2018

BANK GABORONE LIMITED
REGISTRATION NO. 8812/2004
BANK GABORONE PILLAR 3 DISCLOSURES
FOR THE YEAR ENDED 30 JUNE 2018

Bank Gaborone

CONTENTS **Page**

2018 INTRODUCTION

This risk and capital management report (Pillar 3 disclosure) covers the operations of Bank Gaborone Limited as required by the Bank of Botswana Directive on Revised International Convergence of Capital Measurement and Capital Standards for Botswana (Basel II Guidelines) (hereinafter referred to as " the Standards") read in conjunction with Sections 13, 18 and 48 of the Banking Act (CAP 46:04). The Standards requires publication of a risk management report concurrently with the Annual Financial Statements for the corresponding period and that the templates for quantitative disclosure and definitions follow a fixed format, which aims to enhance comparability of banks' disclosures. The bank's governance processes have internally verified this report. The disclosure framework describes the responsibilities and duties of Senior Management and the Board in the preparation and review of the Pillar 3 Disclosure and aims to ensure that the report meets the minimum disclosure requirements of the Standards. Information disclosed in this report is consistent with the way the Board assesses the bank's risk profile and financial position.

Governance

Board Oversight

Bank Gaborone Limited “the bank” in recognition of the importance of risk in its operations has adopted the bank`s Risk Internal Control and Assurance Framework (GRICAF) – “the framework” that was implemented across the Capricorn Group of Companies. The board of directors of Bank Gaborone is ultimately accountable for the adequacy of the GRICAF.

The board discharges its responsibilities for risk management through the bank's governance structures (refer to the governance section and bank governance document) and specifically the Board Audit Committee (BAC) and the Board Risk and Compliance Committee (BRCC) respectively. The board is assured of the adequacy of the GRICAF through the second and third lines of defence consisting of the Risk, Compliance and Internal Audit functions. In addition to the internal functions, the board draws on the perspectives of external auditors and regulators who conduct regular reviews of the bank. The board is satisfied that the GRICAF was adequate during the period under review.

Risk Capacity, Appetite and Tolerance (RCAT)

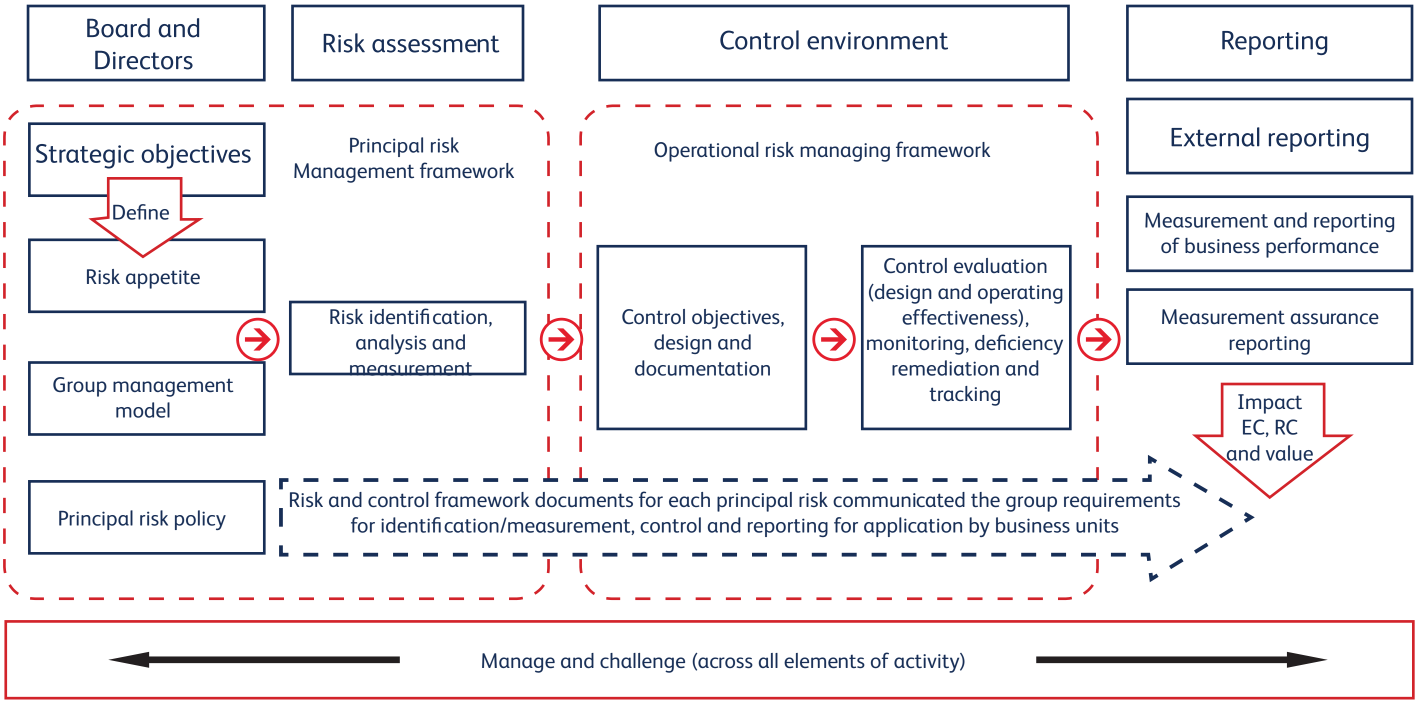
The RCAT is approved by the bank's Board Risk and Compliance Committee (BRCC) and it reflects the bank's capacity, appetite and tolerance thresholds for risk. The RCAT collectively refers to qualitative and quantitative statements expressing the bank's capacity, appetite and tolerance for the risks the bank takes. The bank's Executive Management Team, through principal risk owners, sets quantitative tolerance limits for each of the principal risks based on the BRCC approved RCAT. These quantitative measures include thresholds which, if breached, trigger a change in status that attracts a higher level of monitoring and action. The capacity and appetite statements are reviewed quartely and reported to the Risk Committee, Executive Management Team (EMT), the BRCC as well as the BAC.

Risk Overview

The bank has identified 13 main risk categories which apply across the various operating units. The main risk categories have been defined as principal risks as per the bank`s Principal Risks Policy and are each managed in terms of the risk management framework. At a strategic level, risk management objectives are to:

- Optimise efficiency through effective use of risk resources in the bank.
- Directly contribute to the creation of end-customer value by eliminating unnecessary tasks in processes.
- Build standard risk management accountability, principles and processes into the business management process.
- Ensure risks are understood and pro-actively managed within the acceptable risk capacity, appetite and tolerance levels.

The bank maintains an effective risk, internal control and assurance framework based on the standard risk practices of Committee of Sponsoring Organisations of the Treadway Commission (COSO) and Basel II, as set out below.



