BancABC

ABC Holdings Limited

Annual Report 2009

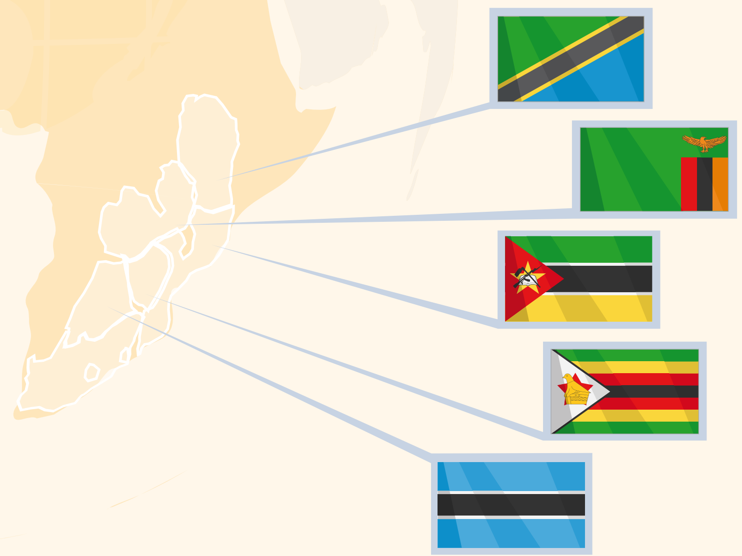
About BancABC

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.

Historically, BancABC was a merchant bank offering a diverse range of services including but not limited to the following: wealth management, corporate banking, treasury services, leasing, asset management, and stock broking.

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.



Our values

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

Integrity is a key value of the Group which is the ability to be reliable, ethical, credible, and trustworthy with a great sense of heritage. Our cast iron ethics underpin our unquestionable character and business practice.

Passion describes our people focused, accessible, personal and customised approach, anchored to vital African energy. In short, we are passionate because we believe in and love what we do.

Innovation embodies the key traits of being visionary, dynamic, energetic, challenging and agile. In practical terms, adoption of this core value means devotion to driving change by provoking new ideas and always doing things differently.

Professionalism entails being uncompromising, focused, and confident in offering world-class products and services. We strive for excellence in what we do, and are always seeking to improve our performance.

People are the essence of our existence. Our world-class staff, customers, clients, shareholders and stakeholders define our ambitions, success and passion. Our passion for people makes us customer-centric.

Salient points

› Total income increased 10% to **BWP392 million**

› Solid income growth across all operations except BancABC Zambia

› Significant investment in Retail Banking and dollarisation in Zimbabwe increased operating expenses 54% to BWP366 million

› Impairment charges increased 15% to BWP51 million

› Basic EPS down 33% to 40.4 thebe

› Balance sheet grew 11% to **BWP4.4 billion**

› Customer deposits grew 19% to **BWP3.4 billion**

› Microfinance operation successfully integrated into BancABC Zambia and customer base expanded

› Retail Banking commenced business with **first branches opened** in Harare and Dar es Salaam

Five-year financial highlights

on a historical cost basis in US$'000s

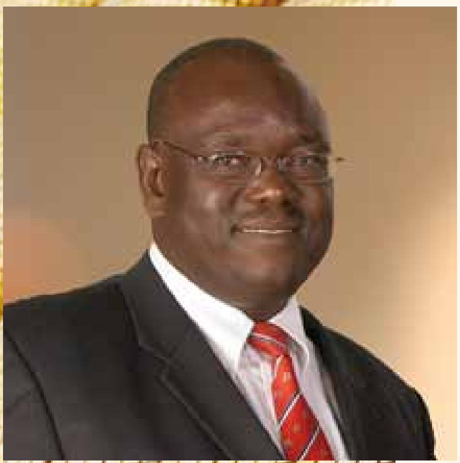
	31 Dec 09 US$'000s	31 Dec 08 US$'000s	31 Dec 07 US$'000s	31 Dec 06 US$'000s	31 Dec 05 US$'000s
Income statement					
Net interest income after impairment of advances	**17,948**	20,498	12,152	16,085	20,353
Non-interest revenue	**37,402**	31,650	37,849	28,849	27,974
Total income	**55,350**	**52,148**	**50,001**	**44,934**	**48,327**
Operating expenditure	**(51,610)**	(34,679)	(26,126)	(24,757)	(29,330)
Net operating income	**3,740**	17,469	23,875	20,177	18,997
Other impairments	**–**	–	–	–	(1,845)
Net income from operations	**3,740**	**17,469**	**23,875**	**20,177**	**17,152**
Share of profits of associates	**2,281**	337	540	1,912	813
Profit before tax	**6,021**	**17,806**	**24,415**	**22,089**	**17,965**
Tax	**2,225**	(4,905)	(3,417)	(7,444)	(6,611)
Profit for the year	**8,246**	**12,901**	**20,998**	**14,645**	**11,354**
Attributable to:					
Equity holders of parent	**8,202**	12,592	20,174	14,587	11,156
Minority interests	**44**	309	824	58	198
Profit for the year	**8,246**	**12,901**	**20,998**	**14,645**	**11,354**
Balance sheet					
Cash and short-term funds	**132,194**	68,056	87,832	71,312	37,657
Financial assets held for trading or at fair value	**134,707**	90,956	143,642	141,709	156,437
Derivative financial assets	**1,195**	5,891	–	–	–
Loans and advances	**299,099**	298,450	207,372	156,396	120,938
Investment securities	**7,387**	8,988	11,795	8,745	6,340
Investment in associates	**6,138**	5,471	5,064	7,086	6,261
Other assets, tax and investment properties	**32,123**	14,101	16,426	7,013	6,689
Property and equipment	**41,818**	28,776	9,178	8,349	3,916
Intangible assets	**7,558**	5,653	5,824	6,226	7,286
	662,219	**526,342**	**487,133**	**406,836**	**345,524**
Shareholders' equity	**62,325**	60,572	54,230	46,681	35,999
Deposits	**502,932**	374,385	326,096	255,239	256,560
Derivative financial liabilities	**293**	294	849	1,182	–
Borrowed funds	**81,519**	79,565	96,855	91,132	18,684
Other liabilities and tax	**15,150**	11,526	9,103	12,602	13,381
Preference share liabilities	**–**	–	–	–	20,900
	662,219	**526,342**	**487,133**	**406,836**	**345,524**
Shares in issue	**146,419,524**	146,419,524	132,568,680	132,568,680	113,449,724
Cost to income ratio	**82%**	59%	47%	50%	55%
Average shareholders' equity	**61,449**	57,401	50,456	41,537	39,510
Return on average shareholders' equity (attributable)	**13%**	23%	42%	37%	30%
Net asset value per share (cents)	**40.9**	39.7	39.4	33.6	31.7
Closing exchange rates to US$					
Botswana Pula	**6.67**	7.54	6.02	6.05	5.51
Euro	**0.69**	0.72	0.68	0.76	0.85
Mozambican Metical (dropped three zeros in 2006)	**29.19**	25.50	25.86	25.97	24.18
Tanzanian Shilling	**1,339.51**	1,315.02	1,146.01	1,264.05	1,162.01
Zambian Kwacha	**4,650.00**	4,795.00	3,850.00	4,390.24	3,480.52
Zimbabwe Dollar (dropped three zeros in 2006 and 10 zeros in 2008)*					
– official	**n/a**	5,059,942.76	30,000.00	250.00	26.00
– calculated	**n/a**	642,901,315.78	4,948,961.54	2,400.99	88.09

**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 United States Dollar being the anchor currencies.*

Salient features

	2009	2008	% change
Income statement (BWP'000s)			
Profit attributable to ordinary shareholders	**58,117**	85,818	-32%
Balance sheet (BWP'000s)			
Total assets (attributable)	**4,417,745**	3,967,938	11%
Loans and advances	**1,995,325**	2,249,903	-11%
Deposits	**3,355,118**	2,822,352	19%
Net asset value	**399,069**	437,654	-9%
Financial performance (%)			
Return on average equity	**14%**	22%	
Return on average assets	**1%**	2.5%	
Operating performance (%)			
Non-interest income to total income	**68%**	61%	
Cost to income ratio	**82%**	59%	
Impairment losses on loans and advances to gross average loans and advances	**6%**	6%	
Effective tax rate	**-37%**	28%	
Share statistics ('000s)			
Number of shares in issue at year end	**146,420**	146,420	0%
Weighted average number of shares	**143,846**	142,635	1%
Share statistics (thebe)			
Earnings per share	**40.4**	60.2	-33%
Dividend per share	**–**	8.0	-100%
Net asset value per share	**2.73**	2.99	-9%

Chairman's statement



The Group withstood the worst of the challenges brought about by the global financial crisis, although some mild repercussions continued to be felt during the year. This resilience is largely attributable to the commitment of management and the Bank's increasingly robust risk management processes.

The Group's vision to be the preferred banking partner in Africa by offering world-class financial solutions remains solid. While dramatic changes in the environments in which the Group operates certainly require vigilant management attention, its innovative approach to banking and the opportunities presented under these circumstances will allow the Group to be positioned to perform well in the longer term. The Group will remain true to its vision by building profitable, lifelong customer relationships and providing a wide range of innovative financial products and services. The Group's expansion into retail banking, which continues into 2010, affords the opportunity to apply this vision in a new segment of the banking arena.

Review of the economic environment

Signs of sharp deterioration in the global economy became increasingly evident in the second half of 2008 and intensified in the first few months of 2009 as production slumped, first in developed economies before spreading to developing economies.

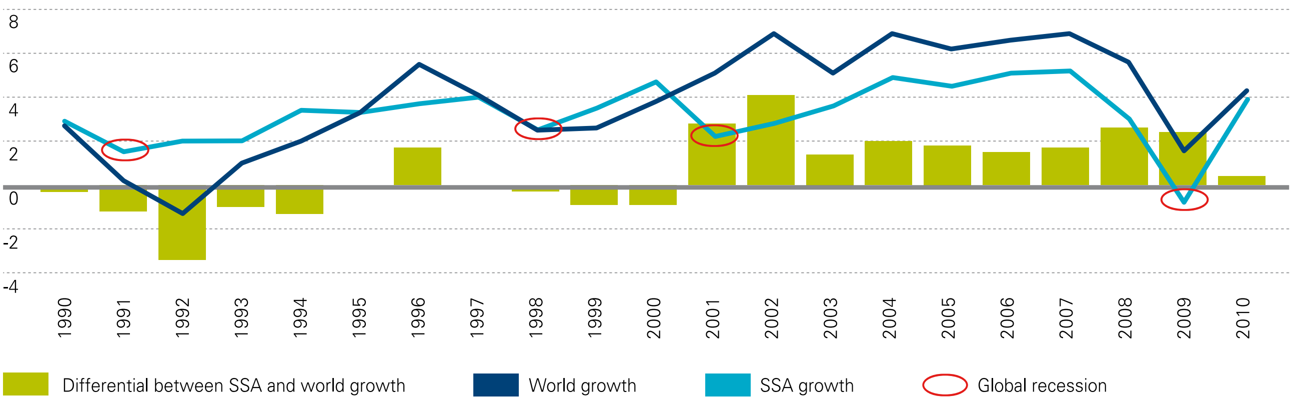
The financial crisis instigated a decline in asset prices, faltering demand and falling production which translated into negative growth in production. Consequently, the global economy as measured in real gross domestic product (GDP) precipitously declined by 0.8% in 2009 against positive growth of 3.1% in 2008.

Sub-Saharan Africa comparative economic growth performance

Sub-Saharan Africa did not escape the wrath of the global recession. Prior to the financial and subsequent economic crises, the region enjoyed robust GDP growth by historical standards and has consistently recorded higher growth than the world economy since 2001. Output growth in the region slowed significantly from 5.6% in 2008 to 1.6% in 2009, the first time since 2001 that growth slipped below 5%.

Over the past decade, the rapidly emerging BRIC countries (Brazil, Russia, India and China) catapulted themselves to become significant players in the global

Sub-Saharan Africa comparative economic growth performance



Source: IMF

economy. Of particular note is the development of strong cooperation between the BRIC countries and Africa, with an increasing number of African countries entering into strategic economic and political partnerships with the BRIC countries.

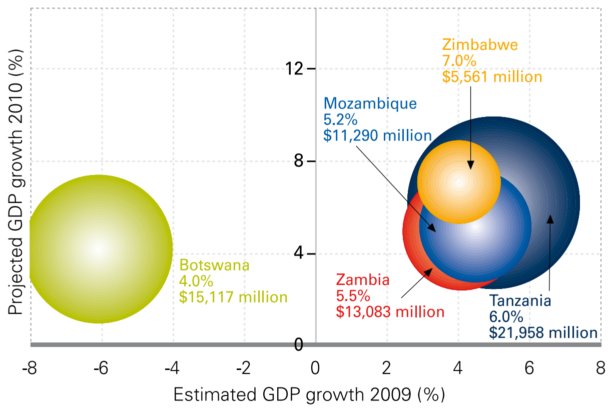
Economic growth performance in the Group's markets

As the global economic crisis intensified, economic growth in the BRIC countries was also revised downwards. Unsurprisingly, economic growth in the Group's operating markets faltered in light of the broad negative impact of unfavourable global conditions. In particular, economic growth in Botswana was a negative 6% in 2009, compared to positive growth of 3.1% in 2008. In Mozambique, economic growth slowed down from 6.5% in 2008 to 4.3% in 2009, while Tanzania's economic growth in 2009 is estimated at 5%, compared to 7.5% in 2008. Zambia followed a similar trend, with economic growth slowing down from 6% in 2008 to 5.3% in 2009. Zimbabwe registered a positive economic growth of 4.7% in 2009.

Prior to 2009, the Zimbabwean economy had endured ten years of uninterrupted decline, a cumulative decline of nearly 50% of GDP during that period. The recent positive performance in the Zimbabwean economy is largely attributable to the more favourable political and business climate following the formation of the Government of National Unity in February 2009.

As expected, the large, financially developed and open African economies such as South Africa, Nigeria and Egypt were the first to be impacted by the economic crisis. Most African stock markets were affected by contagion effects, resulting in flight of capital, decline in stock market prices, and significant losses. The retreat of Africa's smaller stock markets in the second half of 2008 continued in the first quarter of 2009, when the global financial meltdown reached full intensity. The contagion effects resulted in a generalised retreat from risks, decimating equity markets in the process. In the second half of 2009, moderate recovery was registered in many SSA equity markets, giving hope that the worst of the crisis could be over.

Economic growth outlook in BancABC markets



Inflation developments

Inflation pressures during 2009 were subdued, largely due to depressed global consumer demand and lower international oil prices. As a result, most countries enjoyed lower inflation levels in 2009 compared to 2008. In 2010, unfavourable weather conditions are likely to affect crop yields resulting in food shortages. As food inflation has a dominant weight in the consumer price inflation (CPI) basket, it is likely to be elevated in most Southern African countries.

In Botswana, average inflation for 2009 stood at 8.2% which compares favourably to 12.6% for 2008. During the course of 2009, annual inflation trended from double digit levels in the first four months of the year to 5.8% by December 2009, aided by a decline in food price inflation. In 2010, inflation prospects remain good. Overall, although

inflation is likely to deviate from the central bank's target range of 3 to 6%, it is broadly expected to be contained.

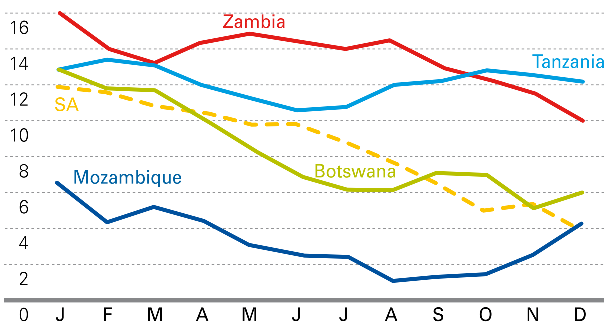
Mozambique enjoyed significantly lower levels of inflation in 2009, benefiting from lower international oil prices which had a positive effect on the cost of rent and utilities and the price of fuel and transport. Accordingly, in 2009, average inflation stood at 3.3% compared to 10.4% in 2008.

In Tanzania double digit inflation persisted in 2009, showing no signs of receding. During the year, average inflation stood at 12.1% which compares unfavourably to 10.2% in 2008. Food inflation has been a dominant contributor to inflation in that country, averaging 17.8% in 2009 compared to 12.7% in 2008.

The Bank of Zambia aims to maintain inflation below 10% through tight control of money supply growth. Although annual inflation stood at 16.0% in January 2009, average annual inflation for 2009 was 13.5%, up from 12.4% in 2008.

After many years of hyperinflation, Zimbabwe managed to burst the inflation bubble following its adoption of a multicurrency system. Annual inflation was -7.7% in December 2009, representing the first annual inflation statistic since the dollarisation of the economy. Looking forward, wage related costs are likely to contribute significantly to inflation pressures in the economy. Accordingly, if Zimbabwe is to be competitive, particularly in an increasingly integrated global economy, it is vital that wage demands are commensurate with production levels.

Comparative country annual inflation profile 2009



Source: Various countries central satistical offices

Interest rate developments

In 2009, most countries eased interest rates to reduce the debilitating impact of the global recession. Many countries across the world relaxed monetary policies to prop up credit to the private sector as part of an overall strategy to support economic growth. In some instances, concessional credit was channelled to selected sectors that were hardest hit by the global crisis, thereby avoiding the catastrophic consequences of company closures and widespread job losses.

Against this background, the Bank of Botswana lowered its bank rate on several occasions from 15% in December 2008 to 10% in December 2009, mirroring the South African Reserve Bank's (SARB) interest rate policy.

Similarly, Mozambique lowered its key policy rate, known as the Standing Lending Facility, which declined from 14.5% in December 2008 to 11.5% at the end of 2009.

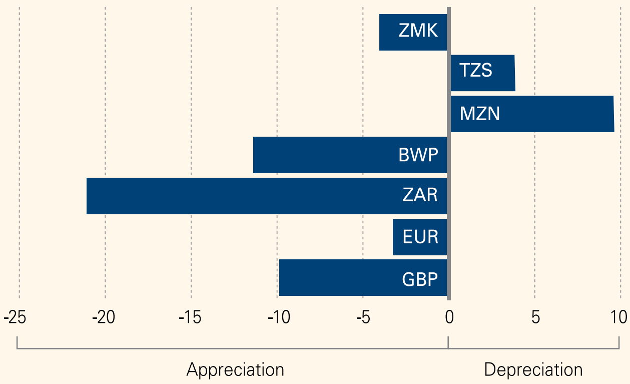
In Tanzania, the overnight rate which stood at 6.27% in December 2008 declined during the course of the year to 1.46% in December 2009. In Zambia, the Bank of Zambia rate ended the year at 8.3%, down from 15.9% in December 2008.

The overall impact of this reduction in prime lending rates was to put pressure on the Group's interest margins.

