ABC Holdings Limited

Group consolidated financial statements

for the year ended 31 December

2016

Reshaping African Banking.

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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 prior year, Atlas Mara Limited converted USD50 million 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 passu with all other issued ordinary shares. No changes in share capital took place in the current year.

SHAREHOLDING

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

GROUP RESULTS

SUMMARY

The Group posted a loss of USD1.37 million for the year ended 31 December 2016, down from a profit of USD0.54 million in 2015.

BALANCE SHEET

Despite the tough operating environment in our markets of operation, the balance sheet grew by 13.0% to USD2 billion (2015: USD1.8 billion). This was mainly on the back of a 33.0% increase in cash and short term funds to USD355.8 million in 2016, up from USD268.0 million in December 2015. Loans and advances declined by 4% to USD1.1 billion (2015: USD1.18 billion) as the Group remained cautious to grow the loan book during these challenging macroeconomic times, with an increased focus on quality clients. Deposits grew 13.0% to USD1.57 billion (2015: USD1.39 billion), mainly driven by an increase in corporate deposits.

NET INTEREST INCOME

Net interest income of USD104.1 million increased from USD95.8 million in 2015. Efforts made to reprice expensive deposits in driving down the cost of funding had a positive impact on interest and similar charges which decreased by 14.0% year-on-year. Interest and similar income, however, decreased due to the marginal decline in the loan book as well as currency depreciation.

NON-INTEREST INCOME

There was a marginal increase in non-interest income to USD78.0 million from USD76.6 million in 2015. Whilst the Group experienced stronger forex trading revenues in three countries as a result of higher margins and increased volumes, fee and commission income was 26.0% lower than prior year due to lower lending related fees and transactional income in most of the markets.

LOAN IMPAIRMENT CHARGE AND ASSET QUALITY

Loan impairment charges increased from USD11.4 million in 2015 to USD12.6 million in 2016, mainly due to comparatively lower recoveries in 2016 than 2015 as actual impairment charges before recoveries decreased by 45% from USD27.3 million in 2015 to USD15.0 million in 2016. This demonstrates an improvement in the quality of the loan portfolio.

Asset quality remains a key focus area for the Group. The provision for specific impairments also reduced by 6.0% from USD73.4 million in 2015 to USD68.9 million, depicting the directional improvement of the asset book. The adequacy of provisioning for all risks within the loan book is considered sufficient.

OPERATING EXPENSES

The group remains focused on a cost conscious mind-set whilst investing for the future growth of the businesses, specifically in the IT platform and expanding our digital product capability. Another reason for the apparent increase in expenses year-on-year from USD151.3 million to USD170.3 million is due to one off M&A transaction expenditure of USD6.4 million, relating to the acquisition of FBZ in Zambia, amongst others, and associated one off restructuring and integration costs of USD2.7 million.

CAPITALISATION

As at December 2016, all individual subsidiaries reported a capitalised position compliant with regulatory requirements.

OUTLOOK

With the economic and exchange rate challenges being experienced in most of our economies of operations, the reduction of operating expenses is a key focus area for 2017 and beyond. In addition, the Group will roll out key revenue generating projects, including digital, which are expected to improve customer convenience and satisfaction overall.

DIRECTORS' REPORT *continued*

BASIS OF PREPARATION

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.

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

During the year the Group acquired a bank in Zambia, namely Finance Bank Zambia. The effective date of the transaction was 30 June 2016. There were no 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

Details of the directorate are set out below:

Director	Appointment date	Resignation date
J A Claassen (Chairman)	09/09/2015	
R E Credo	15/05/2014	17/05/2016
S A Fakie	09/09/2015	
B M Gibbs	28/10/2014	
L T Gwata	09/09/2015	
D C Khama	22/09/2006	31/12/2016
B Mudavanhu	09/09/2015	23/09/2016
M M Schneiders	20/02/2014	
S R Pfende	09/09/2015	25/10/2016
J F Vitalo	28/10/2014	15/02/2017
E Odhiambo	23/02/2017	

Company secretary:
R Habana

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.

SUBSEQUENT EVENTS

On 7 March 2017 BancABC Botswana finalised a USD40 million Fintech and Financial Inclusion Debt Facility provided by the Overseas Private Investment Corporation ("OPIC"). The funding is part of the USD200 million multi-country facility that OPIC approved for Atlas Mara's banks in Botswana, Zambia, and Mozambique in August 2015. The debt facility will be used to provide access to finance for SMEs and to support the Company's efforts to accelerate its digital finance initiatives, which are key areas of the Company's strategy.

On 17 March 2017 the Board approved the sale of the non-current asset held for sale for an amount of USD1.9 million. This will result in a profit of USD0.267 million.

KEY RATIOS

	2016	2015	% change	Constant currency variance*
Statement of profit or loss (USD'000)				
(Loss)/profit after tax	(1 369)	537	<(100%)	>100%
Statement of financial position (USD'000)				
Total assets	2 040 297	1 810 189	12.87%	19.8%
Loans and advances	1 125 795	1 176 954	(4.4%)	(3.5%)
Deposits	1 567 082	1 387 624	12.9%	15.0%
Net asset value	113 350	115 748	(2.1%)	(3.7%)
Financial performance (%)				
Return on equity	(2.5%)	(0.5%)		
Return on assets	(0.1%)	0.0%		
Interest yield	11.69%	13.1%		
Cost of funds	6.2%	7.3%		
Net interest margin	6.0%	5.7%		
Operating performance (%)				
Non-interest income to total income	46.0%	44.4%		
Cost to income ratio	93.5%	87.8%		
Non-performing loans (NPL) ratio	13.7%	15.7%		
Impairment losses on average gross loans	1.04%	7.5%		
Share statistics				
Number of shares in issue (000's)	419 230	419 230		
Net asset value per share – cents	27	29		

*   *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 and the separate annual financial statements of the Company, as identified in the first paragraph, were approved by the board of directors on 22 March 2017 and signed by:

J A Claassen
Chairman

22 March 2017

E Odhiambo
Ag. Group Chief Executive Officer

22 March 2017

KPMG, Chartered Accountants
Audit
Plot 67977, Off Tlokweng Road,
Fairgrounds Office Park
PO Box 1519, Gaborone, Botswana
Telephone +267 391 2400
Fax +267 397 5281
Web http://www.kpmg.com/

Independent Auditor's Report

To the Shareholders of ABC Holdings Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of ABC Holdings Limited (the group and company) set out on pages 8 to 118, which comprise the statements of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of ABC Holdings Limited as at 31 December 2016, 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the group and the company in accordance with the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Directors' Responsibility Statement. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements. As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 group's and the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG
Certified Auditors
Practising Member: AG Devlin (19960060.23)
31 March 2017
Gaborone

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER

USD'000	Notes	2016	2015
Interest and similar income		209 643	218 513
Interest and similar expense		(105 552)	(122 700)
Net interest income	1	**104 091**	**95 813**
Provision for credit losses	2	(12 609)	(11 422)
Net interest income after provision for credit losses		**91 482**	**84 391**
Non-interest income	3	78 016	76 581
Total operating income		**169 498**	**160 972**
Operating expenses	4	(170 315)	(151 252)
Net (deficit)/income from operations		**(817)**	**9 720**
Share of (loss)/profit of associates	12	(140)	106
(Loss)/profit before tax		**(957)**	**9 826**
Income tax expense	5	(412)	(9 289)
(Loss)/profit for the year		**(1 369)**	**537**
Attributable to:			
Ordinary shareholders		(2 882)	(572)
Non-controlling interest		1 513	1 109
(Loss)/profit for the year		**(1 369)**	**537**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

USD'000	2016	2015
(Loss)/profit for the year	**(1 369)**	**537**
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:	**(13 359)**	**(38 446)**
Exchange differences on translating foreign operations	(9 953)	(35 890)
Net loss on hedge of net investment in foreign operations	–	(3 496)
Share of reserves in associate companies	–	459
Movement in available-for-sale reserves	(3 406)	481
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:	**2 959**	**3 397**
Revaluation of property	2 959	3 397
Other comprehensive income net of tax	**(10 400)**	**(35 049)**
Total comprehensive loss for the year	**(11 769)**	**(34 512)**
Total comprehensive income attributable to:		
Ordinary shareholders	(13 727)	(34 679)
Non-controlling interest	1 958	167
	(11 769)	**(34 512)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

USD'000	Notes	2016	2015
Assets			
Cash and short-term funds	6	355 775	267 963
Financial assets held for trading	7	101 727	190 231
Financial assets designated at fair value	8	21 725	20 600
Derivative financial assets	20	6 323	1 893
Loans and advances	9	1 125 795	1 176 954
Investment securities	10	210 574	5 814
Prepayments and other receivables	11	48 578	38 395
Current tax assets		4 546	4 615
Investment in associates	12	2 627	2 475
Property and equipment	13	70 356	62 142
Investment property	14	17 318	11 979
Intangible assets	15	52 424	12 983
Deferred tax assets	16	20 896	14 145
Non-current assets held for sale	28	1 633	–
Total assets		**2 040 297**	**1 810 189**
Equities and liabilities			
Liabilities			
Deposits	17	1 567 082	1 387 624
Derivative financial liabilities	20	5 770	5 191
Creditors and accruals	18	67 479	52 791
Current tax liabilities		1 500	319
Deferred tax liabilities	16	7 658	2 865
Borrowed funds	19	277 458	245 651
Total liabilities		**1 926 947**	**1 694 441**
Equity			
Stated capital	21	129 118	129 118
Foreign currency translation reserve		(60 530)	(50 577)
Non-distributable reserves		70 039	49 314
Distributable reserves		(22 551)	(7 423)
Equity attributable to ordinary shareholders		**116 076**	**120 432**
Non-controlling interest		(2 726)	(4 684)
Total equity		**113 350**	**115 748**
Total equity and liabilities		**2 040 297**	**1 810 189**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the parent			
USD'000	Stated capital	Foreign currency translation reserve	Capital reserve	Available-for-sale reserve
Balance as at 31 December 2015	**129 118**	**(50 577)**	**48 989**	**325**
Profit/(loss) for the year	**–**	**–**	**–**	**–**
Profit/(loss) for the year	–	–	–	–
Other comprehensive income:	**–**	**(9 953)**	**2 839**	**(1 069)**
Exchange differences on translating foreign operations	–	(9 953)	–	–
Net loss on hedge of net investment in foreign operations	–	–	–	–
Revaluation of property net of deferred tax	–	–	2 959	–
Share of reserves in associate companies	–	–	–	–
Movement in available-for-sale reserves:	–	–	(120)	(1 069)
– Arising in current year	–	–	(120)	(1 069)
– Realised through profit and loss	–	–	–	–
– Revaluation	–	–	–	–
Total comprehensive income	**–**	**(9 953)**	**2 839**	**(1 069)**
Transfers within equity				
Movement in general credit risk reserve	–	–	–	–
Movement in statutory reserves	–	–	6 823	–
Total transfers within equity	–	**–**	**6 823**	**–**
Transactions with owners				
Other[1]	–	–	12 132	–
Net proceeds from shares issued	–	–	–	–
Total transactions with owners	**–**	**–**	**12 132**	**–**
Balance as at 31 December 2016	**129 118**	**(60 530)**	**70 783**	**(744)**

1 *Included in other is an equity reserve of $12.1 million associated with purchase consideration paid in respect of the acquisition of FBZ.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016 *continued*

	Attributable to owners of the parent			
USD'000	Distributable reserves	Total equity	Non-controlling interest	Total equity
Balance as at 31 December 2015	**(7 423)**	**120 432**	**(4 684)**	**115 748**
Profit/(loss) for the year	**(2 882)**	**(2 882)**	**1 513**	**(1 369)**
Profit/(loss) for the year	(2 882)	(2 882)	1 513	(1 369)
Other comprehensive income:	**(2 662)**	**(10 845)**	**445**	**(10 400)**
Exchange differences on translating foreign operations	–	**(9 953)**	–	**(9 953)**
Net loss on hedge of net investment in foreign operations	–	**–**	–	**–**
Revaluation of property net of deferred tax	–	**2 959**	–	**2 959**
Share of reserves in associate companies	–	**–**	–	**–**
Movement in available-for-sale reserves:	(2 662)	**(3 851)**	445	**(3 406)**
– Arising in current year	–	**(1 189)**	445	**(744)**
– Realised through profit and loss	(2 683)	**(2 683)**	–	**(2 683)**
– Revaluation	21	**21**	–	**21**
Total comprehensive income	**(5 544)**	**(13 727)**	**1 958**	**(11 769)**
Transfers within equity				
Movement in general credit risk reserve	–	**–**	–	**–**
Movement in statutory reserves	(6 823)	**–**	–	**–**
Total transfers within equity	**(6 823)**	**–**	**–**	**–**
Transactions with owners				
Other[1]	(2 761)	**9 371**	–	**9 371**
Net proceeds from shares issued	–	**–**	–	**–**
Total transactions with owners	**(2 761)**	**9 371**	**–**	**9 371**
Balance as at 31 December 2016	**(22 551)**	**116 076**	**(2 726)**	**113 350**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to owners of the parent			
USD'000	Stated capital	Foreign currency translation reserve	Capital reserve	Available-for-sale reserve
Balance as at 31 December 2014	**82 164**	**(15 326)**	**30 560**	**13**
Profit/(loss) for the year	**–**	**–**	**–**	**–**
Profit/(loss) for the year	–	–	–	–
Other comprehensive income:	**(3 046)**	**(35 251)**	**3 418**	**312**
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	–	–	–	312
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**	**312**
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**	**325**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015 *continued*

USD'000	Attributable to owners of the parent: Distributable reserves	Attributable to owners of the parent: Total equity	Non-controlling interest	Total equity
Balance as at 31 December 2014	**7 700**	**105 111**	**(4 851)**	**100 260**
Profit/(loss) for the year	**(572)**	**(572)**	**1 109**	**537**
Profit/(loss) for the year	(572)	(572)	1 109	537
Other comprehensive income:	**460**	**(34 107)**	**(942)**	**(35 049)**
Exchange differences on translating foreign operations	–	**(34 801)**	(1 089)	**(35 890)**
Net loss on hedge of net investment in foreign operations	–	**(3 496)**	–	**(3 496)**
Revaluation of property net of deferred tax	–	**3 397**	–	**3 397**
Share of reserves in associate companies	–	**312**	147	**459**
Movement in available-for-sale reserves:	460	**481**	–	**481**
– Arising in current year	–	**21**	–	**21**
– Realised through profit and loss	460	**460**	–	**460**
Total comprehensive income	**(112)**	**(34 679)**	**167**	**(34 512)**
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**	–	**50 000**
Total transactions with owners	**–**	**50 000**	**–**	**50 000**
Balance as at 31 December 2015	**(7 423)**	**120 432**	**(4 684)**	**115 748**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

USD'000	Notes	2016	2015
Cash flows from operating activities		**118 845**	**(67 851)**
Cash generated from operating activities		19 706	30 693
(Loss)/profit before tax		(957)	9 826
Adjusted for:			
Provision for credit losses		12 609	11 422
Depreciation and amortisation		11 761	11 358
Dividends received		(35)	–
Net unrealised losses/(gains) on derivative financial instruments		667	(51)
Re-measurement of investment property		(306)	(3 036)
Net gains on financial instruments at FV through profit or loss		(4 159)	(447)
Loss from associates		140	–
Loss on held-to-maturity instruments		–	1 621
Profit on disposal of property and equipment		(14)	–
Tax paid		(7 810)	(6 667)
Net cash inflow from operating activities before changes in operating funds		**11 896**	**24 026**
Net increase/(decrease) in operating funds		**106 949**	**(91 877)**
Decrease/(increase) in operating assets		178 860	(279 734)
(Decrease)/increase in operating liabilities		(71 911)	187 857
Cash flows from investing activities		**(1 115)**	**(10 922)**
Purchase of property and equipment		(3 703)	(6 271)
Purchase of intangible assets		(12 585)	(6 548)
Dividends received		35	53
Net cash inflow/(outflow) resulting from acquisition of subsidiaries		15 124	–
Proceeds on disposal of property and equipment		14	1 844
Cash flows from financing activities		**26 162**	**83 971**
Increase in borrowed funds		26 162	83 971
Dividend paid		–	–
Increase/(decrease) in cash and cash equivalents		**143 892**	**5 198**
		267 963	340 415
Cash and cash equivalents at the beginning of the year			
Exchange adjustment on opening balance		(56 080)	(77 650)
Cash and cash equivalents at the end of the year	6	**355 775**	**267 963**
Cash and cash equivalents		246 386	192 732
Statutory reserves		109 389	75 231
Cash and short-term funds		**355 775**	**267 963**

SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

ABC Holdings Limited (the "Company") is domiciled in Botswana. The consolidated financial statements of the Group for the year ended 31 December 2016 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 2016 that are relevant to the Group:

- **Disclosure Initiative (Amendments to IAS 7)**
  The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities.