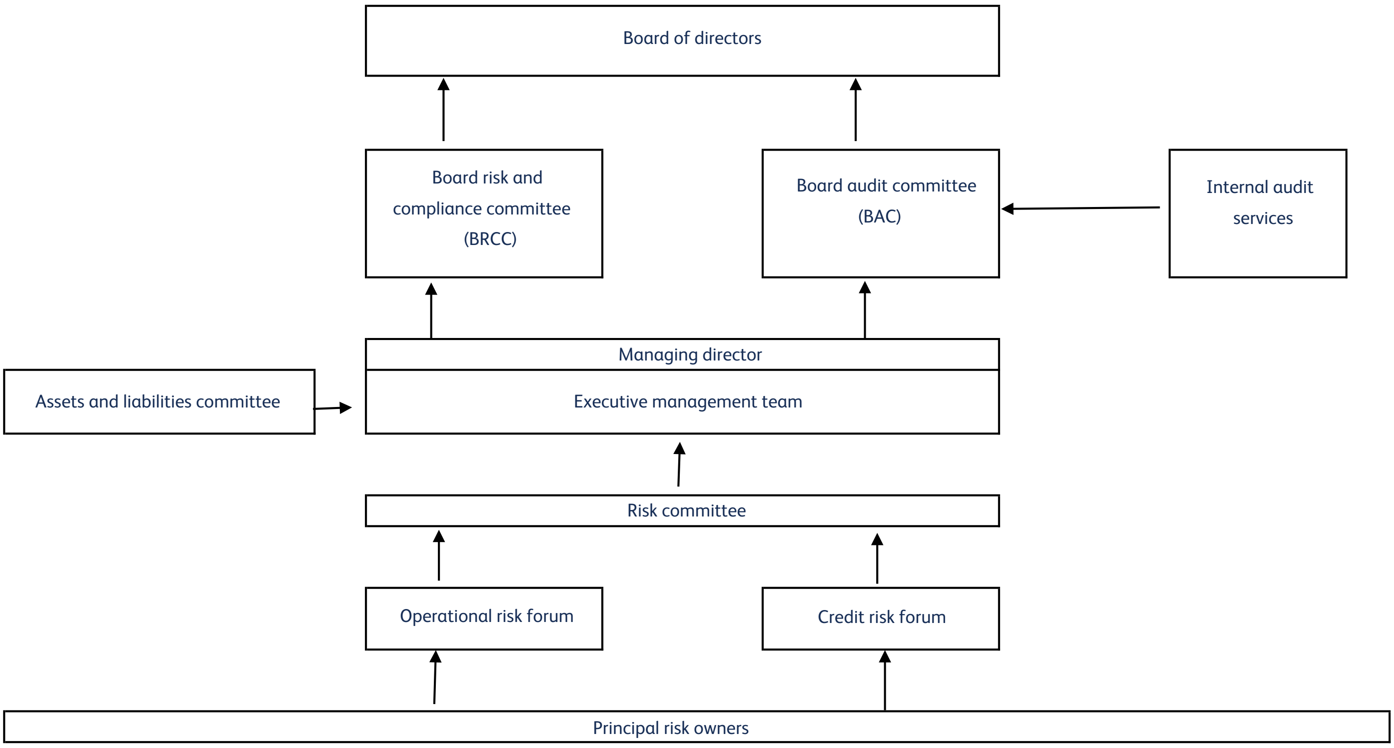
RC: Regulatory Capital
EC: Economic Capital

The bank has adopted standard practices for each of the principal risks. The standard practices of the GRICAF provide a common language and understanding of risk which allows the bank to standardise and aggregate risk management and reporting which enables effective oversight by governance structures.

The board is ultimately accountable for effective risk management and responsibility is delegated to executive management to ensure that appropriate risk and control frameworks are designed and implemented. Each principal risk is assigned to an appropriate principal risk owner who is responsible for ensuring that an effective risk and control framework is designed, implemented and maintained for the principal risk. The principal risk owners are further responsible for the risk management frameworks within their respective business units, including the appropriateness, effectiveness and consistency. The bank's risk and compliance function is responsible for the overall infrastructure of the GRICAF and provides oversight and assurance in its second line of defence role. The 13 principal risks identified by the bank are as follows:

1 Credit
2 Market
3 Liquidity
4 Operations
5 Capital
6 Strategy
7 Compliance
8 Technology
9 People
10 Finance and tax
11 Legal
12 Financial Crime
13 Reputation

The oversight structure of the bank is reflected below:

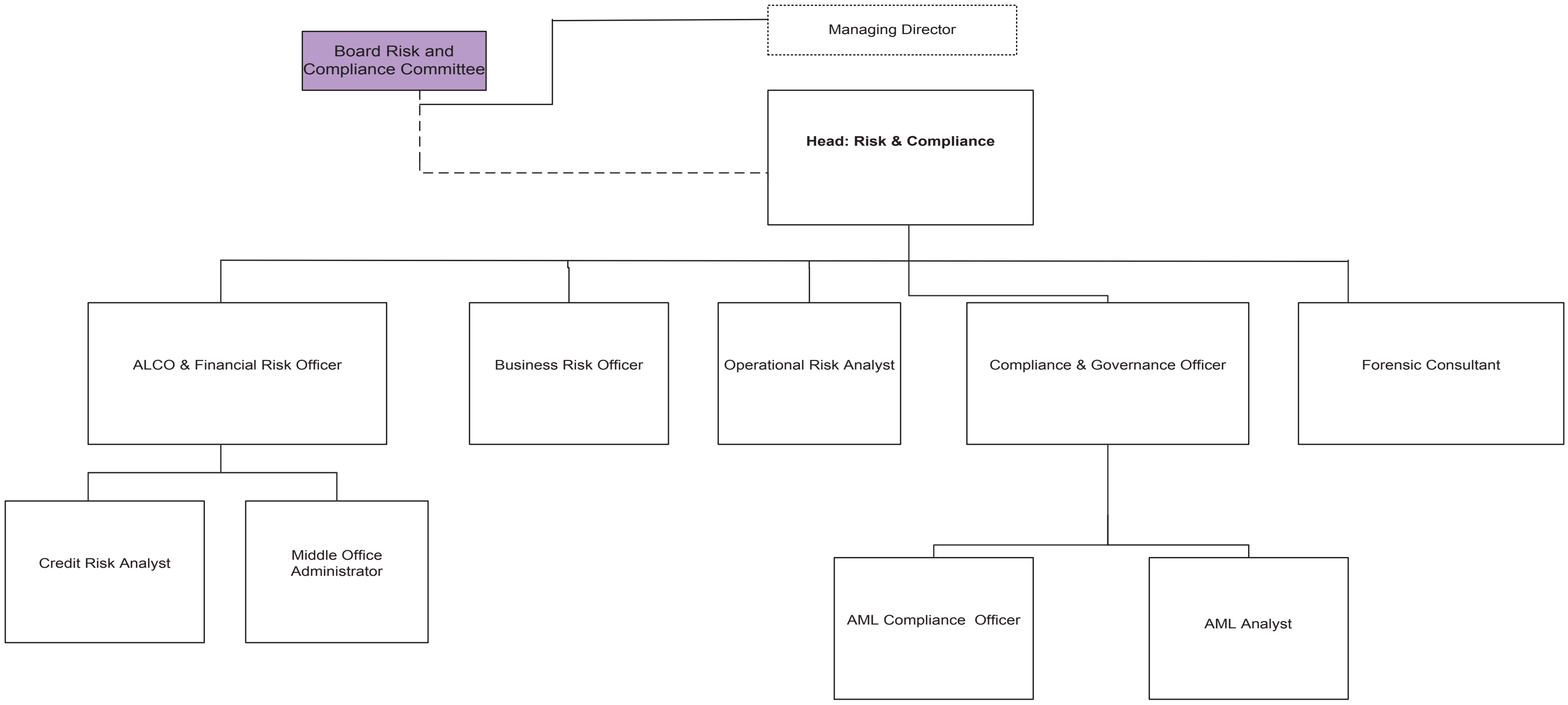


Risk Management Function

The risk management function is headed by the Head: Risk and Compliance, who is a member of the Executive Management Team and has unrestricted access to the chairman of the Board Risk and Compliance Committee("BRCC"). The Compliance & Governance Officer is responsible for the practices which ensure compliance with the minimum requirements of the law and internal policies and is directly responsible for compliance to Anti-Money Laundering Requirements. The Compliance & Governance Officer reports to the Head: Risk and Compliance.

