AFRICAN BANKING
CORPORATION

# ABC HOLDINGS LIMITED

2008
ANNUAL
REPORT

The sun is a symbol of hope and awesome power; the sun's energy is the powerhouse of the planet. Its life-giving light bathes every corner of the earth, dispelling darkness, bringing vitality and inspiration. An image of creative force, courage, passion, knowledge, intellect, inspiration and leadership, its wonderful colour spectrum – yellow, red, gold, bronze and topaz – radiates the spirit and potential of Africa at its heart. The logo symbolises a new dawn on this ancient and mighty continent.

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# Introduction

ABC Holdings is the parent company of a number of banks operating in Sub-Saharan Africa under the brand name of African Banking Corporation. The company has a primary listing on the Botswana Stock Exchange and a secondary listing on the Zimbabwe Stock Exchange. The African Banking Corporation group of companies offers a diverse range of financial services in the areas of corporate, international, investment and merchant banking, leasing finance, asset management, stock broking and treasury services. African Banking Corporation aims to deliver world-class financial solutions to the Sub-Saharan African region.


The Group posted a good set of results, particularly in the context of the global financial turmoil that engulfed world economies from the beginning of 2008. In spite of the increasingly difficult environment in Zimbabwe, the Group continues to perform well. The African Banking Corporation brand has continued to strengthen, and has gained recognition from market players and regulators alike.

# Introduction

The symbolism of our logo – creative energy, radiance and unity – inspires us to fulfill our vision of delivering fresh thinking and smart banking to our clients and partners in Africa. To ensure that we deliver on our brand promise, we continue to recruit staff with global expertise and a thorough knowledge of the people and cultures in countries we operate in, and continuously train and emphasise development of staff throughout the organisation. Todays problems cannot be solved by yesterday's solutions.

# History and medium term plan

| | |
|---|---|
| **Phase 3:<br>2007 – 2011<br>Realise pan – African Vision** | • Provide additional capital to all the banking subsidiaries<br>• Position existing operations in top tier of banks in countries of presence:<br>- Grow assets<br>- Mobilise deposits<br>• Expand into Retail Banking by:<br>- Branch roll-out<br>- Expand product offering<br>• Expand micro-finance operations<br>• Seek M&A opportunities<br>• Explore new markets in Africa<br>• Rigorous management of credit |
| **Phase 2:<br>2003 – 2006<br>Build Growth Platform** | • Build up "new" merchant banks to critical mass:<br>- Grow revenue<br>- Capital injection (2006)<br>• Preserve capital in Zimbabwe (2003 onwards)<br>• Clean up legacy issues:<br>- ulc Mozambique sale (2003)<br>- ulc Tanzania SPV (2003)<br>- Capital injection (2006)<br>• Rationalise management structures (2003-2004)<br>• Rationalise costs (2004)<br>• Enhance governance and risk management systems (2003-2004) |
| **Phase 1:<br>2000 – 2003<br>Network rollout** | • Integrate Zimbabwe merchant bank, discount house and leasing company into ABC Zimbabwe<br>• Convert leasing companies into merchant banks:<br>- Botswana (2000)<br>- Zambia (2000)<br>- Tanzania (2001)<br>• Acquire BNP/Nedbank in Mozambique (2002)<br>• Install integrated ICT system (2003)<br>• Enter micro-finance (2002) |

AFRICAN BANKING CORPORATION

# Values and Personality

Our core values, the result of broad stakeholder consultation, centre on five distinct areas; INTEGRITY, INNOVATION, PASSION, PROFESSIONALISM and PEOPLE.

## INTEGRITY

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 form our unquestionable character and business practice.

## PASSION

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

## INNOVATION

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

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 on our performance.

## PEOPLE

PEOPLE is 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.

Our core values remain the guiding principles by which we operate and form the basis of our corporate personality.

# ABC Holdings Group
# Financial Highlights

ABC HOLDINGS LIMITED

Five year financial highlights on a historical cost basis (not IFRS inflation adjusted)