  The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

- **Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)**
  The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

  The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

  Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

  Guidance provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

  The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

Standards not yet effective or early adopted:

- **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.

  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 ended 31 December 2017 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.

SIGNIFICANT ACCOUNTING POLICIES *continued*

STATEMENT OF COMPLIANCE *continued*

- **Clarifying share-based payment accounting (Amendments to IFRS 2)**
  Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payment.

  The amendments cover three accounting areas:

  a. Measurement of cash-settled share-based payments: The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.
  b. Classification of share-based payments settled net of tax withholdings: The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met.
  c. Accounting for a modification of a share-based payment from cash-settled to equity-settled: The amendments clarify the approach that companies are to apply.

  The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are effective for annual periods commencing on or after 1 January 2018.

- **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 and Company have begun assessing the potential impact on the financial statements resulting from the application of IFRS 16. No significant impact is expected for the Group and Company's finance leases.

  The above standards are expected to have an impact on the Group results. The full impact is being assessed.

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 statement of profit or loss and statement of comprehensive income shown as two statements, the statement of financial position, the statement of changes in equity, the statement of cash flows 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 statement of financial position 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 statement of profit or loss, 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.

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 on page 19.

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 concluded that the most appropriate functional currency of the Company is US dollars. The previous functional currency of the Company was the Botswana Pula. The impact of the change has been included in 2015.

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 statement of profit or loss items were translated into dollars at the exchange rate on that date.

SIGNIFICANT ACCOUNTING POLICIES *continued*

FUNCTIONAL AND PRESENTATION CURRENCY *continued*

CHANGE IN FUNCTIONAL CURRENCY *continued*

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.

PRESENTATION CURRENCY

The Company and Group's presentation and functional currency for the year ended 31 December 2016 was US dollars.

Assets and liabilities were translated from the functional currency into dollars using the closing rate at the 2016 statement of financial position 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 statement of financial position date.

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

BASIS OF CONSOLIDATION

SUBSIDIARIES

Subsidiaries are those entities 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 are 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.

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, as per IFRS 10 Consolidated Financial Statements, 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.

SIGNIFICANT ACCOUNTING POLICIES *continued*

BASIS OF CONSOLIDATION *continued*

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 OF EQUITY ACCOUNTED INVESTEES

After application of the equity method, including recognising the associate's profit or 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 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.

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:

a. Assets of the associate
b. Investment in the associate
c. 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 entity. 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

Accounting for business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately.

Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

There was 1 business combination that took place during 2016. Refer to note 7 for business combinations.

SIGNIFICANT ACCOUNTING POLICIES *continued*

BASIS OF CONSOLIDATION *continued*

NON-CONTROLLING INTERESTS ('NCI')

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

SUBSIDIARIES

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

BARGAIN PURCHASE

Where the Group enters into a business combination where the fair value of the net assets acquired exceeds the aggregate of the amounts specified consideration paid, resulting in a bargain purchase, this gain from bargain purchase is recognised as non-interest income in profit or loss on the acquisition date.

COMMON CONTROL TRANSACTIONS

A common control transaction is 'a business combination in which all of the combining entities/businesses are ultimately controlled by the Group both before and after the business combination, and that control is not transitory.'

The acquirer in a business combination under common control does not restate any assets and liabilities to their fair values. Instead, the acquirer 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 acquirer's financial statements include the acquired entity's results from the date of the business combination.

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 an impairment may be necessary. 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 on internally generated goodwill and brands is recognised in profit or loss as incurred.

FOREIGN CURRENCY TRANSLATION

FUNCTIONAL AND PRESENTATION CURRENCY

The capital raised in the Initial Public Offering (IPO) was in US dollars and the intended dividends and distributions to be paid to shareholders are to be in US dollars. The Directors consider US dollars as the currency that represents the economic effects of the underlying transactions, events and conditions. The financial statements of the Company are presented in US dollars, which is also the Company's functional currency. The presentation currency of the Group is also US dollars.

TRANSACTIONS AND BALANCES

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

SIGNIFICANT ACCOUNTING POLICIES *continued*

FOREIGN CURRENCY TRANSLATION *continued*

TRANSACTIONS AND BALANCES *continued*

In the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not US dollars are translated into the Group's presentation currency at the rate of exchange at the statement of financial position date, while their results are translated into US dollars at the average rates of exchange for the reporting period.

Exchange differences arising from the retranslation of opening foreign currency net assets, and the retranslation of the results for the reporting period from the average rate to the exchange rate at the period end, are recognised in other comprehensive income ('OCI').

However, foreign currency differences arising from the translation of available-for-sale equity instruments are recognised in OCI.

FOREIGN OPERATIONS

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into US dollars at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into US dollars at the spot exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI, and accumulated in the foreign currency translation reserve ('FCTR'), except to the extent that the translation difference is allocated to non-controlling interest ('NCI').

PREPAYMENTS AND OTHER RECEIVABLES

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

INITIAL RECOGNITION, MEASUREMENT AND DE-RECOGNITION

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, 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.

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 liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are subsequently recognised at fair value.

Other financial liabilities

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.

SIGNIFICANT ACCOUNTING POLICIES *continued*

Financial assets and financial liabilities *continued*

INITIAL RECOGNITION, MEASUREMENT AND DE-RECOGNITION *continued*

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 advances, investment securities and loans to group companies.

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

Loans and receivables

Loans and receivables include loans and advances 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.

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 'provision for credit losses'. 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 'provision for credit losses' 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

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.

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.

SIGNIFICANT ACCOUNTING POLICIES *continued*

FINANCIAL ASSETS AND FINANCIAL LIABILITIES *continued*

INITIAL RECOGNITION, MEASUREMENT AND DE-RECOGNITION *continued*

Derivative financial instruments and hedging activities

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 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 with any changes in value reported in profit or loss.

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 statement of profit or loss, but it is deferred in the statement of financial position and released to the statement of profit or loss 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 statement of profit or loss 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.

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.

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.

SIGNIFICANT ACCOUNTING POLICIES *continued*

FINANCIAL ASSETS AND FINANCIAL LIABILITIES *continued*

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 establish 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 48.

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) Cash and short-term funds

Cash and short-term funds 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.

(iii) Held-to-maturity investments

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 statement of profit or loss, 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.

SIGNIFICANT ACCOUNTING POLICIES *continued*

FINANCIAL ASSETS AND FINANCIAL LIABILITIES *continued*

IMPAIRMENT OF FINANCIAL ASSETS *continued*

a) Assets carried at amortised cost *continued*

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.

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 statement of profit or loss – is removed from equity and recognised in the statement of profit or loss. Impairment losses recognised in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss. 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 statement of profit or loss.

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.

SIGNIFICANT ACCOUNTING POLICIES *continued*

FINANCIAL ASSETS AND FINANCIAL LIABILITIES *continued*

IMPAIRMENT OF FINANCIAL ASSETS *continued*

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.

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 statement of profit or loss 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 statement of financial position 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 statement of profit or loss 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 deposits. Securities purchased under agreements to resell (reverse repos) are recorded as loans granted under resale agreements and included under loans and advances. 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. 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 statement of profit or loss 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;
- Computer and office equipment: 3 – 5 years; and
- Furniture and fittings: 5 – 10 years.

SIGNIFICANT ACCOUNTING POLICIES *continued*

PROPERTY AND EQUIPMENT *continued*

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position 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 statement of profit or loss as incurred.

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 every three years by an independent registered valuer. Fair value is based on open market value. Fair value adjustments on investment properties are included in the statement of profit or loss as fair value gains or losses on investment property in the period in which these gains or losses arise. The gains and losses 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 INTANGIBLE 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. Intangible 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.

SIGNIFICANT ACCOUNTING POLICIES *continued*

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 statement of financial position, 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 statement of financial position 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; and
- Statutory reserve which comprises any retained earnings amounts that regulatory authorities prescribe to be held separately from distributable reserves.

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 statement of profit or loss 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. 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 statement of profit or loss when the account is no longer in arrears.

FEE AND COMMISSION INCOME AND EXPENSE

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 and 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 statement of profit or loss on the date that the dividend is declared.

RENTAL INCOME

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

SIGNIFICANT ACCOUNTING POLICIES *continued*

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 statement of profit or loss 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 statement of financial position. 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.

REPOSSESSED ASSETS

Repossessed assets are not brought on to the statement of financial position 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 statement of profit or loss 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).

TAXATION

Income tax on the statement of 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 statement of financial position 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 recognised 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 statement of financial position date. Deferred tax is not recognised for the following temporary differences:

SIGNIFICANT ACCOUNTING POLICIES *continued*

TAXATION *continued*

- 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 statement of profit or loss 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 to 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.

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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

CREDIT RISK MANAGEMENT *continued*

GROUP'S INTERNAL RATING SCALE

Category	Description
Performing	The credit appears satisfactory
Special mention	The credit appears satisfactory but exhibits potential for inherent weakness 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.

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 statement of financial position 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

CREDIT RISK MANAGEMENT *continued*

RISK LIMIT CONTROL AND MITIGATION POLICIES *continued*

c) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and 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 a loss in an amount equal to the total unused commitments. However, the likely amount of the 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 loans and advances and the associated impairment for each of the Group's internal rating categories.

IMPAIRMENTS CLASSIFICATION

	2016		2015	
Category	**Loans and advances (%)**	**Impairments (%)**	**Loans and advances (%)**	**Impairments (%)**
Performing	80%	15%	78%	14%
Special mention	7%	3%	6%	2%
Sub-standard	2%	5%	4%	8%
Doubtful	3%	19%	4%	18%
Loss	8%	58%	8%	58%
	100%	**100%**	**100%**	**100%**

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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

CREDIT RISK MANAGEMENT *continued*

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 collateral and credit enhancements held	
USD'000 31 December 2016	**Maximum exposure to credit risk**	**Cash**	**Letters of credit/ guarantees**
Placement with other banks	35 864	–	–
Derivative financial assets	**6 323**	**–**	**–**
– Forward foreign exchange contracts	298	–	–
– Cross-currency swap	6 025	–	–
Financial assets held for trading	**101 727**	**–**	**–**
– Government bonds	5 382	–	–
– Treasury bills and other open market instruments	96 345	–	–
Financial assets designated at fair value	**21 725**	**–**	**–**
– Listed equities	774	–	–
– Unlisted equities	13 084	–	–
– Unlisted debentures	7 857	–	–
– Property units	10	–	–
Loans and advances	**1 209 135**	**16 295**	**16 161**
– Mortgage lending	73 393	–	–
– Instalment finance	20 881	–	20
– Corporate lending	552 490	15 369	12 649
– Commercial and property finance	17 375	500	3 492
– Consumer lending	544 996	426	–
Investment securities – available-for-sale	**205 328**	**–**	**29 571**
– Government bonds	52 046	–	4 600
– Corporate bonds	9 561	–	–
– Unlisted equities	1 385	–	–
– Unlisted investment	25 095	–	24 971
– Treasury bills	117 241	–	–
Investment securities – held-to-maturity	**5 246**	**–**	**–**
– Treasury bills	–	–	–
– Corporate bonds	–	–	–
– Government bonds	5 246	–	–
	1 585 348	**16 295**	**45 732**
Off-balance sheet items			
Guarantees	12 205	1 607	14
Letters of Credit	2 767	288	–
Forward contracts and currency swaps	18 605	–	–
Other contingent liabilities	10 430	–	–
	1 629 355	**18 190**	**45 746**

* *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.*

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000 31 December 2016	Fair value of collateral and credit enhancements held Property**	Other*	Total collateral	Net exposure
Placement with other banks	–	–	–	35 864
Derivative financial assets	**–**	**–**	**–**	**6 323**
– Forward foreign exchange contracts	–	–	–	298
– Cross-currency swap	–	–	–	6 025
Financial assets held for trading	**–**	**–**	**–**	**101 727**
– Government bonds	–	–	–	5 382
– Treasury bills and other open market instruments	–	–	–	96 345
Financial assets designated at fair value	**–**	**–**	**–**	**21 725**
– Listed equities	–	–	–	774
– Unlisted equities	–	–	–	13 084
– Unlisted debentures	–	–	–	7 857
– Property units	–	–	–	10
Loans and advances	**270 306**	**91 055**	**393 817**	**815 318**
– Mortgage lending	61 407	20	61 427	11 966
– Instalment finance	2 905	2 918	5 843	15 038
– Corporate lending	190 666	82 223	300 907	251 583
– Commercial and property finance	9 918	833	14 743	2 632
– Consumer lending	5 410	5 061	10 897	534 099
Investment securities – available-for-sale	**–**	**–**	**29 571**	**175 757**
– Government bonds	–	–	4 600	47 446
– Corporate bonds	–	–	–	9 561
– Unlisted equities	–	–	–	1 385
– Unlisted investment	–	–	24 971	124
– Treasury bills	–	–	–	117 241
Investment securities – held-to-maturity	**–**	**–**	**–**	**5 246**
– Treasury bills	–	–	–	–
– Corporate bonds	–	–	–	–
– Government bonds	–	–	–	5 246
	270 306	**91 055**	**423 388**	**1 161 960**
Off-balance sheet items				
Guarantees	1 287	–	2 908	9 297
Letters of Credit	201	–	489	2 278
Forward contracts and currency swaps	–	–	–	18 605
Other contingent liabilities	–	–	–	10 430
	271 794	**91 055**	**426 785**	**1 202 570**

NOTES TO THE FINANCIAL STATEMENTS *continued*

CREDIT RISK MANAGEMENT *continued*

ANALYSIS OF MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL AND OTHER CREDIT ENHANCEMENTS *continued*

		Fair value of collateral and credit enhancements held	
USD'000 **31 December 2015**	**Maximum exposure to credit risk**	**Cash**	**Letters of credit/ guarantees**
Placement with other banks	**244 603**	**–**	**–**
Derivative 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			
– 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**
Investment securities – available-for-sale			
– Unlisted equities	802	–	–
	802	**–**	**–**
Investment securities – 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.*

