

PILLAR 3 DISCLOSURES QUARTERLY STATUTORY RETURN

31 March 2018

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1. BACKGROUND AND SCOPE

Purpose of Pillar III disclosures

Section 12 of the Basell II updated in January 2016, states the objectives for the banks to have Pillar III disclosures as outlined below;

Section 12.1

The Primary purpose of Pillar III is to supplement the minimum capital requirements (Pillar II) by introducing a set of disclosure requirements, which allow market participants to influence the level of capital, risk assessment processes, capital adequacy and remuneration practices of a bank

Section 12.2

Improved transparency, underpinned by high quality and timely market disclosures, will enhance market discipline, efficiency and confidence. The key objective is, therefore, to provide a market driven incentive for a bank to conduct business in a safe and sound manner. A bank is, therefore, responsible, beyond the disclosure requirements set out in this Directive, for Conveying adequate information regarding its actual risk profile and how these risks relate to capital.

1.1 Summary and Approach

This document will put its focus on Pillar III disclosures for Standard Chartered Bank of Botswana for the Quarter ended 31 March 2018 .

The focus will be disclosures for the capital structure, Capital Adequacy, Risk management Processes and Remuneration practices of Standard Chartered Bank of Botswana as per Pillar III scope.

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2. REGULATORY CAPITAL REQUIREMENTS

2.1 Capital Structure

The capital is classified as TIER 1 capital and TIER 2 capital. The Tier 1 consists of directly issued qualifying common share capital plus related stock surplus, retained earnings, accumulated other comprehensive income and Additional Tier 1 (AT1) capital being qualifying shares premiums, preference shares and all other instruments. Tier 2 capital includes subordinated debt and general provisions.

STANDARD CHARTERED BANK REGULATORY CAPITAL STRUCTURE FOR THE QUARTER ENDED 31 MARCH 2018:

Basel III Common Equity Tier I Disclosure Template

Common Equity Tier I capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	179,273
2	Retained earnings	453,637
3	Accumulated other comprehensive income (and other reserves)	47,365
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	680,275
Common Equity Tier I capital: regulatory adjustments		
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	29,881
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	118
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	61,543
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	91,542
29	Common Equity Tier I capital (CET1 CAPITAL)	588,733

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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	Directly issued capital instruments subject to phase out from Additional Tier 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	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier I capital before regulatory adjustments	-
Additional Tier I capital: 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)	
Tier II capital: instruments and provisions		
46	Directly issued qualifying Tier II instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier II	
48	Tier II instruments (and CET1 CAPITAL and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions	
51	Tier II capital before regulatory adjustments	
Tier II capital: regulatory adjustments		
52	Investments in own Tier II instruments	389,000
53	Reciprocal cross-holdings in Tier II instruments	169,808
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	79,459
57	Total regulatory adjustments to Tier II capital	28,788
58	Tier II capital (T2)	667,055
59	Total capital (TC = T1 + T2)	1,255,787
60	Total risk-weighted assets	7,792,555

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Capital ratios and buffers		
61	Common Equity Tier I (as a percentage of risk weighted assets)	7.6%
62	Tier I (as a percentage of risk-weighted assets)	7.6%
63	Total capital (as a percentage of risk weighted assets)	16.1%
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)	-
77	Cap on inclusion of provisions in Tier II under standardised approach	-
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	169,808
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

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2.2 Capital Adequacy

2.2.1 Qualitative Disclosures

For the Quarter ended 31 March 2018, the bank's capital ratios were well above the minimum prudential ratios as outlined below;

Capital	Minimum prudential Ratio(Regulatory)	Reported
Common Equity Tier 1 Capital (CET 1)	4.5%	7.6%
Tier 1 Capital	7.5%	7.6%
Total Unimpaired Capital (CAR)	15%	16.1%

2.2.2 Qualitative disclosures

Portfolio	Approach	Amount (P'000)
Credit Risk	Simple Approach	6,859,986
Market Risk	Standardised Approach	47,633
Operational Risk	Basic Indicator Approach	884,936
TOTAL		7,792,555

a) Capital requirements for Credit Risk

SCBB calculates Credit Risk RWA using the simple Approach as per the Basel II framework. The RWA is the addition of the totals of the On-balance Sheet and Off balance subject to various mitigants.