The structure of the bank's risk management function is reflected on the next page :

The structure of the bank's risk management function is reflected below :



The bank has recognized that it is important that it sets out the outline within which risk management is conducted. Therefore, a **Principal Risk Policy** which is the overarching risk policy that sets out the identification of the "principal risks" that the banks faces was developed. A tabular summary of the scope of this policy is shown below:

Direct	1. Understand the principal risks to achieve company strategy. 2. Define the risk system of control. 3. Set Risk Appetite. 4. Establish and communicate the risk and control framework, including accountabilities, responsibilities, authorities and key controls.
Assess	1. Establish the process for identifying and analysing business-level risks and controls derived from the risk system of control through risk and control self-assessments (RCSAs). 2. Agree and implement measurement and reporting standards and methodologies. 3. Agree key risk indicators.
Control	1. Set policies, tolerances, limits and authorities, monitor, and enforce. 2. Establish key control processes and practices, including limit structures, provisioning criteria and reporting requirements. 3. Monitor the operation of the controls and adherence to risk direction, tolerances and limits 4. Provide early warning of limit or appetite breaches. 5. Ensure risk management practices and conditions are appropriate for the business environment.
Report	1. Interpret and report on risk exposures, concentrations and risk-taking outcomes. 2. Interpret and report on sensitivities and key risk indicators. 3. Communicate with internal and external parties. 4. Contribute to principal risk profile reporting.
Manage/ Challenge	1. Review and challenge all aspects of the company's risk profile and assessment of the adequacy of the risk and control framework. 2. Assess new risk-return opportunities. 3. Advise on optimizing the company's risk profile and risk framework. 4. Review and challenge risk management practices. 5. Oversee and challenge risk and control information.

The bank has adopted the standardized approach to Basel II effective from 1st January 2016,with risk-weighted assets being measu

Capital Risk

Capital risk is the risk that the bank is unable to meet its capital requirements and fund business expansion when needed. It includes the risk that regulatory requirements are not adhered to and the resultant costs of non-compliance, as well as the fact that insufficient capital will adversely affect the ability to raise funds.The bank appreciates that efficient capital management is critical to delivering on the bank's return on capital targets to ensure shareholders' expectations are met while making adequate capital available to support business growth.

Capital management principles

"Bank of Botswana requires each bank to hold the minimum level of the regulatory capital of P5 million, as well as to maintain the following capital adequacy ratios:
– Tier 1 and Tier 2 capital to risk weighted assets at a minimum of 15%, referred to as capital adequacy ratio.
– Tier 1 capital to risk-weighted assets at a minimum of 7.5%, referred to as Tier 1 risk-based capital ratio

The bank's regulatory (qualifying) capital is divided into two tiers:
– Tier 1 capital: stated capital and distributable reserves;
–Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The bank has adopted the standardized approach to Basel II effective from 1st January 2016, with risk weighted assets being measured at three different levels: operational risk, market risk and credit risk. A summary of the banks capital elements, as well as the various risk weighted assets are discussed extensively in the following sections of this report.

In addition to the above minimum capital requirements, the Bank of Botswana requires the bank to perform an internal capital adequacy and assessment process (ICAAP) in terms of Pillar II of Basel II, which has been documented and approved by the board. The process results in:

- the identification of all significant risk exposures of the bank;
- the quantification of risk appetites for the major risks identified; and
- control measures to mitigate the major risks.

ICAAP Process Flow

The ICAAP involves specific tasks and procedures that must be performed annually subsequent to the completion of the principal risk attestation process. The following table summarises the inputs and outputs of the ICAAP process:

Input	Description	Source
Principal Risk Profile reports	Contains key information that describes the profile of every Principal Risk, including: 1. Overall control assessment 2. Risk and Control self-assessments 3. Key Risk Indicators 4. Risk and loss events 5. Risk issue tracking and remediation 6. Waivers and dispensations on policies	Principal Risk Reporting process
Risk Capacity, Appetite and Thresholds Indicators	Details the status of key risk indicators that apply to the whole organisation and specific Principal Risks. This information assists PROs in assessing how well key risks are being managed.	Key Risk Indicator process

Outputs Generated by the ICAAP Process

Output	Description	Frequency
ICAAP dashboard	This template summarizes the capital position for use in risk and business decision-making.	Annually
Annual ICAAP Report	The Annual ICAAP Report is submitted to BoB for purposes of the SREP review. The report is due no later than 31st December each year.	Annually

Common Equity Tier I capital: instruments and reserves	
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	230,000
Retained earnings	105,947
Retained earnings	-
Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non-joint stock companies)	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in bank CET1 CAPITAL)	-
Common Equity Tier I capital before regulatory adjustments	**335,947**
Common Equity Tier I capital: regulatory adjustments	
Prudential valuation adjustments	-
Goodwill (net of related tax liability)	-
Other intangibles other than mortgage-servicing rights (net of related tax liability)	7,590
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
Cash-flow hedge reserve	-
Shortfall of provisions to expected losses	-
Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-
Gains and losses due to changes in own credit risk on fair valued liabilities	-
Defined-benefit pension fund net assets	-
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
Reciprocal cross-holdings in common equity	-
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)	-
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)	-
Mortgage servicing rights (amount above 10% threshold)	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
Amount exceeding the 15% threshold	-
of which: significant investments in the common stock of financials	-
of which: mortgage servicing rights	-
of which: deferred tax assets arising from temporary differences	-
National specific regulatory adjustments	-
Regulatory adjustments applied to Common Equity Tier I due to insufficient Additional Tier I and Tier II to cover deductions	-
Total regulatory adjustments to Common equity Tier I	7,590
Common Equity Tier I capital (CET1 CAPITAL)	328,357
Additional Tier I capital: instruments	
Directly issued qualifying Additional Tier I instruments plus related stock surplus	-
of which: classified as equity under applicable accounting standards	-
of which: classified as liabilities under applicable accounting standards	-
Directly issued capital instruments subject to phase out from Additional Tier I	-
Additional Tier I instruments (and CET1 CAPITAL instruments not included in row 5) issued by	-
subsidiaries and held by third parties (amount allowed in bank AT1)	-
of which: instruments issued by subsidiaries subject to phase out	-
Additional Tier I capital before regulatory adjustments	-
Additional Tier I capital: regulatory adjustments	
Investments in own Additional Tier I instruments	-
Reciprocal cross-holdings in Additional Tier I instruments	-
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)	-
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory	-
consolidation (net of eligible short positions)	-
National specific regulatory adjustments	-
Regulatory adjustments applied to Additional Tier I due to insufficient Tier II to cover deductions	-
Total regulatory adjustments to Additional Tier I capital	-
Additional Tier I capital (AT1)	
Tier I capital (T1 = CET1 CAPITAL + AT1)	**328,357**
Tier II capital: instruments and provisions	
Directly issued qualifying Tier II instruments plus related stock surplus	166,000
Directly issued capital instruments subject to phase out from Tier II	20,000
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 bank Tier II)	-
of which: instruments issued by subsidiaries subject to phase out	-
Unpublished profits	40,019
Provisions	23,054
Tier II capital before regulatory adjustments	**249,073**