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000 31 December 2015	Fair value of collateral and credit enhancements held Property**	Other*	Total collateral	Net exposure
Placement with other banks	–	–	–	**244 603**
Derivative financial assets				
– Forward foreign exchange contracts	502	–	502	1 391
	502	**–**	**502**	**1 391**
Financial assets held for trading				
– Government bonds	–	–	4 233	32 109
– Treasury bills and other open market instruments	–	–	21 714	126 268
– Bankers' acceptance and commercial paper	–	–	–	5 907
	–	**–**	**25 947**	**164 284**
Financial assets designated at fair value				
– Listed equities	–	–	–	798
– Unlisted equities and debentures	–	–	–	19 802
	–	**–**	**–**	**20 600**
Loans and advances				
– Mortgage lending	47 816	–	47 816	2 146
– Instalment finance	4 669	4 099	8 792	28 658
– Corporate lending	187 717	68 945	284 629	309 496
– Commercial and property finance	4 608	12 231	20 340	1 609
– Consumer lending	4 592	4 163	8 776	558 772
	249 402	**89 438**	**370 353**	**900 681**
Investment securities – available-for-sale				
– Unlisted equities	–	–	–	802
	–	**–**	**–**	**802**
Investment securities – held-to-maturity				
– Government bonds	–	–	–	5 012
	–	**–**	–	**5 012**
	249 904	**89 438**	**396 802**	**1 337 373**
Off-balance sheet items				
Letters of credit for customers and other commitments	450	–	3 454	47 604
Guarantees	6 250	685	14 885	37 386
	256 604	**90 123**	**415 141**	**1 422 363**

NOTES TO THE FINANCIAL STATEMENTS *continued*

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 credit quality across the majority of the Group's businesses:

Distribution of loans and advances by credit quality:

USD'000	2016	2015
Neither past due nor impaired (a)	947 492	1 000 043
Past due but not impaired	**100 821**	**72 985**
30 days	28 884	13 766
31 – 60 Days	18 315	28 566
61 – 90 Days	53 622	30 653
Individually impaired (b)	160 822	198 006
Gross loans and advances	**1 209 135**	**1 271 034**
Less: Allowance for impairment	(83 340)	(94 080)
Net loans and advances	**1 125 795**	**1 176 954**

The total impairment of loans and advances is USD83.3million (2015: USD94.1 million). Further information on the impairment allowance for loans and advances is provided in notes 2 and 9.

During the year ended 31 December 2016, the Group's total gross loans and advances decreased by 4.87% (2015: decreased by 0.6%).

(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

USD'000	2016	2015
Mortgage lending	59 756	45 301
Instalment finance	13 869	12 427
Corporate lending	373 897	404 880
Commercial and property finance	6 373	8 304
Consumer lending	493 597	529 131
	947 492	**1 000 043**

(b) Distribution of loans and advances individually impaired

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

USD'000	2016	2015
Mortgage lending	8 805	3 479
Instalment finance	5 401	21 491
Corporate lending	112 018	128 778
Commercial and property finance	11 003	13 645
Consumer lending	23 595	30 612
	160 822	**198 005**

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 2016, these comprised of:

Nature of assets:

USD'000	2016	2015
Property	15 046	8 027
Motor vehicles	249	4 527
Other assets	494	–
Carrying amount	**15 789**	**12 554**

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

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 2016. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

	2016						
USD'000	**Botswana**	**Mozambique**	**Tanzania**	**Zambia**	**Zimbabwe**	**Other**	**Total**
Placements with other banks	–	9 263	17 371	4 778	2 562	1 890	35 864
Financial assets held for trading	96 345	–	–	5 382	–	–	101 727
Financial assets designated at fair value	–	–	13 084	–	784	7 857	21 725
Derivative financial assets	20	278	–	–	–	6 025	6 323
Loans and advances (net of impairments)	532 500	79 813	87 242	193 568	232 624	48	1 125 795
Investment securities	5 246	5 975	30 759	85 016	83 424	154	210 574
	634 111	**95 329**	**148 456**	**288 744**	**319 394**	**15 974**	**1 502 008**

	2015						
USD'000	**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**

NOTES TO THE FINANCIAL STATEMENTS *continued*

CONCENTRATION RISK OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE *continued*

(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.

	2016						
USD'000	**Agri-culture**	**Business**	**Con-struction**	**Communi-cation**	**Wholesale retail and trade**	**Public sector**	**Manu-facturing**
Placements with other banks	–	–	–	–	–	–	–
Financial assets held for trading	–	–	–	–	–	–	–
Financial assets designated at fair value	9	–	58	–	1 023	–	126
Derivative financial assets	–	–	–	–	–	–	–
Loans and advances (net of impairments)	34 808	2 545	20 914	12 699	184 565	85 826	51 449
Investment securities	–	–	–	–	–	57 072	–
	34 817	**2 545**	**20 972**	**12 699**	**185 588**	**142 898**	**51 575**

	2015					
USD'000	**Agri-culture**	**Con-struction**	**Wholesale retail and trade**	**Public sector**	**Manu-facturing**	**Mining**
Placements with other banks	–	–	–	–	–	–
Financial assets held for trading	–	–	–	79 331	–	–
Financial assets designated at fair value	6	–	829	–	460	9 755
Derivative financial assets	–	–	–	–	–	–
Loans and advances (net of impairments)	34 843	21 507	152 795	44 678	105 793	52 324
Investment securities	–	–	–	–	–	–
	34 849	**21 507**	**153 624**	**124 009**	**106 253**	**62 079**

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 (ALCO).

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000	Mining and energy	Financial services	Transport	Indivi-duals	Tourism	Real estate	Other	Total
	2016							
Placements with other banks	–	35 864	–	–	–	–	–	35 864
Financial assets held for trading	–	101 727	–	–	–	–	–	101 727
Financial assets designated at fair value	10 774	9 668	–	–	–	–	67	21 725
Derivative financial assets	–	6 323	–	–	–	–	–	6 323
Loans and advances (net of impairments)	37 216	10 367	14 739	579 996	14 189	1 870	74 612	1 125 795
Investment securities	–	153 502	–	–	–	–	–	210 574
	47 990	**317 451**	**14 739**	**579 996**	**14 189**	**1 870**	**74 679**	**1 502 008**

USD'000	Financial services	Transport & energy	Individuals	Tourism	Other	Total
Placements with other banks	244 603	–	–	–	–	244 603
Financial assets held for trading	110 900	–	–	–	–	190 231
Financial assets designated at fair value	9 550	–	–	–	–	20 600
Derivative financial assets	1 893	–	–	–	–	1 893
Loans and advances (net of impairments)	58 575	24 346	555 251	6 875	119 967	1 176 954
Investment securities	5 814	–	–	–	–	5 814
	431 335	**24 346**	**555 251**	**6 875**	**119 967**	**1 640 095**

NOTES TO THE FINANCIAL STATEMENTS *continued*

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 2016. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorised by currency.

CONCENTRATION OF CURRENCY RISK

USD'000 **At 31 December 2016**	**EUR**	**USD**	**BWP**	**ZAR**	**TZS**
Cash and short-term funds	37 972	102 747	44 738	8 628	15 201
Financial assets held for trading	–	–	96 345	–	–
Financial assets designated at fair value	–	19 111	–	–	2 614
Derivative financial asset	52	226	6 045	–	–
Loans and advances (net of impairments)	2 018	298 160	530 481	16	61 097
Investment securities	153	83 424	5 246	–	30 759
	40 195	**503 668**	**682 855**	**8 644**	**109 671**
Equity	–	59 660	34 928	982	2 632
Deposits	25 301	504 213	569 624	7 250	88 363
Derivative financial liabilities	–	–	5 770	–	–
Borrowed funds	–	230 111	33 641	–	658
	25 301	**793 984**	**643 963**	**8 232**	**91 653**

USD'000 **At 31 December 2015**	**EUR**	**USD**	**BWP**	**ZAR**	**TZS**
Cash and short-term funds	14 260	139 925	57 466	8 857	17 529
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
Investment securities	179	–	5 012	–	463
	17 312	**666 189**	**603 921**	**8 951**	**104 115**
Equity	–	(29 740)	58 749	(526)	14 604
Deposits	20 890	491 095	526 297	5 088	80 032
Derivative financial liabilities	39	7 463	(3)	–	–
Borrowed funds	–	201 381	31 043	–	665
	20 929	**670 199**	**616 086**	**4 562**	**95 301**

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000 At 31 December 2016	ZMK	MZN	JPY	Other	Total
Cash and short-term funds	128 140	15 336	1	3 012	355 775
Financial assets held for trading	5 382	–	–	–	101 727
Financial assets designated at fair value	–	–	–	–	21 725
Derivative financial asset	–	–	–	–	6 323
Loans and advances (net of impairments)	162 638	71 385	–	–	1 125 795
Investment securities	85 016	5 976	–	–	210 574
	381 176	**92 697**	**1**	**3 012**	**1 821 919**
Equity	7 649	7 499	–	–	113 350
Deposits	294 470	64 967	23	12 871	1 567 082
Derivative financial liabilities	–	–	–	–	5 770
Borrowed funds	1 880	6 150	–	5 018	277 458
	303 999	**78 616**	**23**	**17 889**	**1 963 660**

USD'000 At 31 December 2015	ZMW	MZN	JPY	Other	Total
Cash and short-term funds	815	26 575	1 921	615	267 963
Financial assets held for trading	–	25 308	–	–	190 231
Financial assets designated at fair value	–	–	–	–	20 600
Derivative financial asset	–	–	–	–	1 893
Loans and advances (net of impairments)	84 654	122 919	–	–	1 176 954
Investment securities	–	160	–	–	5 814
	85 469	**174 962**	**1 921**	**615**	**1 663 455**
Equity	38 253	34 410	–	(2)	115 748
Deposits	107 998	151 801	1 347	3 076	1 387 624
Derivative financial liabilities	–	–	(2 310)	2	5 191
Borrowed funds	–	10 252	2 310	–	245 651
	146 251	**196 463**	**1 347**	**3 076**	**1 754 214**

NOTES TO THE FINANCIAL STATEMENTS *continued*

FOREIGN EXCHANGE RISK *continued*

CONCENTRATION OF CURRENCY RISK *continued*

A reasonably possible strengthening (or 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 2016 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.

USD'000	31 December 2016		31 December 2015	
	Profit or Loss		Profit or Loss	
Currency	Strengthening	Weakening	Strengthening	Weakening
EUR (3% movement)	461	(434)	(110)	110
BWP (10% movement)	8 202	(6 711)	(1 782)	1 782
ZAR (10% movement)	155	(127)	321	(321)
TZS (5% movement)	1 087	(983)	330	(330)
ZMW (10% movement)	9 425	(7 711)	(6 520)	6 520
MZN (5% movement)	1 136	(1 028)	(1 155)	1 155
JPY (3% movement)	(1)	1	17	(17)

INTEREST RATE RISK

Interest rate risk is the risk that the future cash flows 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

INTEREST RATE RISK *continued*

The table below summarises the Group's total exposure to interest rate risks on 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.

USD'000 As at 31 December 2016	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total interest sensitive	Non-interest bearing	Total
Cash and short-term funds	197 284	18 003	21 047	–	236 334	119 441	355 775
Financial assets held for trading	96 345	–	–	5 382	101 727	–	101 727
Financial assets designated at fair value	–	–	–	–	–	21 725	21 725
Derivative financial assets	37	195	46	6 045	6 323	–	6 323
Loans and advances (net of impairments)	708 926	51 496	89 031	276 342	1 125 795	–	1 125 795
Investment securities	1 979	60 349	67 862	78 876	209 066	1 508	210 574
Assets	**1 004 571**	**130 043**	**177 986**	**366 645**	**1 679 245**	**142 674**	**1 821 919**
Equity	**–**	**–**	**–**	**–**	**–**	**113 350**	**113 350**
Deposits	891 002	367 880	293 549	14 651	1 567 082	–	1 567 082
Derivative financial liabilities	–	–	–	5 770	5 770	–	5 770
Borrowed funds	60 472	1 174	10 474	205 338	277 458	–	277 458
Liabilities	**951 474**	**369 054**	**304 023**	**225 759**	**1 850 310**	**113 350**	**1 963 660**

USD'000 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
Borrowed funds	1 455	1 231	105 848	137 117	245 651	–	245 651
Liabilities	**845 368**	**241 152**	**408 371**	**138 446**	**1 633 337**	**5 129**	**1 638 466**

NOTES TO THE FINANCIAL STATEMENTS *continued*

INTEREST RATE SENSITIVITY ANALYSIS

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

	2016		2015	
	Pre-tax	Post-tax	Pre-tax	Post-tax
BancABC Botswana				
BancABC Botswana constituted 38% (2015: 33%) of the Group's total assets				
Change in net interest income (+50 basis points)	(725.94)	(566.24)	(600)	(468)
As a percentage of total Shareholders' equity	(0.69%)	(0.54%)	(0.89%)	(0.69%)
Change in net interest income (-50 basis points)	725.94	566.24	600	468
As a percentage of total Shareholders' equity	0.69%	0.54%	0.89%	0.69%
BancABC Zambia				
BancABC Zambia constituted 17% (2015: 11%) of the Group's total assets				
Change in net interest income (+50 basis points)	(20.38)	(13.25)	241	157
As a percentage of total Shareholders' equity	(0.03%)	(0.02%)	0.63%	0.41%
Change in net interest income (-50 basis points)	20.38	13.25	(241)	(157)
As a percentage of total Shareholders' equity	0.03%	0.02%	(0.63%)	(0.41%)
BancABC Mozambique				
BancABC Mozambique constituted 8% (2015: 12%) of the Group's total assets				
Change in net interest income (+50 basis points)	186.11	126.55	293	199
As a percentage of total Shareholders' equity	0.51%	0.34%	0.85%	0.58%
Change in net interest income (-50 basis points)	(186.11)	(126.55)	(293)	(199)
As a percentage of total Shareholders' equity	(0.51%)	(0.34%)	(0.85%)	(0.58%)
BancABC Tanzania				
BancABC Tanzania constituted 8% (2015: 7%) of the Group's total assets				
Change in net interest income (+50 basis points)	199.38	139.57	239	167
As a percentage of total Shareholders' equity	0.72%	0.51%	0.83%	0.58%
Change in net interest income (-50 basis points)	(199.38)	(139.57)	(239)	(167)
As a percentage of total Shareholders' equity	(0.72%)	(0.51%)	(0.83%)	(0.58%)
BancABC Zimbabwe				
BancABC Zimbabwe constituted 21% (2015: 23%) of the Group's total assets				
Change in net interest income (+50 basis points)	607.44	451.02	570	423
As a percentage of total Shareholders' equity	0.70%	0.52%	0.67%	0.50%
Change in net interest income (-50 basis points)	(607.44)	(451.02)	(570)	(423)
As a percentage of total Shareholders' equity	(0.70%)	(0.52%)	(0.67%)	(0.50%)
Finance Bank Zambia				
Finance Bank Zambia constituted 18% (2015: 11%) of the Group's total assets				
Change in net interest income (+50 basis points)	201.71	131.11	–	–
As a percentage of total Shareholders' equity	0.27%	0.17%	–	–
Change in net interest income (-50 basis points)	(201.71)	(131.11)	–	–
As a percentage of total Shareholders' equity	(0.27%)	(0.17%)	–	–

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 unforeseen interruption to cash flow;
- Monitoring statement of financial position 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 letters of credit and guarantees. The company's maturity analysis (on a discounted cash flow basis) of all financial liabilities as at 31 December 2016 was as follows:

USD'000 Non-derivative cash flow	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 December 2016
2016							
Deposits	884 655	372 103	287 313	26 433	1 570 504	(3 422)	1 567 082
Borrowed funds	63 451	6 235	27 443	185 691	282 820	(5 362)	277 458
Total liabilities	**948 106**	**378 338**	**314 756**	**212 124**	**1 853 324**	**(8 784)**	**1 844 540**

USD'000 Non-derivative cash flow	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 December 2015
2015							
Deposits	825 724	250 250	309 397	5 874	1 391 245	(3 621)	1 387 624
Borrowed funds	143	5 152	108 917	137 392	251 604	(5 953)	245 651
Total liabilities	**825 867**	**255 402**	**418 314**	**143 266**	**1 642 849**	**(7 574)**	**1 635 275**

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'000	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total
As at 31 December 2016					
Value on initial recognition					
Derivative financial liabilities	546	7 819	3 085	5 733	17 183
Equity derivative					
Derivative financial liabilities	–	–	–	–	–

USD'000	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

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).