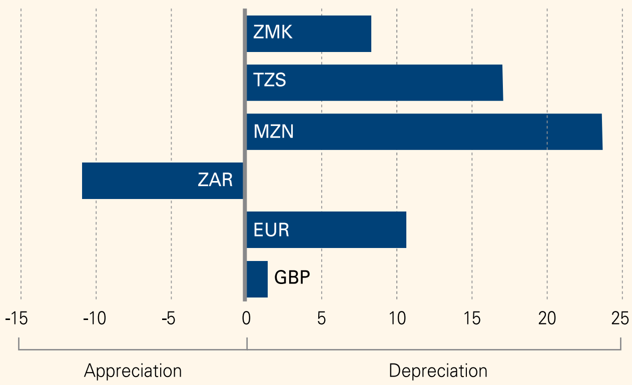
Exchange rate developments

During the course of 2009, most currencies appreciated against the US Dollar (US$), reversing losses suffered particularly in the last quarter of 2008. The South African

Exchange rate movement against the USD:
December 2008 – December 2009



Exchange rate movement against the Pula:
December 2008 – December 2009



Rand appreciated substantially against the US$ by 21%, while the Botswana Pula appreciated by 11.3% and the Zambian Kwacha by 4%. However, the Mozambican Metical and the Tanzanian Shilling weakened against the US$, depreciating by 9.6% and 3.8% respectively.

The Botswana Pula was generally strong in 2009 and appreciated against most of BancABC's operating currencies. During the year, currencies under consideration depreciated against the Pula, notably the Zambian Kwacha by 8.2%, Mozambican Metical by 23.6% and the Tanzanian Shilling by 17.0%. However, the Pula depreciated by 11% against the South African Rand.

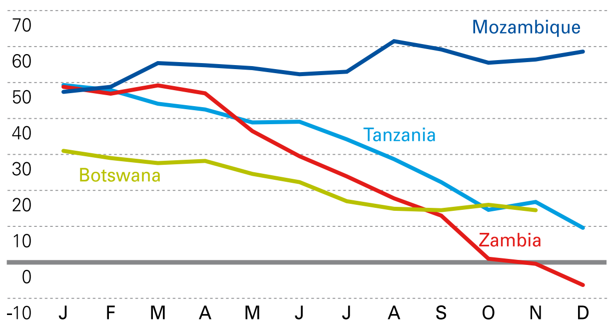
Banking sector developments

Although the SSA banking sectors were not directly exposed to the toxic assets and financial turmoil in the developed world that sparked the crisis, the broader impacts have been felt in a number of ways. Noticeable adverse impacts include decelerated growth in bank deposits and increased risk aversion, leading to tight lending criteria and a slowdown in credit growth. Additionally, some markets experienced a decline in the share of foreign currency account (FCA) deposits, largely attributable to foreign depositor flight during the crisis.

At the end of 2009, total bank deposits in Tanzania stood at US$5.5 billion compared to US$4.7 billion in December 2008. However, the loans to deposit ratio trended downwards from about 75% in 2008 to below 70% towards the end of 2009. Year-on-year credit growth slowed down significantly from around 50% in January 2009 to 9.6% towards the end of 2009.

In Botswana, although total bank deposits increased from US$5 billion in December 2008 to US$5.6 billion in December 2009, the country witnessed a sharp deceleration in credit growth. Year-on-year growth in private sector credit slowed from 31% in January 2009 to 14.5% in December 2009.

Private sector credit growth in 2009



In Mozambique, total bank deposits increased by 20% from US$2.8 billion in December 2008 to US$3.4 billion in December 2009. Unlike in other markets, credit growth remained strong during the year at above 50%.

Deposit growth was stagnant in Zambia. Having started the year at US$2.2 billion, deposit levels were hovering marginally above US$2.5 billion towards the end of 2009. Zambia also witnessed a precipitous decline in credit growth from about 50% in December 2008 to below 5% towards the end of 2009.

Prior to 2008, financial intermediation in Zimbabwe was precluded by the hyperinflationary environment and stringent regulations. With the introduction of a new economic framework in Zimbabwe, banking sector deposits have progressively increased from a low of US$300 million at the beginning of 2009 to around US$1.4 billion at year end. In an environment such as this where the bulk of deposits are transitory in nature, the interbank market is non-existent and there is no lender of last resort, most banks are risk averse – hence the share of loans to deposit ratio remaining low at just below 50%.

Review of regulatory environment

Prudential capital controls in most African banking systems have helped to minimise the contagion effects on the continent's banks. These controls reduced capital outflows during the credit crisis, with some governments introducing additional deposit protection schemes.

Developed markets have responded to the financial crisis by reviewing their banking regulations with a view to increasing the level of control and compliance the state can enforce. While most of these regulations are yet to come into force, policies currently under debate are widely expected to be adopted in some form or another within the calendar year. SSA financial markets, having historically been somewhat over regulated, have not yet begun to contemplate stricter regulatory controls. However if developed economies adopt policies that significantly increase regulatory controls in the banking sector, it can be expected that the SSA banking sector will follow suit in due course.

Outlook

Across the world, governments embarked on various economic stimulus measures including financial bailouts for banks as well as expansionary monetary and fiscal policies. Some countries have proposed tight banking regulations as part of cleaning up banks' balance sheets and curbing excessive risk practices. If successful, such initiatives are expected to bring greater control and stability to financial systems. Although many countries appear to have weathered the worst of the global economic crisis, there are concerns of a return to a "double dip" recession if anti-crisis measures are withdrawn abruptly.

The leading Western economies including France, Italy, Germany and more recently the United Kingdom have moved out of recession, which augurs well for a broader recovery in African markets. Economic growth in the BRIC countries is also expected to rebound in 2010, largely driven by strong internal demand. China – widely anticipated to replace Japan as the second largest global economy in the near future – could achieve double digit economic growth this year. Commodity prices already appear to be recovering, with stronger prices for many mineral commodities during the course of 2009 reversing some of the substantial losses suffered during the crisis.

Mozambique, Tanzania and Zambia showed some remarkable resilience to the global economic crisis as they managed to register modest economic growth. Botswana's economy was hardest hit with the collapse of diamond prices. Aided by the new political dispensation, Zimbabwe registered positive economic growth for the first time in a decade. These diverse developments highlight the point that the Group's diversification across various geographical territories has and will continue to enhance its overall resilience to economic shocks, such as those experienced over the last two years.

The relatively favourable economic outlook for SSA is anticipated to translate into improved foreign direct investment and capital market flows into the region, which should support economic growth in the Group's operating markets and the continent as a whole. Higher economic growth rates are generally expected in 2010, and the Group intends to capitalise on this environment. The Group will continue to exercise caution and ensure sound risk management practices are followed.

Dividend

In light of continued volatility in the global financial markets, the Group's need to preserve capital and the desire for organisational expansion, the Board has recommended that no final dividend be paid to shareholders.

Governance

The Board remains committed to the highest standards of corporate governance. Following the successful restructuring of the Board and the management committees to align these with South Africa's King Code of Corporate Governance and subsequently King II, the Group is in the process of considering the implications and requirements of complying with the recently released King III.

The Board has nominated two additional non-executive directors, Mr Simon Ipe and Ms Lakshmi Shyam-Sunder, for election. The Board is confident that their extensive experience in banking, finance and regional and international economics will prove valuable to the Group, and I am pleased to welcome them to the team.

After nine years of service to the Group and many more to its predecessor companies, I have elected to retire from my position as a non-executive director and Chairman to pursue other business interests. It has been a pleasure to serve alongside my fellow directors and I thank the Board for this opportunity.

I have no doubt that the work that has been done over the years, positions the Group well for future growth. I wish the Board, management and staff all the success in achieving the set goal of making the Group the pre-eminent financial services firm in Sub-Saharan Africa.

Acknowledgements

I would like to thank my fellow directors for their vision, support and guidance during the past year. I would also like to extend the Board's appreciation to management and staff for their commitment during these challenging times.

OM Chidawu
Chairman

Chief Executive Officer's report

Financial performance in 2009 was sound across all BancABC's operations, with the exception of BancABC Zambia. Despite challenging economic conditions, the Group's balance sheet grew by 11% positioning the bank well to bolster earnings in 2010 and beyond.

Solid operational progress was achieved in all territories and the Group continues to commit significant resources to the development of its Retail Banking business. The systems, people and capital are now in place for this division to become fully operational.

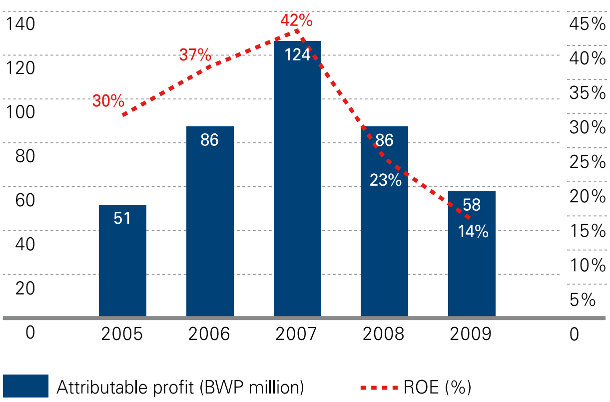
BancABC Zambia's performance was a notable disappointment with banking operations recording a further loss of BWP27 million in the second half of the year. This contributed to the Group's overall decline in earnings to BWP58 million. However, considerable growth was achieved in Mozambique and Botswana where profits posted were 82% and 32% respectively, higher than in 2008.

In February 2009, Zimbabwe adopted a multicurrency system resulting in the Zimbabwe dollar being discontinued as legal tender, leading the economy out of its hyperinflationary environment. The Zimbabwean operation recorded costs of some BWP62 million, whereas virtually no costs were recorded during 2008 as these were effectively eliminated by inflation. This, coupled with costs incurred due to the Retail Banking rollout, resulted in operating expenses increasing by 54%.

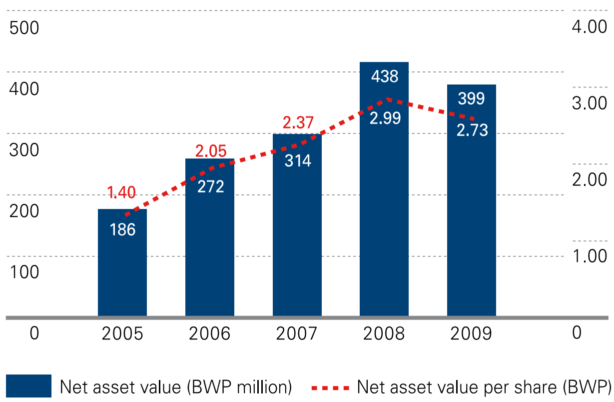
In terms of the Group's financial performance, in the year:

- Total income increased by 10% to BWP392 million.
- Operating expenses increased by 54% to BWP366 million.
- Cost to income ratio worsened to 82% from 59% in the prior year.
- Impairment charges on loans and advances increased by 15% to BWP51 million.
- Basic earnings per share were down 33% from 60.2 thebe in 2008 to 40.4 thebe.
- The balance sheet grew by 11% from BWP3.96 billion in 2008 to BWP4.4 billion.
- Loans and advances reduced by 11% from BWP2.2 billion in 2008 to BWP2.0 billion.
- Customer deposits grew by 19% from BWP2.8 billion in 2008 to BWP3.4 billion.
- Net asset value per share reduced by 9% from BWP2.99 in 2008 to BWP2.73.
- Return on average equity was 14% compared to 22% in 2008.

Attributable profit (BWP m) and ROE (%)



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



The past year was characterised by challenging conditions in most of the markets the Group operates in, as a result of the fallout from the worst financial and economic crisis the world has faced in several decades. However, the return to normalcy for most world markets appears to be gathering momentum, with key developed economies officially coming out of recession during the year. Debate remains as to the shape and extent of the recovery.

Consequently, a deliberate policy to curtail lending was adopted during 2009, hence the decline in the loan portfolio. Customer deposits, however, grew substantially and this extra liquidity was invested in lower yielding short-term money market instruments, resulting in the net interest margin being slightly lower than in 2008.

Quantitative easing undertaken by most governments in the developed world has helped arrest the recession by boosting expenditure and driving up commodity prices. This is to the benefit of most Sub-Saharan African (SSA) economies that are heavily commodity dependent. It is likely, however, that full recovery on a more sustainable basis will not occur in the short- to medium-term. Uncertainty prevails in the financial services sector, particularly in terms of more demanding regulatory requirements. This has in some instances unnerved investors, as governments voice concern over executive remuneration, proprietary trading and exposure to derivative instruments. Downgrades in some sovereign ratings have further contributed to investors' caution regarding speculative or other alternative investments.

Financial performance

Net interest income

Net interest income for the year declined by 3% to BWP178 million. This was largely due to a deliberate policy put in place to curtail lending in the wake of global financial weakness referred to earlier. In addition, operations in Zambia, and to a lesser extent Tanzania, were unable to lend due to tight liquidity conditions in those markets particularly in the first half of the year. The cost of wholesale funding in relation to market rates also increased across all the Group's operating markets. Consequently, the net interest margin has declined as the asset mix was skewed towards low risk low yielding government paper and other liquid assets.

Notwithstanding the above, BancABC Tanzania and BancABC Mozambique recorded an increase in net interest income due to increased balance sheet sizes, despite the lack of growth in the loan portfolio.

Impairment losses on loans and advances

Impairments increased by 15% to BWP51 million. Almost 50% of the impairments (BWP24 million) emanated from BancABC Zambia where the quality of the loans in the market declined rapidly. The drop in commodity prices in late 2008 affected the Zambian economy which is highly dependent on copper exports.

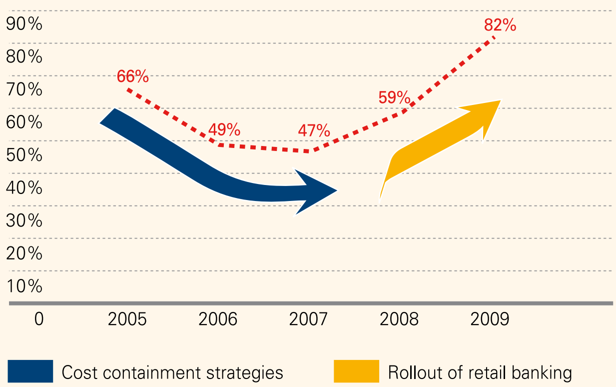
BancABC Mozambique and BancABC Tanzania also recorded sharp increases in impairments as some larger customers failed to service their loans as they fell due. However, impairments in BancABC Botswana reduced significantly due to a concerted effort to collect funds from defaulting clients. Management continues to strengthen the credit function across the Group to ensure that the perennial bad debt problem is dealt with.

Non-interest income

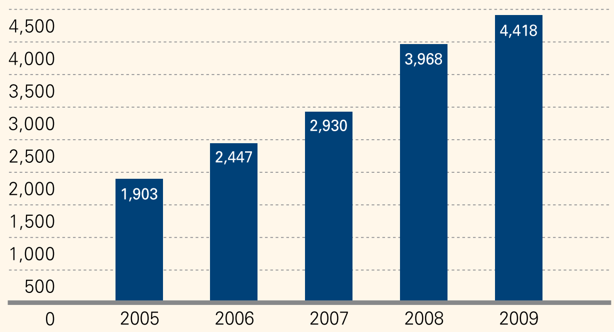
Non-interest income increased by 23% from BWP216 million in 2008 to BWP265 million in 2009. Mozambique recorded an increase of 120% on the back of increased margins and volumes in foreign exchange trading. The return of stability to the Zimbabwean economy, together with the resumption of trading on the stock exchange, boosted non-interest income from this operation. BancABC Tanzania successfully introduced bond trading, contributing positively to its non-interest income.

Challenges in Zambia stifled activity, impacting this operation's ability to generate anticipated trading, advisory, fee and commission income. Accordingly non-interest income for Zambia declined by 19% in 2009. In addition, the asset management business in Zambia posted a significant reduction in income because of a once-off charge

Cost to income ratio (operating expenditure)



Total assets (BWP m)



of BWP30 million relating to a property construction project, in which BancABC Zambia Asset Management was an advisor. The project experienced huge cost overruns and delays in its completion. This led to a decline in the reputation of the bank in the market, and to correct this, the Board took the decision to pay out all the investors in the project and take control of the property. The total write-off over the past two years arising from this action is some BWP36 million.

Operating expenses

Operating expenses at BWP366 million were BWP129 million higher than in 2008. Operating expenses have increased significantly, mainly due to increased staff costs and dollarisation in Zimbabwe. To bolster the Group's operations, a number of employees were recruited into the Human Capital, Credit, Marketing and the Legal and Compliance departments. The Group now also employs 89 people in Retail Banking. In addition, total costs for BancABC Zimbabwe were BWP62 million whereas nothing was recorded in the prior year due to that country's hyper-inflationary environment in 2008.

Management is cognisant of the need to aggressively manage costs by improving productivity through technology and shared resources. The Group is committed to a long-term cost to income ratio of 50%, but accepts that in the interim Retail Banking will push this number significantly above the 50% target.

Tax

Changes to the taxation rules in Zimbabwe resulted in a tax credit for the Group from reduced provisions for deferred tax on non-taxable unrealised gains from previous reporting periods. In addition, a deferred tax asset of BWP9.5 million was raised on losses incurred by the Company.

Balance sheet

The Group's total assets increased by 11% to BWP4,418 million. This is largely due to increased customer deposits which were predominantly invested in short-term money market instruments and government paper.

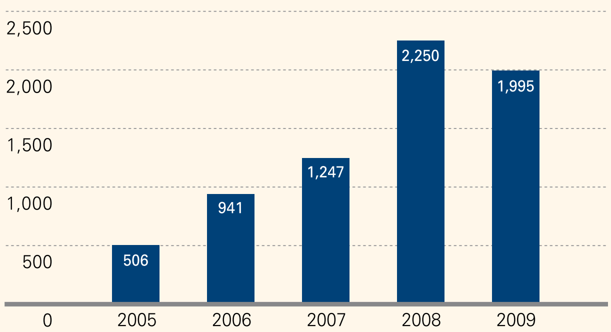
Deposits improved significantly, growing by 19% to BWP3,355 million. This growth is mainly attributable to the Group's operations in Mozambique (increased by BWP198 million), Zimbabwe (BWP157 million), Tanzania (BWP132 million) and Botswana (BWP78 million). BancABC Zambia recorded a decline in the deposit book owing to the challenges this subsidiary faced during the period under review.

Loans and advances decreased by 11% as a result of the proactive risk management decision to curtail lending in light of deteriorating market conditions. However, BancABC Zimbabwe recorded significant growth off a very low base, following an improvement in the economy and the banking sector in particular. BancABC Mozambique recorded lower growth largely due to the deliberate policy to reduce lending mentioned earlier.

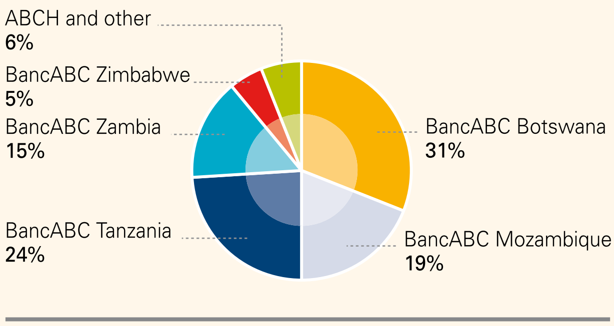
BancABC Botswana did not grow its book significantly as a result of the deterioration in market conditions from late 2008. This trend continued for much of 2009, with the operation suspending active lending to focus on collections and reduction of impairments. The subsequent improvement in the local economy was offset by a lag in demand for credit as many corporates worked to manage their financing and other operating costs while facing subdued demand for products and services. The Zambian market faced similar challenges, with defaults among borrowing customers, affecting the quality of the loan book. This operation, together with BancABC Tanzania, also faced severe liquidity challenges which constrained lending activities.

