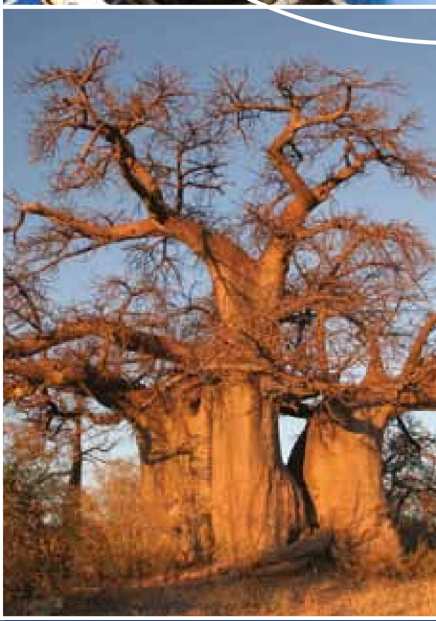
ABC Holdings Limited
Annual Report
2010



ABOUT BancABC

ABC Holdings Limited is the parent company of a number of banks operating under the BancABC brand in Sub-Saharan Africa, with operations in Botswana, Mozambique, Tanzania, Zambia and Zimbabwe. A group services office is located in South Africa.

Our vision is to be Africa's preferred banking partner by offering world class financial solutions. We will realise this by building profitable, lifelong customer relationships through the provision of a wide range of innovative financial products and services – to the benefit of all our stakeholders. The Group offers a diverse range of services including but not limited to the following: wealth management, corporate banking, treasury services, leasing, asset management, stock broking, and retail banking.

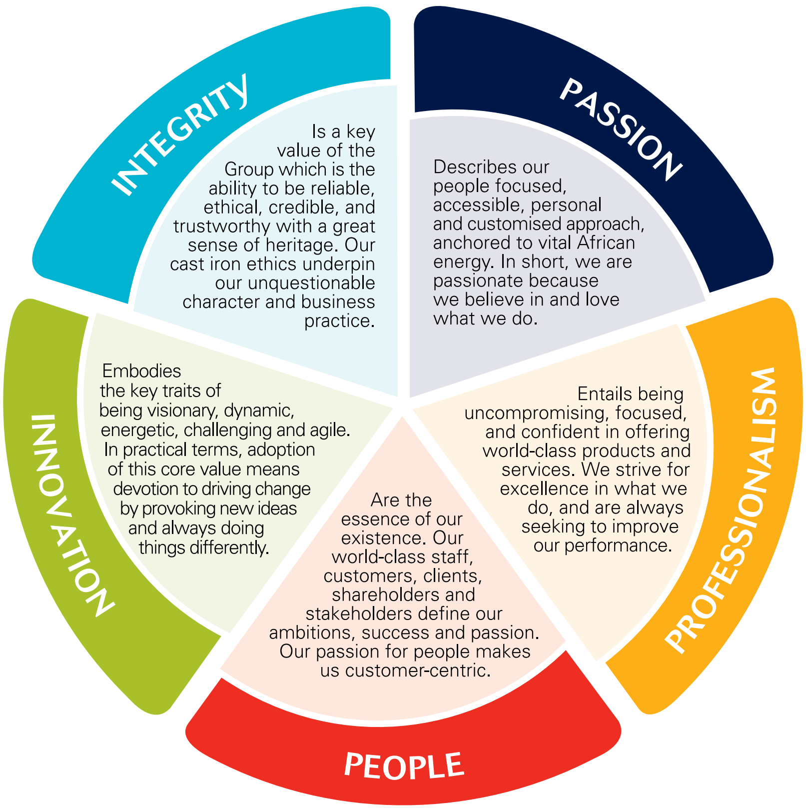
ABC Holdings Limited is registered in Botswana. Its primary listing is on the Botswana Stock Exchange, with a secondary listing on the Zimbabwe Stock Exchange.

BancABC

CONTENTS

OUR VALUES

Our core values centre on five distinct areas. They remain the guiding principles by which we operate and form the basis of our corporate personality.



WHERE WE OPERATE

HIGHLIGHTS

Financial:

↑	Total income increased by 39% to **BWP546 million**.
↑	Operating expenses increased by 19% to **BWP435 million**.
↑	Operating profit increased by 327% to **BWP111 million**.
↓	Cost to income ratio improved to **77%** from 82% in the prior year.
↓	Impairment charges on loans and advances reduced by 69% to **BWP16 million**.
↑	Basic earnings per share improved by 15% from 40.4 thebe to **46.3 thebe**.
↑	The balance sheet grew by 36% from BWP4.4 billion in 2009 to **BWP6.0 billion**.
↑	Loans and advances increased by 54% from BWP2.0 billion to **BWP3.1 billion**.
↑	Customer deposits grew by 46% from BWP3.4 billion in 2009 to **BWP4.9 billion**.
↑	Net asset value per share up from BWP2.73 to **BWP2.93**.
↑	Return on average equity was **16%** compared to 14% in 2009.

Operational:

- All banking operations reported profit for the first time in the history of the Group
- Total number of retail branches increased to 17 as at 28 February 2011
- Successful turnaround of the Zambia operation which is now profitable
- BancABC Mozambique, BancABC Zambia and BancABC Zimbabwe recapitalised during the year

FIVE-YEAR FINANCIAL HIGHLIGHTS

on a historical cost basis in US$'000s

	31 Dec 2010 US$'000s	31 Dec 2009 US$'000s	31 Dec 2008 US$'000s	31 Dec 2007 US$'000s	31 Dec 2006 US$'000s
Income statement					
Net interest income after impairment	41,542	17,948	20,498	12,152	16,085
Non interest revenue	38,930	37,402	31,650	37,849	28,849
Total income	**80,472**	**55,350**	**52,148**	**50,001**	**44,934**
Operating expenditure	(64,089)	(51,610)	(34,679)	(26,126)	(24,757)
Net income from operations	**16,383**	**3,740**	**17,469**	**23,875**	**20,177**
Share of profits of associates and joint venture	(2,966)	2,281	337	540	1,912
Profit before taxation	**13,417**	**6,021**	**17,806**	**24,415**	**22,089**
Taxation	(3,314)	2,225	(4,905)	(3,417)	(7,444)
Profit for the year	**10,103**	**8,246**	**12,901**	**20,998**	**14,645**
Attributable to					
Equity holders of parent	9,827	8,202	12,592	20,174	14,587
Minority interests	276	44	309	824	58
Profit for the year	**10,103**	**8,246**	**12,901**	**20,998**	**14,645**
Balance sheet					
Cash and cash equivalents	154,997	132,194	68,056	87,832	71,312
Financial assets held for trading	173,375	134,707	90,956	143,642	141,709
Financial assets designated at fair value	12,274	–	–	–	–
Derivative assets held for risk management	6,516	1,195	5,891	–	–
Loans and advances to customers	477,415	299,099	298,450	207,372	156,396
Investments	8,224	7,387	8,988	11,795	8,745
Investment in associates and joint venture	5,405	6,138	5,471	5,064	7,086
Other assets and investment property	34,048	32,123	14,101	16,426	7,013
Property and equipment	51,217	41,818	28,776	9,178	8,349
Intangible assets	8,903	7,558	5,653	5,824	6,226
	932,374	**662,219**	**526,342**	**487,133**	**406,836**
Shareholders' equity	67,911	62,325	60,572	54,230	46,681
Deposits	761,083	502,932	374,385	326,096	255,239
Derivative liabilities held for risk management	162	293	294	849	1,182
Borrowed funds	89,868	81,519	79,565	96,855	91,132
Other liabilities and taxation	13,350	15,151	11,526	9,103	12,602
	932,374	**662,219**	**526,342**	**487,133**	**406,836**
Shares in issue	146,419,524	146,419,524	146,419,524	132,568,680	132,568,680
Cost to income ratio (%)	77	82	59	47	50
Average shareholders' equity	65,118	61,449	57,401	50,456	41,537
Return on average shareholders' equity (Headline) (%)	15	13	23	42	37
Net asset value per share (cents)	44.7	40.9	39.7	39.4	33.6

Closing exchange rates to US$

	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
Botswana Pula	6.45	6.67	7.54	6.02	6.05
Euro	0.75	0.69	0.72	0.68	0.76
Mozambican Metical (dropped three zero in 2006)	32.58	29.19	25.50	25.86	25.97
Tanzanian Shilling	1,505.01	1,339.51	1,315.02	1,146.01	1,264.05
Zambian Kwacha	4,800.00	4,650.00	4,795.00	3,850.00	4,390.24
Zimbabwe Dollar (dropped three zero in 2006 and 10 zeros in 2008)					
– official	–	–	5,059,942.76	30,000.00	250.00
– calculated	–	–	642,901,315.78	4,948,961.54	2,400.99

SALIENT FEATURES

	2010	2009	% change
Income statement (BWP000's)			
Profit attributable to ordinary shareholders	**66,710**	58,117	15%
Balance sheet (BWP000's)			
Total assets (attributable)	**6,011,439**	4,417,745	36%
Loans and advances	**3,078,110**	1,995,325	54%
Deposits	**4,907,045**	3,355,118	46%
Net asset value	**422,336**	399,069	6%
Financial performance (%)			
Return on average equity	**16%**	14%	
Return on average assets	**1.3%**	1.4%	
Operating performance (%)			
Non interest income to total income	**48%**	68%	
Cost to income ratio	**77%**	82%	
Impairment losses on loans and advances to gross average loans and advances	**5%**	6%	
Effective tax rate	**25%**	-37%	
Share statistics (000's)			
Number of shares in issue	**146,420**	146,420	0%
Weighted average number of shares	**143,956**	143,846	0%
Share statistics (thebe)			
Earnings per share	**46.3**	40.4	15%
Dividend per share	**10.0**	–	–
Net asset value per share	**2.93**	2.77	6%

CHAIRMAN'S REPORT

HJ Buttery

"The Group performed well during the period under review, reflecting the improved economic and business environment across the markets in which the bank operates; a situation brought about in part by the wide-spread recovery from the recent global financial crisis."

The Group performed well during the period under review, reflecting the improved economic and business environment across the markets in which the bank operates; a situation brought about in part by the widespread recovery from the recent global financial crisis.

In addition, the decision taken to curtail lending following the start of the global recession has been vindicated as evidenced by the significant reduction in credit impairments.

Following the introduction of retail banking, the Group now offers a full suite of banking products which will enable the business to get a higher share of the wallet. All the required information technology systems, distribution channels albeit limited and key personnel are now in place. As a result, retail banking is expected to contribute positively to income in 2011 and beyond.

Review of the economic environment

During 2010, the world economy began a widespread recovery, moving steadily away from the economic lows of 2008 and 2009. The recovery was led by emerging markets which enjoyed higher growth rates than those experienced in developed markets.

It should be noted though that the present rapid "bounce-back" to prosperity is unlikely to continue at its current pace, but will revert to a lower but more sustainable growth rate.

Economic growth in Sub-Saharan Africa

Africa is vulnerable to economic dislocations through many sources. These include fluctuations in commodity prices, natural disasters and political instability within the continent.

Additional inherent risks arise from a dependence on aid and financial flows. Despite this, during 2010 overall economic growth in Sub-Saharan Africa (SSA) was revised upwards by IMF to 5.0% (from an initial projection of 4.3%). This was a significant increase from the 2.6% experienced in 2009, which was largely spurred by firming commodity prices and improved resource inflows. The trend is set to continue during 2011, when economic growth in SSA is projected to accelerate further to a level of 5.5%.

However, cognisance still has to be taken of the fact that Europe remains the largest trading partner of several SSA countries. The continuing fiscal austerity measures in the European Union could therefore have a dampening effect on regional growth prospects. The status of Asia, which is experiencing burgeoning levels of trade and investment links, also needs to be considered as part of the changing global dynamics. A reduction in activity between China and

SSA caused by a significant slowdown of Chinese economic activity, could impact negatively on growth prospects in this region. This would particularly be the case in the fields of mineral and oil exports.

The economic recovery in Sub-Saharan Africa has been driven by high commodity prices which have increased exports, though pre-crisis levels in some instances are yet to be achieved.

Gold, platinum and palladium, the precious metals, which are traditionally used as "safe havens" during times of economic uncertainty benefited from the weakening of the US Dollar. The oil price was largely influenced by financial flows as the market was well supplied.

Oil production from both OPEC and non-OPEC countries, including Canada, Brazil and Kazakhstan rose in the last few months of the year, taking place simultaneously with an increase in oil prices. Most agricultural commodities recorded sharp price increases in 2010. These price increases were due largely to improved global demand and also, in some cases, to supply constraints.

Wheat prices firmed on the back of weather-related supply losses in Canada and Kazakhstan and also because of the grain export ban imposed by Russia and Ukraine.

This export ban is expected to last until the end of the 2011 harvest season. The tight wheat market resulted in increased demand for maize and soya-beans. Cotton prices firmed due to fears that the current season's crop may not be sufficient to meet demand.

Economic growth in BancABC markets

Economic growth prospects in BancABC operational markets have significantly improved in line with the positive emerging markets economic outlook. Firm commodity prices are expected to provide an impetus to sustained growth in the commodity driven economies in these markets.

Botswana

In Botswana, economic growth was supported largely by recovering demand for diamonds and growth in base metal prices. For 2010, the projected GDP growth rate was estimated at 8.4%, compared to the decline of 6% in GDP during 2009.

Mozambique

The Mozambican economy is estimated to have grown by 6.5% in 2010. It is projected to test 8% over the medium term. This compares favourably with the 6.3% growth rate achieved in 2009.

Tanzania

Tanzania had an excellent year, with the GDP growth rate increasing from 5.0% in 2009 to about 7.5% in 2010.

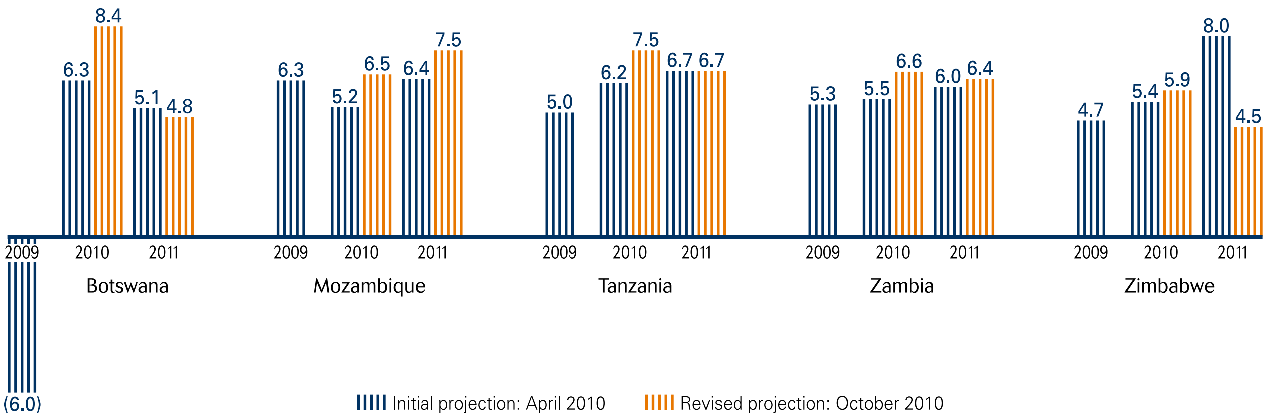
Zambia

Zambia's economy rebounded following the recovery of copper prices on world markets. Zambia's economy was expected to expand in real terms by 6.6% in 2010, compared to 5.3% in 2009.

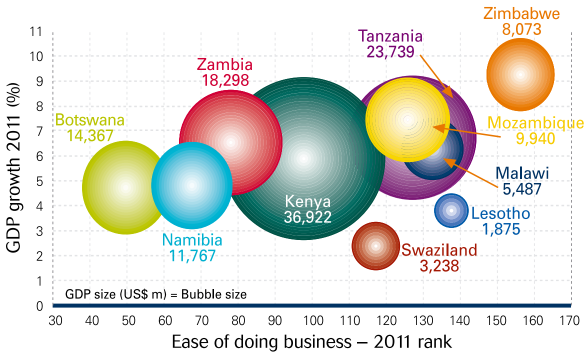
Zimbabwe

Zimbabwe, having recently emerged from 10 years of uninterrupted depression, is expected to post positive growth for a second consecutive year. Economic growth projections for 2010 were revised upwards by both Government and the IMF. Government now expects the economy to grow by 8.1% this year, while IMF projects a 5.9% growth. The improved economic growth outlook has largely been underpinned by expected double digit growth in the agriculture and mining sectors.

Economic growth in BancABC markets



Economic growth in regional markets



Inflation developments

Generally, inflationary pressures in the markets in which the Group operates have been subdued, despite the low interest rates which have prevailed in these markets since the onset of the global financial crisis.

The low inflationary pressures can be placed at the door of subdued consumer demand. Consumer demand is yet to recover as conservative consumers are primarily focusing on reducing their present debt levels rather than undertaking new obligations. In addition, the prices of imported commodities are set within ranges that would adversely affect the inflation outlook of any of these countries. Oil prices having already risen sharply in 2011, could be a concern going forward if the trend is sustained.

In Botswana, the annual average inflation rate in 2010 was 6.9%, which compared favourably to 8.2% in 2009. The end of year inflation rate was 7.4% in December 2010, compared to 5.8% in December 2009. An increase in VAT from 10% to 12% had a marginal effect on the inflation rate.

Inflation in Tanzania was lower as a result of low food prices that prevailed for most of the year. Average annual inflation was 7.2% compared to 12.1% in 2009. The inflation rate ended the year at 5.6% compared to 12.2% in December 2009. Weather conditions have a large part to play in the country's food deficits or surplus, hence any changes in weather patterns could have an adverse impact on the inflation outlook.

In Zambia, overall inflation continued its downward spiral in 2010, largely due to lower food inflation. Volatile food inflation, which was in double digit levels during 2009, dipped to 7.1% in January 2010 and stood at 2.8% in September 2010; the lowest level since January 2007. In November, the annual inflation rate declined to 7.1%, representing the lowest level in over 15 years. Average inflation for the first 11 months of the year was 8.6% which was significantly lower than the 13.8% of 2009.

Zimbabwe's inflation position in 2010 remained at an average of 3.1%. Assisted by improved availability of consumer goods on the market, inflation pressures have been well contained. More recently, reflecting seasonal patterns and firming international oil prices, inflation pressures gradually firmed.

Mozambique was the only exception as far as inflation was concerned. Year-on-year inflation increased from 4.2% in December 2009 to 16.6% at the end of 2010. This was primarily driven by imported inflation due to the weakening of the local currency (Metical) against key foreign currencies such as the South African Rand and US Dollar. This weakness was exacerbated by a reduction in Government subsidies on fuel, resulting in an increase in the overall price to the consumer. Inevitably, there was a "knock-on" effect on the prices of other key goods and services.

Interest rate developments

Relaxed monetary policies, adopted as a means of propping up economic activity in the wake of the world financial crisis, continued to prevail in most countries during 2010.

This was the also the case in Sub-Saharan Africa. The Bank of Botswana, after lowering the bank rate several times in 2009, maintained it at 10% from December 2009 until December 2010, then reduced it by a further 50 basis points to 9.5%.

In Tanzania, the low interest rate position that existed at the end of 2009 continued, with the overnight and 91-day T-bill rate being in the 1.5% to 2% and 3.5% to 3.9% range, respectively. However, during the first nine months to September 2010, average lending and deposit rates were 14.1% and 8.2%, respectively. This reflected the inefficiencies that exist within the market.

The Bank of Zambia rate (BOZ rate), which is the Central Bank's key policy rate, softened from 8.3% in December 2009 to 3.9% in April 2010. Since then, the BOZ rate, however, increased for consecutive months to 7.6% in August 2010, before retreating to 5.8% in November 2010. The 91-day T-bill rate which is pegged at 2 percentage points lower than the BOZ rate also mirrored changes in the policy rate. During 2010, lending and 90-day deposit rates remained broadly stable, averaging 28% and 7.4%, respectively.

In Zimbabwe, there is still no lender of last resort as the country uses a basket of foreign currencies. A wide disparity between lending and deposit rates exists in the banking industry. Lending rates have been under pressure aided by the fact that the borrowers are also increasingly resisting high lending rates. This is occurring as borrowers can no longer pass these costs on to consumers. Deposit rates are broadly in the lower single digit levels, with the exception of some fixed term deposits, which attract rates of interest of up to 20% in some instances, depending on the amount and institution.

Mozambique's interest rate policy was different from the other four countries in the sense that the policy rates increased dramatically in an attempt to counter inflation. The Standing Lending Facility, which was at 11.5% in December 2009, was raised by 100 basis points in April 2010 to 12.5%. It increased further to 14.5% in June and 15.5% in September where it has remained unchanged. The Standing Deposit Facility (SDF), another benchmark interest rate for the Bank of Mozambique, was reviewed upwards by 100 basis points to 4% in June 2010, where it remained unchanged for the remainder of the year.

Exchange rate developments

The US Dollar remained under pressure during much of 2010. This was due to its declining appeal as a safe haven currency, as risk appetite improved and investors began to be wary of a rise in US inflation resulting from the aggressive monetary policies it pursued to counteract the recession.

On an annual basis, the Botswana Pula appreciated by 3.5% against the US Dollar from BWP6.67/USD in December 2009 to BWP6.44/USD in December 2010. The Pula, however, depreciated massively by 8% against the South African Rand (ZAR).

The Mozambican Metical had a turbulent year, depreciating rapidly against the US Dollar. However the currency appreciated by 7.1% against the dollar in December 2010. Notwithstanding the appreciation in December on an annual basis the currency depreciated by 19.6% against the US Dollar and depreciated by 32.2% against the ZAR.

In 2010, the Tanzanian Shilling was consistently under pressure against the US Dollar and the ZAR. However, the effect of the exchange rate depreciation on inflation was very minimal. The exchange rate depreciation against the US Dollar was in the main due to low domestic interest rates. High demand for foreign assets in the banks (largely due to a technical change in the calculation of the limit on their net open foreign exchange positions) also contributed. The Tanzanian Shilling weakened against the US Dollar by 10.8% from TZS1, 326.6/US Dollar at the end of December 2009 to TZS1, 469.9/US Dollar as of end of December 2010. Similarly, since December 2009, the Tanzanian Shilling also weakened by 24% against the ZAR and 14.8% against the Botswana Pula.

The Zambian Kwacha was range bound against the US Dollar for much of the year. On a year-on-year basis, the

assets

Kwacha appreciated against the Euro (4.0%) and GBP (1.1%) but depreciated against the US Dollar (3.4%) and ZAR (15.2%).

Financial sector developments

Conservative attitude towards risk exercised by most banks, as a result of the recent financial turmoil, is being liberalised as markets continue to return to normalcy. Banks are now beginning to gradually loosen their lending criteria. Regional markets that were battered by bad debts during the crisis (such as Botswana and Zambia) have largely stabilised. However, the bad debts problem is still a major concern for the banking industry particularly in Tanzania.

In Botswana, total banking sector deposits increased by 10% from USD5.6 billion in December 2009 to USD6.5 billion in October 2010. The share of foreign currency denominated deposits (FCAs) has, however, not recovered from the levels that prevailed prior to the global recession. As at October 2010, total bank loans to the private sector amounted to USD3.3 billion. The household sector accounted for the largest share of banking sector loans at 57.1%. This was followed by the business services sector at 8.3%; (this includes legal, advisory, accounting, auditing, data processing, consulting, engineering, surveying, advertising, renting and leasing of machinery and equipment services); trade accounted for 8.4%; construction, 4.3%; manufacturing, 3.8%; and mining, 2.7%. Mining sector companies have capacity to borrow offshore at favourable terms and conditions. Hence, the share of credit of the mining sector is very low, despite the importance of this sector to the economy.

In Mozambique, total bank deposits in US Dollar terms declined from USD3.4 billion in December 2009 to USD3.0 billion in July 2010. This was primarily due to the massive depreciation of the Metical against the US Dollar. In some cases, a weak Metical can influence depositors to relinquish the local currency deposits in preference to the FCAs in order to restore value. In October 2010, total bank deposits were USD3.15 billion, while the ratio of FCAs to total deposits improved to 43%. By and large, the vast majority of Mozambicans are still not served by registered institutions. In addition, although, both deposit and credit ratios relative to GDP have been growing over the years, they are still considered to be very low. Bank deposits to GDP improved significantly from 13.3% in 2006 to 18.5% in 2008 and grew further to 26% in 2009. Similarly, private sector credit to GDP ratio improved from 15% in 2007 to 28% in 2010.

In Tanzania, total bank deposits (US Dollar equivalent) marginally improved from USD5.5 billion in December 2009 to USD5.7 billion in September 2010. Reflecting a significant improvement in financial deepening, over the course of the past few years, Tanzania's loan to GDP ratio has steeply trended upwards from 4.7% in 2000 to 18% in 2008 before marginally declining to 16.3% in 2009. Prior to recent years, Tanzania's private sector loans to GDP ratio had been one of the lowest when compared to other countries in the region. This notwithstanding, a report by Ernst & Young indicates that only about 4 million Tanzanians (out of a population of about 40 million people) have access to loans provided by banks and non-banking financial institutions. Only 10% of the population has access to banking sector loans suggesting that there is still a huge potential for growth in this market. In spite of very low interest rates, most banks continued to hold excessively high reserves, while the private sector credit growth showed signs of modest rebound. Annual growth in private sector credit improved to 22.3% in September 2010 compared to 9.6% in December 2009. In nominal terms, credit to the private sector grew by TZS723 billion from TZS4,992 billion in December 2009 to TZS5,715 billion in September 2010.

The Zambian financial services sector, though not directly exposed to the infamous toxic assets, was none the less indirectly affected by the financial crisis. During 2010, there was some recovery evident, with most banks improving their lending criteria to customers. The banking sector deposits in US Dollar terms increased from USD2.7 billion in December 2009 to about USD3.3 billion in October 2010. The loans also marginally increased from USD1.6 billion to USD1.7 billion in October 2010.

The banking system in Zambia was faced with a minor crisis of confidence following the take-over of Finance Bank of Zambia Limited (FBZL) by Bank of Zambia (BOZ). According to BOZ, FBZL is alleged to have had weak corporate governance and risk management systems and was likely to fail to conduct business in a safe and sound manner. This situation is not expected to have a material adverse impact on the banking sector in general, as depositors' funds were protected by BOZ.