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *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.

	Carrying amount					
USD'000 31 December 2016	**Held for trading**	**Designated at fair value**	**Derivative financial instruments**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**
Financial assets measured at fair value						
Government bonds	5 382	–	–	–	–	52 046
Corporate bonds	–	–	–	–	–	9 561
Treasury bills	96 345	–	–	–	–	117 241
Listed equities	–	774	–	–	–	–
Property units	–	10	–	–	–	–
Unlisted equities and debentures	–	20 941	–	–	–	1 385
Unlisted investment	–	–	–	–	–	25 095
Cross-currency interest rate swaps	–	–	6 025	–	–	–
Forward foreign exchange contracts – held for trading	–	–	298	–	–	–
	101 727	**21 725**	**6 323**	**–**	**–**	**205 328**
Financial assets not measured at fair value						
Cash and short-term funds	–	–	–	–	–	–
Loans and advances	–	–	–	–	–	–
Treasury bills	–	–	–	–	–	–
Corporate bonds	–	–	–	–	–	–
Government bonds	–	–	–	5 246	–	–
				5 246		
Financial liabilities measured at fair value						
Cross-currency interest rate swaps	–	–	(5 733)	–	–	–
Forward foreign exchange contracts – held for trading	–	–	(37)	–	–	–
	–	–	**(5 770)**	–	–	–
Financial liabilities not measured at fair value						
Deposits	–	–	–	–	–	–
Borrowed funds	–	–	–	–	–	–
Creditors and accruals	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *continued*

(a) Accounting classifications and fair values *continued*

	Carrying amount		Fair value			
USD'000 31 December 2016	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value						
Government bonds	–	57 428	–	57 428	–	57 428
Corporate bonds	–	9 561	–	9 561	–	9 561
Treasury bills	–	213 586	–	213 586	–	213 586
Listed equities	–	774	774	–	–	774
Property units	–	10	–	–	10	10
Unlisted equities and debentures	–	22 326	–	8 316	14 010	22 326
Unlisted investment	–	25 095	–	25 095	–	25 095
Cross-currency interest rate swaps	–	6 025	–	–	6 025	6 025
Forward foreign exchange contracts – held for trading	–	298	–	298	–	298
	–	**335 103**	**774**	**314 284**	**20 045**	**335 103**
Financial assets not measured at fair value						
Cash and short-term funds	355 775	355 775				
Loans and advances	1 125 795	1 125 795				
Treasury bills	–	–				
Corporate bonds	–	–				
Government bonds	–	5 246				
	1 481 570	**1 486 816**				
Financial liabilities measured at fair value						
Cross-currency interest rate swaps	–	(5 733)	–	–	(5 733)	(5 733)
Forward foreign exchange contracts – held for trading	–	(37)	–	(37)	–	37)
	–	**(5 770)**	–	**(37)**	**(5 733)**	**(5 770)**
Financial liabilities not measured at fair value						
Deposits	(1 567 082)	(1 567 082)				
Borrowed funds	(284 724)	(284 724)				
Creditors and accruals	(67 479)	(67 479)				
	(1 912 285)	**(1 912 285)**				

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *continued*

(a) Accounting classifications and fair values *continued*

	Carrying amount					
USD'000 31 December 2015	**Held for trading**	**Designated at fair value**	**Derivative financial instruments**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**
Financial assets measured at fair value						
Government bonds	36 342	–	–	–	–	–
Corporate bonds	5 907	–	–	–	–	–
Treasury bills and other open market instruments	147 982	–	–	–	–	–
Listed equities	–	798	–	–	–	–
Unlisted equities and debentures	–	19 802	–	–	–	802
Cross-currency interest rate swaps	–	–	502	–	–	–
Forward foreign exchange contracts – held for trading	–	–	1 391	–	–	–
	190 231	**20 600**	**1 893**	**–**	**–**	**802**
Financial assets not measured at fair value						
Cash and short-term funds	–	–	–	–	267 963	–
Loans and advances	–	–	–	–	1 176 954	–
Prepayments and other receivables	–	–	–	–	38 395	–
Government bonds – held-to-maturity	**–**	**–**	**–**	5 012	–	–
	–	**–**	**–**	**5 012**	**1 483 312**	**–**
Financial liabilities measured at fair value						
Cross-currency interest rate swaps	–	–	(674)	–	–	–
Forward foreign exchange contracts – held for trading	–	–	(62)	–	–	–
Equity derivative	–	–	(4 455)	–	–	–
	–	**–**	**(5 191)**	**–**	**–**	**–**
Financial liabilities not measured at fair value						
Deposits	–	–	–	–	–	–
Borrowed funds	–	–	–	–	–	–
Creditors and accruals	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *continued*

(a) Accounting classifications and fair values *continued*

	Carrying amount		Fair value			
USD'000 31 December 2015	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value						
Government bonds	–	**36 342**	–	36 461	–	**36 461**
Corporate bonds	–	**5 907**	–	5 907	–	**5 907**
Treasury bills and other open market instruments	–	**147 982**	–	147 982	–	**147 982**
Listed equities	–	**798**	798	–	–	**798**
Unlisted equities and debentures	–	**20 604**	–	8 059	12 545	**20 604**
Cross-currency interest rate swaps	–	**502**	–	502		**502**
Forward foreign exchange contracts – held for trading	–	**1 391**	–	1 137	–	**1 137**
	–	**213 526**	**798**	**200 048**	**12 545**	**213 391**
Financial assets not measured at fair value						
Cash and short-term funds	–	**267 963**				
Loans and advances	–	**1 176 954**				
Prepayments and other receivables	–	**38 395**				
Government bonds – held-to-maturity	–	**5 012**				
	–	**1 488 324**				
Financial liabilities measured at fair value						
Cross-currency interest rate swaps	–	**(674)**	–	(674)	–	**(674)**
Forward foreign exchange contracts – held for trading	–	**(62)**	–	(62)	–	**(62)**
Equity derivative	–	**(4 455)**	–	(4 455)	–	**(4 455)**
	–	**(5 191)**	**–**	**(5 191)**	**–**	**(5 191)**
Financial liabilities not measured at fair value						
Deposits	(1 387 624)	**(1 387 624)**	–	–	–	–
Borrowed funds	(245 651)	**(245 651)**	–	–	(252 214)	**(252 214)**
Creditors and accruals	(52 791)	**(52 791)**	–	–	–	–
	(1 686 066)	**(1 686 066)**	**–**	**–**	**(252 214)**	**(252 214)**

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *continued*

(b) Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

The following table shows 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 2016. 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 *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *continued*

(b) Measurement of fair values *continued*

(ii) Level 3 fair values

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

USD'000 2016	Trading securities	Trading derivatives	Debt or equity investments	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
Opening balance	–	–	12 535	12 535	–	–
Total gains or losses in profit or loss*	–	567	582	1 149	331	331
Total gains or losses in OCI	–	–	(10)	(10)	–	–
Purchases	–	–	–	–	–	–
Issues	–	5 355	738	6 093	5 304	5 304
Settlements	–	–	–	–	–	–
Exchange rate adjustment	–	103	(32)	71	98	98
Transfer into level 3	207	–	–	207	–	–
Closing balance	**207**	**6 025**	**13 813**	**20 045**	**5 733**	**5 733**

USD'000 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**	**–**	**–**

* *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".*

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *continued*

(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 2016				
Average price to book ratio (5% movement)	(120)	120	10	(10)
Book value (2% movement)	4	(4)	18	(18)
Adjusted EV/EBITDA (5% movement)	10	(10)	10	(10)
EBITDA (2% movement)	(278)	278	4	(4)
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)

TRANSFERS BETWEEN LEVELS IN THE HIERARCHY

There was a transfer from level 2 to level 3 of unlisted equities of USD197 thousand in the current year.

OFF-BALANCE SHEET ITEMS

(a) Contingent liabilities

USD'000	2016	2015
Guarantees	12 205	52 271
Letters of credit, loan commitments and other contingent liabilities	31 802	51 058
	44 007	**103 329**

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 2016, are summarised below:

	2016	2015
Less than one year	33 814	88 681
Between one and five years	10 193	14 648
	44 007	**103 329**
(b) Capital commitments		
Approved and contracted for	8 444	16 048
Approved but not contracted for	2 781	6 918
	11 225	**22 966**

NOTES TO THE FINANCIAL STATEMENTS *continued*

CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued share capital, convertible preference shares, share premium and all other equity reserves attributable to the equity holders of the Company.

The Group's principal objectives when managing capital are:

- To optimise business activities and ensure return on capital targets are achieved through efficient capital management and allocation;
- To ensure the Group and operating banks hold sufficient risk capital in compliance with regulatory requirements in relevant jurisdictions;
- To ensure that the Group's ability to operate as a going concern and to provide returns to shareholders is safeguarded; and
- To support the development of the Group's business by maintaining a strong and sustainable capital base.

These objectives are delivered through regular reviews of the capital position of operating banks both in-country and at Group. Group management closely monitors capital adequacy and the use of regulatory capital and is actively involved in country level discussions to ensure compliance with local supervisory requirements. An annual capital plan is prepared by each operating entity and submitted to Group for review and approval as part of the annual budget process.

A buffer of 2% above regulatory minimum capital limit is generally set and monitored by country management and Group as part of the Asset and Liability Management Committee ('ALCO'). In addition operating entities carry out stress testing of capital position as part of the Internal Capital Adequacy Assessment Process ('ICAAP').

NOTES TO THE FINANCIAL STATEMENTS *continued*

CAPITAL MANAGEMENT *continued*

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

USD'000 31 December 2016	**BancABC Botswana**	**BancABC Zimbabwe**	**BancABC Zambia**	**Finance Bank Zambia**	**BancABC Tanzania**	**BancABC Mozambique**
Tier I capital						
Share capital and premium	20 869	49 989	70 307	31 234	45 034	27 850
Capital reserves and retained earnings	65 536	24 134	(20 851)	38 903	(23 232)	(2 528)
Intangible assets software	–	–	(2 632)	–	(2 031)	(2 335)
Investments in unconsolidated subsidiaries and associates	–	–	(519)	–	–	–
Deferred tax assets	–	–	–	–	(3 830)	–
Prepayments	–	–	–	(27 716)	(660)	–
Exposures to insiders	–	(2 507)	–	–	–	–
Less Tier III capital	–	(8 402)	–	–	–	–
Total qualifying for Tier I capital	**86 405**	**63 214**	**46 305**	**42 421**	**15 281**	**22 987**
Tier II capital						
Shareholder's loan	18 067	–	16 292	–	–	4 014
General debt provision	2 416	3 360	–	–	580	14
Fair value revaluation/available-for-sale reserve	–	–	–	–	–	–
Revaluation reserves (limited to Tier I capital)	289	4 063	–	1 350	–	–
Profit for the year	–	–	–	–	–	–
Total qualifying for Tier II capital	**20 772**	**7 423**	**16 292**	**1 350**	**580**	**4 028**
Total qualifying for Tier III capital	**–**	**8 402**	**–**	**–**	**–**	**–**
Total capital	**107 177**	**79 039**	**62 597**	**43 771**	**15 861**	**27 015**
Risk weighted assets*						
Market risk	748	1 742	–	–	1 746	2 392
Operational risk	51 818	103 277	–	–	–	1 955
On-balance sheet assets	465 049	265 331	199 775	139 718	100 851	106 090
Off-balance sheet assets	12 252	8 344	5 098	1 161	8 798	2 118
Total risk weighted assets	**529 867**	**378 694**	**204 873**	**140 879**	**111 395**	**112 555**
Capital adequacy ratio	20.2%	20.9%	30.6%	31.1%	14.2%	24.0%
Minimum regulatory capital adequacy ratio	15%	12%	10%	10%	12%	8%

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

CAPITAL MANAGEMENT *continued*

USD'000 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	15.0%	12.0%	10.0%	12.0%	8.0%

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

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'000	2016	2015
1.	**NET INTEREST INCOME**		
	Interest and similar income		
	Cash and short-term funds	5 809	5 148
	Investment securities and dated financial instruments	20 463	13 199
	Loans and advances at amortised cost	183 371	198 566
	Other interest income	–	1 600
		209 643	**218 513**
	Interest and similar expense		
	Deposits	72 764	101 720
	Borrowed funds	32 631	20 980
	Other interest expense	157	–
		105 552	**122 700**
	Net interest income	**104 091**	**95 813**
2.	**PROVISION FOR CREDIT LOSSES**		
	Specific impairments	13 288	25 568
	Portfolio impairments	1 729	1 781
	Impairments prior to recoveries	15 017	27 349
	Recoveries for the period	(2 408)	(15 927)
		12 609	**11 422**
3.	**NON-INTEREST INCOME**		
	Net gains/(losses) from trading activities:	**3 492**	**498**
	Gains/(losses) on financial assets at fair value through profit or loss	**4 159**	**447**
	– held for trading	3 293	1 610
	– designated at fair value	866	(1 163)
	Net (losses)/gains on derivative financial instruments	(667)	51
	Dividends received:	**35**	**53**
	Listed shares – fair value through profit or loss	35	53
	Fee and commission income:	**41 552**	**56 173**
	Net fee income on loans and advances	5 773	30 440
	Net fee income from trust and fiduciary activities	3 576	1 314
	Cash transaction fees	14 577	15 077
	Other fee income	17 626	9 342
	Other non-interest income:	**32 937**	**19 857**
	Rental and other income	474	1 346
	Profit on disposal of property and equipment	14	–
	Forex trading income and currency revaluation	32 143	15 475
	Re-measurement of investment properties	306	3 036
		78 016	**76 581**

NOTES TO THE FINANCIAL STATEMENTS *continued*

	USD'000	2016	2015
4.	**OPERATING EXPENSES**		
	Administrative expenses	81 057	79 844
	Property lease rentals	6 510	4 966
	Staff costs (note 4.1)	66 101	52 306
	Auditor's remuneration	1 539	1 207
	Depreciation (note 13)	8 132	7 947
	Amortisation (note 15)	3 629	3 411
	Directors' remuneration (note 4.2)	3 347	1 571
		170 315	**151 252**
4.1	**STAFF COSTS**		
	Salaries	47 853	34 267
	Employer contributions to post retirement funds	3 773	3 253
	Other staff costs*	14 475	14 786
		66 101	**52 306**
	** 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	1 167	937
	Non-executive directors		
	Fees as directors of holding company	1 067	576
	Fees as directors of subsidiaries	1 113	58
		2 180	634
	Total directors' remuneration	3 347	1 571

