive rating approach for all Wholesale exposures with input to credit analysts has been developed to assist in the assignment of ratings. The approach can best be described as a "constrained expert judgement approach" with subjective assessments and rating model results as an input in the rating process.

The rating approach for commercial is a hybrid between what is applied to the Retail and Wholesale portfolios – i.e. whilst the type of information used to determine ratings is typically similar to wholesale for larger entities, the level of judgement applied in order to determine the final rating is not. In some cases, the reassignment of ratings will occur monthly (on the smaller end) as is the case with Retail, but again on the upper end, the reassignment of ratings may be less frequent.

Pricing for risk

The Group operates on a risk-based pricing philosophy, whereby all metrics affected by risk are included in the credit capacity calculations from which detailed pricing levels at an overall portfolio and more detailed risk segment level are derived.

The Group essentially splits pricing into two distinct categories, i.e.:

- a) Supply side pricing – This can be seen as the quantitative calculations performed, i.e. credit capacity calculations, which considers the pricing levels required to achieve certain minimum level of return for the overall portfolio and key credit risk segments, within acceptable volatility of earnings over different points of the loss distribution, given estimations of all the profitability drivers applicable to credit lending activities, i.e. interest margins, fees, costs, credit losses, capital and cost of capital. Supply side pricing is to be set by the business unit head of credit. Where the supply side pricing calculations are not performed by the business unit credit team, the business unit head of credit needs to supply the term structure of all credit parameters across all risk segments, i.e. PD, LGD (including its drivers i.e. cure rates, recovery rates, asset price forecasts, time in NPL, etc), EAD, credit regulatory capital –and credit economic capital.
- b) Demand side pricing – Demand side pricing entails the optimisation capabilities created to maximise the value of the lending portfolio by using price elasticity and competitor benchmarking in setting ultimate pricing levels to take to market. Demand side pricing levels are constrained by the supply side price determined by the business unit head of credit.

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Credit analysis and evaluation

When evaluating credit risk it is important to consider the following aspects:

- A borrower's willingness and track record in terms of debt servicing as assessed through the use of application credit scorecards;
- A borrower's ability to service and repay the debt as assessed through the use of detailed affordability assessments, using validated customer financial information. It is also important to consider a maximum allowable customer level debt servicing limit, i.e. all-in RTI, as well as make allowances for higher interest rates on total variable interest rate debt, on a forward looking basis, linked to the FirstRand House View.
- The customer's debt trajectory, i.e. customers taking on debt at a very rapid rate have proven to be significantly higher risk and this needs to be allowed for in the credit scoring environment.
- When assessing credit applications for clients where FirstRand does not hold the client's salary, special consideration needs to be given when assessing the expected levels of credit risk. There is a high likelihood that the client may have already been declined by his own bank, being at an informational advantage to FirstRand given that the client is not banked.
- It is also of paramount importance to protect the bank against undue levels of risk by also considering historical credit information that may no longer be retained on the credit bureau, given that information retention periods are often lower than a full economic cycle and the bulk of retail customers experience stress when interest rates rise.
- The ability of the bank to properly assess the credit risk posed by current and prospective clients are somewhat curtailed by the short term nature of credit behavioural information.

Commercial and wholesale credit analysis and evaluation can involve a complex set of assessments:

- a borrower's willingness and ability to service and repay the debt;
- a definite source of repayment or acceptable alternative exit strategy;
- a proper understanding of the borrower's business and requirements;
- a proper understanding of the borrower's future plans and objectives, and confidence through effective analysis that these plans are feasible – where appropriate, analysis should include an assessment of the borrower's strategies and business plans, including detailed budgets and cash flow forecasts, and any other relevant information, with key assumptions being validated.
- a sound sustainable financial position and performance, evidenced by audited and current management accounts, where appropriate;
- reward appropriate to the risk;
- availability of collateral of adequate value, acceptable quality and spread, should the financial position not support unsecured lending;
- favourable environmental factors (geographical location of the business and its target market, products, competitors etc); and reputable ownership and management of the business.