In Zimbabwe, the banking sector continued to experience a remarkable recovery during 2010 as reflected by strong growth in deposits and loans. Total banking sector deposits, which increased from USD300 million at the beginning of 2009 to USD1.4 billion in December 2009, are now estimated to have increased by 79% to USD2.5 billion in December 2010. Likewise, banking sector loans, which stood at USD636 million in December 2009 improved to about USD1.6 billion in December 2010, representing a loan to deposit ratio of 65%. However, due to the absence of a functional money market, aggressive credit growth witnessed in the banking sector has exposed most banks to heightened liquidity and credit risks.

According to the IMF, Zimbabwe's banking sector is still fragile. The IMF has urged the Reserve Bank of Zimbabwe to step up supervisory efforts in order to ensure that the banking system can withstand any shocks that might arise due to systemic risks.

Outlook

The growth recovery of the world economy is still very fragile and its sustainability remains uncertain for a number of reasons. The effects of the large stimulus packages that countries had to provide to help stem-out growth are unknown, as this is the first time that such widespread use of stimulus packages has occurred. The impact of the various stimulus packages on economic growth is still to be determined.

The sovereign debt crisis in Europe, the socio-political instabilities in the Arab world, austerity measures being undertaken by some large developed economies and risk of asset price bubbles developing in China point to a potentially negative outlook on the world economic growth.

Going forward, oil prices are expected to remain firm despite slower demand growth and large surplus capacity as OPEC now prefers a wider price range of USD70 – 90/bbl. Oil prices in 2011 have, however, been much higher than this range. Base metal prices are expected to record further price gains on the backdrop of continued strong demand from China, falling stocks and supply constraints. Some experts project an increase in basic food prices which could spark riots and general unrest in some developing countries. However, this could be short-lived if production returns to normal and countries start rebuilding strategic food stocks.

According to the International Monetary Fund (IMF), global economic growth is expected to weaken somewhat in 2011, before picking up in 2012. The IMF estimates that the global economy, which grew by 4.8% in 2010, will grow by 4.2% and rebound in 2012. The IMF, however, noted that although financial conditions have begun to normalise, institutions and markets remain fragile.

In many high income economies and developing territories in Eastern Europe and Central Asia, economic growth will be largely dependent on restructuring and right-sizing in the banking and construction sectors, as well as ongoing fiscal and household consolidation exercises among others. In the developing countries, economic growth will benefit from somewhat stronger remittance inflows, a recovery in tourism and higher commodity prices.

The economies in which the Group has a footprint are expected to continue growing into the future. Improvements in demand and consequently, prices of commodities, will be the common driver to economic growth in all these markets.

Zimbabwe, however, is still grappling with the Kimberly Process so that it can gain full access to international diamond markets for its Marange diamonds. The uncertainties that characterise the political arrangement are unnerving for foreign investors and are limiting foreign investor participation in the local market. We remain hopeful that the Zimbabwean economy will be restored to its former size in the medium term.

Change of shareholding

The Directors wish to advise shareholders that African Development Corporation (ADC), a Mauritian registered company, has recently acquired 20% of the company's shares through the open market.

Dividend

The Directors have declared a final dividend of BWP0.10 (ten Thebe) (USD equivalent currently 1.52 cents) per share in respect of the year ended 31 December 2010. The dividend will be payable to shareholders registered in the books of the company at the close of business on Friday, 1 April 2011.

Governance

I welcome Mr Francis Dzanya, the Chief Operating Officer, and Mr Beki Moyo, the Chief Financial Officer, who were elected in May 2010 to the Board.

Acknowledgements

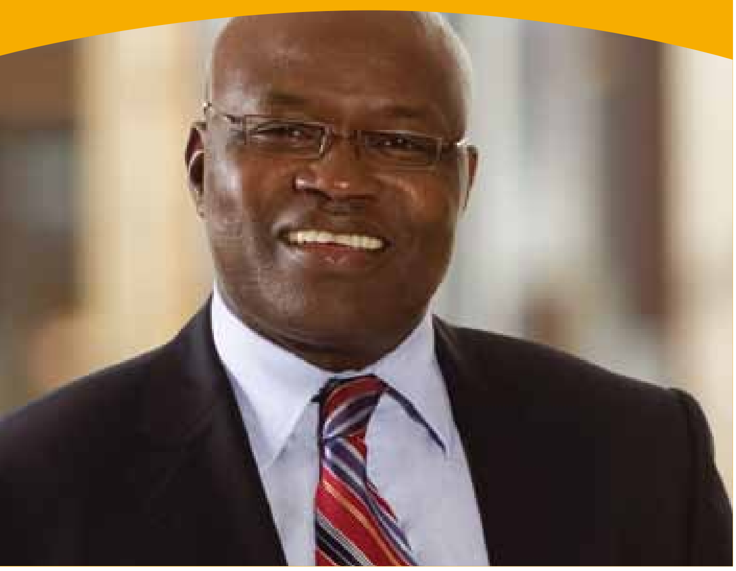
I would like to thank my fellow directors, management and staff for the positive results achieved by the Group in 2010. These results position the Group well in its quest to be the pre-eminent financial services group in Africa.

HJ Buttery
Group Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

DT Munatsi

"It is pleasing to report that for the first time in the short history of the institution, all the Group's operating banking subsidiaries posted commendable results. Operating profit at BWP111 million is more than four times the BWP26 million that was achieved in 2009."



It is pleasing to report that for the first time in the short history of the institution, all the Group's operating banking subsidiaries posted commendable results. Operating profit at BWP111 million is more than four times the BWP26 million that was achieved in 2009.

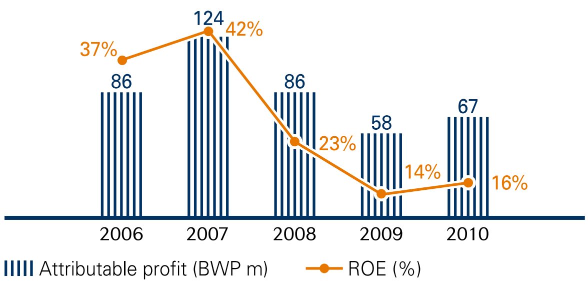
The quality of earnings has improved, with most of the income being generated from core banking activities. This contrasts markedly with 2009 and prior years, when non-recurrent income contributed significantly to the profitability of the business.

Business growth was achieved across all operations as the Group continued widening and strengthening its footprint through the expansion into the retail banking sector. The Group has to date set up 17 retail branches across its network. The retail expansion was funded entirely from Group resources, which is pleasing. The move has been well received in all markets, particularly in Zimbabwe where the retail business achieved profitability after its first year in operation. This achievement exceeded internal expectations, which had estimated that profitability would be achieved 18 to 24 months after the doors opened for business.

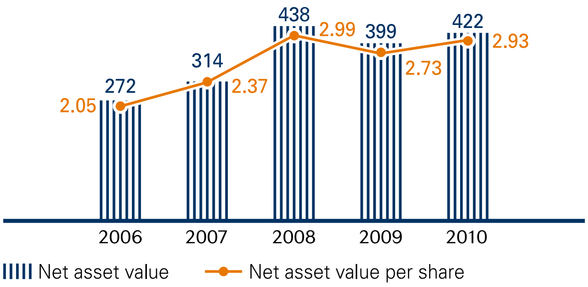
The quality of the loan book continued to improve. During the period under review, non-performing loans reduced from 10% to 8%, resulting in a 69% reduction in charges for credit impairments. Tanzania was the only operation that had significant impairments and its contribution is higher than all the other operations combined. The other operations recorded net write-backs. Whilst we are confident that we are well secured for most of these exposures, the court system in Tanzania is such that the recovery process will be protracted.

Notwithstanding the huge share of loss from associates, attributable profit at BWP66 million is 14% ahead of BWP58 million achieved in prior year. Both the return on equity and the net asset value per share improved as a consequence.

Attributable profit (BWP m) and ROE (%)



Net asset value (BWP m) and NAV per share (BWP)



Financial performance

Net interest income

Net interest income of BWP298 million is 67% higher than the BWP178 million recorded in the previous reporting year. This was largely due to a 54% increase in loans and advances, coupled with a higher net interest margin of 6.8%, up from 5.6%. All operations with the exception of BancABC Mozambique recorded an improvement in net interest income. Mozambique was impacted by excessively volatile interest rates which resulted in margins being squeezed. In addition, the loan portfolio increased only marginally, due to the significant depreciation of the Metical against all major currencies. On the other hand, BancABC Zimbabwe performed exceptionally well albeit off a low base.

Impairment losses on loans and advances

Net impairment charges of BWP16 million are 69% below the prior year charges of BWP51 million. This improvement was due to a combination of an improvement in the economic environment and strict credit monitoring of facilities. Owing to the above a number of clients that were previously adversely classified were able to service their facilities. This resulted in significant reversals of loan impairments. The level of non-performing loans, whilst still high, is reducing. The strategy of curtailing lending at the start of the global crisis has been vindicated. The quality of the loan book is sound and barring any unforeseen adverse changes in the regional economies, the level of non-performing loans should continue to decline and be in line with those of other industry players.

BancABC Tanzania's net impairment charges at BWP18 million were 41% higher than the BWP13 million recorded in prior year and exceeded the Group total as other operations recorded significant recoveries. Most of these facilities are secured by tangible assets, hence they should be recoverable. The biggest challenge, however, is the complex court system which results in cases generally taking an inordinate amount of time to resolve in-spite of the fact that there will be a clear breach of contract. As a result, where loans are secured by moveable assets, by the time judgement is issued, the value of those assets may have substantially declined. In view thereof, we have decided to be extremely cautious in our lending approach in Tanzania, and as much as possible take immoveable properties as collateral. Efforts to recover from all the delinquent clients are intensifying.

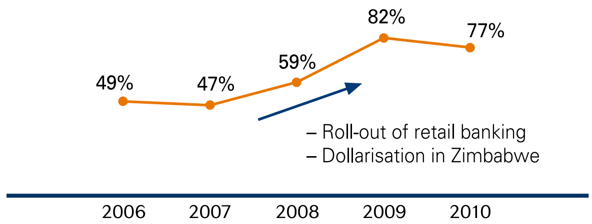
Non interest income

Non interest income at BWP264 million was marginally down on prior year. What is comforting though is that income from banking services increased, whilst non-recurrent income reduced significantly. In 2009, the Group realised once-off income of BWP94 million in respect of disposal of associates and the equity portfolio in Zimbabwe. All the operations with the exception of BancABC Botswana recorded significant increases in non interest income BancABC Botswana experienced a slump in foreign exchange trading income due to a market-wide reduction in both volumes and margins.

Operating expenses

Operating expenses at BWP435 million were 19% above the BWP366 million recorded in 2009. This increase was largely attributable to the Zimbabwe operation, where costs rose by 71% post-dollarisation, and the retail banking roll-out which cost BWP63 million compared to BWP35 million in 2009. Notwithstanding the increase in costs, the cost to income ratio declined by 5 percentage points from 82% in 2009 to 77% for the period under review. Whilst costs will continue to increase as we ramp up the retail programme, we expect the cost to income ratio to come down as a result of revenue contribution by the retail banking segment. The medium-term target is to reduce the cost to income ratio to 50%. We are, however, cognisant of the fact that, whilst the ratio will decline, it will still be higher than this target in the near-term.

Cost to income ratio



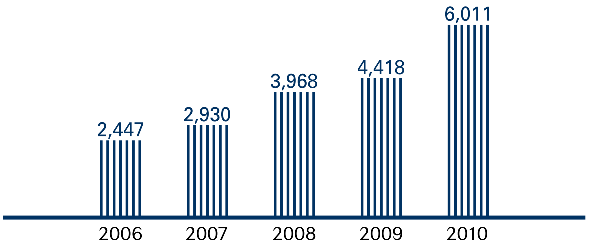
Tax

The Group incurred a net tax charge of BWP22 million compared to a credit of BWP16 million in 2009. Changes to the taxation rules in Zimbabwe in 2009 resulted in a tax credit for the Group through the reduction of deferred tax in respect of gains on disposal of quoted marketable securities.

Balance sheet

The balance sheet grew by 36% from BWP4.4 billion to BWP6 billion as at 31 December 2010. Loans and advances increased by 54% from BWP2 billion in 2009 to BWP3.1 billion. Deposits increased by 46% from BWP3.4 billion to BWP4.9 billion.

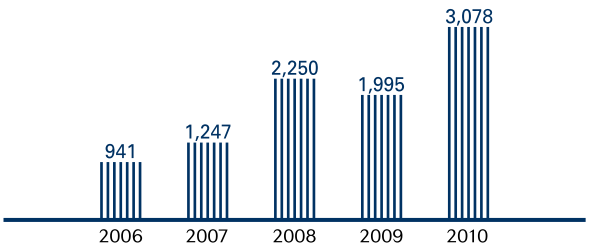
Total assets (BWP m)



- 38% balance sheet growth compared to December 2009
- Sustained balance sheet growth since 2006
- Compound annual growth rate of 26%

Loans and advances in BancABC Zimbabwe increased nine-fold from BWP98 million to BWP975 million. Zimbabwe now constitutes 32% of the total loan portfolio, up from 5% in the previous year. BancABC Zimbabwe's market share has increased from 3.1% in 2009 to 8.8% in 2010. This was achieved despite the bank still being predominantly corporate in nature. Market share is expected to increase on the back of the retail expansion. All the other banking subsidiaries with the exception of Tanzania registered growth in loans and advances. BancABC Tanzania management focused on collections and rehabilitation of non-performing loans.

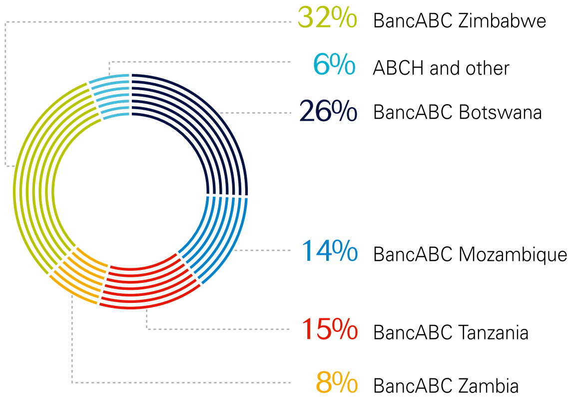
Net loans and advances (BWP m)



- Net loans increased by 54% from December 2009
- Compound annual growth rate of 34%

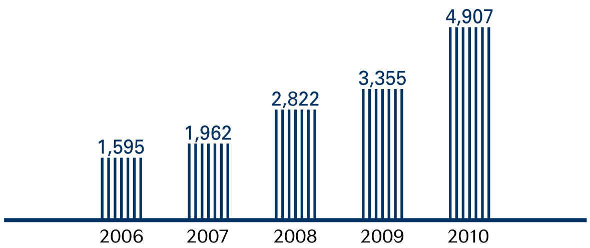
The quality of the loan book in all subsidiaries, other than Tanzania, was good. The strategy in Tanzania will be premised on growing quality loans and collecting on delinquent accounts.

Loans



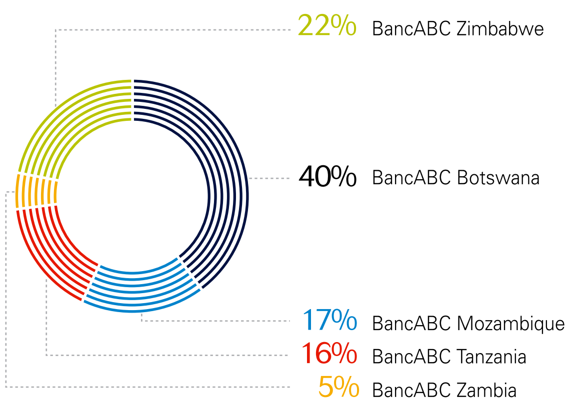
Deposits increased by 46% from BWP3.4 billion to BWP4.9 billion. Over the last five years deposits have grown by an annual compound rate of 32%. All the operations recorded growth in deposits. Botswana's contribution at 40% is still the highest and BancABC Zimbabwe has come in strongly and now contributes 22% of the book, up from 8% in prior year.

Deposits (BWP m)



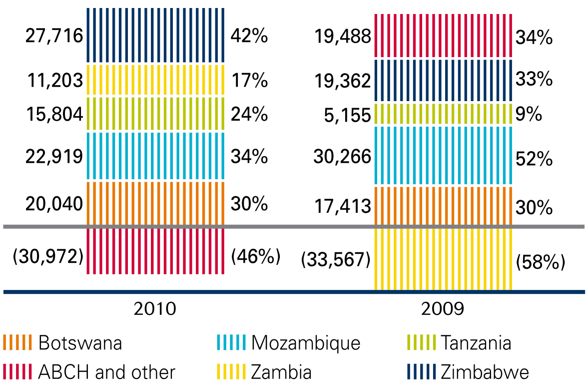
- 46% growth in deposits from 2009
- Compound annual growth rate of 32%
- Botswana continues to lead with deposits of BWP2.0 billion
- Growth of 316% in Zimbabwe and 40% in Botswana
- Zimbabwe, however, is coming off a low base

Deposits



Attributable profit by operation

Attributable profit (BWP'000s)



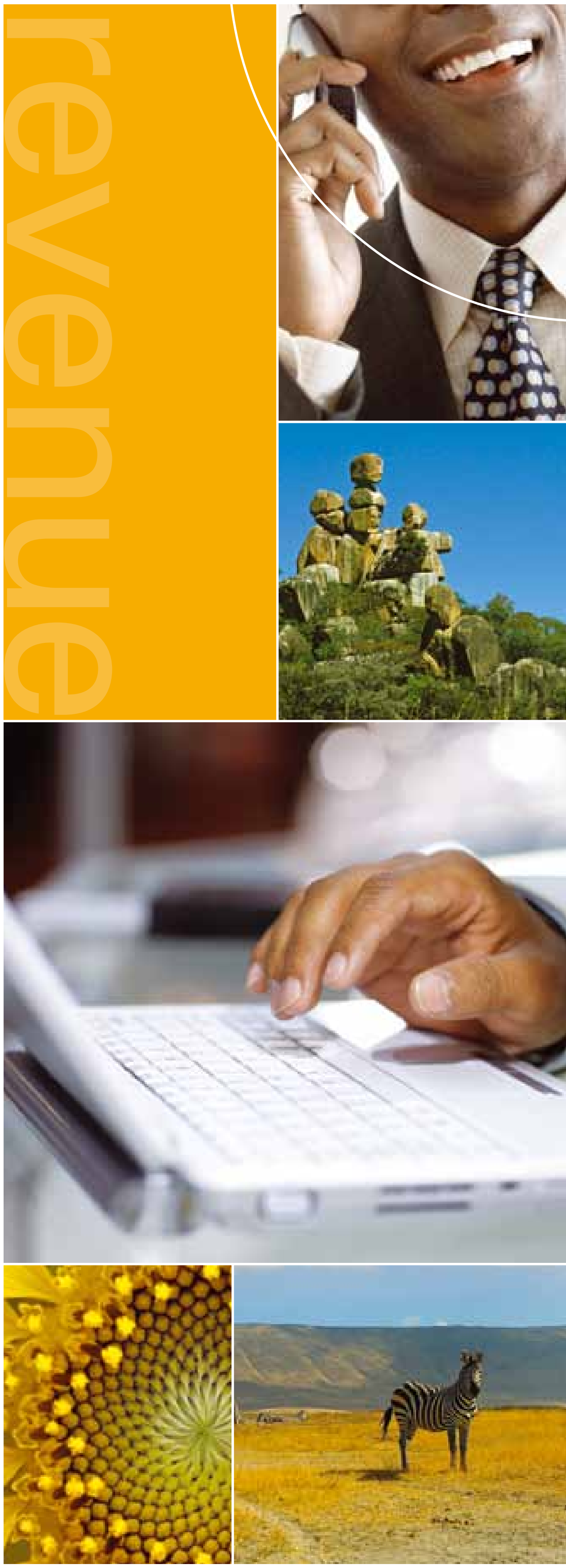
The banking subsidiaries recorded attributable profits of BWP98 million, up 151% from BWP39 million in prior year. Head office and other non-banking operations posted a loss of BWP11 million, while associates contributed a loss of BWP20 million. Although the Group will continue to support the associates, they remain available for sale as long as a reasonable price can be realised. Head office in the prior year recorded some once-off gains through the sale of equity investments that were being used for capital preservation purposes in Zimbabwe.

Operational performance

Botswana

BancABC Botswana performed well on the back of the economic recovery as commodity prices improved. Profit after tax of BWP20 million was 15% higher than the BWP17 million achieved in 2009. The balance sheet grew by 30%, largely due to increased customer deposits, which grew by 40% to BWP2 billion. This additional liquidity was invested partly in money market instruments, including Bank of Botswana certificates as well as in loans and advances.

The firming of margins in lending activities coupled with an increase in the balance sheet size, resulted in higher net interest income. Net interest income increased by 48% from BWP35 million to BWP51 million. On the other hand, non interest income declined by 22% (BWP9 million), largely due to a reduction in foreign exchange trading income on account of a reduction in both volumes and margins. Management acted proactively in managing the quality of the loan book, collecting on some previously impaired loan accounts. Non-performing loans in Botswana have come down and this situation is expected to improve further in 2011. Owing to the above, BancABC Botswana had a zero net charge for credit impairments in 2010.



Operating expenses increased by 27% (BWP13 million) to BWP59 million as a result of expenditure related to the roll-out of the retail programme.

Mozambique

BancABC Mozambique was adversely affected by the high volatility in market interest and exchange rates during the year. These developments negatively impacted the bank's margins and led to subdued balance sheet growth. As a consequence, net interest income declined by 25% (BWP10 million) to BWP29 million and non interest income declined by 7% to BWP57 million.

On a positive note, the credit impairment charge declined by 77% to BWP2 million from BWP10 million in 2009. This was due to collections on previously adversely classified accounts and tight monitoring of the quality of the loan book. As a result, no new accounts were adversely classified. Operating expenses were tightly managed. Despite increased staff numbers and business activities following the introduction of retail services, operating expenses increased only by 6% (BWP3 million).

After tax profit at BWP23 million was 24% lower than the BWP30 million achieved in 2009.

Tanzania

Despite the high impairments recorded by BancABC Tanzania during the year, the subsidiary managed to increase its attributable profits by 207% to BWP16 million. This was achieved on the back of increased revenues across the board.

The bank's deposits increased by 18% (BWP119 million). Loans and advances, however, declined by 8% (BWP40 million). The excess liquidity generated was invested in money market instruments, including Government bonds. Net interest income increased on the back of increased volumes and margins as the cost of funds in the market declined to historic lows. As a result, non interest income increased by 40% from BWP27 million to BWP38 million.

The above achievements were, however, negated by an increase in impairments from a few large clients who did not service their debts on schedule. Credit management and monitoring has been strengthened and benefits of these actions should be realised in the near-term. Operating expenses increased by 18% (BWP7 million) as the bank intensified the retail banking roll-out.

Zambia

BancABC Zambia achieved a successful turnaround, posting a profit after tax of BWP11 million. This compared favourably to the loss of BWP34 million the bank recorded in 2009.

BancABC Zambia reinforced its improved position by growing its customer deposit base by 21% to BWP253 million, despite a 22% decline in its loan book to BWP233 million. The capital position of the bank had become precarious due to historical losses. As a result new equity of USD6 million was injected by the holding company. As the bank's fortunes changed it became correspondingly easier to raise deposits at a reasonable cost. Net interest income increased by 9% to BWP67 million while non interest income increased by 110% to BWP21 million on the back of increased transactional volumes during the year.

The quality of the loan book improved significantly. This enabled the entity to record a net impairment recovery of BWP3 million compared to a charge of BWP27 million in 2009. Operating expenses were tightly managed and only increased by 5%, mainly through synergies achieved following the merger of the bank and the microfinance unit in 2009. There remains, however, substantial work to be done on the banking side of the business to ensure that profitability accelerates.

Zimbabwe

The Zimbabwean economy which had been in free-fall for more than a decade, recorded growth for the first time in 2009 following the establishment of a government of national unity and dollarisation of the economy. This growth continued into 2010. However, the developed world remains doubtful that the risk profile of the country has materially changed. As a result, foreign investor participation is still limited and the economy continues performing at a fraction of its full potential. Further, the lack of capacity by the lender of last resort has limited both loan expansion and interbank trading.

Despite these challenges, BancABC Zimbabwe posted BWP27 million in profit after tax, an improvement of 43% from the BWP19 million achieved in 2009. The bank grew its balance sheet by 215% from BWP0.5 billion to BWP1.5 billion. Customer deposits increased by 316% from BWP0.25 billion to BWP1.1 billion. Loans and advances increased by 810% from BWP0.1 billion to BWP0.9 billion. This, together with increased transaction flows, increased the bank's revenues across the board by 93% from BWP73 million in 2009 to BWP140 million in 2010.

Operating expenses increased by 71% to BWP107 million from BWP62 million. The increase in operating expenses was largely due to the normalisation of staff salaries, which was a feature of the market post-dollarisation. In addition, the expansion into the retail banking sector exacerbated the increase in costs.

Business segments

Treasury and structured finance

The division performed well during the year, with customer deposits increasing by 46% from BWP3.4 billion in 2009 to BWP4.9 billion. All subsidiaries registered positive growth when compared to 2009, with significant growth being registered in Botswana and Zimbabwe.

The division was able to increase funds invested in money market instruments resulting in a 27% increase in money market interest income to BWP201 million. This growth was achieved on the back of stability in market interest rates other than in Mozambique.

Trading activities in Mozambique, Tanzania and Zimbabwe remained high. Trading income increased 8% to BWP140 million from BWP129 million in 2009. Growth was hampered by a decline in trading volumes in Botswana following the introduction of cheque capping and other regulations that are restricting transaction volumes. However, foreign exchange trading income improved substantially in Mozambique and Zimbabwe, whilst trading of Government securities helped improve overall trading income in Tanzania and Zambia. Central treasury operations have been bolstered and it is our hope that this unit will contribute positively to income going forward.