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000	2016	2015
5. INCOME TAX EXPENSE		
Current tax expense		
Current year	(8 107)	8 239
Under provision in prior years	(4)	–
Withholding tax	(1)	2
Bank levies	–	3
	(8 112)	**8 244**
Deferred tax		
Accruals	(950)	(206)
Impairment losses	3 642	(1 273)
Property and equipment	(2 628)	(568)
Investment property	(591)	120
Unearned income	1	–
Gain/(losses) on investments	1 499	413
Utilisation of assessed losses	6 539	(1 466)
Impairment of deferred tax assets	3 730	4 275
Other	(3 542)	(250)
Total deferred tax	**7 700**	**1 045**
Total tax expense per statement of profit or loss	**(412)**	**9 289**
Reconciliation of effective tax charge:		
Profit before tax	**(957)**	**9 826**
Income tax using corporate tax rates	21 554	3 868
Non-deductible expenses	8	2 381
Non-taxable income	3 612	–
Effect of share of loss of associates	(63)	–
Tax exempt revenues	516	(974)
Bank levies	–	(3)
Under provision in prior years	164	–
Income tax at different rates	330	943
Unrecognised deferred tax	(22 601)	6 187
Rate differential	–	(1 782)
Minimum tax charge	62	40
Tax and fair value losses of prior years' claimed	(712)	–
Other	(3 282)	(1 371)
Current tax expense per statement of profit or loss	**(412)**	**9 289**
Effective tax rate	**43%**	**95%**

NOTES TO THE FINANCIAL STATEMENTS *continued*

5. INCOME TAX EXPENSE *continued*

5.1 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2016		
USD'000	**Before tax**	**Tax charge**	**After tax**
Exchange differences on translating foreign operations	(9 953)	–	(9 953)
Net loss on hedge of net investment in foreign operations	–	–	–
Revaluation of property	2 969	(10)	2 959
Share of reserves in associate companies	–	–	–
Movement in available-for-sale reserves	(3 406)	–	(3 406)
Other comprehensive income	**(10 390)**	**(10)**	**(10 400)**

	2015		
USD'000	**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	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)**

USD'000	**2016**	**2015**
6. CASH AND SHORT-TERM FUNDS		
Cash on hand	48 704	23 360
Balances with central banks	79 541	34 875
Balances with other banks	118 141	134 497
Cash and cash equivalents	246 386	192 732
Statutory reserve balances*	109 389	75 231
Total cash and short-term funds	**355 775**	**267 963**

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

7. FINANCIAL ASSETS HELD FOR TRADING		
Government bonds	5 382	36 342
Corporate bonds	–	5 907
Treasury bills and other open market instruments	96 345	147 982
Total financial assets held for trading	**101 727**	**190 231**

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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

	USD'000	2016	2015
8.	**FINANCIAL ASSETS DESIGNATED AT FAIR VALUE**		
	Listed equities	774	798
	Unlisted equities and debentures	20 941	19 802
	Property units	10	–
	Total financial assets designated at fair value	**21 725**	**20 600**

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

The unlisted debentures comprise of a USD7.9 million (2015: USD7.3 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).

	USD'000	2016	2015
9.	**LOANS AND ADVANCES**		
	Mortgage lending	73 393	49 962
	Instalment finance	20 881	37 450
	Corporate lending	552 490	594 125
	Commercial and property finance	17 375	21 949
	Consumer lending	544 996	567 548
		1 209 135	**1 271 034**
	Less impairments (note 9.1)	(83 340)	(94 080)
	Net loans and advances	**1 125 795**	**1 176 954**
9.1	**ANALYSIS OF IMPAIRMENTS**		
	Specific impairments	68 943	73 428
	Portfolio impairments	14 397	20 652
		83 340	**94 080**

9.2 RECONCILIATION OF IMPAIRMENT ALLOWANCE FOR LOANS AND ADVANCES BY MARKET SEGMENT

USD'000	Total impairments	Mortgage lending	Instalment finance	Corporate lending	Commercial & property finance	Consumer lending
2016						
Opening balance	94 080	891	5 697	62 658	339	24 495
Exchange rate adjustment	(1 777)	(34)	54	(2 069)	(80)	352
Bad debts written off	(12 272)	–	(3 984)	(1 887)	(87)	(6 314)
New impairments created	3 309	2 390	2 090	(3 392)	400	1 821
Closing balance	**83 340**	**3 247**	**3 857**	**55 310**	**572**	**20 354**
2015						
Opening balance	97 255	510	5 671	67 211	522	23 341
Exchange rate adjustment	(12 468)	242	(819)	(8 055)	(224)	(3 612)
Bad debts written off	(18 056)	(88)	(669)	(11 540)	–	(5 759)
New impairments created	27 349	227	1 514	15 042	41	10 525
Closing balance	**94 080**	**891**	**5 697**	**62 658**	**339**	**24 495**

NOTES TO THE FINANCIAL STATEMENTS *continued*

	USD'000	2016	2015
10.	**INVESTMENT SECURITIES**		
	Available-for-sale		
	– Government bonds	52 046	–
	– Corporate bonds	9 561	–
	– Unlisted equities	1 385	802
	– Unlisted investment	25 095	–
	– Treasury bills	117 241	–
		205 328	**802**
	Held-to-maturity		
	– Treasury bills	–	–
	– Corporate bonds	–	–
	– Government bonds	5 246	5 012
		5 246	**5 012**
	Investment securities	**210 574**	**5 814**

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

The government bonds are partial security for the loan from BIFM (note 19). The government bonds 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 government bonds has not been determined as the government bonds are specifically conditional to the terms of the BIFM loan referred to in note 19.

		2016	2015
11.	**PREPAYMENTS AND OTHER RECEIVABLES**		
	Accounts receivable and prepayments	21 508	24 093
	Security deposits	3 569	665
	Other amounts due	23 501	13 637
		48 578	**38 395**
12.	**INVESTMENT IN ASSOCIATES**		
	Carrying value at the beginning of the year	2 475	1 590
	Acquired through a business combination	372	–
	Exchange rate adjustment	(3)	(39)
	Share of loss of associate	(140)	106
	Impairment loss	(77)	–
	Valuation adjustment	–	359
	Share of other comprehensive income	–	459
		2 627	**2 475**

The Group holds the following investments in associates:

- Lion of Tanzania Insurance Company Limited
- Credit Insurance Zimbabwe Limited

NOTES TO THE FINANCIAL STATEMENTS *continued*

13. PROPERTY AND EQUIPMENT

USD'000	Land and buildings	Other**	Total
Cost or valuation at 31 December 2015	52 581	45 098	97 679
Acquired through a business combination	9 312	6 813	16 125
Exchange rate adjustment	266	(2 765)	(2 499)
Additions	437	3 266	3 703
Revaluations surplus (gross of deferred tax)*	296	–	296
Reclassifications to non-current assets held for sale	(1 960)	–	(1 960)
Reclassifications from investment property	–	–	–
Disposals	–	(231)	(231)
Cost or valuation at 31 December 2016	**60 932**	**52 181**	**113 113**
Accumulated depreciation at 31 December 2015	(10 930)	(24 607)	(35 537)
Exchange rate adjustment	120	254	374
Disposals	–	231	231
Additions	–	(20)	(20)
Reclassifications to non-current assets held for sale	327	–	327
Charge for the year	(2 388)	(5 744)	(8 132)
Accumulated depreciation at 31 December 2016	**(12 871)**	**(29 886)**	**(42 757)**
Carrying amount at 31 December 2016	**48 061**	**22 295**	**70 356**
Cost or valuation at 31 December 2014	63 040	49 966	113 006
Exchange rate adjustment	(13 401)	(10 147)	(23 548)
Additions	915	5 355	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)	(76)	(2 257)
Cost or valuation at 31 December 2015	**52 581**	**45 098**	**97 679**
Accumulated depreciation at 31 December 2014	(8 516)	(24 328)	(32 844)
Exchange rate adjustment	(1 265)	5 570	4 305
Disposals	353	60	413
Released on revaluation	511	25	536
Charge for the year	(2 013)	(5 934)	(7 947)
Accumulated depreciation at 31 December 2015	**(10 930)**	**(24 607)**	**(35 537)**
Carrying amount at 31 December 2015	**41 651**	**20 491**	**62 142**

* *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 2016, land and buildings with a carrying amount of USD2.9 million (2015: USD2.7 million) were subject to a registered debenture that forms security for loans from other financial instrumentss (see note 26).*

** *Other includes motor vehicles, computer and office equipment and furniture and fittings.*

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000	2016	2015
14. INVESTMENT PROPERTY		
Balance at the beginning of the year	11 979	2 701
Acquired through a business combination	3 553	–
Exchange rate adjustment	1 480	4 886
Additions	–	2 167
Re-measurement of investment property	306	3 036
Reclassification from property and equipment	–	1 604
Transfer to property and equipment	–	(2 415)
Balance at end of the year	**17 318**	**11 979**
Rental income recognised in the statement of profit or loss	**799**	**115**

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 2016 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.

USD'000	2016	2015
15. INTANGIBLE ASSETS		
Goodwill	15 388	3 597
Other	37 036	9 386
	52 424	**12 983**
Broken down as follows:		
Goodwill		
Cost	19 048	7 084
Exchange rate adjustment	–	173
Accumulated impairment losses	(3 660)	(3 660)
Carrying amount at the end of the year	**15 388**	**3 597**
Other intangible assets		
Cost		
Balance at the beginning of the year	25 186	23 657
Acquired through a business combination	16 476	–
Exchange rate adjustment	(1 777)	(5 441)
Additions	12 585	6 970
	52 470	**25 186**
Accumulated amortisation		
Balance at the beginning of the year	(15 800)	(16 204)
Acquired through a business combination	–	–
Exchange rate adjustment	3 995	3 815
Amortisation (note 4)	(3 629)	(3 411)
	(15 434)	**(15 800)**
Carrying amount at the end of the year	**37 036**	**9 386**

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000	2016	2015
16. DEFERRED TAX		
Balance at the beginning of the year	11 280	13 328
Acquired through a business combination	(5 646)	–
Exchange rate adjustment	(106)	(758)
Statement of profit or loss charge (note 5)	7 700	(1 045)
Deferred tax on amounts charged to equity	10	(245)
	13 238	**11 280**
Disclosed as follows:		
Deferred tax asset	20 896	14 145
Deferred tax liability	(7 658)	(2 865)
	13 238	**11 280**
Tax effects of temporary differences:		
Accruals	145	1 245
Impairment losses	6 820	11 917
Property and equipment	(6 475)	(3 468)
Investment property	72	72
Unrealised gains on investment	(1 806)	(2 173)
Unearned income	(192)	–
Revaluation surplus	9 017	(1 080)
Tax losses	2 546	6 960
Bond with warrant deferred tax	959	845
Other	2 152	(3 038)
	13 238	**11 280**

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000	2016	2015
17. DEPOSITS		
Deposits from banks	117 645	113 242
Deposits from other customers	1 449 437	1 274 382
	1 567 082	**1 387 624**
Payable on demand		
Corporate customers	375 298	210 722
Public Sector	19 419	41 506
Retail customers	181 087	166 285
Other financial institutions	56 347	36 937
Banks	27 254	9 435
	659 405	**464 885**
Term deposits		
Corporate customers	308 386	318 142
Public sector	283 291	278 412
Retail customers	137 667	86 698
Other financial institutions	87 700	135 679
Banks	90 633	103 808
	907 677	**922 739**
	1 567 082	**1 387 624**
18. CREDITORS AND ACCRUALS		
Accrued expenses	16 560	14 859
Provisions*	15 466	10 965
Other amounts due	35 453	26 967
	67 479	**52 791**

* *Included in provisions is a restructuring provision of USD1.8 million related to the closure of the ABCH Johannesburg office.*

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000	2016	2015
19. BORROWED FUNDS		
Current portion	72 120	107 057
Non-current portion	205 338	138 594
	277 458	**245 651**
Borrowed funds		
National Development Bank of Botswana Limited	–	2 304
BIFM Capital Investment Fund One Proprietary Limited	24 012	22 528
Afrexim Bank	60 052	89 689
Africa Agriculture and Trade Investment Fund S.A.	25 019	24 869
Norsad Finance Limited	10 010	10 672
Atlas Mara	50 000	50 126
Overseas Private Investment Corporation ("OPIC")	70 528	–
Other	37 837	45 463
	277 458	**245 651**
Fair value		
National Development Bank of Botswana Limited	–	2 312
BIFM Capital Investment Fund One Proprietary Limited	28 077	27 651
Afrexim Bank	63 316	89 812
Africa Agriculture and Trade Investment Fund S.A.	24 989	25 382
Norsad Finance Limited	10 742	11 471
Atlas Mara	50 000	50 126
Overseas Private Investment Corporation ("OPIC")	70 528	–
Other	37 072	45 460
	284 724	**252 214**
Maturity analysis		
On demand to one month	60 472	196
One to three months	1 174	1 268
Three months to one year	10 474	105 593
Over one year	205 338	138 594
	277 458	**245 651**

National Development Bank of Botswana Limited (NDB)

The loan from National Development Bank of Botswana was denominated in Japanese Yen and attracted interest at 3.53% per annum. The loan matured on 15 December 2016 and has been repaid with no amounts outstanding as at 31 December 2016.

BIFM Capital Investment Fund One Proprietary Limited

The loan from BIFM Capital Investment Fund One Proprietary Limited (USD22.3 million) is denominated in Botswana Pula and was granted on 20 December 2006. It attracts interest at 11.63% per annum, payable semi-annually.

The redemption dates for the principal amount are as follows:

- 30 September 2017 – USD5.6 million;
- 30 September 2018 – USD5.6 million;
- 30 September 2019 – USD5.6 million; and
- 30 September 2020 – USD5.6 million.

NOTES TO THE FINANCIAL STATEMENTS *continued*

19. BORROWED FUNDS *continued*

Afrexim Bank Limited

The loans from Afrexim Bank Limited consist of USD60 million advanced to ABCH on 26 July 2013 and USD40 million trade finance facility to ABC Zimbabwe, granted during July to September 2015.

The USD60 million loan attracts interest at three-month LIBOR + 5% and matured on 30 June 2015, but with a provision to extend it for a further, mutually agreeable period. ABCH and Afrexim bank are currently in discussions to restructure this facility.

The USD40 million trade finance facility was availed to ABC Zimbabwe by Afrexim Bank Limited from December 2013 to December 2016. This facility was repaid in full in November 2016 with no amounts outstanding as at 31 December 2016.

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 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 was denominated in US dollars and attracts interest of LIBOR + 11% but capped at 12%. The loan matured on 30 June 2016 and has been repaid in full with no amounts outstanding as at 31 December 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.

Overseas Private Investment Corporation

The USD65 million loan is denominated in USD and was advanced to BancABC Zambia to finance the acquisition of Finance Bank Zambia. The loan attracts interest at a rate of 3 months LIBOR + 4.45%. There is a three year grace period on the repayment of principal with the loan repaid on a quarterly basis over 16 quarters starting in the first quarter of 2019.

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.

Refer to note 29 for information on the subsequent event relating to borrowed funds.