The quality of the loan books in all country operations other than Zambia stabilised and remained within manageable levels. BancABC Zambia faced a rapid deterioration in the quality of its loan book due to the decline in activity in the copper belt region, impacting all related industries to which the operation was highly exposed. The situation in Zambia has somewhat stabilised following the recovery of copper prices and increased production from new producers.

Net loans and advances (BWP m)

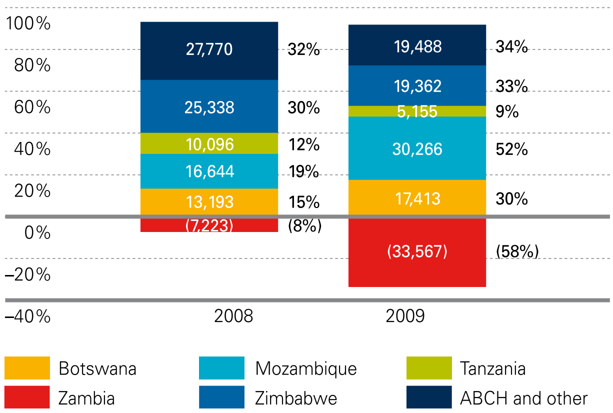


ABC Holdings Limited – loans by entity



Attributable profit by operation

BancABC attributable profit (BWP'000s)



Attributable profit from all operations, with the exception of Zambia, has been increasing. This is emanating mostly from growth in profitability in BancABC Mozambique and BancABC Botswana.

Operational performance

Botswana

BancABC Botswana performed well despite sharply declining economic activity, exacerbated by plummeting diamond prices and markedly reduced household expenditure. Profit after tax of BWP17 million was 32% higher than the BWP13 million achieved in 2008. The balance sheet grew by 17% mainly due to increased customer deposits which grew by 6% to BWP1,403 million, and an injection of BWP35 million in Tier II capital by ABC Holdings Limited during the year. This additional liquidity was invested in money market instruments including Bank of Botswana certificates.

Management deliberately curtailed lending in light of the unfavourable market conditions. This move paid off in the form of a reduced impairment charge of BWP9 million compared to BWP22 million in 2008. However, this came at a cost to the loan book which reduced by 16% to BWP618 million, and net interest income which reduced by 16% due to the asset mix being skewed towards low yielding money market instruments and government paper.

Operating expenses were tightly managed, increasing by 10% to BWP47 million as a result of expenditure related to the rollout of the retail programme.

Mozambique

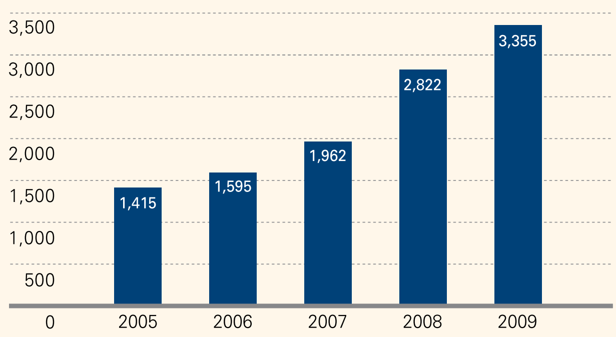
BancABC Mozambique performed remarkably well, growing its profit after tax by 82% to BWP30 million and its balance sheet by 30% to BWP844 million, with a corresponding increase in customer deposits which increased 32% to BWP812 million. This excess liquidity was invested in short-term money market instruments and government paper due to reduced demand for credit by corporates. Most corporates improved the management of their working capital positions, with commitment to new long-term projects waning due to uncertainties concerning the global economic and financial outlook. Impairments increased with the bank incurring a BWP10 million charge, up from BWP1 million in 2008. Notwithstanding these issues, loans and advances increased marginally by 6% to BWP384 million and the quality of the loan book remains good.

Operating expenses increased by 30% to BWP54 million, largely due to the need to bolster key departments in line with the increased activity resulting from the Retail Banking rollout.

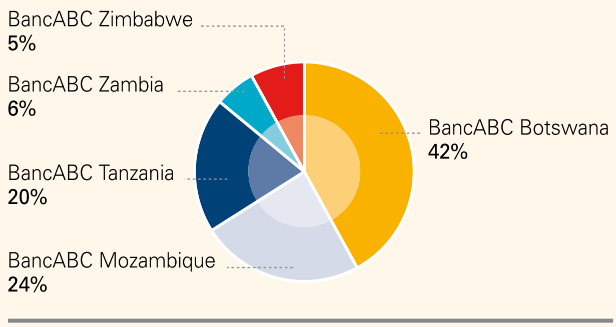
Tanzania

BancABC Tanzania recorded a decline in profit after tax of 49% to BWP5 million, due to an increase in impairments of loans and advances resulting from a few but significant

Deposits (BWP m)



ABC Holdings Limited – deposits



customers. Impairment of loans and advances were BWP13 million.

Lending in the first half of the year was constrained as the operation had reached its limit on the loans to deposit ratio, leading to a 19% reduction in the loan book from BWP599 million to BWP486 million. However, concerted management effort ensured 24% growth in the deposit book to BWP677 million.

All major income streams increased when compared to 2008, with net interest income increasing by 14% to BWP35 million and non-interest income growing by 29% from BWP21 million to BWP27 million following the introduction of bond trading. Operating expenses increased by 17% to BWP40 million owing to costs incurred in the rollout of Retail Banking programme.

Zambia

BancABC Zambia recorded a loss of BWP45 million, significantly higher than the loss of BWP12 million recorded in 2008. The loss for 2009 came on the back of unprecedented impairments of BWP24 million (2008: BWP10 million) and reduced income from lower activity levels. The operation suffered directly from the deterioration in market conditions as copper prices plummeted in 2008. This had a ripple effect on the industries that depend on the mining sector, which the bank was heavily exposed to.

The loan book declined by 45% to BWP196 million, customer deposits also declined by 10% to BWP176 million, non-interest income declined by 19% to BWP11 million and the total balance sheet shrunk by 37% to BWP286 million. An increase in the wholesale cost of funding negatively impacted the bank's net interest income, declining from BWP23 million in 2008 to BWP12 million in 2009.

In light of these circumstances, the Group took the decision to merge Microfin, the Group's microfinance division, with the Zambian operations to rationalise costs and develop synergies. The merger was effected on 30 June 2009.

Existing Microfin branches will be leveraged to market retail banking products.

The microfinance division continued its robust performance driven by a reduction in impairments of loans and advances. The division recorded a profit after tax of BWP11 million from BWP5 million in 2008. This brought the combined performance of the Zambian operations for the year to a loss of BWP34 million.

Loans and advances increased by BWP14 million to BWP104 million despite major constraints in the Zambian market.

Net interest income was on par with the prior year at BWP50 million. Impairment charges for loans and advances significantly reduced from BWP9 million in 2008 to BWP3 million in 2009. Operating expenses were also contained at the same level as in 2008 and the tax expense declined following utilisation of some tax losses in BancABC Zambia post the merger. The Group intends to continue growing this line of business by introducing more products to existing and new customers under the Retail Banking division.

Zimbabwe

The business environment in Zimbabwe improved substantially during the year. The elimination of the hyperinflationary environment greatly assisted business and increased the level of predictability. However, the banking sector still suffered under the effects of the lack of liquidity emanating from weak economic activity, insufficient foreign direct investment, lack of external lines of credit, inactive interbank market, and absence of the lender of last resort.

Despite these challenges, BancABC Zimbabwe posted BWP19 million in profit after tax. The decrease in profitability was mainly because of operating expenses of BWP62 million in 2009 from virtually nothing in 2008 when there was hyper inflation. Normal banking income, including the share of profit from associates, increased significantly with net interest income increasing to BWP14 million from nil in 2008.

Non-interest income increased to BWP58 million from BWP38 million in 2008 from increased fees and commissions.

The balance sheet increased by 100% from BWP241 million in 2008, to BWP483 million. Customer deposits increased by 163% to BWP254 million and loans and advances increased by 376% to BWP98 million.

Business segment

Treasury and Structured Finance

The division performed well during the year, with customer deposits increasing in all the Group's subsidiaries other than Zambia. The surplus liquidity was invested in money market instruments resulting in a 7% increase in money market interest income to BWP158 million. This growth was achieved despite a reduction in interest rates in all jurisdictions which put margins under pressure. Trading activities in Mozambique, Tanzania and Zimbabwe also helped to increase trading income to BWP167 million from BWP55 million in 2008. Foreign exchange trading income improved substantially in Mozambique and Zimbabwe, and the introduction of bond trading helped improve overall trading income in Tanzania. Foreign currency trading volumes increased significantly in Botswana, which was offset by a massive reduction in margins following the Bank of Botswana directive to reduce foreign currency spreads in March 2009. As a result overall foreign currency trading recorded a marginal increase. The Zambian operation was able to maintain its 2008 income levels despite unfavourable economic conditions in that market for much of the year.

Corporate Banking

The division fared well in the midst of the downturn in market conditions across the region. Loans and advances reduced on a consolidated basis, with growth recorded in Zimbabwe and Mozambique. Impairments increased, with Zambia, Tanzania and Mozambique contributing most to this increase. Concerted efforts to rein in non-performing loans in Botswana seem to be paying off, as impairments decreased for the first time in a number of years. The division has now been split into two with the relationship executives only being responsible for marketing and generating new business. The credit function now reports to the Group Head of Credit and it is anticipated that the full benefits of this restructuring will be felt in subsequent years. The division recorded a 12% increase in interest income and an increase of 19% in fees and commissions to BWP84 million, supported mainly by the re-emergence of the Zimbabwean operation.

Retail Banking

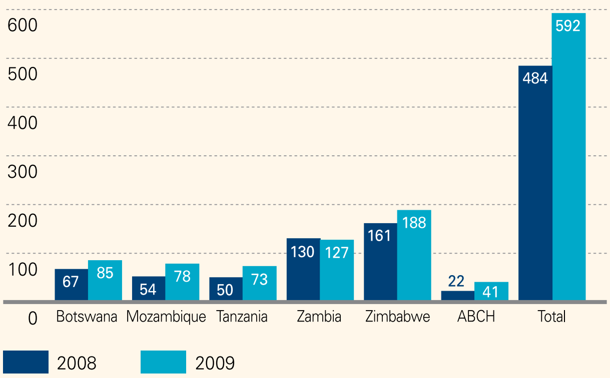
During the year, Retail Banking teams were fully established in all subsidiaries of the Group. The Group successfully achieved its primary goal for 2009, which was to complete the detailed plans in all areas of the Retail Banking business such as personal and small to medium sized enterprise products, card products, branch design, training, customer relationship management systems, card management systems, service level agreements and ATM services. Implementation of these plans is ongoing. The Group was also granted VISA principal membership for card issuing in Botswana.

In line with the changes in the macro-economic environment since 2008, the Group is taking a measured approach in developing this line of business over the next few years. Branches have now been opened in Harare and Dar es Salaam and additional branches are to be opened in other territories in the near term.

Human Capital

The mandate of the Group's Human Capital department is to ensure that standardised and consistent people management practices are established in all Group operations. In 2009 the Group adopted the balanced scorecard as its primary performance management and strategy implementation tool. The Group and subsidiary balanced scorecards, including those for each line of business, were completed in December 2009. All staff

Staff complement



have prepared their individual scorecards based on their line of business and country scorecards. In the first half of 2010 the Group will measure its performance and its progress in meeting strategic objectives using the balanced scorecard.

A new staff compensation and incentive scheme that aligns all countries and departments to best practice was introduced during the year. This scheme is directly linked to the individual and country balanced scorecards as well as the job grading system, and is applicable from 2010 onwards.

The Group refined its human capital policies and procedures and standardised expatriate conditions of employment. A major area of improvement has been the introduction of a new dimension in the Group's Learning & Development strategy, with the implementation of Leadership Development Programmes for existing executives, managers, as well as junior managers and specialists. The goal of the Executive Leadership Development Programme is for all executives and senior managers to participate and up-skill their leadership abilities. The programme runs up to 31 December 2011. The Graduate Development Programme will continue during the year, with a new set of graduates having joined the programme in January 2010. An improved training calendar should also contribute to better coordinated and more focused training for all employees going forward.

The Group's short- to medium-term plans are to entrench these strategic human capital management practices, improve overall employee productivity in the Group, drive down people costs and instil a robust talent management system that includes succession planning.

Other support divisions

The Group operates a centralised IT function. The focus during the year was on stabilising key banking systems, building a more robust data centre for use by subsidiaries, improving effectiveness and cost efficiency of the wide area networks and building a solid base to support the retail programme. The rollout of retail banking functionality is ongoing and the department will be bolstered by additional skilled staff as new functionality is developed and rolled out. The department also introduced a new IT governance framework for the Group and set up a project management office to implement and monitor projects, while ensuring that all project managers adhere to the Group's project governance procedures.

The Group's Banking Operations department focused on improving and expanding the level and quality of support given to the different revenue generating departments. The department rationalised existing internal functions to improve their handling of transactions and to cater for increased transaction processing required by the retail programme. It also reviewed and rolled out a number of new process manuals to induct new staff seamlessly within the Bank.

Group Finance is responsible for financial management and reporting, regulatory reporting, budgeting and Group tax. The department is working on improving reports on strategic and operational management information systems, to ensure that all decision makers at different levels of the Group are able to carry out their responsibilities in an informed manner.

Group Risk manages all risks that the Group assumes in its activities. During the year, the department introduced a comprehensive operational risk management framework and successfully established an Operational Risk Committee to manage operational risk processes within the Group. This committee is in addition to other committees that manage other risks faced by the Group. The Operational Risk Committee also manages legal and compliance risks; however, the Legal and Compliance department is 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, strengthened structures in the subsidiaries and has established a centralised filing system for all legal documentation.

The Legal and Compliance department also intends to develop a legal policy framework that sets uniform legal document protocols and will advise the Board of Directors on augmenting corporate policies in line with the new corporate governance recommendations made in the recently published King III Report on corporate governance. The Group Legal Counsel, who heads this department, also provides other ad hoc 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 loans underwritten or from existing customers who may be facing various challenges. During the year, the Group Head of Credit established this function in each operation and ensured that it was staffed with the right skills. Where necessary, credit functions have been delineated and moved out of Corporate Banking into the Credit department to ensure full independence of the two functions and to free up relationship managers to spend more time acquiring new clients. The department also introduced an internal credit scoring system to screen new customers and to also price risk more effectively. The Credit Policy Manual was updated and new procedures were also incorporated to cater for lending to the retail segment.

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. The rating system introduced in the previous financial period is achieving its desired objective of having internal audit reports received and attended to with the speed and seriousness they deserve.

Rating

In line with the deterioration in the world economic environment and its related impact on most entities including ABC Holdings, Global Credit Rating lowered the rating for the Group to A3 for short-term securities and BBB minus for long-term securities. The progression of the Group's rating is listed below.

Security class	2005	2006	2007	2008	2009
Short-term	A3	A3	A2	A2	**A3**
Long-term		BBB	BBB	BBB	**BBB-**

Outlook

The economic environment will continue to be challenging at least in the near term. The Group will continue growing the Wholesale Banking business while at the same time exploring new business opportunities particularly in the Retail Banking division. I am confident that the Group now has a solid platform from which it can continue to grow.

Cost containment will remain a key focus area. With the introduction of the balanced scorecard as the Group's primary performance management and strategy implementation tool, setting and reviewing the performance targets necessary to achieve this should become a more transparent process. That said, much hard work remains to turn the Zambian operation around, increase profitability in Botswana and Tanzania, and continue the Retail Banking rollout.

Acknowledgements

After nine years of service to the Group and many more to its predecessor companies, the Group's Chairman has elected to retire from his position to pursue other business interests. The Board, management and staff are deeply grateful to the Chairman for his guidance and leadership over the years and wish him all the best for his continued success. I am personally indebted to him for the guidance and support he has given me since the beginning of our journey with Heritage Investment Bank in 1995. I wish him continued prosperity in all his other future endeavours.

I would like to extend my sincere appreciation to the Board and the entire BancABC team for all their effort in the face of difficult circumstances in 2009.

DT Munatsi
Group Chief Executive Officer

Corporate social responsibility report

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 (EASP) 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 EASP are:

- An assessment of potential and current environmental and social risks and impacts arising out of the proposal; and
- The commitment and capacity of the borrower to manage these impacts.

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 (ESAP – 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 EASP and the Environmental and Social Review Appraisal Procedures.

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 Tanzania continued to support Kiota's Women's Health and Development Organization (KIWOHEDE) in 2009 with the donation of a number of desktop computers. KIWOHEDE is a NGO operating in 21 towns and districts across Tanzania. KIWODEHE's centres cater for girls between the ages of nine and 20 that have been victims of child prostitution, domestic and sexual abuse and human trafficking by providing counselling, rehabilitation and alternative support programmes. The centres provide these girls with the opportunity to acquire a basic education as well as important vocational skills. The computers donated are being used to provide computer literacy training.

BancABC Tanzania has formed a relationship with the New Life Orphans Home in Kigogo, Dar es Salaam that cares for some 120 children. All the orphans at the home had been linked to the orphanage through the National Social Welfare Organisation, a government agency which assists with the placement of orphaned and abused children in secure orphanages. Ongoing donations of food stuffs, basic toiletry items, a water tank and electricity units were made in 2009.

Zimbabwe

BancABC Zimbabwe partnered with Sports Trust of Positiveness (S.T.O.P) in hosting the BancABC Super 4 HIV/Aids Tournament. This tournament was exclusively for women living positively with HIV/Aids. The objectives of the tournament were to encourage society's acceptance of people living with HIV/Aids, to demystify HIV/Aids through football and to provide a platform for dissemination of information on HIV/Aids through distribution of educational material and testimonials. The tournament furthermore provided an opportunity for those that are infected to relieve stress through exercise.

NGOs, SAFAIDS and the National Aids Council, along with the Canadian Embassy took advantage of the HIV/Aids Tournament to communicate with large numbers at a single venue where they provided educational material and support for distribution at the tournament. BancABC intends to host this tournament annually. The initiative was a first in Africa and was well supported by the community and media.

The initiative demonstrated that sports in general and football in particular can be used as a medium to communicate effectively with communities.

ABC Zimbabwe once again extended its long-time partnership with The Harare International Festival of Arts (HIFA), Zimbabwe's pre-eminent arts and culture festival. HIFA ranks among the Africa's top ten arts festivals.

Zambia

BancABC Zambia supports Our Lady's Hospice in Lusaka with ongoing financial contributions and staff volunteering. Our Lady's Hospice has a committed medical team that provides quality palliative care in a supportive environment for patients with AIDS and cancer. The hospice aims to assist patients come to terms with their illness and to maintain their quality of life. Funds donated are used to support the hospice in its day-to-day operations.