Tier II capital: regulatory adjustments	P '000
Investments in own Tier II instruments	-
Reciprocal cross-holdings in Tier II instruments	-
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).	-
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions).	-
National specific regulatory adjustments	-
Total regulatory adjustments to Tier II capital	
Tier II capital (T2)	**249,073**
Total capital (TC = T1 + T2)	**577,430**
Total risk-weighted assets	**3,488,697**
Capital ratios and buffers	
Common Equity Tier I (as a percentage of risk weighted assets)	**0.0%**
Tier I (as a percentage of risk-weighted assets)	**9.4%**
Total capital (as a percentage of risk weighted assets)	**16.55%**
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)	
of which: capital conservation buffer requirement	**2.5%**
of which: bank specific countercyclical buffer requirement	
of which: G-SIB buffer requirement	
Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)	
National Common Equity Tier I minimum ratio (if different from Basel III minimum)	**10.0%**
National Tier I minimum ratio (if different from Basel III minimum)	**10.0%**
National total capital minimum ratio (if different from Basel III minimum)	**15.0%**
Amounts below the thresholds for deduction (before risk-weighting)	
Non-significant investments in the capital of other financials	-
Significant investments in the common stock of financials	-
Mortgage servicing rights (net of related tax liability)	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier II	
Provisions eligible for inclusion in Tier II in respect of exposures subject to standardised approach (prior to application of cap)	**23,054**
Cap on inclusion of provisions in Tier II under standardised approach	-
Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap)	- -
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)	
Current cap on CET1 CAPITAL instruments subject to phase out arrangements	**20,000**

Common Equity Tier I capital: instruments and reserves	Component of regulatory capital reported	Source based on Reference numbers
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	230,000	Note 27
Retained earnings	105,947	
Accumulated other comprehensive income (and other reserves)		
Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non- joint stock companies)		
Common share capital issued by subsidiaries and held by third parties (amount) allowed in group CET1 CAPITAL)		
Common Equity Tier I capital before regulatory adjustments		
Prudential valuation adjustments		
Goodwill (net of related tax liability)	(7,590)	Note 19
Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)	**328,357**	

Market Risk

Market risk is the exposure to adverse changes in the price or value of an instrument traded or held as an investment. Where market risk is a factor, and especially in volatile markets, the practice of marking to market on a regular basis is an important discipline.

From the above the following detailed risks arise:"

- Interest rate risk: the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves.
- Currency risk: also known as foreign exchange risk, which arises from fluctuations within the currency market.
- Basis risk: the change in price basis or spread between two rates or indices changes, e.g. the price of an asset does not change in the same manner as a change in a liability, or the spread between the funding and lending rate changes.

Market risks were actively monitored with emphasis on the impact of a stable interest rate cycle. The management of market risk will remain a key focus area given the probability of further decreasing interest rates, increased volatility in foreign currency markets and deterioration of the macroeconomic environment.

Market Risk Management Process

Market risk is managed by closely monitoring the limits as set out in the Market Risk Framework. Models and stress tests are used to gain an increased understanding of the market risk environment. In addition, foreign exchange positions are managed via stop losses orders and closing or hedging out unwanted exposure via derivatives or in the spot market.

Priorities for the next year

Explore and implement new treasury and asset and liability management system.

The table below summarises the regulatory requirements for Bank Gaborone Limited's Market Risk Exposures for the year ended 30 June 2018:

		P '000
Interest Rate Risk	Risk weighted assets	1,601
	Capital required	240
Foreign exchange risk	Risk weighted assets	1,708
	Capital required	256

Liquidity Risk

Liquidity risk is the risk that the bank will be unable to meet its obligations as they fall due. It is also the risk that the bank may not be able to liquidate assets quickly enough or without incurring excessive cost. Liquidity risk is inherent in the bank's business endeavours and represents its ability to fund increases in assets and meet its financial obligations, while complying with all statutory and regulatory requirements.

Against the backdrop of continuing challenges in the macroeconomic environment, the overall liquidity position remained well managed and met regulatory requirements.

Liquidity Risk Management Process

Liquidity risk is monitored and managed by means of a set of liquidity indicators and triggers that serve as early warning signals for effective liquidity management. The overall liquidity position is monitored and managed in conjunction with the funding action plan and ALCO strategies to ensure sound liquidity in the bank.

- Liquidity risk is managed by monitoring various identified variables which include:
  - the level of understanding of demand and supply for liquid assets;
  - the level of adequacy and ability to access funding (established lines of funding) in a short period of time; and
  - relationships with depositors.

Priorities for the next year

- Alternative sources of funding
- Improve concentration risk
- Grow retail deposits
- Explore automation options for stress testing

Credit Risk

Credit risk is expressed as the risk that a borrower or counterparty will fail to meet an obligation when it falls due, and is inherent to the bank's business activities. The realisation of credit risk can cause a considerable loss in revenue as well as a decline in the total asset value when assets are categorised as non-performing.

Credit Risk Highlights

Gross advances grew by 14% to P3.6 billion compared to P3.1 billion recorded the previous financial year. NNon-Performing Loans as a % of gross loans and advances increased from 5.3% to 5.5%. Specific provisions increased by 18.7% from P56.3 million in June 2017 to P66.9 million in June 2018. The increase in non-performing advances and specific provisions was largely due to the continued economic decline that has resulted in retrenchments, business closures and increased household debt.

Credit Risk Management Process

Credit risk remains well managed and within acceptable limits although the impact of the deterioration in the economic environment is evident in a slow increase in arrears and non-performing loans (NPLs). Credit risk is managed by monitoring the quality and concentration risk of the overall portfolio on an ongoing basis. Models and stress testing are used to enhance the understanding of this part of the bank's core business and improve the management of the risks. Increased focus is placed on the loan application process to ensure responsible sustainable lending.On-going monitoring of loan performance is done to ensure effective quantification of credit risk exposure. Against the foregoing, loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. All loans past due more than 90 days are considered impaired.

The bank's loan book classification and provisioning methodology will change effective 1 July 2018 with the adoption of IFRS 9 - Financial Instruments.

Credit Risk Measurement Techniques

The bank has developed statistical models to support the quantification of credit risk. These quantitative models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the bank considers three components, namely:

(i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations;
(ii) current exposures to the counterparty and its likely future development, from which the bank derives the 'exposure at default' (EAD); and
(iii) the expected loss on the defaulted obligations (the 'loss given default') (LGD).

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are required by the Basel Committee on Banking Supervision (the Basel committee) and are embedded in the bank's daily operational management. The operational credit risk measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the date of the statement of financial position (the 'incurred loss model') rather than expected losses.

i. Probability Of Default (PD)

The probability of default is a historical average of default , indicating the probability that a given loan will default.

ii. Exposure At Default (EAD)

The exposure at default under Basel II will take into account an expectation of future draw-downs until the default event has occurred by utilising a credit conversion factor. For example, for a loan this is the face value.

iii. Loss Given Default (LGD)

Loss given default or loss severity represents the bank's expectation of the extent of loss on a claim should default occur (1 - recovery rate). It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II. The Basel committee on banking supervision document on international convergence of capital measurement and capital standards states that the expected loss should be a one-year estimate. For this reason, and to relate the LGD to the PD one-year average, the LGD is also computed over a one year history. The LGD should be as a percentage of the EAD as required by Basel II.

CREDIT RISK WEIGHTING FOR REGULATORY PURPOSES

Bank Gaborone employs the standardised approach to quantify credit risk. Under this approach, banks are required to use ratings from External Credit Rating Agencies to quantify required capital for credit risk. Fitch ratings are utilised as far as possible. If Fitch ratings are not available, Moodys and Standard & Poor's ratings are used for classification. If there are no ratings available, these exposures are classified as unrated. The bank applies credit ratings in 'Country Risk Management' to reflect the credit risk of financial instruments. External credit ratings for agencies are utilised for cross-border exposures, this is augmented with thorough internal credit and financial analysis in the determination and setting of exposure limits. Distinction between two broad credit quality classes is made, i.e. investment grade (AAA to BBB) and speculative / high-yield (BB and lower). For the period under review most of the bank's exposures were unrated, however, external credit ratings were employed for balances with foreign banks and asset managers.