NOTES TO THE FINANCIAL STATEMENTS *continued*

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
USD'000	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Cross-currency interest rate swaps	6 025	5 733	502	674
Forward foreign exchange contracts – held for trading	298	37	1 391	62
Equity derivative	–	–	–	4 455
	6 323	**5 770**	**1 893**	**5 191**

USD'000	Notional amount	Fair value	Notional amount	Fair value
As at year end				
Held for trading	11 397	(261)	40 649	(3 126)
Designated at fair value through profit or loss	292	(292)	13 033	(172)
Total recognised derivatives	**11 689**	**(553)**	**53 682**	**(3 298)**
Comprising:				
Derivative financial assets		6 323		1 893
Derivative financial liabilities		5 770		5 191

20.1 CROSS-CURRENCY INTEREST RATE SWAPS

The Group uses cross-currency interest 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 statement of financial position 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 above.

20.2 FORWARD FOREIGN EXCHANGE CONTRACTS

The notional amounts of outstanding forward foreign exchange contracts at 31 December 2016 were USD11.4 million (2015: USD31.0 million). These resulted in derivative financial assets of USD0.298 million (2015: USD1.4 million) and derivative financial liabilities of USD0.037 million (2015: USD0.06 million).

20.3 EQUITY DERIVATIVE

This comprises of an equity derivative on an unlisted energy company of USD0 million (2015: USD4.4 million). Gains and losses on fair value movements are shared equally between the Group and a third party.

NOTES TO THE FINANCIAL STATEMENTS *continued*

	USD'000	2016	2015
21.	**STATED CAPITAL**		
21.1	**ISSUED AND FULLY PAID**		
	419 229 694 (2015: 419 229 694) shares	129 118	129 118
	Total Group	**129 118**	**129 118**
	Balance at the beginning of the year	129 118	82 164
	Issue of shares	–	50 000
	Exchange rate adjustment	–	(3 046)
	Balance at end of the year	**129 118**	**129 118**
21.2	**RECONCILIATION OF THE NUMBER OF SHARES IN ISSUE**		
	Shares at the beginning of the year	419 229 374	256 885 694
	Shares issued	–	162 343 680
	Shares at the end of the year	**419 229 374**	**419 229 374**
22.	**FUNDS UNDER MANAGEMENT**		
	Funds under management	101 131	88 555

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.

ABCH 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.

Details of disclosures of investments in subsidiaries are set out in note 16 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 USD50 million (2015: USD80 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 2016 is USD2.7 million (2015: USD1.6 million) which represents 2.3% (2015: 1.4%) of shareholders' funds.

DIRECTORS' AND KEY MANAGEMENT REMUNERATION

USD'000	2016	2015
Fees as Directors of subsidiary companies:		
R E Credo	–	42
D C Khama	48	16
	48	**58**
Remuneration of key management personnel:		
Short-term employment benefits	951	1 954
Post-employment benefits	–	152
Termination benefits	–	–
Bonus on discount in lieu of staff shares not issued	–	–
	951	**2 106**

NOTES TO THE FINANCIAL STATEMENTS *continued*

24. RELATED PARTY TRANSACTIONS *continued*

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

	2016		2015	
USD'000	**Balance**	**Interest**	**Balance**	**Interest**
Loans and advances to entities related through shareholding:				
PG Industries (Botswana) Limited	–	–	1 104	134
	–	–	**1 104**	**134**
Borrowed funds from shareholders:				
Atlas Mara Limited	**50 000**	–	**50 000**	–
Loans and advances to entities related to directors:				
Entities related to N Kudenga	248	48	–	–
Entities related to F M Dzanya	260	43	–	–
	508	**91**	**–**	**–**
Loans and advances to key management:				
H Matemera	386	86	–	–
B Mudavanhu	130	30	388	30
J Sibanda	1 967	400	585	43
	2 483	**516**	**973**	**73**

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 subsidied rates in some instances. Consistent policies and processes govern the granting and terms of such loans.

	2016		2015	
USD'000	**Balance**	**Interest**	**Balance**	**Interest**
Deposits held by entities related to directors and key management:				
D Khama – Doreen Khama Attorneys Trust Account	–	–	1 038	26
Kudenga & Company Chartered Accountants	2	–	–	–
Deposits from entities related to D T Munatsi	446	–	–	–
	448	**–**	**1 038**	**26**
Deposits held by directors and key management:				
H Matemera	(1)	–	–	–
D Khama	–	–	192	4
D T Munatsi	6	–	–	–
	5	**–**	**192**	**4**

NOTES TO THE FINANCIAL STATEMENTS *continued*

24. RELATED PARTY TRANSACTIONS *continued*

Directors' emoluments

This is disclosed under note 4.2.

Inter-company income and expenses

USD'000	Management fees	Interest income/ (expense)	Other
Year ended 31 December 2016			
Transactions between Atlas Mara and ABC Holdings Limited	(14 017)	–	2 916
Transactions between ABC Holdings Limited and BancABC subsidiaries	14 914	(1 269)	8 802
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)	–

Placements with/(from) Group companies

	2016		2015	
USD'000	Placed with	Placed from	Placed with	Placed from
BancABC Botswana	12 763	(45 666)	12 770	(45 809)
BancABC Mozambique	4 017	(27 196)	2 017	(15 849)
BancABC Tanzania	8 689	(26 290)	–	(7 660)
Tanzania Development Finance	13 393	–	11 894	–
BancABC Zambia	15 500	(18 591)	39 020	(14 176)

Included in placements with Group companies are loans provided to subsidiaries as Tier II capital. These include loans to BancABC Botswana Limited of USD12.8 million (2015: USD12.8 million); loans to BancABC Zambia Limited USD15.5 million (2015: USD37.0 million) and BancABC Mozambique SA of USD4.0 million (2015: USD2.0 million).

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

	2016		2015	
USD'000	Cash	Other	Cash	Other
BancABC Botswana	7 235	(1 730)	26 334	(352)
BancABC Mozambique	–	(15)	–	432
BancABC Tanzania	–	152	–	1 335
BancABC Zambia	–	(180)	–	2 433
BancABC Zimbabwe	124	19 221	128	

25. EXCHANGE RATES TO USD

	Closing Dec 16	Average Dec 16	Closing Dec 15	Average Dec 15
Botswana Pula	10.66	10.84	11.22	10.13
Tanzanian Shilling	2 180.00	2 184.92	2 158.65	2 038.06
Zambian Kwacha	9.93	10.28	10.98	8.62
Mozambican Metical	71.35	63.90	47.03	39.04
South African Rand	13.64	14.64	15.54	12.77

NOTES TO THE FINANCIAL STATEMENTS *continued*

	USD'000	2016	2015
26.	**COLLATERAL**		
26.1	**LIABILITIES FOR WHICH COLLATERAL IS PLEDGED**		
	Deposits from banks	68 740	66 195
	Deposits from customers	94 514	18 097
	Borrowed funds	1 961	6 987
		165 215	**91 279**
	Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
	Bankers' acceptances	658	8 665
	Financial assets held for trading	–	38 179
	Property AND equipment	2 870	2 727
	Investment securities	131 924	44 578
		135 452	**94 149**
	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**		
	Deposits from customers	7 255	16 930
	Mortgage bonds, inventory, plant and equipment, shares, letter of undertaking	392 230	379 831
	Cash balances	4 903	18 378
		404 388	**415 139**

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

27. BUSINESS COMBINATIONS

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values (measured in terms of IFRS 13).

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

The fair value for non-financial assets is calculated by considering the highest and best use of the asset from the perspective of the market participants.

The following was applied when calculating the at-acquisition fair values of assets acquired and liabilities assumed:

Intangible assets:
Identifiable intangible assets may have to be recognised by the acquirer even though they are not recognised by the acquiree. These assets shall be measured at fair value at acquisition date.

An independent valuation is performed by an accounting and auditing firm where the Group enters into a business combination. The intangible assets are assessed to determine whether they are identifiable and, if so, the fair value of such assets.

Prepayments and other receivables:
IFRS 3 requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values. The acquirer does not recognise a separate valuation allowance for the contractual cash flows that are deemed to be uncollectible at that date.

Deferred tax and income tax:
There were deferred tax balances included in the carrying amounts of the assets of FBZ. In evaluating the assets and liabilities in the business combination, the Group re-assessed the probability of there being future taxable profits against which these could be utilised within the next five years.

Deposits
The fair value of deposits was calculated based on the estimated contractual future cash flows and was discounted using the CoE determined.

Borrowed funds
Borrowed funds were separately valued and fair value adjustments made. The valuation methodology used was as follows:

- **Floating rate loan:** Future cash flows based on applicable variable interest forecasts and redemption were discounted at the risk-free rate, adjusted for an independent credit spread.
- **Treasury bills:** Future cash flows based on contractual fixed interest and redemption amount were discounted at the risk-free rate, adjusted for an independent credit spread.

NOTES TO THE FINANCIAL STATEMENTS *continued*

27. BUSINESS COMBINATIONS *continued*

ACQUISITION OF FINANCE BANK ZAMBIA

On 30 June 2016 BancABC Zambia acquired 100% of Finance Bank Zambia (FBZ) for a total purchase consideration of USD76.4 million which comprises cash consideration of USD64.2 million and non-cash consideration in the form of Atlas Mara (ABCH Parent company) shares. As part of the terms of the acquisition a portion of both the cash and equity consideration is contingent.

INCOMPLETE INITIAL ACCOUNTING

As per the requirements of IFRS 3.45 the initial accounting for the acquisition of FBZ was considered to be incomplete as at 30 June 2016 (acquisition date) due to the following key factors:

- The valuation of certain loans and advances had not been completed. This is due to the fact that management believed there might be facts and circumstances that existed at the acquisition date that had not been factored into the impairment calculations of these loans.
- Existence of potential fines, penalties or other incurred costs related to instances of non-compliance with key laws and regulations and restructuring arrangements that existed at the date at of the acquisition.
- Valuation of fixed property, where the final valuation documentation was not available as at the acquisition date.

While management has completed the following with regards to completing the acquisition accounting, this remains incomplete due to ongoing data review procedures with regards to take on loans and advances balances and operational processing accounts:

- Recognition of accrual for penalties and fines in respect of instances of non-compliance.
- Recognition of separation packages under restructure agreements that existed at the date of acquisition.
- The fair value of loans and advances was reduced by USD4.6 million based on revised estimated probabilities of default and loss given default under an IFRS fair value model. The values are most sensitive to changes in the funding rate, recovery costs and the average contractual rate.

The fair value for non-financial assets is calculated by considering the highest and best use of the asset from the perspective of the market participants.

In respect of the items listed above, the following was applied in calculating the at-acquisition fair values of assets acquired and liabilities assumed:

LOANS AND ADVANCES

The fair value methodology used to value FBZ's loan book is based on the income approach that converts future amounts (e.g. cash flows or income and expenses) to a single current (ie discounted) amount.

- The fair value of the loan book (asset value) was split into the fair value of equity plus the funding (debt) value. By discounting the free cash flows to equity by the cost of equity, a fair value of equity was derived.
- By subtracting the initial value of equity from the gross exposure the initial funding cost of the loan book was derived. The initial value of equity used to fund the loan book is deemed equal to the risk weighted assets of the loan book times the capitalisation rate.
- Free cash flows to equity were used in deriving the fair value of equity of the loan book. These cash flows were calculated by adjusting the statement of comprehensive income of the loan book to a cash flow statement by accounting for changes in capital.
- The calculation of interest income, interest expense, principal loss and change in capital are adjusted for various aspects required by a fair value methodology.
- The contractual cashflow is split into its interest and principal portions. The probability of not receiving the interest portion or the principal portion of the contractual cashflow, i.e. probability of default (PD), is included in the valuation.
- Loss given default assumptions are calculated for the loss given a default on the interest portion of the contractual cashflow, *LGDi,* and the loss given default on the principal portion, *LGDp.*

NOTES TO THE FINANCIAL STATEMENTS *continued*

27. BUSINESS COMBINATIONS *continued*

Based on the result of the work, the fair value has been determined to be USD115.3 million vs a carrying value of USD119.8 million. The difference in the carrying value and fair value will contribute to the goodwill recognised.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows:

USD'000 FBZ	FBZ carrying amount	FBZ fair value amount	Change
Cash and short-term funds	79 355	79 355	–
Amounts due from other banks	–	–	–
Loans and advances	119 876	115 255	(4 621)
Investment securities	52 767	52 767	–
Prepayments and other receivables	38 220	34 315	(3 905)
Current tax assets	–	–	–
Investment in associates	–	–	–
Property and equipment	16 125	16 125	–
Investment property	3 553	3 553	–
Intangible assets	17 632	16 476	(1 156)
Deferred tax assets	669	669	–
Deposits	(210 484)	(210 484)	–
Amounts due to other banks	–	–	–
Creditors and accruals	(30 867)	(31 310)	(443)
Current tax liabilities	(170)	(170)	–
Deferred tax liability	(4 674)	(6 315)	(1 641)
Borrowed funds	(5 645)	(5 645)	–
Net asset value	**76 357**	**64 591**	**(11 766)**
Less: Non-controlling interest		–	
Goodwill		11 785	
Total purchase consideration		**76 376**	
Cost of acquisition		**76 376**	
Less: Non-cash consideration		12 145	
Cash consideration paid		**64 231**	
Less: Cash and cash equivalents in subsidiary acquired		(79 355)	
Cash inflow on acquisition		**15 124**	

NOTES TO THE FINANCIAL STATEMENTS *continued*

28. NON-CURRENT ASSETS HELD FOR SALE

NON-CURRENT ASSETS HELD-FOR-SALE

The Group classifies non-current assets and disposal groups as held for sale to equity holders of the parent if their carrying amounts will be recovered principally through a distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell or to sell.

Costs to distribute are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn.

Management must be committed to the sale expected within one year from the date of the classification.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that has either been disposed of, or is classified as held-for-sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

The major classes of assets and liabilities of BancABC classified as held for sale as at 31 December 2016 are as follows:

USD'000	2016	2015
Assets		
Non-current assets held for sale	1 633	–
Net assets directly associated with non-current assets and liabilities classified as held-for-sale	**1 633**	**–**

29. SUBSEQUENT EVENTS

On 7 March 2017 BancABC Botswana finalised a USD40 million Fintech and Financial Inclusion Debt Facility provided by the Overseas Private Investment Corporation ("OPIC"). The funding is part of the USD200 million multi-country facility that OPIC approved for Atlas Mara's banks in Botswana, Zambia, and Mozambique in August 2015. The debt facility will be used to provide access to finance for SMEs and to support the Company's efforts to accelerate its digital finance initiatives, which are key areas of the Company's strategy.

The loan has a 7 year tenor with a 3 year moratorium on Capital. Interest is paid quarterly during the three years and the Capital is paid in 16 equal instalments after year 3. The rate is three month Libor plus a margin of 4.45%.

On 17 March 2017 the Board approved the sale of the non-current asset held for sale for an amount of USD1.9 million. This will result in a profit of USD0.267 million.

ABC Holdings Limited

Company financial statements

for the year ended 31 December

2016

Reshaping African Banking.

Reshaping Africa.