Corporate banking

The division fared well despite the tough but improving operating environment. Loans and advances grew significantly, even though challenges, which militated against growth, persisted in Zambia and to a lesser extent in Mozambique. The quality of the loan book continues to improve and the ratio of non-performing loans should be in line with industry peers within the next 24 months. The establishment of a separate credit function across all subsidiaries in 2009 has resulted in a more focused approach to credit management and has led to more objective assessment of any new loans being underwritten.

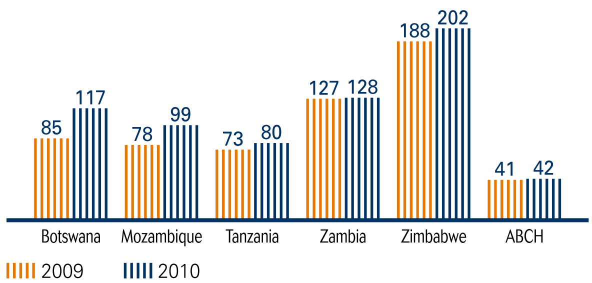
The division recorded a 31% increase in interest income to BWP450 million and an increase of 23% in fees and commissions to BWP103 million. Zimbabwe now contributes meaningfully to the division's overall results.

Retail banking

During 2010, the division opened 11 branches across its regional footprint (bringing the total number of branches opened to 15 as at 31 December 2010 and 17 to date after opening 2 more branches in January and February 2011) and began marketing all key products. These products have been well received across all markets. In 2010, the division raised deposits of BWP165 million and underwrote retail loans of BWP109 million. Total revenues were BWP27 million against operating expenses of BWP63 million (2009: BWP35 million). All the systems have been acquired and a substantial number has been deployed or are in the process of final deployment. With the introduction of retail banking the Group will now be in a position to offer a full suite of banking products and this should help in pushing for more business from both new and existing clients. As previously advised our target is to ensure that all branches are profitable within 18 to 24 months of opening.

Human capital

Staff complement



During the year, the Group's Human Capital department continued executing its mandate of ensuring standardised and consistent people management practices in all Group operations. The "Balanced Scorecard" methodology which is part of the overall performance management and measurement tool at entity and individual level has now been embedded Group-wide. Staff grading, compensation and incentive schemes were also harmonised during the year. To ensure continuity, these were linked to individual and country balanced scorecards.

Tremendous successes were recorded in the fields of learning and development. Of the most noteworthy achievements was the success of the Leadership Development Programmes undertaken by executives, managers and specialists. The objective of the Executive Leadership Development Programme is to achieve universal participation by all executives and senior managers. With almost a year still to run, it is anticipated that this objective will be achieved by the end of December 2011.

The division's short to medium term plans are to entrench strategic human capital management practices, improve overall employee productivity in the Group, drive down people costs and drive a robust talent management system that includes succession planning. As a result of all these policies we should be able to attract and retain highly skilled employees within the Group.

Other support divisions

The Group operates a centralised Information Technology (IT) function. The focus of IT during the year was to improve overall services offered to internal and external customers. This involved the setting up of a more robust help-desk and building the infrastructure and systems required to support the retail programme through a specially created programme management office. The roll-out of retail banking functionality is ongoing. To meet the demands of this programme the department will be bolstered by additional skilled staff as the roll-out progresses.

Simultaneously with the development of new functionality, the core banking system is being upgraded to improve performance. The higher version of the core banking software will enable the Group to seamlessly integrate systems from different vendors.

The Group's Banking Operations department supports various revenue-generating departments. We continuously look for new and better ways of servicing the customer and at the same time reduce the error rate to negligible figures. The department rationalised existing internal functions to improve transaction handling and to cater for increased transaction processing from the retail programme. It also reviewed and wrote a number of new process manuals to help new staff understand the Group's standard way of handling business.

Group Finance is responsible for financial management and reporting, regulatory reporting, budgeting and Group tax. A new management information system will be deployed in 2011 which will help in both the quality and timeous reporting of all key information.

Group Risk manages all risks that the Group is exposed to from all its activities. The department has various committees that identify and manage various types of risks. The key committees are the Asset and Liability Management Committee and the Operational Risk Committee. The Legal and Compliance department is also charged with the day-to-day managing of legal and compliance risks. To this end, the department has developed standardised documents for wholesale and retail banking. It has strengthened structures in the subsidiaries and established a centralised filing system for all legal documentation.

The Legal and Compliance department developed a legal policy framework that sets uniform legal document protocols. It also advised the Board of Directors on augmenting corporate policies in line with the new corporate governance recommendations made in the King III Report on corporate governance. The Group Legal Counsel, who heads this department, also provides legal services as required or in conjunction with external attorneys.

Group Credit monitors the loan portfolio of the Group and ensures that the Group is not exposed to undue risk from new business that is underwritten. In addition, it also monitors existing customers who may be facing financial challenges that impact on their ability to meet their commitments.

Group Internal Audit plays a key role in maintaining and improving the internal control environment within the Group. The Group Head of Internal Audit reports directly to the Risk and Audit Committee.

Rating

Global Credit Rating maintained the rating for the Group at A3 for short-term securities and BBB minus for long-term securities. The evolution of the Group's rating is listed below.

Security class	2006	2007	2008	2009	2010
Short-term	A3	A2	A2	A3	A3
Long-term	BBB	BBB	BBB	BBB-	BBB-

Outlook

We believe that even though the economic recession has bottomed out, full recovery will be protracted. Inflation could be a challenge as a consequence of higher oil prices given the challenges currently being experienced in the Middle East and North Africa. The Group has made major investments in the retail banking business and this should yield higher returns in the next two years. The wholesale banking business remains robust and continues to generate strong revenues. An even stronger performance is anticipated in 2011. In order to move the company to the next level, it will be necessary to raise additional capital. The Board and Management are actively examining this important matter, and further announcements will be made in due course.

Acknowledgements

I would like to extend my sincere thanks to the Board, management and the entire BancABC team for all their support during 2010.

DT Munatsi
Group Chief Executive Officer

CORPORATE SOCIAL RESPONSIBILITY REPORT

"BancABC is also a patron of the arts. The Group supports the view that vibrant arts and culture is a vital expression of Africa's identity. Africa boasts a rich artistic and cultural heritage that is as diverse as its people. This heritage is the soul of the African continent and for it to grow and thrive, the cultural arts need to be nurtured and celebrated."

Social and environmental policy

BancABC recognises, that sustainable development is dependent upon a positive interaction between economic growth, social upliftment and environmental protection. As a responsible corporate citizen, the Group has a policy framework that is designed to ensure that all projects undertaken adhere to social and environmental regulations of the relevant local, national and international laws and standards.

This policy framework commits the Group to:

- provide inhouse environmental education and support;
- recognise the environmental burden caused by consumption of resources and release of waste from our own business activities and aim to protect the environment through resource recycling as well as efficient use of energy and resources;
- support business activities that contribute to the protection and improvement of the environment;
- monitor the effects of our activities on the environment and work towards continuous improvement and pollution prevention;
- comply with all applicable laws and regulations related to environmental protection and other requirements to which BancABC Group companies are subject to and subscribe to; and
- provide financing to projects with minimal adverse impact on the environment while ensuring that those having potentially major adverse environmental and social impact are accompanied by adequate mitigation measures.

In order to ensure compliance with the last of these commitments, BancABC's credit risk assessment seeks to ensure that the social and environmental effects of its financial support are assessed and monitored. This Environmental and Social Review Appraisal Procedure (ESRP) enables the integration of social and environmental safeguards in projects, to ensure that the potential risks associated with these issues are appropriately identified and mitigated.

The key components of the ESRP are:

- an assessment of potential and current environmental and social risks and impact arising out of the proposal; and
- the commitment and capacity of the borrower to manage this impact.

Against this background, the procedure ensures that projects financed by the Group are environmentally and socially sound and sustainable and that any potential environmental and social risks are identified, evaluated and where necessary, mitigated. In line with its policy, the Group will not finance any business activity that cannot reasonably be expected to meet the required environmental and social standards up front.

Projects financed by the Group shall, at the minimum, comply with the national and/or local legislation and guidelines for environmental and social assessment and management. The Bank further conforms to the African Development Bank's Environmental and Social Assessment Procedures (2001).

Management ensures, through training and coaching, that there is an appropriate internal capacity to handle environmental and social issues. This is supplemented by external expertise, as the need arises. All the Bank's employees in the Operations department are provided with a copy of the ESRP.

The Group may finance projects for which no specific environmental or social guidelines exist. In such cases, general environmental and social considerations pertaining to emissions, liquid effluents, hazardous materials and wastes, solid wastes, ambient noise, occupational health and safety, life and fire safety and other hazards are borne in mind during the appraisal.

Corporate Social Investment (CSI)

BancABC recognises it has a responsibility to uplift and support social programmes in Africa and it plays an active role in the communities in which it operates to achieve as much. Through various programmes and initiatives, BancABC is focused on the economic upliftment of the most vulnerable group on our continent – women and children.

BancABC is also a patron of the arts. The Group supports the view that vibrant arts and culture is a vital expression of Africa's identity. Africa boasts a rich artistic and cultural heritage that is as diverse as its people. This heritage is the soul of the African continent and for it to grow and thrive, the cultural arts need to be nurtured and celebrated.

Tanzania

BancABC Change Forum team was formed in 2010 for the purpose of ensuring that staff live the Bank's core values. The team managed to work on "People" as one of the core values by ensuring that all staff participate in Corporate Social Responsibilities and impact other people outside the Bank. The team identified one of the orphanage centres in Dar es Salaam known as Kurasini National Children's Home Center where needy children are looked after and raised. The Bank donated various material items, including 50 mattresses, 100 kg of maize flour, 50 kg of sugar, washing and bath soaps, drinks, and other foodstuff. More than 30 staff from BancABC visited the Center and had time to interact with the children.

BancABC has continued to support Kiota's Women's Health and Development Organization (KIWOHEDE). KIWOHEDE is a non-governmental community-based organisation and operates in 21 towns and districts across the country. The center caters for girls between the ages of 9 to 20 by providing counselling, rehabilitation and alternative programmes for child prostitutes, domestic workers, sexually abused and other vulnerable children and youth. The Bank's project is supporting five girls through their secondary education. The girls are doing well at school and the assistance is changing their lives, thus giving them hope for a better future.

Zimbabwe

BancABC has been proudly investing in Harare International Festival of The Arts (HIFA) through the life of the Festival. The bank partnered with HIFA in sponsoring the BancABC opening day, in April 2010. This year's theme was "about face", which focused on changes the country is going through. HIFA has become one of the biggest festivals in Africa, attracting international artists and tourists, and promoting local arts and culture.

The bank contributed to the Khayelihle Children's Home fundraising dinner that was held in Bulawayo. The bank also pledged to contribute towards the foundation building of the Midlands State University Library. The foundation will cost USD62,000 and the bank has already contributed USD15,000.

Zambia

BancABC Zambia supports Our Lady's Hospice in Kalingalinga. The hospice provides day care, home-based care and hospital facilities for people suffering from full blown AIDS. It also gives support in providing anti-retroviral treatment to some of its patients. BancABC Zambia supports the hospice by providing USD1,000 every month to assist the lab in buying astringents. BancABC Zambia also supported the Zambia Judo Association by sponsoring the tracksuits used for all international events, and the Zambia Cycling Union by sponsoring their cycling event to support healthy living in Zambia.

RISK AND GOVERNANCE REPORT

"Group Risk Management continually seeks to enhance its risk management techniques and provide assurance that risks are appropriately identified, monitored and controlled."

Risk management

The directorate and management of ABC Holdings recognise that effective risk management is fundamental to the sustainability of its business. A strong risk management culture within the Group ensures an appropriate balance between the diverse risks and rewards inherent in any transaction, and underpins sound decision making. Accordingly, a comprehensive risk management process is in place to evaluate, monitor and manage the principal risks the Group assumes in conducting its activities. In the course of conducting its business, the Group is exposed to various risks inherent in providing financial services. Some of these risks are managed in accordance with established risk management policies and procedures, most of which are discussed in the Financial Risk Management section. The Group's primary risks are outlined below:

Market risk

The Group may be adversely impacted by global markets and economic conditions that can lead to fluctuations in interest and exchange rates, as well as equity and commodity prices. It may also be adversely impacted by significant holdings of financial assets, or significant loans or commitments to extend loans.

Credit risk

The Group may be adversely impacted by an increase in its credit exposure related to trading, lending and other business activities. Potential credit-related losses can result from an individual, counterparty or issuer being unable or unwilling to honour their contractual obligations.

Liquidity risk

The financial condition of the Group may be adversely impacted by an inability to borrow funds or sell assets to meet its obligations.

Operational risk

The Group may incur losses due to the failure of its people, internal processes or systems, or as a result of external events.

Legal risk

Legal proceedings against the Group or insufficient legal protection could adversely affect its operating results for a particular period and impact its credit ratings.

Regulatory and legislative risks

Many of the Group's businesses are highly regulated and are subject to, and could be adversely impacted by, regulatory and legislative initiatives.

Role of Group Risk Management

Group Risk Management is responsible for maintaining a culture of risk awareness throughout the Group. While each business unit is primarily responsible for managing its own risks, Group Risk Management independently monitors, manages and reports on all risks facing the Group, as mandated by the Board of Directors. It coordinates risk management activities across the Group to ensure that risk parameters are properly set and adhered to across all risk categories and in all Group companies. It also ensures that all risk exposures can be measured and monitored across the Group. Managing risk effectively is one of the key drivers of the Group's continuous investment in technology. Group Risk Management continually seeks new ways to enhance its risk management techniques. It also updates the Group Risk Management framework on a regular basis to reflect new policies adopted by the Board of Directors. Group Risk Management regularly reports to the Executive Committee and the Risk and Audit Committee, to provide the Board with assurance that risks are being appropriately identified, managed and controlled. Group Risk Management is headed by an executive manager who reports to the Chief Executive Officer (CEO).

The Group's approach to risk management

The Group's approach to risk management involves a number of fundamental elements that drive its processes across the Group. The procedure and methodology is described in the Group's Entepise-wide Risk Management Framework. The Group's risk appetite sets out the level of risk that the Group is willing to take in pursuit of its business objectives. This risk appetite is calibrated against the Group's broad financial targets, including profitability and impairment targets, dividend coverage and capital levels business. The Group's risk methodologies include systems that enable the Group to measure, aggregate and report risk for internal and regulatory purposes. As an example, the Group's credit grading models produce internal ratings through internally-derived estimates of default probabilities, see discussion on Credit Risk Management below. These measurements are used by management in an extensive range of activities, from credit grading, pricing and approval to portfolio management, economic capital allocation and capital adequacy processes.

Approach to risk management

The Board recognises that it is ultimately responsible and accountable to shareholders for:

- the process of risk management and the systems of internal control;
- identifying, evaluating and managing the significant risks faced by the Group;
- ensuring that effective internal control systems are in place to mitigate significant risks faced;
- ensuring that a documented and tested process is in place to allow the Group to continue its critical business in the event of a severe incident impacting its activities; and
- reviewing the efficacy of the internal control system.

The Board has approved the Group Risk Management framework which applies to all Group companies and deals with enterprise-wide risk and governance protocol. Risk management in the Group is underpinned by governance structures as well as risk ownership, identification and evaluation. Ownership and management of risks begins in the business units of each subsidiary, who identify and evaluate risks particular to their function. Group Risk Management reviews actions taken by business units to mitigate identified risks.

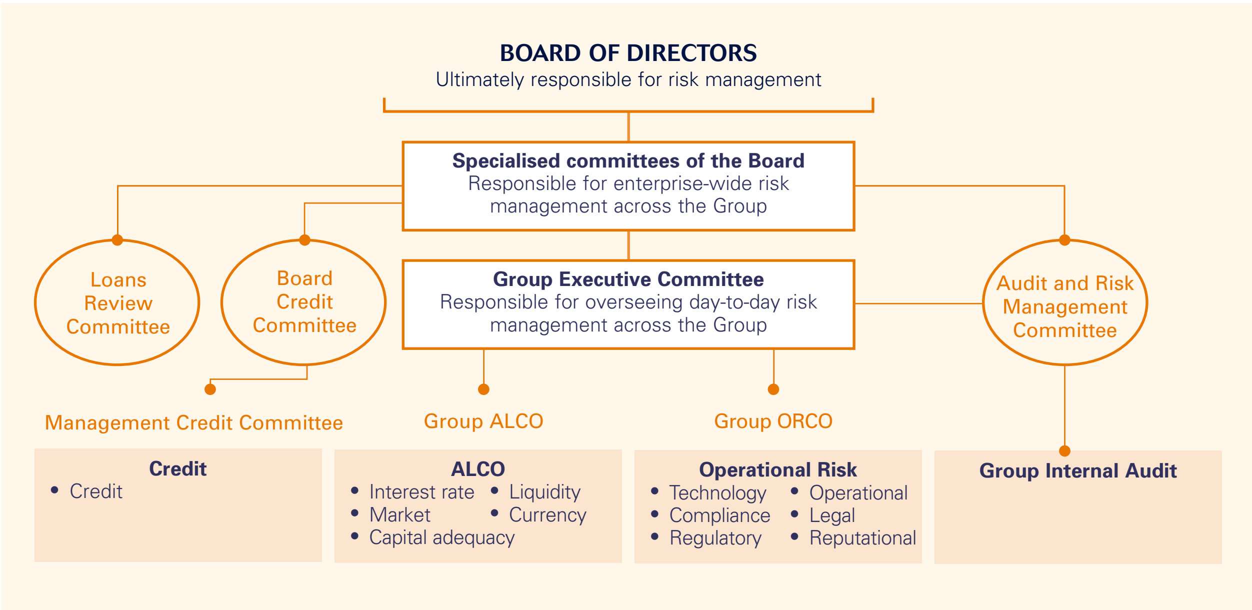
Group Risk Management objectives

The Group Risk Management function, as mandated by the Board of Directors is to:

- coordinate risk management activities across the organisation, by ultimately becoming the custodian of BancABC's risk management culture;
- analyse, monitor and manage all aspects of exposures across risk classes;
- ensure risk parameters and limits are set, approved and implemented and ensure that such risk parameters and limits are consistently adhered to; and
- facilitate various risk management committees as part of the Group's risk management process.

Group Risk Management framework

The Group Risk Management framework documents the risk management policies followed by the Group. These policies ensure that risks are consistently managed throughout the Group through a set of internal controls. The policies also ensure that risk awareness filters down through every level of the Group, and that every employee understands their responsibility in managing risk. The following sub-committees, comprising executives and senior management, are responsible for dealing with the risks facing the Group in a structured manner:



- credit Committee (CREDCO) – responsible for credit risk;
- assets and Liability Committee (ALCO) – responsible for interest rate, market, liquidity, counterparty, currency and capital adequacy risk; and
- operational Risk Committee (ORCO) – responsible for technology, compliance, legal, human resources, reputational, operational and regulatory risk.

Reporting

Each subsidiary or business unit produces risk reports which, along with the detailed risk information provided by Group Risk Management, is discussed by the Board. The risk reports present a balanced assessment of significant risks and the effectiveness of risk management procedures, and management actions in mitigating those risks.

Capital and liquidity risk management

ALCO reviews the capital status of the Group on a monthly basis. It also considers the activities of the treasury desk which operates in terms of an approved treasury management policy and in line with approved limits.

ALCO reports to the Risk and Audit Committee in terms of the Group Risk Management framework. Capital adequacy and the use of regulatory capital are reported periodically to the central banks of the Group's operating countries, in line with respective regulatory requirements. ALCO comprises broadly representative executive and senior managers, including the Group CEO, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Group Head of Wholesale Banking, Group Head of Corporate Banking, Group Head of Treasury and Group Head of Retail Banking.

Liquidity risk is managed by ALCO in terms of the Group Risk Management framework. The Group approaches liquidity cautiously and conservatively by managing the liquidity profile with a preference for long-term, fixed rate funding. As such, the Group is exposed to funding liquidity risk.

ALCO reviews a stress mismatch report monthly, which simulates stress scenarios based on the current asset and liability structure of the Group for the reporting month. The report also considers the available sources of stress funding to address any potential strain on the cash flows of the Group.

In addition, the Group has a documented contingency funding plan (CFP) that specifies measures that must be monitored to identify indications of liquidity stress early. The plan provides management with a set of possible actions to address potential liquidity threats. The CFP operates in conjunction with the finance and treasury management policy and the assets and liabilities management (ALM) policy to ensure a coordinated approach to liquidity management.

As part of its monthly meetings, ALCO considers the Group's sensitivity to interest rate movements and reviews the results of management's analysis of the impact of interest rate movements. ALCO also receives information on yield curve developments and money market interest rates, as well as analysis of the potential economic impact on interest rates and interest rate re-pricing. The Group strives to match asset and liability re-pricing positions as far as possible.

Credit risk management

Independent credit risk committees in each of the Group's operating countries are responsible for managing, measuring and mitigating credit risk. Credit risk management is overseen by the Board credit committee and the management credit committee (CREDCO), a management committee that reports to the Risk and Audit Committee. There is a high level of executive involvement in the credit decision making team. The management CREDCO includes the CEO, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Chief Credit Officer and Group Head of Wholesale Banking.

The Group's policy is that all sanctioning members of the CREDCO have voting powers. At management CREDCO level, all decisions to enter a transaction are based on unanimous consent.

The CREDCO formally meets on a weekly basis to consider the activities and operations of the credit division, to consider and debate results from new business, arrears and provisioning analyses, as well as to consider regulatory compliance and to set and amend credit policy where appropriate.

Approach to measuring credit risk

The Group's approach to measuring credit risk aims to align with international best practice. 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 regulatory requirements. BancABC default probability table below shows the mapping of the corporate rating to retail credit scoring to align credit risk appetite assessment and tolerance across consumer and corporate businesses.

BancABC rating scale	BancABC defaults rates	BancABC retail score	Standard & Poor's ratings
A+	0.10%	246 – 255	AAA – AA
A	0.25%	236 – 245	AA+
A-	0.33%	226 – 235	AA
B+	0.40%	216 – 225	AA-
B	0.50%	201 – 215	A+
B-	0.66%	191 – 200	A
C+	0.80%	181 – 190	A-
C	0.96%	166 – 180	BBB+
C-	1.30%	156 – 165	BBB
D+	1.80%	146 – 155	BBB-
D	2.65%	136 – 145	BB+
D-	3.80%	126 – 135	BB
E+	7.85%	116 – 125	BB-
E	12.90%	106 – 115	B+
E-	16.88%	96 – 105	B
F+	26.00%	86 – 95	B-
F	38.67%	76 – 85	CCC+
F-	45.00%	61 – 75	CCC
G	Default	0 – 60	CCC-

BancABC default probabilities for each rating buckets are much more conservative, i.e. for the same rating BancABC implies a much higher likelihood of defaults than the corresponding S&P. The definition of default and the use of PD is standard as prescribed by the Basel II framework and regulation.

Probability of Default (PD)

The PD measures the likelihood of a client defaulting on its obligations within the next one year, and is a primary component of the internal risk rating calculated for all clients.

Exposure at Default (EAD)

In general EAD can be defined as an estimation of the extent to which a bank may be exposed to a counterparty in the event of a counterparty's default within a one-year period. 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.

Loss Given Default (LGD)

The third major risk component measures the loss expected on a particular facility in the event of default and thus recognises any credit risk mitigants employed by the Bank, such as collateral, third party guarantees, credit derivative protection or other credit hedges. 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.

Expected Loss (EL)

The three components, PD, EAD and LGD, are building blocks used in a variety of measures of risk. EL is the measurement of loss, which enables the application of consistent credit risk measurement across all retail and wholesale credit exposures. LGD, EAD and PD estimates are also used in a range of business applications, including pricing, customer and portfolio strategy. EL estimates can be compared directly to portfolio impairment figures within the regulatory capital calculation to ensure that the organisation's estimates of EL from doing business are sufficiently covered by the level of general impairments raised.

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Such operational risks may include exposure to theft and fraud, improper business practices, client suitability and servicing risks, unauthorised transactions, product complexity and pricing risk or from improper recording, evaluating or accounting of transactions. The Group could suffer financial loss, disruption to its business, liability to clients, regulatory intervention or reputational damage from such events, which could affect its business and financial condition.

Operational risk is managed by ORCO in terms of the Group's operational risk framework (ORF), a subset of the risk management framework. ORCO comprises executive and senior managers, including the Chief Operating Officer, Chief Risk Officer, Chief Information Officer, Group Head of Retail Banking, Group Head of Market and Operational Risk, Group Head of Banking Operations, Group Chief Legal Counsel and Group Head of Human Capital.

The Group's operational risk management processes focus primarily on risk assessment, loss data collection and the tracking of key risk indicators. The results of these processes are used to raise awareness of operational risk management and to enhance the internal control environment, with the ultimate aim of reducing losses.

Legal and compliance risks are dealt with by ORCO, with the Group Chief Legal Counsel being a member of ORCO.

Compliance risk management

Compliance risk is the risk of non-compliance with all relevant regulatory statutes, central bank supervisory requirements and industry codes of practice. The compliance function is an integral part of the overall Group Risk Management function. A decentralised compliance function has been implemented within business units and subsidiaries, and compliance officers have been appointed in each operating entity.

Compliance risk is effectively managed through developing and implementing compliance processes, developing effective policies and procedures affecting the respective regulatory frameworks, and providing advice and training on the constantly changing regulatory environment. A key role of compliance officers in the Group is to develop and maintain sound working relationships with its various regulators in the Group's operating countries.

Legal risk management

Group Chief Legal Counsel is responsible for ensuring that legal risk is adequately managed. This is achieved through standard approved legal documentation wherever possible; however, specialised external legal advisers are used when required for non-standard transactions. Group Chief Legal Counsel ensures that only approved legal advisers provide legal opinions or draw up specialised agreements for the Group.

Group Internal Audit

The primary function of internal audit is to give objective assurance to the Board that adequate management processes are in place to identify and monitor risks, and that effective internal controls are in place to manage those risks. Group Internal Audit independently audits and evaluates the effectiveness of the Group's risk management, internal controls and governance processes.

Internal audit operates under terms of reference approved by the Risk and Audit Committee. The terms of reference define the role and objectives, authority and responsibility of the audit function. The Group's reporting structures ensure that the Group internal auditor has unrestricted access to the Chairman of the Risk and Audit Committee and the CEO.