The table below summarises the banks credit exposures subject to the standardised approach:

Counterparties	Exposure P'000	Impairment P'000	Risk-weighted amounts
Sovereign and Central Bank	489,045	-	-
Banks	557,447	-	170,160
Corporate	1,304,273	2,143	1,334,578
Retail	741,884	51,902	533,709
Residential mortgage properties	819,248	12,006	341,338
Commercial Real Estate	746,584	887	829,221
Others	325,575		102,588
Total	**4,984,056**	**66,938**	**3,311,594**

Priorities for the next year

- Specific focus will be placed on the modelling and methodology for implementing the impairment calculations for IFRS 9.
- Focus will be placed on the growing of the advances book within budget.
- Selective lending with a view to managing non - performing loans and controlling exposures to certain sectors.

Operational Risk

Operational Risk is the risk of the bank suffering financial losses directly or indirectly due to failed internal processes or systems, human error or from external events. This includes the following non-financial principal risks:

- Compliance risk – The risk of failure to comply with applicable rules and regulations, and in so doing, exposing the bank to penalties and reputation damage. Penalties received or due to non-compliance is an example of this risk.
- Operations risk – The risk of failure to deliver the intended outcome with respect to customers, products and services, facilities, data, processes, business continuity, physical cash management, payment management and change execution and delivery. Data entry, maintenance or loading errors that result in data quality issues, is an example of this risk.
- Technology risk – The risk that the strategic technology investment is not aligned to the bank's vision or business strategy, or catastrophic failure of technology to deliver secure IT services which provide critical business services. System break-downs or systems being offline are an example of this risk.
- People risk – The risk of failure to achieve the bank's business objectives through problems which may arise from people-related issues. Misuse of confidential information is an example of this risk.
- Finance and tax risk – The risk of failure to monitor and report on statutory financial requirements in line with the bank's requirements. The restatement of the annual financial statements is an example of this risk.
- Legal risk – The risk of exposure due to a failure to conduct business in accordance with laws or contractual obligations. Planned and potential litigation is an example of this risk.
- Financial crime risk – The risk of fraud or dishonesty, misconduct or misuse of information relating to a financial market, handling the proceeds of crime or the financing of terrorism. Financial crimes may involve fraud (cheque fraud or credit card fraud), theft, scams or confidence tricks, tax evasion, bribery, embezzlement, identity theft, forgery and counterfeiting, computer crime, phishing, burglary and armed robbery. Phishing attacks are an example of this risk.
- Reputation risk – This is mainly a consequence of the realisation of other risks and is the risk of failure to understand, identify or manage events that impact negatively on the bank's reputation. Loss of customers and revenue due to negative publicity is an example of this risk.

Operational Risk Management Framework

The bank has adopted the standardised approach to operational risk management under Basel II as the foundation for its operational risk management framework. Operational risk is managed through the Operational Risk Management Framework, read in conjunction with the Bank of Botswana Guidelines on Risk Management (issued May 2018) . Within the framework, qualitative and quantitative tools are applied to identify and assess operational risks, as well as managing the mitigation of identified control weaknesses. The prime responsibility for the management of operational risk rests with the management of business units where the risk arises.

The operational risk management framework establishes the operational infrastructure that enables Principal Risk Owners (PROs) to collect, interpret and act on risk information, thereby discharging their responsibilities in terms of the GRICAF. The components of the operational risk management framework are:

Risk and Control Self-Assessments (RCSAs)
As part of the systems of control developed for every principal risk, a number of key internal controls are identified and documented. The aim of the RCSA process is for management to assess the design and operation of these controls to determine if they are functioning effectively or not and to perform semi-annual risk attestations. For an internal control to be effective, evidence must exist that supports this conclusion.

Key Risk Indicators (KRIs)
KRIs are quantitative measurements specifically used for the following:
- Measurement of risk exposure (via the RCAT statement and thresholds); and
- Assessing the effectiveness of internal controls.

Risk Incident and Loss Event Reporting
Losses and risk incidents are included in monthly risk reports through the collection of information from business units. The bank has built up an internal database of risk incidents and losses stretching over more than eight years, this data is used for trend analysis, risk modelling and capital adequacy assessment.

Risk Issue Remediation and Closure Process
The process consists of recording, tracking and reporting on the bank's performance in terms of resolving risk issues raised by risk service providers such as internal and external audit, management assurance services and regulators.

Priorities for the next year
- Enhancing the existing operational risk management infrastructure to support the bank's strategy. The bank & strategy and the anticipated future operating environment directs the evolution of the internal risk and control frameworks. A key focus area is the implementation of the bank-wide dynamic risk management initiative which will enhance and strengthen the bank's risk management culture, processes and systems to adapt to the changing operating environment and to ensure the safe and responsible execution of the bank's strategy.
- Embedding of new procedures for enhanced risk assessment of new products or material changes to existing products.
- Increase integration and interaction between the various enterprise risk management capabilities in order to ensure a comprehensive overall risk capability.

Financial Crime
The bank makes use of a full time forensic function with qualified staff to monitor, investigate and report on financial crime.

Factors that influenced Financial crime risk
The frequency and sophistication of cyber related fraud were addressed with the introduction of EMV compliant chip cards, improved proactive fraud monitoring and increased fraud awareness.

Priorities for the next year

- Continued focus on preventative and pro-active fraud risk management. This includes internal and external fraud awareness.

Compliance Risk Management
As a leading financial services bank, the bank faces complex challenges to ensure that its activities comply with local legislation, regulations and supervisory requirements and relevant international standards and requirements.

The compliance function identifies, assesses, advises, monitors and reports on the compliance risk and governance of the bank and its subsidiaries, as well as legal risk in terms of the potential impact of changes in laws and regulations. The management of compliance risk forms part of the GRICAF.

The compliance function consists of general compliance, compliance monitoring,corporate governance and money laundering compliance. The methodology followed by the compliance function has been developed and benchmarked against the standards prescribed by the Compliance Institute Southern Africa.

Key activities undertaken by general compliance
The key activities undertaken by general compliance to support the directors, executive officers, management and employees in discharging the relevant compliance responsibilities include the following:
Compliance risk management framework – The framework sets out the minimum requirements for the management and control of compliance risk at different levels within the bank.
Compliance risk identification, assessment and prioritisation – Compliance risks, once assessed, are consolidated into a compliance risk profile known as the Compliance Universe. Given that the bank is a dynamic corporate entity and that the regulatory landscape is evolving and becoming increasingly stringent, the regulatory risk profile is reviewed and updated at least annually or as and when new regulatory requirements are introduced, to ensure any possible risk of non-compliance with applicable laws, regulations and supervisory requirements is addressed.
Compliance risk management plans (CRMPs) – The CRMPs serve as a management tool, outlining the compliance risks that the business units or support functions are exposed to and controls that are implemented to manage and mitigate those risks. These plans have been developed and are updated on an ongoing basis or as and when compliance risk changes or when new regulation or legislation is introduced.
Compliance risk monitoring – Monitoring of compliance risk is currently only conducted for CRMP's implemented for high risk requirements. During the financial year there were no financial penalties, or public reprimands imposed on the bank.
Compliance risk reporting – Compliance reports are submitted to governance committees attended by directors, executive officers and management. Compliance awareness is also an important component of compliance risk reporting.