| **Income Statement** | **31-Dec-08 US$'000s** | **31-Dec-07 US$'000s** | **31-Dec-06 US$'000s** | **31-Dec-05 US$'000s** | **31-Dec-04 US$'000s** |
|---|---|---|---|---|---|
| | | | Restated | | |
| Net interest income after impairment of advances | 20,498 | 12,152 | 16,085 | 20,353 | 16,671 |
| Non interest revenue | 31,650 | 37,849 | 28,849 | 27,974 | 29,899 |
| **Total income** | **52,148** | **50,001** | **44,934** | **48,327** | **46,570** |
| Operating expenditure | (34,679) | (26,126) | (24,757) | (29,330) | (32,869) |
| Net operating income | 17,469 | 23,875 | 20,177 | 18,997 | 13,701 |
| Other impairments | - | - | - | (1,845) | (373) |
| **Net income from operations** | **17,469** | **23,875** | **20,177** | **17,152** | **13,328** |
| Share of profits of associates | 337 | 540 | 1,912 | 813 | 831 |
| **Profit before tax** | **17,806** | **24,415** | **22,089** | **17,965** | **14,159** |
| Tax | (4,905) | (3,417) | (7,444) | (6,611) | (5,571) |
| **Profit for the year** | **12,901** | **20,998** | **14,645** | **11,354** | **8,588** |
| Attributable to: | | | | | |
| Equity holders of parent | 12,592 | 20,174 | 14,587 | 11,156 | 9,791 |
| Minority interests | 309 | 824 | 58 | 198 | (1,203) |
| **Profit for the year** | **12,901** | **20,998** | **14,645** | **11,354** | **8,588** |
| **Headline Earnings** | **7,186** | **14,047** | **11,529** | **11,751** | **7,743** |
| **Balance Sheet** | | | | | |
| Cash and short term funds | 68,056 | 87,832 | 71,312 | 37,657 | 67,414 |
| Financial assets held for trading or at fair value | 90,956 | 143,642 | 141,709 | 156,437 | 128,565 |
| Derivative financial assets | 5,891 | - | - | - | - |
| Loans and advances | 298,450 | 207,372 | 156,396 | 120,938 | 161,449 |
| Investment securities | 8,988 | 11,795 | 8,745 | 6,340 | 14,287 |
| Investment in associates | 5,471 | 5,064 | 7,086 | 6,261 | 6,692 |
| Other assets, tax and investment properties | 14,101 | 16,426 | 7,013 | 6,689 | 14,600 |
| Property and equipment | 28,776 | 9,178 | 8,349 | 3,916 | 7,976 |
| Intangible assets | 5,653 | 5,824 | 6,226 | 7,286 | 11,051 |
| | **526,342** | **487,133** | **406,836** | **345,524** | **412,034** |
| Shareholders' equity | 60,572 | 54,230 | 46,681 | 35,999 | 43,021 |
| Deposits | 374,385 | 326,096 | 255,239 | 256,560 | 286,249 |
| Derivative financial liabilities | 294 | 849 | 1,182 | - | - |
| Borrowed funds | 79,565 | 96,855 | 91,132 | 18,684 | 30,637 |
| Other liabilities and tax | 11,526 | 9,103 | 12,602 | 13,381 | 31,227 |
| Preference share liabilities | - | - | - | 20,900 | 20,900 |
| | **526,342** | **487,133** | **406,836** | **345,524** | **412,034** |
| Shares in issue | 146,419,524 | 132,568,680 | 132,568,680 | 113,449,724 | 113,449,724 |
| Cost to income ratio | 59% | 47% | 50% | 55% | 62% |
| Average shareholders' equity | 57,401 | 50,456 | 41,537 | 39,510 | 39,444 |
| Return on average shareholders' equity (attributable) | 23% | 42% | 37% | 30% | 20% |
| Net asset value per share (cents) | 39.7 | 39.4 | 33.6 | 31.7 | 35.6 |
| Closing exchange rates to US$ | | | | | |
| Botswana Pula | 7.54 | 6.02 | 6.05 | 5.51 | 4.27 |
| Euro | 0.72 | 0.68 | 0.76 | 0.85 | 0.73 |
| Mozambican Metical (dropped three zeros in 2006) | 25.50 | 25.86 | 25.97 | 24.18 | 20.46 |
| Tanzanian Shilling | 1,315.02 | 1,146.01 | 1,264.05 | 1,162.01 | 1,073.01 |
| Zambian Kwacha | 4,795.00 | 3,850.00 | 4,390.24 | 3,480.52 | 4,700.00 |
| Zimbabwe Dollar (dropped three zeros in 2006 and 10 zeros in 2008) | | | | | |
| -official | 5,059,942.76 | 30,000.00 | 250.00 | 26.00 | 5.61 |
| -calculated | 642,901,315,78 | 4,948,961.54 | 2,400.99 | 88.09 | 6.20 |

