ABC HOLDINGS LIMITED GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2015

BancABC part of atlasmara

Contents

Directors' report

Nature of business

ABC Holdings Limited (ABCH) delisted from the Botswana and Zimbabwe Stock exchanges on 30 January and 12 February 2015 respectively, following the group's acquisition by Atlas Mara Limited. ABCH is the holding company of the African Banking Corporation group of companies (trading under the brand name BancABC), which comprise diverse financial services activities in the areas of corporate banking, treasury services, retail & SME Banking, asset management and stock broking among other financial services. African Banking Corporation aims to deliver world-class financial solutions to the sub-Saharan African region.

Share capital

During the year, Atlas Mara Limited converted USD50m of a loan to ABC Holdings Limited into equity. This increased stated capital to USD129.1 million, and the number of issued shares by 162,343,680, to 419,229,374. The shares rank pari pasu with all other issued ordinary shares.

Shareholding

In June 2015, Altas Mara completed the full take-over of ABC Holdings by increasing its shareholding from 98.7% to 100%.

Group results

The Group is pleased to announce a significant turn-around in operational performance, recording a profit after tax of USD 0.5 million; a significant improvement from the reported loss of USD 58.5 million in 2014.

The balance sheet remained stable at USD 1.8 billion, compared with December 2014. Loans and customer deposits declined marginally to USD1.18 billion and USD 1.39 billion respectively, with currency depreciation across the markets Banc ABC operates in, contributing to this marginal decline.

Net interest income of USD 95.8 million is lower than the USD 102.1 million in 2014, due to marginal decline in loans and advances as well as currency depreciation. Non-interest income of USD 76.4 million was up 10.8% compared to 2014, largely driven by strong forex trading revenue, as well as growth in fee and commission revenues that has largely resulted from retail asset growth.

The impairment charge of USD 11.4 million in 2015 was substantially lower than the USD 72.2 million in 2014, mainly due to an improvement in the quality of the loan book and significant asset recoveries in Zimbabwe and Tanzania.

The group remains focused on improving the quality of the loan book. Total non-performing loans declined marginally to USD198 million in 2015 (2014: USD 202 million). The adequacy of provisioning for all risks within the loan book is considered sufficient given the assessment of risk in the asset book.

The financial statements have been prepared in accordance with International Financial Reporting Standards and the accounting policies of the Group, which are considered by the directors to be appropriate. Accounting policies have been applied in a manner consistent with that in the previous financial year with the exception of the change in the functional currency outlined in note 28 as well as segmental reporting and earnings per share disclosure which is no longer applicable.

Subsidiary and associated companies

Details of the Group's subsidiaries are set out in note 16 of the separate company financial statements. Details of the Group associate companies are in note 12 of the consolidated Group financial statements.

Acquisitions and disposals

There were no acquisitions or disposals of subsidiaries during the year.

Directors' interests in transactions

In terms of ABC Holdings Limited policy, Directors are required to furnish details on an annual basis of their respective personal interests in business concerns which are recorded in a specific register. Any interests by Directors in transactions between the company and third parties were disclosed to committees that were responsible for approval prior to such approval being granted and interested parties are required to recuse themselves from any approval process. Details of lending exposures are provided in note 24 on related party transactions.

Directors' emoluments

Directors' emoluments in respect of the Group's directors (Executive and Non-Executive) are shown in note 4 to the financial statements. The earnings and benefits of the Group Chief Executive Officer and executive management are approved by the Remuneration Committee of the Board.

Directors and secretary

Details of the directorate are set out below:

Directors:

J A Claassen (Chairman)	– appointed on 9th of September 2015.
R E Credo	
S A Fakie	– appointed on 9th of September 2015.
B M Gibbs	
L T Gwata	– appointed on 9th of September 2015.
D C Khama	
B Mudavanhu	– appointed on 9th of September 2015.
S R Pfende	– appointed on 9th of September 2015.
M M Schneiders	
J F Vitalo	

Company secretary:
F Takaindisa

Dividends

The directors do not recommend the payment of a dividend.

Insurance

ABC Holdings Limited and its subsidiaries are insured against banking risks, asset losses, professional indemnity and directors' and officers' claims at a level of cover, which is considered to be adequate by the directors.

Key ratios

	2015	2014	% Change	Constant currency variance*
Income statement (USD'000)				
Profit/(loss) after tax	537	(53 481)	(99%)	>100%
Balance sheet (USD000's)				
Total assets	1 810 189	1 843 667	(2%)	20%
Loans and advances	1 176 954	1 180 987	0%	19%
Deposits	1 387 624	1 487 750	(7%)	14%
Net asset value	120 432	105 111	13%	41%
Financial performance (%)				
Return on average equity	(0.5%)	(35.8%)		
Return on average assets	0.0%	(2.9%)		
Interest yield	13.1%	13.8%		
Cost of funds	7.3%	7.8%		
Net interest margin	5.7%	6.0%		
Operating performance (%)				
Non-interest income to total income	44.4%	40%		
Cost to income ratio	87.8%	86%		
NPL ratio	15.7%	16.5%		
Impairment losses on average gross loans	7.5%	7.9%		
Share statistics (000's)				
Number of shares in issue (000's)	419 230	256 886		
Net asset value per share – cents	29	41.22		

* *Constant currency variance excludes the impact of currency fluctuations on the results translation to USD.*

Directors’ responsibility statement

Responsibility for the annual financial statements

The directors are responsible for the preparation and fair presentation of the financial statements of the Group and the company at the end of the financial year and the net income and cash flow for the year, and other information contained in this report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company and the group to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead. The financial statements have accordingly been prepared on this basis.

The annual financial statements have been prepared in accordance with the provisions of the Botswana Companies Act Chapter 42:01 (as amended), and International Financial Reporting Standards.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the annual financial statements

The consolidated annual financial statements of the group, as identified in the first paragraph, were approved by the board of directors on 29 March 2016 and signed by:

J A Claassen
Chairman

29 March 2016

B Mudavahnu
Ag. Group Chief Executive

29 March 2016

KPMG, Chartered Accountants
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Independent Auditor's Report
to the members of ABC Holdings Limited

Report on the Financial Statements
We have audited the consolidated and separate financial statements of ABC Holdings Limited, which comprise the statement of financial position at 31 December 2015, and the statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 115.

Directors' Responsibility for the Financial Statements
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

KPMG

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements give a true and fair view of the consolidated and separate financial position of ABC Holdings Limited at 31 December 2015, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG
Certified Auditors
Practicing member: AG Devlin [19960060.23] 15 April 2016

Consolidated statement of profit or loss
for the year ended 31 December

	Notes	2015	2014
Interest and similar income		218 513	233 122
Interest and similar expense		(122 700)	(131 043)
Net interest income	1	**95 813**	**102 079**
Provision for credit losses	2	(11 422)	(72 237)
Net interest income after provision for credit losses		**84 391**	**29 842**
Non-interest income	3	76 581	69 314
Total operating income		**160 972**	**99 156**
Operating expenses	4	(151 252)	(148 065)
Net income/(deficit) from operations		**9 720**	**(48 909)**
Net income from associates	12	106	(62)
Result before tax		**9 826**	**(48 971)**
Income tax expense	5	(9 289)	(4 510)
Result for the year		**537**	**(53 481)**
Attributable to:			
Ordinary shareholders		(572)	(48 648)
Non-controlling interest		1 109	(4 833)
Result for the year		**537**	**(53 481)**

Consolidated statement of comprehensive income
for the year ended 31 December

	2015	2014
Profit/(Loss) for the year	**537**	**(53 481)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:	**(38 446)**	**(188)**
Exchange differences on translating foreign operations	(35 890)	2 833
Net loss on hedge of net investment in foreign operations	(3 496)	(3 080)
Share of reserves in associate companies	459	(16)
Movement in available-for-sale reserves	481	75
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:	**3 397**	**–**
Revaluation of property	3 397	–
Other comprehensive income net of tax	(35 049)	(188)
Total comprehensive income for the year	**(34 512)**	**(53 669)**
Total comprehensive income attributable to:		
Ordinary shareholders	(34 679)	(48 751)
Non-controlling interest	167	(4 918)
	(34 512)	**(53 669)**

Consolidated statement of financial position
as at 31 December

	Notes	2015	2014
Assets			
Cash and short-term funds	6	267 963	340 415
Financial assets held for trading	7	190 231	145 031
Financial assets designated at fair value	8	20 600	21 760
Derivative financial assets	20	1 893	63
Loans and advances	9	1 176 954	1 180 987
Investment securities	10	5 814	7 578
Prepayments and other receivables	11	38 395	28 087
Current tax assets		4 615	8 202
Investment in associates	12	2 475	1 590
Property and equipment	13	62 142	80 162
Investment property	14	11 979	2 701
Intangible assets	15	12 983	10 877
Deferred tax assets	16	14 145	16 214
Total assets		**1 810 189**	**1 843 667**
Equities and liabilities			
Liabilities			
Deposits	17	1 387 624	1 487 750
Derivative financial liabilities	20	5 191	6 292
Creditors and accruals	18	52 791	28 001
Current tax liabilities		319	684
Deferred tax liabilities	16	2 865	2 886
Borrowed funds	19	245 651	217 794
Total liabilities		**1 694 441**	**1 743 407**
Equity			
Stated capital	21	129 118	82 164
Foreign currency translation reserve		(50 577)	(15 326)
Non distributable reserves		49 314	30 573
Distributable reserves		(7 423)	7 700
Equity attributable to ordinary shareholders		**120 432**	**105 111**
Non-controlling interest		(4 684)	(4 851)
Total equity		**115 748**	**100 260**
Total equity and liabilities		**1 810 189**	**1 843 667**

Consolidated statement of changes in equity
for the year ended 31 December

	Stated capital	Foreign currency translation reserve	Capital Reserve
Balance as at 31 December 2014	**82 164**	**(15 326)**	**30 560**
Profit or loss for the year			
Profit or loss for the year	–	–	–
Other comprehensive income:	**(3 046)**	**(35 251)**	**3 418**
Exchange differences on translating foreign operations	(3 046)	(31 755)	–
Net loss on hedge of net investment in foreign operations	–	(3 496)	–
Revaluation of property net of deferred tax	–	–	3 397
Share of reserves in associate companies	–	–	–
Movement in available for sale reserves:	–	–	21
– Arising in current year	–	–	21
– Realised through profit and loss	–	–	–
Total comprehensive income	**(3 046)**	**(35 251)**	**3 418**
Transfers within equity	–	–	–
Movement in general credit risk reserve	–	–	15 011
Movement in statutory reserves	–	–	–
Total transfers within equity	**–**	**–**	**15 011**
Transactions with owners	**–**	**–**	**–**
Dividends paid	–	–	–
Net proceeds from shares issued	50 000	–	–
Total transactions with owners	**50 000**	**–**	**–**
Balance as at 31 December 2015	**129 118**	**(50 577)**	**48 989**

Attributable to owners of the parent				
Available for sale reserve	Distributable reserves	Total	Non-controlling interest	Total Equity
13	7 700	105 111	(4 851)	100 260
–	(572)	(572)	1 109	537
312	460	(34 107)	(942)	(35 049)
–	–	(34 801)	(1 089)	(35 890)
–	–	(3 496)	–	(3 496)
–	–	3 397	–	3 397
312	–	312	147	459
–	460	481	–	481
–	–	21	–	21
–	460	460	–	460
312	(112)	(34 679)	167	(34 512)
–	–	–	–	–
–	(15 011)	–	–	–
–	–	–	–	–
–	(15 011)	–	–	–
–	–	–	–	–
–	–	–	–	–
–	–	50 000	–	50 000
–	–	50 000	–	50 000
325	(7 423)	120 432	(4 684)	115 748

Consolidated statement of changes in equity

for the year ended 31 December

	Stated capital	Foreign currency translation reserve	Capital Reserve
Balance as at 1 January 2014	**82 164**	**(15 164)**	**25 287**
Profit or loss for the year			
Loss for the year	–	–	–
Other comprehensive income:	**–**	**(162)**	**(16)**
Exchange differences on translating foreign operations	–	2 918	–
Net loss on hedge of net investment in foreign operations	–	(3 080)	–
Revaluation of property net of deferred tax	–	–	–
Share of reserves in associate companies	–	–	(16)
Movement in available for sale reserves:	–	–	
– Arising in current year	–	–	–
– Realised through profit and loss	–	–	–
Total comprehensive income	**–**	**(162)**	**(16)**
Transfers within equity			
Movement in general credit risk reserve	–	–	5 137
Movement in statutory reserves	–	–	152
Total transfers within equity	**–**	**–**	**5 289**
Transactions with owners			
Dividends paid	–	–	–
Net proceeds from shares issued	–	–	–
Total transactions with owners	**–**	**–**	**–**
Balance as at 31 December 2014	**82 164**	**(15 326)**	**30 560**

	Attributable to owners of the parent				
	Available for sale reserve	Distributable reserves	Total	Non-controlling interest	Total Equity
	(62)	62 958	155 183	67	155 250
	–	(48 648)	(48 648)	(4 833)	(53 481)
	75	–	(103)	(85)	(188)
	–	–	2 918	(85)	2 833
	–	–	(3 080)	–	(3 080)
	–	–	–	–	–
	–	–	(16)	–	(16)
	75	–	75	–	75
	75	–	75	–	75
	–	–	–	–	–
	75	(48 648)	(48 751)	(4 918)	(53 669)
	–	(5 137)	–	–	–
	–	(152)	–	–	–
	–	(5 289)	–	–	–
	–	(1 321)	(1 321)	–	(1 321)
	–	–	–	–	–
	–	(1 321)	(1 321)	–	(1 321)
	13	7 700	105 111	(4 851)	100 260

Consolidated cash flow statement

for the year ended 31 December

	Notes	2015	2014
Cash flows from operating activities		**(67 851)**	**54 664**
Cash generated from operating activities		30 693	37 103
Result before tax		**9 826**	**(48 971)**
Adjusted for:			
Provision for credit losses		11 422	72 237
Depreciation and amortisation		11 358	13 479
Dividends receivable		–	(1 082)
Net unrealised losses/(gains) on derivative financial instruments		(51)	902
Re-measurement of investment property		(3 036)	619
Net gains on financial instruments at FV through profit or loss		(447)	–
Loss from associates		–	62
Loss on held to maturity instruments		1 621	–
Profit on disposal of property and equipment		–	(143)
Tax paid		(6 667)	(13 664)
Net cash inflow from operating activities before changes in operating funds		**24 026**	**23 439**
Net (decrease)/increase in operating funds		**(91 877)**	**31 225**
Decrease in operating assets		(279 734)	(156 290)
Increase in operating liabilities		187 857	187 515
Cash flows from investing activities		**(10 922)**	**(6 630)**
Purchase of property and equipment		(6 271)	(6 316)
Purchase of intangible assets		(6 548)	(1 547)
Dividends received		53	1 082
Proceeds on disposal of property and equipment		1 844	151
Cash flows from financing activities		**83 971**	**28 185**
Increase in borrowed funds		83 971	29 469
Dividend paid		–	(1 284)
Increase in cash and cash equivalents		**5 198**	**76 219**
Cash and cash equivalents at the beginning of the year		340 415	262 573
Exchange adjustment on opening balance		(77 650)	1 623
Cash and cash equivalents at the end of the year		**267 963**	**340 415**
Cash and cash equivalents	6	192 732	247 525
Statutory reserves	6	75 231	92 890
Cash and short term funds	6	**267 963**	**340 415**

Significant accounting policies

Reporting entity

ABC Holdings Limited (the "Company") is domiciled in Botswana. The consolidated financial statements of the Company for the year ended 31 December 2015 include the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and its jointly controlled entities.

Statement of compliance

The Group prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The accounting policies disclosed for the consolidated financial statements apply equally to the Company's separate financial statements unless otherwise specified. In preparing these financial statements, the Group adopted the following interpretations effective in 2015 that are relevant to the Group:

- Annual Improvements to IFRSs 2010 – 2012 Cycle – various standards
- Annual Improvements to IFRSs 2011 – 2013 Cycle – various standards
- Amendments to IAS 19 'Defined Benefit Plans" on employee Contributions (effective from 30 June 2015)

The above changes had no material impact on the Group's financial statements for the current period.

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2015:

- Annual improvements 2012 – 2014 (effective from 1 January 2016). This covers amendments to the following standards:
  - *IFRS 5, 'Non-current assets held for sale and discontinued operations'* regarding methods of disposal.
  - *IFRS 7, 'Financial instruments: Disclosures'*, (with consequential amendments to IFRS 1) regarding servicing contracts.
  - *IAS 19,'Employee benefits'* regarding discount rates.
  - *IAS 34, 'Interim financial reporting'* regarding disclosure of information.
- Amendments to *IAS 1 'Presentation of Financial Statements*' which provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The adoption of the amendments, when they become effective, is not expected to have any material impact on the Group's financial statements.
- Amendments to *IFRS 11 'Joint Arrangements'* in relation to accounting for acquisitions of interests in joint operations. The amendment is effective for annual periods beginning on or after 1 January 2016. The adoption of the amendment, when it becomes effective, is not expected to have any material impact on the Group's financial statements.
- Amendments to *IAS 16 'Property, Plant and Equipment'* and IAS 38 'Intangible Assets' which provides clarification of acceptable methods of depreciation and amortisation. The amendment is effective for annual periods beginning on or after 1 January 2016. The adoption of the amendment, when it becomes effective, is not expected to have any material impact on the Group's financial statements.
- Amendments to *IAS 27 'Consolidated and Separate Financial Statements'* to allow equity accounting in separate financial statements. The amendment is effective for annual periods beginning on or after 1 January 2016. The adoption of the amendment, when it becomes effective, is not expected to have any material impact on the Group's financial statements.
- Amendments to *IFRS 10 'Consolidated Financial Statements'* and *IAS 28 'Investment in Associates and Joint Ventures'*. The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments are effective for annual periods beginning on or after 1 January 2016. The adoption of the amendments, when they become effective, is not expected to have any material impact on the Group's financial statements.
- *IFRS 15 'Revenue from Contracts with Customers'*. This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, *IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Significant accounting policies *continued*

Statement of compliance *(continued)*

This new standard will most likely have a significant impact on the Group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group and will provide more information in the year ending 31 December 2016 financial statements. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

- *IFRS 9, 'Financial Instruments'.* On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard will have a significant impact on the Group, which will include changes in the measurement bases of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Group. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted. The group is assessing the potential impact on the financial statements resulting from the application of IFRS 9.
- *IFRS 16. 'Leases'.* IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The group is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

Basis of preparation

The Group presents accounts in accordance with IFRS. The consolidated financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the revaluation of financial instruments classified as available-for-sale, financial assets and liabilities held "at fair value through profit or loss", land and buildings and investment properties.

The consolidated financial statements comprise the consolidated income statement and statement of comprehensive income shown as two statements, the statement of financial position, the statement of changes in equity, the cash flow statement and the notes. The Group classifies its expenses by the nature of expense method, and presents its cash flows using the indirect method.

Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

Fair value of financial instruments

Many of the Group's financial instruments are measured at fair value on the balance sheet and it is usually possible to determine their fair values within a reasonable range of estimates. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of judgement, (e.g. interest rates, volatility and estimated cash flows) and therefore cannot be determined with precision.

Significant accounting policies *continued*

Significant accounting judgements, estimates and assumptions *(continued)*

Fair value of financial instruments *(continued)*

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Impairment of loans and advances

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed monthly to reduce any differences between loss estimates and actual loss experience. Refer to impairment of loans and advances below.

Held-to-maturity investments

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value, not amortised cost.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The recognition of deferred tax assets is based on profit forecasts made by management of the particular Group Company where the asset has arisen. These forecasts take into account the Group's re-capitalisation plans of the subsidiary and market conditions prevailing in the economy in which the Company operates.

Goodwill impairment

The Group assesses goodwill for impairment on an annual basis based on value in use calculations. Refer to impairment of equity accounted investees below.

Impairment of associates

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. Refer to impairment of equity accounted investees below.

Significant accounting policies *continued*

Functional and presentation currency

Change in functional currency

Following ABC Holdings becoming a wholly-owned subsidiary (subsequent to the completion of the mandatory offer to non-controlling parties) of Atlas Mara Limited during July 2015, the Directors have concluded that the most appropriate functional currency of the Company is US dollars. The previous functional currency of the Company was the Botswana Pula.

This reflects the fact that a substantial portion of the Atlas Mara Group's business and accordingly ABC Holdings is influenced by a dollar economic environment.