At the outset of each financial year, Group Internal Audit carries out a risk assessment for all business units and subsidiaries. A comprehensive audit plan for the year that identifies specific areas of focus is then derived from this assessment. The audit plan is reviewed regularly and any changes must be approved by the Risk and Audit Committee. The areas of focus are confirmed with executive management before being submitted to the Risk and Audit Committee for approval.

Corporate governance

The Group is committed to the principles of openness, integrity and accountability. In February 2003, the Board endorsed the adoption of the second King Report on Corporate Governance (King II). In 2010, the Board incorporated some of the principles of King III and specifically has adopted a combined assurance model of reporting by the internal auditors, the risk officers and external auditors to its Audit Committee in order to promote a coordinated approach to all assurance reporting on the risk areas of the business.

Board of Directors

The Board currently comprises nine directors, including five independent non-executive directors, one non-executive director and three executive directors. This balanced representation ensures that no one individual or small group can dominate decision making. The depth of experience and diversity of the Board ensures that robust and forthright debate on all issues of material importance to the Group can take place. Profiles of directors appear on pages 28 and 29 of this report.

The roles of Chairman and CEO are separate and no individual has independent unfettered control over decision making. The Chairman is a non-executive director appointed by the Board.

The Board is responsible to shareholders for setting the strategic direction of the Group, monitoring operational performance and management, risk management processes and policies, compliance and setting authority levels, as well as selecting new directors. The Board is also responsible for the integrity and quality of communication with stakeholders, including employees, regulators and shareholders.

The Board has adopted a risk management framework and has delegated responsibility for risk to the Risk and Audit Committee. This committee reviews risk management processes in the Group and ensures that Board policies and decisions on risk are properly implemented. The committee assesses the adequacy and effectiveness of risk management structures in the Group and reports to the Board on all risk-related governance issues.

All directors have direct access to information on the Group's affairs, as well as the advice and services of Group Chief Legal Counsel. A formal Board charter has been adopted which sets out the roles, responsibilities and procedures of the Board.

Individual country operations have their own boards, with external representation and function as per the requirements of their respective jurisdictions.

The Board meets at least four times annually. Additional telephonic meetings are also conducted during the year.

The CEO and senior executives are available to brief directors when required.

Four Board meetings were conducted during the year. Directors' attendance of these meetings was as follows:

Director	Feb	June	Aug	Dec
Buttery	P	P	P	P
Chidawu*	P	n/a	n/a	n/a
Khama	P	P	P	P
Kudenga	P	P	P	P
Mothibatsela*	P	n/a	n/a	n/a
Munatsi	P	P	P	P
Wasmus	P	P	P	P
Ipe	n/a	P	A	P
Shyam-Sunder	n/a	P	P	P
Moyo	n/a	P	P	P
Dzanya	n/a	P	P	P

*P: Present A: Absent *: resigned*

Board committees

The Board is assisted in discharging its responsibilities by a number of sub-committees. Sub-committees are accountable to the Board, with minutes of sub-committee meetings circulated and reported on at the following Board meeting. Senior executives are invited to attend meetings as appropriate.

Board committees may make use of external professional advisers when necessary to discharge specific tasks.

Executive Committee

The Executive Committee (EXCO) assists the CEO in managing the Group and implementing strategy, policies and procedures, subject to the Board's limitations on delegation to the CEO. The CEO's authority in managing the Group is unrestricted. EXCO assists the CEO in managing the Group and setting the overall direction of the business of the Group, and acts as a medium for communication and coordination between business units and Group companies, and the Board. EXCO meetings are conducted monthly.

The following divisional and functional heads comprise EXCO: CEO (Chairman), Chief Operating Officer, Chief Financial Officer, Chief Risk Officer and Group Head of Wholesale Banking.

EXCO also considers non-remuneration aspects of human resources management such as succession planning and skills development.

Risk and Audit Committee

The Risk and Audit Committee is chaired by Mr N Kudenga who is a non-executive director. The committee adopted the terms of reference for both the Risk Committee and Audit Committee as detailed in the King Reports on Corporate Governance. In particular, it assists the Board in the discharge of its duties relating to financial reporting to all stakeholders, compliance, risk management and the effectiveness of accounting and management information systems.

Meetings are held regularly throughout the year and are attended by external and internal auditors, as well as senior executive managers. The committee met four times in 2010. Issues addressed included reviewing accounting policies, implementing Basel II, disposing of certain Group assets, capital raising initiatives, the internal audit ratings policy, IT connectivity issues, business continuity planning, financial reporting, operational risks, capital adequacy and compliance, among others.

The committee considered whether the company and the Group are going concerns, recommending that the Board endorse a statement to this effect and that the financial statements prepared on this basis be approved.

Loans Review Committee

The Loans Review Committee comprises three non-executive directors and is chaired by Mrs D Khama. In accordance with its terms of reference, the committee's principal function is to review and report to the Board on the Group's loan portfolio at least quarterly. The committee places specific emphasis on ensuring conformity of the loan portfolio and lending function to a sound documented lending policy. It also periodically reviews the maximum loan authority limits for each Group lending authority as well as write-offs within the Group. The committee is further tasked with the quarterly review of the adequacy of provisions made with respect to loans and makes recommendations to the Board in this regard.

The committee met four times in 2010 and issues addressed included the review of Group and country credit policies and guidelines to ensure that these meet best international banking practice, as well as the delinquent loan recovery strategy and adequacy of Group provisions.

Credit Committee

A new sub-committee was established during 2010 which is chaired by Mr Buttery and has a mandate to approve loans above the internal management sum of USD7 million. The committee meets when required to approve loans.

Remuneration Committee

The Remuneration Committee is chaired by Mr H Buttery, a non-executive director and Chairman of the Board. The CEO attends committee meetings by invitation, but does not participate in any discussions on his own remuneration. The committee is responsible for the senior executive remuneration policy. It fixes the remuneration packages of individual directors within agreed terms of reference, to avoid potential conflicts of interest.

The Remuneration Committee is also responsible for setting the remuneration policy of the Group. It aims to ensure that the financial rewards offered by the Group to employees are sufficient to attract people of the calibre required for effective running of the Group and to produce the required returns to its shareholders. The committee reviews the profit sharing scheme annually, which is based on achieving a specified return on equity for the period. The committee met four times during the year under review.

Nominations Committee

The Nominations Committee comprises two non-executive directors and is responsible for making recommendations to the Board on all new Board appointments. A formal process is in place in terms of which the skills needed are identified and those individuals who might best assist the Board in their endeavours are recruited.

Dealing on stock exchanges

As part of its commitment to conducting business in a professional and ethical manner at all times, the Group follows strict guidelines with respect to dealing of its shares on stock exchanges by employees and directors. A policy is in place prohibiting directors and employees in dealing in the Group's shares when they are in possession of price sensitive information, which may generally not be available to the public. Dealing in ABCH shares is further restricted during defined periods, generally six weeks prior to the publication of the interim and final results.

Health and safety policy

The Group seeks to ensure that it engages in activities which do not jeopardise the health and safety of its employees, taking into account the industrial sectors concerned. The Group encourages the businesses it supports to adopt appropriate health and safety measures and to comply, within a reasonable period, with local legislative requirements concerning occupational health and safety.

Environmental policy

The Group's directorate and management recognise that sustainable development depends on a positive balance between economic development and environmental protection. The Group believes that conserving the global environment is the responsibility of every individual, and as a good corporate citizen it strives to fulfil its responsibility to society by working towards realising a sustainable environment. Accordingly, the Group will endeavour to pursue best practice in environmental management and will put in place guidelines and procedures to ensure that projects are undertaken in accordance with the relevant local, national and international standards with regard to environmental and social regulations.

DIRECTORS AND GROUP MANAGEMENT

ABC Holdings Limited Board of Directors

Howard J Buttery**	*Chairman*
Doreen Khama**	
Ngoni Kudenga**	
Simon Ipe*	
Johannes Wasmus**	
Lakshmi Shyam-Sunder*	
Douglas T Munatsi	*Group Chief Executive Officer*
Bekithemba Moyo	
Francis Dzanya	

** Non-executive ** Independent non-executive*

Remuneration Committee

Howard J Buttery	*Chairman*
Ngoni Kudenga	

Loans Review Committee

Doreen Khama	*Chairperson*
Simon Ipe	
Lakshmi Shyam-Sunder	

Risk and Audit Committee

Ngoni Kudenga	*Chairman*
Johannes Wasmus	
Lakshmi Shyam-Sunder	

Credit Committee

Howard J Buttery	*Chairman*
Johannes Wasmus	
Douglas T Munatsi	

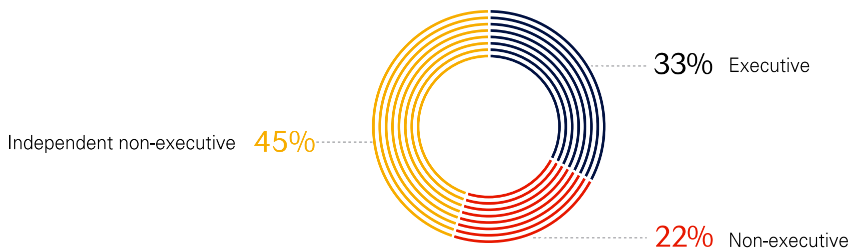
Executive Committee

Douglas T Munatsi	*Chairman*
Francis Dzanya	
Beki Moyo	
Hashmon Matemera	
Dr Blessing Mudavanhu	

Group management

Johan Bosch	*Chief Information Officer*
Bruce Jonker	*Group Internal Auditor*
Cornelius Munyurwa	*Group Head Banking Operations (w.e.f. 4 March 2011)*
Leah Banda	*Group Head Marketing*
Andrea Prazakova	*Group Head Retail Banking*
Johan Testa	*Group Head Treasury*
Melanie Vogt	*Chief Legal Officer and Secretary to the Board*
Paul Westraadt	*Chief Credit Officer*
André Willemse	*Group Head Human Capital*

Composition of the Board



1 Howard J Buttery
(South African)
Board Chairman
Non-Executive Director

Howard Buttery was born in South Africa in 1946. He has served as a director since 2003 and on the Remuneration and Nominations Committee. Howard was appointed non-Executive Chairman of ABC Holdings Limited (BancABC) in June 2010.

He recently retired from being Executive Chairman of Bell Equipment Ltd, a listed South African company. His current focus is on developing a strategic alliance of three international companies: John Deer (United States), Liebher (Germany) and Hitachi (Japan).

Howard has extensive knowledge of business across the African continent offering key insights to the organisation.

He holds a certificate in theory of accounting from the University of Natal.

2 Douglas T Munatsi
(Zimbabwean)
Group Chief Executive Officer
Board Member

Douglas "Doug" Munatsi was born in Zimbabwe in 1962. He has been the CEO of BancABC since its formation in 2000, and was Managing Director of its predecessors, First Merchant Bank and Heritage Investment Bank.

Doug founded Heritage Investment Bank [Heritage Ltd] in 1995. He later successfully negotiated Heritage's merger with First Merchant Bank Ltd, then controlled by Anglo American Corporation.

Prior to setting up Heritage, he was an executive in the Southern Africa regional mission of the International Finance Corporation (IFC), the private sector arm of the World Bank.

Doug holds a Bachelor of Business Studies degree from the University of Zimbabwe, a Master of Business Administration (Finance) from the American University, Washington DC and completed the Harvard Business School's Advance Management Programme.

3 Ngoni Kudenga
(Zimbabwean)
Board Member
Non-Executive Director

Ngoni Kudenga was born in Zimbabwe in 1952. Mr. Kudenga has been a director since 2000, chairman of the risk and audit committee since 2000, a member of the remuneration and nominations committee's since 2007.

He is currently the Managing Partner of BDO Zimbabwe (Chartered Accountants) and serves on the boards of listed companies Bindura Nickel Corporation and Hippo Valley Estates, Anglo American Corporation Zimbabwe and several other private companies.

Ngoni is past president of the Institute of Chartered Accountants in Zimbabwe and a fellow of the Chartered Institute of Management Accountants in the United Kingdom.

He holds a Bachelor of Accountancy degree from the University of Zimbabwe.

4 Johannes Wasmus
(Dutch)
Board Member
Non-Executive Director

Hans Wasmus was born in Holland in 1941. Hans has been a director since 2003, and has served as chairman of the loans review committee. He currently is a member of the risk and audit committee.

Hans previously served as chief financial officer and regional manager for Africa at FMO, a Netherlands-based development finance institution.

He holds a Diploma in Accountancy from the Netherlands Institute for Chartered Accountants and a Diploma in Economics.

5 Doreen Khama
(Motswana)
Board Member
Non-Executive Director

Doreen Khama was born in Botswana in 1949. Doreen has been a director since 2007 and a member of our loans review committee. She is founder and senior partner of the law firm Doreen Khama Attorneys, a reputable legal firm in operation for over 20 years. She is also the Honorary Consul for Austria in Botswana.

Doreen is active in business initiatives in Africa and internationally, and has earned a high standing of professional prominence through her international affiliations.

She serves as a director and board member for several organisations across various industries, including Botswana Savings Bank, Lengao Holdings and PEP Holdings.

Doreen holds a Bachelor's Degree in Law from the University of Botswana, Lesotho and Swaziland.

⑥ **Simon Ipe**
(Indian)
Board Member
Non-Executive Director

Simon Ipe was born in India in 1951. Initially an auditor by profession, Simon occupied several senior positions with the Bank of Botswana. These included Deputy Director – Operations, a position within the Finance Department, and as the bank's Chief Internal Auditor. He subsequently became a Director of KPMG, before joining the BIFM Holdings Group of which he is presently Chief of Special Projects.

He is a Fellow of both the Institute of Chartered Accountants of India and the Botswana Institute of Accountants. He has been a secretariat member for two Presidential Commissions, one in Botswana and the other in Tanzania.

He serves as an alternate director on the board of Turnstar, and is a full board member on Khumo Property Asset Management Company, Bongwe, Plot 21 and Flying Mission Botswana.

He holds a BSc (Chemistry) and BCom (Accounting) from Madras University in India, and is a Certified Information Systems Auditor (CISA) and Certified in Risk and Information Control (CRISC) of the ISACAR Illinois USA.

⑦ **Dr. Lakshmi Shyam-Sunder**
(American)
Board Member
Non-Executive Director

Lakshmi Shyam-Sunder was born in America in 1956. She is a Director at the International Finance Corporation (IFC), part of the World Bank Group working on economic capital and client risk advisory services. She has wide-ranging financial experience, which includes a period on the Finance Faculty of the MIT Sloan School of Management in the USA and at the Tuck School of Business Administration, Dartmouth College.

She joined the IFC in 1994 and prior to being appointed a Director held a number of positions within the institution working in treasury and portfolio management before being named Director of Risk Management and Financial Policy for IFC.

Lakshmi holds a Ph.D in Finance from the MIT Sloan School of Management and an MBA from the Indian Institute of Management, Ahmedabad, India.

⑧ **Francis Dzanya**
(Zimbabwean)
Group Chief Operating Officer
Board Member

Francis Dzanya was born in Zimbabwe in 1960. Mr. Dzanya has been Chief Operating Officer since April 2008 and Chief Banking Officer before that. He has also been a member of the Executive Committee since 2006.

Francis joined Heritage at its formation in 1995 having spent over ten years with other banking institutions in the region.

Francis holds a Bachelor of Arts (Honours) degree in Banking, Insurance and Finance from Sheffield Hallam University in the United Kingdom (UK) and a Higher National Diploma in Banking and Finance from John Moores University, also in the UK and is an Associate of the Chartered Institute of Bankers, UK.

⑨ **Beki Moyo**
(Zimbabwean)
Group Chief Financial Officer
Board Member

Beki Moyo was born in Zimbabwe in 1967. Mr. Moyo has been the Chief Financial Officer since 2005. In the course of his banking career spanning over fifteen years, Beki has held various senior positions within ABC Holdings.

Beki trained and qualified as a Chartered Accountant with Deloitte and Touché and quickly rose to Audit Manager. He then joined the banking world in 1994 as Chief Accountant at Stanbic Zimbabwe.

He holds a Bachelor of Accountancy (Honours) degree from the University of Zimbabwe, a Master of Business Administration degree in Banking and Finance from Manchester University and completed the Harvard Business School's Advance Management Programme.

Executive Management Committee

1 **Hashmon Matemera**
(Zimbabwean)
Group Head Wholesale Banking

Hashmon Matemera was born in Zimbabwe in 1964. Hashmon has been Group Head of Wholesale Banking since 2007 and a member of the Executive Committee since 2006.

Mr. Matemera has over 17 years' banking experience in merchant and commercial banking and as a central banker. He has held several positions, including Executive Director of Banking Services at ABC Zimbabwe and Group Head of Treasury and Structured Finance. Hashmon spent ten years at the Reserve Bank of Zimbabwe, mostly in the Supervision and Surveillance Division.

Hashmon holds a Bachelor of Science (Honours) degree in Economics as well as a Masters' of Science in Economics both from the University of Zimbabwe.

2 **Dr. Blessing Mudavanhu**
(Zimbabwean)
Group Chief Risk Officer

Blessing Mudavanhu was born in Zimbabwe in 1971. Dr. Mudavanhu was appointed Group Chief Risk Officer in February 2009. Blessing spent eight years working on Wall Street in New York, where most recently he was a director in Global Risk Management at Bank of America Merrill Lynch.

He has published many research papers in the Journal of Investment Management and in many mathematics journals. He is also listed in the Who's Who in America and is a recipient of the Fulbright Scholarship.

He holds a Bachelor of Science (Honours) degree in Mathematics from the University of Zimbabwe, a Master of Science degree and a Doctorate in Mathematics from the University of Washington as well as a Master of Science in Financial Engineering from the Hass School of Business, University of California at Berkeley.

3 **Douglas T Munatsi**
(Zimbabwean)
Group Chief Executive Officer

4 **Beki Moyo**
(Zimbabwean)
Group Chief Financial Officer

5 **Francis Dzanya**
(Zimbabwean)
Group Chief Operating Officer

DIRECTORS' RESPONSIBILITY

Responsibility for the annual financial statements

The directors are responsible for the preparation, integrity and objectivity of the financial statements that fairly present the state of the affairs of the Group at the end of the financial year and the net income and cash flow for the year, and other information contained in this annual report.

To enable the directors to meet these responsibilities:

- The Board and management set standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost effective manner – these controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities, effective accounting procedures and adequate segregation of duties;
- The Group's internal audit function, which operates independently from operational management and unimpeded, and has unrestricted access to the Group Audit and Risk Committee, appraises, evaluates and, when necessary, recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function and internal control, accounting policies, reporting and disclosure; and
- The Group Audit and Risk Committee, together with the external auditors, play an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

The annual financial statements have been prepared in accordance with the provisions of the Botswana Companies Act, the Botswana Stock Exchange Regulations and International Financial Reporting Standards relating to companies and banks. The directors have no reason to believe that the Group or any subsidiary company within the Group will not be going concerns in the year ahead, based on the forecasts and available cash resource. These financial statements have accordingly been prepared on that basis.

It is the responsibility of the independent auditors to report on financial statements. Their report to the members of the Company is set out on page 34 of this annual report.

Approval of the annual financial statements

The directors' report and the annual financial statements, which appear on pages 35 to 110, were approved by the Board of Directors on 4 March 2011 and are signed by:

H Buttery
Chairman

15 March 2011

DT Munatsi
Group Chief Executive Officer

15 March 2011

DIRECTORS' REPORT

Nature of business

ABC Holdings Limited is listed on the Botswana and Zimbabwe Stock Exchanges and is the holding company of the African Banking Corporation group of companies which comprise diverse financial services activities in the areas of corporate, international, investment and merchant and retail banking, leasing finance, asset management, stock broking and treasury services. African Banking Corporation aims to deliver world-class financial solutions to the Sub-Saharan African region.

Authorised share capital

There was no change in the authorised or issued share capital of the company during the year.

Group results

The Group posted solid results in the year ended 31 December 2010 with all subsidiaries posting profits, a feat that has not happened in several years. The business and economic environments, while improving, were still challenging. Despite the difficult operating conditions, the Group posted operating profits of BWP111 million which is more than four times the BWP26 million achieved in 2009. The Group's total assets increased by 36% to BWP6.0 billion, with loans and advances increasing by 54% to BWP3.1 billion, and deposits by 46% to BWP4.9 billion. Business growth was achieved across all operations as the Group continued widening and strengthening its footprint through the expansion into the retail banking sector. The Group has to date set up 17 retail branches across its network.

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 and details of significant accounting policies can be found on pages 35 to 48.

Subsidiary and associated companies

Details of the Group's subsidiaries are set out in note 14 of the separate company financial statements. Details of the Group associate companies are in note 13 of the consolidated Group financial statements.

Acquisitions and disposals

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

Directors' interests in the shares of ABC Holdings Limited

The following table depicts the interests of directors in the shares of ABC Holdings Limited:

	Number of shares	
Director	**2010**	**2009**
OM Chidawu*	–	17,930,478
DT Munatsi	21,438,619	19,640,702
N Kudenga	365,947	365,947
B Moyo**	7,099,957	–
FM Dzanya**	2,765,583	–
Total	**31,670,106**	**37,937,127**

**Mr. OM Chidawu resigned as director and chairman on 31 May 2010.*
***Appointed director on 31 May 2010.*

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 25 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 perquisites of the Group Chief Executive Officer and executive management are approved by the Remuneration Committee of the Board.

Directors and Secretaries

Full details of the directorate are shown on pages 28 and 29. Brief CVs of directors eligible and available for re-election at the Annual General Meeting are included in the Notice to Shareholders.

Dividends

The Directors have declared a final dividend of BWP0.10 (ten Thebe) per share in respect of the year ended 31 December 2010. The dividend will be payable to shareholders registered in the books of the company at the close of business on Friday, 1 April 2011.

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.

Post-balance sheet events

There were no significant post-balance sheets events.

ANNUAL FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of ABC Holdings Limited

Report on the financial statements
We have audited the group annual financial statements and annual financial statements of ABC Holdings Limited, which comprise consolidated and separate balance sheets as at 31 December 2010, the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 35 to 110.

Directors' responsibility for the financial statements
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2003. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion
In our opinion, the annual financial statements present fairly, in all material respects, the consolidated and separate financial position of ABC Holdings Limited as of 31 December 2010, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Certified Public Accountants

Gaborone
15 March 2011

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Partners: R Binedell, R P De Silva, N B Soni
Associates: A S Edirisinghe, M Lalithkumar, S Sinha, S K K Wijesena.

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 December 2010

Reporting entity

ABC Holdings Limited (the "Company") is domiciled in Botswana. The consolidated financial statements of the Company for the year ended 31 December 2010 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. In preparing these financial statements, the Group adopted the following interpretations effective in 2010, that are relevant to the Group:

- IFRS 3, 'Business Combinations – Revised', continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. The adoption of the standard has no impact to the Group in the current year.
- IAS 27, 'Consolidated and Separate Financial Statements – Revised', requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The adoption of the standard has no impact to the Group in the current year.
- Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement Eligible Hedged Items', makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The adoption of the standard has no impact to the Group in the current year.
- Improvements to IFRSs, 'This is a collection of amendments to IFRSs. These amendments are the result of conclusions the IASB reached on proposals made in its annual improvements project. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRSs. Some amendments involve consequential amendments to other IFRSs.'

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2010:

- amendments to IAS 32, 'Classification of rights issues' (effective from 1 February 2010)
- amendment to IAS 24, 'Related party disclosures' (effective from 1 January 2011)
- IFRS 9, 'Financial Instruments' (effective from 1 January 2013)
- further improvements to IFRS (issued in May 2010)
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' (effective from 1 July 2010)

Basis of preparation

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

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

The preparation of 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:

- **Inflation adjusted accounts**
  In February 2009, the Government of Zimbabwe effectively discontinued the use of the Zimbabwe Dollar, and introduced multiple international currencies, with the Botswana Pula, South African Rand and the US Dollar being the anchor currencies. ABC Holdings Limited's Zimbabwe operations have adopted the US Dollar as its functional and reporting currency. Consequently, the Zimbabwe operations have discontinued the preparation of financial statements in accordance with IAS 29 'Financial Reporting in Hyperinflationary Economies' from that date.

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

- **Deferred tax assets**
  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 are based on the Group's re-capitalisation plans of the subsidiary and market conditions prevailing in the economy in which the Company operates.

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

- **Fair value of derivatives**
  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.

- **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.

- **Goodwill impairment**
  The Group assesses goodwill for impairment on an annual basis based on value in use calculations. Significant estimates and judgements are applied in

projecting the future pre-tax cash flows, the appropriate growth and discount rates. The assumptions applied in testing goodwill for impairments at year end are discussed in note 17.

- **Credit risk management**
  The Group is exposed to credit risk arising from its daily lending activities. At year end credit risk related exposures are assessed for impairment. Impairment on individually impaired financial assets is determined based on the estimated future cash flows discounted at an appropriate rate. Financial assets not individually impaired are included in a collective assessment for impairment. Future cash flows in a group of financial assets that are collectively assessed are estimated on the basis of contractual cash flows in the Group, and the historical loss experience for assets with credit risk characteristics similar to those in the Group.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by Group entities.

Functional and presentation currency

The financial statements are presented in Botswana Pula (BWP), which is the Company's functional currency and the Group's presentation currency. Except as indicated, financial information presented in BWP has been rounded off to the nearest thousand.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control is defined as the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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 for its banking and investment management activities. 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.

Associates

Associates are those enterprises in which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights over the financial and operating policies. The consolidated financial statements include the Group's share of the total gains and losses of associates on an equity accounted basis, from the date significant influence commences until the date that significant influence ceases. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement; its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Goodwill arising on acquisition is included in the carrying amount of the investment. Investments in associates and joint ventures are accounted for at cost less impairment losses in the Company's separate financial statements.

Jointly controlled entities

Jointly controlled entities are those enterprises over whose activities the Group has joint control established by contractual agreement. The consolidated financial statements include the Group's share of the total gains or losses of the entity on an equity accounted basis from the date that joint control commences, until the date joint control ceases.