# Salient Features

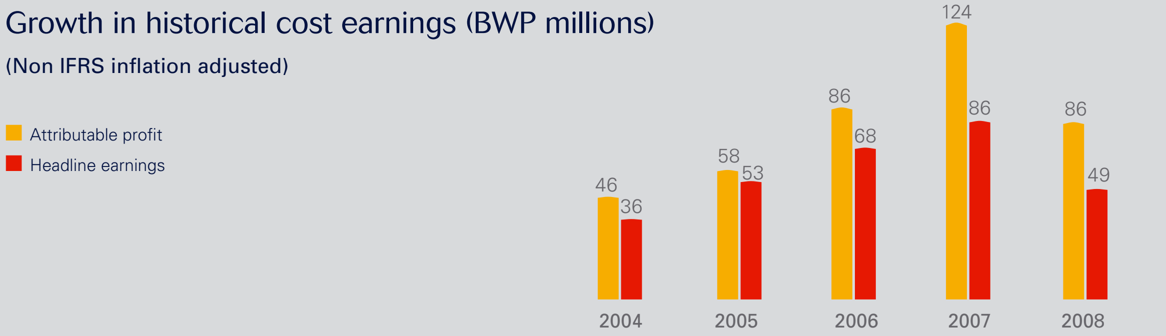
| | Inflation adjusted | | | Historical cost (Supplemental)* | | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **% change** | **2008** | **2007** | **% change** |
| **Income statement (BWP'000s)** | | | | | | |
| Headline earnings | 49,095 | 72,798 | -33% | 49,298 | 86,013 | -43% |
| Profit attributable to ordinary shareholders | 85,818 | 101,626 | -16% | 86,029 | 123,523 | -30% |
| **Balance sheet (BWP'000s)** | | | | | | |
| Total assets (attributable) | 3,967,938 | 2,953,505 | 34% | 3,967,909 | 2,930,121 | 35% |
| Loans and advances | 2,249,903 | 1,247,350 | 80% | 2,249,903 | 1,247,350 | 80% |
| Deposits | 2,822,352 | 1,961,479 | 44% | 2,822,352 | 1,961,479 | 44% |
| Net asset value | 437,654 | 335,860 | 30% | 437,777 | 313,813 | 40% |
| **Financial performance (%)** | | | | | | |
| Return on average equity | 22% | 33% | | 23% | 42% | |
| Return on average assets | 2.5% | 3.8% | | 2.5% | 4.6% | |
| **Operating performance (%)** | | | | | | |
| Non interest income to total income | 61% | 72% | | 61% | 76% | |
| Cost to income ratio | 59% | 69% | | 59% | 47% | |
| Impairment losses on loans and advances to gross average loans and advances | 6% | 10% | | 6% | 10% | |
| Effective tax rate | 28% | 13% | | 28% | 14% | |
| **Share statistics ('000s)** | | | | | | |
| Number of shares in issue | 146,420 | 132,569 | 10% | 146,420 | 132,569 | 10% |
| Weighted average number of shares | 142,635 | 129,655 | 10% | 142,635 | 129,655 | 10% |
| **Share statistics (thebe)** | | | | | | |
| Earnings per share | 60.2 | 78.4 | -23% | 60.3 | 95.3 | -37% |
| Headline earnings per share | 34.4 | 56.1 | -39% | 34.6 | 66.3 | -48% |
| Dividend per ordinary share | 8.0 | 14.0 | -43% | 8.0 | 14.0 | -43% |
| Net asset value per share | 2.99 | 2.53 | 21% | 2.99 | 2.37 | 30% |

| **Headline earnings reconciliation:** | Inflation adjusted | | Historical cost (Supplemental)* | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| **Profit attributable to ordinary shareholders** | 85,818 | 101,626 | 86,029 | 123,523 |
| Adjusted for: | | | | |
| Fair value adjustment on investment properties | (45,861) | (14,470) | (45,872) | (25,322) |
| Profit on disposal of subsidiary and associate | - | (19,047) | - | (19,047) |
| Profit on disposal of property and equipment | (42) | (75) | (42) | (22) |
| Loss on disposal of available for sale assets | - | 607 | - | 607 |
| Tax effect of adjustments | 9,181 | 4,157 | 9,183 | 6,274 |
| **Headline earnings** | **49,095** | **72,798** | **49,298** | **86,013** |

* Historical cost supplemental information has not been restated for the effects of IAS 29 (Financial Reporting in Hyperinflationary Economies).