On the date of the change of functional currency all assets, liabilities, issued capital and other components of equity and income statement items were translated into dollars at the exchange rate on that date.

As a result, the cumulative currency translation differences which had arisen up to the date of the change of functional currency were reallocated to other components within equity (refer below).

As a result of the change in functional currency the Company's functional and primary presentation currency are now the same.

The group will continue to present some financial information in dual presentation currencies (the other currency being Botswana Pula).

Presentation currency

The Company and group's presentation currency for the year ended 31 December 2015 was dollars and the functional currency was US dollar.

Assets and liabilities were translated from the functional currency into dollars using the closing rate at the 2014 balance sheet date. Income, expenses and cash flows recognised in the period were translated at an average dollar exchange rate for the period. Resulting exchange differences were reflected as currency translation adjustments in the statement of changes in equity and included in cumulative currency translation differences.

Share capital was recorded at the historical rate on the date of issue and was not re-translated at each subsequent balance sheet date.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. Accounting policies of subsidiaries conform to the policies adopted by the Group. Investments in subsidiaries are accounted for at cost less impairment losses in the Company accounts. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

For acquisitions achieved in stages, interests already held are re-measured through profit or loss.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and related non-controlling interest and other components of equity. Any resulting gains or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Interests in equity-accounted investees

The Group applies IAS 28 Investments in Associates and IFRS 11 Joint Arrangements. Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. Generally the Group holds more than 20%, but less than 50%, of their voting shares.

Significant accounting policies *continued*

Basis of consolidation *(continued)*

Interests in equity-accounted investees *(continued)*

The Group's investments in associates and joint ventures are recognised using the equity method. These investments are initially recorded at cost and increased (or decreased) each year by the Group's share of the post-acquisition profit (or loss).

The Group ceases to recognise its share of the losses of equity accounted associates when its share of the net assets and amounts due from the entity have been written off in full, unless it has a contractual or constructive obligation to make good its share of the losses.

The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Critical accounting estimates and judgements

Management applies its judgement to determine whether the control indicators indicate that the Group controls an entity. In making this assessment the following will be evaluated:

- The Group's ability to have power over the activities of the investment, including any potential voting rights and board representation; and
- The Group's exposure to variability of returns from the investment and the ability to have an impact on this.

The assessment may indicate that the group does not have control, but has significant influence by means of:

- The % voting rights held;
- Appointments to the board of the investment.

Fair value of assets and liabilities of associate.

In determining the value of the assets and liabilities of the associate, the Group applies judgement.

Included in the investment in associate is the valuation of intangible assets identified. The valuation is sensitive to the discount rate applied.

Impairment Losses for equity accounted investees

After application of the equity method, including recognising the associate's losses, the entity applies IAS 39 Financial Instruments: Recognition and Measurement to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture.

The entity also applies IAS 39 to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.

Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets. Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of IAS 39 indicates that the investment may be impaired.

An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Basis of consolidation *(continued)*

Impairment Losses for equity accounted investees *(continued)*

In determining the value in use of the investment, an entity estimates:

(a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds from the ultimate disposal of the investment; or

(b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

The following assessments for impairment losses are required for an investment in associates:

- Assets of the associate
- Investment in the associate
- Other interests that are not part of the net investment in the associate

Assets of the associate

The investor should measure its interest in an associate's identifiable net assets at fair value at the date of acquisition of an associate. If the value that the investor attributes to the associate's net assets differs from the carrying value amounts in the associate's books, the investor should restate any impairment losses recognised by the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the sum of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Transaction costs for any business combinations are recognised within profit and loss as and when they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Significant accounting policies *continued*

Basis of consolidation *(continued)*

Business combinations *(continued)*

The Group elects to measure non-controlling interests on the acquisition date at either fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets.

Goodwill

The carrying value of goodwill is determined in accordance with IFRS 3 Business Combinations and IAS 36 Impairment of Assets.

Goodwill arises on the acquisition of subsidiaries and associates, and represents the excess of the fair value of the purchase consideration over the fair value of the Group's share of the assets acquired and the liabilities and contingent liabilities assumed on the date of the acquisition. Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

An annual impairment evaluation is performed in respect of goodwill, or more frequently when there are indications that impairment may have occurred. The evaluation involves comparing the carrying value of goodwill with the present value of the pre-tax cash flows, discounted at a rate of interest that reflects the inherent risks, of the cash generating unit (CGU) to which the goodwill relates, or the CGU's fair value if this is higher.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Impairment testing for goodwill

IFRS requires annual impairment testing of goodwill. Where there is no impairment trigger, there is no need for the two-step approach.

While the standard is clear that the annual testing is mandatory and should be performed irrespective of whether a triggered impairment test was done, it states that the impairment tests can be performed at any time within the reporting period, provided that the test is performed at the same time. The assessment was performed between September 2014 and January 2015.

The annual impairment test was performed for goodwill other than goodwill that arose in the acquisition of BancABC and ADC. In respect of this goodwill, a comprehensive assessment of the underlying cash-generating units has taken place. This assessment included a review of the forecast financial information. At the time of the completion and finalisation of this document a review was performed on the forecasts of these CGUs and confirmed that there had been no material changes to the business that would negatively impact on the valuation.

Impairment testing for goodwill

The review and testing of goodwill for impairment inherently requires significant management judgement as it requires management to derive the best estimates of the identified CGUs' future cash flows. The principal assumptions considered in determining an entity's values are:

Future cash flows – the forecast periods adopted reflect a set of cash flows that, based on management judgement and expected market conditions, could be sustainably generated over such a period. A forecast period of five years has been used. The cash flows from the final discrete cash flow period were extrapolated into perpetuity to reflect the long-term plans for the entity. It is common valuation methodology to avoid placing too high a proportion of the total value on the perpetuity value.

Discount rates – the cost of equity ("CoE") percentages were derived from an equity pricing model deemed appropriate based on the entities under review. The future cash flows are discounted using the CoE assigned to the appropriate CGUs and by nature can have a significant effect on their valuations.

The assumptions applied in testing goodwill for impairments at year end are discussed in note 16.

Significant accounting policies *continued*

Basis of consolidation *(continued)*

Transactions with non-controlling interests

Transactions, including partial disposals, with non-controlling interests shareholders that do not result in the gain or loss of control, are accounted for as transactions with equity holders of the Group. For purchases of additional interests from non-controlling interests, the excess of the purchase consideration over the Group's proportionate share of the subsidiary's additional net asset value of the subsidiary acquired is accounted for directly in equity. For disposals to non-controlling shareholders, the profit or losses on the partial disposal of the Group's interest in a subsidiary to non-controlling interests is also accounted for directly in equity. All acquisition or disposal-related costs are expensed.

Common control transactions

Entities are under common control when the combining entities or businesses are ultimately controlled by the Group both before and after the combination and where control is not transitory. The Group in a business combination under common control does not restate any assets and liabilities to their fair values. Instead, the Group incorporates the assets and liabilities at their pre-combination carrying amounts without fair value uplift. No goodwill is recorded. Any difference between the cost of investment and the carrying value of the net assets is recorded in equity, which could impact on distributable profits, depending on local legislation. This applies whether the consideration was for shares or cash. The Group's financial statements include the acquired entity's results from the date of the business combination.

In the separate financials, the acquirer and transferor account for common control transactions on the basis that the parties are separate entities in their own right and the accounting reflects the actual terms of the transaction. The acquirer accounts for the transaction at the actual price paid. In the transferor's books, the difference between the consideration received and the carrying amount of the investment is recognised immediately to profit or loss.

Foreign currency transactions

Cumulative currency translation differences

Cumulative currency translation differences represent the currency differences which arose as a result of translating the financial statements from the Company's previous functional currency of Botswana Pula to the reporting currency of dollars.

Currency translation

Income and expense items denominated in currencies other than the functional currency are translated into the functional currency at the rate ruling on their transaction date. Monetary assets and liabilities recorded in currencies other than the functional currency have been expressed in the functional currency at the rates of exchange ruling at the respective balance sheet dates. Differences on translation are included in the statement of income.

Recognition of assets and liabilities

Assets are recognised when the Group irrevocably gains control of a resource from which future economic benefits are expected to flow to the Group. Liabilities are recognised when the Group has a legal or constructive obligation as a result of past events and a reliable estimate of the amount of the obligation, or outflow of resources from the Group can be made. If there is a possible obligation or outflow of resources from the Group or where a reliable estimate is not available, a contingent liability is disclosed.

De-recognition of assets and liabilities

An asset is derecognised when the Group loses control over the contractual rights that comprise the asset. A liability is derecognised when it is extinguished.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand; cash deposited with banks and short-term highly liquid investments with maturities of three months or less when purchased. For cash flow purposes cash and cash equivalents include bank overdrafts.

Prepayments and other receivables

Prepayments and other receivables that are not financial assets and are carried at amortised cost. Identifiable risks of default are accounted for by means of write-downs.

Significant accounting policies *continued*

Financial assets and financial liabilities

Initial recognition, measurement and derecognition

Financial instruments are recognised initially when the Group becomes a party to the contractual provisions of the instruments.

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. These investments are measured initially and subsequently at fair value. Gains and losses arising from changes in fair value are recognised in profit and loss, until the security is disposed of or is determined to be impaired, at which time the gain or loss is included in the profit or loss for the period.

Financial assets are derecognised when rights to receive cash flows from the financial asset have expired or where the Group has transferred substantially all risks and rewards of ownership. The Group derecognises financial liabilities when its contractual obligations are discharged or cancelled, or expire.

Financial instruments are measured initially at fair value. For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument. Transaction costs on financial instruments at fair value through profit or loss are immediately recognised in profit or loss.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial assets and financial liabilities *(continued)*

Initial recognition, measurement and derecognition *(continued)*

Subsequent to initial recognition, the group measures financial instruments as follows:

Financial liabilities

Financial liabilities comprise creditors and accruals, deposits, derivative financial liabilities, borrowed funds and loans from group companies. Financial liabilities are classified as financial liabilities at fair value through profit and loss, or other financial liabilities. Financial liabilities at fair value through profit or loss are classified as such where the financial liability is either held for trading or it is designated as at fair value through profit and loss.

Financial assets at fair value through profit or loss

The Group derecognises financial liabilities when its contractual obligations are discharged, expired or cancelled.

Other financial liabilities, comprising of creditors and accruals, deposits, derivative financial liabilities, borrowed funds and loans from group companies, are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial assets

Financial assets comprise cash and short-term funds, Financial assets held-for-trading, financial assets designated at fair value, derivative financial assets, loans and other advances, investment securities, prepayments and other receivables and loans to group companies.

The Group classifies financial assets as loans and receivables, held-to-maturity and designated as at fair value through profit and loss.

Financial assets and financial liabilities *(continued)*

Initial recognition, measurement and derecognition *(continued)*

Loans and receivables

Loans and receivables include loans and advances, prepayments and other receivables and loans to group companies.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and advances to banks are classified as loans and receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Group chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with face value changes recognised immediately in profit or loss.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status, and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

Cash and cash equivalents

Cash and cash equivalents comprise balances with less than twelve months maturity from date of acquisition including cash on hand and demand deposits and other highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents is measured at amortised cost and approximates fair value due to the short-term nature of these instruments.

Designated as at fair value through profit and loss, Held-for-trading financial assets, Held-to-maturity financial assets and available for sale financial assets

Other financial assets include investments classified as designated as at fair value through profit and loss, held for trading and held to maturity investments.

Designated as at fair value through profit and loss

Financial assets are designated as at fair value through profit and loss upon initial recognition to the extent it produces more relevant information because it forms part of a group of assets which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally to management on that basis. Subsequent gains and losses arising from changes in fair value are recognised in profit and loss.

Held-for-trading financial assets

Financial assets are classified as held for trading if it has been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or on initial recognition it is part of an identified portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Subsequent gains and losses arising from changes in fair value are recognised in profit and loss.

Significant accounting policies *continued*

Financial assets and financial liabilities *(continued)*

Initial recognition, measurement and derecognition *(continued)*

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. These financial assets are initially measured at fair value plus direct transaction costs. Held to maturity investments are measured at amortised cost using the effective interest method, less any impairment.

Available for sale financial assets

Financial assets are available for sale financial assets if they are non-derivative and not classified as "loans and receivables", "held-to-maturity" or "at fair value through profit or loss".

Available for sale assets are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. When an asset is derecognised or impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity to profit or loss.

Derivative financial assets and liabilities

A derivative is a financial instrument with the following characteristics:

Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable; It requires no initial net investment, or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and It is settled at a future date.

Derivatives are normally recorded in the statement of financial position at fair value with any changes in value reported in profit or loss.

Effective interest method

Interest income and expense are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, excluding credit losses.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred loan income reduces the outstanding loans and advances balance on the basis that the revenue will be recognised over the terms of the loans.

Effective for periods ending 31 December 2015, IFRS 7 clarified the offsetting requirements. The standard clarified that "legal enforceable right to set off" is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and counterparties. The revised guidance did not affect the Group.

The amendments further introduced additional disclosures. Where applicable, the Group has implemented these disclosures.

Fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values which the Group Chief Financial Officer oversees. The Group also uses third party specialist valuers for more complex level 3 instruments.

The valuation team within the Group's Finance function regularly reviews significant unobservable inputs and valuation adjustments used to measure fair values to assess whether the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Fair value determination

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group and separate companies establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group and separate Company classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included under the fair value section on page 58.

Fair value determination as included in the measurement and disclosure requirements of IFRS 13 is applicable to all elements of the statement of financial position, and not only financial instruments.

Financial instruments not measured at fair value where the carrying value is estimated to approximate the fair value of these instruments, were as follows:

(i) Placements with other banks
Placements with other banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits are their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All placements are floating rate placements.

(ii) Loans and advances
The fair value of loans and advances was determined with reference to the estimated future cash flows discounted back at the discount rate calculated for each banking subsidiary based on a market premium which included the risk free rate, a small stock premium, country risk premium and the cost of equity. Where collateral is held, the value of collateral was compared to similar assets sold under typical "forced sale" conditions. The expected future cash flows from collateral were also discounted at the discount rate calculated per subsidiary.

Significant accounting policies *continued*

Fair value *(continued*

Fair value determination *(continued)*

(iii) Investment securities

Investment securities include only interest-bearing assets held to maturity, and unlisted equities; assets classified as available for sale are measured at fair value. Fair value for held to maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iv) Deposits

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The majority of deposits are at floating rates or where at fixed rates, fixed for less than 3 months.

Impairment of financial assets

a) Assets carried at amortised cost

Credit risk is broken down into the common risk components of probability of default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), modelled at a client, facility and portfolio level. These risk components are used in the calculation of a number of aggregate risk measures such as Expected Loss (EL). The models used by the Group are aimed to be compliant with Basel II and regulatory requirements. These risk measures would be used as inputs to calculate the collective impairment amounts.

The Group reviews its loan portfolios to assess impairment at least on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed monthly to reduce any differences between loss estimates and actual loss experience.

BancABC default probabilities for each rating bucket are much more conservative, i.e. for the same rating BancABC implies a much higher likelihood of defaults than the corresponding Standard & Poor's. The definition of default and the use of PD is standard as prescribed by the Basel II framework and regulation. The PD measures the likelihood of a client defaulting on its obligations within the next 12 months and is a primary component of the internal risk rating calculated for all clients.

The Group calculates EAD estimates for each facility through models developed and based on internal and external default data as well as credit experts' experience with particular products or client groups. EAD estimates incorporate both on- and off-balance sheet exposures resulting in a capital requirement which incorporates existing exposures, as well as exposures which are contingent on a counterparty's use of an available facility.

LGD estimates are calculated through internally developed models, as well as a broad base of expert judgement from credit representatives and the results are primarily driven by the type and amount of collateral held.

Portfolio impairment is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss 'incurred but not reported' or IBNR).

Specific impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. In most cases management will recommend a discounted value for the collateral based on the knowledge of the client. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Impairment of financial assets *(continued)*

a) Assets carried at amortised cost

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date.

b) Assets classified as available-for-sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. A decline in excess of 20% is regarded as significant and a decline in fair value that persists for nine months or more is considered to be prolonged. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

c) Renegotiated loans

If the terms of a loan are renegotiated or modified or an existing loan is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the loan should be derecognised. If the cash flows of the renegotiated loan are substantially different, then the contractual rights to cash flows from the original loan are deemed to have expired. In this case, the original loan is derecognised and the new financial asset is recognised at fair value.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due.

d) Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Group's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

e) Collateral repossessed

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to prepayments and other receivables at their fair value at the repossession date and sold to third parties.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Significant accounting policies *continued*

Derivative financial instruments and hedging activities

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is not recognised in the income statement, but it is deferred in the balance sheet and released to the income statement over the life of the derivative. However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to profit or loss.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Certain derivatives embedded in other financial instruments, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
b) hedges of a net investment in a foreign operation (net investment hedge); or
c) derivatives that do not qualify for hedge accounting.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group documents at inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in "non-interest income – net gains/losses on derivative financial instruments". Effective changes in fair value of currency futures are reflected in "non-interest income – forex trading income and currency revaluation". Any ineffectiveness is recorded in "non-interest income – gains on financial assets at fair value through profit or loss". If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

b) Net investment hedge

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and presented in the foreign currency translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement under "non-interest income – gains on financial assets at fair value through profit or loss – held for trading". However, the gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in "non-interest income – gains on financial assets at fair value through profit or loss – designated at fair value".

Significant accounting policies *continued*

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. Any increase in the liability relating to guarantees is taken to the income statement under impairment of loans and advances.

Repurchase agreements

Securities sold subject to linked repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. The liability to the counterparty is included under deposit and current accounts. Securities purchased under agreements to resell (reverse repos) are recorded as loans granted under resale agreements and included under loans and advances to other banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the repurchase agreement using the effective interest method. Securities lent to counterparties are retained in the financial statements and are classified and measured in accordance with the accounting policy on financial instruments. Securities borrowed are not recognised in the financial statements unless these are sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions.

Property and equipment

Land and buildings are shown at fair value based on annual valuations by external independent valuers under hyperinflationary economies, otherwise at least once every three years. However, management conducts annual assessments, to ensure that the carrying amount of land and buildings is not significantly different from fair value. Surpluses and deficits arising thereon are transferred to the property revaluation reserve in equity. The revaluation surplus or deficit is reversed when the asset is disposed of. All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment. Owner-occupied properties are held for use in the supply of services or for administrative purposes. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the property and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Buildings:	40 years;
IT equipment:	3 – 5 years; and
Fixtures and fittings:	5 – 10 years.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate only when it is probable that future economic benefits associated with the item will flow to the Group. The cost of day-to-day servicing of property and equipment are recognised in the income statement as incurred.

Significant accounting policies *continued*

Investment property

Investment properties are properties which are held by the Group either to earn rental income or for capital appreciation or for both. Investment property is stated at fair value determined annually by an independent registered valuer under hyper-inflationary economies, otherwise at least once every three years. Fair value is based on open market value and any gain or loss arising is recognised in the income statement. Fair value adjustments on investment properties are included in the income statement as investment gains or losses in the period in which these gains or losses arise and are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination. The deemed cost for any reclassification between investment properties and owner occupied properties is its fair value, at the date of reclassification.

Intangible assets other than goodwill

Intangible assets other than goodwill are accounted for in accordance with IAS 38 Intangible Assets. Intangible assets include trade names, customer relationships, core deposits, core overdrafts, software, licences and other contracts. They are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use.

Intangible assets are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less amortisation and provisions for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 10 years. Intangible assets are reviewed for impairment when there are indications that impairment may have occurred.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment of non-financial assets

Intangible assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). In determining value in use, the estimated future cash flows are discounted using a current market interest rate, which reflects the asset's specific risks. An impairment loss is immediately recorded as an expense. Non-financial assets other than goodwill and other indefinite lived assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for restructuring is recognised when the Group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract. Contingent liabilities, which include certain guarantees other than financial guarantees, and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements.

Managed funds and trust activities

Certain companies in the Group operate unit trusts, hold and invest funds on behalf of clients and act as trustees and in other fiduciary capacities. Assets and liabilities representing such activities are not included on the balance sheet, as these relate directly to clients. Income from these activities is brought into account over the period to which the service relates.