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 and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill is any excess of the cost of an acquisition over the Group's interest in the fair value of the identifiable assets and liabilities acquired. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. Goodwill is carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment. Impairment losses are recognised in the income statement. The excess of the fair value of the Group's share of the identifiable net assets acquired over the cost of the acquisition is recorded immediately in the income statement.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the sum of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Transaction costs for any business combinations prior to 1 January 2010 are capitalised as part of the cost of an acquisition. Transaction costs on or after 1 January 2010 are recognised within profit and loss as and when they are incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of an acquisition over the Group's share of the fair value of identifiable net assets acquired is recorded as goodwill and accounted for in terms of accounting policy, Intangible assets.

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

If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference, referred to as negative goodwill, is recognised directly in profit or loss.

Transactions with non-controlling interests

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

Common control transactions

Entities are under common control when the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination and where 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.

Foreign entities

The assets and liabilities of foreign operations are translated to the Group's presentation currency, Botswana Pula, from their respective measurement currencies at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Botswana Pula at the average exchange rate for the year. Foreign exchange differences arising on translation are recognised as foreign currency translation reserve in equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions

Foreign currency transactions are translated at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or cost. All other foreign exchange gains are presented within the income statements within "other net (losses)/gains". Differences arising on translation are recognised in the income statement and shown under other income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in equity.

Recognition of assets and liabilities

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

Derecognition of assets and liabilities

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

Cash and cash equivalents

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

Financial assets

Initial recognition

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition. Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade date; the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading, unless they are designated as hedging instruments. Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for loans and advances to customers or banks and debt securities in issue;
- certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; or
- financial instruments, such as debt securities held, containing one or more embedded derivatives that could significantly modify the cash flows, are designated at fair value through profit or loss.

The fair value designation, once made, is irrevocable. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes therein are recognised in interest income for all dated financial assets and in other revenue within non interest revenue for all undated financial assets. Financial assets at fair value through profit or loss are measured at initial recognition and subsequently at fair value based on quoted market price using the bid/offer mid rate at the balance sheet date. If there is no quoted market price in an active market, the instruments are measured using valuation models. All changes in fair value are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and advances are accounted for on an amortised cost basis using the effective interest rate. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the Group's advances are included in the loans and receivables category. They are stated net of allowances for specific and portfolio impairment.

Included in loans and advances are finance lease receivables. Finance lease receivables are those leases where the Group transfers substantially all the risk and reward incident to ownership of an asset. Finance lease charges are recognised in income using the effective interest rate method.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale. Held-to-maturity fixed interest instruments, held in investment portfolios, are stated at cost, less any impairment losses.

Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or financial assets that are not designated as another category of financial assets. Available-for-sale quoted investments are valued at market value using the bid/offer mid rate. Unlisted equity investments and instruments for which there is no quoted market price are measured using valuation models. Where the valuation models may not produce reliable measurement, the unquoted investments are stated at cost. Available-for-sale investments are marked to market and any gains or losses arising from the revaluation of investments are shown in shareholders' equity as available-for-sale reserves. On realisation of the investment, the available-for-sale reserves are transferred to the income statement. Interest income, calculated using the effective interest method, is recognised in the income statement. Dividends received on available-for-sale instruments are recognised in the income statement when the Group's right to receive payment has been established. Foreign exchange gains or losses on available-for-sale debt investments are recognised in the income statement.

Reclassification of financial assets

The Group may choose to reclassify a non-derivative financial asset held for trading out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively. On reclassification of a financial asset out of the "at fair value through profit or loss" category, all embedded derivatives are re-assessed and, if necessary, accounted for separately.

Fair value

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets. When such valuation models, with only observable market data as input, indicate that the fair value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognised in the income statement immediately. If non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the model value is deferred. The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The deferral and unwind method is based on the nature of the instrument and availability of market observable inputs. Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid offer spread or significant increase in the bid offer spread or there are few recent transactions.

If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants. Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for a financial asset with similar terms and conditions. Where pricing models are used, inputs are based on observable market indicators at the balance sheet date and profits or losses are only recognised to the extent that they relate to changes in factors that market participants will consider in setting a price.

In cases where the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

Impairment of financial assets

a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- 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 investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses. Subsequent to impairment, the effects of discounting unwind over time as interest income.

b) Assets classified as available-for-sale

The Group assesses at each balance sheet 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. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

c) Renegotiated loans

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 but are treated as new loans.

Offsetting financial instruments

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

Derivative financial instruments and hedging activities

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Certain derivatives embedded in other financial instruments, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contacts 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 highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge);
c) hedges of a net investment in a foreign operation (net investment hedge); or
d) 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 or cash flows of hedged items.

a) Fair value hedge

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

b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement – "net trading income – transaction gains less losses". Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of currency swaps and options are recorded in "net trading income – foreign exchange – transaction gains less losses". When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

d) Derivatives that do not qualify for hedge accounting

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

Financial guarantees

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

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires. The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Repurchase agreements

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

Property and equipment

Land and buildings are shown at fair value based on annual valuations by external independent valuers under hyper-inflationary economies, otherwise at least once every three years. 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. Surpluses and deficits arising thereon are transferred to the property revaluation reserve in equity. The revaluation surplus or deficit is reversed when the asset is disposed of. Owner-occupied properties are held for use in the supply of services or for administrative purposes. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the property and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Buildings 40 – 50 years
- Bank premises and renovations 20 years
- Computer equipment 3 – 5 years
- Office equipment 3 – 5 years
- Furniture and fittings 5 – 10 years
- Vehicles 4 – 5 years

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

Investment property

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

Other intangible assets

Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date from the date that it is available for use. The estimated useful life is three to five years. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Deposits and other borrowed funds

Deposits and other borrowed funds are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost, using the effective interest method.

Provisions and contingent liabilities

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

Managed funds and trust activities

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

Share capital

Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary at the option of the directors. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders and dividends thereon are recognised in the income statement as an interest expense.

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 declared.

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.

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 operating income.

Interest

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

Fee and commission income

Fee and commission income arises from services provided by the Group, including cash management, project and structured trade finance transactions. Fee and commission income is recognised when the corresponding service is provided and receipt of the fee is certain. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period.

Net trading income

Net trading income includes realised gains and losses arising from trading in financial assets and liabilities and unrealised changes in fair value of these instruments.

Dividends

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

Rental income

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

Leases

Group as lessee

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

Group as lessor

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

Repossessed assets

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

Employee benefits

Defined contribution plans

In terms of certain employment contracts, the Group provides for medical aid contributions to qualifying employees beyond the date of normal retirement. Although these benefits are a defined benefit plan, the full liability has not been recognised as the number of employees affected is very small. The contributions are recognised as an expense in the income statement as incurred.

Termination benefits

The Group recognises gratuity and other termination benefits in the financial statements when it has a present obligation relating to termination.

Leave pay accrual

The Group's obligation in respect of accumulated leave days is recognised in full in the financial statements, on an undiscounted basis and is expensed as the related services are provided.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Additional income taxes that arise from the distribution of dividend are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets or liabilities are measured using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is not recognised for the following temporary differences:

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Current and deferred tax relating to items which are charged or credited directly to equity, are also charged or credited directly to equity and are subsequently recognised in the income statement when the related deferred gain or loss is recognised.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Group Executive Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Group has the following business segments: Banking operations in Botswana, Mozambique, Tanzania, Zambia and Zimbabwe and non-banking operations arising from ABCH and non-banking subsidiaries.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. For the cash flow statement, these changes in presentation comprise of the separate disclosure of losses from associates of BWP16.2 million, which was previously included in the increase in operating assets line.

FINANCIAL RISK MANAGEMENT

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

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

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

Credit risk

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 balance sheet 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; refer to "Risk and Governance" – page 19. 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.

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.

Credit risk management

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 balance sheet 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 judgement. Clients of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Group's internal rating scale

Category	Description
Performing	the credit appears satisfactory
Special mention	the credit appears satisfactory but exhibits potential or inherent weaknesses which, if not attended to, may weaken the asset or prospects of collection in full e.g. poor documentation or 30 days but less than 90 days in arrears
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 realisible 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.

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

c) Credit-related commitments

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

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

d) Derivatives

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

Impairment policies

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

Impairments classification

	2010		2009	
Category	**Loans and advances (%)**	**Impairments (%)**	**Loans and advances (%)**	**Impairments (%)**
Performing	86%	19%	74%	18%
Special mention	6%	8%	16%	6%
Sub-standard	3%	6%	2%	8%
Doubtful	1%	12%	2%	8%
Loss	4%	55%	6%	60%
	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 balance sheet 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 judgement and statistical techniques.

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

The following table presents the maximum exposure to credit risk of balance sheet and off-balance sheet financial instruments, before taking into account of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements. For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount before deducting impairments. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that ABC Holdings Limited would have to pay if the guarantees are called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities. Investment in associates and listed equities have been excluded as they are regarded as primarily exposing the Group to market risk.

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

BWP'000s	2010	2009
Placements with other banks	924,561	847,993
Derivative financial assets	42,012	7,970
Financial assets held for trading	1,117,827	880,740
– Government bonds	102,766	46,251
– Corporate bonds	5,677	–
– Treasury bills	1,007,913	727,784
– Bankers' acceptances and commercial paper	1,471	106,705
	75,034	–
Financial assets designated at fair value (convertible debentures)	75,034	–
Loans and advances to customers at amortised cost	3,216,575	2,129,672
– Mortgage lending	14,659	17,530
– Instalment finance	320,602	418,735
– Corporate lending	2,567,327	1,377,515
– Commercial and property finance	45,151	63,822
– Micro-finance lending	135,870	153,194
– Other loans and advances	132,966	98,876
Investment securities	38,502	34,832
– Promissory notes	38,502	34,832
Prepayments and receivables	188,306	166,973
Current tax assets	6,388	3,913
	5,609,205	**4,072,093**
Contingent liabilities		
Credit exposures relating to off-balance sheet items are as follows:		
Guarantees	210,146	244,637
Loan commitments and other credit-related facilities	129,805	141,359
	339,951	**385,996**

57% (2009: 52%) of the total maximum exposure is derived from loans and advances, while 20% (2009: 22%) represents financial assets held for trading.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio and financial assets held for trading based on the following:

- 92% (2009: 90%) of the gross loans and advances portfolio is categorised in the top two grades of the internal rating system;
- 86% (2009: 74%) of the gross loans and advances portfolio is considered to be "neither past due nor impaired";
- 8% (2009: 10%) of gross loans and advances are "individually impaired";
- the Group continues to improve its credit selection and monitoring processes; and
- loans and advances are generally backed by collateral.

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.

Credit quality

Loans and advances

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

Distribution of loans and advances by credit quality:

BWP'000s	2010	2009
Neither past due nor impaired	2,765,645	1,589,132
Past due but not impaired	182,600	336,802
Individually impaired	268,330	203,738
Gross loans and advances	3,216,575	2,129,672
Less: Allowance for impairment	(138,465)	(134,347)
Net loans and advances	**3,078,110**	**1,995,325**

The total impairment of loans and advances is BWP138.5 million (2009: BWP134.3 million). Further information on the impairment allowance for loans and advances to customers is provided in notes 2 and 10.

During the year ended 31 December 2010, the Group's total gross loans and advances increased by 51% (2009: decreased by 10%), attributable to the recovery of economies from the financial crisis. Most of the loans and advances are predominantly in the corporate sector, with limited exposure to small and medium enterprises that have sufficient collateral. The mix is expected to change following the introduction of retail banking.

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

BWP'000s	2010	2009
Mortgage lending	14,659	16,853
Instalment finance	283,447	322,339
Corporate lending	2,192,573	942,955
Commercial and property finance	45,151	62,639
Micro-finance lending	103,231	148,963
Other	126,584	95,383
	2,765,645	**1,589,132**

b) Loans and advances past due but not impaired: age analysis

Internal grade: Special mention

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	2010			
	Days past due			
BWP'000s	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Total**
Internal Grade: Special mention				
Instalment finance	439	697	3,379	4,515
Corporate lending	27,492	113,864	12,396	153,752
Micro-finance lending	24,333	–	–	24,333
	52,264	**114,561**	**15,775**	**182,600**

	2009			
	Days past due			
BWP'000s	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Total**
Internal Grade: Special mention				
Mortgage lending	678	–	–	678
Instalment finance	8,507	23,958	28,667	61,132
Corporate lending	139,658	105,481	28,526	273,665
Commercial and property finance	1,183	–	–	1,183
Other	144	–	–	144
	150,170	**129,439**	**57,193**	**336,802**

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

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.

All micro-finance lending past due were categorised as "individually impaired" advances.

c) Loans and advances individually impaired

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is BWP268.3 million (2009: BWP203.7 million).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

	2010			2009		
BWP'000s	**Gross loans**	**Fair value collateral**	**Under-collateral-isation***	**Gross loans**	**Fair value collateral**	**Under-collateral-isation***
Instalment finance	32,640	8,458	24,182	35,265	39,748	(4,483)
Corporate lending	221,002	128,457	92,545	160,893	89,091	71,802
Micro-finance lending	8,306	–	8,306	4,231	–	4,231
Other	6,382	253	6,129	3,349	22,707	(19,358)
	268,330	**137,168**		**203,738**	**151,546**	

**The under-collateralisation amount is fully impaired.*

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.

d) 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 judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans totalled BWP179.2 million at 31 December 2010 (2009: BWP43.9 million).

BWP'000s	2010	2009
Mortgage lending	–	760
Corporate lending*	179,189	43,167
	179,189	**43,927**

**Renegotiated but current loans include a corporate advance of BWP135.4 million at year end, of which an amount of BWP74.6 million has been repaid subsequent to year end.*

Repossessed collateral

During 2010, the Group obtained assets by taking possession of collateral held as security, as follows:

Nature of assets	2010	2009
Property	2,655	5,931
Cash security	1,005	1,168
Motor vehicles	589	7,257
Carrying amount	**4,249**	**14,356**

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

Repossessed property is classified in the balance sheet under prepayments and other receivables.

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 regions as of 31 December 2010.

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

	2010						
BWP'000s	Botswana	Mozam-bique	Tanzania	Zambia	Zimbabwe	Other	Total
Placements with other banks	236,194	121,738	123,241	87,918	329,903	25,567	924,561
Financial assets held for trading	884,934	77,897	126,693	20,328	7,975	–	1,117,827
Financial assets designated at fair value	–	–	–	–	75,034	–	75,034
Derivative financial assets	4,683	13,811	4,054	–	–	19,464	42,012
Loans and advances (net of impairments)	636,601	401,713	436,332	232,721	1,365,069	5,674	3,078,110
Investment securities	38,502	–	–	–	–	–	38,502
Prepayments and other receivables	6,084	16,417	21,924	15,033	122,811	6,037	188,306
Current tax asset	751	1,564	733	3,340	–	–	6,388
	1,807,749	**633,140**	**712,977**	**359,340**	**1,900,792**	**56,742**	**5,470,740**

BWP'000s	Botswana	Mozam-bique	Tanzania	Zambia	Zimbabwe	Other	Total
	2009						
Placements with other banks	186,058	224,617	136,914	37,938	98,208	164,258	847,993
Financial assets held for trading	518,045	157,266	68,968	30,653	105,808	–	880,740
Derivative financial assets	1,380	4,356	–	–	–	2,234	7,970
Loans and advances (net of impairments)	440,586	321,992	498,941	342,977	366,366	24,463	1,995,325
Investment securities	34,832	–	–	–	–	–	34,832
Prepayments and other receivables	8,711	17,238	32,331	4,174	93,384	11,135	166,973
Current tax asset	780	–	–	3,133	–	–	3,913
	1,190,392	**725,469**	**737,154**	**418,875**	**663,766**	**202,090**	**3,937,746**

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

BWP'000s	Agriculture	Construction	Wholesale, retail and trade	Public sector	Manufacturing
	2010				
Placements with other banks	–	–	–	–	–
Financial assets held for trading	–	–	–	126,693	–
Financial assets designated at fair value	64,028	–	–	–	11,006
Derivative financial assets	–	–	–	–	–
Loans and advances	449,675	197,389	339,496	135,849	359,806
Investment securities	–	–	–	–	–
Prepayments and other receivables	–	3,224	671	–	–
Current tax assets	–	–	–	–	–
	513,703	**200,613**	**340,167**	**262,542**	**370,812**

BWP'000s	Agriculture	Construction	Wholesale, retail and trade	Public sector	Manufacturing
	2009				
Placements with other banks	–	–	–	–	–
Financial assets held for trading	17,565	–	16,852	68,968	32,185
Derivative financial assets	135	–	870	–	–
Loans and advances	296,710	166,664	262,618	7,495	188,095
Investment securities	–	–	–	–	–
Prepayments and other receivables	–	–	32,845	–	–
Current tax assets	–	–	–	–	–
	314,410	**166,664**	**313,185**	**76,463**	**220,280**

2010						
Mining	Financial services	Transport and energy	Individuals	Tourism	Other	Total
–	924,561	–	–	–	–	924,561
–	983,159	–	–	–	7,975	1,117,827
–	–	–	–	–	–	75,034
–	42,012	–	–	–	–	42,012
539,434	301,227	157,084	259,716	62,260	276,174	3,078,110
–	38,502	–	–	–	–	38,502
4,462	121,460	–	–	–	58,489	188,306
–	–	–	–	–	6, 388	6,388
543,896	**2,410,921**	**157,084**	**259,716**	**62,260**	**349,026**	**5,470,740**

2009						
Mining	Financial services	Transport and energy	Individuals	Tourism	Other	Total
–	847,993	–	–	–	–	847,993
36,188	708,533	–	–	–	449	880,740
–	6,965	–	–	–	–	7,970
284,632	135,211	138,277	237,948	53,778	223,897	1,995,325
–	34,832	–	–	–	–	34,832
–	68,943	–	–	–	65,185	166,973
–	–	–	–	–	3,913	3,913
320,820	**1,802,477**	**138,277**	**237,948**	**53,778**	**293,444**	**3,937,746**

Market risk

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

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

The currency exposure that arises as a result of the Group's continuing expansion and cross border investment activities is managed through the Executive Committee and the Group Asset and Liability Committee.

Market risk measurement techniques

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

Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Group Risk sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2010.

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

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

	At 31 December 2010			
BWP'000s	**EUR**	**USD**	**BWP**	**ZAR**
Cash and short-term funds	51,299	566,303	153,555	32,363
Financial assets held for trading	402	7,573	884,934	–
Financial assets designated at fair value	–	79,139	–	–
Derivative financial asset*	26,375	129,202	19,283	55,224
Loans and advances	17,201	1,798,021	677,144	7,335
Investment securities	–	5,576	38,502	–
Prepayments and other receivables	5	136,290	2,463	415
Current tax asset	–	–	751	–
Investment in associates	–	16,551	15,370	–
Property and equipment	242	111,338	116,860	37,241
Investment property	–	3,878		–
Intangible assets	–	–	45,857	–
Deferred tax asset	–	15,618	(2,248)	468
	95,524	**2,869,489**	**1,952,471**	**133,046**
Deposits	153,242	1,990,750	1,653,411	94,425
Derivative financial liabilities*	1,064	255,621	29,036	7,715
Creditors and accruals	91	25,656	11,763	6,919
Current tax liabilities	–	15,846	(11,599)	–
Deferred tax liabilities	–	5,678	6,622	–
Borrowed funds	12,347	167,455	277,936	–
	166,744	**2,461,006**	**1,967,169**	**109,059**
Net on-balance sheet position	**(71,220)**	**408,483**	**(14,698)**	**23,987**
Credit commitments	**24,853**	**17,535**	**31,182**	**60,405**

**Notional amounts have been reported in the currency columns and adjustments made in "Other" to arrive at the fair values.*

At 31 December 2010					
TZS	**ZMK**	**MZN**	**JPY**	**Other**	**Total**
86,179	8,921	78,530	13,149	9,039	999,338
126,693	20,328	77,897	–	–	1,117,827
–	–	–	–	–	79,139
139,493	15,837	–	19,628	(363,030)	42,012
203,471	107,377	267,504	–	57	3,078,110
8,592	353	–	–	–	53,023
17,300	16,707	15,126	–	–	188,306
733	3,339	1,565	–	–	6,388
2,924	–	–	–	–	34,845
13,971	9,987	40,579	–	–	330,218
–	–	–	–	–	3,878
1,535	2,313	7,697	–	–	57,402
2,890	4,225	–	–	–	20,953
603,781	**189,387**	**488,898**	**32,777**	**(353,934)**	**6,011,439**
384,341	174,286	437,463	11,281	7,846	4,907,045
53,426	4,841	13,023	2	(363,681)	1,047
4,629	6,195	–	–	8,764	64,017
1,154	1,418	–	–	–	6,819
–	–	2,933	–	–	15,233
602	–	–	121,080	–	579,420
444,152	**186,740**	**453,419**	**132,363**	**(347,071)**	**5,573,581**
159,629	**2,647**	**35,479**	**(99,586)**	**(6,863)**	**437,858**
91,816	**31,274**	**43,064**	**1,659**	**38,163**	**339,951**

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

	At 31 December 2009			
BWP'000s	**EUR**	**USD**	**BWP**	**ZAR**
Cash and short-term funds	265,401	216,480	155,512	39,072
Financial assets held for trading	1,992	105,173	517,229	(489)
Financial assets designated at fair value	–	17,905	–	–
Derivative financial asset*	43	58,216	–	925
Loans and advances	19,982	951,609	439,552	15,139
Investment securities	–	5,312	34,832	–
Prepayments and other receivables	328	67,170	64,145	1,128
Current tax asset	–	25	743	13
Investment in associates	–	17,628	18,903	–
Property and equipment	–	158,632	27,134	34,591
Investment property	–	24,716	1,135	–
Intangible assets	–	–	39,729	–
Deferred tax asset	–	5,695	9,517	1,830
	287,746	**1,628,561**	**1,308,431**	**92,209**
Deposits	235,711	990,305	1,101,631	88,691
Derivative financial liabilities*	759	127,058	–	56
Creditors and accruals	612	48,276	7,127	7,224
Current tax liabilities	–	877	693	–
Deferred tax liabilities	–	4,947	3,977	–
Borrowed funds	18,739	124,041	272,548	21
	255,821	**1,295,504**	**1,385,976**	**95,992**
Net on-balance sheet position	**31,925**	**333,057**	**(77,545)**	**(3,783)**
Credit commitments	**23,294**	**155,290**	**123,826**	**15,093**

**Notional amounts have been reported in the currency columns and adjustments made in "Other" to arrive at the fair values.*

At 31 December 2009					
TZS	ZMK	MZN	JPY	Other	Total
120,967	11,584	47,124	10,624	15,120	881,884
68,968	30,653	157,266	–	(52)	880,740
–	–	–	–	–	17,905
–	–	–	126,466	(177,680)	7,970
209,319	172,776	186,955	–	(7)	1,995,325
8,761	377	–	–	–	49,282
27,682	(4,242)	10,739	–	23	166,973
–	3,132	–	–	–	3,913
4,415	–	–	–	–	40,946
2,281	17,978	38,359	–	–	278,975
–	–	–	–	–	25,851
850	2,358	7,484	–	–	50,421
518	–	–	–	–	17,560
443,761	**234,616**	**447,927**	**137,090**	**(162,596)**	**4,417,745**
354,845	150,054	406,515	10,681	16,685	3,355,118
26,445	23,498	–	–	(175,861)	1,955
8,392	6,427	5,305	–	313	83,676
1,257	679	3,023	–	–	6,529
–	454	1,488	–	–	10,866
2,007	–	–	126,466	–	543,822
392,946	**181,112**	**416,331**	**137,147**	**(158,863)**	**4,001,966**
50,815	**53,504**	**31,596**	**(57)**	**(3,733)**	**415,779**
30,468	**22,401**	**14,193**	**1,431**	**–**	**385,996**

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Asset and Liability Committee (ALCO) is responsible for managing interest rate and liquidity risk in the Group. Asset and Liability management committees have been established in each subsidiary and meet on a monthly basis. They operate within the prudential guidelines and policies established by Group ALCO.