## Growth in historical cost earnings (BWP millions)

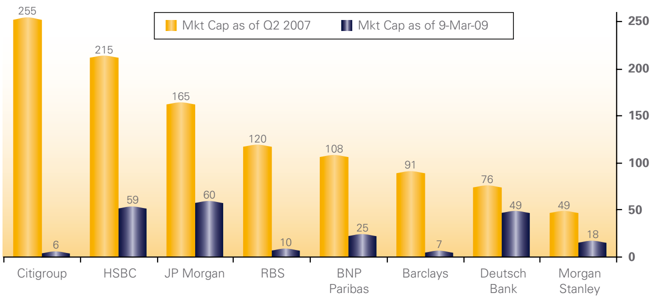
(Non IFRS inflation adjusted)



# Chairman's Statement

## International and Regional Economic Developments

The financial turmoil that began in the United States in 2007 mutated into a global financial crisis, encompassing broader securities markets and banking systems in several advanced and developing economies alike. The financial crisis developed into a full blown economic crisis, as evidenced by the decline in growth rates in two successive quarters of 2008.

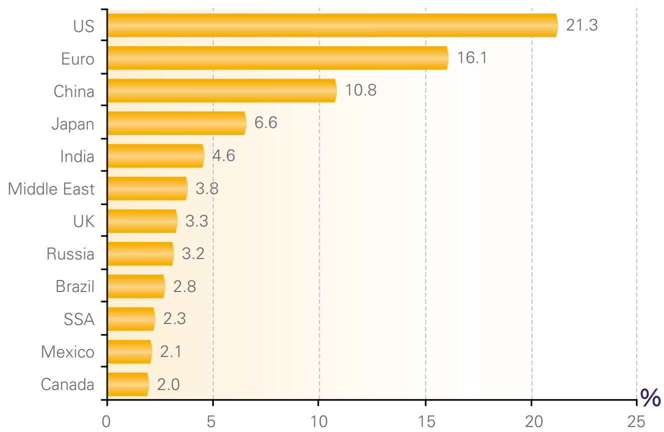



*Source: Bloomberg, March 9th 2009*

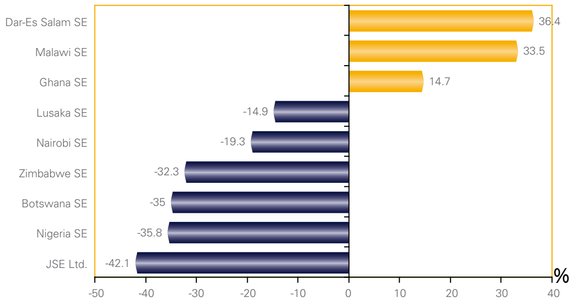
The world output grew by 5.1% in 2006, 5% in 2007 and is estimated to have expanded by 3.7% in 2008. In 2009, economic growth is projected to decline by 2.6%, 3.2% and 5.8% in the United States, Euro and Japan respectively. Consequently, world output growth is projected to decline by between 0.5% and 1%. Comprehensive measures have since been put in place to address the root causes of financial stress and to prop up demand. A number of countries have put up programs to purchase distressed assets, recapitalise the banks using fiscal packages as well as a coordinated reduction of interest rates by some central banks.

The global turmoil also represented a confluence of negative shocks to some emerging economies. Economic growth in China slowed down from double digit levels in 2007 to about 9.7% in 2008 and it is projected at 8.5% in 2009. In India, economic growth eased to 7.8% in 2008 and is projected at 6.3% in 2009. Economic growth moderated in Brazil, 5.2 %; and Russia, 6.8%; and in 2009, economic growth is projected to ease further to 3.0% and 3.5%, respectively.

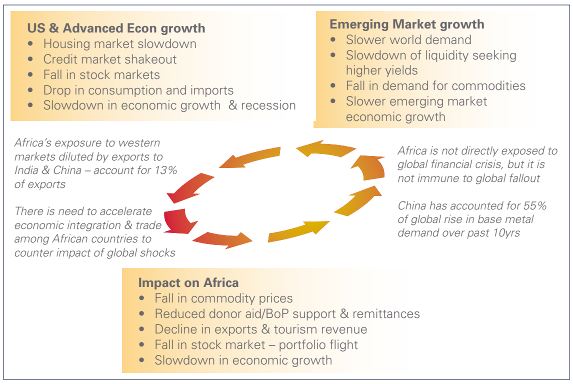
**Contribution to World Output by Country or Region (%)**



Compared to most developing regions, Africa has weaker financial linkages with the rest of the world. This to some extent offered the region an important source of resilience to the financial crisis, although, it was not a complete buffer to the contagion effect of the financial markets as well as the slower growth in real economies globally. The global financial meltdown elevated risk aversion among portfolio investors. This led to withdrawal by short-term foreign investors from the illiquid Sub-Saharan Africa (SSA) markets as hedge funds were forced to liquidate positions and repatriate capital due to increased redemption demand.