Credit risk mitigation

Credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the Group's lending risk resulting in security against the majority of exposures. These include financial or other collateral, netting agreements, guarantees or credit derivatives. The collateral types are driven by portfolio, product or counterparty type:

- Mortgage and instalment sale finance portfolios in FNB Home Loans, Wealth and WesBank are secured by the underlying assets financed.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured via guarantees and suretyships.

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- FNB Commercial credit counterparties are mostly secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and the cash flows received from the use thereof.
- Working capital facilities in Corporate Banking are unsecured whereas the structured facilities in RMB are mostly secured as part of the structure through financial or other collateral including guarantees or credit derivative instruments and assets. The credit risk in RMB's treasury environment is mitigated through the use of netting agreements and financial collateral.

Policies and processes for collateral valuation and collateral management

Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For wholesale and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness. For mortgage portfolios, collateral is devalued using an index model on an on-going basis. For all the retail portfolios, including the mortgage portfolio, collateral is again valued through physical inspection at the time the exposure enters the workout process.

Collateral is managed internally to ensure the banks title to the collateral is maintained on an on-going basis.

The concentrations within credit risk mitigation types, such as property, are monitored and managed within the credit portfolios' portfolios. Home Loans monitor their exposure to a number of geographical areas, as well as within loan-to-value bands.

Collateral is taken into account for capital calculation purposes through the determination of the loss given default ("LGD"). The existence of collateral results in a reduced LGD, and the level of the LGD are determined through statistical modeling techniques based on the historical experience of the recovery processes.

On Balance Sheet netting

The Group uses International Swaps and Derivative Association ("ISDA") agreements to govern the netting of derivative transactions. All transactions are valued on a daily basis and the appropriate netting of exposures is applied. The master agreement contains internationally accepted valuation and default covenants. For accounting purposes, netting is applied where there is legal right of setoff and the ability to settle on a netted basis. In general, whilst the ISDA agreements reduce the economic exposure, it does not reduce the accounting exposure. For securities financing transactions, the Group uses Global Market Repo Agreements (GMRA) and Global Market Securities Lending Agreements (GMSLA) to facilitate the netting of the loan value and collateral amount, as well as prescribing default procedures.

Concentration Risk

Credit concentration risk is the risk of loss to the bank arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Concentration risk is managed in the credit portfolios, based on the nature of the credit concentration within each portfolio. Divisions must have in place systems and controls to identify, measure, monitor and control their credit risk concentrations. Each portfolio should set guidelines appropriate to their areas of activity and business strategy which must be measured and reported in the relevant portfolio reports. Credit policies should cover the different forms of credit risk concentration to which each division may be exposed.

Such concentrations include (amongst others):

- i. Significant exposure to an individual counterparty or group of related counterparties;
- ii. Credit exposure to counterparties in the same economic sector or geographic region;
- iii. Credit exposure to counterparties whose financial performance is dependent on the same activity or commodity; and
- iv. Indirect credit exposure concentration, arising from the bank's credit risk mitigation activities, i.e. exposure to a single collateral type or to credit protection provided by a single counterparty.

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Table 32 (b)

Collateral taken possession of and recognised in the statements of financial position

- Collateral in the form of deposits amounted to P117.8m.

3.4 Counterparty credit risk

Table 33: General disclosure for exposures related to counterparty credit risk

Counterparty Credit Risk is the risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.

Counterparty Credit Risk Activities

Counterparty credit risk measures a counterparty's ability to satisfy its obligations under a contract that has positive economic value to the bank at any point during the life of the contract.

It differs from normal credit risk in that the economic value of the transaction is uncertain and dependent on market factors that are typically not under the control of the group or the client.

Counterparty credit risk is a risk taken mainly in the group's trading and securities financing businesses. The objective of counterparty credit risk management is to ensure that this risk is appropriately measured, analyzed and reported on, and is only taken within specified limits in line with the bank's risk appetite framework as mandated by the board.

Individual counterparty risk limits application are prepared using the approved risk quantification methodologies and assessed and approved at the relevant Credit Committee. All Counterparty credit risk limits are subject to annual review, and counterparty exposures are monitored by the respective Ongoing Credit Risk function on a daily basis.

Quantitative Disclosures

The measurement of counterparty credit risk aligns closely with credit risk measurement practices and is focused both on establishing appropriate limits at counterparty level as well as on ongoing portfolio risk management.