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

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

	2010						
BWP'000s	**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	357,223	37,460	13,938	–	408,621	590,717	999,338
Financial assets held for trading	378,344	602,713	28,973	99,822	1,109,852	7,975	1,117,827
Financial assets designated at fair value	–	–	–	64,028	64,028	15,111	79,139
Derivative financial assets	–	–	–	–	–	42,012	42,012
Loans and advances	1,649,168	501,197	439,560	488,185	3,078,110	–	3,078,110
Investment securities	–	–	–	38,502	38,502	14,521	53,023
Prepayments and other receivables	–	–	–	–	–	188,306	188,306
Current tax asset	–	–	–	–	–	6,388	6,388
Investment in associates	–	–	–	–	–	34,845	34,845
Property and equipment	–	–	–	–	–	330,218	330,218
Investment property	–	–	–	–	–	3,878	3,878
Intangible assets	–	–	–	–	–	57,402	57,402
Deferred tax asset	–	–	–	–	–	20,953	20,953
Assets	**2,384,735**	**1,141,370**	**482,471**	**690,537**	**4,699,113**	**1,312,326**	**6,011,439**
Equity	**–**	**–**	**–**	**–**	**–**	**437,858**	**437,858**
Deposits	2,719,674	1,535,951	627,545	23,875	4,907,045	–	4,907,045
Derivative financial liabilities	–	–	–	–	–	1,047	1,047
Creditors and accruals	–	–	–	–	–	64,017	64,017
Current tax liabilities	–	–	–	–	–	6,819	6,819
Deferred tax liability	–	–	–	–	–	15,233	15,233
Borrowed funds	20,607	96,721	4,331	457,761	579,420	–	579,420
Liabilities	**2,740,281**	**1,632,672**	**631,876**	**481,636**	**5,486,465**	**87,116**	**5,573,581**
Total interest repricing gap	**(355,546)**	**(491,302)**	**(149,405)**	**208,901**	**(787,352)**	**787,352**	**–**

BWP'000s	2009 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	656,863	10,957	47,074	3,729	718,623	163,261	881,884
Financial assets held for trading	476,584	289,302	74,721	39,863	880,470	270	880,740
Financial assets designated at fair value	–	–	–	–	–	17,905	17,905
Derivative financial assets	835	54,009	(51,230)	–	3,614	4,356	7,970
Loans and advances	1,010,098	170,343	437,411	377,473	1,995,325	–	1,995,325
Investment securities	–	–	–	48,905	48,905	377	49,282
Prepayments and other receivables	–	–	–	–	–	166,973	166,973
Current tax asset	–	–	–	–	–	3,913	3,913
Investment in associates	–	–	–	–	–	40,946	40,946
Property and equipment	–	–	–	–	–	278,975	278,975
Investment property	–	–	–	–	–	25,851	25,851
Intangible assets	–	–	–	–	–	50,421	50,421
Deferred tax asset	–	–	–	–	–	17,560	17,560
Assets	**2,144,380**	**524,611**	**507,976**	**469,970**	**3,646,937**	**770,808**	**4,417,745**
Equity	**–**	**–**	**–**	**–**	**–**	**415,779**	**415,779**
Deposits	2,565,606	426,118	353,185	10,209	3,355,118	–	3,355,118
Derivative financial liabilities	575	1,665	22,154	(23,011)	1,383	572	1,955
Creditors and accruals	–	–	–	–	–	83,676	83,676
Current tax liabilities	–	–	–	–	–	6,529	6,529
Deferred tax liability	–	–	–	–	–	10,866	10,866
Borrowed funds	1,266	4,133	101,280	437,143	543,822	–	543,822
Liabilities	**2,567,447**	**431,916**	**476,619**	**424,341**	**3,900,323**	**101,643**	**4,001,966**
Total interest repricing gap	**(423,067)**	**92,695**	**31,357**	**45,629**	**(253,386)**	**253,386**	**–**

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

BWP'000s	2010	2009
BancABC Botswana		
ABC Botswana constituted 33% of the Group's total assets		
Change in net interest income (+50 basis points)	278	1,746
As a percentage of total Shareholders equity	0.26%	1.88%
Change in net interest income (-50 basis points)	(278)	(1,746)
As a percentage of total Shareholders equity	-0.26%	-1.88%
BancABC Zambia		
ABC Zambia constituted 6% of the Group's total assets		
Change in net interest income (+50 basis points)	65	(84)
As a percentage of total Shareholders equity	0.00%	-9.09%
Change in net interest income (-50 basis points)	(65)	84
As a percentage of total Shareholders' equity	0.00%	9.09%
BancABC Mozambique		
ABC Mozambique constituted 12% of the Group's total assets		
Change in net interest income (+50 basis points)	296	19
As a percentage of total Shareholders equity	0.22%	0.00%
Change in net interest income (-50 basis points)	(296)	(19)
As a percentage of total Shareholders equity	0.22%	0.00%
BancABC Tanzania		
ABC Tanzania constituted 12% of the Group's total assets		
Change in net interest income (+50 basis points)	1,411	(778)
As a percentage of total Shareholders equity	0.01%	0.80%
Change in net interest income (-50 basis points)	(1,411)	778
As a percentage of total Shareholders equity	-0.01%	0.80%
BancABC Zimbabwe		
ABC Zimbabwe constituted 25% of the Group's total assets		
Change in net interest income (+50 basis points)	3,108	668
As a percentage of total Shareholders equity	1.13%	0.40%
Change in net interest income (-50 basis points)	(3,108)	(668)
As a percentage of total Shareholders equity	-1.13%	-0.40%

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

Sensitivity analysis of market price

The Group holds, directly or through its associates, listed equities with a fair value of BWP17.4 million (2009: BWP42.3 million).

The Group is therefore exposed to gains or losses related to the variability in the market prices of the equities held.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity risk management process

The Group 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. Group 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 Group 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 balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

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

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

The Group's maturity analysis (on a discounted cash flow basis) as at 31 December 2010 was as follows:

	2010				
BWP'000s	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**Greater than 1 year**	**Total**
Cash and short-term funds*	999,338	–	–	–	999,338
Financial assets held for trading	314,329	665,496	37,628	100,374	1,117,827
Financial assets designated at fair value	15,111	–	–	64,028	79,139
Derivative financial assets	–	–	42,012	–	42,012
Loans and advances	1,404,310	597,542	462,851	613,407	3,078,110
Investment securities	–	–	458	52,565	53,023
Prepayments and other receivables	152,789	–	14,405	21,112	188,306
Current tax asset	–	–	5,637	751	6,388
Investment in associates	–	–	–	34,845	34,845
Property and equipment	–	–	–	330,218	330,218
Investment property	–	–	–	3,878	3,878
Intangible assets	–	–	–	57,402	57,402
Deferred tax asset	–	–	3,406	17,547	20,953
Total assets	**2,885,877**	**1,263,038**	**566,397**	**1,296,127**	**6,011,439**
Shareholders' equity and liabilities					
Equity	**–**	**–**	**–**	**437,858**	**437,858**
Liabilities					
Deposits	2,719,674	1,535,951	544,913	106,507	4,907,045
Derivative financial liabilities	–	–	1,047	–	1,047
Creditors and accruals	51,766	–	6,104	6,147	64,017
Current tax liabilities	3,549	1,444	1,826	–	6,819
Deferred tax liabilities	–	–	–	15,233	15,233
Borrowed funds	1,276	7,615	82,862	487,667	579,420
Total equity and liabilities	**2,776,265**	**1,545,010**	**636,752**	**1,053,412**	**6,011,439**
Net maturity gap	**109,612**	**(281,972)**	**(70,355)**	**242,715**	**–**
Contingent liabilities	**16,998**	**118,983**	**131,833**	**72,137**	**339,951**

**Included in the "Up to 1 month" bucket are statutory reserve balances of BWP211.3 million.*

BWP'000s	2009 Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total
Cash and short-term funds*	830,340	742	47,074	3,728	881,884
Financial assets held for trading	445,919	290,666	101,822	42,333	880,740
Financial assets designated at fair value	17,905	–	–	–	17,905
Derivative financial assets	5,191	641	20,722	(18,584)	7,970
Loans and advances	456,075	183,420	640,509	715,321	1,995,325
Investment securities	–	–	–	49,282	49,282
Prepayments and other receivables	55,378	267	35,544	75,784	166,973
Current tax asset	–	–	3,913	–	3,913
Investment in associates	–	–	–	40,946	40,946
Property and equipment	–	–	–	278,975	278,975
Investment property	–	–	–	25,851	25,851
Intangible assets	–	–	–	50,421	50,421
Deferred tax asset	–	–	1,517	16,043	17,560
Total assets	**1,810,808**	**475,736**	**851,101**	**1,280,100**	**4,417,745**
Shareholders' equity and liabilities					
Equity	**–**	**–**	**–**	**415,779**	**415,779**
Liabilities					
Deposits	2,308,141	680,775	355,943	10,259	3,355,118
Derivative financial liabilities	1,147	1,665	22,154	(23,011)	1,955
Creditors and accruals	57,697	297	5,226	20,456	83,676
Current tax liabilities	3,022	541	2,966	–	6,529
Deferred tax liabilities	1,488	–	–	9,378	10,866
Borrowed funds	1,266	4,133	108,950	429,473	543,822
Total equity and liabilities	**2,372,761**	**687,411**	**495,239**	**862,334**	**4,417,745**
Net maturity gap	**(561,953)**	**(211,675)**	**355,862**	**417,766**	**–**
Contingent liabilities	**20,609**	**144,265**	**159,844**	**61,277**	**385,995**

**Included in the "Up to 1 month" bucket are statutory reserve balances of BWP180.1 million.*

Funding approach

Sources of liquidity are regularly reviewed by the Asset and Liability Committees to maintain a diversification by currency, geography, provider, product and term where possible.

Non-derivative cash flow

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

	2010						
BWP'000s	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**Greater than 1 year**	**Total**	**Effect of discount/ financing rates**	**31 Dec 2010**
Deposits	2,725,150	1,554,271	568,656	110,518	4,958,595	(51,550)	4,907,045
Creditors and accruals	51,766	–	6,104	6,147	64,017	–	64,017
Current tax liabilities	3,549	1,445	1,825	–	6,819	–	6,819
Borrowed funds	1,722	8,947	85,604	510,764	607,037	(27,617)	579,420
Total liabilities	**2,782,187**	**1,564,663**	**662,189**	**627,429**	**5,636,468**	**(79,167)**	**5,557,301**

	2009						
BWP'000s	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**Greater than 1 year**	**Total**	**Effect of discount/ financing rates**	**31 Dec 2009**
Deposits	2,324,885	663,567	402,206	1,862	3,392,520	(37,402)	3,355,118
Creditors and accruals	61,101	173	13,186	9,216	83,676	–	83,676
Current tax liabilities	3,022	541	2,966	–	6,529	–	6,529
Borrowed funds	3,156	11,761	106,780	728,296	849,993	(306,171)	543,822
Total liabilities	**2,392,164**	**676,042**	**525,138**	**739,374**	**4,332,718**	**(343,573)**	**3,989,145**

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:

	2010				
BWP'000s	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**Greater than 1 year**	**Total**
Derivative financial liabilities	139,966	138,385	55,052	30,278	363,681

	2009				
BWP'000s	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**Greater than 1 year**	**Total**
Derivative financial liabilities	1,373	7,446	68,830	442,760	520,409

Financial assets and liabilities measured at fair value

Effective 1 January 2009, the Group adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010:

	2010				2009			
BWP'000s	**Quoted prices Level 1**	**Observable inputs Level 2**	**Unobservable inputs Level 3**	**Total at fair value**	**Quoted prices Level 1**	**Observable inputs Level 2**	**Unobservable inputs Level 3**	**Total at fair value**
Financial assets held for trading	–	1,117,827	–	1,117,827	–	880,740	–	880,740
Financial assets designated at fair value*	15,111	–	64,028	79,139	17,905	–	–	17,905
Derivative financial assets	–	42,012	–	42,012	–	7,970	–	7,970
Investment securities**	–	–	14,521	14,521	–	–	14,450	14,450
Total assets at fair value	**15,111**	**1,159,839**	**78,549**	**1,253,499**	**17,905**	**888,710**	**14,450**	**921,065**
Derivative financial liabilities	–	1,047	–	1,047	–	1,955	–	1,955
Total liabilities at fair value	**–**	**1,047**	**–**	**1,047**	**–**	**1,955**	**–**	**1,955**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily quoted equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

*Level 3 input:

In estimating the fair value of instruments under level 3 at 31 December 2010, the following assumptions were applied for investments in convertible debentures:

- volatility in the price of the underlying equity instrument of 50%; and
- credit spread of 12.54%.

**The investment securities comprise of unlisted equities. The unlisted equities have been stated at cost as the fair value of the unlisted equities could not be objectively determined using valuation models. They comprise of shareholdings smaller than 20% in a number of private companies.

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

BWP'000s	December 2010 Trading securities	Trading derivatives	Debt or equity investments	Total at fair value	December 2009 Trading securities	Trading derivatives	Debt or equity investments	Total at fair value
Opening balance	–	–	14,450	14,450	–	–	36,600	36,600
Purchases	–	–	65,543	65,543	–	–	1,474	1,474
Settlements	–	–	–	–	–	–	(4,989)	(4,989)
Exchange rate adjustment	–	–	(1,444)	(1,444)	–	–	(4,740)	(4,740)
Transfers out of level 3	–	–	–	–	–	–	(13,895)	(13,895)
Closing balance	**–**	**–**	**78,549**	**78,549**	**–**	**–**	**14,450**	**14,450**

Financial instruments not measured at fair value

The table below details the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value:

	2010 Carrying value	Fair value	Unrecognised profit/(loss)	2009 Carrying value	Fair value	Unrecognised profit/(loss)
Borrowed funds	579,420	648,603	(69,183)	543,822	643,171	(99,349)

Financial instruments not measured at fair value are as follows:

i) Placements with other banks

Placements with other banks includes inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

ii) Loans and advances

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

iii) Investment securities

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

iv) Deposits and borrowed funds

The estimated fair value of deposits with no stated maturity, which includes non interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

v) Off-balance sheet financial instruments

The estimated fair values of the off-balance sheet financial instruments are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

Off-balance sheet items

BWP'000s	2010	2009
a) Contingent liabilities		
Guarantees	210,146	244,637
Letters of credit, loan commitments and other contingent liabilities	129,805	141,359
	339,951	**385,996**
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 2010, are summarised below:		
Less than one year	267,814	324,719
Between one and five years	72,137	61,277
	339,951	**385,996**
b) Capital commitments		
Approved and contracted for	15,604	57,721
Approved but not contracted for	68,004	64,402
	83,608	**122,123**
c) Non-cancelable operating lease commitments		
Future minimum lease payments under non-cancelled operating leases are as follows:		
Office premises	36,285	56,182
Equipment and motor vehicles	984	2,098
	37,269	**58,280**
Non-cancelable operating leases are payable as follows:		
Less than one year	9,241	10,345
Between one and five years	22,649	20,627
Over five years	5,379	27,308
	37,269	**58,280**

Capital management

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

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

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

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business.

At 31 December 2010, all regulated banking operations complied with all externally imposed capital requirements.

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

Regulatory minimum capital adequacy ratios for the Group's banking operations based on December 2010 returns submitted to regulatory authorities, are summarised below:

	2010				
BWP'000s	**BancABC Botswana**	**BancABC Zimbabwe**	**BancABC Zambia**	**BancABC Tanzania**	**BancABC Mozambique**
Tier I Capital					
Share capital and premium	34,070	67,913	81,004	128,973	61,810
Capital reserves and retained earnings*	57,750	78,075	(37,477)	(31,541)	42,143
Allocation for market and operational risk	–	(6,965)	–	–	–
Intangible assets (software)	–	–	–	–	(7,697)
Prepayments	–	–	–	(11,429)	–
Exposures to insiders	–	(4,573)	–	–	–
Total qualifying for Tier I Capital	**91,820**	**134,450**	**43,527**	**86,003**	**96,256**
Tier II Capital					
Shareholder's loan	63,236	–	43,527	–	46,058
General debt provision	3,496	7,996	–	–	–
Revaluation reserve	13,262	–	–	–	–
Total qualifying for Tier II Capital	**79,994**	**7,996**	**43,527**	**–**	**46,058**
Tier III Capital					
Allocation for market and operational risk	–	6,965	–	–	–
Total qualifying for Tier III Capital	**–**	**6,965**	**–**	**–**	**–**
Total Capital	**171,814**	**149,411**	**87,054**	**86,003**	**142,314**
Risk Weighted Assets*					
On-balance sheet assets	889,642	769,958	298,545	476,251	21,178
Off-balance sheet assets	33,534	12,735	48,514	46,776	601,202
Total risk weighted assets	**923,176**	**782,693**	**347,059**	**523,027**	**622,380**
Capital adequacy ratio	19%	19%	25%	16%	23%
Minimum regulatory capital adequacy ratio	15%	10%	10%	12%	8%

**Net of foreign currency translation reserve.*
***Weighting of assets is based on the nature of the asset and its weighting as prescribed by the relevant regulatory authority.*

BWP'000s	2009				
	BancABC Botswana	BancABC Zimbabwe	BancABC Zambia	BancABC Tanzania	BancABC Mozambique
Tier I Capital					
Share capital and premium	34,070	74,877	85,179	128,973	41,512
Capital reserves and retained earnings*	58,738	17,834	(44,461)	(33,280)	36,081
Intangible assets (software)	–	–	–	–	(17,908)
Allocation for market and operational risk	–	(3,265)	–	–	–
Prepayments	–	–	–	(18,817)	–
Exposures to insiders	–	(4,330)	–	–	–
Total qualifying for Tier I Capital	**92,808**	**85,116**	**40,718**	**76,876**	**59,685**
Tier II Capital					
Shareholder's loan	67,032	–	–	–	29,124
General debt provision	4,652	1,472	–	–	–
Revaluation reserve	–	–	–	–	–
Other	–	–	–	–	(5,762)
Revaluation reserves (limited to Tier I Capital)	–	2,873	–	–	–
Total qualifying for Tier II Capital	**71,684**	**4,345**	**–**	**–**	**23,362**
Tier III Capital					
Allocation for market and operational risk	–	3,265	–	–	–
Total qualifying for Tier III Capital	**–**	**3,265**	**–**	**–**	**–**
Total Capital	**164,492**	**92,726**	**40,718**	**76,876**	**83,047**
Risk weighted assets**					
On-balance sheet assets	681,304	430,333	385,373	501,761	475,886
Off-balance sheet assets	48,669	35,340	42,366	60,566	14,848
Total risk weighted assets	**729,973**	**465,673**	**427,739**	**562,327**	**490,734**
Capital adequacy ratio	23%	20%	10%	14%	17%
Minimum regulatory capital adequacy ratio	15%	10%	10%	12%	8%

**Net of foreign currency translation reserve*
***Weighting of assets is based on the nature of the asset and its weighting as prescribed by the relevant regulatory authority.*

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

Capital allocation

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

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

Segment analysis

By geographical segment

Operating segments are reported in accordance with the internal reporting provided to the Group Executive Committee (the chief operating decision maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has six main business segments, comprising:

- Banking operations in:
  - Botswana
  - Mozambique
  - Tanzania
  - Zambia
  - Zimbabwe; and
- non-deposit taking operations arising from ABCH and non-banking subsidiaries.

The Group's segment operations are all financial with a majority of operating revenues derived from interest and fee and commission income. The Group Executive Committee relies primarily on attributable profits to assess the performance of the segment for the period.

There were no changes in the reportable segments during the year.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Executive Committee is measured in a manner consistent with that in the consolidated income statement.

As the banking operations comprise of stand alone banks, each banking operation is funded with Tier I and II capital from ABCH. Interest is charged at rates disclosed in the ABCH company stand alone financial statements note 13. Other material items of income or expense between the business segments comprise of management fees and dividends.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non interest expenses. The effects of non-recurring items of income or expense is described in the report on the Group financial performance.

The information provided about each segment is based on the internal reports about segment profitability, assets and liabilities composition, and other information, which are regularly reviewed by the Group Executive Committee.

Segment assets and liabilities comprise the majority of items appearing on the consolidated balance sheet.

There were no banking revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 31 December 2010 is as follows:

	2010							
BWP'000s	**BancABC Botswana**	**BancABC Mozambique**	**BancABC Tanzania**	**BancABC Zimbabwe**	**BancABC Zambia**	**Head office and other****	**Consolidation entries**	**Total**
Net interest income after impairment of loans and advances*	51,610	26,641	29,975	55,255	70,790	47,749	–	282,019
Total income	84,964	83,967	67,855	140,347	91,562	112,298	(34,687)	546,307
Net income from operations	25,594	27,370	20,186	28,787	11,203	34,121	(36,045)	111,214
Share of results of associates	–	–	–	228	–	(20,361)	–	(20,134)
Profit before tax	25,594	27,370	20,186	34,083	11,203	8,690	(36,045)	91,080
Income tax	(5,554)	(4,451)	(3,351)	(7,344)	–	(807)	(988)	(22,495)
Profit for the year	**20,040**	**22,919**	**16,835**	**26,739**	**11,203**	**7,883**	**(37,033)**	**68,585**
Attributable profit	**20,040**	**22,919**	**15,804**	**26,739**	**11,203**	**7,037**	**(37,033)**	**66,710**
Financial assets held for trading	884,934	77,897	126,693	1,658	20,328	6,317	–	1,117,827
Loans and advances	794,615	424,274	446,426	895,169	232,721	284,906	–	3,078,110
Segment assets (excluding associates)	1,989,701	718,762	727,993	1,515,559	375,189	1,406,464	(757,072)	5,976,596
Associates	–	–	–	4,760	–	30,085	–	34,845
Total assets	**1,989,701**	**718,762**	**727,993**	**1,520,319**	**375,189**	**1,436,547**	**(757,072)**	**6,011,439**
Deposits	1,966,307	836,104	795,640	1,056,032	252,962	–	–	4,907,045
Borrowed funds	85,076	–	–	19,336	29,016	445,992	–	579,420
Segment liabilities***	**1,818,748**	**556,374**	**630,561**	**1,329,071**	**288,845**	**963,160**	**(13,178)**	**5,573,581**
Other segment items:								
Capital expenditure	23,838	10,895	14,455	29,546	2,162	2,095		82,991
Depreciation	3,423	4,318	2,717	7,657	2,572	2,457	1,358	24,502
Amortisation	1,073	2,152	591	–	1,159	–	–	4,975
Impairment charge	(158)	2,416	18,063	2,187	(3,458)	(3,224)	–	15,826
Operating expenses	59,370	56,597	47,670	106,593	80,360	83,145	1,358	435,093

*After eliminations.
**Reflects non-banking operations in various geographical sectors.
***Includes inter-company assets or liabilities.

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 31 December 2009 is as follows:

	2009							
BWP'000s	**BancABC Botswana**	**BancABC Mozambique**	**BancABC Tanzania**	**BancABC Zimbabwe**	**BancABC Zambia****	**Head office and other*****	**Consolidation entries**	**Total**
Net interest income after impairment of loans and advances*	25,940	28,267	22,343	14,182	34,648	1,796	–	127,176
Total income	68,712	89,675	49,481	72,757	44,537	78,750	(11,719)	392,193
Net income from operations	21,934	36,136	9,200	10,347	(31,945)	(7,454)	(11,719)	26,499
Share of results of associates	–	–	–	(52)	–	16,216	–	16,164
Profit before tax	21,934	36,136	9,200	10,295	(31,945)	8,762	(11,719)	42,663
Income tax	(4,521)	(5,870)	(3,709)	9,067	(1,622)	23,717	(1,294)	15,768
Profit for the year	**17,413**	**30,266**	**5,491**	**19,362**	**(33,567)**	**32,479**	**(13,013)**	**58,431**
Attributable profit	**17,413**	**30,266**	**5,155**	**19,362**	**(33,567)**	**32,816**	**(13,328)**	**58,117**
Financial assets held for trading	518,045	157,266	68,968	115,296	30,653	(9,488)	–	880,740
Loans and advances	618,428	383,603	486,173	98,378	299,691	109,052	–	1,995,325
Segment assets (excluding associates)	1,530,149	843,550	702,573	480,933	397,148	1,024,784	(602,338)	4,376,799
Associates	–	–	–	1,684	–	39,262	–	40,946
Total assets	**1,530,149**	**843,550**	**702,573**	**482,617**	**397,148**	**1,064,046**	**(602,338)**	**4,417,745**
Deposits	1,402,221	812,498	676,939	253,740	209,720	–	–	3,355,118
Borrowed funds	81,962	–	–	–	20,102	441,758	–	543,822
Segment liabilities*****	**1,370,309**	**698,226**	**606,880**	**380,149**	**355,174**	**591,293**	**(65)**	**4,001,966**
Other segment items:								
Capital expenditure	18,222	13,917	625	21,401	8,466	69,948	–	132,579
Depreciation	1,069	3,825	998	3,103	2,623	2,250	–	13,868
Amortisation	563	777	415	–	701	–	–	2,456
Impairment charge	8,891	10,326	12,835	156	26,984	(7,974)	–	51,218
Operating expenses	46,778	53,539	40,280	62,411	76,481	86,205	–	365,694

**After eliminations.*
***Includes Microfin Africa Limited. Attributable loss for the year 2009 excluding Microfin, was BWP45 million.*
****Reflects non-banking operations in various geographical sectors.*
*****Includes inter-company assets or liabilities.*

ABC Holdings

CONSOLIDATED GROUP FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010

BWP'000s	Notes	2010	2009
Interest and similar income		650,466	502,311
Interest expense and similar charges		(352,621)	(323,917)
Net interest income before impairment of advances	1	**297,845**	**178,394**
Impairment of loans and advances	2	(15,826)	(51,218)
Net interest income after impairment of advances		**282,019**	**127,176**
Non interest income	3	264,288	265,017
Total income		**546,307**	**392,193**
Operating expenditure	4	(435,093)	(365,694)
Net income from operations		**111,214**	**26,499**
Share of results of associates	13	(20,134)	16,164
Profit before tax		**91,080**	**42,663**
Tax	5	(22,495)	15,768
Profit for the year		**68,585**	**58,431**
Attributable to:			
Ordinary shareholders		66,710	58,117
Minorities		1,875	314
Profit for the year		**68,585**	**58,431**
Earnings per share (thebe)	6	46.3	40.4
Dividend per share (thebe)		10.0	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

BWP'000s	2010	2009
Profit for the year	**68,585**	**58,431**
Other comprehensive income	**(46,506)**	**(99,160)**
Exchange differences on translating foreign operations	(48,834)	(78,090)
Revaluation of property	(1,982)	(38,277)
Share of reserves in associate companies	3,016	112
Movement in available-for-sale reserves	24	1,051
Income tax relating to components of other comprehensive income	1,270	16,044
Total comprehensive income for the year	**22,079**	**(40,729)**
Total comprehensive income attributable to:		
Ordinary shareholders	23,267	(38,585)
Minorities	(1,188)	(2,144)
	22,079	**(40,729)**

CONSOLIDATED BALANCE SHEET

as at 31 December 2010

BWP'000s	Notes	2010	2009
ASSETS			
Cash and short-term funds	7	999,338	881,884
Financial assets held for trading	8	1,117,827	880,740
Financial assets designated at fair value	9	79,139	17,905
Derivative financial assets	21	42,012	7,970
Loans and advances	10	3,078,110	1,995,325
Investment securities	12	53,023	49,282
Prepayments and other receivables	11	188,306	166,973
Current tax assets		6,388	3,913
Investment in associates	13	34,845	40,946
Property and equipment	15	330,218	278,975
Investment property	14	3,878	25,851
Intangible assets	17	57,402	50,421
Deferred tax assets	16	20,953	17,560
TOTAL ASSETS		**6,011,439**	**4,417,745**
EQUITIES AND LIABILITIES			
Liabilities			
Deposits	18	4,907,045	3,355,118
Derivative financial liabilities	21	1,047	1,955
Creditors and accruals	20	64,017	83,676
Current tax liabilities		6,819	6,529
Deferred tax liabilities	16	15,233	10,866
Borrowed funds	19	579,420	543,822
		5,573,581	**4,001,966**
Equity			
Stated capital	22	307,586	307,586
Foreign currency translation reserve		(347,388)	(298,715)
Non-distributable reserves		162,535	144,009
Distributable reserves		299,603	246,189
Equity attributable to ordinary shareholders		**422,336**	**399,069**
Minority interest		15,522	16,710
Total equity		**437,858**	**415,779**
TOTAL EQUITY AND LIABILITIES		**6,011,439**	**4,417,745**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