Share capital

Repurchase of share capital

Shares repurchased by Group companies are classified as treasury shares, and held at cost. These shares are treated as a deduction from the issued share capital and the cost price of the shares is presented as a deduction from total equity. Fair value changes recognised in the subsidiary's financial statements on equity investments in the holding entity's shares, are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

Dividends

Dividends are recognised as a liability in the period in which they are approved by shareholders. Dividends declared are recognised directly in equity.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Other reserves

The reserves recorded in equity (other comprehensive income) on the Group's balance sheet include:

- Available-for-sale reserve, which comprises changes in fair value of available-for-sale investments;
- Property revaluation reserve, which comprises changes in fair value of land and buildings;
- Foreign currency translation reserve, which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging;
- Regulatory general credit risk reserve, which comprises any excess loan impairment reserves over those computed using IFRS provisions;
- Statutory reserve which comprises any retained earnings amounts that regulatory authorities prescribe to be held separately from distributable reserves; and
- Convertible bond reserve which records portions of compound financial liabilities that qualify as equity.

Operating income

Income such as revenue derived from service fees, net interest income, commissions, net surplus arising from trading activities and other income are included in net income from operations.

Interest

Interest income and interest expense are recognised in the income statement for all interest-bearing financial instruments on an accruals basis using the effective yield method except for those classified as held for trading based on the original settlement amount. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest earned on accounts, which have been in arrears for three months or more is credited to an interest in suspense account. This interest is only recognised in the income statement when the account is no longer in arrears.

Significant accounting policies *continued*

Fee and commission income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

Dividend income

Dividend income is recognised in the income statement on the date that the dividend is declared.

Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of total rental income.

Other non-interest income

Revenue and income from the provision of services is recognised when the amount of income and the costs in connection with providing the services as well as the percentage of completion can be reliably measured as of the reporting date.

Leases

Group as lessee

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the leases' inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor. Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Group as lessor

Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances on the balance sheet. Finance charges earned are computed using the effective interest method, which reflects a constant periodic return on the investment in the finance lease. Initial direct costs paid are capitalised to the value of the lease amount receivable and accounted for over the lease term as an adjustment to the effective rate of return. The benefits arising from investment allowances on assets leased to clients are accounted for in tax. Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Receipts of operating leases from properties held as investment properties in investment management net of any incentives given to lessees, are accounted for as rental income on the straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of penalty is recognised as income in the period in which termination takes place.

Significant accounting policies *continued*

Leases *(continued)*

Repossessed assets

Repossessed assets are not brought on balance sheet until they are sold off to extinguish or reduce the outstanding debt.

Employee benefits

Defined contribution plans

The contributions are recognised as an expense in the income statement as incurred.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. Performance costs are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised over the period of service that employees are required to work to qualify for the services

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). Employees working in the business development group are granted share appreciation rights, which are settled in cash (cash-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting are conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share and only presented if the result is a loss.

Significant accounting policies *continued*

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in employee benefits expense.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Additional income taxes that arise from the distribution of dividend are recognised at the same time as the liability to pay the related dividend is recognised. Deferred tax assets and liabilities are recognized for temporary differences between the tax base of the assets and liabilities and their carrying amounts pursuant to the IFRS financial statements. Deferred tax assets or liabilities are measured using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities, in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- investments in subsidiaries and joint ventures (excluding mutual funds) where the Group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred tax assets for temporary differences and for unused tax losses are recognized at the probable amount of temporary differences or unused tax losses that can be offset against future positive taxable income. Current and deferred tax relating to items that are charged or credited directly to equity are also charged or credited directly to equity and are subsequently recognised in the income statement when the related deferred gain or loss is recognised.

Notes to the financial statements

Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by Group Risk, under policies approved by the Board of Directors. The Board approves principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate and price risk.

Credit risk management

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Country (or Sovereign) risk is part of overall credit risk and is managed as part of the credit risk management function as it has a major impact on individual counterparties ability to perform. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The Group Risk team reviews subsidiary risk exposures regularly, and reports to the Board of Directors.

The Board has defined and documented a credit policy for the Group which forms the basis of credit decisions. This policy includes a framework of limits and delegation of credit approval authority which are strictly adhered to. No one individual has the power to authorise credit exposures. Each subsidiary has a credit committee which operates within the defined limits set by the Board. These committees are responsible for the management of credit risk within their country including credit decisions, processes, legal and documentation risk and compliance with impairment policies. The Group Risk Department regularly reviews each subsidiary's adherence to required standards.

The Executive Committee reports to the Board and is responsible for approval of credit decisions that are above country limits, recommendations on exposure limits and impairment policies. There is also a Board Credit Committee that approves any loans above the EXCO limit.

The Group has adopted standard impairment policies which at a minimum comply with the prudential guidelines of the respective countries' central banks. Impairments are determined monthly at subsidiary level and are subject to regular review by Group Risk.

Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Group considers three components: the probability of default by the client or counterparty on its contractual obligations; the current exposures to the counterparty and its likely future development; and the likely recovery on the defaulted obligations. These credit risk measurements, which reflect expected loss, are embedded in the Group's daily operational management. The operational measurements are contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date.

Credit risk management *(continued)*

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed internally and combine statistical analysis for certain categories, as well as credit officer judgment. Clients of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Group's internal rating scale

Category	Description
Performing	The credit appears satisfactory
Special mention	The credit appears satisfactory but exhibits potential for inherent weaknesses which, if not attended to, may weaken the asset or prospects of collection in full e.g. poor documentation
Sub-standard	The credit has defined weaknesses that may jeopardise liquidation of the debt i.e. the paying capacity of the borrower is doubtful or inadequate, or more than 90 days but less than 180 days in arrears
Doubtful	Credit facilities with above weaknesses and has deteriorated further to the extent that even with the existing security, full recovery will not be possible, or 180 days but less than 12 months in arrears
Loss	Facilities considered impossible to collect with little or no realisable security, or more than 12 months in arrears

Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk in respect of individual counterparties and groups, and to industries and countries. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of Directors, and reviewed regularly. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- cash collateral;
- charges over assets financed;
- mortgages over residential and commercial properties;
- charges over business assets such as premises, inventory and accounts receivable; and
- charges over financial instruments such as debt securities and equities.

Loans and advances to corporates are generally secured. In addition, in order to minimise credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Credit risk management *(continued)*

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(c) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(d) Derivatives

The Group maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

The impairments shown in the statement of financial position at year-end are derived from each of the five internal rating grades, adjusted for the provision of IAS 39. The table below shows the percentage of the Group's on-and-off balance sheet items relating to loans and advances and the associated impairment for each of the Group's internal rating categories.

Impairments classification

	2015		2014	
Category	**Loans and advances (%)**	**Impairments (%)**	**Loans and advances (%)**	**Impairments (%)**
Performing	78%	14%	71%	14%
Special mention	6%	2%	13%	3%
Sub-standard	4%	8%	6%	19%
Doubtful	4%	18%	3%	12%
Loss	8%	58%	7%	52%
	100%	**100%**	**100%**	**100%**

Notes to the financial statements *continued*

Credit risk management *(continued)*

Impairments are managed on an expected loss basis, and are recorded on an actual loss basis.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower;
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral; and
- downgrading below "Performing" level.

The Group's policy requires the review of individual financial assets at least once a month, or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

Analysis of maximum exposure to credit risk and collateral and other credit enhancements

The following table shows the maximum exposure to credit risk by class of financial asset. It also shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

		Fair value of colla	
31 December 2015	**Maximum exposure to credit risk**	**Cash**	**Letters of credit/ guarantees**
Placement with other banks	244 603	–	–
Derivate financial assets			
– Forward foreign exchange contracts	1 893	–	–
	1 893	**–**	**–**
Financial assets held for trading			
– government bonds	36 342	–	4 233
– treasury bills and other open market instruments	147 982	–	21 714
– bankers' acceptance and commercial paper	5 907	–	–
	190 231	**–**	**25 947**
Financial assets designated at fair value			
– listed equities	798	–	–
– unlisted equities and debentures	19 802	–	–
	20 600	**–**	**–**
Loans and advances to customers at amortised cost			
– Mortgage lending	49 962	–	–
– Instalment finance	37 450	24	–
– Corporate lending	594 125	13 459	14 508
– Commercial and property finance	21 949	–	3 501
– Consumer lending	567 548	21	–
	1 271 034	**13 504**	**18 009**
Financial investments – available-for-sale			
– Unlisted equities	802	–	–
	802	**–**	**–**
Financial investments held-to-maturity			
Government bonds	5 012	–	–
	5 012	**–**	**–**
	1 734 175	**13 504**	**43 956**
Off-balance sheet items			
Letters of credit for customers and other commitments	51 058	2 302	702
Guarantees	52 271	3 747	4 203
	1 837 504	**19 553**	**48 861**

* *Vehicles, machinery, other fixed assets, inventory and trade receivables*
** *These collateral items are not readily convertible into cash as these items are sold in the market and are dependent on a buyer and seller.*

teral and credit enhancements held

	Property**	Other*	Total collateral	Net exposure
	–	–	–	244 603
	502	–	502	1 391
	502	**–**	**502**	**1 391**
	–	–	4 233	32 109
	–	–	21 714	126 268
	–	–	–	5 907
	–	**–**	**25 947**	**164 284**
	–	–	–	798
	–	–	–	19 802
	–	**–**	**–**	**20 600**
	47 816	–	47 816	2 146
	4 669	4 099	8 792	28 658
	187 717	68 945	284 629	309 496
	4 608	12 231	20 340	1 609
	4 592	4 163	8 776	558 772
	249 402	**89 438**	**370 353**	**900 681**
	–	–	–	802
	–	**–**	**–**	**802**
	–	–	–	5 012
	–	**–**	**–**	**5 012**
	249 904	**89 438**	**396 802**	**1 337 373**
	450	–	3 454	47 604
	6 250	685	14 885	37 386
	256 604	**90 123**	**415 141**	**1 422 363**

Analysis of maximum exposure to credit risk and collateral and other credit enhancements

31 December 2014	Maximum exposure to credit risk	Fair value of colla Cash	Letters of credit/ guarantees
Placement with other banks	**308 078**	**–**	**–**
Derivate financial assets			
– Forward foreign exchange contracts	63	–	–
	63	**–**	**–**
Financial assets held for trading			
– government bonds	19 010	–	–
– treasury bills and other open market instruments	116 263	–	–
– bankers acceptance and commercial paper	9 758	–	–
	145 031	**–**	**–**
– unlisted equities and debentures	20 810	–	–
	20 810	**–**	**–**
Loans and advances to customers at amortised cost			
– Mortgage lending	49 624	24	–
– Instalment finance	68 331	1 699	632
– Corporate lending	556 642	23 054	11 048
– Commercial and property finance	11 995	–	–
– Consumer lending	591 651	1 496	1 140
	1 278 243	**26 273**	**12 820**
Financial investments – available-for-sale			
– Unlisted equities	1 337	–	–
	1 337	**–**	**–**
– Promissory notes	5 596		
Financial investments held-to-maturity	**5 596**	**–**	**–**
	1 759 158	**26 273**	**12 820**
Off-balance sheet items			
Letters of credit for customers	49 644	–	276
Guarantees	82 041	13 855	15 170
	1 890 843	**40 128**	**28 266**

* *Vehicles, machinery, other fixed assets, inventory and trade receivables*
** *These collateral items are not readily convertible into cash as these items are sold in the market and are dependent on a buyer and seller.*

teral and credit enhancements held

	Property**	Other*	Total collateral	Net exposure
	–	**–**	**–**	**308 078**
	–	–	–	63
	–	**–**	**–**	**63**
	–	–	–	19 010
	–	–	–	116 263
	–	–	–	9 758
	–	**–**	**–**	**145 031**
	–	–	–	20 810
	–	**–**	**–**	**20 810**
	39 867	–	39 891	9 733
	15 518	44 863	62 712	5 619
	333 831	158 798	526 731	29 911
	5 421	–	5 421	6 574
	38 273	3 464	44 373	547 278
	432 910	**207 125**	**679 128**	**599 115**
	–	–	–	1 337
	–	**–**	**–**	**1 337**
				5 596
	–	**–**	**–**	**5 596**
	432 910	**207 125**	**679 128**	**1 080 030**
	46	440	762	48 882
	19 676	4 985	53 686	28 355
	452 632	**212 550**	**733 576**	**1 157 267**

Credit quality

Nature of security held

The nature of security held ranges from cash security, assets financed, bonds over residential and commercial property, shares and stock in trade.

The following tables reflect broadly, stable credit quality across the majority of the Group's businesses.

Distribution of loans and advances by credit quality:

	2015	2014
Neither past due nor impaired	1 000 043	904 191
Past due but not impaired	72 985	171 831
Individually impaired	198 006	202 220
Gross loans and advances	1 271 034	1 278 242
Less: Allowance for impairment	(94 080)	(97 255)
Net loans and advances	**1 176 954**	**1 180 987**

The total impairment of loans and advances is USD94.1 million (2014: USD97.3 million). Further information on the impairment allowance for loans and advances to customers is provided in Notes 2 and 9.

During the year ended 31 December 2015, the Group's total gross loans and advances decreased by 0.6% (2014: increased by 9%). Loans and advances are now evenly split between corporate and retail clients.

(a) Distribution of loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted below:

Internal Grade: Performing

	2015	2014
Mortgage lending	45 301	38 031
Instalment finance	12 427	44 067
Corporate lending	404 880	314 758
Commercial and property finance	8 304	3 226
Consumer lending	529 131	504 109
	1 000 043	**904 191**

(b) Loans and advances individually impaired

The individually impaired loans and advances before taking into consideration the cash flow from collateral held is as follows:

	2015	2014
Mortgage lending	3 479	497
Instalment finance	21 491	11 767
Corporate lending	128 778	145 606
Commercial and property finance	13 645	8 050
Consumer lending	30 612	36 300
	198 005	**202 220**

Under-collaterised loans are considered for impairment. Collateral taken for this category includes cash, mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities and equities.

Notes to the financial statements *continued*

Repossessed collateral

During the year, the Group obtained assets by taking possession of collateral held as security. At 31 December 2015, these comprised of:

Nature of assets

	2015	2014
Property	8 027	1 358
Motor vehicles	4 527	140
Carrying amount	**12 554**	**1 498**

Repossessed properties are sold as soon as practical, with the proceeds used to reduce the outstanding indebtedness.

Repossessed property is classified in the statement of financial position under prepayments and other receivables. Repossessed property, is moderately liquid with a readily available market. The Group normally recovers at least 90% of the carrying amount of each property.

Other classes of financial assets

All other classes of financial assets are allocated the internal grade "performing" and are neither past due nor impaired. These classes of financial assets are subjected to the same credit processes as loans and advances.

Concentration risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2015. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

	2015						
	Botswana	Mozambique	Tanzania	Zambia	Zimbabwe	Other	Total
Placements with other banks	81 068	52 349	33 456	52 901	22 473	2 356	244 603
Financial assets held for trading	46 247	25 308	25 947	39 346	53 383	–	190 231
Financial assets designated at fair value	–	–	12 535	–	808	7 257	20 600
Derivative financial assets	36	1 355	–	502	–	–	1 893
Loans and advances (net of impairments)	502 938	137 780	84 115	101 066	350 999	56	1 176 954
Investment securities	5 012	160	463	–	–	179	5 814
	635 301	**216 952**	**156 516**	**193 815**	**427 663**	**9 848**	**1 640 095**

	2014						
	Botswana	Mozambique	Tanzania	Zambia	Zimbabwe	Other	Total
Placements with other banks	58 171	58 037	42 856	79 432	38 737	30 845	308 078
Financial assets held for trading	60 624	18 190	8 799	38 955	18 463	–	145 031
Financial assets designated at fair value	–	–	10 897	–	950	9 913	21 760
Derivative financial assets	35	28	–	–	–	–	63
Loans and advances (net of impairments)	401 622	183 942	77 877	142 489	375 002	55	1 180 987
Investment securities	5 596	608	575	41	758	–	7 578
	526 048	**260 805**	**141 004**	**260 917**	**433 910**	**40 813**	**1 663 497**

Notes to the financial statements *continued*

Concentration risk of financial assets with credit risk exposure

(b) Industry Sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by the industry sectors of the counterparties.

	Agriculture	Construction	Wholesale retail and trade	Public sector	Manufacturing
Placements with other banks	–	–	–	–	–
Financial assets held for trading	–	–	–	79 331	–
Financial assets designated at fair value	6	–	829	–	460
Derivative financial assets	–	–	–	–	–
Loans and advances (net of impairments)	34 843	21 507	152 795	44 678	105 793
Investment securities	–	–	–	–	–
	34 849	**21 507**	**153 624**	**124 009**	**106 253**

	Agriculture	Construction	Wholesale retail and trade	Public sector	Manufacturing
Placements with other banks	–	–	–	–	–
Financial assets held for trading	–	5 007	223	17 504	4 527
Financial assets designated at fair value	–	–	143	–	747
Derivative financial assets	–	–	–	–	–
Loans and advances (net of impairments)	38 900	31 714	190 584	61 503	59 681
Investment securities	3	–	226	–	268
	38 903	**36 721**	**191 176**	**79 007**	**65 223**

Market risk

The Group takes on exposure to market risks, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rate, credit spreads, foreign exchange rates and equity prices.

Market and foreign currency exposures related to dealing positions are housed and managed in the Treasury division within a framework of pre-approved dealer, currency and counterparty limits. All trading positions are marked to market as required by IAS 39. Group Risk is responsible for monitoring of limits and pricing, thereby ensuring that any errors or unauthorised transactions are promptly identified. The currency exposure that arises as a result of the Group's continuing expansion and cross border investment activities is managed through the Executive Committee and the Group Asset and Liability Committee.

Market risk measurement techniques

The major measurement techniques used to measure and control market risk are outlined below.

Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Group Risk sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2015. Included in the table are the Group's total assets and liabilities (financial and non-financial) at carrying amounts, categorised by currency.

2015

	Mining	Financial services	Transport & energy	Individuals	Tourism	Other	Total
	–	244 603	–	–	–	–	244 603
	–	110 900	–	–	–	–	190 231
	9 755	9 550	–	–	–	–	20 600
	–	1 893	–	–	–	–	1 893
	52 324	58 575	24 346	555 251	6 875	119 967	1 176 954
	–	5 814	–	–	–	–	5 814
	62 079	**431 335**	**24 346**	**555 251**	**6 875**	**119 967**	**1 640 095**

2014

	Mining	Financial services	Transport & energy	Individuals	Tourism	Other	Total
	–	308 078	–	–	–	–	308 078
	–	117 770	–	–	–	–	145 031
	7 282	13 527	–	–	–	61	21 760
	–	63	–	–	–	–	63
	67 503	21 349	39 689	605 151	12 982	51 931	1 180 987
	–	7 023	–	–	–	58	7 578
	74 785	**467 810**	**39 689**	**605 151**	**12 982**	**52 050**	**1 663 497**

Concentration of currency risk: On-and-off balance sheet financial instruments

At 31 December 2015	EUR	USD	BWP	ZAR	TZS	ZMW
Cash and short term funds	14 260	139 925	57 466	8 857	17 529	815
Financial assets held for trading	–	92 729	46 247	–	25 947	–
Financial assets designated at fair value	–	17 691	–	–	2 909	–
Derivative financial asset	647	1 184	–	62	–	–
Loans and advances (net of impairments)	2 226	414 660	495 196	32	57 267	84 654
Investment securities	179	–	5 012	–	463	–
	17 312	**666 189**	**603 921**	**8 951**	**104 115**	**85 469**
Equity	–	(29 740)	58 749	(526)	14 604	38 253
Deposits	20 890	491 095	526 297	5 088	80 032	107 998
Derivative financial liabilities	39	7 463	(3)	–	–	–
Creditors and accruals	57	37 670	5 650	1 176	2 220	4 418
Borrowed funds	–	201 381	31 043	–	665	–
	20 986	**707 869**	**621 736**	**5 738**	**97 521**	**150 669**

At 31 December 2014	EUR	USD	BWP	ZAR	TZS	ZMW
Cash and short term funds	14 508	94 805	71 219	10 591	17 782	82 669
Financial assets held for trading	–	18 463	60 624	–	8 799	38 955
Financial assets designated at fair value	–	17 699	–	–	4 061	–
Derivative financial asset	–	–	35	–	–	–
Loans and advances (net of impairments)	2 150	455 300	413 543	62	32 087	119 121
Investment securities	112	645	5 596	–	575	41
	16 770	**586 912**	**551 017**	**10 653**	**63 304**	**240 786**
Equity	–	87 192	(41 438)	346	(6 505)	41 177
Deposits	9 254	520 925	489 651	5 118	96 239	152 882
Derivative financial liabilities	62	10 126	–	–	663	–
Creditors and accruals	11	18 274	3 683	1 311	2 767	92
Borrowed funds	–	177 522	28 687	–	825	–
	9 327	**814 039**	**480 583**	**6 775**	**93 989**	**194 151**

A reasonably possible strengthening (weakening) of the Euro, Botswana Pula, South Africa Rand, Tanzanian Shilling, Zambian Kwacha, Mozambican M
other currencies at 31 December 2015 would have affected the measurement of financial instruments denominated in a foreign currency and affected
amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast s

31 December 2015		
	Profit or Loss	
Currency	**Strengthening**	**Weakening**
EUR (3% movement)	(110)	110
BWP (10% movement)	(1 782)	1 782
ZAR (10% movement)	321	(321)
TZS (5% movement)	330	(330)
ZMW (10% movement)	(6 520)	6 520
MZN (5% movement)	(1 155)	1 155
JPY (3% movement)	17	(17)

MZN	JPY	Other	Total
26 575	1 921	615	267 963
25 308	–	–	190 231
–	–	–	20 600
–	–	–	1 893
122 919	–	–	1 176 954
160	–	–	5 814
174 962	**1 921**	**615**	**1 663 455**
34 410	–	(2)	115 748
151 801	1 347	3 076	1 387 624
–	(2 310)	2	5 191
1 598	–	2	52 791
10 252	2 310	–	245 651
198 061	**1 347**	**3 078**	**1 807 005**

MZN	JPY	Other	Total
42 172	1 390	5 279	340 416
18 190	–	–	145 031
–	–	–	21 760
28	–	–	63
148 292	–	10 434	1 180 989
608	–	–	7 579
209 290	**1 390**	**15 713**	**1 695 835**
19 488	–	–	100 260
210 573	1 383	1 725	1 487 750
–	(4 559)	–	6 292
1 863	–	–	28 001
6 201	4 559	–	217 794
238 125	**1 383**	**1 725**	**1 840 097**

etical and Japanese Yen against all
l equity and profit or loss by the
ales and purchases.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

The Asset and Liability Committee (ALCO) is responsible for managing interest rate and liquidity risk in the Group. Asset and Liability management committees have been established in each subsidiary and meet on a monthly basis. They operate within the prudential guidelines and policies established by Group ALCO.