Mozambique

In 2009 BancABC Mozambique supported the Hospital Geral de Machava, a private facility that is predominantly supported by corporate donor funding. A significant donation of clothing, food and nappies was made to the paediatric ward.

In 2010 BancABC Mozambique will formalise its CSI policy and expenditure to bring these in line with best practice and to ensure that group-wide CSI initiatives can be effectively implemented.

Risk and governance report

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).

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 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 Group 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 Group 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 Group 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.

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), and the Board and management are currently working on fully implementing the recommendations of the third King Report (King III).

Board of Directors

The Board currently comprises seven directors, including four independent non-executive directors, two non-executive directors and one executive director. 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 24 and 25 of this report.

The roles of Chairman and CEO are separate and no individual has 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 and the Company secretary. 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	May	Aug	Dec
Buttery	P	P	P	P
Chidawu	P	P	P	P
Khama	P	P	P	P
Kudenga	P	P	P	P
Mothibatsela	A	P	P	P
Munatsi	P	P	P	P
Wasmus	P	P	P	P

P: Present
A: Absent

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 King II. 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 2009. 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 Mr H Wasmus. 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 2009 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.

Remuneration Committee

The Remuneration Committee is chaired by Mr OM Chidawu, a non-executive director and Chairman of the Board and is assisted by Mr H Buttery and Mr N Kudenga. 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 three 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

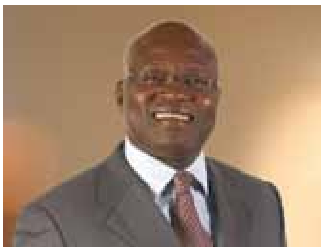
Oliver M Chidawu (Zimbabwean)

Board Chairman

Oliver Chidawu is Chairman of the ABC Holdings Board. Born in Zimbabwe in 1954, he is a first generation entrepreneur who founded and manages the Kuchi Group of companies, which is active in building and electrical contracting. Oliver is a major shareholder in Bitumen Construction Services and Heritage Insurance Company. He was a founding shareholder and director of Heritage Investment Bank, which merged with First Merchant Bank in 1997 and subsequently became BancABC.

Douglas T Munatsi (Zimbabwean)

Chief Executive Officer



Doug Munatsi 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. Prior to joining the Group, he was an executive in the Southern Africa regional mission of the International Finance Corporation (IFC). Before joining the IFC, he worked with Barclays Bank in Zimbabwe. 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 advance management programme. He is also an Associate of the Institute of Bankers of Zimbabwe.

Howard J Buttery (South African)

Board Member

Howard Buttery was born in South Africa in 1946. He is 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). In addition to serving on the ABC Holdings Board, Howard serves as a non-executive director of several other private companies.

Doreen Khama (Motswana)

Board Member

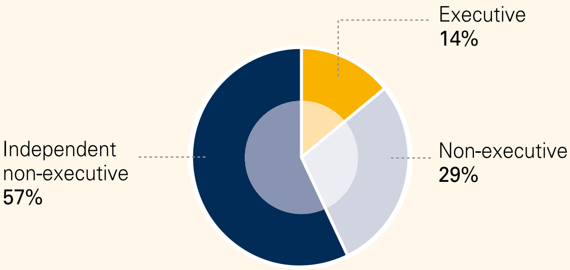
Doreen Khama was born in Botswana in 1949. She is the Honorary Consul for Austria in Botswana and a practicing lawyer. She founded Doreen Khama Attorneys, a reputable legal firm in operation for over 20 years. Doreen is active in business initiatives in Africa and internationally, and has earned a high 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.

ABC Holdings Limited Board of Directors

Oliver M Chidawu* **Chairman**
Doreen Khama**
Ngoni Kudenga*
Howard J Buttery**
Johannes Wasmus**
Tshipa S Mothibatsela**
Douglas T Munatsi **Group Chief Executive Officer**

* Non-executive
** Independent non-executive

Composition of the Board



Ngoni Kudenga (Zimbabwean)

Board Member

Ngoni Kudenga was born in Zimbabwe in 1952. He holds a Bachelor of Accountancy degree from the University of Zimbabwe and is a fellow of the Chartered Institute of Management Accountants. Ngoni is past president of the Institute of Chartered Accountants, and is currently the managing partner of BDO Kudenga and Co. Chartered Accountants of Zimbabwe. He serves on the boards of Bindura Nickel Corporation, Anglo American Corporation Zimbabwe and several other private companies.

Tshipa S Mothibatsela (Motswana)

Board Member

Tshipa Mothibatsela was born in South Africa in 1948. He holds a Bachelor of Engineering in Mining from the University of Zambia and a Masters in Engineering from Pennsylvania State University in the United States. Tshipa completed a management development programme with Anglo American Corporation and went on to establish his own company, TTCS in Botswana. He is the Chief Executive Officer and director of Mothibatsela and Associates Consulting Engineers, a company which he founded.

Johannes Wasmus (Dutch)

Board Member

Hans Wasmus was born in Holland in 1941. He holds a Diploma in Accountancy from the Netherlands Institute for Chartered Accountants and a Diploma in Economics. He was employed by FMO, the Netherlands based development finance institution, for 25 years until 2002, initially as regional manager for Africa and thereafter as Chief Financial Officer. During this period, he was seconded to Inde Bank Malawi as senior adviser. He remains a senior adviser to FMO and is a non-executive director of several companies.

Remuneration Committee

Oliver M Chidawu **Chairman**
Howard J Buttery
Ngoni Kudenga

Loans Review Committee

Johannes Wasmus **Chairman**
Doreen Khama

Risk and Audit Committee

Ngoni Kudenga **Chairman**
Tshipa S Mothibatsela
Johannes Wasmus

Francis Dzanya
Chief Operating Officer

Francis Dzanya was born in Zimbabwe in 1960. He has held various senior positions, with over 20 years experience in the banking industry in Southern Africa, ten of which were spent at ABC Holdings and its predecessor companies. He was appointed Chief Operating Officer in 2008. 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. He is an Associate of the Chartered Institute of Bankers, UK.

Hashmon Matemera
Group Head, Wholesale Banking

Hashmon Matemera was born in Zimbabwe in 1964. He has over 17 years' banking experience in merchant banking, 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 also spent ten years at the Reserve Bank of Zimbabwe, mostly in the Supervision and Surveillance Division. He was appointed Group Head, Wholesale Banking in April 2008. He holds a Bachelor of Science (Honours) degree in Economics as well as a Masters' of Science in Economics both from the University of Zimbabwe.

Beki Moyo
Chief Financial Officer

Beki Moyo was born in Zimbabwe in 1967. In the course of his banking career spanning over ten years, Beki has held various senior positions within ABC Holdings and was appointed Chief Financial Officer in 2005. Beki trained and qualified as a Chartered Accountant with Deloitte and Touché, where he was later appointed Audit Manager. 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 Advanced Management Programme.

Dr Blessing Mudavanhu
Chief Risk Officer

Blessing Mudavanhu was born in Zimbabwe in 1971. 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. 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 was appointed Group Chief Risk Officer in February 2009. Blessing 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.

Executive Committee

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

Group management

Johan Bosch **Chief Information Officer**
Markus de Klerk **Secretary to the Board**
Bruce Jonker **Group Internal Auditor**
Bornface Nyoni **Group Head Banking Operations**
Angela Parr **Group Head Marketing**
Andrea Prazakova **Group Head Retail Banking**
Johan Testa **Group Head Treasury**
Melanie Vogt **Chief Legal Officer**
Paul Westraadt **Chief Credit Officer**
André Willemse **Group Head Human Capital**

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 Company and 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 30 of this annual report.

Approval of the annual financial statements

The directors' report, and the annual financial statements, which appear on pages 31 to 101, were approved by the Board of Directors on 9 April 2010 and are signed by:

OM Chidawu
Chairman

9 April 2010

DT Munatsi
Group Chief Executive Officer

9 April 2010

Directors' report

Nature of business

ABC Holdings Limited ("the Company") is listed on the Botswana and Zimbabwe stock exchanges and is the holding company of the African Banking Corporation group of companies (trading as BancABC) which comprise diverse financial services activities in the areas of corporate, international, investment and merchant and retail banking, leasing finance, asset management, stockbroking and treasury services. BancABC 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

Financial performance in 2009 was sound across all BancABC's operations, with the exception of BancABC Zambia. Despite challenging economic conditions, the Group's balance sheet grew by 11% to BWP4.4 billion, positioning the bank well to bolster earnings in 2010 and beyond. Attributable profit declined by 32% from BWP86 million in 2008 to BWP58 million in 2009, largely due to increased impairments driven by deterioration in market conditions in the countries the Group operates in. Loans and advances reduced by 11% to BWP2.0 billion from BWP2.2 billion. Operating expenses increased by 54% to BWP366 million and cost to income ratio was 82% compared to 59% in 2008. Deposits increased by 19% to BWP3.4 billion from BWP2.8 billion. Net asset value per share reduced by 9% to BWP2.73 from BWP2.99 and return on average equity was 14% compared to 22% in 2008.

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 31 to 42.

Subsidiary and associated companies

Details of the Group's subsidiaries are set out in note 15 of the separate Company financial statements. Details of the Group's 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. In 2009, the Group disposed of its 23.27% interest in Starafrica Corporation. The net assets of the associate were BWP24.4 million. The Group also disposed of its 21% interest in PG (Zimbabwe) Limited. A portion of the PG (Zimbabwe) Limited shares was contributed to a new associate, Quest Ventures (Pty) Ltd, in which the Group holds an interest of 49%.

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	**2009**	**2008**
OM Chidawu	17,930,478	18,171,748
DT Munatsi	19,640,702	19,640,702
N Kudenga	365,947	362,888
Total	**37,937,127**	**38,175,338**

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 Group 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 24 and 25. Brief CVs of directors eligible and available for re-election at the annual general meeting are included in the notice to shareholders.

Dividends

As global economies are yet to fully recover from the financial crisis, the directors recommended that a final dividend not be declared.

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

PRICEWATERHOUSECOOPERS

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Plot 50371
Fairground Office Park
Gaborone
PO Box 294
Gaborone, Botswana
Telephone (267) 395 2011
Facsimile (267) 397 3901
www.pwc.com

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

Report on the financial statements

We have audited the annual financial statements and Group annual financial statements of ABC Holdings Limited, which comprise the balance sheet and the consolidated balance sheet as at 31 December 2009, the income statement and the consolidated income statement, statement of comprehensive income and consolidated statement of comprehensive income, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, the notes to the Company and consolidated financial statements and a summary of significant accounting policies and other explanatory notes, as set out on pages 31 to 101.

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 financial position of the Company and of the Group as of 31 December 2009, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2003.

PricewaterhouseCoopers

Certified Public Accountants

Gaborone

9 April 2010

Senior Partner: BD Phirie
Partners: R Binedell, RP De Silva, NB Soni
Associates: AS Edirisinghe, M Lalithkumar, DD Minwalla, S Sinha, SKK Wijesena

Significant accounting policies

for the year ended 31 December 2009

Reporting entity

ABC Holdings Limited (the "Company") is domiciled in Botswana. The consolidated financial statements of the Company for the year ended 31 December 2009 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 2009, that are relevant to the Group:

- IFRS 8, 'Operating segments', requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. The Standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The disclosure should enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The adoption of the standard impacted the amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standard, the Group has provided full comparatives.
- IAS 1 (Revised), 'Presentation of Financial Statements', requires information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyse changes in a company's equity resulting from transactions with owners in their capacity as owners separately from 'non-owner' changes. The revisions include changes in the titles of some of the financial statements to reflect their function more clearly. The adoption of the standard impacted the amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standard, the Group has provided full comparatives. The Group has elected not to change the titles of the financial statements.
- IFRS 7 (Amendment), 'Financial Instruments disclosures', increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk, primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The adoption of the standard impacted the amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group.
- 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 2009:

- **IFRS 3 (Revised),** 'Business Combinations' (effective from 1 July 2009)
- **IAS 27 (Revised),** 'Consolidated and Separate Financial Statements' (effective from 1 July 2009)
- **IAS 39 (Amendment),** 'Financial Instruments: Recognition and measurement' (effective from 1 July 2009)
- **IFRS 1 (Revised),** 'First time Adoption of International Financial Reporting Standards' (effective from 1 July 2009)
- **Improvements to IFRS** (unless otherwise specified the amendments are effective for annual periods beginning on or after 1 January 2010)
- **IFRIC 17,** 'Distributions of Non-cash Assets to Owners' (effective from 1 July 2009)
- **IFRIC 18,** 'Transfers of assets from customers' (effective from 1 July 2009)

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.

  The December 2008 comparative financial results of entities in Zimbabwe have been adjusted to reflect the changes in the general level of prices as they operated in a hyperinflationary economy in accordance with IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The restatement was calculated using conversion factors derived from the countrywide consumer price index published by the Central Statistical Office (CSO). The CSO last published such indices in July 2008. As a result, estimated indices were used for the remainder of the year to December 2008, based on the movement of the Old Mutual implied exchange rate, which was viewed as the key reference rate for both inflation and exchange rates in the Zimbabwe market. The comparative results were converted into the Group's presentation currency, Botswana Pula, at the closing rate ruling on the reporting date as set out in note 26. The conversion factors were an index of Zimbabwe dollar 396.9 septillion for 31 December 2008, and 441.5 million for 31 December 2007.

- 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. This is especially applicable to the entities operating in Zimbabwe, where operations have been significantly affected, and may continue to be affected for the foreseeable future, by the adverse effects of the country's unstable economic environment which has resulted in a significant downturn in economic activity. The determination of fair values presented in the financial statements is affected by the prevailing economic environment. In 2008, Zimbabwe listed equity investments that were not dual listed were valued based on published prices when trading on the Zimbabwe Stock Exchange was suspended on 17 November 2008. The suspension was lifted in February 2009. The above factors may result in significant variations in fair values, depending on factors and assumptions used in the determination of the fair values.

- 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 judgment. In making this judgment, 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 asset 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. The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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.

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, with the exception of Zimbabwean entities' comparatives whose revenues and expenses were converted at the closing rate for 2008. 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 investments portfolio, 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 when 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 judgment 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. 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. Valuations of freehold properties are carried out annually by independent professional property valuers. 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. 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. 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.

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

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 fee, 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.

Financial risk management

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

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

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

Credit risk

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 Report" on page 91. 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 measurement

Loans and advances

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

Group's internal rating scale

Category	Description
Performing	the credit appears satisfactory
Special mention	the credit appears satisfactory but exhibits potential 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 realisable security, or more than 12 months in arrears

Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk in respect of individual counterparties and groups, and to industries and countries. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of Directors, and reviewed regularly. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. 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 counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

c) Credit related commitments

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

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

d) Derivatives

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

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

	2009		2008	
Category	**Loans and advances (%)**	**Impairments (%)**	**Loans and advances (%)**	**Impairments (%)**
Performing	74%	18%	89%	12%
Special mention	16%	6%	5%	6%
Sub-standard	2%	8%	2%	7%
Doubtful	2%	8%	1%	7%
Loss	6%	60%	3%	68%
	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 judgment 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.

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

BWP'000s	2009	2008
Placements with other banks	847,993	491,904
Derivative financial assets	7,970	44,411
Financial assets held for trading	880,740	659,587
– Government bonds	46,251	48,547
– Treasury bills	727,784	594,365
– Bankers acceptances and commercial paper	106,705	16,675
Loans and advances to customers at amortised cost	2,129,672	2,368,979
– Mortgage lending	17,530	16,876
– Instalment finance	418,735	581,413
– Corporate lending	1,377,515	1,492,425
– Commercial and property finance	63,822	31,293
– Micro finance lending	153,194	142,625
– Other loans and advances	98,876	104,347
Investment securities	34,832	31,521
– Promissory notes	34,832	31,161
– Unlisted investments	–	360
Prepayments and receivables	166,973	47,283
Current tax assets	3,913	5,496
	4,072,093	**3,649,181**
Credit exposures relating to off balance sheet items are as follows:		
Guarantees	244,637	239,745
Loan commitments and other credit related facilities	141,359	245,930
	385,996	**485,675**

52% (2008: 65%) of the total maximum exposure is derived from loans and advances, while 22% (2008: 18%) 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:

- 90% (2008: 94%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system;
- 74% (2008: 89%) of the loans and advances portfolio is considered to be neither past due nor impaired;
- 10% (2008: 6%) of 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	2009	2008
Neither past due nor impaired	1,589,132	2,114,351
Past due but not impaired	336,802	110,817
Individually impaired	203,738	143,811
Gross loans and advances	2,129,672	2,368,979
Less: Allowance for impairment	(134,347)	(119,076)
Net loans and advances	**1,995,325**	**2,249,903**

The total impairment of loans and advances is BWP134.3 million (2008: BWP119.1 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 2009, the Group's total gross loans and advances decreased by 10% (2008: increased by 74%) as a result of the effects of the global credit crisis, especially in Zambia. The Group focused on business with large corporate enterprises with good credit rating or small to medium enterprises providing sufficient collateral, and supporting its good clients through the credit crisis.

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	2009	2008
Mortgage lending	16,853	16,875
Instalment finance	322,339	519,142
Corporate lending	942,955	1,357,928
Commercial and property finance	62,639	4,229
Microfinance lending	148,963	114,349
Other	95,383	101,828
	1,589,132	**2,114,351**

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

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:

Internal grade: special mention

2009	**Days past due**			
BWP'000s	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Total**
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**

2008	**Days past due**			
BWP'000s	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Total**
Instalment finance	16,869	9,755	4,854	31,478
Corporate lending	43,703	3,771	4,819	52,293
Commercial and property finance	26,940	–	–	26,940
Other	106	–	–	106
	87,618	**13,526**	**9,673**	**110,817**

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 BWP203.7 million (2008: BWP143.8 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:

	2009			**2008**		
BWP'000s	**Gross loans**	**Fair value collateral**	**Under-collateral-isation***	**Gross loans**	**Fair value collateral**	**Under-collateral-isation***
Instalment finance	35,265	39,748	(4,483)	30,793	19,694	11,099
Corporate lending	160,893	89,091	71,802	82,205	44,606	37,599
Micro finance lending	4,231	–	4,231	28,276	–	28,276
Commercial and property finance	–	–	–	124	–	124
Other	3,349	22,707	(19,358)	2,413	1,337	1,076
	203,738	**151,546**	**52,192**	**143,811**	**65,637**	**78,174**

**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 management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled BWP43.9 million at 31 December 2009 (2008: BWP48.0 million).

BWP'000s	2009	2008
Mortgage lending	760	–
Instalment finance	–	27,450
Corporate lending	43,167	2,195
Other	–	18,381
	43,927	**48,026**

Repossessed collateral

During 2009, the Group obtained assets by taking possession of collateral held as security, as follows:

Nature of assets

BWP'000s	2009	2008
Property	5,931	5,239
Cash security	1,168	–
Motor vehicles	7,257	9,990
Carrying amount	**14,356**	**15,229**

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 2009.