The counterparty credit risk weights are measured using the regulatory Current Exposure Method (CEM). Under the Current Exposure Method, FNBB calculates the current replacement cost by marking contracts to market, thus capturing the current exposure without any need for estimation, and then adding a factor (the "add-on") to reflect the potential future exposure over the remaining life of the contract.

Replacement Cost	The current replacement cost is determined by marking contracts to market, thus capturing the current exposure without any need for estimation.
Potential Future Exposure	The potential increase in the exposure between the present and contract maturity. An add-on factor is applied to the replacement cost to determine the potential future exposure over the remaining life of the contract.

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The table below represents the bank's counter-party credit risk weighted assets (RWAs) as at 30 June 2017.

Counterparty Credit risk – Risk weighted assets

(P'000)	Residual Maturity	Principal Amount	Replacement Cost	Potential Future Exposure	Credit Equivalent Amount	Risk Weighted Asset
Exchange Rate Contracts						
	< 1 Year	1,295,189	5,468	12,952	18,420	18,220
	1 – 5 Years	-	-	-	-	-
	+ 5 Years	-	-	-	-	-
Total		1,295,189	5,468	12,952	18,420	18,220
Interest Rate Contracts						
	< 1 Year	-	-	-	-	-
	1 – 5 Years	196,656	3,711	983	4,694	4,694
	+ 5 Years	575,210	53,299	8,628	61,927	61,927
Total		771,866	57,010	9,611	66,621	66,621
Total OTC Derivatives		2,067,055	62,478	22,563	85,041	84,841

4. MARKET RISK

4.1 Market Risk in the Trading Book

Market risk is the risk of adverse revaluation of financial instrument as a consequence of changes in market prices or rates.

Market risk in the trading book includes interest rate risk in the trading book, traded equity and credit risk, commodity risk, foreign exchange risk.

Market risk in the trading book activities

The Bank's market risk in the trading book emanates mainly from the provision of hedging solutions for clients, market-making activities and is taken and managed by Rand Merchant Bank Botswana (RMBB). The Global Markets unit within RMBB functions as a center of expertise for all market risk-related activities. Market risk is managed and contained within the FNBB Board's appetite.

Quantitative disclosures

FNBB Market risk is measured using the regulatory standardised approach for regulatory capital and an internal stress loss methodology for internal measurement of risk. Under the standardised approach, capital is calculated for general market risk and specific risk.

The table below represents the Bank's market risk under standardised approach as at June 30, 2017.

Market risk was contained within acceptable stress loss limits and effectively managed during the quarter under review.

Table 34 (b) Market risks under standardised approach – Risk weighted assets

As at June 30, 2017	(P'000)
Interest rate risk	62,379
Specific risk	-
General risk	62,379
Foreign Exchange Risk General Risk	16,583
Equity Position Risk	-
Commodity Risk	-
Total	78,962

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4.2 Market Risk in the Banking Book

For Market Risk in the Banking Book (non-traded market risk), the Bank distinguishes between **interest rate risk in the banking book** and **foreign exchange risk**. The following table describes how these risks are measured, managed and governed.

Risk Measure	Managed by	Oversight
Interest Rate Risk in the Banking Book (IRBB)		
<ul style="list-style-type: none"> • 12-month Earnings Sensitivity; and • Economic Sensitivity to Open Risk Position 	Treasury	<ul style="list-style-type: none"> • Risk Management • ALCCO • Board Risk, Capital and Compliance Committee • Board of Directors
Foreign Exchange Risk		
<ul style="list-style-type: none"> • Net Open Foreign Exchange Position (NOFP) to Total Unimpaired Capital 	Treasury	<ul style="list-style-type: none"> • Risk Management • ALCCO • Board Risk, Capital and Compliance Committee • Board of Directors

4.3 Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk is an inherited position as a result of the underlying balance sheet and can be a source of value for the entity. The objective of management is to take a holistic view of the balance sheet across the business cycle, and proactively manage the natural position and the risks that impact the earning and financial position of the entity so as to achieve the best possible returns for shareholders by protecting and enhancing the balance sheet (economic value) and income statement (earnings).