Key activities undertaken by money laundering compliance

The key activities undertaken by money laundering compliance are to support the directors, executive officers, management and employees in discharging their responsibilities in respect of the risk of money laundering and terrorist financing including the following:

Governance and oversight – Money laundering compliance sets policies and provides guidance and training relating to anti-money laundering and anti-terrorist financing regulatory requirements.

Regulatory or policy breaches – Money laundering compliance reports any breaches to the various governance forums and, if required, to the regulators.

Automated money laundering prevention solution – The bank's automated money laundering prevention solution provides a mechanism to efficiently counter money laundering risks and events.

Sanctions screening – The bank has key controls and procedures in place to conduct sanctions screening and minimum screening standards are maintained by the compliance function who are ultimately responsible for money laundering compliance.

Training – The bank has developed and maintains ongoing training programmes for employees on money laundering, combating of terrorist financing activities and sanctions laws.

Factors that influenced Compliance risk

Human error and non-compliance with policies and procedures were addressed with increased compliance awareness.

New legislation and amendments to existing legislation as well as goAML compliance

Priorities for the next year

- Enhancing a compliance risk monitoring capability to effectively report on the results of compliance risk monitoring with the aim of ensuring the quick and effective resolution of regulatory issues.
- Incorporating an ethics component into the compliance risk management framework.
- Conducting an external health check on the money laundering compliance structure and processes.
- Increase integration and interaction between the various enterprise risk management capabilities in order to ensure a comprehensive overall risk capability.

HUMAN CAPITAL MANAGEMENT

The bank recognizes human capital as a very important source of its sustainable competitive advantage. The remuneration and reward system therefore plays a critical role in attracting, motivating and retaining high-performing employees who can contribute to sustained business growth. The bank recognizes individual ability and effort and to provide all the support needed to keep employees motivated to deliver excellent performance while consequence management is considered for under performers, with a proper performance management process taken into consideration, remuneration is fully integrated into other management processes, such as the performance management process, and the overall Banks Human Resources policies. The policies aim to ensure that individuals with the necessary skills and competencies are attracted and retained by the bank , as well as create fair and equitable practices in terms of employee remuneration. Bank Gaborone continues to ensure that our remuneration practices and policies adhere to global best practice and align executive interest strongly to those of our shareholders.

As part of Capricorn Group programmes, PricewaterhouseCoopers, through RemChannels, annually reviews and advises the bank on remuneration. Locally, TsaBadiri Consultancy is also used to benchmark on pay and pay practices relating to the local Botswana market. Particular attention is paid to the setting of the performance conditions for the long-term incentives and, consistent with the previous year, we have taken the decision to disclose the performance conditions in this report. We are confident that the targets, which we have set for our performance conditions and with the introduction of the new Performance Management Methodology (5Cs, Conduct, Colleague, Citizenship, Customer, Company), will stretch management, requiring strong company performance to unlock rewards for participants.

The following roles are considered as Material Risk Takers i.e. the employees in these roles can make decisions that can affect the Bank's financial performance: Managing Director, Chief Financial Officer, Treasurer and Head: Credit. Other Executive Management Team Members who also take decisions that affect the Bank's operations are Head: Retail Banking, Head: Wholesale Banking, Head: Risk & Compliance, Head: Human Resources, Head: Marketing and Corporate Communications and the Chief Operations Officer.

All employees including those from above banks are required to adhere to the Ethics and Conduct Policy that guides employee behavior and as our operations are prone to bribery: there is no differentiation between categories of employees, on salaries to ensure employees do not succumb to unethical conduct. We believe our remuneration is competitive and as such expect all employees to serve at the highest levels of ethical conduct required of them.

Governance of Remuneration

The Capricorn Group has a centralized Board Remuneration Committee (Remco) which governs remuneration. Executive directors attend committee meetings by invitation, but are requested to recuse themselves when matters concerning them are discussed. Local matters are governed by the Board Human Resources Committee which is mandated to oversee and decide on the appointment, remuneration, promotion, benefits, terms, conditions, succession and performance of employees other than directors and executive officers of Bank Gaborone. The Committee is responsible for policy formulation and review and approval of the remuneration philosophy, principles and the broad framework of remuneration. As at June 30,2018, the committee consisted of : M Mothibatsela (Chairperson), MJ Prinsloo (Member), S Coetzee (Member) . The committee met 4 times in the year under review and they were compensated P141, 900 for this function.

The key activities and recommendations of the committee with regard to remuneration during 2018 included the following:
- benchmarking of employees total reward packages
- benchmarking of employee remuneration packages and the recommendation to the main board and shareholders
- consideration of annual total guaranteed pay increases
- approval of short- and long-term incentive allocations

Remuneration philosophy and policy

The bank's remuneration philosophy aims to ensure that all employees are rewarded fairly and appropriately for their contribution. In setting remuneration levels, the human resources and remuneration committees consider appropriate market benchmarks, while ensuring sufficient emphasis is placed on pay for performance. This approach helps to attract, engage, retain and motivate key employees while ensuring their behavior remains consistent with the bank's values. The guiding principles for managing remuneration are as follows:
- Total rewards mindset – Reward is viewed in a holistic manner comprising a range of monetary (fixed and variable) and non-monetary components.
- *Performance differentiation* – There is strong differentiation based on performance, particularly for senior, specialist and leadership roles where line of sight to strategic choices are evident.
- Manager discretion – Management discretion is central to Bank Gaborone's remuneration philosophy and is based on the requirement that reward must always be based on merit.
- Variable pay component – The variable pay component of total reward increases with seniority (organisational level), as the ability to impact business results increases.
- Performance aligned with strategy – Performance is the cornerstone of reward practices and there is clear differentiation between performers and non-performers.
- Risk containment – Reward plans are structured to mitigate against excessive risk-taking.
- Consistency – The reward philosophy strives to be both consistent and transparent. Benchmarking is performed annually using consistent and recognised methodologies.
- Attraction and retention – The focus is on competitive remuneration practices that attract, engage and retain talent to deliver on the business strategy.

The bottom line of our remuneration philosophy is to reward performance. Annually, the Bank awards management discretionary bonuses and salary increments to employees who have at least met the expectations of their jobs and display behaviors that are in line with The Capricorn Way as illustrated below;

Perfomance Descriptor	Bonus Awarded?	Salary Increment Awarded?
Exceptional	Yes	Yes
Exceeds Expectation	Yes	Yes
Meets Expectation	Yes	Yes
Inconsistent Performer	No	No
Does not Meet Expectations	No	No

For inconsistent performers and those who do not meet performance objectives, measures are put in place to ensure they improve through performance improvement plans and an exit for those who do not improve after interventions. There is currently no malus (negative bonus) or clawbacks as these are not permissible under Botswana Labour Laws.

Elements of pay
The table below sets out an overview of the elements of pay applicable to Bank Gaborone employees:

	Element	Detail
Fixed remuneration and Benefits	Basic Salary	The fixed element of remuneration is referred to as basic salary.
	Benefits	Benefits include membership of a pension fund and medical aid, to which contributions are made by both the employee and the company, and may also include mortgage bond interest subsidies as well as housing, car, entertainment or other allowances,depending on the job level of the employee. Company contributions are calculated as part of the employee's cost to company.
Variable remuneration	Short -term incentives (STI)	The bank has a short-term incentive plan which aligns with best market practice within the industry and operates in the same manner for all employees within the bank. A bonus pool from which all Short Term Incentives are paid is calculated based on consolidated bank profit.
	Long-term incentives (LTI)	LTI awards take the form of share appreciation rights, conditional shares or a combination of both. Most awards are subject to vesting conditions relating to company performance, measured over a three-year performance period. In instances where retention is required, conditional shares are awarded which are subject to a vesting condition of continued tenure within the bank. In addition, employees from a specified grade level may participate in the group's share purchase scheme to purchase Capricorn Investment Holdings Botswana(CIHB) shares at the volume-weighted average price over the previous 12 months with the option of an interest-free loan repayable over nine years. Full ownership of these shares vests after three to five years.

