

Basel Pillar 3 Disclosure

For The Half-Year Ended 31 December 2017



FNB

First National Bank

how can we help you?

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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 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 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;

1.1 Risk profile analysis

Capital adequacy

FNBB has maintained its strong capital position. Capital planning is undertaken on a three-year forward-looking basis and the level and composition of capital is determined taking into account business units' organic growth plans and stress-testing scenario outcomes. In addition, the bank considers external issues that could impact capital levels, which include regulatory and accounting changes, macro-economic conditions and outlook.

Credit risk

FNBB Credit loss rates are within the risk appetite of FNBB. These are managed within the Credit Risk Management Framework. Credit origination strategies are aligned to the FNBB macroeconomic outlook.

Market risk in the trading book

The interest rate risk asset class represented the most significant market risk in the trading book exposure as at 31 December 2017. The bank's market risk profile remained within risk appetite.

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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.

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. The Bank remains appropriately capitalised under a range of normal and severe stress scenarios, which includes ongoing regulatory developments and expansion initiatives

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 31 December 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	2,487,848
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	2,538,936
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	-

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Table 22: Basel III Common Equity Tier I Disclosure Template (continued)

Common Equity Tier I capital: instruments and reserves as at 31 December 2017		(P'000)
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)	2,511,973
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>	-
36	Additional Tier I capital before regulatory adjustments	-
37	Investments in own Additional Tier I instruments	-
38	Reciprocal cross-holdings in Additional Tier I instruments	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
42	Regulatory adjustments applied to Additional Tier I due to insufficient Tier II to cover deductions	-
43	Total regulatory adjustments to Additional Tier I capital	-
44	Additional Tier I capital (AT1)	-
45	Tier I capital (T1 = CET1 CAPITAL + AT1)	2,511,973
Tier I capital: regulatory adjustments		
46	Directly issued qualifying Tier II instruments plus related stock surplus	201,840
47	<i>Directly issued capital instruments subject to phase out from Tier II</i>	-
48	Tier II instruments (and CET1 CAPITAL and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	-
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
	<i>Unpublished Current Year's Profits</i>	349,064
50	Provisions	178,123
51	Tier II capital before regulatory adjustments	729,027
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).	-

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Table 22: Basel III Common Equity Tier I Disclosure Template (continued)

Common Equity Tier I capital: instruments and reserves as at 31 December 2017		(P'000)
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)	729,027
59	Total capital (TC = T1 + T2)	3,241,000
60	Total risk-weighted assets	16,299,922

Capital ratios and buffers		
61	Common Equity Tier I (as a percentage of risk weighted assets)	15.41%
62	Tier I (as a percentage of risk-weighted assets)	15.41%
63	Total capital (as a percentage of risk weighted assets)	19.88%
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	of which: capital conservation buffer requirement	-
66	of which: bank specific countercyclical buffer requirement	-
67	of which: G-SIB buffer requirement	-
68		

Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)		
69	National Common Equity Tier I minimum ratio (if different from Basel III minimum)	-
70	National Tier I minimum ratio (if different from Basel III minimum)	-
71	National total capital minimum ratio (if different from Basel III minimum)	-
Amounts below the thresholds for deduction (before risk-weighting)		
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier II		
76	Provisions eligible for inclusion in Tier II in respect of exposures subject to standardised approach (prior to application of cap)	178,123
77	Cap on inclusion of provisions in Tier II under standardised approach	178,123
78	Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	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)		
80	Current cap on CET1 CAPITAL instruments subject to phase out arrangements	-
81	Amount excluded from CET1 CAPITAL due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	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 31 December 2017		(P'000)
Portfolio	RWA	Minimum Capital Requirement
ON-BALANCE SHEET EXPOSURES		
Claims on Sovereign or Central banks	39,168	5,879
Claims on Public Sector Entities (PSEs) - one risk weight less favourable than sovereign	32,003	4,804
Claims on Banks	1,203,069	180,589
Claims on Corporates	2,906,838	436,338
Claims Included in the Retail Portfolios	5,668,638	850,904
Claims Secured by Residential Mortgage Property	1,108,124	166,338
Claims Secured by Commercial Real Estate	1,953,986	293,308
Other Assets	748,671	112,381
TOTAL ON-BALANCE SHEET AMOUNT	13,660,497	2,050,541
OFF BALANCE SHEET EXPOSURES		
Commitments	67,804	10,178
Certain transaction-related contingent items such as performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions.	428,483	64,318
OTC Derivative transactions and credit derivative contracts	93,045	13,967
Total Failed Trades (sum Unsettled non-DvP trades and Failed non-DvP Trades)	-	-
TOTAL OFF-BALANCE SHEET AMOUNT	589,332	88,463
TOTAL EXPOSURE	14,249,829	2,139,004

2.2 Capital requirements for market risk

Standardised Measurement Approach

As at 31 December 2017 (P'000)	
RWA	Minimum Capital Requirement
69,638	10,394

2.3 Capital requirements for operational risk

Basic Indicator Approach

As at 31 December 2017		(P'000)
RWA	Minimum Capital Requirement	
1,980,455	295,590	