In order to reduce interest rate risk, the majority of the Group's lending is on a variable interest rate with a term of less than one year. This approach has been adopted as a result of the scarcity of term deposits in the region which limits the Group's ability to build a substantial, stable pool of fixed rate funding.

The table below summarises the Group's total exposure to interest rate risks on financial and non-financial instruments. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Variable rate financial instruments are categorised in the "up to 1 month" column.

As at 31 December 2015	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**Total interest sensitive**	**Non-interest bearing**	**Total**
Cash and short term funds	164 685	6 997	5 351	–	177 033	90 930	267 963
Financial assets held for trading	3 320	71 011	27 145	88 755	190 231	–	190 231
Financial assets designated at fair value	–	–	–	–	–	20 600	20 600
Derivative financial assets	1 391	502	–	–	1 893	–	1 893
Loans and advances (net of impairments)	766 255	53 313	91 401	265 985	1 176 954	–	1 176 954
Investment securities	–	–	–	5 012	5 012	802	5 814
Assets	**935 651**	**131 823**	**123 897**	**359 752**	**1 551 123**	**112 332**	**1 663 455**
Equity	**–**	**–**	**–**	**–**	**–**	**115 748**	**115 748**
Deposits	843 851	239 921	302 523	1 329	1 387 624	–	1 387 624
Derivative financial liabilities	62	–	–	–	62	5 129	5 191
Creditors and accruals	6 059	–	–	–	6 059	46 732	52 791
Borrowed funds	1 455	1 231	105 848	137 117	245 651	–	245 651
Liabilities	**851 427**	**241 152**	**408 371**	**138 446**	**1 639 396**	**51 861**	**1 691 257**

As at 31 December 2014	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**Total interest sensitive**	**Non-interest bearing**	**Total**
Cash and short term funds	176 675	19 222	19 290	–	215 187	125 228	340 415
Financial assets held for trading	60 505	34 487	39 515	10 524	145 031	–	145 031
Financial assets designated at fair value	–	–	–	–	–	21 760	21 760
Derivative financial assets	–	–	–	–	–	63	63
Loans and advances (net of impairments)	721 181	46 906	137 029	275 871	1 180 987	–	1 180 987
Investment securities	–	–	–	5 596	5 596	1 982	7 578
Assets	**958 361**	**100 615**	**195 834**	**291 991**	**1 546 800**	**149 033**	**1 695 834**
Equity	**–**	**–**	**–**	**–**	**–**	**100 260**	**100 260**
Deposits	838 890	362 188	259 602	27 070	1 487 750	–	1 487 750
Derivative financial liabilities	–	–	–	–	–	6 292	6 292
Creditors and accruals	–	–	–	–	–	28 001	28 001
Borrowed funds	5 736	1 345	92 958	117 755	217 794	–	217 794
Liabilities	**844 626**	**363 533**	**352 560**	**144 825**	**1 705 544**	**34 293**	**1 739 837**

Notes to the financial statements *continued*

Interest rate sensitivity analysis

The tables below illustrates the impact of a possible 50 basis points interest rate movement for each banking subsidiary:

	2015		2014	
	Pre-tax	**Post-tax**	**Pre-tax**	**Post-tax**
BancABC Botswana				
ABC Botswana constituted 33% (2014: 32%)of the Group's total assets				
Change in net interest income (+50 basis points)	(600)	(468)	621	485
As a percentage of total Shareholders equity	(0.89%)	(0.69%)	0.88%	0.69%
Change in net interest income (-50 basis points)	600	468	(621)	(485)
As a percentage of total Shareholders equity	0.89%	0.69%	(0.88%)	(0.69%)
BancABC Zambia				
ABC Zambia constituted 11% (2014: 15%) of the Group's total assets				
Change in net interest income (+50 basis points)	241	157	(236)	(153)
As a percentage of total Shareholders equity	0.63%	0.41%	(0.54%)	(0.35%)
Change in net interest income (-50 basis points)	(241)	(157)	236	153
As a percentage of total Shareholders equity	(0.63%)	(0.41%)	0.54%	0.35%
BancABC Mozambique				
ABC Mozambique constitued 12% (2014: 15%) of the Group's total assets				
Change in net interest income (+50 basis points)	293	199	(179)	(121)
As a percentage of total Shareholders equity	0.85%	0.58%	(0.87%)	(0.59%)
Change in net interest income (-50 basis points)	(293)	(199)	179	121
As a percentage of total Shareholders equity	(0.85%)	(0.58%)	0.87%	0.59%
BancABC Tanzania				
ABC Tanzania constituted 7% (2014: 7%) of the Group's total assets				
Change in net interest income (+50 basis points)	239	167	(387)	(271)
As a percentage of total Shareholders equity	0.83%	0.58%	(0)	(0)
Change in net interest income (-50 basis points)	(239)	(167)	387	271
As a percentage of total Shareholders equity	(0.83%)	(0.58%)	5.18%	3.63%
BancABC Zimbabwe				
ABC Zimbabwe constituted 23% (2014: 27%) of the Group's total assets				
Change in net interest income (+50 basis points)	570	423	(369)	(274)
As a percentage of total Shareholders equity	0.67%	0.50%	(0.43%)	(0.32%)
Change in net interest income (-50 basis points)	(570)	(423)	369	274
As a percentage of total Shareholders equity	(0.67%)	(0.50%)	0.43%	0.32%

The interest rate sensitivity analyses set out in the table above are illustrative only and are based on simplified scenarios over a period of one year.

Notes to the financial statements *continued*

Liquidity risk management process

The company holds liquidity reserves in highly tradable instruments or money market placements which are immediately available if required. Liquidity is assessed by currency as well as by time bracket. Liquidity management is dependent upon accurate cash flow projections and the monitoring of its future funding requirements. The Group's liquidity management process is monitored by Group Treasury and includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The company maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management.

The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Group Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letter of credit and guarantees.

The company's maturity analysis (on a discounted cash flow basis) of all assets, liabilities and equity as at 31 December 2015 was as follows:

2015	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 December 2015
Non-derivative cash flow							
Deposits	825 724	250 250	309 397	5 874	1 391 245	(3 621)	1 387 624
Creditors and accruals	23 409	19 379	2 779	7 486	53 053	(262)	52 791
Borrowed funds	143	5 152	108 917	137 392	251 604	(5 953)	245 651
Total liabilities	**849 276**	**274 781**	**421 093**	**150 752**	**1 695 902**	**(9 836)**	**1 686 066**

2014	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 December 2015
Deposits	839 502	371 849	258 325	25 947	1 495 623	(7 873)	1 487 750
Creditors and accruals	16 182	742	11 077	–	28 001	–	28 001
Borrowed funds	3 677	1 850	116 279	172 771	294 577	(76 783)	217 794
Total liabilities	**859 361**	**374 441**	**385 681**	**198 718**	**1 818 201**	**(84 656)**	**1 733 545**

Notes to the financial statements *continued*

Derivative financial liabilities cash flows

The table below presents the cash flows payable by the Group for derivative financial liabilities by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted nominal currency swap cash flows for the liability leg of such swaps, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows:

	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total
As at 31 December 2015					
Value on initial recognition					
Derivative financial liabilities	9 692	14 721	6 695	–	31 108
Equity derivative					
Derivative financial liabilities	–	–	–	4 455	4 455
As at 31 December 2014					
Derivative financial liabilities	45 058	28 077	30 173	–	103 308

With the exception of swaps where on-going cash flows are settled on a gross basis, all derivative financial liabilities are settled on a net basis.

Fair values

Financial assets and liabilities measured at fair value

Fair value measurements are disclosed by level. The fair value hierarchy is as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is, derived from prices) (level 2); or
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying			
31 December 2015 USD '000	**Note**	**Held for trading**	**Designated at fair value**	**Derivative financial instruments**	**Held to maturity**
Financial assets measured at fair value					
Government bonds	7	36 342	–	–	–
Corporate bonds	7	5 907	–	–	–
Treasury bills and other open market instruments	7	147 982	–	–	–
Listed equities	8, 11	–	798	–	–
Unlisted equities and debentures	9, 8, 11	–	19 802	–	–
Cross-currency interest rate swaps	20	–	–	502	–
Forward foreign exchange contracts – held for trading	20	–	–	1 391	–
		190 231	**20 600**	**1 893**	**–**
Financial investments held-to-maturity					
Government bonds	11	–	–	–	5 012
		–	**–**	**–**	**5 012**
Financial assets not measured at fair value					
Cash and short-term funds	8	–	–	–	–
Loans and advances	9	–	–	–	–
Prepayments and other receivables	10	–	–	–	–
		–	**–**	**–**	**–**
Financial liabilities measured at fair value					
Cross-currency interest rate swaps	20	–	–	(674)	–
Forward foreign exchange contracts – held for trading	20	–	–	(62)	–
Equity derivative	20	–	–	(4 455)	–
		–	**–**	**(5 191)**	**–**
Financial liabilities not measured at fair value					
Deposits	17	–	–	–	–
Borrowed funds	18	–	–	–	–
Creditors and accruals	19	–	–	–	–
		–	**–**	**–**	**–**

amount				Fair value			
Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
–	–	–	**36 342**	–	36 461	–	**36 461**
–	–	–	**5 907**	–	5 907	–	**5 907**
–	–	–	**147 982**	–	147 982	–	**147 982**
–	–	–	**798**	798	–	–	**798**
–	802	–	**20 604**	–	8 059	12 545	**20 604**
–	–	–	**502**	–	502		**502**
–	–	–	**1 391**	–	1 137	–	**1 137**
–	**802**	**–**	**213 526**	**798**	**200 048**	**12 545**	**213 391**
–	–	–	**5 012**				
–	**–**	**–**	**5 012**				
267 963	–	–	**267 963**				
1 176 954	–	–	**1 176 954**				
38 395	–	–	**38 395**				
1 483 312	**–**	**–**	**1 483 312**				
–	–	–	**(674)**	–	(674)	–	**(674)**
–	–	–	**(62)**	–	(62)	–	**(62)**
–	–	–	**(4 455)**	–	(4 455)	–	**(4 455)**
–	**–**	**–**	**(5 191)**	**–**	**(5 191)**	**–**	**(5 191)**
–	–	(1 387 624)	**(1 387 624)**	–	–	–	**–**
–	–	(245 651)	**(245 651)**	–	–	(252 214)	**(252 214)**
–	–	(52 791)	**(52 791)**	–	–	–	**–**
–	**–**	**(1 686 066)**	**(1 686 066)**	**–**	**–**	**(252 214)**	**(252 214)**

Notes to the financial statements *continued*

Fair values *(contined)*

(a) Accounting classifications and fair values *(continued)*

		Carrying			
31 December 2014 USD '000	Note	**Held for trading**	**Designated at fair value**	**Derivative financial instruments**	**Held to maturity**
Financial assets measured at fair value					
Government bonds	7	19 010	–	–	–
Corporate bonds	7	9 758	–	–	–
Treasury bills and other open market instruments	7	116 263	–	–	–
Listed equities	8, 11	–	950	–	–
Unlisted equities and debentures	8, 11	–	20 810	–	–
Forward foreign exchange contracts – held for trading	20	–	–	63	–
		145 031	**21 760**	**63**	**–**
Financial investments held-to-maturity					
Promissory notes (HTM)	11	–	–	–	5 596
		–	–	–	5 596
Financial assets not measured at fair value					
Cash and short-term funds	8	–	–	–	–
Loans and advances	9	–	–	–	–
				–	**–**
Financial liabilities measured at fair value					
Cross-currency interest rate swaps	20	–	–	(1 351)	–
Forward foreign exchange contracts – held for trading	20	–	–	(2 159)	–
Equity derivative	20	–	–	(2 782)	–
		–	**–**	**(6 292)**	**–**
Financial liabilities not measured at fair value					
Deposits	17	–	–	–	–
Borrowed funds	18	–	–	–	–
Creditors and accruals	19	–	–	–	–
		–	–	–	–

amount				Fair value			
Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
–	–	–	**19 010**	–	19 010	–	**19 010**
–	–	–	**9 758**	–	9 758	–	**9 758**
–	–	–	**116 263**	–	116 263	–	**116 263**
–	645	–	**1 595**	1 595	–	–	**1 595**
–	1 337	–	**22 147**	–	9 913	12 234	**22 147**
–	–	–	**63**	–	63	–	**63**
–	**1 982**	**–**	**168 836**	**1 595**	**155 007**	**12 234**	**168 836**
–	–	–	**5 596**				
–	–	–	**5 596**				
340 415	–	–	**340 415**				
1 180 987	–	–	**1 180 987**				
28 087	**–**	**–**	**28 087**				
1 549 489			**1 549 489**				
–	–	–	**(1 351)**	–	(1 351)	–	**(1 351)**
–	–	–	**(2 159)**	–	(2 159)	–	**(2 159)**
–	–	–	**(2 782)**	–	–	(2 782)	**(2 782)**
–	**–**	**–**	**(6 292)**	**–**	**(3 510)**	**(2 782)**	**(6 292)**
–	–	(1 487 750)	**(1 487 750)**				
–	–	(217 794)	**(217 794)**				
–	–	(28 001)	**(28 001)**				
–	–	(1 733 545)	**(1 733 545)**				

Fair values *(contined)*

(b) Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as significant unobservable inputs used.

Financial instruments measured at fair value

Type of financial instrument	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input
Government debt	This includes government bonds and treasury bills. liquid government bonds that are actively traded through an exchange or clearing house are marked-to-market. Less liquid bonds are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, a proxy curve is constructed by using the US interest rate swap yield curve and adding a spread indicative of the inherent risk relating to credit, liquidity and for the sovereign risk of the government debt.	Discount rate where no traded market exists.	12 – 22%
Corporate debt	This includes corporate bonds which are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, a proxy curve is constructed by using the US interest rate swap yield curve and adding a spread indicative of the inherent risk relating to credit, liquidity and for the sovereign risk of the corporate debt.	Discount rate where no traded market exists.	12 – 18%
Unlisted equities	Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee on actual EBITDA for the year ended 31 December 2015. The estimate is adjusted for the effect of the non-marketability of the equity securities.	Adjusted price to book ratio Adjusted EV/EBITDA	12 – 25%

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Cash and short-term funds	Discounted cash flows	Not applicable
Loans and advances	Discounted cash flows	Not applicable
Promissory notes	Discounted cash flows	Not applicable
Prepayments and other receivables	Discounted cash flows	Not applicable
Creditors and accruals	Discounted cash flows	Not applicable
Deposits	Discounted cash flows	Not applicable
Borrowed funds	Discounted cash flows	Not applicable

Notes to the financial statements *continued*

Fair values *(contined)*

(ii) Level 3 fair values

The movement in instruments included in the level 3 analysis is as follows:

2015	Debt or equity investments	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
Opening balance	14 935	14 935	2 782	2 782
Total gains or losses in profit or loss*	2 569	2 569	–	–
Purchases	76	76	–	–
Issues	(4 592)	(4 592)	–	–
Settlements	–	–	(2 782)	(2 782)
Exchange rate adjustment	(453)	(453)	–	–
Closing balance	**12 535**	**12 535**	**–**	**–**

2014	Debt or equity investments	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
Opening balance	13 525	13 525	3 049	3 049
Total gains or losses in profit or loss*	(1 218)	(1 218)		–
Purchases	3 388	3 388	305	305
Exchange rate adjustment	(760)	(760)	(572)	(572)
Closing balance	**14 935**	**14 935**	**2 782**	**2 782**

* *Gains and losses in profit or loss have been recognised under the line item "gains on financial assets at fair value through profit or loss – designated at fair value"*

(c) Sensitivity analysis

For the fair values of unlisted equities – designated at fair value through profit or loss, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

	USD			
	Profit or loss		Equity	
	Increase	Decrease	Increase	Decrease
31 December 2015				
Average price to book ratio (5% movement)	9	(9)	9	(9)
Book value (2% movement)	4	(4)	4	(4)
Adjusted EV/EBITDA (5% movement)	9	(9)	9	(9)
EBITDA (2% movement)	4	(4)	4	(4)
31 December 2014				
Average price to book ratio (5% movement)	173	(173)	121	(121)
Book value (2% movement)	69	(69)	49	(49)
Adjusted EV/EBITDA (5% movement)	948	(948)	663	(663)
EBITDA (2% movement)	379	(379)	265	(265)

Transfers between levels in the hierarchy

There were no transfers during the current year and preceding financial year.

(d) Financial instruments not measured at fair value

Financial instruments not measured at fair value, where the carrying value is estimated to approximate the fair value of these instruments, were as follows:

(i) Placements with other banks

Placements with other banks includes inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances

Loans and advances are accounted for on an amortised cost basis using the effective interest rate. Origination transaction costs and origination fees received that are integral to the effective interest rate are capitalised to the value of the loans and amortised through interest income as part of the effective interest rate. Loans and advances are stated net of allowances for specific and portfolio impairment.

(iii) Investment securities

Investment securities include only interest-bearing assets held to maturity, and unlisted equities; assets classified as available for sale are measured at fair value. Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iv) Deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The majority of deposits are at floating rates, or when at fixed rates, fixed for less than 3 months.

Off-balance sheet items

	2015	2014
(a) Contingent liabilities		
Guarantees	52 271	82 041
Letters of credit, loan commitments and other contingent liabilities	51 058	49 644
	103 329	**131 685**
The timing profile of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities as at 31 December, are summarised below:		
Less than one year	88 681	122 312
Between one and five years	14 648	9 373
	103 329	**131 685**
(b) Capital commitments		
Approved and contracted for	16 048	–
Approved but not contracted for	6 918	3 515
	22 966	**3 515**

Notes to the financial statements *continued*

Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- to comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored periodically by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the relevant Central Bank Authorities. The required information is filed with the Authorities on a monthly basis.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business. At 31 December 2015 all regulated banking operations complied with all externally imposed capital requirements.

There have been no material changes to the Group's management of capital during the year.