Remuneration Paid
Annual remuneration reviews are effective on 1 September and as alluded to before, the increases are not guaranteed. During this process, remuneration structures and pay ranges are evaluated and adjusted where necessary, based on each individual's salary compared to the salary scales, considering the:

- employee's performance review
- formal salary survey conducted to determine local and regional pay practices
- adjustment of salary scales to reflect any market movement

Remuneration Structure

General Staff Remuneration for the 2018 financial year is summarised below:

	Total value of remuneration awards for the current fiscal year	Unrestricted (P)
Fixed Remuneration	Cash Based	47,700,324
Variable Remuneration	Performance Bonus	1,891,600
	Guaranteed 13th Cheque	2,593,334

Senior Management Remuneration for the 2018 year is summarised below:

	Total value of remuneration awards for the current fiscal year	Unrestricted (P)
Fixed Remuneration	Cash Based	10,988,803
Variable Remuneration	Performance Bonus	2,592,600
	Shares and share-linked instruments	-
	Severance Payments	135,000

ANNEXURE 1: CREDIT RISK

PAST DUE LOANS

30 June 2018	Article finance	Commercial loans	Mortgage loans	Individual loans	Overdrafts	Total
	P'000	P'000	P'000	P'000	P'000	P'000
Past due up to 30 days	13,004	24,380	69,688	6,576	68,087	181,735
Past due 30-60 days	3,379	6,696	23,533	2,518	6,319	42,445
Past due 61-90 days	1,525	3,284	21,248	2,521	12,602	41,179
Total	**17,908**	**34,360**	**114,469**	**11,615**	**87,008**	**265,360**

NON PERFORMING LOANS	Article finance	Commercial loans	Mortgages	Individual loans	Overdrafts	Total
	P'000	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
30 June 2018						
Past due up to 30 days	373	-	1,615	360	89	2,437
Past due 30-60 days	2,024	-	-	16	-	2,040
Past due up to 60-90 days	1,350	-	4,431	71	-	5,852
Past due 91-180 days	6,421	8,474	28,073	5,640	309	48,918
Past due 180 days	6,714	11,407	67,152	63,950	14,301	163,525
Total	**16,882**	**19,881**	**101,271**	**70,037**	**14,700**	**222,770**

NOTE: ALL EXPOSURES ARE DOMESTIC.

Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.

	P '000	P '000	P '000	P '000	P '000	P '000
As at 30 June 2018	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with Central bank	211,748	-	-	-	-	211,748
Bank of Botswana Certificates	179,673	120,000	-	-	-	299,673
Due from other banks	790,440	-	-	-	-	790,440
Loans and advances to customers	18,731	202,625	602,801	2,442,809	3,058,032	6,324,998
Investment in equity instruments	-	-	-	1,580	-	1,580
Loans and advances to staff	0	95	12	2,694	84,950	87,751
Other assets	33,039	-	-	3,890	-	36,929
Total assets (contractual maturity dates)	**1,233,631**	**322,720**	**602,813**	**2,450,973**	**3,142,982**	**7,753,119**

Industry or counter-party type distribution of exposures, broken down by major types of credit exposure.

ANNEXURE 1: CREDIT RISK

	Cash and balances with the Central Bank	Financial asset at fair value through profit and loss	Due from other banks	Loans and advances to customers	Other assets	Total
	P'000	P'000	P'000	P'000	P'000	P'000
As at 30 June 2018						-
Agriculture and forestry	-	-	-	175,352	-	175,352
Mining	-	-	-	1,257	-	1,257
Manufacturing	-	-	-	23,104	-	23,104
Building and construction	-	-	-	79,301	-	79,301
Trade and accommodation	-	-	-	60,543	-	60,543
Transport and communication	-	-	-	62,810	-	62,810
Finance and insurance	-	-	790,440	3,199	-	793,639
Business services	-	-	-	1,208,691	-	1,208,691
Commercial Real Estate	-	-	-	798,402	-	798,402
Government	190,256	299,673	-		-	489,929
Individuals	-	83,660	-	1,051,012	-	1,134,672
Other	21,490	1,580	-	153,950	35,351	212,371
	211,746	**384,913**	**790,440**	**3,617,621**	**35,351**	**5,040,071**

Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure

ASSETS	Month End P'000	Average P'000
As at 30 June 2018		
Current account	884	906
Reserve requirement account	189,372	189,397
Repurchase agreement	169,976	104,488
Bank of Botswana Certificates	299,673	359,746
Balances due from domestic banks	421,941	391,080
Balances due from foreign banks	166,897	135,073
Balances due from related parties	4,296	5,164
Loans and advances	3,701,281	3,533,859
Accounts receivable	19,590	16,632
Investment in Equity Instruments	1,580	2,148
Investments in asset managers	31,625	57,724
	5,007,116	4,796,217

Industry or counter-party type distribution of past due and non-performing loans

	Past due but not impaired P'000	Individually Impaired P'000
As at 30 June 2018		
Agriculture and forestry	24,825	2,678
Mining	600	274
Manufacturing	7,173	2,116
Building and construction	5,206	2,926
Trade and accommodation	1,210	2,246
Transport and communication	2,096	4,614
Finance and insurance	872	5
Business services	83,419	22,980
Commercial Real Estate	30,921	27,004
Government	-	
Individuals	105,791	154,706
Other	3,247	3,222
	265,360	222,770

Reconciliation of changes in the allowances for loan impairment.	**2018 P'000**	2017 P'000
Movement in impairment for the bank is as follows:		
Balance at the beginning of the year	**81,455**	(51,637)
- Specific impairment	**56,382**	30,044
- Portfolio impairment	**25,073**	21,593
Provision for loan impairment	**20,879**	37,256
Recovery of bad debts written off		
- Specific impairment	**22,898**	33,916
- Portfolio impairment	**(2,019)**	3,340
Amounts written-off during the year as uncollectible	**(12,342)**	(7,578)
- Specific impairment	**(12,342)**	(7,578)
- Portfolio impairment	**-**	-
Balance at the end of the year	**89,992**	81,455
- Specific impairment	**66,938**	56,382
- Portfolio impairment	**23,054**	25,073