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

2009 BWP'000s	Botswana	Mozam-bique	Tanzania	Zambia	Zimbabwe	Other	Total
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)	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 assets	780	–	–	3,133	–	–	3,913
	1,190,392	**725,469**	**737,154**	**418,875**	**663,766**	**202,090**	**3,937,746**

2008 BWP'000s	Botswana	Mozam-bique	Tanzania	Zambia	Zimbabwe	Other	Total
Placements with other banks	97,511	131,479	117,961	89,322	52,202	3,429	491,904
Financial assets held for trading	454,529	90,092	94,391	20,091	484	–	659,587
Derivative financial assets	–	–	–	–	–	44,411	44,411
Loans and advances (net)	460,572	323,779	566,167	485,327	398,712	15,346	2,249,903
Investment securities	31,161	–	–	360	–	–	31,521
Prepayments and other receivables	3,228	6,511	12,357	3,429	3,241	18,517	47,283
Current tax assets	1,490	–	981	3,025	–	–	5,496
	1,048,491	**551,861**	**791,857**	**601,554**	**454,639**	**81,703**	**3,530,105**

b) Industry sectors

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

2009 BWP'000s	Agriculture	Construction	Wholesale, retail and trade	Public sector	Manufacturing
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	–	–	–	–	–
At 31 December 2009	**314,410**	**166,664**	**313,185**	**76,463**	**220,280**

2008 BWP'000s	Agriculture	Construction	Wholesale, retail and trade	Public sector	Manufacturing
Placements with other banks	–	–	–	–	–
Financial assets held for trading	–	–	4	94,391	–
Derivative financial assets	–	–	–	–	–
Loans and advances	324,440	102,694	438,465	157,074	243,603
Investment securities	–	–	–	–	–
Prepayments and other receivables	–	–	1,316	–	–
Current tax assets	–	–	–	–	–
At 31 December 2008	**324,440**	**102,694**	**439,785**	**251,465**	**243,603**

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**

Mining	Financial services	Transport and energy	Individuals	Tourism	Other	Total
–	491,904	–	–	–	–	491,904
1	564,713	–	–	–	478	659,587
–	44,411	–	–	–	–	44,411
251,595	168,604	209,466	77,872	52,351	223,739	2,249,903
–	31,521	–	–	–	–	31,521
–	18,478	–	–	–	27,489	47,283
–	–	–	–	–	5,496	5,496
251,596	**1,319,631**	**209,466**	**77,872**	**52,351**	**257,202**	**3,530,105**

Market risk

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

Market and foreign currency exposures related to dealing positions are housed and managed in the Treasury division within a framework of pre-approved dealer, currency and counterparty limits. All trading positions are marked to market as required by IAS 39.

Group Risk is responsible for monitoring of limits and pricing, thereby ensuring that any errors or unauthorised transactions are promptly identified.

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

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 2009. 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 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 assets	–	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 assets	–	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 four values.*

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**

Concentration of currency risk: on and off balance sheet financial instruments:

At 31 December 2008 **BWP'000s**	**EUR**	**USD**	**BWP**	**ZAR**
Cash and short-term funds	766	219,701	112,068	13,992
Financial assets held for trading	451	3,491	452,131	(652)
Financial assets designated at fair value	–	–	–	–
Derivative financial assets	–	60,878	–	–
Loans and advances	22,172	1,068,958	478,218	20,345
Investment securities	–	27,852	31,161	–
Prepayments and other receivables	39	26,273	3,427	706
Current tax assets	–	–	1,490	–
Investment in associates	–	–	14,010	–
Property and equipment	–	–	9,977	30,360
Investment property	–	–	2,400	–
Intangible assets	–	–	35,546	–
Deferred tax assets	–	–	2,654	471
	23,428	**1,407,153**	**1,143,082**	**65,222**
Deposits	82,814	852,283	1,063,334	47,997
Derivative financial liabilities	–	126,066	–	–
Creditors and accruals	7,777	11,447	6,015	1,754
Current tax liabilities	–	–	1,485	–
Deferred tax liabilities	–	–	1,681	–
Borrowed funds	25,176	99,963	257,328	77
	115,767	**1,089,759**	**1,329,843**	**49,828**
Net on balance sheet position	**(92,339)**	**317,394**	**(186,761)**	**15,394**
Credit commitments	**27,953**	**249,988**	**104,086**	**34,808**

ZWD	TZS	ZMK	MZN	JPY	Other	Total
(7,228)	58,846	60,053	29,041	–	25,811	513,050
150	94,391	20,091	89,285	–	249	659,587
26,100	–	–	–	–	–	26,100
–	–	–	–	163,809	(180,276)	44,411
18,990	244,489	185,528	211,203	–	–	2,249,903
–	8,388	360	–	–	–	67,761
1,321	12,344	3,040	133	–	–	47,283
–	981	3,025	–	–	–	5,496
22,945	4,304	–	–	–	–	41,259
122,365	3,041	14,098	37,101	–	–	216,942
45,232	–	–	–	–	–	47,632
–	1,312	1,503	4,258	–	–	42,619
–	2,770	–	–	–	–	5,895
229,875	**430,866**	**287,698**	**371,021**	**163,809**	**(154,216)**	**3,967,938**
35,847	318,025	108,677	313,375	–	–	2,822,352
–	30,896	25,594	–	–	(180,339)	2,217
(1,198)	7,319	1,972	2,768	–	–	37,854
2,061	17	1,941	527	–	–	6,031
38,875	–	416	2,190	–	–	43,162
–	28,434	25,027	–	163,809	–	599,814
75,585	**384,691**	**163,627**	**318,860**	**163,809**	**(180,339)**	**3,511,430**
154,290	**46,175**	**124,071**	**52,161**	**–**	**26,123**	**456,508**
–	**34,300**	**20,180**	**14,360**	**–**	**–**	**485,675**

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 result in losses in the event that unexpected movements arise. The 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 the Group's 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.

2009 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	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 assets	–	–	–	–	–	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 assets	–	–	–	–	–	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 liabilities	–	–	–	–	–	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 re-pricing gap	**(423,067)**	**92,695**	**(31,357)**	**45,629**	**(253,386)**	**253,386**	**–**

2008 BWP'000s	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Total interest sensitive	Non-interest bearing	Total
Assets	1,074,942	749,549	832,899	833,803	3,491,193	476,745	3,967,938
Equity	–	–	–	–	–	456,508	456,508
Liabilities	1,876,502	749,439	293,881	505,201	3,425,023	86,407	3,511,430
Total interest re-pricing gap	**(801,560)**	**110**	**539,018**	**328,602**	**66,170**	**(66,170)**	**–**

Included in non-interest earning assets are equities, investment securities, investment properties, investment in associates, property and equipment and deferred tax assets.

Interest rate sensitivity analysis

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

BWP'000s	2009	2008
BancABC Botswana		
ABC Botswana constituted 35% of the Group's total assets.		
Change in net interest income (+50 basis points)	1,746	797
As a percentage of total shareholders' equity	1.88%	1.00%
Change in net interest income (-50 basis points)	(1,746)	(797)
As a percentage of total shareholders' equity	-1.88%	-1.00%
BancABC Zambia		
ABC Zambia constituted 9% of the Group's total assets.		
Change in net interest income (+50 basis points)	(84)	342
As a percentage of total shareholders' equity	-9.09%	0.30%
Change in net interest income (-50 basis points)	84	(342)
As a percentage of total shareholders' equity	9.09%	-0.30%
BancABC Mozambique		
ABC Mozambique constituted 19% of the Group's total assets		
Change in net interest income (+50 basis points)	19	(228)
As a percentage of total shareholders' equity	0.00%	-0.20%
Change in net interest income (-50 basis points)	(19)	228
As a percentage of total shareholders' equity	0.00%	0.20%
BancABC Tanzania		
ABC Tanzania constituted 16% of the Group's total assets		
Change in net interest income (+50 basis points)	(778)	(120)
As a percentage of total shareholders' equity	0.80%	-0.10%
Change in net interest income (-50 basis points)	778	120
As a percentage of total shareholders' equity	0.80%	0.10%
BancABC Zimbabwe		
ABC Zimbabwe constituted 11% of the Group's total assets		
Change in net interest income (+50 basis points)	668	812
As a percentage of total shareholders' equity	0.40%	0.70%
Change in net interest income (-50 basis points)	(668)	(1,770)
As a percentage of total shareholders' equity	-0.40%	-1.50%

The interest rate sensitivity analyses set out in the table above are illustrative only and are based on simplified scenarios.

Sensitivity analysis of market price

The Group holds, directly or through its associates, listed equities with a fair value of BWP42.3 million (2008: BWP26.1 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 letter of credit and guarantees.

The Group's maturity analysis (on a discounted cash flow basis) as at 31 December 2009 was as follows:

2009 BWP'000s	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 assets	–	–	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 assets	–	–	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**	**–**

2008 BWP'000s	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total
Cash and short-term funds	443,562	10,373	26,714	32,401	513,050
Financial assets held for trading	248,161	331,369	68,386	11,671	659,587
Financial assets designated at fair value	26,100	–	–	–	26,100
Derivative assets	–	(180,277)	–	224,688	44,411
Loans and advances	401,744	401,330	960,895	485,934	2,249,903
Investment securities	360	–	–	67,401	67,761
Prepayments and other receivables	13,481	695	12,895	20,212	47,283
Current tax assets	3,026	–	–	2,470	5,496
Investment in associates	15	–	–	41,244	41,259
Property and equipment	–	–	–	216,942	216,942
Investment property	–	–	–	47,632	47,632
Intangible assets	–	–	–	42,619	42,619
Deferred tax assets	–	–	2,654	3,241	5,895
Total assets	**1,136,449**	**563,490**	**1,071,544**	**1,196,455**	**3,967,938**
Shareholders' equity and liabilities					
Equity	**–**	**–**	**–**	**456,508**	**456,508**
Liabilities					
Deposits	1,875,799	684,330	253,873	8,350	2,822,352
Derivative financial liabilities	–	2,217	–	–	2,217
Creditors and accruals	10,796	8,174	3,293	15,591	37,854
Current tax liabilities	3,473	1,073	1,485	–	6,031
Deferred tax liabilities	–	–	–	43,162	43,162
Borrowed funds	5	27,394	75,544	496,871	599,814
	1,890,073	**723,188**	**334,195**	**1,020,482**	**3,967,938**
Net maturity gap	**(753,624)**	**(159,698)**	**737,349**	**175,973**	**–**

Funding approach

Sources of liquidity are regularly reviewed by the ALCO to maintain a wide diversification by currency, geography, provider, product and term.

Non-derivative cash flows

The table below presents the cash flows payable by the Group under non-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 cash flow, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows:

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**

2008 BWP'000s	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 Dec 2008
Deposits	1,895,709	683,719	261,579	8,350	2,849,357	(27,005)	2,822,352
Creditors and accruals	22,194	8,102	2,212	5,346	37,854	–	37,854
Current tax liabilities	3,473	1,073	1,485	–	6,031	–	6,031
Deferred tax liabilities	–	–	1,683	41,479	43,162	–	43,162
Borrowed funds	519	36,674	164,889	831,307	1,033,389	(433,575)	599,814
Total liabilities	**1,921,895**	**729,568**	**431,848**	**886,482**	**3,969,793**	**(460,580)**	**3,509,213**

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 cash flow, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows:

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
Derivative financial liabilities	572	3,101	28,667	184,404	216,744	(214,789)	1,955

2008 BWP'000s	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 Dec 2008
Derivative financial liabilities	–	2,867	26,759	179,843	209,469	(207,252)	2,217

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 2009:

	2009				2008			
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	–	880,740	–	880,740	–	659,587	–	659,587
Financial assets designated at fair value	17,905	–	–	17,905	26,100	–	–	26,100
Derivative financial assets	–	7,970	–	7,970	–	44,411	–	44,411
Investment property	–	25,851	–	25,851	–	47,632	–	47,632
Total assets at fair value	**17,905**	**914,561**	**–**	**932,466**	**26,100**	**751,630**	**–**	**777,730**
Derivative financial liabilities	–	1,955	–	1,955	–	2,217	–	2,217
Total liabilities at fair value	**–**	**1,955**	**–**	**1,955**	**–**	**2,217**	**–**	**2,217**

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.

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 have therefore not been included in the level 3 analysis above, but are analysed as follows:

	December 2009				December 2008			
BWP'000s	**Trading securities**	**Trading derivatives**	**Equity investments**	**Total at fair value**	**Trading securities**	**Trading derivatives**	**Equity investments**	**Total at fair value**
Opening balance	–	–	36,600	36,600	–	–	720	720
Purchases	–	–	1,474	1,474	–	–	36,240	36,240
Settlements	–	–	(4,989)	(4,989)	–	–	–	–
Exchange rate adjustment	–	–	(4,740)	(4,740)	–	–	–	–
Transfers out of level 3	–	–	(13,895)	(13,895)	–	–	(360)	(360)
Closing balance	**–**	**–**	**14,450**	**14,450**	**–**	**–**	**36,600**	**36,600**

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:

	2009			2008		
BWP'000s	**Carrying value**	**Fair value**	**Unrecognised profit/(loss)**	**Carrying value**	**Fair value**	**Unrecognised profit/(loss)**
Borrowed funds	543,822	643,171	(99,349)	599,814	647,554	(47,740)

Financial instruments not measured at fair value are as follows:

i) Placements with other banks

Placements with other banks include interbank 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 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	2009	2008
a) Contingent liabilities		
Guarantees	244,637	239,745
Letters of credit, loan commitments and other contingent liabilities	141,359	245,930
	385,996	**485,675**
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 2009, are summarised below:		
Less than one year	324,719	349,201
Between one and five years	61,277	136,474
	385,996	**485,675**
b) Capital commitments		
Approved and contracted for	57,721	69,803
Approved but not contracted for	64,402	63,979
	122,123	**133,782**
c) Non-cancellable operating leases commitments		
Future minimum lease payments under non-cancelled operating leases are as follows:		
Office premises	56,182	42,828
Equipment and motor vehicles	2,098	324
	58,280	**43,152**
Non-cancellable operating leases are payable as follows:		
Less than one year	10,345	9,980
Between one and five years	20,627	18,790
Over five years	27,308	14,382
	58,280	**43,152**

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 2009 all regulated banking operations complied with all externally imposed capital requirements.

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

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

2009 BWP'000s	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	–	–	–	–	(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	–	–	–
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%

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

2008 BWP'000s	BancABC Botswana	BancABC Zimbabwe	BancABC Zambia	Microfin	BancABC Tanzania	BancABC Mozambique
Tier I capital						
Share capital and premium	34,070	66,418	40,413	3,717	128,973	41,512
Capital reserves and retained earnings	47,965	(40,927)	2,854	9,612	(21,436)	52,448
Allocation for market and operational risk	–	(4)	–	–	–	–
Exposures to insiders	–	–	–	–	(5,902)	–
Total qualifying for Tier I capital	**82,035**	**25,487**	**43,267**	**13,329**	**101,635**	**93,960**
Tier II capital						
Shareholder's loan	31,977	–	38,686	7,539	–	40,583
General debt provision	9,834	1	–	–	–	–
Revaluation reserve	–	–	–	–	–	12,160
Revaluation reserves (limited to Tier I capital)	–	25,486	–	–	–	–
Total qualifying for Tier II capital	**41,811**	**25,487**	**38,686**	**7,539**	**–**	**52,743**
Tier III capital						
Allocation for market and operational risk	–	4	–	–	–	–
Total qualifying for Tier III capital	**–**	**4**	**–**	**–**	**–**	**–**
Total capital	**123,846**	**50,978**	**81,953**	**20,868**	**101,635**	**146,703**
Risk weighted assets*						
On balance sheet assets	739,251	196,187	354,416	94,400	597,774	439,641
Off balance sheet assets	59,128	75,386	11,090	–	36,331	13,742
Total risk weighted assets	**798,379**	**271,573**	**365,506**	**94,400**	**634,105**	**453,382**
Capital adequacy ratio	16%	19%	22%	22%	16%	32%
Minimum regulatory capital adequacy ratio	15%	10%	10%	17%	12%	8%

**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 in 2009 is mainly due to 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

The financial year 2009 segment reporting of the Group was prepared for the first time in accordance with IFRS 8, 'Operating segments'. Segment information for 2008 that is reported as comparative information for 2009 has been restated to conform to the requirements of IFRS 8.

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-banking operations arising from ABC Holdings Limited and its 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 standalone banks, each banking operation is funded with Tier I and Tier II capital from ABC Holdings Limited. Interest is charged at rates disclosed in the ABC Holdings Limited Company stand alone financial statements note 14. 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 are 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 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
Operating profit	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
Other non-cash (income)/expenses	–	–	(283)	(67,322)	(319)	13,994	13,015	(40,915)
Operating expenses	46,778	53,539	40,280	62,411	76,481	86,205	–	365,694

**Prior to eliminations.*

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 31 December 2008 is as follows:

2008 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*	18,931	33,250	30,904	62	55,356	1,527	–	140,030
Total income	60,476	61,106	51,875	36,306	67,434	96,960	(18,001)	356,156
Operating profit	17,851	19,906	17,473	36,297	(4,337)	50,084	(18,001)	119,273
Share of results of associates	–	–	–	–	–	2,300	–	2,300
Profit before tax	17,851	19,906	17,473	36,297	(4,337)	52,384	(18,001)	121,573
Tax	(4,658)	(3,262)	(6,718)	(10,959)	(2,886)	(5,159)	–	(33,642)
Profit for the year	**13,193**	**16,644**	**10,755**	**25,338**	**(7,223)**	**47,225**	**(18,001)**	**87,931**
Attributable profit	**13,193**	**16,644**	**10,096**	**25,338**	**(7,223)**	**43,658**	**(15,888)**	**85,818**
Financial assets held for trading	454,529	90,092	94,391	1,275	10,149	9,151	–	659,587
Loans and advances	739,143	323,779	565,038	20,654	456,753	144,536	–	2,249,903
Segment assets (excluding associates)	1,309,517	648,736	773,550	240,963	581,508	964,084	(591,679)	3,926,679
Associates	–	–	2,123	–	–	40,650	(1,514)	41,259
Total assets	**1,309,517**	**648,736**	**775,673**	**240,963**	**581,508**	**1,004,734**	**(593,193)**	**3,967,938**
Deposits	1,323,835	614,783	544,583	96,427	242,640	86	–	2,822,352
Borrowed funds	75,484	–	(14)	–	65,907	458,437	–	599,814
Segment liabilities	**1,195,505**	**490,961**	**692,312**	**117,804**	**455,778**	**558,905**	**165**	**3,511,430**
Other segment items:								
Capital expenditure	6,627	8,849	1,713	18	5,291	30,599	–	53,097
Depreciation	950	2,808	987	–	3,500	568	–	8,812
Amortisation	510	229	356	–	834	–	–	1,929
Impairment charge	22,458	1,045	36	1	18,205	2,621	–	44,365
Other non-cash (income)/expenses	–	(24)	–	(107,952)	1,142	26,092	(3,759)	(84,501)
Operating expenses	42,626	41,200	34,402	45	71,772	45,408	–	236,941