Regulatory minimum capital adequacy ratios for the Group's banking operations are summarised below:

31 December 2015	BancABC Botswana	BancABC Zimbabwe	BancABC Zambia	BancABC Tanzania	BancABC Mozambique
Tier I Capital					
Share capital and premium	19 828	49 989	31 385	45 479	29 494
Capital reserves and retained earnings	36 381	21 790	(7 997)	(23 508)	(10 574)
Intangible assets software	–	–	–	(1 401)	(1 541)
Deferred tax assets	–	–	–	(4 005)	–
Prepayments	–	–	–	(1 099)	–
Exposures to insiders	–	(3 892)	–	–	–
Less Tier III capital	–	(8 773)	–	–	–
Total qualifying for Tier I Capital	**56 209**	**59 114**	**23 388**	**15 466**	**17 379**
Tier II Capital					
Shareholder's loan	12 788	–	23 388	–	1 952
General debt provision	1 989	4 439	–	592	20
Fair value revaluation/available for sale reserve	–	18	–	–	–
Revaluation reserves (limited to Tier I capital)	302	4 638	–	–	(105)
Profit for the year	10 713	–	–	–	(2 152)
Total qualifying for Tier II capital	**25 792**	**9 095**	**23 388**	**592**	**(285)**
Total qualifying for Tier III capital	**–**	**8 773**	**–**	**–**	**–**
Total capital	**82 001**	**76 982**	**46 776**	**16 058**	**17 094**
Risk weighted assets*					
Market risk	–	3 156	19 722	1 875	1 658
Operational risk	–	103 354	19 582	–	2 457
On balance sheet assets	521 062	349 303	106 208	94 616	154 355
Off balance sheet assets	1 455	6 969	9 481	15 781	6 548
Total risk weighted assets	**522 517**	**462 782**	**154 993**	**112 272**	**165 018**
Capital adequacy ratio	15,7%	16,6%	30,2%	14,3%	10,4%
Minimum regulatory capital adequacy ratio	15%	12%	10%	12%	8%

Capital management *(continued)*

Regulatory minimum capital adequacy ratios for the Group's banking operations based on December 2014 returns submitted to regulatory authorities, are summarised below:

31 December 2014	BancABC Botswana	BancABC Zimbabwe	BancABC Zambia	BancABC Tanzania	BancABC Mozambique
Tier I Capital					
Share capital and premium	23 405	41 864	38 816	28 665	8 555
Capital reserves and retained earnings	42 940	28 008	2 320	(24 452)	10 934
Intangible assets software	–	–	–	(6 329)	(1 836)
Prepayments	–	–	–	(1 063)	–
Exposures to insiders	–	(4 404)	–	–	–
Total qualifying for Tier I Capital	**66 345**	**65 468**	**41 136**	**(3 179)**	**17 653**
Tier II Capital					
Shareholder's loan	13 266	–	49 426	20 010	8 033
General debt provision	1 909	5 195	–	–	616
Revaluation reserves (limited to Tier I capital)	208	4 137	–	–	–
Total qualifying for Tier II capital	**15 383**	**9 332**	**49 426**	**20 010**	**8 649**
Total Capital	**81 728**	**74 800**	**90 562**	**16 831**	**26 302**
Risk weighted assets*					
On balance sheet assets	458 067	489 078	174 330	109 668	215 728
Off balance sheet assets	3 028	41 248	43 325	8 205	56 048
Total risk weighted assets	**461 095**	**530 326**	**217 655**	**117 873**	**271 776**
Capital adequacy ratio	17,7%	14,1%	41,6%	14,3%	9,7%
Minimum regulatory capital adequacy ratio	15%	12%	10%	12%	8%

* *Weighting of assets is based on the nature of the asset and the weighting as prescribed by the relevant regulatory authority.*

The increase of the regulatory capital is mainly due to an increase in shareholders' loans at subsidiary level, as well as current-year profit. The increase of the risk-weighted assets reflects the expansion of the lending business in most of the subsidiaries.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each subsidiary is based on the regulatory capital requirements of the countries we operate in and the need to maximise returns to shareholders.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Notes to the financial statements *continued*

USD'000s	2015	2014
1. NET INTEREST INCOME		
Interest and similar income		
Cash and short-term funds	5 148	4 874
Investment securities and dated financial instruments	13 199	12 973
Loans and advances at amortised cost	198 566	215 275
Other interest income	1 600	–
	218 513	**233 122**
Interest and similar expense		
Deposits	101 720	108 907
Borrowed funds	20 980	22 136
	122 700	131 043
Net interest income	**95 813**	**102 079**
2. IMPAIRMENT OF LOANS AND ADVANCES		
Specific impairments	25 568	69 149
Portfolio impairments	1 781	4 916
Impairments prior to recoveries	27 349	74 065
Recoveries for the period	(15 927)	(1 828)
	11 422	**72 237**
3. NON INTEREST INCOME		
Net gains/(losses) from trading activities:	498	(6 913)
Gains/(losses) on financial assets at fair value through profit or loss	447	(6 011)
– held for trading	1 610	1 610
– designated at fair value	(1 163)	(7 621)
Net gains/(losses) on derivative financial instruments*	51	(902)
Dividends received:	53	1 082
Listed shares – fair value through profit or loss	53	1 082
Fee and commission income:	56 173	57 304
Net fee income on loans and advances	30 440	32 398
Net fee income from trust and fiduciary activities	1 314	3 701
Cash transaction fees	15 077	17 782
Other fee income	9 342	3 423
Other non-interest income:	19 857	17 841
Rental and other income	1 346	6 353
Profit on disposal of property and equipment	–	143
Forex trading income and currency revaluation**	15 475	11 964
Re-measurement of investment properties	3 036	(619)
	76 581	**69 314**

* *Net losses on derivative financial instruments of USD 51.1 thousand (2014: USD 902 thousand) arose from the USD: Japanese Yen swap.*

** *Foreign exchange income includes a foreign exchange loss of USD 143.1 thousand (2014: income of USD 244.4 thousand) arising from the Japanese Yen exposure with NDB, disclosed in note 19. Net losses on derivative instruments include an offsetting fair value gain arising from an equal but opposite nominal Japanese Yen derivative asset.*

Notes to the financial statements *continued*

USD'000s	2015	2014
4. OPERATING EXPENDITURE		
Administrative expenses	79 844	64 852
Property lease rentals	4 966	5 389
Staff costs (note 4.1)	52 306	53 335
Auditor's remuneration	1 207	1 163
Depreciation (Note 14)	7 947	9 005
Amortisation of software (Note 16)	3 411	4 474
Directors' remuneration (note 4.2)	1 571	9 847
	151 252	**148 065**
4.1 Staff Costs		
Salaries	34 267	32 700
Employer contributions to post retirement funds	3 253	3 716
Other staff costs	14 786	16 919
	52 306	**53 335**
Other staff costs comprise incentive pay, medical aid contributions, staff training and other staff related expenses		
4.2 Directors' remuneration		
Executive directors		
Salary, performance related remuneration and other benefits	937	9 100
Non-executive directors		
Fees as directors of holding company	576	425
Fees as directors of subsidiaries	58	322
	634	**747**
Total directors' remuneration	**1 571**	**9 847**

Details of other transactions and balances with related parties have been disclosed under note 24.

Notes to the financial statements *continued*

USD'000s	2015	2014
5. TAX		
Current tax expense		
Current year	8 239	7 865
Withholding tax	2	220
Bank levies	3	–
	8 244	**8 085**
Deferred tax		
Accruals	(206)	8 542
Impairment losses	(1 273)	(9 052)
Property and equipment	(568)	(77)
Investment property	120	–
Gain/(losses) on investments	413	(245)
Utilisation of assessed losses	(1 466)	(2 743)
Impairment of deferred tax assets	4 275	–
Other	(250)	–
Total deferred tax	**1 045**	**(3 575)**
Total tax expense per income statement	**9 289**	**4 510**
Reconciliation of effective tax charge:		
Profit before tax	**9 826**	**(48 971)**
Income tax using corporate tax rates	3 868	(10 047)
Non-deductible expenses	2 381	2 292
Effect of share of loss of associates	–	(5)
Tax exempt revenues	(974)	(975)
Bank levies	(3)	215
Income tax at different rates	943	–
Unrecognised deferred tax	6 187	–
Rate differential	(1 782)	–
Minimum tax charge	40	–
Other	(1 371)	13 030
Current tax expense per income statement	**9 289**	**4 510**
Effective tax rate	**95%**	**(9%)**

5.1 Income tax effects relating to components of other comprehensive income

	2015		
	Before tax	Tax charge	After tax
Exchange differences on translating foreign operations	(35 890)	–	(35 890)
Net loss on hedge of net investment in foreign operations	(3 496)	–	(3 496)
Revaluation of property net of deferred tax	3 642	(245)	3 397
Share of reserves in associate companies	459	–	459
Movement in available for sale reserves	481	–	481
Other comprehensive income	**(34 804)**	**(245)**	**(35 049)**

	2014		
	Before tax	Tax charge	After tax
Exchange differences on translating foreign operations	2 833	–	2 833
Net loss on hedge of net investment in foreign operations	(3 080)	–	(3 080)
Revaluation of property net of deferred tax	–	–	–
Share of reserves in associate companies	(16)	–	(16)
Movement in available for sale reserves	75	–	75
Other comprehensive income	**(188)**	**–**	**(188)**

USD'000s	2015	2014
6. CASH AND SHORT TERM FUNDS		
Cash on hand	23 360	32 337
Balances with central banks	34 875	50 410
Balances with other banks	134 497	164 778
Cash and cash equivalents	192 732	247 525
Statutory reserve balances	75 231	92 890
Total cash and short term funds	**267 963**	**340 415**

Statutory reserve balances are restricted minimum statutory balances not available for the banking operation's daily operations. These balances do not accrue interest.

USD'000s	2015	2014
7. FINANCIAL ASSETS HELD FOR TRADING		
Government bonds	36 342	19 010
Corporate bonds	5 907	9 758
Treasury bills and other open market instruments	147 982	116 263
Total financial assets held for trading	**190 231**	**145 031**

Investment in government bonds and treasury bills by subsidiaries is partly for liquidity requirements as stipulated by local central banks and also as a source of diversification of the assets portfolio. The Group also invests in tradeable paper issued by large corporates in the respective markets.

USD'000s	2015	2014
8. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE		
Listed equities	798	950
Unlisted equities and debentures	19 802	20 810
Total financial assets designated at fair value	**20 600**	**21 760**

The listed equities comprise various counters listed on the Zimbabwe stock exchange that subsidiaries have invested in.

The unlisted debentures comprise of a USD 7.3 million (2014: USD 9.9 million) investment in a 10% convertible loan to ADC Enterprises Limited. The balance comprises of a number of unlisted equity investments housed in an investment company in the Group (refer to the overview of valuation assumptions included in the financial risk management section of the financial statements).

Notes to the financial statements *continued*

USD'000s	2015	2014
9. LOANS AND ADVANCES		
Mortgage lending	49 962	49 624
Instalment finance	37 450	68 331
Corporate lending	594 125	556 642
Commercial and property finance	21 949	11 995
Consumer lending	567 548	591 650
	1 271 034	1 278 242
Less impairments (Note 9.1)	(94 080)	(97 255)
Net loans and advances	**1 176 954**	**1 180 987**
9.1 Analysis of impairments		
Specific impairments	73 428	81 981
Portfolio impairments	20 652	15 274
	94 080	**97 255**

9.2 Impairment of loans and advances – movement analysis

	Total impairments	Mortgage lending	Instalment finance	Corporate lending	Commercial & property finance	Consumer lending
2015						
Opening balance	97 255	510	5 671	67 211	522	23 341
Exchange adjustment	(12 468)	242	(819)	(8 055)	(224)	(3 612)
Bad debts written off	(18 056)	(88)	(669)	(11 540)	–	(5 759)
Net new impairments created (Note 2)	27 349	227	1 514	15 042	41	10 525
Closing balance	**94 080**	**891**	**5 697**	**62 658**	**339**	**24 495**
2014						
Opening balance	69 665	211	2 900	54 683	3	11 868
Exchange adjustment	(4 905)	(18)	(118)	(3 399)	(30)	(1 340)
Bad debts written off	(41 570)	–	(971)	(38 758)	–	(1 841)
Net new impairments created (Note 2)	74 065	317	3 860	54 685	549	14 654
Closing balance	**97 255**	**510**	**5 671**	**67 211**	**522**	**23 341**

	2015	2014
10. INVESTMENT SECURITIES		
Available for sale		
– Listed equities	–	645
– Unlisted equities	802	1 337
	802	**1 982**
Held to maturity		
– Promissory notes	–	5 596
– Government bonds	5 012	–
	5 814	**7 578**

The investments in unlisted equities are accounted for at fair value. Refer to the fair value note under financial risk management for details.

The promissory notes are partial security for the loan from BIFM (Note 19). The promissory notes earn a fixed interest at 3.85% and 4.6% p.a., and are redeemable on 12 September 2018 and 8 September 2020. The fair value of the promissory notes has not been determined as the promissory notes are specifically conditional to the terms of the BIFM loan referred to in note 19.

Notes to the financial statements *continued*

USD'000s	2015	2014
11. PREPAYMENTS AND OTHER RECEIVABLES		
Accounts receivable and prepayments	24 093	23 726
Security deposits	665	327
Other amounts due	13 637	4 034
	38 395	**28 087**
12. INVESTMENT IN ASSOCIATES		
Carrying value at the beginning of the year	1 590	1 518
Exchange rate adjustment	(39)	150
Share of gains/(losses)	106	(86)
Tax	–	24
Valuation adjustment	359	–
Share of other comprehensive income	459	(16)
	2 475	**1 590**

12.1 Investment in associates

The Group's interest in its principal associates are as follows:

	Country of incorporation	Share of assets	Share of liabilities	Carrying amount	Share of profit/ (loss)	Impairment during the year	% interest held	Reporting date
31 December 2015								
Lion of Tanzania Insurance Company Limited	Tanzania	3 496	2 309	1 948	205	–	38%	31 December
Credit Insurance Zimbabwe Limited	Zimbabwe	844	317	527	(99)	–	24%	31 December
		4 340	**2 626**	**2 475**	**106**	**–**		
31 December 2014								
Lion of Tanzania Insurance Company Limited	Tanzania	4 116	3 114	963	118	–	38%	31 December
PG Industries (Botswana) Limited	Botswana	1 855	2 113	–	–	–	42%	31 March
Credit Insurance Zimbabwe Limited	Zimbabwe	1 054	429	626	(180)	–	24%	31 December
		7 025	**5 656**	**1 589**	**(62)**	**–**		

Notes to the financial statements *continued*

12. INVESTMENT IN ASSOCIATES *(continued)*

12.1 Investment in associates *(continued)*

Associate #1

Name of the associate:	**Lion of Tanzania Insurance Company Limited**
Principal place of business and country of incorporation	Tanzania
Reporting date	31 December
Proportion of ownership	38%
Total no of equity shares	1 650 000
Shares held by ABCH	627 000
Local currency (LCY)	TZS
Par value (LCY)	1 000

Financial information for the associate:

	2015		**2014**	
	in LCY '000	**in USD '000**	**in LCY '000**	**in USD '000**
Current assets	16 978 986	7 861	20 254 455	11 640
Non-current assets	2 895 442	1 340	3 145 423	1 808
Current Liabilities	(13 125 228)	(6 076)	(17 485 356)	(10 049)
Non-current liabilities	–	–	–	–
Equity	**6 749 200**	**3 125**	**5 914 522**	**3 399**
Proportion of the group's equity ownership	38%	38%	38%	38%
Carrying amount of the investment	**2 657 826**	**1 948**	**1 675 390**	**963**
Revenue	7 021 534	3 251	5 950 618	3 420
Profit or loss from continuing operations	1 098 097	539	310 465	178
Post-tax profit or loss from discontinued operations	–	–	–	–
Other comprehensive income	2 609 378	1 209	1 036 986	596
Total comprehensive income	3 707 475	1 748	1 347 451	624
Dividend received from the associate	–	–	–	–
Risks associated with the group's interests in the associate	None		None	
The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group	None		None	

12. INVESTMENT IN ASSOCIATES *(continued)*

12.1 Investment in associates *(continued)*

Associate #2

Name of the associate:	**Credit Insurance Zimbabwe Limited**
Principal place of business and country of incorporation	Zimbabwe
Reporting date	31 December
Proportion of ownership	24%
Total no of equity shares	45 000
Shares held by ABCH	10 823
Local currency (LCY)	USD
Par value (LCY)	0,0479

Financial information for the associate:

	2015		**2014**	
	in LCY '000	**in USD '000**	**in LCY '000**	**in USD '000**
Current assets	1 322	1 322	2 017	2 017
Non-current assets	2 187	2 187	2 366	2 366
Current Liabilities	1 318	1 318	1 684	1 684
Non-current liabilities	–	–	96	96
Equity	**4 827**	**4 827**	**6 163**	**6 163**
Proportion of the group's equity ownership	24%	24%	24%	24%
Carrying amount of the investment	**527**	**527**	**626**	**626**
Revenue	848	848	1 464	1 464
Profit or loss from continuing operations	(412)	(412)	(748)	(748)
Post-tax profit or loss from discontinued operations	–	–	–	–
Other comprehensive income	–	–	(58)	(58)
Total comprehensive income	(412)	(412)	(806)	(806)
Dividend received from the associate	–	–		
Risks associated with the group's interests in the associate	None		None	
The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group	None		None	

Notes to the financial statements *continued*

13. PROPERTY AND EQUIPMENT

	Land and buildings	Motor vehicles	Computer and office equipment	Furniture and fittings	Total
Cost or valuation at 31 December 2014	63 040	3 770	27 805	18 391	113 006
Exchange adjustment	(13 401)	(571)	(5 078)	(4 498)	(23 548)
Additions	915	216	4 015	1 124	6 270
Revaluations surplus (gross of deferred tax)*	3 397	–	–	–	3 397
Reclassifications to investment property	(1 604)	–	–	–	(1 604)
Reclassifications from investment property	2 415	–	–	–	2 415
Disposals	(2 181)	(80)	4	–	(2 257)
Cost or valuation at 31 December 2015	**52 581**	**3 335**	**26 746**	**15 017**	**97 679**
Accumulated depreciation at 31 December 2014	(8 516)	(2 254)	(16 167)	(5 907)	(32 844)
Exchange adjustment	(1 265)	561	3 412	1 597	4 305
Disposals	353	48	11	1	413
Released on revaluation	511	25	–	–	536
Charge for the year	(2 013)	(495)	(3 786)	(1 653)	(7 947)
Accumulated depreciation at 31 December 2015	(10 930)	(2 115)	(16 530)	(5 962)	(35 537)
Carrying amount at 31 December 2015	**41 651**	**1 220**	**10 216**	**9 055**	**62 142**
Cost or valuation at 31 December 2013	63 818	3 638	26 952	17 216	111 624
Exchange adjustment	(1 833)	(150)	(1 689)	(1 238)	(4 910)
Additions	1 055	282	2 567	2 413	6 317
Revaluations surplus (gross of deferred tax)*	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	–	–	(24)	–	(24)
Cost or valuation at 31 December 2014	**63 040**	**3 770**	**27 806**	**18 391**	**113 007**
Accumulated depreciation at 31 December 2013	(6 049)	(1 587)	(13 225)	(4 523)	(25 384)
Exchange adjustment	267	(89)	948	401	1 527
Disposals	–	–	16	–	16
Released on revaluation	–	–	–	–	–
Charge for the year	(2 734)	(578)	(3 907)	(1 785)	(9 004)
Accumulated depreciation at 31 December 2014	(8 516)	(2 254)	(16 168)	(5 907)	(32 845)
Carrying amount at 31 December 2014	**54 524**	**1 516**	**11 638**	**12 484**	**80 162**

* *Land and buildings are revalued by independent professional valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, based on open market value every 3 years. As at 31 December 2015, land and buildings with a carrying amount of USD2.7 million (2014: USD3.1 million) were subject to a registered debenture that forms security for loans from other financial institutions (see note 26).*

	2015	2 014
14. INVESTMENT PROPERTY		
Balance at the beginning of the year	2 701	–
Exchange rate adjustment	4 886	178
Additions	2 167	3 142
Re-measurement gain/(loss)	3 036	(619)
Reclassification from property and equipment	1 604	–
Transfer to property, plant and equipment	(2 415)	–
Balance at end of the year	**11 979**	**2 701**
Rental income recognised in the income statement	**115**	**124**

Investment property comprises commercial properties that are leased to third parties. Investment properties are stated at fair value, which has been determined as at 31 December 2015 based on valuations performed by an accredited independent value, who is a specialist in valuing these types of investment properties.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

	2015	2 014
15. INTANGIBLE ASSETS		
Goodwill	3 597	3 424
Software	9 386	7 453
	12 983	**10 877**
Broken down as follows:		
Goodwill		
Cost	7 084	7 084
Exchange rate adjustment	173	–
Accumulated impairment losses	(3 660)	(3 660)
Carrying amount at the end of the year	**3 597**	**3 424**
Software		
Cost		
Balance at the beginning of the year (software)	23 657	22 075
Exchange rate adjustment	(5 441)	35
Additions	6 970	1 547
	25 186	**23 657**
Amortisation		
Balance at the beginning of the year	(16 204)	(12 806)
Exchange rate adjustment	3 815	1 077
Amortisation charge (Note 4)	(3 411)	(4 474)
	(15 800)	(16 203)
Carrying amount at the end of the year	**9 386**	**7 454**

Notes to the financial statements *continued*

	2015	2014
16. DEFERRED TAX		
Balance at the beginning of the year	13 328	10 429
Exchange adjustment	(758)	(679)
Income statement charge (Note 5)	(1 045)	3 578
Deferred tax on amounts charged to equity	(245)	–
	11 280	**13 328**
Disclosed as follows:		
Deferred tax asset	14 145	16 214
Deferred tax liability	(2 865)	(2 886)
	11 280	**13 328**
Tax effects of temporary differences:		
Accruals	1 245	(667)
Impairment losses	11 917	9 126
Property and equipment	(3 468)	(2 604)
Investment property	72	–
Unrealised gains on investment	(2 173)	(1 883)
Unearned income	–	1 020
Revaluation surplus	(1 080)	(1 465)
Tax losses	6 960	9 801
Bond with warrant deferred tax	845	–
Other	(3 038)	–
	11 280	**13 328**

The unrecognised deferred tax asset relates mainly to tax losses in ABC Holdings Limited (USD6.8 million), BancABC Tanzania (USD12.0 million) and Tanzania Development Finance Limited (USD15.2 million). Tax losses for ABC Holdings Limited will be utilised by charging management fees or interest on finance provided to subsidiaries. For BancABC Tanzania, new revenue streams will be applied to utilise the tax loss. The deferred tax assets for Tanzania Development Finance Limited which are largely due to timing differences on loan impairments, are expected to be utilised as the loan impairment cases are either resolved or amounts permanently written off.