TABLE 28

MAIN FEATURE OF INSTRUMENTS ISSUED BY THE BANK

	BG 400	BG 400	BG 001	BG 002	BG 003
Unique identifier (eg CUSIP, ISIN or Bloomberg	n/a	n/a	n/a	n/a	n/a
Governing law(s) of the instrument	Botswana	Botswana	Botswana	Botswana	Botswana
Regulatory treatment					
Transitional Basel III rules	[Tier II]	[Tier II]	Disqualified	[Tier II]	[Tier II]
Post-transitional Basel III rules	[Tier II]	[Tier II]	[Deduction from Tier II]	[Tier II]	[Tier II]
Eligible at solo/group/group and solo	Solo	Solo	Solo	Solo	Solo
Instrument type (types to be specified by each jurisdiction)	Preference Shares	Preference Shares	Subordinated Term Debt	Subordinated Term Debt	Subordinated Term Debt
Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	50,000	50,000	20,000	25,000	41,000
Par value of instrument	50,000	50,000	50,000	25,000	41,000
Original date of issuance	25/10/2014	25/10/2014	27/10/2011	30/06/2017	30/06/2018
Perpetual or dated	Dated	Dated	Dated	Dated	Dated Dated
Original maturity date	45302	45302	31/10/2021	30/06/2027	30/06/2028
Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes
Optional call date, contingent call dates and redemption	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after
	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after
Subsequent call dates, if applicable	at the option of issuer	at the option of issuer	at the option of issuer	at the option of issuer	at the option of issuer
Coupons / dividends					
Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating
Coupon rate and any related index	BoBc Rate+1.6%	BoBc Rate+1.6%	91 Day BOBC Rate+4%	Bank Rate+2.5%	Bank Rate+2.25%
Existence of a dividend stopper	None	None	None	None	None
Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	None	None	None	None	None
Noncumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger (s)	n/a	n/a	n/a	n/a	n/a
If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a
If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a
If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a
If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a
If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a
Write-down feature	n/a	n/a	n/a	n/a	n/a
If write-down, write-down trigger(s)	n/a	n/a	n/a	n/a	n/a
If write-down, full or partial	n/a	n/a	n/a	n/a	n/a
If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a
If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated Debt	Subordinated Debt	Depositors and General Creditors	Depositors and General Creditors	Depositors and General Creditors
Non-compliant transitioned features	n/a	n/a	Yes	n/a	n/a
If yes, specify non-compliant features	n/a	n/a	Call option on the bond	n/a	n/a

TABLE 26

REFERENCE OF FINANCIAL STATEMENTS ITEMS TO THE STATUTORY RETURN

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference Page
	P'000	**P'000**	
Cash and balances at central banks	211,748	211,748	11
Items in the course of collection from other banks			
Trading portfolio assets			
Financial assets designated at fair value	301,253	299,673	44
Derivative financial instruments			
Loans and advances to banks	620,464	620,464	11
Loans and advances to customers	3,611,289	3,611,289	11
Reverse repurchase agreements and other similar secured lending	169,976	169,976	11
Available for sale financial investments			
Current and deferred tax assets	1,657	1,657	11
Prepayments, accrued income and other assets	44,522	46,150	11
Investments in associates and joint ventures			
Goodwill and intangible assets			
of which goodwill			
of which other intangibles (excluding MSRs)			
of which MSRs			
Property, plant and equipment	23,149	23,149	48
Total Assets	**4,984,056**	**4,984,105**	
Deposits from banks	106,870	106,910	11
Items in the course of collection due to other banks			
Customer accounts	4,171,046	4,171,033	11
Repurchase agreements and other similar secured borrowing			
Trading portfolio liabilities			
Financial liabilities designated at fair value			
Derivative financial instruments			
Debt securities in issue	187,000	187,000	11
Accruals, deferred income and other liabilities	-	77,195	11
Current and deferred tax liabilities	-	-	
Of which DTLs related to goodwill			
Of which DTLs related to intangible assets			
(excluding MSRs)			
Of which DTLs related to MSRs			
Subordinated liabilities	66,000	66,000	49
Provisions	77,174		11
Retirement benefit liabilities			
Total liabilities	**4,608,090**	**4,608,139**	
Paid-in share capital			
of which amount eligible for CET1 CAPITAL	230,000	230,000	12
of which amount eligible for AT1			
Retained earnings	145,966		12
Accumulated other comprehensive income	40,019		12
Total shareholders' equity	**375,966**		

Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
Original maturity date	12/03/24	12/03/24	11/01/24	31/10/2021	31/10/2021	31/10/2021	30/06/2027	30/06/2027
Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Optional call date, contingent call dates and redemption amount	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after	5 year anniversary or after
Subsequent call dates, if applicable	5 year anniversary or after at the option of issuer	5 year anniversary or after at the option of issuer	5 year anniversary or after at the option of issuer	5 year anniversary or after at the option of issuer	5 year anniversary or after at the option of issuer	5 year anniversary or after at the option of issuer	5 year anniversary or after at the option of issuer	5 year anniversary or after at the option of issuer
Coupons / dividends								
Fixed or floating dividend/coupon	Floating		Floating	Floating			Floating	
Coupon rate and any related index	91 Day BOBC Rate+3.8%	91 Day BOBC Rate+3.8%	BoBc Rate+1.6%	91 Day BOBC Rate+4%	91 Day BOBC Rate+4%	91 Day BOBC Rate+4%	Bank Rate+2.25%	Bank Rate+2.25%
Existence of a dividend stopper	None	None	None	None	None	None	None	None
Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	None	None	None	None	None	None	None	None
Noncumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger (s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Write-down feature	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
If write-down, write-down trigger(s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
If temporary write-down, description of write-up mechanism		n/a	n/a	n/a	n/a	n/a	n/a	n/a
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)			Non-compliant transitioned features	Depositors and General Creditors	Depositors and General Creditors	Depositors and General Creditors	Depositors and General Creditors	Depositors and General Creditors
Non-compliant transitioned features	n/a	n/a	n/a	Yes	Yes	Yes	n/a	n/a
If yes, specify non-compliant features	n/a	n/a	n/a	Call option on the bond	Call option on the bond	Call option on the bond	n/a	n/a

TABLE 26
REFERENCE OF FINANCIAL STATEMENTS ITEMS TO THE STATUTORY RETURN

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference Page
	P'000	**P'000**	
Cash and balances at central banks	192,759	192,759	11
Items in the course of collection from other banks			
Trading portfolio assets			

TABLE 25

RECONCILIATION OF FINANCIAL STATEMENTS ITEMS TO THE STATUTORY RETURN

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Variance
	P'000	P'000	
Cash and balances at central banks	211,748	211,748	0
Items in the course of collection from other banks	-	-	-
Trading portfolio assets	-	-	-
Financial assets designated at fair value	301,253	299,673	(1,580)
Derivative financial instruments	-	-	-
Loans and advances to banks	620,464	620,464	(0)
Loans and advances to customers	3,611,289	3,611,289	0
Reverse repurchase agreements and other similar secured lending	169,976	169,976	(0)
Available for sale financial investments	-	-	-
Current and deferred tax assets	1,657	1,657	
Prepayments, accrued income and other assets	44,522	46,150	1,628
Investments in associates and joint ventures	-	-	-
Goodwill and intangible assets	-	-	-
of which goodwill	-	-	-
of which other intangibles (excluding MSRs)	-	-	-
of which MSRs	-	-	-
Property, plant and equipment	23,149	23,149	0
Total Assets	**4,984,056**	**4,643,784**	
Deposits from banks	106,870	106,910	40
Items in the course of collection due to other banks	-	-	-
Customer accounts	4,171,046	4,171,033	(13)
Repurchase agreements and other similar secured borrowing	-	-	-
Trading portfolio liabilities	-	-	-
Financial liabilities designated at fair value	-	-	-
Derivative financial instruments	-	-	-
Debt securities in issue	187,000	187,000	-
Accruals, deferred income and other liabilities	-	77,195	77,195
Current and deferred tax liabilities	-	-	-
Of which DTLs related to goodwill	-	-	-
Of which DTLs related to intangible assets	-	-	-
(excluding MSRs)	-	-	-
Of which DTLs related to MSRs	-	-	-
Subordinated liabilities	66,000	66,000	-
Provisions	77,174	-	(77,174)
Retirement benefit liabilities	-	-	-
Total liabilities	**4,608,090**	**4,608,139**	**-**
Paid-in share capital			-
of which amount eligible for CET1 CAPITAL	230,000	230,000	-
of which amount eligible for AT1		-	-
Retained earnings	145,966		
Accumulated other comprehensive income		40,019	40,019
Total shareholders' equity	**375,966**		

RISK MANAGEMENT STRUCTURE