**Prior to eliminations.*

Consolidated Group financial statements

Consolidated income statement

for the year ended 31 December 2009

BWP'000s	Notes	2009	2008
Interest and similar income		502,311	456,474
Interest expense and similar charges		(323,917)	(272,079)
Net interest income before impairment of advances	1	**178,394**	**184,395**
Impairment of loans and advances	2	(51,218)	(44,365)
Net interest income after impairment of advances		**127,176**	**140,030**
Non-interest income	3	265,017	216,126
Total income		**392,193**	**356,156**
Operating expenditure	4	(365,694)	(236,941)
Gain on net monetary position		–	58
Net income from operations		**26,499**	**119,273**
Share of results of associates	13	16,164	2,300
Profit before tax		**42,663**	**121,573**
Tax	5	15,768	(33,642)
Profit for the year		**58,431**	**87,931**
Attributable to:			
Ordinary shareholders		58,117	85,818
Minorities		314	2,113
Profit for the year		**58,431**	**87,931**
Earnings per share (thebe)	6	40.4	60.2
Dividend per share (thebe)		–	8.0

Consolidated statement of comprehensive income

for the year ended 31 December 2009

BWP'000s	2009	2008
Profit for the year	**58,431**	**87,931**
Other comprehensive income	**(99,160)**	**12,802**
Exchange differences on translating foreign operations	(78,090)	(97,173)
Revaluation of property	(38,277)	134,483
Net investment hedge	–	(13)
Share of reserves in associate companies	112	–
Movement in available-for-sale reserves	1,051	(30)
Income tax relating to components of other comprehensive income	16,044	(24,465)
Total comprehensive income for the year	**(40,729)**	**100,733**
Total comprehensive income attributable to:		
Ordinary shareholders	(38,585)	92,552
Minorities	(2,144)	8,181
	(40,729)	**100,733**

Consolidated balance sheet

as at 31 December 2009

BWP'000s	Notes	2009	2008
ASSETS			
Cash and short-term funds	7	881,884	513,050
Financial assets held for trading	8	880,740	659,587
Financial assets designated at fair value	9	17,905	26,100
Derivative financial assets	21	7,970	44,411
Loans and advances	10	1,995,325	2,249,903
Investment securities	12	49,282	67,761
Prepayments and other receivables	11	166,973	47,283
Current tax assets		3,913	5,496
Investment in associates	13	40,946	41,259
Property and equipment	15	278,975	216,942
Investment property	14	25,851	47,632
Intangible assets	17	50,421	42,619
Deferred tax assets	16	17,560	5,895
TOTAL ASSETS		**4,417,745**	**3,967,938**
EQUITIES AND LIABILITIES			
Liabilities			
Deposits	18	3,355,118	2,822,352
Derivative financial liabilities	21	1,955	2,217
Creditors and accruals	20	83,676	37,854
Current tax liabilities		6,529	6,031
Deferred tax liabilities	16	10,866	43,162
Borrowed funds	19	543,822	599,814
		4,001,966	**3,511,430**
Equity			
Stated capital	22	307,586	307,586
Foreign currency translation reserve		(298,715)	(223,083)
Non-distributable reserves		144,009	162,258
Distributable reserves		246,189	190,893
Equity attributable to ordinary shareholders		**399,069**	**437,654**
Minority interest		16,710	18,854
Total equity		**415,779**	**456,508**
TOTAL EQUITY AND LIABILITIES		**4,417,745**	**3,967,938**

Consolidated statements of changes in equity

for the year ended 31 December 2009

	Attributable to owners of the parent			
BWP'000s	**Stated capital**	**Foreign currency translation reserve**	**Regulatory general credit risk reserve**	**Property revaluation reserve**
Balance as at 1 January 2008	**270,189**	**(119,842)**	**289**	**28,750**
Comprehensive income:				
Profit for the year	–	–	–	–
Other comprehensive income:	–	(103,241)	4,536	110,018
Foreign currency translation differences		(103,241)	–	–
Revaluation of property net of deferred tax	–	–	–	110,018
Movement in general credit risk reserve	–	–	4,536	
Net investment hedging reserve	–	–	–	–
Movement in statutory reserves	–	–	–	–
Movement in available-for-sale reserves:	–	–	–	–
– Arising in current year	–	–	–	–
TOTAL COMPREHENSIVE INCOME	**–**	**(103,241)**	**4,536**	**110,018**
Transactions with owners:				
Shares issued	37,397			
Purchase of shares from minorities	–	–	–	–
Disposal of treasury shares	–	–	–	–
Dividend	–	–	–	–
TOTAL TRANSACTIONS WITH OWNERS	**37,397**	**–**	**–**	**–**
Balance as at 31 December 2008	**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**

Attributable to owners of the parent							
Available-for-sale reserve	Statutory reserve	Hedging reserve	Treasury shares reserve	Distributable reserves	Total	Minority interest	Total equity
1,584	**21,966**	**(2,889)**	**(2,933)**	**138,746**	**335,860**	**12,386**	**348,246**
–	–	–	–	85,818	85,818	2,113	87,931
(1,907)	2,498	(13)	–	(5,157)	6,734	6,068	12,802
–	–	–	–	–	(103,241)	6,068	(97,173)
–	–	–	–	–	110,018	–	110,018
–	–	–	–	(4,536)	–	–	–
–	–	(13)	–	–	(13)	–	(13)
–	2,498	–	–	(2,498)	–	–	–
–	–	–	–	–	–	–	–
(1,907)	–	–	–	1,877	(30)	–	(30)
(1,907)	**2,498**	**(13)**	**–**	**80,661**	**92,552**	**8,181**	**100,733**
					37,397		37,397
–	–	–	–	1,713	1,713	(1,713)	–
–	–	–	359	–	359	–	359
–	–	–	–	(30,227)	(30,227)	–	(30,227)
–	**–**	**–**	**359**	**(28,514)**	**9,242**	**(1,713)**	**7,529**
(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**

Consolidated cash flow statement

for the year ended 31 December 2009

BWP'000s	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES	**474,649**	**57,267**
Cash generated from operating activities	69,290	92,178
Net profit before tax	**42,663**	**121,573**
Adjusted for:		
Impairment of loans and advances	51,218	44,365
Depreciation and amortisation	16,324	10,741
Hedging reserve	–	(13)
Net losses/(gains) on derivative financial instruments	9,670	(38,585)
Fair value losses/(gains) on investment properties	14,610	(45,861)
Profit on disposal of associate	(56,332)	–
Profit on disposal of property and equipment	(8,863)	(42)
Tax paid	(8,484)	(5,422)
Net cash inflow from operating activities before changes in operating funds	60,806	86,756
Net increase/(decrease) in operating funds	**413,843**	**(29,489)**
Increase in operating assets	(544,510)	(894,981)
Increase in operating liabilities	958,353	865,492
CASH FLOWS FROM INVESTING ACTIVITIES	**(83,197)**	**(62,583)**
Purchase of property and equipment	(163,877)	(51,836)
Purchase of intangible assets	(12,021)	(11,267)
Proceeds on disposal of property and equipment	10,227	520
Proceeds on disposal of associate	82,474	–
CASH FLOWS FROM FINANCING ACTIVITIES	**(53,324)**	**36,137**
Proceeds from issue of shares	–	37,397
(Decrease)/increase in borrowed funds	(53,324)	28,967
Dividends paid	–	(30,227)
Increase in cash and cash equivalents	**338,128**	**30,821**
Cash and cash equivalents at the beginning of the year	420,508	446,256
Exchange adjustment on opening balance	(56,870)	(56,569)
Cash and cash equivalents at the end of the year	**701,766**	**420,508**
Cash and cash equivalents	701,766	420,508
Statutory reserves	180,118	92,542
Cash and short-term funds	**881,884**	**513,050**

Notes to the financial statements

for the year ended 31 December 2009

BWP'000s	2009	2008
1. NET INTEREST INCOME		
Interest and similar income		
Cash and short-term funds	75,665	49,188
Investment securities at amortised cost	82,501	98,921
Loans and advances at amortised cost	344,145	308,365
	502,311	**456,474**
Interest expense		
Deposits	224,375	189,954
Borrowed funds	99,542	82,125
	323,917	**272,079**
Net interest income	**178,394**	**184,395**
Interest income suspended on impaired financial assets amounts to BWP4,674 million (2008: BWP2,172 million).		
2. IMPAIRMENT OF LOANS AND ADVANCES		
Specific impairments	52,430	33,331
Portfolio impairments	(855)	12,784
Impairments prior to recoveries	51,575	46,115
Recoveries of loans and advances previously written off	(357)	(1,750)
	51,218	**44,365**
3. NON-INTEREST INCOME		
Gains from trading activities:	41,777	64,412
Gains on financial assets at fair value through profit and loss	51,447	25,827
– held for trading	13,211	(142)
– designated at fair value	38,236	25,969
Net (losses)/gains on derivative financial instruments*	(9,670)	38,585
Dividends received:	450	3,342
Listed shares – fair value through profit or loss	83	–
Unlisted shares – fair value through profit or loss	367	3,342
Fee and commission income:	53,782	70,430
Net fee income on loans and advances	53,923	45,074
Net fee income from trust and fiduciary activities	5,954	2,061
Claims in respect of project finance transaction	(30,231)	–
Cash transaction fees	9,762	–
Other fee income	14,374	23,295
Other non-interest income:	169,008	77,942
Money market trading income	33	594
Fair value (losses)/gains on investment properties at fair value (Note 14)	(14,610)	45,861
Rental and other income	2,604	1,984
Profit on disposal of property and equipment	8,863	42
Forex trading income and currency revaluation*	115,786	29,448
Profit on disposal of associate	56,332	–
Net gains on hedging activities	–	13
	265,017	**216,126**

**Foreign exchange income includes a foreign exchange profit of BWP21 million (2008: loss of BWP62 million) arising from the Japanese Yen exposure with NDB, disclosed in note 19. Net profit on derivative instruments includes an offsetting fair value gain arising from an equal but opposite nominal Japanese Yen derivative asset.*

BWP'000s		2009	2008
4.	**OPERATING EXPENDITURE**		
	Administrative expenses	151,061	84,005
	Property lease rentals	13,213	8,578
	Staff costs (note 4.1)	173,864	121,646
	Auditor's remuneration	4,291	4,255
	Depreciation (note 15)	13,868	8,812
	Amortisation of software (note 17)	2,456	1,929
	Directors remuneration (note 4.2)	6,941	7,716
		365,694	**236,941**
4.1	**Staff costs**		
	Salaries	126,251	96,618
	Employer contributions to post-retirement funds	12,429	3,287
	Other staff costs	35,184	21,741
		173,864	121,646
	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	4,137	5,273
	Non-executive directors		
	Fees as director of holding company	2,120	1,787
	Fees as director of subsidiaries	684	656
		2,804	2,443
		6,941	7,716
5.	**TAX**		
	Current tax expense		
	Current year	11,647	5,460
	Under/(over) provision in prior years	–	1,316
	Bank levies	235	2,035
		11,882	**8,811**
	Deferred tax		
	Accruals	429	208
	Impairment losses	(1,410)	1,777
	Property and equipment	3,636	22,455
	Gains and investments	(17,531)	(6,801)
	Tax losses	(12,774)	7,192
		(27,650)	**24,831**
	Total tax (income)/expense per income statement	**(15,768)**	**33,642**
	Reconciliation of effective tax charge:		
	Profit before tax	**42,663**	**121,573**
	Income tax using corporate tax rates	24,715	44,564
	Non-deductible expenses	3,841	3,107
	Tax exempt revenues	(19,238)	(13,852)
	Tax incentives	(8,649)	(3,528)
	Under/(over) provision in prior years	–	1,316
	Bank levies	235	2,035
	Rate change	(16,672)	–
	Current tax expense per income statement	**(15,768)**	**33,642**
	Effective tax rate	**-37%**	**28%**

5. TAX (continued)

5.1 Income tax effects relating to components of other comprehensive income

BWP'000s	2009 Before tax	2009 Tax (charge)/ credit	2009 After tax	2008 Before tax	2008 Tax (charge)/ credit	2008 After tax
Exchange differences on translating foreign operations	(78,090)	–	(78,090)	(97,173)	–	(97,173)
Revaluation of property net of deferred tax	(38,277)	16,044	(22,233)	134,483	(24,465)	110,018
Net investment hedge	–	–	–	(13)	–	(13)
Share of reserves in associate companies	112	–	112	–	–	–
Movement in available-for-sale reserves	1,051	–	1,051	(30)	–	(30)
Other comprehensive income	**(115,204)**	**16,044**	**(99,160)**	**37,267**	**(24,465)**	**12,802**

BWP'000s	2009	2008
6. EARNINGS PER SHARE		
Basic earnings per share		
Profit attributable to ordinary shareholders ('000s)	58,117	85,818
Weighted average number of ordinary shares in issue ('000s)	143,846	142,635
Basic earnings per share (thebe)	**40.4**	**60.2**
Number of shares ('000s)		
Shares in issue at beginning of the year	146,420	132,569
Ordinary shares issued during the year	–	13,851
Total Company	**146,420**	**146,420**
Recognised as treasury shares	(2,574)	(2,574)
Total Group	**143,846**	**143,846**
Weighted average number of ordinary shares	**143,846**	**142,635**
7. CASH AND SHORT-TERM FUNDS		
Cash on hand	33,890	21,146
Balances with central banks	42,283	55,619
Balances with other banks	625,593	343,743
Cash and cash equivalents	701,766	420,508
Statutory reserve balances	180,118	92,542
	881,884	**513,050**
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	46,251	48,547
Treasury bills and other open market instruments	727,784	594,365
Bankers acceptances and commercial paper	106,705	16,675
	880,740	**659,587**
All financial assets held for trading are carried at fair value.		
9. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE		
Listed equities	17,905	26,100
	17,905	**26,100**

BWP'000s	2009	2008
10. LOANS AND ADVANCES		
Mortgage lending	17,530	16,876
Instalment finance	418,735	581,413
Corporate lending	1,377,515	1,492,425
Commercial and property finance	63,822	31,293
Microfinance lending	153,194	142,625
Other loans and advances	98,876	104,347
	2,129,672	2,368,979
Less impairments (Note 10.2)	(134,347)	(119,076)
Net loans and advances	**1,995,325**	**2,249,903**
10.1 Analysis of impairments		
Specific impairments	121,623	75,591
Portfolio impairments	12,724	43,485
	134,347	**119,076**

10.2 Impairment of loans and advances – movement analysis

BWP'000s	Total impair-ments	Mortgage lending	Instal-ment finance	Corporate lending	Commer-cial and property finance	Micro-finance lending	Other
2009							
Opening balance	119,076	2,064	27,620	73,786	995	12,574	2,037
Exchange 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	Total impair-ments	Mortgage lending	Instal-ment finance	Corporate lending	Commer-cial and property finance	Micro-finance lending	Other
2008							
Opening balance	115,634	1,430	14,871	79,864	20	15,855	3,594
Exchange and inflation adjustment	2,641	(7)	2,295	4,464	–	(1,090)	(3,021)
Reclassifications	–	641	–	(786)	(21)	–	166
Bad debts written off	(47,486)	–	(1,369)	(33,845)	–	(12,272)	–
Net new impairments created (Note 2)	46,115	–	12,609	21,271	996	10,081	1,158
Impairments created	52,605	–	12,609	27,761	996	10,081	1,158
Impairments released	(6,490)	–	–	(6,490)	–	–	–
Suspended interest	2,172	–	(786)	2,818	–	–	140
Closing balance	**119,076**	**2,064**	**27,620**	**73,786**	**995**	**12,574**	**2,037**

BWP'000s	2009	2008
11. PREPAYMENTS AND OTHER RECEIVABLES		
Accounts receivable and prepayments	157,712	33,651
Security deposits	3,408	11,519
Other amounts due	5,853	2,113
	166,973	**47,283**
All prepayments and other receivables are classified as current.		
12. INVESTMENT SECURITIES		
Available-for-sale	14,450	36,600
– Unlisted equities	14,450	36,240
– Unlisted investments	–	360
Held-to-maturity		
– Promissory notes	34,832	31,161
	49,282	**67,761**
13. INVESTMENT IN ASSOCIATES		
Carrying value at the beginning of the year	41,259	47,024
Exchange rate and inflation adjustment	27,076	(17,837)
Reclassification during the year	1,612	–
Share of profits	18,376	2,300
Tax	(2,212)	–
Disposals (also see note 29)	(45,984)	–
Additions	819	9,772
	40,946	**41,259**

13.1 Analysis of investment in associates

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

BWP'000s	Country of incorporation	Assets	Liabilities	Carrying amount	Goodwill	Profit/ (loss)	% interest held	Reporting date
2009								
Lion of Tanzania Insurance Company Limited	Tanzania	23,097	18,783	4,415	102	–	38%	31 December
PG Industries (Botswana) Limited	Botswana	17,376	13,012	12,691	8,327	(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	80	(52)	24%	31 December
Quest Ventures (Pty) Limited	Botswana	24,390	2,234	22,156	–	23,147	49%	31 December
		67,199	**34,762**	**40,946**	**8,509**	**16,164**		

13.1 Analysis of investment in associates (continued)

BWP'000s	Country of incorporation	Assets	Liabilities	Carrying amount	Goodwill	Profit/ (loss)	% interest held	Reporting date
2008								
Lion of Tanzania Insurance Company Limited	Tanzania	15,685	11,483	4,304	102	–	38%	31 December
PG Industries (Botswana) Limited	Botswana	24,466	18,231	14,562	8,327	2,300	31%	31 March
PG Industries (Zimbabwe) Limited	Zimbabwe	–	–	15	15	–	21%	31 March
Star Africa Corporation Limited*	Zimbabwe	12,392	8,064	22,378	18,050	–	26%	31 March
		52,543	**37,778**	**41,259**	**26,494**	**2,300**		

**IFRS compliant management accounts not available.*

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

BWP'000s	2009	2008
PG Industries (Zimbabwe) Limited (Held by Quest Ventures in 2009)	23,147	3,299
Star Africa Corporation Limited	–	57,827

14. INVESTMENT PROPERTY

	2009	2008
Balance at the beginning of the year	47,632	28,402
Exchange and inflation adjustment	(5,671)	(26,631)
Disposal	(1,500)	–
(Decrease)/increase in fair value (note 3)	(14,610)	45,861
Balance at end of the year	**25,851**	**47,632**
Rental income recognised in the income statement	**1,344**	**112**

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.

15. PROPERTY AND EQUIPMENT

BWP'000s	Land and buildings	Motor vehicles	Computer and office equipment	Furniture and fittings	Total
Cost or valuation at 31 December 2008	186,986	6,565	36,854	17,891	248,296
Exchange adjustment	(17,407)	(692)	(1,604)	919	(18,784)
Additions	91,858	5,109	29,311	6,301	132,579
Revaluations surplus (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 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**
Cost or valuation at 31 December 2007	43,675	5,153	22,695	16,145	87,668
Exchange and inflation adjustments	(25,935)	662	585	(2,052)	(26,740)
Additions	33,537	1,977	13,592	3,990	53,096
Revaluations surplus (gross of deferred tax)	135,709	–	–	–	135,709
Disposals	–	(1,227)	(18)	(192)	(1,437)
Cost or valuation at 31 December 2008	186,986	6,565	36,854	17,891	248,296
Accumulated depreciation at 31 December 2007	(2,157)	(2,343)	(14,299)	(7,063)	(25,862)
Exchange and inflation adjustments	810	(206)	(525)	2,415	2,494
Disposals	–	626	15	185	826
Charge for the year	(901)	(1,481)	(4,704)	(1,726)	(8,812)
Accumulated depreciation at 31 December 2008	(2,248)	(3,404)	(19,513)	(6,189)	(31,354)
Carrying amount at 31 December 2008	**184,738**	**3,161**	**17,341**	**11,702**	**216,942**

On 31 December 2009, buildings situated in Zimbabwe were revalued by independent professional valuers based on open market values of the properties at BWP66.4 million.