Portfolio Class	Exposure before CRMS	Risk-Weights of Original Counterparties	RWA
Claims on Sovereign or Central banks	2,461,274	0%	-
Claims on Domestic Banks	286,342	20%	286,342
Sovereign credit risk assessment rating of AAA to AA-	2,065,342	20%	57,268
Sovereign credit risk assessment rating of A+ to A-	-	50%	-
Sovereign credit risk assessment rating of BB+ to B-	330	100%	330
Sovereign credit risk assessment rating of below B-	387	150%	581
Claims on Corporate			
Claims to corporate assigned a credit assessment of A+ to A-	189,803	20%	37,961
Claims to corporate assigned a credit assessment of BBB+ or BB- or unrated corporate client.	1,432,524	100%	1,432,524
Retail Portfolios			
Performing	4,832,772	75%	3,624,579
Past due exposure where specific provision is more than 50% of the outstanding loan.	258,494	50%	129,247
Residential Mortgage Property			
fully secured by residential mortgage	939,560	35%	328,846
Other non qualifying residential mortgages	31,936	75%	23,952
Non-performing Loans			
Past due (qualifying mortgage loans) for more than 90 days and specific provision is less than 20% of the loan.	12,176	100%	12,176

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Past due (qualifying mortgage loans) for more than 90 days and specific provision is more than 20% of the loan.	13,170	50%	6,585
Past due non-qualifying residential mortgages where specific provision is less than 20% of the loan.	1,446	150%	2,169
Other Assets			
Cash (Pula), gold, coins, bullion, foreign notes & coins, statutory reserve with Bank of Botswana	1,246,303	0%	-
(including bank premises, plant and equipment, other fixed assets and all other assets)	290,603	100%	290,603

OFF balance Sheet portfolio			
<i>Certain transaction-related contingent items such as performance bonds, bid bonds, warranties and stand by letters of credit related to particular transactions.</i>	Exposure	Risk Weights	RWA
Other assets	1,000,034	50%	500,017
Total off balance sheet Amount			500,017
TOTAL RISK WEIGHTED ASSESTS as at 31 March 2018			6,859,986

b) Capital requirements for market risk

SCBB calculates the market risk using the Standardised Approach. A capital charge is computed for interest rate and foreign exchange risks in the trading book. The resultant is summed up and calibrated by a risk weight factor 6.7 .

RISK	Amount	Risk weighted Factor	RWA
Foreign exchange risk	285	6.7	1,910
Interest rate risk			
Specific risk	6,824	6.7	45,721
General risk	-	6.7	-
TOTAL MARKET RISK RWA	26,811		47,633

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2.2 Capital Adequacy (continued)

c) Capital requirement for operational Risk

The bank has adopted the Basic Indicator Approach (BIA) in which the regulatory capital charge risk will be equal to 15% of the average of the previous three years bank's positive annual gross income. The three year average gross income is calculated on the basis of the last three 12 months monthly observations at the end of the financial year. Where audited financials are not available, submitted returns are used.

Period/ Year	Gross income	operational risk factor -denoted alpha (α)	Risk weight factor
1	842,461	15%	6.7
2	890,403	15%	6.7
3	908,735	15%	6.7
TOTAL	2,641,599		

Operational risk factor -denoted alpha (α)	15%
Aggregate Gross Income multiplied by α	395,240
No. of years with Positive Gross Income (n)	3
Operational Risk Capital Charge: BIA	132,080
Operational risk weight assets	884,936

2.3 EXPANDED REGULATORY BALANCE SHEET

For the basis of consolidation for accounting purposes, unit 023 SCBB, Unit 779 SC BWA Educational Trust (SCBET) and unit 727 SCB Insurance Agency are fully consolidated. For regulatory purposes only Unit 023, SCBB is considered.

Table 25 - Regulatory Balance Sheet Vs IFRS Balance Sheet.

	Balance sheet as in published financial statements (IFRS)	Under regulatory scope of consolidation
	As at period end 31 March 2018	As at period end 31 March 2018
Assets		
Cash and balances at central banks	1,248,874	1,246,303
Items in the course of collection from other banks		-
Trading portfolio assets		-
Financial assets designated at fair value		-
Derivative financial instruments		-
Loans and advances to banks	386,393	386,393
Loans and advances to customers	7,591,889	7,591,889
Reverse repurchase agreements and other similar secured lending		-
Available for sale financial investments	2,461,274	2,461,274
Current and deferred tax assets	-	-
Prepayments, accrued income and other assets	2,056,757	1,886,506
Investments in associates and joint ventures		