BWP'000s	Attributable to owners of the parent Stated capital	Foreign currency translation reserve	Regulatory general credit risk reserve	Property revaluation reserve
Balance as at 1 January 2009	**307,586**	**(223,083)**	**4,825**	**138,768**
Comprehensive income:				
Profit for the year	–	–	–	–
Other comprehensive income:	**–**	**(75,632)**	**(655)**	**(22,233)**
Foreign currency translation differences	–	(75,632)	–	–
Revaluation of property net of deferred tax	–	–	–	(22,233)
Movement in general credit risk reserve	–	–	(655)	–
Share of reserves in associate companies	–	–	–	–
Movement in statutory reserves	–	–	–	–
Movement in available-for-sale reserves:				
– Arising in current year	–	–	–	–
TOTAL COMPREHENSIVE INCOME	**–**	**(75,632)**	**(655)**	**(22,233)**
Balance as at 31 December 2009	**307,586**	**(298,715)**	**4,170**	**116,535**
Comprehensive income:				
Profit for the year	–	–	–	–
Other comprehensive income:	**–**	**(48,673)**	**889**	**2,608**
Foreign currency translation differences	–	(45,771)	–	–
Revaluation of property net of deferred tax	–	–	–	(712)
Movement in general credit risk reserve	–	–	889	–
Hedging reserve transfer	–	(2,902)	–	–
Share of reserves in associate companies	–	–	–	3,320
Movement in statutory reserves	–	–	–	–
Disposal of treasury shares		–	–	–
Movement in available-for-sale reserves:				
– Arising in current year	–	–	–	–
TOTAL COMPREHENSIVE INCOME	**–**	**(48,673)**	**889**	**2,608**
Balance as at 31 December 2010	**307,586**	**(347,388)**	**5,059**	**119,143**

Attributable to owners of the parent							
Available-for-sale reserve	Statutory reserve	Hedging reserve	Treasury share reserve	Distributable reserves	Total	Minority interest	Total equity
(323)	**24,464**	**(2,902)**	**(2,574)**	**190,893**	**437,654**	**18,854**	**456,508**
–	–	–	–	58,117	58,117	314	58,431
1,051	**3,588**	**–**	**–**	**(2,821)**	**(96,702)**	**(2,458)**	**(99,160)**
–	–	–	–	–	(75,632)	(2,458)	(78,090)
–	–	–	–	–	(22,233)	–	(22,233)
–	–	–	–	655	–	–	–
–	1,303	–	–	(1,191)	112	–	112
–	2,285	–	–	(2,285)	–	–	–
1,051	–	–	–	–	1,051	–	1,051
1,051	**3,588**	**–**	**–**	**55,296**	**(38,585)**	**(2,144)**	**(40,729)**
728	**28,052**	**(2,902)**	**(2,574)**	**246,189**	**399,069**	**16,710**	**415,779**
–	–	–	–	66,710	66,710	1,875	68,585
24	**11,900**	**2,902**	**203**	**(13,296)**	**(43,443)**	**(3,063)**	**(46,506)**
–	–	–	–	–	(45,771)	(3,063)	(48,834)
–	–	–	–	–	(712)	–	(712)
–	–	–	–	(889)	–	–	–
–	–	2,902	–	–	–	–	–
–	205	–	–	(509)	3,016	–	3,016
–	11,695	–	–	(11,695)	–	–	–
–	–	–	203	(203)	–	–	–
24	–	–	–	–	24	–	24
24	**11,900**	**2,902**	**203**	**53,414**	**23,267**	**(1,188)**	**22,079**
752	**39,952**	**–**	**(2,371)**	**299,603**	**422,336**	**15,522**	**437,858**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2010

BWP'000s	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES	**219,100**	**474,649**
Cash generated from operating activities	154,379	53,126
Net profit before tax	**91,080**	**42,663**
Adjusted for:		
Impairment of loans and advances	15,826	51,218
Depreciation and amortisation	29,477	16,324
Net unrealised (gains)/losses on derivative financial instruments	(1,725)	9,670
Fair value (gains)/losses on investment properties	(125)	14,610
Profit on disposal of associate	–	(56,332)
Loss/(profit) from associates	20,134	(16,164)
Profit on disposal of property and equipment	(288)	(8,863)
Tax paid	(25,522)	(8,484)
Net cash inflow from operating activities before changes in operating funds	**128,857**	**44,642**
Net increase in operating funds	**90,243**	**430,007**
Increase in operating assets	(1,671,299)	(528,346)
Increase in operating liabilities	1,761,542	958,353
CASH FLOWS FROM INVESTING ACTIVITIES	**(79,350)**	**(83,197)**
Purchase of property and equipment	(82,991)	(163,877)
Purchase of intangible assets	(13,087)	(12,021)
Additions to investment property	(336)	–
Proceeds on disposal of property and equipment	8,006	10,227
Proceeds on disposal of investment property	20,372	–
(Additions to)/proceeds on disposal of associates	(11,314)	82,474
CASH FLOWS FROM FINANCING ACTIVITIES	**40,075**	**(53,324)**
Increase/(decrease) in borrowed funds	40,075	(53,324)
Increase in cash and cash equivalents	**179,825**	**338,128**
Cash and cash equivalents at the beginning of the year	701,766	420,508
Exchange adjustment on opening balance	(93,565)	(56,870)
Cash and cash equivalents at the end of the year	**788,026**	**701,766**
Cash and cash equivalents	788,026	701,766
Statutory reserves	211,312	180,118
Cash and short-term funds	**999,338**	**881,884**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

BWP'000s		2010	2009
1.	**Net interest income**		
	Interest and similar income		
	Cash and short-term funds	122,091	75,665
	Investment securities at amortised cost	78,506	82,501
	Loans and advances at amortised cost	449,869	344,145
		650,466	**502,311**
	Interest expense		
	Deposits	248,013	224,375
	Borrowed funds	104,608	99,542
		352,621	**323,917**
	Net interest income	**297,845**	**178,394**
	Interest income suspended on impaired financial assets amounts to BWP5.131 million (2009: BWP4.674 million)		
2.	**Impairment of loans and advances**		
	Specific impairments	18,146	52,430
	Portfolio impairments	2,691	(855)
	Impairments prior to recoveries	20,837	51,575
	Recoveries of loans and advances previously written off	(5,011)	(357)
		15,826	**51,218**
3.	**Non interest income**		
	Gains from trading activities:	46,561	41,777
	Gains on financial assets at fair value through profit and loss	44,836	51,447
	– held for trading	33,496	13,211
	– designated at fair value	11,340	38,236
	Net gains/(losses) on derivative financial instruments*	1,725	(9,670)
	Dividends received:	123	450
	Listed shares – fair value through profit or loss	123	83
	Unlisted shares – fair value through profit or loss	–	367
	Fee and commission income:	103,189	53,782
	Net fee income on loans and advances	60,516	53,923
	Net fee income from trust and fiduciary activities	7,998	5,954
	Claims in respect of project finance transaction	–	(30,231)
	Cash transaction fees	14,566	9,762
	Other fee income	20,109	14,374
	Other non interest income:	114,415	169,008
	Money market trading income	(6)	33
	Fair value gains/(losses) on investment properties at fair value (note 14)	125	(14,610)
	Rental and other income	7,632	2,604
	Profit on disposal of property and equipment	288	8,863
	Forex trading income and currency revaluation*	106,090	115,786
	Profit on disposal of associate	–	56,332
	Service charges recoveries	286	–
		264,288	**265,017**

**Foreign exchange income includes a foreign exchange loss of BWP10.7 million (2009: profit of BWP21 million) arising from the Japanese Yen exposure with NDB, disclosed in note 19. Net gain/(losses) on derivative instruments includes an offsetting fair value gain arising from an equal but opposite nominal Japanese Yen derivative asset.*

BWP'000s	2010	2009
4. Operating expenditure		
Administrative expenses	150,971	151,061
Property lease rentals	20,971	13,213
Staff costs (note 4.1)	217,346	173,864
Auditor's remuneration	4,786	4,291
Depreciation (note 15)	24,502	13,868
Amortisation of software (note 17)	4,975	2,456
Directors remuneration (note 4.2)	11,542	6,941
	435,093	**365,694**
4.1 Staff Costs		
Salaries	163,701	126,251
Employer contributions to post-retirement funds	13,576	12,429
Other staff costs	40,069	35,184
	217,346	**173,864**
Other staff costs comprise profit share expense, medical aid contributions, staff training and other staff-related expenses.		
4.2 Directors remuneration		
Executive directors		
Salary, performance-related remuneration and other benefits	8,013	4,137
Non-executive directors		
Fees as director of holding company	2,617	2,120
Fees as director of subsidiaries	912	684
	3,529	2,804
	11,542	6,941
5. Tax		
Current tax expense		
Current year	22,438	11,647
Over provision in prior years	(544)	–
Bank levies	231	235
	22,125	**11,882**
Deferred tax		
Accruals	285	429
Impairment losses	(123)	(1,410)
Property and equipment	3,485	3,636
Gains and investments	(3,654)	(17,531)
Tax losses	377	(12,774)
	370	**(27,650)**
Total tax expense/(income) per income statement	**22,495**	**(15,768)**
Reconciliation of effective tax charge:		
Profit before tax	91,080	42,663
Income tax using corporate tax rates	39,065	24,715
Non-deductible expenses	1,267	3,841
Tax exempt revenues	(12,375)	(19,238)
Tax incentives	(5,149)	(8,649)
Over provision in prior years	(544)	–
Bank levies	231	235
Rate change	–	(16,672)
Current tax expense per income statement	**22,495**	**(15,768)**
Effective tax rate	**25%**	**(37%)**

5. Tax (continued)

5.1 Income tax effects relating to components of other comprehensive income

BWP'000s	2010 Before tax	2010 Tax (charge)/ credit	2010 After tax	2009 Before tax	2009 Tax (charge)/ credit	2009 After tax
Exchange differences on translating foreign operations	(48,834)	–	(48,834)	(78,090)	–	(78,090)
Revaluation of property net of deferred tax	(1,982)	1,270	(712)	(38,277)	16,044	(22,233)
Share of reserves in associate companies	3,016	–	3,016	112	–	112
Movement in available-for-sale reserves	24	–	24	1,051	–	1,051
Other comprehensive income	**(47,776)**	**1,270**	**(46,506)**	**(115,204)**	**16,044**	**(99,160)**

BWP'000s	2010	2009
6. Earnings per share		
Basic earnings per share		
Profit attributable to ordinary shareholders ('000)	66,710	58,117
Weighted average number of ordinary shares in issue ('000)	143,956	143,846
Basic earnings per share (thebe)	**46.3**	**40.4**
Number of shares ('000)		
Shares in issue at beginning of the year	146,420	146,420
Ordinary shares issued during the year	–	–
Total Company	**146,420**	**146,420**
Recognised as treasury shares	(2,371)	(2,574)
Total Group	**144,049**	**143,846**
Weighted average number of ordinary shares	**143,956**	**143,846**
7. Cash and short-term funds		
Cash on hand	74,777	33,890
Balances with central banks	42,722	42,283
Balances with other banks	670,527	625,593
Cash and cash equivalents	788,026	701,766
Statutory reserve balances	211,312	180,118
	999,338	**881,884**
Statutory reserve balances are restricted minimum statutory balances not available for the banking operation's daily operations. These balances do not accrue interest.		
8. Financial assets held for trading		
Government bonds	102,766	46,251
Corporate bonds	5,677	–
Treasury bills and other open market instruments	1,007,913	727,784
Bankers' acceptances and commercial paper	1,471	106,705
	1,117,827	**880,740**
All financial assets held for trading are carried at fair value.		
9. Financial assets designated at fair value		
Listed equities	4,105	17,905
Listed debentures	11,006	–
Unlisted debentures	64,028	–
	79,139	**17,905**

The listed debentures comprise of an investment in 10% convertible debentures issued by PG Industries (Zimbabwe) Limited.
The unlisted debentures comprise of an investment in 12% convertible debentures issued by Star Africa Corporation Limited.

BWP'000s	2010	2009
10. Loans and advances		
Mortgage lending	14,659	17,530
Instalment finance	320,602	418,735
Corporate lending	2,567,327	1,377,515
Commercial and property finance	45,151	63,822
Micro-finance lending	135,870	153,194
Other loans and advances	132,966	98,876
	3,216,575	2,129,672
Less impairments (note 10.1)	(138,465)	(134,347)
Net loans and advances	3,078,110	1,995,325
10.1 Analysis of impairments		
Specific impairments	121,472	121,623
Portfolio impairments	16,993	12,724
	138,465	134,347

10.2 Impairment of loans and advances – movement analysis

BWP'000s	Total impairments	Mortgage lending	Instalment finance	Corporate lending	Commercial and property finance	Micro-finance lending	Other
2010							
Opening balance	134,347	2,163	26,999	85,338	1,423	15,198	3,226
Exchange rate adjustment	(10,828)	–	(211)	(9,661)	–	(983)	27
Bad debts written off	(11,396)	–	(838)	(10,558)	–	–	–
Net new impairments created (note 2)	20,837	(785)	(299)	22,563	–	295	(937)
Impairments created	21,161	(785)	(299)	22,887	–	295	(937)
Impairments released	(324)	–	–	(324)	–	–	–
Suspended interest	5,505	–	–	6,534	–	–	(1,029)
Closing balance	**138,465**	**1,378**	**25,651**	**94,216**	**1,423**	**14,510**	**1,287**

BWP'000s	Total impairments	Mortgage lending	Instalment finance	Corporate lending	Commercial and property finance	Micro-finance lending	Other
2009							
Opening balance	119,076	2,064	27,620	73,786	995	12,574	2,037
Exchange rate adjustment	(13,438)	(11)	(265)	(12,603)	–	(421)	(138)
Bad debts written off	(33,168)	–	(1,910)	(31,262)	–	–	4
Net new impairments created (note 2)	51,575	110	1,554	46,237	428	3,045	201
Impairments created	67,323	110	1,554	61,985	428	3,045	201
Impairments released	(15,748)	–	–	(15,748)	–	–	–
Suspended interest	10,302	–	–	9,180	–	–	1,122
Closing balance	**134,347**	**2,163**	**26,999**	**85,338**	**1,423**	**15,198**	**3,226**

BWP'000s	2010	2009
11. Prepayments and other receivables		
Accounts receivable and prepayments	171,358	157,712
Security deposits	3,467	3,408
Other amounts due	13,481	5,853
	188,306	**166,973**
12. Investment securities		
Available-for-sale	14,521	14,450
– Unlisted equities	13,710	14,450
– Unlisted investments	811	–
Held-to-maturity		
– Promissory notes	38,502	34,832
	53,023	**49,282**
13. Investment in associates		
Carrying value at the beginning of the year	40,946	41,259
Exchange rate adjustment	(1,346)	27,076
Reclassification during the year	1,049	1,612
Share of (losses)/profits	(23,828)	18,376
Tax	3,694	(2,212)
Share of comprehensive income	3,016	–
Disposals (also see note 29)*	–	(45,984)
Additions*	11,314	819
	34,845	**40,946**

**Refer to note 29 for an overview of additions and disposals.*

13.1 Investment in associates

The Group's interest in its principal associates and in their assets and liabilities are as follows:

BWP'000s	Country of incorporation	Assets	Liabilities	Carrying amount	Share of profit/ (loss)	% interest held	Reporting date
2010							
Lion of Tanzania Insurance Company Limited	Tanzania	16,467	13,644	2,925	248	38%	31 December
PG Industries (Botswana) Limited*	Botswana	31,779	24,736	15,370	(2,821)	37%	31 March
Credit Insurance Zimbabwe Limited	Zimbabwe	5,361	2,280	3,162	227	24%	31 December
Prestige Investments (Private) Limited**	Zimbabwe	14,307	4,243	11,789	(17,788)	49%	31 December
PG Industries (Zimbabwe) Limited**	Zimbabwe	4,402	2,476	1,599	–	2%	31 December
		72,316	**47,379**	**34,845**	**(20,134)**		

13.1 Investment in associates (continued)

BWP'000s	Country of incorporation	Assets	Liabilities	Carrying amount	Share of profit/ (loss)	% interest held	Reporting date
2009							
Lion of Tanzania Insurance Company Limited	Tanzania	23,097	18,783	4,415	–	38%	31 December
PG Industries (Botswana) Limited	Botswana	17,376	13,012	12,691	(1,871)	31%	31 March
Star Africa Corporation Limited	Zimbabwe	–	–	–	(5,060)	0%	31 March
Credit Insurance Zimbabwe Limited	Zimbabwe	2,336	733	1,684	(52)	24%	31 December
Prestige Investments (Private) Limited** *(previously Quest Ventures (Pty) Limited)*	Zimbabwe	24,390	2,234	22,156	23,147	49%	31 December
		67,199	**34,762**	**40,946**	**16,164**		

**IFRS compliant management accounts not available.*

*In assessing investments in associates for impairment, the following assumptions were applied for investments with underlying unlisted shares that generated a loss during the year:

- projected compounded free cash flows of BWP3.7 million, BWP8.8 million and BWP15.3 million over the next 3 years;
- terminal value based on 5% long term cash flow growth rate; and
- weighted average cost of capital of 19.15%.

**The fair value of the Group's interest in listed associate companies (listed in Zimbabwe) was as follows:

BWP'000s	2010	2009
PG Industries (Zimbabwe) Limited *(29.75% interest held by Prestige Investments (Private) Limited)*	11,679	23,147
PG Industries (Zimbabwe) Limited *(2% held directly)*	1,602	–
	13,281	**23,147**
The equity accounted numbers are based on management accounts.		

14. Investment property

	2010	2009
Balance at the beginning of the year	25,851	47,632
Exchange rate adjustment	195	(5,671)
Disposal	(20,372)	(1,500)
Transfer to property and equipment	(2,257)	–
Additions	336	–
Increase/(decrease) in fair value (note 3)	125	(14,610)
Balance at end of the year	**3,878**	**25,851**
Rental income recognised in the income statement	**471**	**1,344**

Investment property comprises commercial properties that are leased to third parties. The carrying amount of the investment property is at fair value as determined by registered independent valuers.

BWP'000s	Land and buildings	Motor vehicles	Computer and office equipment	Furniture and fittings	Total
15. Property and equipment					
Cost or valuation at prior year	219,576	10,039	61,908	25,111	316,634
Exchange rate adjustment	(3,907)	(701)	(3,383)	1,411	(6,580)
Additions	29,556	3,441	36,227	13,767	82,991
Revaluation surplus (gross of deferred tax)*	1,118	–	–	–	1,118
Transfer from investment property	2,257	–	–	–	2,257
Disposals	–	(606)	(7,589)	(50)	(8,245)
Cost or valuation at 31 December 2010	248,600	12,173	87,163	40,239	388,175
Accumulated depreciation at December 2009	(3,636)	(4,818)	(21,033)	(8,172)	(37,659)
Exchange rate adjustment	205	(116)	3,139	450	3,678
Disposals	–	527	–	–	527
Charge for the year	(5,676)	(1,869)	(13,199)	(3,759)	(24,503)
Accumulated depreciation at 31 December 2010	(9,107)	(6,276)	(31,093)	(11,481)	(57,957)
Carrying amount at 31 December 2010	**239,493**	**5,897**	**56,070**	**28,758**	**330,218**
Cost or valuation at prior year	186,986	6,565	36,854	17,891	248,296
Exchange rate adjustment	(17,407)	(692)	(1,604)	919	(18,784)
Additions	91,858	5,109	29,311	6,301	132,579
Revaluations deficit (gross of deferred tax)	(39,860)	–	–	–	(39,860)
Disposals	(2,001)	(943)	(2,653)	–	(5,597)
Cost or valuation at 31 December 2009	219,576	10,039	61,908	25,111	316,634
Accumulated depreciation at December 2008	(2,248)	(3,404)	(19,513)	(6,189)	(31,354)
Exchange rate adjustment	387	466	1,848	628	3,329
Disposals	1,597	125	2,512	–	4,234
Charge for the year	(3,372)	(2,005)	(5,880)	(2,611)	(13,868)
Accumulated depreciation at 31 December 2009	(3,636)	(4,818)	(21,033)	(8,172)	(37,659)
Carrying amount at 31 December 2009	**215,940**	**5,221**	**40,875**	**16,939**	**278,975**

**Land and buildings are revalued by independent professional valuers based on open market value every 3 years. In the current year, certain buildings situated in Botswana were revalued at BWP25.6 million.*

BWP'000s	2010	2009
Carrying amount of revalued land and buildings had it not been revalued	120,351	99,405

BWP'000s	2010	2009
16. Deferred tax		
Balance at the beginning of the year	6,694	(37,267)
Exchange rate adjustment	1,213	313
Income statement charge (note 5)	(370)	27,650
Deferred tax on amounts charged to equity	(1,817)	15,998
	5,720	**6,694**
Disclosed as follows:		
Deferred tax asset	20,953	17,560
Deferred tax liability	(15,233)	(10,866)
	5,720	**6,694**
Tax effects of temporary differences:		
Accruals	2,693	3,196
Impairment losses	483	(998)
Property and equipment	(6,715)	(2,930)
Unrealised gains on investment	(984)	(515)
Unearned income	704	–
Revaluation surplus	(2,920)	(5,633)
Tax losses	12,459	13,574
	5,720	**6,694**
17. Intangible assets		
Goodwill	32,544	32,544
Software	24,858	17,877
	57,402	**50,421**
Goodwill		
Cost	67,342	67,342
Impairments losses	(34,798)	(34,798)
Carrying amount at the end of the year	**32,544**	**32,544**
Software		
Cost		
Balance at the beginning of the year (software)	34,161	22,727
Exchange rate adjustment	(5,457)	(587)
Additions	13,087	12,021
	41,791	**34,161**
Amortisation		
Balance at the beginning of the year	(16,284)	(12,652)
Exchange rate adjustment	4,326	(1,176)
Amortisation charge (note 4)	(4,975)	(2,456)
	(16,933)	**(16,284)**
Carrying amount at the end of the year	**24,858**	**17,877**

The impairment test of goodwill is based on assumptions that take into account risk and uncertainty. The impairment test makes a number of assumptions regarding projected cash flows, considering local market conditions and management's judgement of future trends.

The most significant goodwill arises from the Zimbabwe operations. The key assumptions used in the impairment test of the Zimbabwe operations are as follows:

- projected compounded free cash flow growth of 20% per annum for 5 years, (2009: 17% per annum for 5 years);
- terminal value based on 5% long term cash flow growth rate, (2009: 5%); and
- weighted average cost of capital of 18.41%, (2009: 14.88%).

Management determined free cash flows, residual value and growth rates based on past performance and its expectations of market developments. The discount rates are pre-tax and reflect specific risks relating to the operation.

BWP'000s	2010	2009
18. Deposits		
Deposits from banks	618,267	390,249
Deposits from other customers	4,288,718	2,932,178
Deposits under repurchase agreements	60	32,691
	4,907,045	**3,355,118**
Payable on demand		
Corporate customers	1,146,908	747,371
Public sector	105,696	135,158
Private banking customers	151,687	102,845
Other financial institutions	29,664	23,556
Banks	405,299	129,050
	1,839,254	**1,137,980**
Term deposits		
Corporate customers	1,226,249	1,020,379
Public sector	1,148,080	800,516
Private banking customers	176,441	48,961
Other financial institutions	304,053	86,082
Banks	212,968	261,200
	3,067,791	**2,217,138**
	4,907,045	**3,355,118**
Geographical analysis		
Botswana	1,810,308	1,394,993
Mozambique	836,104	812,498
Tanzania	795,640	676,939
Zambia	252,961	209,721
Zimbabwe	1,065,048	255,551
Other	146,984	5,416
	4,907,045	**3,355,118**

BWP'000s	2010	2009
19. Borrowed funds		
National Development Bank of Botswana Limited	121,080	126,466
BIFM Capital Investment Fund One (Pty) Ltd	257,328	257,328
Other	201,012	160,028
	579,420	**543,822**
Fair value		
National Development Bank of Botswana Limited	124,961	140,071
BIFM Capital Investment Fund One (Pty) Ltd	322,630	343,072
Other	201,012	160,028
	648,603	**643,171**

National Development Bank of Botswana Limited (NDB)

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

BIFM Capital Investment Fund One (Pty) Ltd

The loan from BIFM Capital Investment Fund One (Pty) Ltd is denominated in Botswana Pula and attracts interest at 11.63% per annum, payable semi-annually.

The redemption dates are as follows:

30 September 2017 – BWP62,500,000
30 September 2018 – BWP62,500,000
30 September 2019 – BWP62,500,000
30 September 2020 – BWP62,500,000

Other borrowings

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

Maturity analysis

BWP'000s	2010	2009
On demand to one month	1,276	1,266
One to three months	7,615	4,133
Three months to one year	82,862	108,950
Over one year	487,667	429,473
	579,420	**543,822**
20. Creditors and accruals		
Accrued expenses	50,756	67,786
Other amounts due	13,261	15,890
	64,017	**83,676**

21. Derivative financial instruments and hedging activities

21.1 Derivatives

Cross currency interest rate swaps

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

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

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

BWP'000s	Notional amount	Fair value
At 31 December 2010		
Cross currency interest rate swaps		
Designated at fair value through profit and loss	363,681	40,965
Total recognised derivatives		**40,965**
Comprising:		
Derivative financial assets		42,012
Derivative financial liabilities		(1,047)
At 31 December 2009		
Cross currency interest rate swaps		
Designated at fair value through profit and loss	520,409	6,015
Total recognised derivatives		**6,015**
Comprising:		
Derivative financial assets		7,970
Derivative financial liabilities		(1,955)

BWP'000s	2010	2009
22. Stated capital		
22.1 Authorised		
150,000,000 shares of BWP0.05 each	7,500	7,500
22.2 Issued and fully paid		
146,419,524 (2009: 146,419,524) shares of BWP0.05 each	7,320	7,320
Share premium	300,266	300,266
Total company	**307,586**	**307,586**
Total group	**307,586**	**307,586**
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. Treasury shares comprise the cost of the company's own shares held by a subsidiary company. As at 31 December 2010, 2,370,657 shares were held by ABC Zimbabwe (2009: 2,573,633).		
23. Funds under management		
Funds under management	**240,759**	**221,340**

The Group provides asset management and unit trust 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.