IRRBB relates to the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.

Interest rate risk in the banking book originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products. The endowment effect, which results from a large proportion of non- and low-rate liabilities that fund variable rate assets, remains the primary driver of IRRBB and results in the Bank's earnings being vulnerable to interest rate cuts, or conversely benefiting from a hiking cycle.

IRRBB is an inevitable risk associated with banking and can be an important source of profitability and shareholder value. FNBB continues to manage IRRBB on an earnings approach, with the aim to protect and enhance the Bank's earnings and economic value through the cycle within approved risk limit and appetite levels. The endowment hedge portfolio is managed dynamically taking into account the continuously changing macroeconomic environment.

Assessment and management

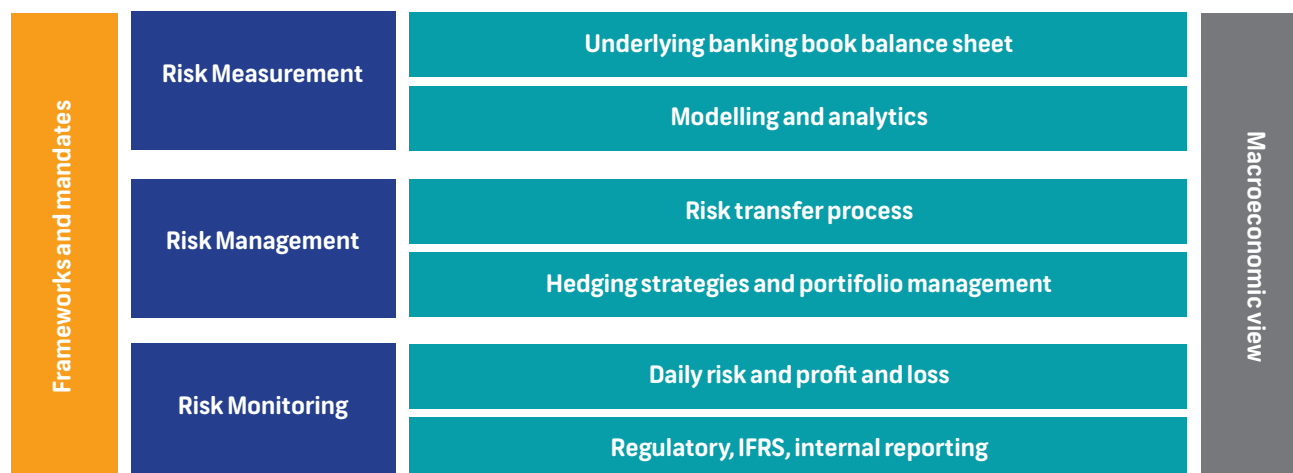
The measurement techniques used to monitor IRRBB include NII sensitivity/earnings at risk as well as economic value of equity (EVE)/NAV. A repricing gap is also generated to better understand the repricing characteristics of the balance sheet. In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on repricing characteristics.

The internal funds transfer pricing (FTP) process is used to transfer interest rate risk from the business segments to Treasury. This process allows risk to be managed centrally and holistically in line with the Bank's macroeconomic outlook. Management of the resultant risk position is achieved by balance sheet optimization or through the use of derivative transactions.

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Interest rate risk management and assessment



Sensitivity analysis

A change in interest rates impacts both the earnings potential of the banking book (as underlying assets and liabilities reprice to new rates), as well as in the economic value/NAV of an entity (as a result of a change in the fair value of any open risk portfolios).

The role of management is to protect both the financial performance as a result of a change in earnings and to protect the long-term economic value. To achieve this, both earnings sensitivity and economic sensitivity measures are monitored and managed within appropriate risk limits and appetite levels, considering the macroeconomic environment and factors which can cause a change in rates.

NII Sensitivity/earnings at risk

Net interest income (NII) sensitivity is a tool that measures the sensitivity of earnings to changes in the level of interest rates over a specified horizon.

The NII sensitivity measure combines the repricing characteristics and rate correlations of the underlying banking book products and off balance sheet positions to determine the impact on the Bank's projected NII.

NII models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book balance sheet to shocks in interest rates. Underlying transactions are modelled on a contractual basis, assuming a constant balance sheet size and mix over the forecast horizon.