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Goodwill and intangible assets	29,999	29,999
Property, plant and equipment	70,648	70,648
Total assets	13,845,834	13,673,012
Liabilities		
Deposits from banks	243,618	243,618
Items in the course of collection due to other banks	-	-
Customer accounts	11,534,936	11,534,936
Repurchase agreements and other similar secured Borrowing	-	-
Trading portfolio liabilities	-	-
Financial liabilities designated at fair value	-	-
Derivative financial instruments	-	-
Debt securities in issue	-	-
Accruals, deferred income and other liabilities	613,431	559,033
Current and deferred tax liabilities	-	-
Subordinated liabilities	686,260	686,260
Provisions	57,604	57,604
Retirement benefit liabilities	-	-
Total liabilities	13,035,787	13,081,451
Shareholders' Equity		
Paid-in share capital	179,273	179,273
Retained earnings	645,920	527,496
Accumulated other comprehensive income	-	-
Total shareholders' equity	825,193	706,769

Table 26 Expanded Regulatory Balance Sheet

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period end 31 March 2018	As at period end 31 March 2018	
Assets			
Cash and balances at central banks	1,246,303	1,246,303	
Items in the course of collection from other banks	-	-	
Trading portfolio assets	-	-	
Financial assets designated at fair value	-	-	
Derivative financial instruments	-	4,620	
Loans and advances to banks	386,393	2,345,156	
Loans and advances to customers	7,591,889	7,711,882	
Reverse repurchase agreements and other similar secured lending	-	-	

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Available for sale financial investments	2,461,274	2,461,274	
Current and deferred tax assets		73,014	
Prepayments, accrued income and other assets	1,886,506	137,327	
Investments in associates and joint ventures	-	-	
Goodwill and intangible assets			
of which goodwill	29,999	29,881	A
of which other intangibles (excluding MSRs)	-	118	B
of which MSRs	-	-	C
Property, plant and equipment	70,648	3,283	
Total assets	13,673,012	14,062,858	
Liabilities			
Deposits from banks	243,618	481,090	
Items in the course of collection due to other banks	-	-	
Customer accounts	11,534,936	11,534,936	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	
Derivative financial instruments	-	7,829	
Debt securities in issue	-	-	
Accruals, deferred income and other liabilities	559,033	525,981	
Current and deferred tax liabilities	-	-	
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	686,260	686,260	
Provisions	57,604	119,993	
Retirement benefit liabilities	-	-	
Total liabilities	13,081,451	13,356,090	
Shareholders' Equity			
Paid-in share capital	179,273	179,273	
of which amount eligible for CET1 CAPITAL	179,273	179,273	H
of which amount eligible for AT1	-	-	I
Retained earnings	527,496	415,382	
Accumulated other comprehensive income	-	112,113	
Total shareholders' equity	706,768	706,768	

Table 27 Extract of Basel III common disclosure template (with added column)

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Common Equity Tier I capital: instruments and reserves			
		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.	179,273	H
2	Retained earnings	453,637	
3	Accumulated other comprehensive income (and other reserves)	47,365	
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	680,275	
7	Prudential valuation adjustments	61,661	
8	Goodwill (net of related tax liability)	29,881	a-d

2.3.1 Main features of regulatory capital instruments

The bank has issued subordinated debt instruments as outlined in the table below.

1	Issuer	Standard Chartered Bank Botswana Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	BWP BWNCD16JAN17 BW 000 000 0587 BW0000001023 BW 000 000 1106 BW 000 000 1114 900-023.005
3	Governing law(s) of the instrument	Botswana Law, English/EU Law
	Regulatory treatment	Senior and subordinated debt
4	Transitional Basel III rules	Not Applicable
5	Post-transitional Basel III rules	Not Applicable
6	Eligible at solo/group/group and solo	Group and solo
7	Instrument type (types to be specified by each jurisdiction)	Senior debt Subordinated Debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	558,808
9	Par value of instrument	703,253
10	Accounting classification	Senior and subordinated debt

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11	Original date of issuance	6/30/2015, 12/20/2005, 5/12/2011, 6/27/2012, 6/27/2012, 7/29/2015
12	Perpetual or dated	Dated
13	Original maturity date	1/16/2017, 12/20/2020, 5/12/2021, 6/27/2022, 6/27/2022, 8/29/2025
14	Issuer call subject to prior supervisory approval	Non-callable
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
	<i>Coupons / dividends</i>	Coupon
17	Fixed or floating dividend/coupon	Fixed and Floating
18	Coupon rate and any related index	Floating Rate at 91 day BOBC plus a margin of 130 to 150 basis points per annum Fixed rate at 4% above the 91 day BOBC, 18.20% to 10.50%
19	Existence of a dividend stopper	Not Applicable
20	Fully discretionary, partially discretionary or mandatory	Not Applicable
21	Existence of step up or other incentive to redeem	Not Applicable
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)	Senior to subordinated notes
36	Non-compliant transitioned features	Not Applicable
37	If yes, specify non-compliant features	Not Applicable