Heightened market volatility experienced in 2008, which was chiefly related to the global deleveraging, resulted in weakening of currencies across the divide of many countries.



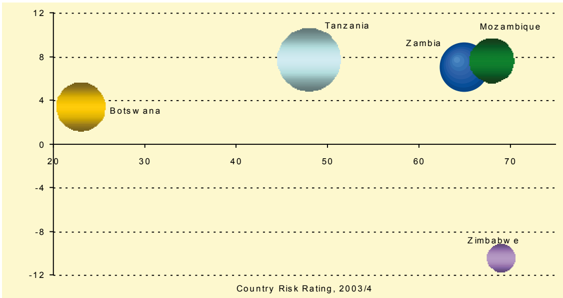

African commodity-driven economies were also adversely impacted by the bearish commodity prices which were more pronounced in the second half of 2008. In the SSA region, economic growth was estimated at 5.5% in 2008, down from 6.8% and 6.6% attained in 2007 and 2006, respectively.

| | Gold US$/oz | Platinum US$/oz | Palladium US$/oz | Copper US$/t | Nickel US$/t | Oil US$/barrel | Aluminium US$/t |
|---|---|---|---|---|---|---|---|
| **Dec-07** | **805** | **1 488** | **351** | **6 638** | **26,143** | **91** | **2 379** |
| Mar-08 | 964 | 2 046 | 489 | 8 398 | 30 997 | 106 | 2 988 |
| Jun-08 | 889 | 2 038 | 450 | 8 260 | 22 531 | 134 | 2 958 |
| Sep-08 | 833 | 1 223 | 248 | 6 990 | 17 791 | 104 | 2 525 |
| **Dec-08** | **816** | **835** | **175** | **3 066** | **9 678** | **43** | **1 582** |
| Jan-09 | 859 | 950 | 189 | 3 164 | 11 142 | 45 | 1 420 |
| Feb-09 | 943 | 1 036 | 206 | 3 314 | 10 406 | 39 | 1 330 |

Looking ahead, if the global economic downturn is deep and prolonged, it may present some challenges to SSA economies, the majority of which do not have the fiscal stamina and the necessary reserves to wade off the negative impact of a prolonged commodity price retreat.

The majority of African countries are net importers of both food and fuel. Food dominates the consumption basket in many SSA countries and contributes significantly to inflation. The combined effect of rising food and oil prices fuelled the resurgence of inflation pressures in most emerging and developing countries in 2008. Resultantly, a wide range of countries in SSA averaged double digit inflation levels in 2008. In 2009, inflationary pressures should be relatively subdued due to the combined effect of a high inflation base and weaker oil prices.

**GDP Size & Growth vs. Country Risk, 2003/4**




In the markets where African Banking Corporation has operations, Mozambique, Tanzania and Zambia are broadly expected to have posted robust growths higher than the average SSA growth rates. In Botswana, economic growth in 2008 was estimated at 3.3%, which is lower than the SSA regional growth rates. Zimbabwe's economy shrunk for the tenth consecutive year in 2008, and future prospects are highly dependent on the success of a Government of National Unity that was set up in February 2009. Reflecting the significant impact of high food and oil prices, average inflation in Botswana, Mozambique, Tanzania and Zambia was in double digit levels. In Zimbabwe, inflation as measured in local currency terms became increasingly irrelevant as a result of dollarisation in the latter part of 2008.

Botswana has generally had relatively high inflation levels in the past years, averaging nearly 11% between 1990 and 1999. Annual average inflation has however retreated to around 8% since 2000. In 2008, inflation, in sympathy with global trends, maintained an upward momentum, largely due to rising food and oil prices. Annual inflation increased from 8.4% in January 2008 to peak at 15.1% in August before retreating to 13.7% in December. Annual food inflation was generally very high, averaging 20.2% in 2008. The contribution of fuel to inflation through transport

| Country | GDP (USDm) 2008 | GDP Growth rate 2008 | Banking Deposits (USDm) 2008 | Banking Credit (USDm) 2008 | Banking Assets (USDm) 2008 | Population (estimated) (million) 2008 |
|---|---|---|---|---|---|---|
| Botswana | 11 728 | 3.3% | 4 991 | 2 251 | 6 449 | 1.8 |
| Mozambique | 10 100 | 6.5% | 2 965 | 1 631 | 4 235 | 21.2 |
| Tanzania | 21 346 | 7.5% | 4 680 | 3 201 | 6 325 | 40.1 |
| Zambia | 13 484 | 5.8% | 2 354 | 1 685 | 3 363 | 12.3 |
| Zimbabwe* | 2 000 | -10.5% | 377 | 50 | 945 | 12.4 |