	2015	2014
17. DEPOSITS		
Deposits from banks	113 242	206 840
Deposits from other customers	1 274 382	1 280 910
	1 387 624	**1 487 750**
Payable on demand		
Corporate customers	210 722	206 083
Public Sector	41 506	14 394
Retail customers	166 285	146 800
Other financial institutions	36 937	25 209
Banks	9 435	10 306
	464 885	**402 792**
Term deposits		
Corporate customers	318 142	318 615
Public sector	278 412	245 518
Retail customers	86 698	54 378
Other financial institutions	135 679	269 912
Banks	103 808	196 535
	922 739	**1 084 958**
	1 387 624	**1 487 750**
18. CREDITORS AND ACCRUALS		
Accrued expenses	14 859	12 094
Other amounts due	37 932	15 907
	52 791	**28 001**

Notes to the financial statements *continued*

USD'000s	2015	2014
19. BORROWED FUNDS		
Current portion	107 057	98 634
Non-current portion	138 594	119 160
	245 651	**217 794**
Borrowed funds		
National Development Bank of Botswana Limited	2 304	4 559
BIFM Capital Investment Fund One (Pty) Ltd	22 528	26 990
Afrexim Bank	89 689	85 495
Africa Agriculture and Trade Investment Fund S.A.	24 869	24 752
Norsad Finance Limited	10 672	12 068
Atlas Mara	50 126	20 010
Other	45 463	43 920
	245 651	**217 794**
Fair value		
National Development Bank of Botswana Limited	2 312	4 543
BIFM Capital Investment Fund One (Pty) Ltd	27 651	31 539
Afrexim Bank	89 812	86 777
Africa Agriculture and Trade Investment Fund S.A.	25 382	27 594
Norsad Finance Limited	11 471	13 882
Atlas Mara	50 126	20 010
Other	45 460	43 969
	252 214	**228 314**
Maturity analysis		
On demand to one month	196	4 064
One to three months	1 268	1 418
Three months to one year	105 593	93 152
Over one year	138 594	119 160
	245 651	**217 794**

National Development Bank of Botswana Limited (NDB)

The loan from National Development Bank of Botswana is denominated in Japanese Yen and attracts interest at 3.53% per annum. Principal and interest is payable semi annually on 15 June and 15 December. The loan matures on 15 December 2016.

BIFM Capital Investment Fund One (Pty) Ltd

The loan from BIFM Capital Investment Fund One (Pty) Ltd is denominated in Botswana Pula and attracts interest at 11.63% per annum, payable semi annually. Principal repayments are due in four equal annual instalments commencing 30 September 2017.

19. BORROWED FUNDS *(continued)*

Afrexim Bank Limited

The loan from Afrexim Bank Limited was advanced to ABC Holdings Limited (ABCH) in July 2013. The loan attracts interest at 3 months LIBOR +5% and matured on 30 June 2015. ABCH and Afreximbank have entered into a term sheet agreement to refinance the USD60 million facility. The USD60 million advanced to ABCH was designated as a hedge in the net investment by the Group in BancABC Zimbabwe.

Africa Agriculture and Trade Investment Fund S.A. (AATIF)

The loan of USD25 million from AATIF is denominated in US Dollars and attracts interest at 3 months LIBOR +6.25%. Interest is payable quarterly on 31 March, 30 June, 30 September and 31 December. The loan matures on 21 December 2018 when the full principal amount is due for repayment in one instalment.

Norsad Finance Limited

The loans from Norsad Finance Limited were advanced to ABC Holdings Limited (ABCH) as well as BancABC Zambia and BancABC Zimbabwe. The USD10 million loan advanced to ABCH is a subordinated loan and attracts interest at 6 months LIBOR + 7.5%. Interest is payable quarterly on 31 March, 30 June, 30 September and 31 December. The loan matures on 9 October 2020 when the full principal amount is due for repayment in one instalment. The loan advanced to BancABC Zimbabwe is also denominated in US dollars and attracts interest of LIBOR + 11% but capped at 12%. The loan matures on 30 June 2016.

Atlas Mara

The loan is denominated in USD and attracts no interest. The loan is repayable in 2022. Atlas Mara shall not have the right to call the loan before the maturity date.

Other borrowings relate to medium to long term funding from international financial institutions for onward lending to BancABC clients. Fair value is equivalent to carrying amounts as these borrowings have variable interest rates.

Notes to the financial statements *continued*

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swaps	502	674	–	1 351
Forward foreign exchange contracts – held for trading	1 391	62	63	2 159
Equity derivative	–	4 455	–	2 782
	1 893	**5 191**	**63**	**6 292**

	Notional amount	Fair value	Notional amount	Fair value
As at year end				
Cross currency interest rate swaps	13 033	(172)		
Fair value through profit and loss	40 649	(3 126)	5 913	(1 351)
Total recognised derivatives		**(3 298)**		**(1 351)**
Comprising:				
Derivative financial assets		1 893		63
Derivative financial liabilities		5 191		6 292

20.1 Cross-currency interest rate swaps

The Group uses cross-currency rate swaps to manage its exposure to foreign currency and interest rate risk. These instruments are transacted for both hedging and non-hedging activities. These instruments result in an economic exchange of currencies and interest rates. An exchange of principal takes place for all cross-currency interest rate swaps. The Group's credit risk exposure represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Group assesses counterparties using the same technique as for its lending activities.

The notional amounts of the financial instruments provide a basis of comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows or the current fair value of the instruments and, therefore, do not indicate Group's exposure to credit or price risks.

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out below:

20.2 Forward foreign exchange contracts

The notional amounts of outstanding forward foreign exchange contracts at 31 December 2015 were USD31.0 million (2014: USD103.3 million). These resulted in derivative financial assets of USD1.4 million (2014: USD 0.06 million) and derivative financial liabilities of USD0.06 million (2014: USD2.2 million)

20.3 Equity derivative

This comprises of an equity derivative on an unlisted energy company of USD4.4 million (2014: USD2.8 million). Gains and losses on fair value movements are shared equally between the Group and a third party.

	2015	2014
21. STATED CAPITAL		
21.1 Issued and fully paid		
419 229 694 (2014: 256 885 694) shares	129 118	82 164
Total Group	**129 118**	**82 164**
Balance at the beginning of the year	82 164	82 164
Issue of shares	50 000	–
Exchange rate adjustment	(3 046)	–
Balance at end of the year	**129 118**	**82 164**
21.2 Reconciliation of the number of shares in issue		
Shares at the beginning of the year	256 885 694	256 885 694
Shares issued	162 343 680	–
At the end of the year	**419 229 374**	**256 885 694**

	2015	2014
22. FUNDS UNDER MANAGEMENT		
Funds under management	**88 555**	**83 645**

The Group provides asset management and unit trusts activities to pension funds, individuals, trusts and other institutions, whereby it holds and manages assets. The Group receives a management fee for providing these services. The Group is not exposed to any credit risk relating to such placements.

23. EMPLOYEE BENEFITS

The Group uses a combination of externally administered defined contribution schemes and, where there is a mandatory requirement, state social security schemes. Both the employee and employer contribute to these schemes.

Amounts recognised in expenses have been disclosed in Note 4.1

Notes to the financial statements *continued*

24. RELATED PARTY TRANSACTIONS

Related party transactions are a normal feature of business and are disclosed in terms of IAS 24. Related party transactions may affect the assessment of operations, risk and opportunity facing the organisation.

ABC Holdings Limited is the holding company of the ABC Group. In turn ABCH is a 100% subsidiary of Atlas Mara Limited (Atlas Mara).

Subsidiary companies and associates

ABC Holdings Limited and its subsidiaries entered into various financial services contracts with fellow subsidiaries and associates during the year. These transactions are entered into in the normal course of business. Loans to associates as at 31 December 2015 amounted to nil million (2014: 0.58 million) which represents nil% (2014: 0.5%) of shareholders' funds, and nil% (2014: 0.04%) of gross loans.

ABC Consulting and Management Services Limited has entered into management services agreements with Group companies. Details of disclosures of investments in subsidiaries are set out in note 15 of the separate company financial statements. Details of associate companies are set out in note 12 of the consolidated Group financial statements. Details of inter-company management fees incurred during the year have been disclosed on note 4 of the separate company financial statements.

Shareholders

During the year, the Group received an interest free loan from Atlas Mara Limited for USD80 million (2014: USD20 million). In September 2015, Atlas Mara converted USD50 million of the loan to equity, refer to note 19.

Directors and officers

Emoluments to directors have been disclosed in note 4.2. The total exposure of the Group to directors, officers and parties related to them in terms of IAS 24 as at 31 December 2015 is USD1.6 million (2014: USD9.8 million) which represents 1.4% (2014: 10%) of shareholders' funds.

24. RELATED PARTY TRANSACTIONS *(continued)*

Directors' and key management remuneration

	2015	2014
Fees as Directors of subsidiary companies:		
R E Credo	42	–
D C Khama	16	44
	58	**44**
Remuneration of key management personnel:		
Short-term employment benefits	1 954	2 509
Post-employment benefits	152	182
Termination benefits	–	7 505
Bonus on discount in lieu of staff shares not issued	–	150
	2 106	**10 346**

Particulars of lending transactions entered into with directors or their related companies which have given rise to exposure on the balance sheet as at the end of the year are as follows:

	2015		2014	
	Balance	Interest	Balance	Interest
Loans and advances to entities related through shareholding:				
PG Industries (Botswana) Limited	1 104	134	574	63
	1 104	134	574	63
Borrowed funds from shareholders:				
Atlas Mara Limited	**50 000**	**–**	**20 000**	**–**
Loans and advances to entities related to directors:				
Entities related to N Kudenga	–	–	67	55
Entities related to H Buttery	–	–	2 337	148
Entities related to D T Munatsi	–	–	–	11
Entities related to FM Dzanya	–	–	1 103	73
	–	**–**	**3 507**	**287**
Loans and advances to key management:				
H Matemera	–	–	–	12
B Mudavanhu	388	30	390	26
J Sibanda	585	43	650	19
	973	73	1 040	57
Loans and advances to entities under common control				
Brainworks Investments Limited	–	–	–	275
	–	**–**	**–**	**275**

All loans bear interest and fees at rates applicable to similar exposures to third parties.

The Group assists officers and employees in respect of housing, motor vehicle and personal loans at subsidised rates in some instances. Consistent policies and processes govern the granting and terms of such loans.

Notes to the financial statements *continued*

24. RELATED PARTY TRANSACTIONS *(continued)*

	2015		2014	
	Balance	Interest	Balance	Interest
Deposits held by entities related to directors and key management:				
D Khama - Doreen Khama Attorneys Trust Account	1 038	26	1 385	55
Kudenga & Company Chartered Accountants	–	–	1	–
Deposits from entities related to D T Munatsi	–	–	6	–
	1 038	**26**	**1 392**	**55**
Deposits held by directors and key management:				
N Kudenga	–	–	505	60
F Dzanya	–	–	7	–
B Moyo	–	–	418	–
H Matemera	–	–	1	–
D Khama	192	4	198	2
D T Munatsi	–	–	676	1
B Mudavanhu	–	–	3	–
	192	**4**	**1 808**	**63**

Directors' emoluments

This is disclosed under Note 4.2.

Inter-company Income and expenses

	Management fees	Interest income/ (expense)	Other
Year ended 31 December 2015			
Transactions between Atlas Mara and ABC Holdings Limited	(7 452)	–	(5 243)
Transactions between ABC Holdings Limited and BancABC subsidiaries	3 117	(2 909)	–
Year ended 31 December 2014			
Transactions between ABC Holdings Limited and BancABC subsidiaries	(6 411)	(1 000)	–

24. RELATED PARTY TRANSACTIONS *(continued)*

Placements with/(from) Group companies

	2015		2014	
	Placed with	**Placed from**	**Placed with**	**Placed from**
Banc ABC Botswana	12 770	(45 809)	13 675	–
Banc ABC Mozambique	2 017	(15 849)	8 196	(7 089)
Banc ABC Tanzania	–	(7 660)	–	(8 581)
Tanzania Development Finance	11 894	–	10 556	–
Banc ABC Zambia	39 020	(14 176)	51 409	(7 861)

Included in placements with group companies are loans provided to subsidiaries as Tier II capital. These include loans to Banc ABC Botswana Limited of USD 12.8 million (2014: USD 13.7 million); loans to BancABC Zambia Limited USD 37.0 million (2014: USD 49.4) and Banc ABC Mozambique S.A. of USD 2.0 million (2014: USD 7.9 million).

Cash and other balances due from/(due to) Group companies

	2015		2014	
	Cash	**Other**	**Cash**	**Other**
Banc ABC Botswana	26 334	(352)	(65 544)	94
Banc ABC Mozambique	–	432	–	117
Banc ABC Tanzania	–	1 335	–	20 172
Banc ABC Zambia	–	2 433	–	(1 342)
Banc ABC Zimbabwe	128		140	–
ABCH Management Support Services	–	–	–	1 975

25. EXCHANGE RATES TO USD

	Closing Dec 15	Average Dec 15	Closing Dec 14	Average Dec 14
Botswana Pula	11.22	10.13	9.51	9.00
Tanzanian Shilling	2 158.65	2 038.06	1 739.17	1 672.40
Zambian Kwacha	10.98	8.62	6.40	6.23
Mozambican Metical	47.03	39.04	33.58	31.52
South African Rand	15.54	12.77	11.56	10.87

26. COLLATERAL

26.1 Liabilities for which collateral is pledged

	2015	2014
Deposits from banks	66 195	12 254
Deposits from customers	18 097	70 108
Borrowed funds	6 987	28 776
	91 279	**111 138**
Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
Bankers' acceptances	8 665	28 491
Financial assets held for trading	38 179	39 242
Property & equipment	2 727	3 072
Investment securities	44 578	5 596
	94 149	**76 401**

These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.

26.2 Collateral accepted as security for assets

	2015	2014
Deposits from customers	16 930	45 000
Mortgage bonds, inventory, plant and equipment, shares, letter of undertaking	379 831	350 513
Cash balances	18 378	–
	415 139	**395 513**

ABC Holdings Limited is obliged to return equivalent securities. The Group is not permitted to sell or re-pledge collateral in the absence of default.

These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.

27. ORDINARY DIVIDENDS

	2015	2014
Dividend of 4.5 thebe (USD0.5 cents) per share paid on 2 May 2014 to shareholders on the register on 18 April 2014	–	1 321
	–	**1 321**

The Board of Directors do not propose the payment of any final dividend for the year ended 31 December 2015.

There are no tax consequences to the Group for declaring or paying out a dividend. However, for some investors resident in Botswana, a withholding tax of 7.5% applies. For investors not resident in Botswana, there are no tax consequences for any dividend paid to them.

28. CHANGE IN FUNCTIONAL CURRENCY

Following ABC Holdings becoming a wholly-owned subsidiary (subsequent to the completion of the mandatory offer to non-controlling parties) of Atlas Mara Limited during July 2015, the Directors have concluded that the most appropriate functional currency of the Company is US dollars.

Cumulative currency translation differences represent the currency differences which arose as a result of translating the financial statements from the Company's previous functional currency of Botswana Pula to the reporting currency of US dollars. The impact of the change in functional currency was the reallocation at that date of the cumulative currency translation differences of USD9.3 million to issued capital.

ABC HOLDINGS LIMITED COMPANY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2015

BancABC part of atlasmara

Statement of profit or loss
for the year ended 31 December

USD'000s	Notes	2015	2014
Interest and similar income		9 935	9 880
Interest and similar expense		(20 145)	(17 497)
Net interest income	1	**(10 210)**	**(7 617)**
Provision for credit losses	2	(25)	(12 596)
Net interest income after provision for credit losses		**(10 235)**	**(20 213)**
Non-interest income	3	1 269	(1 898)
Total operating income		**(8 966)**	**(22 111)**
Operating expenses	4	(9 167)	(17 769)
Result before tax		**(18 133)**	**(39 880)**
Tax	5	(4 201)	1 517
Result for the year		**(22 334)**	**(38 363)**

Statement of comprehensive income

for the year ended 31 December

USD'000s	2015	2014
Profit/(Loss) for the year	**(22 334)**	**(38 363)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences	(3 046)	–
Net loss on hedge of net investment in foreign operations	(3 496)	(3 081)
Total comprehensive income for the year	**(28 876)**	**(41 444)**

Statement of financial position
as at 31 December

USD'000s	Notes	2015	2014
Assets			
Cash and short-term funds	6	**1 192**	**4 153**
Financial assets designated at fair value	7	7 257	9 913
Loans and advances	8	–	25
Inter-Company balances	9	21 824	18 368
Investment securities	10	5 012	5 596
Prepayments and other receivables	11	4 675	703
Property and equipment	12	18	6
Deferred tax assets	13	–	4 362
Loans to subsidiary companies		51 807	71 039
Investment in Subsidiaries	16	209 160	154 457
Total assets		**300 945**	**268 642**
Equity and liabilities			
Liabilities			
Derivative financial liabilities	17	674	1 351
Creditors and accruals	15	18 955	4 115
Intercompany payables	9	54 732	82 270
Borrowed funds	14	171 959	147 405
Total liabilities		**246 320**	**235 141**
Equity			
Stated capital	18	129 118	82 164
Foreign currency translation reserve		80	3 576
Non distributable reserves		(8 132)	(8 132)
Distributable reserves		(66 441)	(44 107)
Equity attributable to ordinary shareholders		**54 625**	**33 501**
Total equity and liabilities		**300 945**	**268 642**