The table below shows the 12-month NII sensitivity for sustained, instantaneous parallel 200 bps downward and upward shocks to interest rates.

Project NII Sensitivity to interest rate movements

Change in Projected 12-month NII	
As at June 30, 2017	
Downward 200 bps	-20.27%
Upward 200 bps	8.93%

The remaining earnings risk is as a result of non- and low-rate products in the balance sheet, the "endowment book" which are used to fund rate sensitive assets. This has a negative impact on the bank's NII margin in a cutting cycle as the decrease in NII from assets repricing to lower rates is not offset by a corresponding interest saving from liabilities. However, this endowment impact acts as a source of value to the bank with increased margins in a hiking cycle. The risk is managed on a strategic basis along with risk from the fixed book within approved risk limits.

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Economic value of equity

FNB Botswana's balance sheet management objective is to protect and enhance the balance sheet and income statement of FNB Botswana. In line with this objective, interest rate risk in the banking book is primarily managed from an earnings approach over a specified horizon. In addition, changes to economic value are monitored and managed within defined risk tolerance levels. Economic value has the advantage that it considers all future cash flows and therefore can also highlight risk beyond the earnings horizon.

In order to augment Net Interest Income sensitivity methodology and to allow for more timeous management of interest rate risk in the Banking Book, the economic metric in the form of a basis point impact on value of the book measure was introduced. This metric measures the impact on the value of the banking book if interest rates changed by 1 basis point (0.01%) and is called PV01.

The introduction of the PV01 metric has allowed for more frequent risk reporting which enables management to keep track of the bank's risk position closely and be in a position to react faster to risk exposures. Projections of PV01 risk limit utilization enables calculation of impact of positions before they are booked and thus enables proactive risk management.

The table below shows the Bank's PV01 exposure as at 30 June 2017.

As at June 30, 2017	(P'000)
PV01	67,695

4.4 Foreign Exchange Risk

Foreign exchange risk is the risk of an adverse impact on the Bank's financial position and earnings as a result of movements in foreign exchange rates impacting balance sheet exposures.

Assessment and Management

The ability to transact on-balance sheet in a currency other than the home currency (Pula) is governed by regulatory limits. In FNBB, additional board limits are set for this exposure. Treasury is responsible for reporting and utilization of these limits against approved limits.

Foreign exchange risk in the banking book comprises funding and liquidity management, and risk mitigating activities which are managed to low levels. To minimize funding risk across the Bank, foreign currency transactions are matched where possible, with residual liquidity risk managed centrally by FNBB Treasury. Any open hedges are included as part of market risk in the trading book.

Net Open Foreign Position (NOFP)

The table below shows the NOFP utilization which is measured against audited unimpaired capital.

NOFP – Open Exposure to Unimpaired Capital

As at June 30, 2017	
BoB NOFP	5.41%

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5. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risk, but excludes reputational and strategic risks.

5.1 The approach for operational risk capital assessment

Unlike other major risk types, operational risk is not assumed deliberately in pursuit of a commensurate return. It exists, to a varying degree, in all organisational activities. The scope and coverage of operational risk are defined by Basel event types. These event types are:

- Internal fraud
- External fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Damage to physical assets
- Business disruption and system failure
- Execution, delivery and process management

The definition and scope of operational risk includes Information Technology (IT) risk, as demonstrated by the inclusion of “Business disruption and system failure” as a separate event type. More specifically, IT risk can be defined as the risk of losses as a result of a compromise of confidentiality, integrity or availability of IT systems due to inadequate and failed internal processes, people, and systems or from external events.

Operational risk is governed in terms of the Operational Risk Management Framework (ORMF), which is a sub-framework of the Business Performance and Risk Management Framework (BPRMF). IT risk is governed by the IT Risk Management Framework (ITRMF), which is a sub-framework of the ORMF.

Risk mitigation

Operational risk is mitigated through a variety of activities and programmes, including the following:

Controls

- Issue and Action item monitoring and reporting
- Correction and improvement of business processes
- Optimisation of business processes
- Risk management activities and processes, including monitoring and reporting
- Investment in infrastructure, information technology and people
- Risk appetite settings
- Tracking of risk profiles and exposure against set appetite levels

5.2 Measurement approach

FNBB follows the Standardised Approach (TSA) for operational risk.