BancABC part of atlasmara

STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER

USD'000	Notes	2016	2015
Interest and similar income		7 419	9 935
Interest and similar expense		(22 488)	(20 145)
Net interest income	1	**(15 069)**	**(10 210)**
Provision for credit losses	2	–	(25)
Net interest income after provision for credit losses		**(15 069)**	**(10 235)**
Non-interest income	3	11 634	1 269
Total operating income		**(3 435)**	**(8 966)**
Operating expenses	4	(13 505)	(9 167)
(Loss) before tax		**(16 940)**	**(18 133)**
Income tax expense	5	2 541	(4 201)
(Loss) for the year		**(14 399)**	**(22 334)**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

USD'000	2016	2015
Loss for the year	**(14 399)**	**(22 334)**
Other comprehensive loss 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)
Total comprehensive loss for the year	**(14 399)**	**(28 876)**

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

USD'000	Notes	2016	2015
Assets			
Cash and short-term funds	6	272	1 192
Financial assets designated at fair value	7	7 857	7 257
Loans and advances	8	–	–
Intercompany receivables	9	41 427	21 824
Investment securities	10	5 246	5 012
Prepayments and other receivables	11	10 448	4 675
Property and equipment	12	17	18
Deferred tax assets	13	2 546	–
Loans to subsidiary companies		32 495	51 807
Investment in subsidiaries	16	255 353	209 160
Total assets		**355 661**	**300 945**
Equity and liabilities			
Liabilities			
Derivative financial liabilities	17	–	674
Creditors and accruals	15	2 376	18 955
Current tax liabilities		5	–
Intercompany payables	9	131 952	54 732
Borrowed funds	14	169 037	171 959
Total liabilities		**303 370**	**246 320**
Equity			
Stated capital	18	129 118	129 118
Foreign currency translation reserve		–	80
Non-distributable reserves		4 013	(8 132)
Distributable reserves		(80 840)	(66 441)
Equity attributable to ordinary shareholders		**52 291**	**54 625**
Total equity and liabilities		**355 661**	**300 945**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

USD'000	Stated capital	Foreign currency translation reserve	Non-distributable reserves	Distributable reserves	Total equity
Balance as at 1 January 2015	**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**
Profit or loss for the year	**–**	**–**	**–**	(14 399)	**(14 399)**
Other comprehensive income:	**–**	**(80)**	**–**	**–**	**(80)**
Exchange differences	–	(80)	–	–	**(80)**
Net loss on hedge of net investment in foreign operations	–	–	–	–	**–**
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	–	(80)	–	**(14 399)**	**(14 479)**
Transfers within equity	–	–	–	–	**–**
Movement in general credit risk reserve	–	–	–	–	**–**
Movement in statutory reserves	–	–	–	–	**–**
Total transfers within equity	–	–	–	–	**–**
Transactions with owners					
Dividends paid	–	–	–	–	**–**
Acquisition of FBZ	–	–	12 145	–	**12 145**
Net proceeds from shares issued	–	–	–	–	**–**
Total transactions with owners	**–**	–	12 145	–	**12 145**
Balance as at 31 December 2016	**129 118**	**–**	**4 013**	**(80 840)**	**52 291**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

USD'000	Notes	2016	2015
Cash flows from operating activities		**14 191**	**(37 216)**
Cash generated from operating activities		**(17 535)**	**(17 136)**
Result before tax		(16 940)	(18 133)
Adjusted for:			
Provision for credit losses		–	25
Depreciation and amortisation		2	5
Dividends receivable		–	–
Net unrealised losses on derivative financial instruments		3	3
Net losses on financial instruments at fair value through profit or loss		(600)	2 642
Other non-cash items		–	(1 678)
Tax paid		–	–
Net cash inflow from operating activities before changes in operating funds		**(17 535)**	**(17 136)**
Net increase/(decrease) in operating funds		**31 726**	**(20 080)**
Decrease in operating assets		(8 562)	(7 383)
Increase/(decrease) in operating liabilities		40 288	(12 697)
Cash flows from investing activities		**(24 334)**	**(37 253)**
Purchase of property and equipment		(1)	(3)
Changes in investment in subsidiaries		(43 646)	(56 482)
Dividends received		–	–
Changes in loans to subsidiaries		19 313	19 232
Cash flows from financing activities		**9 223**	**71 508**
(Decrease)/Increase in borrowed funds		(2 922)	71 508
Dividend paid		–	–
Impact of non-cash event in equity		12 145	–
(Decrease)/increase in cash and cash equivalents		**(920)**	**(2 961)**
Cash and cash equivalents at the beginning of the year		1 192	4 153
Cash and cash equivalents at the end of the year	6	**272**	**1 192**
Cash and cash equivalents		272	1 192
Statutory reserves		–	–
Cash and short-term funds		**272**	**1 192**

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT

CREDIT RISK

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 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 are as follows:

USD'000	2016	2015
Placements with banks	272	1 192
Financial assets designated at fair value through profit or loss	**7 857**	**7 257**
– Unlisted equities and debentures	7 857	7 257
Loans and advances	–	–
– Corporate lending	–	–
Investment securities – held-to-maturity	**5 246**	**5 012**
Government bonds	5 246	5 012
	13 375	**13 461**

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'000	2016	2015
Neither past due nor impaired	–	25
Gross loans and advances	–	25
Less: Allowance for impairment	–	(25)
Net loans and advances	**–**	**–**
(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	–	–
	–	**–**

(b) Distribution of loans and advances individually impaired

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is USD nil thousand (2015: USD25 thousand).

NOTES TO THE FINANCIAL STATEMENTS *continued*

FINANCIAL RISK MANAGEMENT *continued*

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 2016:

	2016						
USD'000	**Botswana**	**Mozambique**	**Tanzania**	**Zambia**	**Zimbabwe**	**Other**	**Total**
Placements with other banks	–	–	–	–	–	272	272
Financial assets designated at fair value	–	–	–	–	–	7 857	7 857
Investment securities	5 246	–	–	–	–	–	5 246
	5 246	**–**	**–**	**–**	**–**	**8 129**	**13 375**

	2015						
USD'000	**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**

(b) Industry Sectors

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by industry sector as of 31 December 2016:

	2016		
USD'000	**Financial services**	**Other**	**Total**
Placements with other banks	272	–	272
Financial assets designated at fair value	7 857	–	7 857
Investment securities	5 246	–	5 246
	13 375	**–**	**13 375**

	2015		
USD'000	**Financial services**	**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
	13 461	**–**	**13 461**

NOTES TO THE FINANCIAL STATEMENTS *continued*

FINANCIAL RISK MANAGEMENT *continued*

MARKET RISK

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

MARKET RISK MEASUREMENT TECHNIQUES

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

FOREIGN EXCHANGE RISK

The tables below summarises the company's exposure to foreign currency exchange rate risk at 31 December 2016:

USD'000 **As at 31 December 2016**	**EUR**	**USD**	**BWP**	**ZAR**	**TZS**	**ZMW**	**MZN**	**JPY**	**Other**	**Total**
Cash and short-term funds	–	272	–	–	–	–	–	–	–	272
Financial assets designated at fair value	–	7 857	–	–	–	–	–	–	–	7 857
Investment securities	–	–	5 246	–	–	–	–	–	–	5 246
	–	**8 129**	**5 246**	**–**	**–**	**–**	**–**	**–**	**–**	**13 375**
Equity	–	52 291	–	–	–	–	–	–	–	52 291
Derivative financial liabilities	–	–	–	–	–	–	–	–	–	–
Borrowed funds	–	145 080	23 957	–	–	–	–	–	–	169 037
	–	**197 371**	**23 957**	**–**	**–**	**–**	**–**	**–**	**–**	**221 328**
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
Borrowed funds	–	146 766	22 884	–	–	–	–	2 310	–	171 960
	–	**204 378**	**22 881**	**–**	**–**	**–**	**–**	**–**	**–**	**227 259**

NOTES TO THE FINANCIAL STATEMENTS *continued*

FINANCIAL RISK MANAGEMENT *continued*

FOREIGN EXCHANGE RISK *continued*

A reasonably possible strengthening (or 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 2016 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 2016 Profit or loss	
Currency	**Strengthening**	**Weakening**
EUR (3% movement)	–	–
BWP (10% movement)	(2 151)	1 760
ZAR (10% movement)	–	–
TZS (5% movement)	–	–
ZMW (10% movement)	–	–
MZN (5% movement)	–	–
JPY (3% movement)	–	–

	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)	–	–

NOTES TO THE FINANCIAL STATEMENTS *continued*

FINANCIAL RISK MANAGEMENT *continued*

INTEREST RATE RISK

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

The table below summarises the Company's total exposure to interest rate risks. Variable rate financial instruments are categorised in the "up to 1 month" column.

USD'000	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Total interest sensitive	Non-interest bearing	Total
As at 31 December 2016							
Cash and short-term funds	–	–	–	–	–	272	272
Financial assets designated at fair value	–	–	–	–	–	7 857	7 857
Investment securities	–	–	–	5 246	5 246	–	5 246
Assets	**–**	**–**	**–**	**5 246**	**5 246**	**8 129**	**13 375**
Equity	**–**	**–**	**–**	**–**	**–**	**52 291**	**52 291**
Borrowed funds	60 052	772	5 763	102 451	169 037	–	169 037
Liabilities	**60 052**	**772**	**5 763**	**102 451**	**169 037**	**–**	**169 037**
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
Borrowed funds	–	655	61 224	110 080	171 959	–	171 959
Liabilities	**–**	**655**	**61 224**	**110 080**	**171 959**	**674**	**172 633**

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

	2016	2015
Change in net interest income (+50 basis points)	(804.93)	(451)
As a percentage of total shareholders' equity	(1.54%)	(0.8%)
Change in net interest income (-50 basis points)	804.93	451
As a percentage of total shareholders' equity	1.54%	0.8%

NOTES TO THE FINANCIAL STATEMENTS *continued*

FINANCIAL RISK MANAGEMENT *continued*

LIQUIDITY RISK

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

Non-derivative cash flow

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

USD'000 As at 31 December 2016	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 December 2016
Borrowed funds	63 243	5 974	12 173	92 469	173 859	(4 822)	169 037
Total	**63 243**	**5 974**	**12 173**	**92 469**	**173 859**	**(4 822)**	**169 037**

USD'000 As at 31 December 2015	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 December 2015
Borrowed funds	–	4 532	64 932	108 704	178 168	(6 209)	171 959
Total	–	4 532	64 932	108 704	178 168	(6 209)	**171 959**

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

Derivative financial liabilities cash flows

The table below presents the cash flows payable by the Company for derivative financial liabilities by remaining contractual maturities at the date of the 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 Company manages the inherent liquidity risk based on expected undiscounted cash inflows:

USD'000 As at 31 December 2016	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total
Derivative financial liabilities	–	–	–	–	**–**

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

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).

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *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.

USD'000 31 December 2016	Notes	Carrying amount					
		Held for trading	**Designated at fair value**	**Derivative financial instruments**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**
Financial assets measured at fair value							
Unlisted equities and debentures	7	–	7 857	–	–	–	–
		–	**7 857**	**–**	**–**	**–**	**–**
Investment securities – held-to-maturity							
Government bonds	10	–	–	–	5 246	–	–
		–	**–**	**–**	**5 246**	**–**	**–**
Financial assets not measured at fair value							
Cash and short-term funds	6	–	–	–	–	–	–
		–	**–**	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value							
Borrowed funds	14	–	–	–	–	–	–
Creditors and accruals	15	–	–	–	–	–	–
		–	**–**	**–**	**–**	**–**	**–**

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *continued*

USD'000 31 December 2016	Notes	Carrying amount Other financial assets/ liabilities	Total	Fair value Level 1	Level 2	Level 3	Total
Financial assets measured at fair value							
Unlisted equities and debentures	7	–	7 857	–	7 857	–	**7 857**
		–	**7 857**	**–**	**7 857**	**–**	**7 857**
Investment securities – held-to-maturity							
Government bonds	10	–	5 246				
		–	**5 246**				
Financial assets not measured at fair value							
Cash and short-term funds	6	272	272				
		272	**272**				
Financial liabilities not measured at fair value							
Borrowed funds	14	(169 037)	(169 037)				
Creditors and accruals	15	(2 376)	(2 376)				
		(171 413)	**(171 413)**				

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *continued*

USD'000 31 December 2015	Notes	Carrying amount Held for trading	Designated at fair value	Derivative financial instruments	Held-to-maturity	Loans and receivables	Available-for-sale
Financial assets measured at fair value							
Unlisted equities and debentures	7	–	7 257	–	–	–	–
		–	**7 257**	**–**	**–**	**–**	**–**
Investment securities – 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	–	–	–	–	–	–
		–	**–**	**–**	**–**	**–**	**–**

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *continued*

		Carrying amount		Fair value			
USD'000 31 December 2015	Notes	**Other financial assets/ liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value							
Unlisted equities and debentures	7	–	7 257	–	7 257	–	7 257
		–	**7 257**	**–**	**7 257**	**–**	**7 257**
Investment securities – held-to-maturity							
Promissory notes (HTM)	10	–	**5 012**				
		–	**5 012**				
Financial assets not measured at fair value							
Cash and short-term funds	6	1 192	**1 192**				
		1 192	**1 192**				
Financial liabilities measured at fair value							
Cross-currency interest rate swaps	17	–	**(674)**	–	(674)	–	(674)
		–	**(674)**	**–**	**(674)**	**–**	**(674)**
Financial liabilities not measured at fair value							
Borrowed funds	14	(171 959)	**(171 959)**	–	–	(178 523)	(178 523)
Creditors and accruals	15	(18 955)	**(18 955)**	–	–	–	–
		(190 914)	**(190 914)**	**–**	**–**	**(178 523)**	**(178 523)**

NOTES TO THE FINANCIAL STATEMENTS *continued*

FAIR VALUES *continued*

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE *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
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 2016. The estimate is adjusted for the effect of the non-marketability of the equity securities.

Financial instruments not measured at fair value

Type	Valuation technique
Cash and short-term funds	Discounted cash flows
Loans and advances	Discounted cash flows
Government bond	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'000		2016	2015
1.	**NET INTEREST INCOME**		
	Interest and similar income		
	Cash and short-term funds	52	59
	Investment securities and dated financial instruments	–	305
	Loans and advances	120	154
	Intercompany	7 247	9 417
		7 419	**9 935**
	Interest and similar expense		
	Borrowed funds	(13 972)	(14 967)
	Intercompany	(8 516)	(5 178)
		(22 488)	**(20 145)**
	Net interest income	**(15 069)**	**(10 210)**
2.	**PROVISION FOR CREDIT LOSSES**		
	Specific impairments	–	**25**
3.	**NON-INTEREST INCOME**		
	Gains/(losses) from trading activities:	**597**	**(2 645)**
	Gains/(losses) on financial assets at fair value through profit or loss – designated at fair value	600	(2 642)
	Net gains/(losses) on derivative financial instruments*	(3)	(3)
	Dividends received:	**–**	**–**
	– Subsidiary companies	**1 200**	–
	Fee and commission income:	**797**	**267**
	Net fee and commission income – external	–	–
	Net fee and commission income – Intercompany	–	–
	Cash transaction fees	22	245
	Other fee income	775	22
	Other non-interest income:	**9 040**	**3 647**
	Rental and other income	79	20
	Forex trading income and currency revaluation**	8 961	3 627
		11 634	**1 269**

* *Net gains/(losses) on derivative financial instruments of USD3 thousand (2015: USD3 thousand) arose from the USD: Japanese Yen swap. 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'000	2016	2015
4.	**OPERATING EXPENDITURE**		
	Intercompany management fees	4 551	2 126
	Administrative expenses	1 072	375
	Staff costs (note 4.1)	5 100	3 610
	Auditor's remuneration	221	303
	Depreciation (note 12)	2	5
	Directors' remuneration (note 4.2)	1 772	1 571
	Professional services and other	787	1 177
		13 505	**9 167**
4.1	**STAFF COSTS**		
	Salaries	4 572	2 133
	Other staff costs*	528	1 477
		5 100	**3 610**
	* *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	691	937
	Non-executive directors		
	Fees as directors of holding company	1 081	576
	Fees as directors of subsidiaries	–	58
		1 081	**634**
		1 772	**1 571**

Details of other transactions and balances with related parties have been disclosed under note 20.