Statement of changes in equity
for the year ended 31 December

USD'000s	Stated capital	Foreign currency translation reserve	Capital Reserve	Distributable reserves	Equity
Balance as at 1 January 2014	**82 164**	**6 657**	**(8 132)**	**(4 460)**	**76 229**
Profit or loss for the year					
Loss for the year	–	–	–	(38 363)	**(38 363)**
Other comprehensive income:	–	(3 081)		–	**(3 081)**
Net loss on hedge of net investment in foreign operations	–	(3 081)	–	–	**(3 081)**
Total comprehensive income	**–**	**(3 081)**	**–**	**(38 363)**	**(41 444)**
Transactions with owners					
Dividends paid	–	–	–	(1 284)	**(1 284)**
Net proceeds from shares issued	–	–	–	–	**–**
Total transactions with owners	**–**	**–**	**–**	**(1 284)**	**(1 284)**
Balance as at 31 December 2014	**82 164**	**3 576**	**(8 132)**	**(44 107)**	**33 501**
Profit or loss for the year					
Profit or loss for the year	–	–	–	(22 334)	**(22 334)**
Other comprehensive income:	**(3 046)**	**(3 496)**	**–**	**–**	**(6 542)**
Exchange differences	(3 046)	–		–	**(3 046)**
Net loss on hedge of net investment in foreign operations	–	(3 496)	–	–	**(3 496)**
Revaluation of property net of deferred tax	–	–	–	–	**–**
Share of reserves in associate companies	–	–	–	–	**–**
Movement in available for sale reserves:	–	–	–	–	**–**
– Arising in current year	–	–	–	–	**–**
– Realised through profit and loss	–	–	–	–	**–**
Total comprehensive income	**(3 046)**	**(3 496)**	**–**	**(22 334)**	**(28 876)**
Transfers within equity					
Movement in general credit risk reserve	–	–	–	–	**–**
Movement in statutory reserves	–	–	–		**–**
Total transfers within equity	**–**	**–**	**–**	**–**	**–**
Transactions with owners					
Dividends paid	–	–	–	–	**–**
Net proceeds from shares issued	50 000	–	–	–	**50 000**
Total transactions with owners	**50 000**	**–**	**–**	**–**	**50 000**
Balance as at 31 December 2015	**129 118**	**80**	**(8 132)**	**(66 441)**	**54 625**

Cash flow statement
for the year ended 31 December

USD'000s	Notes	2015	2014
Cash flows from operating activities		**(37 216)**	**(9 739)**
Cash generated from operating activities		**(17 136)**	**(30 801)**
Result before tax		(18 133)	(39 880)
Adjusted for:			
Impairment of loans and advances		25	12 596
Depreciation and amortisation		5	7
Dividends receivable		–	(4 426)
Net unrealised losses on derivative financial instruments		3	902
Net losses on financial instruments at fair value through profit or loss		2 642	–
Other non-cash items		(1 678)	–
Tax paid		–	(214)
Net cash inflow from operating activities before changes in operating funds		**(17 136)**	**(31 015)**
Net (decrease)/increase in operating funds		**(20 080)**	**21 276**
Decrease in operating assets		(7 383))	(3 381)
(Decrease)/increase in operating liabilities		(12 697)	24 657
Cash flows from investing activities		**(37 253)**	**(14 029)**
Purchase of property and equipment		(3)	–
Changes in investment in subsidiaries		(56 482)	–
Dividends received		–	4 426
Changes in loans to subsidiaries		19 232	(18 455)
Cash flows from financing activities		**71 508**	**26 596**
Increase in borrowed funds		71 508	26 953
Dividend paid		–	(1 284)
Proceeds from issue of shares		–	927
(Decrease)/Increase in cash and cash equivalents		**(2 961)**	**2 828**
Cash and cash equivalents at the beginning of the year		4 153	1 325
Cash and cash equivalents at the end of the year		**1 192**	**4 153**
Cash and short term funds		1 192	4 153
Cash and cash equivalents	6	–	–
Cash and short term funds		**1 192**	**4 153**

Notes to the financial statements

Credit risk management

The credit risk management policies of the Company and Group are set out in the Group financial statements.

Maximum exposure to credit risk before collateral held or other credit enhancements

The following table presents the maximum exposure to credit risk of balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements.

For financial assets recognised on the statement of financial position, the exposure to credit risk equals their carrying amount before deducting impairments.

Credit risk exposures relating to on-balance sheet assets are as follows:

USD'000s	2015	2014
Placements with banks	1 192	4 153
Financial assets designated at fair value through profit or loss	**7 257**	**9 913**
– Unlisted equities and debentures	7 257	9 913
Loans and advances to customers at amortised cost	–	25
– Corporate lending	–	25
Financial investments held-to-maturity	**5 012**	**5 596**
Government bonds	5 012	5 596
	13 461	**19 687**

Credit quality

Loans and advances

The following tables reflect broadly, stable credit quality across the majority of the Company's businesses.

Distribution of loans and advances by credit quality:

USD'000s	2015	2014
Neither past due nor impaired	25	25
Gross loans and advances	25	25
Less: Allowance for impairment	(25)	–
Net loans and advances	**(0)**	**25**
(a) Distribution of loans and advances neither past due nor impaired The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted below:		
Internal Grade: Performing		
Corporate lending	–	25
	–	**25**

(b) Loans and advances individually impaired
The individually impaired loans and advances before taking into consideration the cash flows from collateral held is 25 thousand USD (2014: USD nil).

Concentration risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2015.

	2015						
USD'000s	**Botswana**	**Mozambique**	**Tanzania**	**Zambia**	**Zimbabwe**	**Other**	**Total**
Placements with other banks	–	–	–	–	–	1 192	1 192
Financial assets designated at fair value	–	–	–	–	–	7 257	7 257
Investment securities	5 012	–	–	–	–	–	5 012
	5 012	**–**	**–**	**–**	**–**	**8 449**	**13 461**

	2014						
USD'000s	**Botswana**	**Mozambique**	**Tanzania**	**Zambia**	**Zimbabwe**	**Other**	**Total**
Placements with other banks	3	–	–	–	140	4 010	4 153
Financial assets designated at fair value	–	–	–	–	–	9 913	9 913
Loans and advances (net of impairments)	–	–	–	–	25	–	25
Investment securities	5 596	–	–	–	–	–	5 596
	5 599	**–**	**–**	**–**	**165**	**13 923**	**19 687**

(b) Industry Sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by the industry sectors of the counterparties.

USD'000s	**Financial services**	**Other**	**Total**
As at 31 December 2015			
Placements with other banks	1 192	–	1 192
Financial assets designated at fair value	7 257	–	7 257
Investment securities	5 012	–	5 012
	13 461	**–**	**13 461**
As at 31 December 2015			
Placements with other banks	4 153	–	4 153
Financial assets designated at fair value	9 913	–	9 913
Loans and advances	25	–	25
Investment securities	5 596	–	5 596
	19 687	**–**	**19 687**

Notes to the financial statements *continued*

Market risk

The company takes on exposure to market risks, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rate, credit spreads, foreign exchange rates and equity prices.

Market and foreign currency exposures related to dealing positions are housed and managed in the Treasury division within a framework of pre-approved dealer, currency and counterparty limits. All trading positions are marked to market as required by IAS 39. Group Risk is responsible for the monitoring of limits and pricing, thereby ensuring that any errors or unauthorised transactions are promptly identified.

Market risk measurement techniques

The major measurement techniques used to measure and control market risk are outlined below.

Foreign exchange risk

The company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Group Risk sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The tables below summarises the company's exposure to foreign currency exchange rate risk at 31 December 2015 and 2014. Included in the table are the company's assets and liabilities at carrying amounts, categorised by currency.

USD'000s	EUR	USD	BWP	ZAR	TZS	ZMW	MZN	JPY	Other	Total
As at 31 December 2015										
Cash and short term funds	–	1 192	–	–	–	–	–	–	–	1 192
Financial assets designated at fair value	–	7 257	–	–	–	–	–	–	–	7 257
Investment securities	–	–	5 012	–	–	–	–	–	–	5 012
	–	**8 449**	**5 012**	**–**	**–**	**–**	**–**	**–**	**–**	**13 461**
Equity	–	54 625	–	–	–	–	–	–	–	54 625
Derivative financial liabilities	–	2 987	(3)	–	–	–	–	(2 310)	–	674
Creditors and accruals	12	16 035	2 602	305	–	–	–	–	–	18 954
Borrowed funds	–	146 766	22 884	–	–	–	–	2 310	–	171 959
	12	**220 413**	**25 483**	**305**	**–**	**–**	**–**	**–**	**–**	**246 212**
As at 31 December 2014										
Cash and short term funds	–	4 150	3	–	–	–	–	–	–	4 153
Financial assets designated at fair value	–	9 913	–	–	–	–	–	–	–	9 913
Derivative financial asset	–	–	–	–	–	–	–	4 559	(4 559)	–
Loans and advances	–	25	–	–	–	–	–	–	–	25
Investment securities	–	–	5 596	–	–	–	–	–	–	5 596
	–	**14 088**	**5 599**	**–**	**–**	**–**	**–**	**4 559**	**(4 559)**	**19 687**
Equity	–	–	33 501	–	–	–	–	–	–	33 501
Derivative financial liabilities	–	5 913	(3)	–	–	–	–	–	(4 559)	1 351
Creditors and accruals	–	4 047	13	55	–	–	–	–	–	4 115
Borrowed funds	–	115 857	26 989	–	–	–	–	4 559	–	147 405
	–	**125 817**	**60 500**	**55**	**–**	**–**	**–**	**4 559**	**(4 559)**	**186 372**

Notes to the financial statements *continued*

Foreign exchange risk *(continued)*

A reasonably possible strengthening (weakening) of the Euro, Botswana Pula, South Africa Rand, Tanzanian Shilling, Zambian Kwacha, Mozambican Metical and Japanese Yen against all other currencies at 31 December 2015 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	31 December 2015 Profit or loss	
Currency	**Strengthening**	**Weakening**
EUR (3% movement)	–	–
BWP (10% movement)	(2 047)	2 047
ZAR (10% movement)	(31)	31
TZS (5% movement)	–	–
ZMW (10% movement)	–	–
MZN (5% movement)	–	–
JPY (3% movement)	–	–

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

The Asset and Liability Committee (ALCO) is responsible for managing interest rate and liquidity risk in the company. Asset and Liability management committees have been established in each subsidiary and meet on a monthly basis. They operate within the prudential guidelines and policies established by Group ALCO.

In order to reduce interest rate risk, the majority of the Group's lending is on a variable interest rate with a term of less than one year. This approach has been adopted as a result of the scarcity of term deposits in the region which limits the Group's ability to build a substantial, stable pool of fixed rate funding.

Notes to the financial statements *continued*

Interest rate risk *(continued)*

The table below summarises the Company's total exposure to interest rate risks on financial and non-financial instruments. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Variable rate financial instruments are categorised in the "up to 1 month" column.

USD'000s	Up to 1 month	1-3 months	3-12 months	1-5 years	Total interest sensitive	Non-interest bearing	Total
As at 31 December 2015							
Cash and short term funds	1 192	–	–	–	1 192	–	1 192
Financial assets designated at fair value	–	–	–	–	–	7 257	7 257
Investment securities	–	–	–	5 012	5 012	–	5 012
Assets	**1 192**	**–**	**–**	**5 012**	**6 204**	**7 257**	**13 461**
Equity	–	–	–	–	–	54 625	54 625
Derivative financial liabilities	–	–	–	–	–	674	674
Creditors and accruals	–	–	–	–	–	18 955	18 955
Borrowed funds	–	655	61 224	110 080	171 959	–	171 959
Liabilities	**–**	**655**	**61 224**	**110 080**	**171 959**	**19 629**	**191 588**
As at 31 December 2014							
Cash and short term funds	4 153	–	–	–	4 153	–	4 153
Financial assets designated at fair value	–	–	–	–	–	9 913	9 913
Loans and advances	25	–	–	–	25	–	25
Investment securities	–	–	–	5 596	5 596	–	5 596
Assets	**4 178**	**–**	**–**	**5 596**	**9 774**	**9 913**	**19 687**
Equity	–	–	–	–	–	33 501	33 501
Derivative financial liabilities	–	–	–	–	–	1 351	1 351
Creditors and accruals	–	–	–	–	–	4 115	4 115
Borrowed funds	–	761	60 214	86 430	147 405	–	147 405
Liabilities	**–**	**761**	**60 214**	**86 430**	**147 405**	**5 466**	**152 871**

The table below illustrates the impact of a possible 50 basis point interest rate movement

	2015	2014
Change in net interest income (+50 basis points)	**(451)**	(1 628)
As a percentage of total Shareholders equity	**(0,8%)**	(5,1%)
Change in net interest income (-50 basis points)	**451**	1 628
As a percentage of total Shareholders equity	**0,8%**	5,1%

Liquidity risk management process

The company holds liquidity reserves in highly tradable instruments or money market placements which are immediately available if required. Liquidity is assessed by currency as well as by time bracket. Liquidity management is dependent upon accurate cash flow projections and the monitoring of its future funding requirements. The Group's liquidity management process is monitored by Group Treasury and includes:

- Daily funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The company maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Group Treasury also monitors unmatched medium term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letter of credit and guarantees.

Non-derivative cash flow

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows:

USD'000s	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 December 2015
As at 31 December 2015							
Creditors and accruals	18 955				18 955		18 955
Borrowed funds		4 532	64 932	108 704	178 168	(6 209)	171 959
Total liabilities	**18 955**	**4 532**	**64 932**	**108 704**	**197 123**	**(6 209)**	**190 914**

USD'000s	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 December 2014
As at 31 December 2014							
Creditors and accruals	4 115				4 115	–	4 115
Borrowed funds		1 194	64 419	107 092	172 705	(25 300)	147 405
Total liabilities	**4 115**	**1 194**	**64 419**	**107 092**	**176 820**	**(25 300)**	**151 520**

The Company principally uses cash and short-term funds to manage liquidity risk.

Notes to the financial statements *continued*

Derivative financial liabilities cash flows

The table below presents the cash flows payable by the Group for derivative financial liabilities by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted nominal currency swap cash flows for the liability leg of such swaps, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows:

USD'000s	Up to 1 month	1-3 months	3-12 months	Greater than 1 year	Total
As at 31 December 2015					
Derivative financial liabilities				674	674
As at 31 December 2014					
Derivative financial liabilities	–	–	–	–	–

Fair Values

Financial assets and liabilities measured at fair value

Fair value measurements are disclosed by level. The fair value hierarchy is as follows:

- Quoted prices (unadjusted) in active markets for idential assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is, derived from prices) (level 2);or
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the financial statements *continued*

Fair values *(continued)*

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		2015 Carrying amount			
USD'000s	Note	**Held for trading**	**Designated at fair value**	**Derivative financial instruments**	**Held to maturity**
Financial assets measured at fair value					
Unlisted equities and debentures	7	–	7 257	–	–
		–	**7 257**	**–**	**–**
Financial investments held-to-maturity					
Promissory notes (HTM)	10	–	–	–	5 012
		–	**–**	**–**	**5 012**
Financial assets not measured at fair value					
Cash and short-term funds	6	–	–	–	–
		–	**–**	**–**	**–**
Financial liabilities measured at fair value					
Cross-currency interest rate swaps	17	–	–	(674)	–
		–	**–**	**(674)**	**–**
Financial liabilities not measured at fair value					
Borrowed funds	14	–	–	–	–
Creditors and accruals	15	–	–	–	–
		–	**–**	**–**	**–**

t				Fair value			
Loans and receivables	Available for sale	Other financial assets/ liabilities	Total	Level 1	Level 2	Level 3	Total
–	–	–	7 257	–	7 257	–	7 257
–	**–**	**–**	**7 257**	**–**	**7 257**	**–**	**216 417**
–	–	–	5 012				
–	**–**	**–**	**5 012**				
	–	1 192	1 192				
–	**–**	**1 192**	**1 192**				
–	–	–	(674)	–	(674)	–	(674)
–	**–**	**–**	**(674)**	**–**	**(674)**	**–**	**(674)**
–	–	(171 959)	(171959)	–	–	(178523)	(178 523)
–	–	(18 955)	(18 955)	–	–	–	–
–	**–**	**(190 914)**	**(190 914)**	**–**	**–**	**(178 523)**	**(178 523)**

Fair values *(continued)*

(a) Accounting classifications and fair values

					20 Carrying
USD'000s	Note	**Held for trading**	**Designated at fair value**	**Derivative financial instruments**	**Held to maturity**
Financial assets measured at fair value					
Unlisted equities and debentures	7		9 913	–	–
		–	**9 913**	**–**	**–**
Financial investments held-to-maturity					
Promissory notes (HTM)	10	–	–	–	5 596
		–	**–**	**–**	**5 596**
Financial assets not measured at fair value					
Cash and short-term funds	6	–	–	–	–
Loans and advances	8	–	–	–	–
		–	**–**	**–**	**–**
Financial liabilities measured at fair value					
Cross-currency interest rate swaps	17	–	–	(1 350)	–
		–	**–**	**(1 350)**	**–**
Financial liabilities not measured at fair value					
Borrowed funds	14	–	–	–	–
Creditors and accruals	15	–	–	–	–
		–	**–**	**–**	**–**

14 amount				Fair value			
Loans and receivables	Available for sale	Other financial assets/ liabilities	Total	Level 1	Level 2	Level 3	Total
–	–	–	**9 913**	–	9 913	–	**9 913**
–	**–**	**–**	**9 913**	**–**	**9 913**	**–**	**9 913**
–	–	–	**5 596**				
–	**–**	**–**	**5 596**				
4 153	–	–	**4 153**				
25	–	–	**25**				
4 178	**–**	**–**	**4 178**				
–	–	–	**(1 350)**	–	(1 350)	–	**(1 350)**
–	**–**	**–**	**(1 350)**	**–**	**(1 350)**	**–**	**(1 350)**
–	–	(147 405)	**(147 405)**	–	–	157 877	**157 877**
–	–	(4 115)	**(4 115)**				
–	**–**	**(151 520)**	**(151 520)**	**–**	**–**	**157 877**	**157 877**

Notes to the financial statements *continued*

Fair values *(continued)*

(b) Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as significant unobservable inputs used.

Type of financial instrument	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input
Government debt	This includes government bonds and treasury bills. Liquid government bonds that are actively traded through an exchange or clearing house are marked-to-market. Less liquid bonds are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, a proxy curve is constructed by using the US interest rate swap yield curve and adding a spread indicative of the inherent risk relating to credit, liquidity and for the sovereign risk of the government debt.	Discount rate where no traded market exists.	12-22%
Corporate debt	This includes corporate bonds which are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. Where there are no observable market prices, a proxy curve is constructed by using the US interest rate swap yield curve and adding a spread indicative of the inherent risk relating to credit, liquidity and for the sovereign risk of the corporate debt.	Discount rate where no traded market exists.	12-18%
Unlisted equities	Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee on actual EBITDA for the year ended 31 December 2015. The estimate is adjusted for the effect of the non-marketability of the equity securities.	Adjusted price to book ratio Adjusted EV/ EBITDA	12–25%

Financial instruments not measured at fair value

Type	Valuation technique
Cash and short-term funds	Discounted cash flows
Loans and advances	Discounted cash flows
Promissory notes	Discounted cash flows
Prepayments and other receivables	Discounted cash flows
Creditors and accruals	Discounted cash flows
Deposits	Discounted cash flows
Borrowed funds	Discounted cash flows

Notes to the financial statements *continued*

USD'000s	2015	2014
1. NET INTEREST INCOME		
Interest and similar income		
Cash and short-term funds	59	1
Investment securities and dated financial instruments	305	408
Loans and advances at amortised cost	154	1 596
Inter-company	9 417	7 875
	9 935	**9 880**
Interest and similar expense		
Borrowed funds	14 967	15 153
Inter-company	5 178	2 344
	20 145	**17 497**
Net interest income	**(10 210)**	**(7 617)**
2. IMPAIRMENT OF LOANS AND ADVANCES		
Specific impairments	**25**	**12 596**
3. NON INTEREST INCOME		
Gains from trading activities:	**(2 645)**	**(3 854)**
Gains on financial assets at fair value through profit or loss – designated at fair value	(2 642)	(2 951)
Net losses on derivative financial instruments*	(3)	(903)
Dividends received:	**–**	**4 426**
– Subsidiary companies	–	4 426
Fee and commission income:	**267**	**441**
Net fee and commission income – external	–	172
Net fee and commission income – Inter-company	–	269
Cash transaction fees	245	–
Other fee income	22	–
Other non-interest income:	**3 647**	**(2 911)**
Rental and other income	20	–
Forex trading income and currency revaluation**	3 627	(2 911)
	1 269	**(1 898)**

* *Net losses on derivative financial instruments of USD 3 thousand (2014: USD 902 thousand) arose from the USD: Japanese Yen swap.*

** *Foreign exchange income includes a foreign exchange loss of USD 143.1 thousand (2014: income of USD 244.4 thousand) arising from the Japanese Yen exposure with NDB, disclosed in note 14. Net losses on derivative instruments include an offsetting fair value gain arising from an equal but opposite nominal Japanese Yen derivative asset.*

USD'000s	2015	2014
4. OPERATING EXPENDITURE		
Inter-company management fees	2 126	6 411
Administrative expenses	375	1 213
Staff costs (note 4.1)	3 610	2 060
Auditor's remuneration	303	176
Depreciation (Note 12)	5	7
Directors' remuneration (note 4.2)	1 571	7 902
Professional services and other	1 177	–
	9 167	**17 769**
4.1 Staff Costs		
Salaries	2 133	2 060
Other staff costs	1 477	–
	3 610	**2 060**
Other staff costs comprise incentive pay, medical aid contributions, staff training and other staff related expenses.		
4.2 Directors' remuneration		
Executive directors		
Salary, performance related remuneration and other benefits	937	7 902
Non-executive directors		
Fees as directors of holding company	576	–
Fees as directors of subsidiaries	58	–
	634	**–**
	1 571	**7 902**
Details of other transactions and balances with related parties have been disclosed under note 20.		
5. TAX		
Current tax expense		
Current year	–	214
Deferred tax		
Tax and fair value losses of prior years not claimed	–	3 026
Origination and reversal of temporary differences	–	(4 757)
Impairment of deferred tax assets	4 201	–
	4 201	(1 731)
Total tax expense per income statement	**4 201**	**(1 517)**
Reconciliation of effective tax charge:		
Profit before tax	**(18 133)**	**(39 880)**
Income tax using corporate tax rates	(2 720)	(5 982)
Non-deductible expenses	–	1 889
Tax exempt revenues	–	(664)
Tax on dividends received	–	214
Unrecognised deferred tax	6 921	–
Tax and fair value losses of prior years' not claimed	–	3 026
Current tax expense per income statement	**4 201**	**(1 517)**
Effective tax rate	**(23%)**	**4%**

Notes to the financial statements *continued*

USD'000s	2015	2014
6. CASH AND SHORT TERM FUNDS		
Cash on hand	–	–
Balances with banks	1 192	4 153
	1 192	**4 153**
7. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE		
Unlisted equities and debentures	7 257	9 913
	7 257	**9 913**

The unlisted debentures comprise of a USD 7.3 million (2014: USD 9.9 million) investment in a 10% convertible loan to ADC Enterprises Limited.