BWP'000s	2009	2008
Carrying amount of revalued land and buildings had it not been revalued	23,345	–

BWP'000s		2009	2008
16.	**DEFERRED TAX**		
	Balance at the beginning of the year	37,267	12,436
	Exchange and inflation adjustments	(313)	(26,921)
	Income statement charge (Note 5)	(27,650)	24,831
	Deferred tax on amounts charged to equity	(15,998)	26,921
		(6,694)	**37,267**
	Disclosed as follows:		
	Deferred tax asset	(17,560)	(5,895)
	Deferred tax liability	10,866	43,162
		(6,694)	**37,267**
	Tax effects of temporary differences:		
	Accruals	(3,196)	(2,618)
	Impairment losses	998	1,777
	Property and equipment	2,930	26,442
	Unrealised gains on investment	515	15,152
	Revaluation surplus	5,633	–
	Tax losses	(13,574)	(3,486)
		(6,694)	**37,267**
17.	**INTANGIBLE ASSETS**		
	Goodwill	32,544	32,544
	Software	17,877	10,075
		50,421	**42,619**
	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)	22,727	13,584
	Exchange rate and inflation adjustment	(587)	(2,124)
	Additions	12,021	11,267
		34,161	22,727
	Amortisation		
	Balance at the beginning of the year	(12,652)	(12,796)
	Exchange and inflation adjustment	(1,176)	2,073
	Amortisation charge (Note 4)	(2,456)	(1,929)
		(16,284)	(12,652)
	Carrying amount at the end of the year	17,877	10,075

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 flows growth of 17% per annum for 5 years (2008: 10% per annum for 3 years)
- Terminal value based on 5% long-term cash flow growth rate (2008: 10% per annum for 3 years)
- Weighted average cost of capital of 14.88% (2008: 20.2%)

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	2009	2008
18. DEPOSITS		
Deposits from banks	390,249	421,671
Deposits from other customers	2,932,178	2,343,056
Deposits under repurchase agreements	32,691	57,625
	3,355,118	**2,822,352**
Payable on demand		
Corporate customers	747,371	672,054
Public sector	135,158	12,359
Private banking customers	102,845	163,612
Other financial institutions	23,556	7,515
Banks	129,050	165,572
	1,137,980	1,021,112
Term deposits		
Corporate customers	1,020,379	716,282
Public sector	800,516	722,891
Private banking customers	48,961	38,109
Other financial institutions	86,082	67,859
Banks	261,200	256,099
	2,217,138	1,801,240
	3,355,118	**2,822,352**
Geographical analysis		
Botswana	1,394,993	1,280,265
Mozambique	812,498	614,790
Tanzania	676,939	544,583
Zambia	209,721	242,706
Zimbabwe	255,551	129,056
Other	5,416	10,952
	3,355,118	**2,822,352**

BWP'000s	2009	2008
19. BORROWED FUNDS		
National Development Bank of Botswana Limited	126,466	163,810
BIFM Capital Investment Fund One (Pty) Ltd	257,328	257,328
Other	160,028	178,676
	543,822	**599,814**
Fair value		
National Development Bank of Botswana Limited	140,071	182,186
BIFM Capital Investment Fund One (Pty) Ltd	343,072	286,692
Other	160,028	178,676
	643,171	**647,554**

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 BancABC clients. Fair value is equivalent to carrying amounts as these borrowings have variable interest rates.

Maturity analysis

BWP'000s	2009	2008
On demand to one month	1,266	5
One to three months	4,133	27,394
Three months to one year	108,950	75,544
Over one year	429,473	496,871
	543,822	**599,814**

BWP'000s	2009	2008
20. CREDITORS AND ACCRUALS		
Accrued expenses	67,786	31,733
Other amounts due	15,890	6,121
	83,676	**37,854**

Creditors and accruals are due and payable within twelve months.

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 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 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)
At 31 December 2008		
Cross currency interest rate swaps		
Designated at fair value through profit and loss	125,785	38,529
Held for hedging	60,309	3,665
Total recognised derivatives		**42,194**
Comprising:		
Derivative financial assets		44,411
Derivative financial liabilities		(2,217)

21.2 Hedging activities

On 1 January 2007, the Group designated a cross currency swap as a hedge against the currency translations risk of its net investments in the Zambian subsidiary. At 31 December 2009, the swap (as included in derivative financial instruments) had a positive fair value of BWP2,152,181 (2008: positive BWP3,665,286). Foreign currency losses amounting to BWP2,902,000 (2008:BWP2,902,000) have been deferred in equity as at 31 December 2009.
The hedges of net investments in foreign operations were ineffective in 2009, and as a result hedge accounting ceased from 1 January 2009. No amounts were withdrawn from equity during the year, as there was no disposal or part disposal of the specific foreign operation.

BWP'000s	2009	2008
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 (2008: 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 2009, 2,573,633 shares were held by ABC Zimbabwe, (2008: 2,573,633).

BWP'000s	2009	2008
23. FUNDS UNDER MANAGEMENT		
Funds under management	**221,340**	**26,756**

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

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 BancABC 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 2009 amounted to BWP16.5 million (2008: BWP74.5 million) which represents 4% (2008: 17%) of shareholders' funds, and 0.8% (2008: 3%) of gross loans.

ABC Consulting and Management Services Limited has entered into management services 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 of ABC Holdings Limited is shown on page 24. The total exposure of the Group to directors, officers and parties related to them in terms of IAS 24 as at 31 December 2009 is BWP31.1 million (2008: BWP38.9 million) which represents 8% (2008: 9%) of shareholders' funds, and 1% (2008: 2%) of gross loans.

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:

25. RELATED PARTY TRANSACTIONS (continued)

	2009		2008	
BWP'000s	**Balance**	**Interest**	**Balance**	**Interest**
Loans and advances to entities related through shareholding:				
Starafrica Corporation Limited	–	1,820	22,992	676
PG Industries (Botswana) Limited	16,491	2,657	15,393	1,597
Pyramid Plaza (Pty) Ltd	–	–	36,094	4,293
	16,491	**4,477**	**74,479**	**6,566**
Loans and advances to entities related to directors:				
Loans and advances to entities related to N Kudenga	1,980	72	1,744	16
Loans and advances to entities related to OM Chidawu and DT Munatsi	667	8	–	–
Loans and advances to entities related to DT Munatsi	–	–	9,810	102
	2,647	**80**	**11,554**	**118**
Loans and advances to directors:				
OM Chidawu	14,373	1,469	14,741	2,089
D Khama*	200	–	200	–
DT Munatsi	1,867	210	1,657	187
	16,440	**1,679**	**16,598**	**2,276**
**Guarantees.*				
Loans and advances to key management:				
F Dzanya	5,554	623	4,930	618
B Moyo	3,120	350	2,882	372
H Matemera	3,315	372	2,943	331
J Machapu	–	–	–	11
	11,989	**1,345**	**10,755**	**1,332**
Specific impairments on balances with related parties:				
Pyramid Plaza (Pty) Ltd	–	–	11,218	–
Deposits held by entities related to directors and key management:				
Deposits from entities related to D Khama	4,101	19	3,954	33
Deposits from entitles related to N Kudenga	6	–	–	–
Deposits from entities related to OM Chidawu and DT Munatsi	505	–	–	–
Deposits from entities related to DT Munatsi	–	–	10,025	213
Deposits from entities related to FM Dzanya	27	–	–	–
	4,639	**19**	**13,979**	**246**
Deposits held by directors and key management:				
N Kudenga	1,188	10	897	11
F Dzanya	43	2	786	26
B Moyo	–	–	2,556	29
H Matemera	16	1	33	6
D Khama	299	1	–	–
DT Munatsi	30	–	98	73
	1,576	**14**	**4,370**	**145**
Remuneration to key management personnel:				
Short-term employment benefits	12,317		13,417	
Post-employment benefits	551		273	
	12,868		**13,690**	

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

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 by the end of 2009. See note 29.

26. EXCHANGE RATES

	Closing Dec 09	Average Dec 09	Closing Dec 08	Average Dec 08
United States Dollar	0.150	0.141	0.133	0.146
Tanzanian Shilling	200.792	186.781	174.438	177.320
Zambian Kwacha	697.037	711.820	636.063	554.765
Mozambican Metical	4.376	3.903	3.383	3.573
South African Rand	1.110	1.165	1.245	1.205
Zimbabwe Dollar (millions)*	n/a	n/a	88,265,289,801	n/a

**Old Mutual implied exchange rate in millions calculated on the day the Zimbabwe Stock Exchange last traded in 2008, (17 November 2008). 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 United States Dollar being the anchor currencies.*

BWP'000s	2009	2008
27. COLLATERAL		
27.1 Liabilities for which collateral is pledged		
Deposits from banks	–	23,460
Deposits from customers	39,678	9,007
Borrowed funds	133,484	75,484
	173,162	**107,951**
Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
Cash and short-term funds	–	33,419
Financial assets held for trading	196,880	143,857
	196,880	**177,276**
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 customer	51,656	49,627
Mortgage bonds, inventory, plant and equipment, shares, letter of undertaking	490,702	656,735
	542,358	**706,362**

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

Given the current uncertainty in the global markets, the directors recommend that a dividend not be declared.

29. ACQUISITIONS AND DISPOSAL OF ASSOCIATE COMPANIES

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

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

30. POST-BALANCE SHEET EVENTS

There were no significant post-balance sheet events.

Company separate financial statements

Company income statement

for the year ended 31 December 2009

BWP'000s	Notes	2009	2008
Interest and similar income		27,818	41,677
Interest expense and similar charges		(43,030)	(38,109)
Net interest (expense)/income before impairment of advances	1	**(15,212)**	**3,568**
Impairment of loans and advances released	2	–	1,892
Net interest (expense)/income after impairment of advances		**(15,212)**	**5,460**
Non-interest income	3	30,585	43,791
Other impairments	4	(7,807)	–
Total income		**7,566**	**49,251**
Operating expenditure	5	(16,755)	(32,148)
(Loss)/profit before tax		**(9,189)**	**17,103**
Tax	6	8,776	264
(Loss)/profit for the year		**(413)**	**17,367**

Company statement of comprehensive income

for the year ended 31 December 2009

BWP'000s	2009	2008
(Loss)/profit for the year	(413)	17,367
Total comprehensive income for the year	**(413)**	**17,367**

Company balance sheet

as at 31 December 2009

BWP'000s	Notes	2009	2008
ASSETS			
Cash and short-term funds	7	51	984
Derivative financial assets	16	2,234	44,411
Intercompany balances	9	76,537	51,866
Loans and advances	8	85,322	93,998
Prepayments and other receivables	11	13,009	12,855
Investment securities	10	34,832	31,161
Property and equipment	12	238	89
Deferred tax assets	13	9,470	694
Loans to subsidiary companies	14	142,424	141,635
Investment in subsidiaries	15	483,318	483,883
TOTAL ASSETS		**847,435**	**861,576**
EQUITY AND LIABILITIES			
Liabilities			
Derivative financial liabilities	16	809	2,217
Creditors and accruals	17	4,149	7,232
Intercompany balances	9	132,481	98,969
Borrowed funds	18	418,863	461,612
Total Liabilities		**556,302**	**570,030**
Equity			
Stated capital	19	307,586	307,586
Distributable reserves		(16,453)	(16,040)
Equity attributable to ordinary shareholders		**291,133**	**291,546**
EQUITY AND LIABILITIES		**847,435**	**861,576**

Company statement of changes in equity

for the year ended 31 December 2009

BWP'000s	Stated capital	Distributable reserves	Total equity
Balance as at 1 January 2008	**270,189**	**(3,180)**	**267,009**
Comprehensive income:			
Profit for the year	–	17,367	17,367
TOTAL COMPREHENSIVE INCOME	**–**	**17,367**	**17,367**
Transactions with owners:			
Shares issued	37,397	–	37,397
Dividend	–	(30,227)	(30,227)
TOTAL TRANSACTIONS WITH OWNERS	**37,397**	**(30,227)**	**7,170**
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**

Company cash flow statement

for the year ended 31 December 2009

BWP'000s	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES	**50,114**	**(5,333)**
Cash generated from/(utilised in) operating activities	8,404	(23,318)
Net (loss)/profit before tax	**(9,189)**	**17,103**
Adjusted for:		
Impairment of loans and advances released	–	(1,892)
Other impairments	7,807	–
Depreciation and amortisation	116	56
Net losses/(gains) on derivative financial instruments	9,670	(38,585)
Net increase in operating funds	**41,710**	**17,985**
Increase/(decrease) in operating assets	12,688	(31,828)
Increase in operating liabilities	29,022	49,813
CASH FLOWS FROM INVESTING ACTIVITIES	**(8,298)**	**(54,639)**
Purchase of property and equipment	(265)	(14)
Investment in subsidiaries	(7,243)	(71,641)
Changes in loans to subsidiaries	(790)	17,016
CASH FLOWS FROM FINANCING ACTIVITIES	**(42,749)**	**60,956**
Proceeds from issue of shares	–	37,397
(Decrease)/increase in borrowed funds	(42,749)	53,786
Dividends paid	–	(30,227)
(Decrease)/increase in cash and cash equivalents	**(933)**	**984**
Cash and cash equivalents at the beginning of the year	**984**	–
Cash and cash equivalents at the end of the year	**51**	**984**

Notes to the company financial statements

for the year ended 31 December 2009

ACCOUNTING POLICIES

The accounting policies of the Company and the Group are set out on pages 31 to 42.

BWP'000s		2009	2008
1.	**NET INTEREST INCOME**		
	Interest and similar income		
	Cash and short-term funds	733	424
	Investment securities at amortised cost	3,670	4,948
	Loans and advances at amortised cost	8,718	18,143
	Intercompany	14,697	18,162
		27,818	41,677
	Interest expense		
	Borrowed funds	35,867	36,859
	Intercompany	7,163	1,250
		43,030	38,109
	Net interest income	**(15,212)**	**3,568**
2.	**IMPAIRMENTS OF LOANS AND ADVANCES**		
	Impairment released to subsidiary	–	(1,892)
		–	**(1,892)**
3.	**NON-INTEREST INCOME**		
	(Losses)/gains from trading activities:	(9,670)	38,585
	– Net (losses)/gains on derivative financial instruments*	(9,670)	38,585
	Dividends received:	13,257	21,267
	– Subsidiary companies	13,257	21,267
	Fee and commission income:	15,321	15,045
	– Net fee income on loans and advances at amortised cost	15,321	15,045
	Other non-interest income/(losses):	11,677	(31,106)
	Foreign exchange income/(loss) and currency revaluation*	11,677	(31,106)
		30,585	**43,791**
	**Foreign exchange income includes a foreign exchange profit of BWP21 million (2008: loss of BWP62 million) arising from the Japanese Yen exposure with NDB, disclosed in note 18. Net profit on derivative instruments includes an offsetting fair value gain arising from an equal but opposite nominal Japanese Yen derivative asset.*		
4.	**OTHER IMPAIRMENTS**		
	Impairment of investment in subsidiaries		
	Capital Partners Private Limited	5,223	–
	EDFUND S.A.	2,584	–
		7,807	**–**
5.	**OPERATING EXPENDITURE**		
	Administrative expenses	4,624	18,920
	Staff costs	4,783	5,424
	Auditors remuneration	975	691
	Depreciation (note 12)	116	56
	Directors remuneration	6,257	7,057
		16,755	**32,148**

BWP'000s		2009	2008
6.	**TAX**		
	(Loss)/profit before tax	(9,189)	17,103
	Income tax using standard corporate tax rate	(1,378)	2,566
	Tax exempt revenues	(2,003)	(2,830)
	Non-deductible expenses	1,294	–
	Tax losses of prior years now claimed	(6,689)	–
	Tax income per income statement	**(8,776)**	**(264)**
	Effective tax rate	-96%	-2%
6.1	**Current tax expense**		
	Deferred tax		
	Tax losses	(8,776)	(264)
	Total tax income per income statement	**(8,776)**	**(264)**
7.	**CASH AND SHORT-TERM FUNDS**		
	Balances with banks	51	984
8.	**LOANS AND ADVANCES**		
	Corporate lending	63,767	77,783
	Loans to directors and key management*	28,229	27,152
		91,996	104,935
	Less: Allowance for impairments	(6,674)	(10,937)
	Net loans and advances	**85,322**	**93,998**
	**Related party loans and advances included in the above are set out in note 20.*		
	The fair value of net loans and advances approximates their carrying amount.		
8.1	**Maturity analysis**		
	On demand to one month	–	112
	One month to three months	–	40,120
	Three months to one year	70,780	50,033
	Greater than one year	14,542	3,733
		85,322	**93,998**
8.2	**Impairment of loans and advances – movement analysis**		
	Opening balance	10,937	13,688
	Exchange rate difference	(363)	(859)
	Impairments released	–	(1,892)
	Bad debts written off	(3,900)	–
	Closing balance	**6,674**	**10,937**

The loans all have floating interest rates which range from 8.02% to 15% (2008: 8.02% to 12%). The loans are denominated in Botswana pula and United States dollars.

BWP'000s	2009	Fair value	2008	Fair value
9. INTERCOMPANY BALANCES				
9.1 Balances due from:				
BancABC Zambia Limited	9,225	9,225	4,992	4,992
BancABC Zimbabwe Limited	2,505	2,505	11,563	11,563
Tanzania Development Finance Company Limited	1,303	1,303	4,146	4,146
ABC South Africa and other non-banking subsidiaries*	63,504	63,504	31,165	31,165
	76,537	**76,537**	**51,866**	**51,866**
9.2 Balances due to:				
BancABC Botswana Limited	21,522	21,522	53,946	53,946
BancABC Mozambique Sarl	45,185	45,185	95	95
BancABC Tanzania Limited	26,752	26,752	720	720
EDFUND S.A.	39,022	39,022	44,096	44,096
ABC South Africa and other non-banking subsidiaries	–	–	112	112
	132,481	**132,481**	**98,969**	**98,969**

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

The balances are denominated in Botswana pula: BWP48.2 million (2008: BWP1.2 million); United States dollars: -BWP139.4 million (2008: -BWP75.1 million); and South African rands: BWP35.3 million (2008: BWP29.2 million).

**The amount includes an interest free loan of BWP34.7 million pertaining to Fastpulse Trading 327 (Pty) Ltd, (ABC South Africa). The loan has no fixed terms of repayment and is subordinated to claims from other creditors until the total assets of the entity, fairly valued, exceed its total liabilities.*

BWP'000s	2009	2008
10. INVESTMENT SECURITIES		
Held-to-maturity		
– Promissory notes	**34,832**	**31,161**

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	2009	2008
11. PREPAYMENTS AND OTHER RECEIVABLES		
Accounts receivable and prepayments	5,063	576
Security deposit	3,336	11,516
Other amounts due	4,610	763
	13,009	**12,855**

All pre-payments and other receivables are classified as current.