NOTES TO THE FINANCIAL STATEMENTS *continued*

	USD'000	2016	2015
5.	**INCOME TAX EXPENSE**		
	Current tax expense		
	Current year	–	–
	Deferred tax		
	Tax and fair value losses of prior years' not claimed	–	–
	Utilisation of assessed losses	2 541	–
	Impairment of deferred tax assets	–	4 201
		2 541	4 201
	Total tax expense per statement of profit or loss	**2 541**	**4 201**
	Reconciliation of effective tax charge:		
	Profit/(loss) before tax	**(16 940)**	**(18 133)**
	Income tax using corporate tax rates	2 541	(2 720)
	Non-deductible expenses	–	–
	Tax exempt revenues	–	–
	Tax on dividends received	–	–
	Unrecognised deferred tax	–	6 921
	Tax and fair value losses of prior years' not claimed	–	–
	Other	–	–
	Current tax expense per statement of profit or loss	**2 541**	**4 201**
	Effective tax rate	**(15%)**	**(23%)**
6.	**CASH AND SHORT-TERM FUNDS**		
	Cash on hand	–	–
	Balances with banks	272	1 192
		272	**1 192**
7.	**FINANCIAL ASSETS DESIGNATED AT FAIR VALUE**		
	Unlisted equities and debentures	7 857	7 257
		7 857	**7 257**
	The unlisted debentures comprise of a USD7.9 million (2015: USD7.3 million) investment in a 10% convertible loan to ADC Enterprises Limited.		
8.	**LOANS AND ADVANCES**		
	Corporate lending	–	25
		–	**25**
	Less: impairments	–	(25)
	Net loans and advances	–	**–**

NOTES TO THE FINANCIAL STATEMENTS *continued*

9. INTERCOMPANY BALANCES

		Balance 2016	Fair value	Balance 2015	Fair value
9.1	**BALANCES DUE FROM:**				
	ABCH Management Support Services Proprietary Limited and other non-banking subsidiaries*	–	–	2 123	2 123
	Tanzania Development Finance Company Limited	13 393	13 393	11 910	11 910
	BancABC Tanzania Limited	8 689	8 689	–	–
	BancABC Zimbabwe, Second Nominees and Capital Partners	19 345	19 345	7 791	7 791
		41 427	**41 427**	**21 824**	**21 824**
9.2	**BALANCES DUE TO:**				
	BancABC Botswana Limited	40 145	40 145	20 121	20 121
	BancABC Mozambique SA	27 211	27 211	15 456	15 456
	BancABC Tanzania Limited	26 138	26 138	6 341	6 341
	BancABC Zambia Limited	18 771	18 771	11 772	11 772
	EDFUND S.A.	–	–	838	838
	ABCH Management Support Services Proprietary Limited	2 018	2 018	–	–
	Atlas Mara BVI	17 669	17 669	–	–
	Bohemian Holdings Limited	–	–	204	204
		131 952	**131 952**	**54 732**	**54 732**

* *The loan to ABCH Management Support Services was capitalised to Investment in Subsidiary in December 2016.*

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

	USD'000	2016	2015
10.	**INVESTMENT SECURITIES**		
	Held-to-maturity		
	– Promissory notes	–	–
	Government bonds	5 246	5 012
		5 246	**5 012**
11.	**PREPAYMENTS AND OTHER RECEIVABLES**		
	Accounts receivable and prepayments	396	1 010
	Security deposits	377	409
	Other amounts due	9 675	3 256
		10 448	**4 675**

NOTES TO THE FINANCIAL STATEMENTS *continued*

12. PROPERTY AND EQUIPMENT

USD'000	Computer and office equipment	Furniture and fittings	Total
2016			
Cost or valuation at 31 December 2015	59	28	87
Exchange rate adjustment	–	–	–
Additions	1	–	1
Cost or valuation at 31 December 2016	**60**	**28**	**88**
Accumulated depreciation at 31 December 2015	(41)	(28)	(69)
Exchange rate adjustment	–	–	–
Charge for the year	(2)	–	(2)
Accumulated depreciation at 31 December 2016	**(43)**	**(28)**	**(71)**
Carrying amount at 31 December 2016	**17**	**–**	**17**
2015			
Cost or valuation at 31 December 2014	40	28	68
Exchange rate 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 rate 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**

13. DEFERRED TAX

USD'000	2016	2015
Balance at the beginning of the year	–	4 362
Exchange rate adjustment	–	(161)
Statement of profit or loss charge (note 5)	2 546	(4 201)
	2 546	**–**
Disclosed as follows:		
Deferred tax asset	2 546	–
	2 546	**–**
Tax effects of temporary differences:		
Unrealised gains on investment	–	–
Losses available for offsetting against future taxable income	2 546	–
Other	–	–
	2 546	**–**

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000	2016	2015
14. BORROWED FUNDS		
Current portion	66 586	61 522
Non-current portion	102 451	110 437
	169 037	**171 959**
Borrowed funds		
National Development Bank of Botswana Limited	–	2 310
BIFM Capital Investment Fund One Proprietary Limited	24 012	22 528
Afrexim Bank	60 052	60 161
Africa Agriculture and Trade Investment Fund S.A.	25 019	24 869
Norsad Finance Limited	10 010	9 958
Atlas Mara	50 000	50 126
Other	(56)	2 007
	169 037	**171 959**
Fair value		
National Development Bank of Botswana Limited	–	2 317
BIFM Capital Investment Fund One Proprietary Limited	28 077	27 651
Afrexim Bank	63 316	60 284
Africa Agriculture and Trade Investment Fund S.A.	24 989	25 382
Norsad Finance Limited	10 742	10 757
Atlas Mara	50 000	50 126
Other	–	2 006
	177 124	**178 523**
Maturity analysis		
On demand to three months	60 823	655
Three months to one year	5 763	60 868
Over one year	102 451	110 436
	169 037	**171 959**

NOTES TO THE FINANCIAL STATEMENTS *continued*

14. BORROWED FUNDS *continued*

National Development Bank of Botswana Limited (NDB)

The loan from National Development Bank of Botswana was denominated in Japanese Yen and attracted interest at 3.53% per annum. The loan matured on 15 December 2016 and has been repaid with no amounts outstanding as at 31 December 2016.

BIFM Capital Investment Fund One Proprietary Limited

The loan from BIFM Capital Investment Fund One Proprietary Limited is denominated in Botswana Pula and was granted on 20 December 2006. It attracts interest at 11.63% per annum, payable semi-annually.

The redemption dates for the principal amount are as follows:

- 30 September 2017 – USD5.6 million;
- 30 September 2018 – USD5.6 million;
- 30 September 2019 – USD5.6 million; and
- 30 September 2020 – USD5.6 million.

Afrexim Bank Limited

The loans from Afrexim Bank Limited consist of USD60 million advanced to ABC Holdings Limited ('ABCH') on 26 July 2013.

The USD60 million loan attracts interest at three-month LIBOR + 5% and matured on 30 June 2015, but with a provision to extend it for a further, mutually agreeable period. ABCH and Afrexim bank are currently in discussions to restructure this facility.

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. 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.

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'000	2016	2015
15. CREDITORS AND ACCRUALS		
Accrued expenses	2 324	108
Other amounts due	52	18 847
	2 376	**18 955**

16. INVESTMENT IN SUBSIDIARIES

	Ownership of ordinary shares		Carrying value	
	2016 %	2015 %	2016 USD'000	2015 USD'000
Botswana				
BancABC Botswana Limited	100	100	24 558	24 558
Bohemian Holdings Proprietary	100	100	408	408
Boulevard Investments Proprietary Limited	100	100	–	–
Capital Partners Proprietary Limited	100	100	212	206
Mozambique				
BancABC Mozambique	100	100	40 129	32 129
South Africa				
ABCH Management Support Services Proprietary Limited	100	100	2 542	–
Tanzania				
BancABC Tanzania Limited	97*	97*	54 748	54 748
Tanzania Development Finance Company Limited	68	68	–	–
Zambia				
BancABC Zambia Limited	100	100	84 311	48 666
Zimbabwe				
BancABC Zimbabwe Limited	100*	100*	48 445	48 445
			255 353	**209 160**

* *Effective shareholding*

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000	2016 Assets	2016 Liabilities	2015 Assets	2015 Liabilities
17. DERIVATIVE FINANCIAL INSTRUMENTS				
Cross-currency interest rate swaps	–	–	–	674
	–	**–**	**–**	**674**

CROSS-CURRENCY INTEREST RATE SWAPS

The Company uses cross-currency interest rate swaps to manage the Company's 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 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 statement of financial position 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:

USD'000	2016 Notional amount	2016 Fair value	2015 Notional amount	2015 Fair value
At 31 December				
Cross currency interest rate swaps:	–		–	–
Designated at fair value through profit and loss	–		3 007	(674)
Total recognised derivatives	**–**		**3 007**	**(674)**

NOTES TO THE FINANCIAL STATEMENTS *continued*

	USD'000	2016	2015
18.	**STATED CAPITAL**		
18.1	**ISSUED AND FULLY PAID**		
	419 229 694 (2015: 419 229 694) shares	129 118	129 118
	Total Group	**129 118**	**129 118**
	Balance at the beginning of the year	129 118	82 164
	Issue of shares	–	50 000
	Exchange rate adjustment	–	(3 046)
	Balance at end of the year	**129 118**	**129 118**
	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**		
	Shares at the beginning of the year	419 229 374	256 885 694
	Shares issued*	–	162 343 680
	At the end of the year	**419 229 374**	**419 229 374**

* *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 passu with all other issued ordinary shares. There were no shares issued in the current year.*

19. EMPLOYEE BENEFITS

The Company 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.

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.

Details of disclosures of investments in subsidiaries are set out in note 16 of the separate company financial statements. Details of associate companies are set out in note 12 of the consolidated Group financial statements. Details of intercompany management fees incurred during the year have been disclosed in note 4 of the separate company financial statements.

NOTES TO THE FINANCIAL STATEMENTS *continued*

20. RELATED PARTY TRANSACTIONS *continued*

DIRECTORS AND OFFICERS

Emoluments to directors have been disclosed in note 4.2. The total exposure of the Company to directors, officers and parties related to them in terms of IAS 24 as at 31 December 2016 is USD1.1 million (2015: USD1.6 million) which represents 2.1% (2015: 1.4%) of shareholders' funds.

USD'000	2016	2015
Fees as Directors of subsidiary companies:		
R E Credo	–	42
D C Khama	48	16
	48	**58**
Remuneration to key management personnel:		
Short-term employment benefits	951	1 954
Post-employment benefits	–	152
Termination benefits	–	–
Bonus on discount in lieu of staff shares not issued	–	–
	951	**2 106**

LOANS AND ADVANCES

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

	2016		2015	
	Balance	Interest	Balance	Interest
Loans and advances to entities related through shareholding:				
PG Industries (Botswana) Limited	–	–	1 104	134
	–	–	**1 104**	**134**
Borrowed funds from shareholders:				
Atlas Mara Limited	**50 000**	**–**	**50 000**	**–**
Loans and advances to entities related to directors:				
Entities related to N Kudenga	248	48	–	–
Entities related to H Buttery	–	–	–	–
Entities related to D T Munatsi	–	–	–	–
Entities related to FM Dzanya	260	43	–	–
	508	**91**	**–**	**–**
Loans and advances to key management:				
H Matemera	386	86	–	–
B Mudavanhu	130	30	388	30
J Sibanda	1 967	400	585	43
	2 483	**516**	**973**	**73**

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

	2016		2015	
	Balance	Interest	Balance	Interest
Deposits held by entities related to directors and key management:				
D Khama – Doreen Khama Attorneys Trust Account	–	–	1 038	26
Kudenga & Company Chartered Accountants	2	–	–	–
Deposits from entities related to D T Munatsi	446	–	–	–
	448	**–**	**1 038**	**26**
Deposits held by directors and key management:				
N Kudenga	–	–	–	–
F Dzanya	–	–	–	–
B Moyo	–	–	–	–
H Matemera	(1)	–	–	–
D Khama	–	–	192	4
D T Munatsi	6	–	–	–
B Mudavanhu	–	–	–	–
	5	**–**	**192**	**4**

INTERCOMPANY INCOME AND EXPENSES

Year ended 31 December 2016	Management fees	Interest income/ (expense)	Other
Transactions between Atlas Mara and ABC Holdings Limited	(14 017)	–	2 916
Transactions between ABC Holdings Limited and BancABC subsidiaries	14 914	(1 269)	8 802
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)	–

NOTES TO THE FINANCIAL STATEMENTS *continued*

20. RELATED PARTY TRANSACTIONS *continued*

PLACEMENTS WITH/(FROM) GROUP COMPANIES

	2016		2015	
	Placed with	Placed from	Placed with	Placed from
Banc ABC Botswana	12 763	(45 666)	12 770	(45 809)
Banc ABC Mozambique	4 017	(27 196)	2 017	(15 849)
Banc ABC Tanzania	8 689	(26 290)	–	(7 660)
Tanzania Development Finance	13 393	–	11 894	–
Banc ABC Zambia	15 500	(18 591)	39 020	(14 176)

Included in placements with group companies are loans provided to subsidiaries as Tier II capital. These include loans to Banc ABC Botswana Limited of USD12.8 million (2015: USD12.8 million); loans to BancABC Zambia Limited of USD15.5 million (2015: USD37.0 million) and Banc ABC Mozambique SA of USD4.0 million (2015: USD2.0 million).

CASH AND OTHER BALANCES DUE FROM/(DUE TO) GROUP COMPANIES

	2016		2015	
	Cash	Other	Cash	Other
Banc ABC Botswana	7 235	(1 730)	26 334	(352)
Banc ABC Mozambique	–	(15)	–	432
Banc ABC Tanzania	–	152	–	1 335
Banc ABC Zambia	–	(180)	–	2 433
Banc ABC Zimbabwe	124	19 221	128	
ABCH Management Support Services	–	(2 003)	–	–

DIRECTORS' EMOLUMENTS

This is disclosed under note 4.2.

21. EXCHANGE RATES TO USD

	Closing Dec 16	Average Dec 16	Closing Dec 15	Average Dec 15
Botswana Pula	10.66	10.84	11.22	10.13
Tanzanian Shilling	2 180.00	2 184.92	2 158.65	2 038.06
Zambian Kwacha	9.93	10.28	10.98	8.62
Mozambican Metical	71.35	63.90	47.03	39.04
South African Rand	13.64	14.64	15.54	12.77

NOTES TO THE FINANCIAL STATEMENTS *continued*

USD'000	2016	2015
22. COLLATERAL		
22.1 LIABILITIES FOR WHICH COLLATERAL IS PLEDGED		
Borrowed funds	24 012	22 884
	24 012	**22 884**
Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
Investment securities	5 246	5 012
	5 246	**5 012**

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.