USD'000s	2015	2014
8. LOANS AND ADVANCES		
Corporate lending	25	25
	25	25
Less impairments	(25)	–
Net loans and advances	**–**	**25**

	Balance 2015	Fair value	Balance 2014	Fair value
9. INTERCOMPANY BALANCES				
9.1 Balances due from:				
ABCH Management Support Services (Pty) Ltd and other non-banking subsidiaries*	2 123	2 123	1 976	1 976
Tanzania Development Finance Company Limited	11 910	11 910	298	298
BancABC Tanzania Limited	–	–	11 596	11 596
BancABC Zimbabwe, Second Nominees and Capital Partners	7 791	7 791	4 498	4 498
	21 824	**21 824**	**18 368**	**18 368**
9.2 Balances due to:				
BancABC Botswana Limited	20 121	20 121	65 363	65 363
BancABC Mozambique SA	15 456	15 456	6 975	6 975
BancABC Tanzania Limited	6 341	6 341	–	–
BancABC Zambia Limited	11 772	11 772	9 208	9 208
EDFUND S.A.	838	838	531	531
Bohemian Holdings Limited	204	204	193	193
	54 732	**54 732**	**82 270**	**82 270**

* *The amount includes an interest free loan of USD2.1 million (2014:USD2.0 million) pertaining to ABCH Management Support Services (Pty) Ltd, (ABC South Africa). The loan has no fixed terms of repayment. ABC Holdings Limited has committed to allow ABCH Management Support Services (Pty) Limited to charge sufficient management fees for it to fully utilise a deferred tax asset of USD0.2 million (2014: USD2.0 million) recognised as at 31 December 2015.*

Inter-company balances are generally short-term placements or borrowings at prevailing market rates.

The balances are denominated in Botswana pula: – USD0.6 million (2014: – USD14.0 million) net payable; United States dollars: – USD36.2 million (2014: -USD53.3 million) net payable and South African rands: – USD4.1 million (2014: USD3.4 million) net receivable.

USD'000s	2015	2014

10. INVESTMENT SECURITIES

	2015	2014
Held to maturity		
– Promissory notes	–	5 596
– Government bonds	5 012	–
	5 012	**5 596**

The government bonds are partial security for the loan from BIFM (Note 14). The bonds earn a fixed interest at 3.85% and 4.6% p.a., and are redeemable on 12 September 2018 and 8 September 2020. Included in the security is a cash balance of USD948, 754 which was used to buy further bonds subsequent to year-end.

The fair value of the promissory notes has not been determined as the promissory notes are specifically conditional to the terms of the BIFM loan referred to in note 14.

11. PREPAYMENTS AND OTHER RECEIVABLES

	2015	2014
Accounts receivable and prepayments	1 010	600
Security deposits	409	61
Other amounts due	3 256	62
	4 675	**723**

12. PROPERTY AND EQUIPMENT

	Computer and office equipment	Furniture and fittings	Total
2015			
Cost or valuation at 31 December 2014	40	28	68
Exchange adjustment	16	–	16
Additions	3	–	3
Cost or valuation at 31 December 2015	59	28	87
Accumulated depreciation at 31 December 2014	(39)	(23)	(62)
Exchange adjustment	(1)	(1)	(2)
Charge for the year	(1)	(4)	(5)
Accumulated depreciation at 31 December 2015	(41)	(28)	(69)
Carrying amount at 31 December 2015	**18**	**–**	**18**
2014			
Cost or valuation at 31 December 2013	44	30	74
Exchange adjustment	(4)	(2)	(6)
Cost or valuation at 31 December 2014	40	28	68
Accumulated depreciation at 31 December 2013	(41)	(19)	(60)
Exchange adjustment	3	2	5
Charge for the year	(1)	(6)	(7)
Accumulated depreciation at 31 December 2014	(39)	(23)	(62)
Carrying amount at 31 December 2014	**1**	**5**	**6**

Notes to the financial statements *continued*

USD'000s	2015	2014
13. DEFERRED TAX		
Balance at the beginning of the year	4 362	2 949
Exchange adjustment	(161)	(319)
Income statement charge (Note 5)	(4 201)	1 732
	–	**4 362**
Disclosed as follows:		
Deferred tax asset	–	4 362
	–	**4 362**
Tax effects of temporary differences:		
Unrealised gains on investment	–	(245)
Tax losses	–	4 852
Other	–	(245)
	–	**4 362**
14. BORROWED FUNDS		
Current portion	61 522	60 975
Non-current portion	110 437	86 430
	171 959	**147 405**
Borrowed funds		
National Development Bank of Botswana Limited	2 310	4 559
BIFM Capital Investment Fund One (Pty) Ltd	22 528	26 990
Afrexim Bank	60 161	59 170
Africa Agriculture and Trade Investment Fund S.A.	24 869	24 752
Norsad Finance Limited	9 958	9 924
Atlas Mara	50 126	20 009
Other	2 007	2 001
	171 959	**147 405**
Fair value		
National Development Bank of Botswana Limited	2 317	4 543
BIFM Capital Investment Fund One (Pty) Ltd	27 651	31 539
Afrexim Bank	60 284	60 452
Africa Agriculture and Trade Investment Fund S.A.	25 382	27 594
Norsad Finance Limited	10 757	11 738
Atlas Mara	50 126	20 009
Saffron	2 006	2 002
	178 523	**157 877**
Maturity analysis		
One to three months	655	762
Three months to one year	60 868	60 213
Over one year	110 436	86 430
	171 959	**147 405**

14. BORROWED FUNDS (continued)

National Development Bank of Botswana Limited (NDB)

The loan from National Development Bank of Botswana is denominated in Japanese Yen and attracts interest at 3.53% per annum. Principal and interest is payable semi-annually on 15 June and 15 December. The loan matures on 15 December 2016.

BIFM Capital Investment Fund One (Pty) Ltd

The loan from BIFM Capital Investment Fund One (Pty) Ltd is denominated in Botswana Pula and attracts interest at 11.63% per annum, payable semi-annually. Principal repayments are payable in four equal annual instalments commencing 30 September 2017

Afrexim Bank Limited

The loan from Afrexim Bank Limited was advanced to ABC Holdings Limited (ABCH) in July 2013. The loan attracts interest at 3 months LIBOR +5% and matured on 30 June 2015. ABCH and Afrexim Bank have entered into a term sheet agreement to refinance the USD60m facility. The USD60 million advanced to ABCH was designated as a hedge in the net investment by the Group in BancABC Zimbabwe.

Africa Agriculture and Trade Investment Fund S.A. (AATIF)

The loan of USD25m from AATIF is denominated in US Dollars and attracts interest at 3 months LIBOR +6.25%. Interest is payable quarterly on 31 March, 30 June, 30 September and 31 December. The loan matures on 21 December 2018 when the full principal amount is due for repayment in one instalment.

Norsad Finance Limited

The loans from Norsad Finance Limited were advanced to ABC Holdings Limited (ABCH) as well as BancABC Zambia and BancABC Zimbabwe. The US USD10 million loan advanced to ABCH is a subordinated loan denominated and attracts interest at 6 months LIBOR + 7.5%. Interest is payable quarterly on 31 March, 30 June, 30 September and 31 December. The loan matures on 9 October 2020 when the full principal amount is due for repayment in one instalment. The loan advanced to BancABC Zimbabwe is also denominated in US dollars and attracts interest of LIBOR + 11% but capped at 12%. The loan matures on 30 June 2016.

Atlas Mara

The loan is denominated in USD and attracts no interest. The loan is repayable in 2022, Atlas Mara shall not have the right to call the loan before the maturity date.

Other borrowings relate to medium to long term funding from international financial institutions for onward lending to BancABC clients. Fair value is equivalent to carrying amounts as these borrowings have variable interest rates.

Notes to the financial statements *continued*

USD'000s	2015	2014
15. CREDITORS AND ACCRUALS		
Accrued expenses	108	190
Other amounts due	18 847	3 925
	18 955	**4 115**

16. INVESTMENT IN SUBSIDIARIES

	Ownership of ordinary shares		Carrying value	
	2015 %	**2014 %**	**2015 USD'000s**	**2014 USD'000s**
Botswana				
BancABC Botswana Limited	100	100	24 558	25 316
Bohemian Private Limited	100	100	408	421
Capital Partners Private Limited	100	100	206	212
Mozambique				
BancABC Mozambique	100	100	32 129	9 212
South Africa				
ABCH Management Support Services(Pty) Limited	100	100	–	–
Tanzania				
BancABC Tanzania Limited	97*	97*	54 748	30 384
Tanzania Development Finance Company Limited	68	68	–	–
Zambia				
BancABC Zambia Limited	100	100	48 666	38 971
Zimbabwe				
BancABC Zimbabwe Limited	100*	100*	48 445	49 941
			209 160	**154 457**

**Effective shareholding*

17. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

	2015		2014	
USD'000s	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swaps	–	674	–	1 351
	–	**674**	**–**	**1 351**

Cross-currency interest rate swaps

The company uses cross currency interest rate swaps to manage the Group's exposure to foreign currency and interest rate risk. These instruments are transacted for both hedging on Group basis, and non-hedging activities.

These instruments result in an economic exchange of currencies and interest rates. An exchange of principal takes place for all cross-currency interest rate swaps. The company's credit risk exposure represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the company assesses counterparties using the same technique as for its lending activities.

The notional amounts of the financial instruments provide a basis of comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows or the current fair value of the instruments and, therefore, do not indicate the company's exposure to credit or price risks.

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out below

	2015		2014	
USD'000s	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
At 31 December 2015 Cross currency interest rate swaps: Designated at fair value through profit and loss	3 007	(674)	5 913	(1 351)
Total recognised derivatives		**(674)**		**(1 351)**

Notes to the financial statements *continued*

USD'000s	2015	2014
18. STATED CAPITAL		
18.1 Issued and fully paid		
419 229 694 (2014: 256 885 694) shares	129 118	82 164
Total Group	**129 118**	**82 164**
Balance at the beginning of the year	82 164	82 164
Issue of shares	50 000	–
Exchange rate adjustment	(3 046)	–
Balance at end of the year	**129 118**	**82 164**

The holders of ordinary shares are entitled to receive a dividend as declared from time to time and are entitled to one vote per share at the annual general meeting of the company.

18.2 Reconciliation of the number of shares in issue

	2015	2014
Shares at the beginning of the year	256 885 694	256 885 694
Shares issued*	162 343 680	–
At the end of the year	**419 229 374**	**256 885 694**

* *During 2015, Atlas Mara Limited converted part of its loan to ABC Holdings Limited, worth USD50 million into equity. The 162 343 680 shares rank pari pasu with all other issued ordinary shares.*

19. EMPLOYEE BENEFITS

The Group uses a combination of externally administered defined contribution schemes and, where there is a mandatory requirement, state social security schemes. Both the employee and employer contribute to these schemes.

20. RELATED PARTY TRANSACTIONS

Related party transactions are a normal feature of business and are disclosed in terms of IAS 24. Related party transactions may affect the assessment of operations, risk and opportunity facing the organisation.

ABC Holdings Limited is the holding company of the ABC Group. In turn ABCH is a 100% subsidiary of Atlas Mara Limited (Atlas Mara).

Subsidiary companies and associates

ABC Holdings Limited and its subsidiaries entered into various financial services contracts with fellow subsidiaries and associates during the year. These transactions are entered into in the normal course of business. Loans to associates as at 31 December 2015 amounted to USDnil million (2014: USD0.58 million) which represents nil% (2014: 0.5%) of shareholders' funds, and nil% (2014: 0.04%) of gross loans.

ABC Consulting and Management Services Limited has entered into management services agreements with Group companies. Details of disclosures of investments in subsidiaries are set out in note 15 of the separate company financial statements. Details of associate companies are set out in note 13 of the consolidated Group financial statements. Details of inter-company management fees incurred during the year have been disclosed on note 4 of the separate company financial statements.

Shareholders

During the year, the Group received an interest free loan from Atlas Mara Limited for US USD80 million (2014: USD20 million). In September 2015, Atlas Mara converted USD50 million of the loan to equity, refer to note 14.

20. RELATED PARTY TRANSACTIONS (continued)

Directors and officers

Emoluments to directors have been disclosed in note 4.2. The total exposure of the Group to directors, officers and parties related to them in terms of IAS 24 as at 31 December 2015 is USD1.6 million (2014: USD9.8 million) which represents 1.4% (2014: 10%) of shareholders' funds.

USD'000s	2015	2014
Fees as Directors of subsidiary companies:		
R E Credo	42	–
D C Khama	16	44
	58	**44**
Remuneration to key management personnel:		
Short term employment benefits	1 954	2 509
Post-employment benefits	152	182
Termination benefits	–	7 505
Bonus on discount in lieu of staff shares not issued	–	150
	2 106	**10 346**

Loans and advances

Particulars of lending transactions entered into with directors or their related companies which have given rise to exposure on the balance sheet as at the end of the year are as follows:

	2015		2014	
	Balance	Interest	Balance	Interest
Loans and advances to entities related through shareholding:				
PG Industries (Botswana) Limited	1 104	134	574	63
	1 104	**134**	**574**	**63**
Borrowed funds from shareholders:				
Atlas Mara Limited	**50 000**	**–**	**20 000**	**–**
Loans and advances to entities related to directors:				
Entities related to N Kudenga	–	–	67	55
Entities related to H Buttery	–	–	2 337	148
Entities related to D T Munatsi	–	–	–	11
Entities related to FM Dzanya	–	–	1 103	73
	–	**–**	**3 507**	**287**
Loans and advances to key management:				
H Matemera	–	–	–	12
B Mudavanhu	388	30	390	26
J Sibanda	585	43	650	19
	973	**73**	**1 040**	**57**
Loans and advances to entities under common control				
Brainworks Investments Limited	–	–	–	275
	–	**–**	**–**	**275**

Notes to the financial statements *continued*

20. RELATED PARTY TRANSACTIONS (continued)

All loans bear interest and fees at rates applicable to similar exposures to third parties.

The Group assists officers and employees in respect of housing, motor vehicle and personal loans at subsidised rates in some instances. Consistent policies and processes govern the granting and terms of such loans.

Customer deposits

	2015		2014	
	Balance	Interest	Balance	Interest
Deposits held by entities related to directors and key management:				
D Khama - Doreen Khama Attorneys Trust Account	1 038	26	1 385	55
Kudenga & Company Chartered Accountants	–	–	1	–
Deposits from entities related to D T Munatsi	–	–	6	–
	1 038	**26**	**1 392**	**55**
Deposits held by directors and key management:				
N Kudenga	–	–	505	60
F Dzanya	–	–	7	–
B Moyo	–	–	418	–
H Matemera	–	–	1	–
D Khama	192	4	198	2
D T Munatsi	–	–	676	1
B Mudavanhu	–	–	3	–
	192	**4**	**1 808**	**63**

Inter-company income and expenses

Year ended 31 December 2015	Management fees:	Interest income/ (expense):	Other:
Transactions between Atlas Mara and ABC Holdings Limited	(7 452)	–	5 243
Transactions between ABC Holdings Limited and BancABC subsidiaries	3 117	(2 909)	–
Year ended 31 December 2014			
Transactions between ABC Holdings Limited and BancABC subsidiaries	(6 411)	(1 000)	–

Notes to the financial statements *continued*

20. RELATED PARTY TRANSACTIONS (continued)

Placements with/(from) Group companies

	2015		2014	
	Placed with	**Placed from**	Placed with	Placed from
Banc ABC Botswana	12 770	(45 809)	13 675	–
Banc ABC Mozambique	2 017	(15 849)	8 196	(7 089)
Banc ABC Tanzania	–	(7 660)	–	(8 581)
Tanzania Development Finance	11 894	–	10 556	–
Banc ABC Zambia	39 020	(14 176)	51 409	(7 861)

Included in placements with group companies are loans provided to subsidiaries as Tier II capital. These include loans to Banc ABC Bostwana Limited of USD 12.8 million (2014: USD 13.7 million); loans to BancABC Zambia Limited USD 37.0 million (2014: USD 49.4) and Banc ABC Mozambique SA of USD 2.0 million (2014: USD 7.9 million).

Cash and other balances due from/(due to) Group companies

	2015		2014	
	Cash	**Other**	Cash	Other
Banc ABC Botswana	26 334	(352)	(65 544)	94
Banc ABC Mozambique	–	432	–	117
Banc ABC Tanzania	–	1 335	–	20 172
Banc ABC Zambia	–	2 433	–	(1 342)
Banc ABC Zimbabwe	128		140	–
ABCH Management Support Services	–	–	–	1 975

Directors' emoluments

This is disclosed under Note 4

21. EXCHANGE RATES TO

USD	Closing Dec 15	Average Dec 15	Closing Dec 14	Average Dec 14
Botswana Pula	11.22	10.13	9.51	9.00
Tanzanian Shilling	2 158.65	2 038.06	1 739.17	1 672.40
Zambian Kwacha	10.98	8.62	6.40	6.23
Mozambican Metical	47.03	39.04	33.58	31.52
South African Rand	15.54	12.77	11.56	10.87

Notes to the financial statements *continued*

22. COLLATERAL

22.1 Liabilities for which collateral is pledged

	2015	2014
Borrowed funds	22 884	26 990
	22 884	**26 990**
Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
Investment securities	5 596	
	5 012	**5 596**

ABC Holdings Limited is obliged to return equivalent securities. The Company is not permitted to sell or re-pledge collateral in the absence of default.

These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.

23. ORDINARY DIVIDENDS

	2015	2014
Dividend of 4.5 thebe (USD0.5 cents) per share paid on 2 May 2014 to shareholders on the register on 18 April 2014	–	1 321
	–	**1 321**

The Board of Directors do not propose the payment of any final dividend for the year ended 31 December 2015.

There are no tax consequences to the Group for declaring or paying out a dividend. However, for some investors resident in Botswana, a withholding tax of 7.5% applies. For investors not resident in Botswana, there are no tax consequences for any dividend paid to them.

24. CHANGE IN FUNCTIONAL CURRENCY

Following ABC Holdings becoming a wholly-owned subsidiary (subsequent to the completion of the mandatory offer to non-controlling parties) of Atlas Mara Limited during July 2015, the Directors have concluded that the most appropriate functional currency of the Company is dollars.

Cumulative currency translation differences represents the currency differences which arose as a result of translating the financial statements from the Company's previous functional currency of Botswana Pula to the reporting currency of US dollars. The impact of the change in functional currency was the reallocation at that date of the cumulative currency translation differences of USD3 million to issued capital.

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