24. Employee benefits

The Group makes contributions to defined contribution plans which are administered externally and for which both the employee and the employer contribute.

In Zimbabwe all employees of the Group are members of the African Banking Corporation Zimbabwe Limited Pension Fund to which both the employee and employer contribute. In addition, the National Social Security Authority Scheme was introduced on 1 October 1994 and with effect from that date all employees became members of the scheme, to which both the employees and the employer contribute.

Amounts recognised in expenses have been disclosed in note 4.1.

25. 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 in the ABC Group.

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, under terms that are no more favourable than those arranged with third parties. Loans to associates as at 31 December 2010 amounted to BWP9.6 million (2009: BWP16.5 million) which represents 2% (2009: 4%) of shareholders' funds, and 0.3% (2009: 0.8%) of gross loans. In addition, financial assets designated at fair value include an investment in debentures issued by PG Industries (Zimbabwe) Limited valued at BWP11.006 million; (note 9).

ABC Consulting and Management Services Limited has entered into management service agreements with Group companies on an arm's length basis. Details of disclosures of investments in subsidiaries are set out in note 11 of the separate company financial statements. Details of associate companies are set out in note 13 of the consolidated Group financial statements.

Directors and officers

Emoluments to directors have been disclosed in note 4.2. The list of directors is shown on page 27. The total exposure of the Group to directors, officers and parties related to them in terms of IAS 24 as at 31 December 2010 is BWP20.4 million (2009: BWP31.1 million) which represents 5% (2009: 8%) of shareholders' funds.

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

BWP'000s	2010 Balance	2010 Interest	2009 Balance	2009 Interest
25. Related party transactions (continued)				
Loans and advances to entities related through shareholding:				
Star Africa Corporation Limited	–	738	–	1,820
PG Industries (Botswana) Limited	9,615	195	16,491	2,657
	9,615	**933**	**16,491**	**4,477**
Loans and advances to entities related to directors:				
Loans and advances to entities related to N Kudenga	174	64	1,980	72
Loans and advances to entities related to OM Chidawu and DT Munatsi	–	–	667	8
Loans and advances to entities related to FM Dzanya	921	2	–	–
	1,095	**66**	**2,647**	**80**
Loans and advances to directors:				
OM Chidawu	–	–	14,373	1,469
D Khama*	–	–	200	–
DT Munatsi	2,982	255	1,867	210
F Dzanya	6,624	734	5,554	623
B Moyo	3,040	392	3,120	350
	12,646	**1,381**	**25,114**	**2,652**
**Guarantees.*				
Loans and advances to key management:				
H Matemera	4,746	462	3,315	372
B Mudavanhu	1,885	49	–	–
	6,631	**511**	**3,315**	**372**
Financial assets designated at fair value held with entities related through shareholding:				
Listed debentures:				
PG Industries (Zimbabwe) Limited	11,006	–	–	–
	11,006	**–**	**–**	**–**
Deposits held by entities related to directors and key management:				
D Khama – Doreen Khama Attorneys Trust Account	–	–	4,101	19
Kudenga & Company Chartered Accountants	5,833	206	6	–
Deposits from entities related to DT Munatsi	6	–	505	–
Deposits from entities related to FM Dzanya	–	–	27	–
	5,839	**206**	**4,639**	**19**
Deposits held by directors and key management:				
N Kudenga	–	–	1,188	10
F Dzanya	32	–	43	2
B Moyo	73	–	–	–
H Matemera	10	–	16	1
D Khama	2,666	181	299	1
DT Munatsi	70	1	30	–
	2,851	**182**	**1,576**	**14**
Remuneration to key management personnel:				
Short-term employment benefits	13,264		12,317	
Post-employment benefits	1,296		551	
	14,560		**12,868**	

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.

The Group disposed of its interest in Star Africa Corporation Limited at the end of 2009.

Mr. OM Chidawu resigned as director and Chairman on 31 May 2010, and was therefore not viewed as a related party at 31 December 2010.

	Closing Dec 10	Average Dec 10	Closing Dec 09	Average Dec 09
26. Exchange rates				
United States Dollar	0.155	0.147	0.150	0.141
Tanzanian Shilling	233.427	210.117	200.792	186.781
Zambian Kwacha	744.484	707.889	697.037	711.820
Mozambican Metical	5.053	4.994	4.376	3.903
South African Rand	1.028	1.080	1.110	1.165

BWP'000s	2010	2009
27. Collateral		
27.1 Liabilities for which collateral is pledged		
Deposits from banks	46,156	–
Deposits from customers	63,732	39,678
Borrowed funds	116,860	133,484
	226,748	**173,162**
Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
Financial assets held for trading	233,868	196,880
	233,868	**196,880**
These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.		
27.2 Collateral accepted as security for assets		
Deposits from customers	402,840	51,656
Mortgage bonds, inventory, plant and equipment, shares, letters of undertaking	1,428,452	490,702
	1,831,292	**542,358**

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

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

28. Dividend

The Board of Directors proposed a gross final dividend of 10 Thebe (USD equivalent currently 1.52 cents) per ordinary share. Withholding tax will be deducted from dividend payments in accordance with the income tax act in Botswana and Zimbabwe.

29. Acquisitions and disposal of associate companies

During 2010, the Group followed its rights in a rights issue by PG Industries (Botswana) Limited for BWP5.5 million.

During 2010, the Group acquired a 2% interest in PG Industries (Zimbabwe) Limited for BWP1.6 million on 21 December 2010, following the underwriting of a right issue, and indirectly invested an additional BWP4.2 million by following existing rights. In addition, the Group acquired listed convertible debentures in PG Industries (Zimbabwe) Limited as detailed in note 9.

During 2009, the Group disposed of its 23.27% interest in Star Africa Corporation Limited. The net assets of the associate were BWP24.4 million.

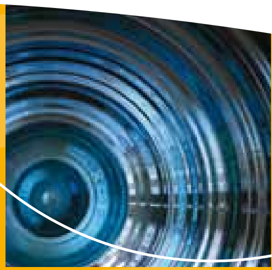
In February 2009, the Group also disposed of its 21% interest in PG Industries (Zimbabwe) Limited. A portion of the PG Industries (Zimbabwe) Limited shares were contributed to a new associate, Prestige Investments (Private) Limited (formerly Quest Ventures (Pty) Ltd), in which the Group holds an interest of 49%.

30. Events after the reporting period

There were no significant events after the reporting period.

ABC Holdings

COMPANY SEPARATE FINANCIAL STATEMENTS



COMPANY INCOME STATEMENT

for the year ended 31 December 2010

BWP'000s	Notes	2010	2009
Interest and similar income		102,202	27,818
Interest expense and similar charges		(56,748)	(43,030)
Net interest income/(expense)	1	**45,454**	**(15,212)**
Non interest income	2	56,056	30,585
Other impairments	3	(4,340)	(7,807)
Total income		**97,170**	**7,566**
Operating expenditure	4	(83,923)	(16,755)
Profit/(loss) before tax		**13,247**	**(9,189)**
Tax	5	(633)	8,776
Profit/(loss) for the year		**12,614**	**(413)**

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

BWP'000s	2010	2009
Profit/(loss) for the year	12,614	(413)
Total comprehensive income/(loss) for the year	**12,614**	**(413)**

COMPANY BALANCE SHEET

as at 31 December 2010

BWP'000s	Notes	2010	2009
ASSETS			
Cash and short-term funds	6	22,660	51
Financial assets designated at fair value	16	64,028	–
Derivative financial assets	15	19,464	2,234
Loans and advances	7	193,370	85,322
Inter-company balances	8	58,433	76,537
Investment securities	9	38,502	34,832
Prepayments and other receivables	10	18,607	13,009
Property and equipment	11	790	238
Deferred tax assets	12	10,002	9,470
Loans to subsidiary companies	13	158,053	142,424
Investment in subsidiaries	14	602,077	483,318
TOTAL ASSETS		**1,185,986**	**847,435**
EQUITY AND LIABILITIES			
Liabilities			
Derivative financial liabilities	15	–	809
Creditors and accruals	17	6,147	4,149
Inter-company balances	8	449,064	132,481
Borrowed funds	18	427,028	418,863
Total liabilities		**882,239**	**556,302**
Equity			
Stated capital	19	307,586	307,586
Distributable reserves		(3,839)	(16,453)
Equity attributable to ordinary shareholders		**303,747**	**291,133**
EQUITY AND LIABILITIES		**1,185,986**	**847,435**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

BWP'000s	Stated capital	Distributable reserves	Total equity
Balance as at 31 December 2008	**307,586**	**(16,040)**	**291,546**
Comprehensive income:			
Loss for the year	–	(413)	(413)
TOTAL COMPREHENSIVE INCOME	**–**	**(413)**	**(413)**
Balance as at 31 December 2009	**307,586**	**(16,453)**	**291,133**
Profit for the year	–	12,614	12,614
TOTAL COMPREHENSIVE INCOME	**–**	**12,614**	**12,614**
Balance as at 31 December 2010	**307,586**	**(3,839)**	**303,747**

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2010

BWP'000s	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES	**149,638**	**50,115**
Cash generated from operating activities	16,116	8,404
Net profit/(loss) before tax	**13,247**	**(9,189)**
Adjusted for:		
Other impairments	4,340	7,807
Depreciation and amortisation	254	116
Net (gains)/losses on derivative financial instruments	(1,725)	9,670
Tax paid	(1,166)	–
	14,950	8,404
Net increase in operating funds	**134,688**	**41,710**
(Increase)/decrease in operating assets	(183,084)	12,688
Increase in operating liabilities	317,772	29,022
CASH FLOWS FROM INVESTING ACTIVITIES	**(135,194)**	**(8,298)**
Purchase of property and equipment	(806)	(265)
Investment in subsidiaries	(118,759)	(7,243)
Changes in loans to subsidiaries	(15,629)	(790)
CASH FLOWS FROM FINANCING ACTIVITIES	**8,165**	**(42,749)**
Increase/(decrease) in borrowed funds	8,165	(42,749)
Increase/(decrease) in cash and cash equivalents	**22,609**	**(933)**
Cash and cash equivalents at the beginning of the year	**51**	**984**
Cash and cash equivalents at the end of the year	**22,660**	**51**

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2010

ACCOUNTING POLICIES
The accounting policies of the Company and the Group are set out on pages 35 to 48.

BWP'000s	2010	2009
1. Net interest income		
Interest and similar income		
Cash and short-term funds	7,525	733
Investment securities at amortised cost	3,670	3,670
Loans and advances at amortised cost	73,406	8,718
Inter-company	17,601	14,697
	102,202	**27,818**
Interest expense		
Borrowed funds	42,921	35,867
Inter-company	13,827	7,163
	56,748	**43,030**
Net interest income	**45,454**	**(15,212)**
2. Non interest income		
Gains/(losses) from trading activities:	7,082	(9,670)
– Designated at fair value	5,357	–
– Net gains/(losses) on derivative financial instruments*	1,725	(9,670)
Dividends received:	37,456	13,257
– Subsidiary companies	37,456	13,257
Fee and commission income:	9,600	15,321
– Net fee income on loans and advances at amortised cost	9,600	15,321
Other non interest income/(losses):	1,918	11,677
Foreign exchange income/(loss) and currency revaluation*	1,918	11,677
	56,056	**30,585**
**Foreign exchange income includes a foreign exchange loss of BWP10.7 million (2009: profit of BWP21 million) arising from the Japanese Yen exposure with NDB, disclosed in note 18. Net gain/(losses) on derivative instruments includes an offsetting fair value gain arising from an equal but opposite nominal Japanese Yen derivative asset.*		
3. Other impairments		
Impairment of investment in subsidiaries		
Capital Partners (Pty) Ltd	–	5,223
EDFUND S.A.	4,340	2,584
	4,340	**7,807**
4. Operating expenditure		
Administrative expenses	64,463	4,624
Staff costs	7,465	4,783
Auditors' remuneration	1,110	975
Depreciation (note 11)	254	116
Directors' remuneration	10,631	6,257
	83,923	**16,755**

BWP'000s	2010	2009
5. Tax		
Profit/(loss) before tax	13,247	(9,189)
Income tax using standard corporate tax rate	1,987	(1,378)
Tax exempt revenues	(5,618)	(2,003)
Non-deductible expenses	617	1,294
Tax on dividends received	1,165	–
Tax losses of prior years now claimed or not claimed	2,482	(6,689)
Tax expense/(income) per income statement	**633**	**(8,776)**
Effective tax rate	(5%)	(96%)
5.1 Current tax expense		
Deferred tax		
Tax losses	(532)	(8,776)
Current tax		
Tax on dividends received	1,165	–
Total tax expense/(income) per income statement	**633**	**(8,776)**
6. Cash and short-term funds		
Balances with banks	**22,660**	**51**
7. Loans and advances		
Corporate lending**	165,570	63,767
Other*	27,800	28,229
	193,370	91,996
Less: Allowance for impairments	–	(6,674)
Net loans and advances	**193,370**	**85,322**
Related party loans and advances included in the above are set out in note 20.		
***Includes a renegotiated but current corporate advance of BWP135.4 million at year end, of which an amount of BWP74.6 million has been repaid subsequent to year end.*		
The fair value of net loans and advances approximates their carrying amount.		
7.1 Maturity analysis		
On demand to one month	135,389	–
One month to three months	40,410	–
Three months to one year	2,430	70,780
Greater than one year	15,141	14,542
	193,370	**85,322**
7.2 Impairment of loans and advances – movement analysis		
Opening balance	6,674	10,937
Exchange rate adjustment	(94)	(363)
Bad debts written off	(6,580)	(3,900)
Closing balance	**–**	**6,674**

The loans all have floating interest rates which range from 9.75% to 43% (2009: 8.02% to 15%). The loans are denominated in Botswana Pula and United States Dollars.

BWP'000s	2010	Fair value	2009	Fair value
8. Inter-company balances				
8.1 Balances due from:				
BancABC Zambia Limited	4,541	4,541	9,225	9,225
BancABC Zimbabwe Limited	–	–	2,505	2,505
Tanzania Development Finance Company Limited	–	–	1,303	1,303
BancABC Management Support Services (Pty) Ltd and other non-banking subsidiaries*	53,892	53,892	63,504	63,504
	58,433	**58,433**	**76,537**	**76,537**
8.2 Balances due to:				
BancABC Botswana Limited	157,192	157,192	21,522	21,522
BancABC Mozambique Sarl	109,840	109,840	45,185	45,185
BancABC Tanzania Limited	66,745	66,745	26,752	26,752
BancABC Zimbabwe Limited	71,423	71,423	–	–
EDFUND S.A.	37,713	37,713	39,022	39,022
Tanzania Development Finance Company Limited	6,151	6,151	–	–
	449,064	**449,064**	**132,481**	**132,481**

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

The balances are denominated in Botswana Pula: – BWP164.3 million (2009: BWP48.2 million); United States Dollars: -BWP276.2 million (2009: -BWP139.4 million); South African Rands: BWP49.1 million (2009: BWP35.3 million); and Euro 0.8 million (2009: nil).

**The amount includes an interest free loan of BWP37.4 million pertaining to BancABC Management Support Services (Pty) Ltd, (ABC South Africa). The loan has no fixed terms of repayment and was subordinated to claims from other creditors as at 31 December 2009 until the total assets of the entity, fairly valued, exceed its total liabilities. As at 31 December 2010, the loan is no longer subordinated as the assets of the company now exceed its liabilities.*

BWP'000s	2010	2009
9. Investment securities		
Held-to-maturity		
– Promissory notes	**38,502**	**34,832**

The promissory notes are partial security for the loan from BIFM (note 18). The promissory notes earn a fixed interest of 10.25% p.a., and are redeemable on 31 March 2015.

The fair value of the promissory notes cannot be determined as the promissory notes are specifically conditional to the terms of the BIFM loan referred to in note 18.

BWP'000s	2010	2009
10. Prepayments and other receivables		
Accounts receivable and prepayments	3,985	5,063
Security deposit	3,224	3,336
Other amounts due	11,398	4,610
	18,607	**13,009**

All prepayments and other receivables are classified as current.

BWP'000s	Computer and office equipment	Furniture and fittings	Total
11. Property and equipment			
Cost or valuation at 31 December 2009	438	–	438
Additions	539	267	806
Cost or valuation at December 2010	977	267	1,244
Accumulated depreciation at December 2009	(200)	–	(200)
Charge for the year	(245)	(9)	(254)
Accumulated depreciation at December 2010	(445)	(9)	(454)
Carrying amount at December 2010	**532**	**258**	**790**
Cost or valuation at 31 December 2008	173	–	173
Additions	265	–	265
Cost or valuation at December 2009	438	–	438
Accumulated depreciation at December 2008	(84)	–	(84)
Charge for the year	(116)	–	(116)
Accumulated depreciation at December 2009	(200)	–	(200)
Carrying amount at December 2009	**238**	**–**	**238**

BWP'000s	2010	2009
12. Deferred tax		
Balance at the beginning of the year	(9,470)	(694)
Income statement charge (note 5)	(532)	(8,776)
Balance at the end of the year	**(10,002)**	**(9,470)**
Tax effect of temporary differences:		
– Tax losses	(10,002)	(9,470)
	(10,002)	**(9,470)**

BWP'000s	2010	2009
13. Loans to subsidiary companies		
BancABC Botswana Limited	65,902	67,022
BancABC Zambia Limited	46,058	41,203
BancABC Mozambique Sarl	46,093	34,199
	158,053	**142,424**

The loans are 13 year loans provided to subsidiaries as Tier II capital. Interest ranges from 10% to 12.5% and is payable half-yearly. The loans mature between 2020 and 2021.

The loans are denominated in Botswana Pula: BWP32 million (2009: BWP32 million) and United States Dollars: BWP126.1 million (2009: BWP110.4 million).

	Nature of business	Ownership of ordinary shares 2010 %	Ownership of ordinary shares 2009 %	Carrying value 2010 BWP'000s	Carrying value 2009 BWP'000s
14. Investment in subsidiaries					
Botswana					
BancABC Botswana Limited	Registered bank	100	100	52,241	52,241
Bohemian Private Limited	Investment holding company	100	100	4,000	4,000
Capital Partners Private Limited**	Investment holding company	100	100	2,019	2,019
Mozambique					
BancABC Mozambique Sarl	Registered bank	100	100	68,050	47,752
South Africa					
BancABC Management Support Services (Proprietary) Limited	Management services	100	100	–	–
Tanzania					
BancABC Tanzania Limited	Registered bank	94*	94*	128,397	128,397
Tanzania Development Finance Company Limited	Financial services	68	68	15,949	15,949
Zambia					
BancABC Zambia Limited****	Registered bank	100	100	78,776	41,895
Zimbabwe					
BancABC Zimbabwe Limited	Registered merchant bank, Stockbroking and Asset Management	100	100	210,610	144,690
Luxembourg					
EDFUND S.A.***	Management services	100	100	42,035	46,375
				602,077	**483,318**

*Effective shareholding.
**In 2009 additional capital of BWP7.2 million was injected into Capital Partners Private Limited. Prior to the injection, the company had share capital of BWP100.00. The investment in Capital Partners Private Limited was impaired by BWP5.2 million in 2009 as the carrying amount exceeded the net asset value, and the entity does not generate income.
***In 2009 the investment in EDFUND S.A. was impaired by BWP2.6 million as the carrying amount exceeded the net asset value, and the entity does not generate income. In 2010, the investment was further impaired by BWP4.3 million.
****The operations of Microfin Africa Zambia Limited were merged into BancABC Zambia Limited with effect from 1 August 2009.

15. Derivative financial instruments

Cross-currency interest rate swaps

The company uses cross currency interest rate swaps to manage the Group's exposure to foreign currency and interest rate risk.

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

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

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

BWP'000s	Notional amount	Fair value
At 31 December 2010		
Cross currency interest rate swaps:		
Designated at fair value through profit and loss	121,080	19,464
Total recognised derivatives		**19,464**
Comprising:		
Derivative financial assets		19,464
Derivative financial liabilities		–
At 31 December 2009		
Cross currency interest rate swaps:		
Designated at fair value through profit and loss	179,931	1,425
Total recognised derivatives		**1,425**
Comprising:		
Derivative financial assets		2,234
Derivative financial liabilities		(809)

BWP'000s	2010	2009
16. Financial assets designated at fair value		
Unlisted debentures	**64,028**	**–**
The unlisted debentures comprise of an investment in 5 year 12% convertible debentures issued by Star Africa Corporation Limited, convertible at the option of the holder after 2 years, with interest being paid quarterly on 31 March, 30 June, 30 September and 31 December. The balance is denominated in United States Dollars.		
17. Creditors and accruals		
Accrued expenses	3,010	1,319
Other amounts due	3,137	2,830
	6,147	**4,149**
Creditors and accruals are due and payable within twelve months.		

BWP'000s	2010	Fair value	2009	Fair value
18. Borrowed funds				
National Development Bank of Botswana Limited	121,080	124,961	126,466	140,071
BIFM Capital Investment Fund One (Pty) Ltd	257,328	322,630	257,328	343,072
Other borrowings	48,620	48,620	35,069	35,069
	427,028	**496,211**	**418,863**	**518,212**

National Development Bank of Botswana Limited (NDB)

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

BIFM Capital Investment Fund One (Pty) Ltd

The loan from BIFM Capital Investment Fund One (Pty) Ltd is denominated in Botswana Pula and attracts interest at 11.63% per annum, payable semi-annually.

The redemption dates are as follows:

30 September 2017 – BWP62,500,000
30 September 2018 – BWP62,500,000
30 September 2019 – BWP62,500,000
30 September 2020 – BWP62,500,000

Other borrowings

Other borrowings relate to medium to long term funding from international financial institutions for onward lending to the Group's clients.

BWP'000s	2010	2009
18. Borrowed funds (continued)		
18.1 Maturity analysis		
On demand to one month	–	–
One month to three months	7,328	7,792
Three months to one year	10,081	30,085
Greater than one year	409,619	380,986
	427,028	**418,863**
19. Stated capital		
19.1 Authorised		
150,000,000 shares of BWP0.05 each	7,500	7,500
19.2 Issued and fully paid		
146,419,524 (2009: 146,419,524) shares of BWP0.05 each	7,320	7,320
Share premium	300,266	300,266
Total company	**307,586**	**307,586**
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 meetings of the Company.		
19.3 Reconciliation of the number of shares in issue		
Shares at the beginning of the year	146,419,524	146,419,524
At the end of the year	**146,419,524**	**146,419,524**

20. Related party transactions

Emoluments to directors have been disclosed in note 4. Loans to/from subsidiary companies have been disclosed in notes 8 and 13 and interest on these in note 1. Particulars of lending transactions entered into with related parties are as follows:

	2010		2009	
BWP'000s	Balance	Interest	Balance	Interest
Loans and advances to entities related through shareholding:				
Star Africa Corporation Limited*	–	738	–	1,820
	–	**738**	**–**	**1,820**
Loans and advances to directors:				
OM Chidawu	–	–	14,373	1,469
DT Munatsi	2,104	237	1,867	210
F Dzanya	6,624	734	5,554	623
B Moyo	3,040	392	3,120	350
	11,768	**1,363**	**24,914**	**2,652**
Loans and advances to key management:				
H Matemera	3,737	421	3,315	372
	3,737	**421**	**3,315**	**372**

There were no specific impairments on balances with related parties.

**As noted in note 29 of the Group financial statements, the Group disposed of its interest in Star Africa Corporation Limited at the end of 2009.*

21. Off-balance sheet items

21.1 Contingent liabilities

The Company has also agreed to provide its subsidiary BancABC Management Support Services (Proprietary) Limited with financial support to meet its obligations by providing a subordinated loan (refer to note 8).

As at 31 December 2010, the loan is no longer subordinated as the assets of the company now exceed its liabilities.

21.2 Capital commitments

BWP'000s	2010	2009
Approved and contracted for the next year	–	40,595

ANALYSIS OF SHAREHOLDERS

for the year ended 31 December 2010

Range	Number of holders	% of total holders	Number of shares	% of total shares
0 – 50,000	3,534	97.09%	5,832,388	3.98%
50,001 – 100,000	38	1.04%	2,761,708	1.89%
100,001 – 500,000	42	1.15%	10,247,153	7.00%
500,001 – 1,000,000	9	0.25%	6,817,573	4.66%
1,000,001 – 10,000,000	12	0.33%	27,445,412	18.74%
Above 10,000,000	5	0.14%	93,315,290	63.73%
	3,640	**100.00%**	**146,419,524**	**100.00%**

Top 10 Shareholders as at 31 December 2010

Shareholder	Shares	% holding
African Development Corporation	29,321,607	20.03%
Shares held by and on behalf of DT Munatsi	21,438,619	14.64%
Old Mutual Life Assurance Co. of Zimbabwe Limited	15,891,065	10.85%
International Finance Corporation	15,642,155	10.68%
Stanbic Nominees Botswana – In Respect of BIFM and Botswana Public Officers Pension Fund	10,951,893	7.48%
Shares held by and on behalf of B Moyo	7,099,957	4.85%
Barclays Botswana Nominees (Pty) Ltd – In Respect of SIMS 212/005	6,794,419	4.64%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslande	3,582,623	2.45%
Barclays Botswana Nominees (Pty) Ltd – Other	3,567,000	2.44%
Dennilton Investments	2,942,297	2.01%
Total top 10 Shareholders	**117,231,635**	**80.07%**
Other shareholders	29,187,889	19.93%
Total shares in issue	**146,419,524**	**100.00%**

Geographical analysis of shareholders

Region	Number of holders	% of total holders	Number of shares	% of total shares
Americas	13	0.36%	16,192,383	11.06%
Botswana	310	8.48%	27,484,980	18.77%
Europe	31	0.85%	190,975	0.13%
Mauritius	3	0.08%	30,462,399	20.80%
South Africa	66	1.81%	28,646,495	19.25%
Zimbabwe	3,018	82.59%	43,346,901	29.68%
Other	199	5.83%	95,391	0.31%
	3,640	**100.00%**	**146,419,524**	**100.00%**

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