Methodology

Under TSA there are various regulatory requirements regarding risk measurement, management and governance. FNBB implementation of these minimum standards is described in the ORMF, with supporting policies for individual risk measurement tools.

Risk tools used for the measurement and monitoring of operational risk in TSA include loss event reporting (regulatory requirement), key risk indicators (KRIs), and process risk and control impact assessments (PRCIA).

All business activities are mapped to Basel business lines and a three year average gross income is calculated per business line. Each business line's average gross income is multiplied by a predefined beta factor to arrive at a capital requirement for a specific business line.

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6. EQUITY RISK

Table 36: Equity disclosures for banking book positions

The Bank is not exposed to any equity risk.

7. REMUNERATION

The FNBB Remuneration Committee (REMCO) is the governing body for all remuneration decisions within the Bank.

REMCO performs the following functions:

- guides the FNB Botswana CEO on remuneration policy and strategy;
- ensures that a fair and robust process is followed at all times;
- reviews salary increases, performance bonuses and share allocation of employees;
- oversees the adequacy of retirement and health care schemes for employees; and
- approves all incentive schemes.

REMCO meets twice in a year in April to review the last year's increases and bonuses and in July to prepare for the new financial year increases and bonuses and reviews the reward philosophy every year during the July REMCO meeting.

7.1 FNB Reward Philosophy

Total Reward

The Bank believes that people often work for more than money and that a total reward focus is needed where all the reward elements are integrated.

FNBB's strongest intangible reward elements are as follows: great culture (i.e. strong leadership, accountability, and innovation focus), growth and development, and a positive work environment with great colleagues.

The Bank acknowledges the principle of total reward including guaranteed pay, performance bonus, incentives, recognition schemes and long term incentive schemes.

Competitive and Fair Reward

FNBB believes in paying competitive salaries that are aligned to the external market, provided performance expectations are met. Positions are benchmarked on a regular basis with similar positions in the market place to ensure competitiveness in the market that the Bank operates in. The Bank participates in the following surveys on a yearly basis; Tsa Badiri and Rem-Channel. Decision making is based on the Rem - Channel survey results which used by Group. Further, Group has a banking circle group which provides relevant bank comparisons.

Reward decisions are made fairly through robust and transparent processes.

The Bank does not wish to have any unjustifiable pay differences due to race or gender in salary between employees in the same role (assuming same qualifications, same level of experience and same performance rating).

Managing and Rewarding Performance

Whilst the Bank is a people centered organization, it is uncompromising in its demand for high performance. Each employee is kept accountable and is contracted to deliver work to an expected standard as the performance management approach aims to empower performance, rather than to discipline and control. Key performance areas, which are scored using a five point rating scale, the relative weighting of each key performance area, as well as the measures, are contracted at the start of the performance period. There are two formal performance reviews per annum and the final overall rating is recorded. In addition employees have a personal development plan ensuring that there is a focus on developing the individual.

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The Bank is committed to the principle of managing and paying for performance and believes that all employees should have the ability to influence their earning potential through the value they add. Salary increases and bonuses are not awarded to poor performers.

7.2 Employee Types

FNBB has the following employee types:

- Permanent employees – these are the pensionable workforce from non-clerical to management. As at June 30, 2017, there were **1 236 permanent employees**
- Executives – these are Heads of business who report directly to the CEO. As at June 30, 2017, there were 15 members of the executive team.

7.3 Variable Pay

Types of variable pay

1. Performance bonuses
2. Sign-on bonuses
3. Retention payments
4. Shares – conditional share incentive scheme

Summary of Employee Remuneration

As at June 30, 2017	Number of employees	Amount (P'000)
Number of non-senior employees who received variable remuneration during the financial year	892	59,840
Number of senior management who received variable remuneration during the financial year	14	9,031
Number and total amount of sign on bonuses awarded during the year	5	100
Number and total amount of severance payments made during the year	79	203
Total pay for non-senior managers	1 221	365,710
Total pay for senior managers	15	23,838