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2.4 Capital Adequacy ratio

Total and Tier I capital ratio – Standardised approach

Tier I capital	2,511,973
Tier II capital	729,027
Total Qualifying capital	3,241,000
Total Risk weighted Asset	16,299,922
Tier I capital ratio	15.41%
Total capital ratio	19.88%

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	
(P'000)	As at period end 31 December 2017	As at period end 31 December 2017	Reference
Assets			
Cash and balances at central banks	1,261,184	1,261,184	
Items in the course of collection from other banks	64,677	64,677	
Trading portfolio assets	97,601	97,601	
Financial assets designated at fair value	-	-	
Financial assets held to maturity	1,854,159	1,854,159	
Derivative financial instruments	77,574	77,574	
Loans and advances to banks	3,165,198	3,165,198	
Loans and advances to customers	15,091,076	15,091,076	
Reverse repurchase agreements and other similar secured lending	-	-	
Available for sale financial investments	1,510,035	1,510,035	
Current and deferred tax assets	12,142	12,142	
Prepayments, accrued income and other assets	215,191	215,191	
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	508,402	508,402	
Total assets	23,884,201	23,884,201	
Liabilities			
Deposits from banks	1,205,405	1,205,405	
Items in the course of collection due to other banks	-	-	
Customer accounts	17,704,799	17,704,799	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	
Derivative financial instruments	39,034	39,034	

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Table 26: Expanded Regulatory Balance Sheet (continued)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	
(P'000)	As at period end 31 December 2017	As at period end 31 December 2017	Reference
Liabilities (continued)			
Debt securities in issue	364,060	364,060	
Other borrowings	708,362	708,362	
Accruals, deferred income and other liabilities	433,142	433,142	
Current and deferred tax liabilities	203,502	203,502	
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	67,885	67,885	
Retirement benefit liabilities	-	-	
Total liabilities	20,928,029	20,928,029	
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	2,849,895	2,849,895	
Revaluation Reserve	55,189	55,189	
Accumulated other comprehensive income	-	-	
Total shareholders' equity	2,956,172	2,956,172	

2.6 Extract of Basel III common disclosure

Table 27: Extract of Basel III common disclosure

	(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 2.5
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	51,088	h
2	Retained earnings	2,487,848	
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	2,538,936	
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	26,963	a-d

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2.7 Main features of the regulatory capital instruments

Table 28: Main features of regulatory capital instruments

	FNBB007	
1	Issuer	FIRST NATIONAL BANK BOTSWANA
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: BW0000001668
3	Governing law(s) of the instrument	Botswana
	Regulatory treatment	Tier 2 Capital
4	Transitional Basel III rules	Fully Compliant
5	Post-transitional Basel III rules	Fully Compliant
6	Eligible at solo/group/group and solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Unsecured Subordinated Notes
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BWP 161.84
9	Par value of instrument	BWP100
10	Accounting classification	Borrowings
11	Original date of issuance	1 December 2016
12	Perpetual or dated	10 Years No Call 5 Years
13	Original maturity date	1 December 2026
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	1 December 2021 Optional Call Date, Issuer Entitled To Redeem All Or Some Of The Notes
16	Subsequent call dates, if applicable	Not Applicable
	Coupons / dividends	Coupons Paid Quarterly
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	180 Basis Points Above The Bank Rate
19	Existence of a dividend stopper	None
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Not Allowed
22	Noncumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Not Applicable
24	If convertible, conversion trigger (s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable
30	Write-down feature	Not Applicable
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Notes are Subordinated to Claims of General Creditors and Claims of Depositors
36	Non-compliant transitioned features	Fully Compliant

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	FNBB008	
1	Issuer	FIRST NATIONAL BANK BOTSWANA
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: BW0000001700
3	Governing law(s) of the instrument	Botswana
	Regulatory treatment	Tier 2 Capital
4	Transitional Basel III rules	Fully Compliant
5	Post-transitional Basel III rules	Fully Compliant
6	Eligible at solo/group/group and solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Unsecured Subordinated Notes
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BWP 40.00
9	Par value of instrument	BWP100
10	Accounting classification	Borrowings
11	Original date of issuance	1 December 2016
12	Perpetual or dated	10 Years No Call 5 Years
13	Original maturity date	1 December 2026
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	1 December 2021 Optional Call Date, Issuer Entitled To Redeem All Or Some Of The Notes
16	Subsequent call dates, if applicable	Not Applicable
	Coupons / dividends	Coupons Paid Semi-Annually
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.48%
19	Existence of a dividend stopper	None
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Not Allowed
22	Noncumulative or cumulative	Not Applicable
23	Convertible or non-convertible	Not Applicable
24	If convertible, conversion trigger (s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable
30	Write-down feature	Not Applicable
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Notes are Subordinated to Claims of General Creditors and Claims of Depositors
36	Non-compliant transitioned features	Fully Compliant
37	If yes, specify non-compliant features	Fully Compliant