BWP'000s		Computer and office equipment	Total
12.	**PROPERTY AND EQUIPMENT**		
	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**
	Cost or valuation at 31 December 2007	156	156
	Exchange adjustments	3	3
	Additions	14	14
	Cost or valuation at December 2008	173	173
	Accumulated depreciation at December 2007	(28)	(28)
	Charge for the year	(56)	(56)
	Accumulated depreciation at December 2008	(84)	(84)
	Carrying amount at December 2008	**89**	**89**

BWP'000s		2009	2008
13.	**DEFERRED TAX**		
	Balance at the beginning of the year	(694)	(430)
	Income statement charge (note 6)	(8,776)	(264)
	Balance at the end of the year	**(9,470)**	**(694)**
	Tax effect of temporary differences:		
	– Accounting accruals	–	2,887
	– Capital allowances	15	8
	– Tax losses	(9,485)	(3,589)
		(9,470)	**(694)**

BWP'000s		2009	Fair value	2008	Fair value
14.	**LOANS TO SUBSIDIARY COMPANIES**				
	BancABC Botswana Limited	67,022	67,022	31,977	31,977
	BancABC Zambia Limited	41,203	41,203	38,656	38,656
	BancABC Mozambique Sarl	34,199	34,199	40,584	40,584
	Microfin Africa Zambia Limited	–	–	30,418	30,418
		142,424	**142,424**	**141,635**	**141,635**

The loans are 14 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 (2008: BWP32 million) and United States dollars: BWP110.4 million (2008: BWP109.6 million).

	Nature of business	Ownership of ordinary shares 2009 %	Ownership of ordinary shares 2008 %	Carrying value 2009 BWP'000s	Carrying value 2008 BWP'000s
15. 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	–
Mozambique					
BancABC Mozambique Sarl	Registered bank	100	100	47,752	47,752
South Africa					
Fastpulse Trading 327 (Pty) Limited t/a ABC South Africa	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	41,895	40,974
Microfin Africa Zambia Limited****	Micro finance	–	100	–	921
Zimbabwe					
BancABC Zimbabwe Limited	Registered bank, Stockbroking and Asset Management	100	100	144,690	144,690
Luxembourg					
EDFUND S.A.***	Management services	100	100	46,375	48,959
				483,318	**483,883**

* *Effective shareholding.*
** *Additional capital of BWP7.2 million was injected into Capital Partners Private Limited in 2009. 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 as the carrying amount exceeded the net asset value, and the entity does not generate income.*
*** *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.*
**** *The operations of Microfin Africa Zambia Limited were merged into BancABC Zambia Limited with effect from 1 August 2009.*

BancABC Tanzania

As the carrying value of the subsidiary of BWP128.4 million exceeds the subsidiary's net assets by BWP32.7 million, an impairment test was conducted. The impairment test is based on assumptions that take into account risk and uncertainty in estimating the recoverable amount of the investment based on its value in use. The impairment test makes a number of assumptions regarding projected cash flows, considering local market conditions and management's judgement of future trends. The key assumptions used are as follows:

- Continued positive projected free cash flows and generating BWP72.6 million of free cash flow in 2014
- Terminal value based on 5% long-term cash flow growth rate
- Weighted average cost of capital of 14.88%
- Marketability adjustment of 10%

The impairment test indicates that the recoverable amount exceeds the carrying value.

BancABC Zambia

As the carrying value of the subsidiary of BWP41.9 million exceeds the subsidiary's net assets by BWP41 million, an impairment test was conducted. The impairment test was based on assumptions that take into account risk and uncertainty in estimating the recoverable amount of the investment based on its value in use. The impairment test makes a number of assumptions regarding projected cash flows, considering local market conditions and management's judgment of future trends. The key assumptions used are as follows:

- Projected free cash flows becoming positive in 2014, and generating BWP9.5 million for that year
- Terminal value based on 5% long-term cash flow growth rate
- Weighted average cost of capital of 16.96%
- Marketability adjustment of 10%
- Investment of BWP16 million of additional capital, growing to BWP32 million by 2012

The impairment test indicates that the recoverable amount approximates the carrying value.

16. DERIVATIVE FINANCIAL INSTRUMENTS

Cross currency interest rate swaps

The Company uses cross currency 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 2009		
Cross currency interest rate swaps:		
Designated at fair value through profit or loss	179,931	1,425
Total recognised derivatives		**1,425**
Comprising:		
Derivative financial assets		2,234
Derivative financial liabilities		(809)
At 31 December 2008		
Cross currency interest rate swaps:		
Designated at fair value through profit or loss	186,094	42,194
Total recognised derivatives		**42,194**
Comprising:		
Derivative financial assets		44,411
Derivative financial liabilities		(2,217)

BWP'000s	2009	2008
17. CREDITORS AND ACCRUALS		
Accrued expenses	1,319	4,491
Other amounts due	2,830	2,741
	4,149	7,232

Creditors and accruals are due and payable within twelve months.

BWP'000s		2009	Fair value	2008	Fair value
18.	**BORROWED FUNDS**				
	National Development Bank of Botswana Limited	126,466	140,071	163,810	182,186
	BIFM Capital Investment Fund One (Pty) Ltd	257,328	343,072	257,328	286,692
	Other borrowings	35,069	35,069	40,474	40,474
		418,863	**518,212**	**461,612**	**509,352**

	BWP'000s	2009	2008
18.1	**Maturity analysis**		
	On demand to one month	–	–
	One month to three months	7,792	–
	Three months to one year	30,085	37,724
	Greater than one year	380,986	423,888
		418,863	461,612

National Development Bank of Botswana Limited (NDB)

The loan from the 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		2009	2008
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 (2008: 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 meeting of the Company.		
19.3	**Reconciliation of the number of shares in issue**		
	Shares at the beginning of the year	146,419,524	132,568,680
	Shares issued	–	13,850,844
	At the end of the year	**146,419,524**	**146,419,524**

During January 2008, the International Finance Corporation ("IFC") a member of the World Bank Group subscribed for 13 850 844 ABCH shares at a total cost of BWP37.4 million, taking its shareholding in ABCH to 10.7% of total issued share capital.

20. RELATED PARTY TRANSACTIONS

Emoluments to directors have been disclosed in note 5. Loans to/from subsidiary companies have been disclosed in note 9 and 14 and interest on these in note 1. Particulars of lending transactions entered into with related parties are as follows:

	2009		2008	
BWP'000s	**Balance**	**Interest**	**Balance**	**Interest**
Loans and advances to entities related through shareholding:				
Star Africa Corporation Limited*	–	1,820	22,992	676
	–	**1,820**	**22,992**	**676**
Loans and advances to directors:				
OM Chidawu	14,373	1,469	14,741	2,089
DT Munatsi	1,867	210	1,657	187
	16,240	**1,679**	**16,398**	**2,276**
Loans and advances to key management:				
F Dzanya	5,554	623	4,930	618
B Moyo	3,120	350	2,882	372
H Matemera	3,315	372	2,943	331
J Machapu	–	–	–	11
	11,989	**1,345**	**10,755**	**1,332**

There were no specific impairments on balances with related parties.

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

21. OFF BALANCE SHEET ITEMS

21.1 Contingent liabilities

The Company has agreed to provide operational and financial support to enable BancABC Zambia Limited management to implement their detailed strategy, and to meet any other obligations as and when they fall due for the foreseeable future.

The Company has also agreed to provide its subsidiary Fastpulse Trading 327 (Pty) Ltd with financial support to meet its obligations by providing a subordinated loan (refer to note 9).

21.2 Capital commitments

BWP'000s	2009	2008
Approved and contracted for the next year (BWP'000s)	40,595	–

Analysis of shareholders

Range	Number of holders	% of total holders	Number of shares	% of total shares
0 – 50,000	3,653	96.67%	5,955,396	4.07%
50,001 – 100,000	44	1.16%	3,311,818	2.26%
100,001 – 500,000	43	1.14%	9,280,563	6.34%
500,001 – 1,000,000	14	0.37%	9,879,791	6.75%
1,000,001 – 10,000,000	22	0.58%	75,922,850	51.85%
Above 10,000,000	3	0.08%	42,069,106	28.73%
	3,779	**100.00%**	**146,419,524**	**100.00%**

Top 10 Shareholders as at 31 December 2009

	Number of shares	% holding
Shares held by and on behalf of DT Munatsi	19,640,702	13.41%
Shares held by and on behalf of OM Chidawu	17,930,478	12.25%
Old Mutual Life Assurance Co. of Zimbabwe Limited	15,896,103	10.86%
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%
Barclays Botswana Nominees (Pty) Ltd – In Respect of Zephyr Fund Managers	8,498,942	5.80%
Barclays Botswana Nominees (Pty) Ltd – In Respect of SIMS 212/005	6,794,419	4.64%
Shares held by and on behalf of B Moyo	4,695,553	3.21%
Barclays Botswana Nominees (Pty) Ltd – other	3,725,433	2.54%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslande	3,582,623	2.45%
Total top ten shareholders	**107,358,301**	**73.32%**
Other shareholders	39,061,223	26.68%
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	10	0.26%	24,690,035	16.86%
Botswana	267	7.07%	40,992,883	28.00%
Europe	52	1.38%	7,337,787	5.01%
South Africa	61	1.61%	119,435	0.08%
Zimbabwe	3,335	88.25%	71,848,651	49.07%
Other	54	1.43%	1,430,733	0.98%
	3,779	**100.00%**	**146,419,524**	**100.00%**

Notice of annual general meeting

ABC Holdings Limited

(Registration number 99/4865)
(Incorporated in the Republic of Botswana)
(ABC Holdings Limited or "the Company")

Mr OM Chidawu (Chairman)
Mr DT Munatsi (Group Chief Executive Officer)
Mr H Buttery
Mrs D Khama
Mr N Kudenga
Mr TS Mothibatsela
Mr H Wasmus

Notice is hereby given that the Annual General Meeting of Shareholders of the Company will be held at the boardroom, ABC Holdings Limited, Tholo Park, Plot 50669, Fairground Office Park, Gaborone on 1 June 2010 at 09h00 for the purpose of transacting the following business and considering and if deemed fit, passing, with or without modification, the following resolutions:

Agenda

Ordinary business:

1. To read the notice convening the meeting.
2. To receive, consider, and adopt the annual financial statements for the year ended 31 December 2009, including the chairman's statement, directors' report and auditors' report.
3. To approve the remuneration of the directors for the year ended 31 December 2009.
4. To note that directors, Messrs Buttery, Chidawu and Kudenga retire by rotation in terms of Article 67 of the Articles of Association of the Company as at the date hereof ("Company's Articles of Association") and to re-elect Messrs Buttery and Kudenga who being eligible, offer themselves for re-election.
5. To appoint auditors for the ensuing year and to fix their remuneration.
6. To ratify the appointment of Ms Lakshmi Shyam-Sunder as a director of the Company.
7. To ratify the appointment of Mr Simon Ipe as a director of the Company.
8. Any other business.

Biographies of directors standing for re-election and those whose appointments are to be ratified at the Annual General Meeting

Mr HJ Buttery

Howard Buttery was born in South Africa in 1946. In his position as Chairman of Bell Equipment Limited, a listed South African company, his current focus within Bell is corporate finance and funding. He also serves on a number of boards including two international hedge funds as well as acting as an advisor to an International Mining Fund.

Mr N Kudenga

Ngoni Kudenga was born in Zimbabwe in 1952. He is a Chartered Accountant and holds a bachelor of Accountancy degree from the University of Zimbabwe and is a fellow of the Chartered Institute of Management Accountants of Zimbabwe. He is past president of the Institute of Chartered Accounts. Currently he is the Managing Partner of BDO Kudenga & Co., Chartered Accountants of Zimbabwe. He serves on the boards of Bindura Nickel Corporation, Hippo Valley Limited, Zimplow Limited and several private companies.

Ms Lakshmi Shyam-Sunder

Lakshmi Shyam-Sunder is a Director at the International Finance Corporation (IFC), World Bank Group working on Economic Capital and Client Risk Advisory services. She joined IFC in September 1994 and held a range of positions in Treasury and in Portfolio Management before becoming Director of Risk Management and Financial Policy for IFC. She also serves on the Board and Risk and Finance Committees of some IFC's client companies. Before joining IFC, she was on the Finance Faculty of the MIT Sloan School of Management and at the Tuck School of Business Administration, Dartmouth College. During that time she also consulted on finance, valuation, and risk management topics for financial institutions and corporations in the United States, the US Government, as well as financial institutions in emerging markets. She holds a Ph.D in Finance from the MIT Sloan School of Management, and an MBA from the Indian Institute of Management, Ahmedabad, India.

Mr Simon Ipe

Simon Ipe is the Chief Operations Officer for Bifm Holdings. He holds a BSc BCom from the Madras University and is a Fellow of both the Institute of Chartered Accountants of India and the Botswana Institute of Accountants. Prior to joining the Bifm Group he was a Director with KPMG and prior to that he was with the Bank of Botswana, in various capacities as Deputy Director – Operations, Finance Department, and their Chief Internal Auditor. 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 boards of Mascom, DECI, Turnstar and a full board member on Khumo Property Asset Management Company and Flying Mission Botswana.

Any member wishing to nominate a person to be considered for election as directors of the Company, in place of those retiring, should submit a written nomination, proposed by that member and seconded by another member, containing the written consent of the nominee to be appointed a director, and the curriculum vitae of the Nominee, to the registered office of the Company at least 10 days prior to the date of the Annual General Meeting.

Ordinary business:

To consider and adopt the following resolutions:

Ordinary resolution 1:

To receive and consider the annual financial statements for the year ended 31 December 2009 including the chairman's statement, directors' report and auditors' report.

Ordinary resolution 2:

To approve the remuneration of directors for the year ended 31 December 2009.

Ordinary resolution 3:

To elect directors in place of those retiring by rotation in terms of Article 67 as read with article 73 of the Company's Articles of Association.

In this regard Messrs Buttery, Kudenga and Chidawu retire from the Board and Messrs Buttery and Kudenga being available and eligible, offer themselves for re-election.

Ordinary resolution 4:

To approve the remuneration of the auditors for the year ended 31 December 2009.

Ordinary resolution 5:

To appoint the Company auditors for the ensuing year.

Ordinary resolution 6:

To ratify the appointment of Ms Lakshmi Shyam-Sunder as a director of the Company.

Ordinary resolution 7:

To ratify the appointment of Mr Simon Ipe as a director of the Company.

Ordinary resolution 8:

Resolved that the directors be and are hereby authorised to take such steps and sign all such other documents as are necessary to give effect to the ordinary resolutions passed at this meeting.

Voting and proxies

All holders of ordinary shares entitled to vote will be entitled to attend and vote at the Annual General Meeting.

A holder of shares who is present in person, by authorised representative or by proxy shall have one vote on a show of hands and have one vote for every ordinary share held on a poll.

Each Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (none of whom need be a Shareholder of the Company) to attend, speak and subject to the Articles of Association of the Company vote in his/her/its stead.

The form of proxy for the Annual General Meeting, which sets out the relevant instructions for its completion, is annexed hereto.

In order to be effective, a duly completed form of proxy must be received at the registered office of the Company, ABC Holdings Limited, Tholo Park, Plot 50669, Fairground Office Park, Gaborone by not later than 09h00 on Monday, 31 May 2010.

By order of the Board

M de Klerk
Secretary to the Board

10 May 2010

Registered office: Plot 50669, Fairground Office Park, Private Bag 00303, Gaborone

Form of proxy

ABC Holdings

ABC Holdings Limited

(Registration number 99/4865)
(Incorporated in the Republic of Botswana)
(ABC Holdings Limited or "the Company")

For completion by holders of ordinary shares

PLEASE READ THE NOTES OVERLEAF BEFORE COMPLETING THIS FORM.

For use at the Annual General Meeting of Shareholders of the Company to be held at the boardroom, ABC Holdings Limited, Tholo Park, Plot 50669, Fairground Office Park, Gaborone on 1 June 2010 at 09h00.

I/We

(Name/s in block letters)

Of

(Address)

Appoint (see note 2):

1. or failing him/her,
2. or failing him/her,
3. The Chairman of the meeting, as my/our proxy to act for me/us at the General Meeting which will be held, to conside the ordinary business, and if deemed fit, passing with or without modification, the resolutions to be proposed under the vote thereat and at each adjournment thereof, and to vote for or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name in accordance with the following instructions (see note 2):

	Number of ordinary shares		
	For	Against	Abstain
1. Ordinary resolution 1			
2. Ordinary resolution 2			
3. Ordinary resolution 3			
4. Ordinary resolution 4			
5. Ordinary resolution 5			
6. Ordinary resolution 6			
7. Ordinary resolution 7			
8. Ordinary resolution 8			

Signed at on 2010

Signature

Assisted by (where applicable)

Each Shareholder is entitled to appoint one or more proxies (who need not be member/s of the Company) to attend, speak and vote in place of that Shareholder at the General Meeting.

Please read the notes on the reverse side hereof ☛

Notes to form of proxy

1. A Shareholder must insert the names of two alternative proxies of the Shareholder's choice in the space provided, with or without deleting "Chairman of the Annual General Meeting". The person whose name appears first on the form of proxy, and whose name has not been deleted will be entitled to act as proxy to the exclusion of those whose names follow.
2. A Shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the Shareholder in the appropriate space provided. Failure to comply herewith will be deemed to authorise the proxy to vote at the General Meeting as he/she deems fit in respect of the Shareholder's votes exercisable thereat, but where the proxy is the Chairman, failure to comply will be deemed to authorise the proxy to vote in favour of the resolution. A Shareholder or his/her proxy is obliged to use all the votes exercisable by the Shareholder or by his/her proxy.
3. Forms of proxy must be lodged at or posted to the registered office of the Company, Plot 50669, Fairground Office Park, or Private Bag 00303, Gaborone to be received not less than 24 hours before the General Meeting on 1 June 2010 at 09h00.
4. The completion and lodging of this form will not preclude the relevant Shareholder from attending the General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such Shareholder wish to do so.
5. The Chairman of the General Meeting may reject or accept any form of proxy not completed and/or received other than in accordance with these notes provided that he is satisfied as to the manner in which the Shareholder concerned wishes to vote.
6. An instrument of proxy shall be valid for the General Meeting as well as for any adjournment thereof, unless the contrary is stated thereon.
7. A vote given in accordance with the terms of a proxy shall be valid, notwithstanding the previous death or insanity of the Shareholder, or revocation of the proxy, or of the authority under which the proxy was executed, or the transfer of the ordinary shares in respect of which the proxy is given, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company not less than one hour before the commencement of the General Meeting or adjourned General Meeting at which the proxy is to be used.
8. The authority of a person signing the form of proxy under a power of attorney or on behalf of a company must be attached to the form of proxy, unless the authority or full power of attorney has already been registered by the Company or the transfer secretaries.
9. Where ordinary shares are held jointly, all joint Shareholders must sign.
10. A minor must be assisted by his/her guardian, unless relevant documents establishing his/her legal capacity are produced or have been registered by the Company.

Contact information

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STUDIO 5

BancABC

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