*Sources: - IMF – World economic outlook database: October 20 08*
*-Central Banks statistics*
** estimates*

## Botswana

Over the period 2000 – 2006, the Botswana economy grew by an average of around 5.5% per annum. The economy, which is largely driven by the mining sector, is estimated to have grown by 3.3% in 2008, compared to 5.3% growth attained in 2007. In 2009, the overwhelming downside risks of the global economy will weigh heavily on Botswana's mining sector, with adverse consequences for the general economy. The United States alone accounts for nearly 50% of the world's gem diamond market, while Europe and Japan account for about 19% and 12%, respectively. The mining sector, especially diamond mining, is the main contributor to output for Botswana, accounting for about 40% of GDP. Diamonds also contribute about 75% of total exports and 45% of government revenue. Nonetheless, Botswana's accumulated fiscal savings over the years may provide a modicum of relief against the negative impact of the global fallout.

Historically, Botswana has enjoyed current account surpluses in excess of 10% of GDP. Rising diamond, copper and nickel export volumes supported by favourable prices have contributed immensely to the trade surpluses notwithstanding the growing fuel import bill over the past few years. The current account balance (CAB) is now expected to narrow down in tandem with depressed commodity prices. In 2008, international reserves were marginally higher, averaging US$10.1 billion, compared to US$9.2 billion in 2007.

subgroup peaked in the third quarter of the year, before moderating in line with declining world fuel prices.

On the backdrop of inflation surge in 2008, the Bank of Botswana tightened monetary policy by reducing the bank rate by 50 basis points in May 2008, to 15%. The bank rate was further reviewed upwards in June by another 50 basis points to 15.5%. The bank rate remained unchanged at 15.5% until mid December when the policy rate was eased to 15%, in light of the positive outlook to inflation in 2009, and the need to prop up output growth in the wake of muted global growth prospects. The prime lending rate closely follows the bank rate, and is normally 150 basis above the bank rate. Average deposit rate fell from 9.2% in 2007 to 8.7% in 2008, while interest rate spread widened from around 7% in first half of 2008 to about 8.5% in the second half of the year. In addition, due to the adverse impact of high inflation, real money market interest rates retreated to negative territory from May 2008 onwards. Negative real interest rates benefit borrowers at the expense of savers.

The Pula is pegged to a trade-weighted basket of currencies which include the Rand and the Special Drawing Rights (SDR). The Central Bank set the exchange rate trading band at 0.5% around the central parity in 2006. This effectively eliminates any unexpected swings in exchange rate. The Pula was relatively stable in 2007 and traded at an average of BWP6.14/US$. Compared to an average rate of BWP6.83/US$ in 2008, the Pula depreciated by 11.2%. Against the South African Rand, the Pula appreciated by 4.7%, which was largely a reflection of a weakening rand against the US dollar. South Africa is Botswana's main source of imports, accounting for about 80% of the country's total imports. A stronger Pula against the Rand helps to dampen the inflation pressures emanating from imported inflation.

November and December, average inflation for the year was 10.4%, some 2.2 percentage points higher than the average inflation achieved in 2007. Like many countries, high oil and food prices were the main drivers of inflation in Mozambique. The Mozambican authorities adjust the fuel price when there is a greater than 3% change in the meticais value of the international oil price. Imported

| **Country** | **Inflation Rate Dec-2008** | **Average TB Yield Rate* Dec-2008** | **Average or Prime Lending Rates 2008** | **Average or Prime Lending Rates 2007** |
|---|---|---|---|---|
| Botswana | 12.6% | 12.58% | 16.6% | 16.2% |
| Mozambique | 10.4% | 13.72% | 20.1% | 20.1% |
| Tanzania | 10.3% | 8.11% | 13.6% | 14.4% |
| Zambia | 12.4% | 12.20% | 25.2% | 25.0% |
| Zimbabwe | 231 m%*** | 340**% | 3 700% | 559.0% |

* 90 day ** 1 year ***July 2008

*Source: - Central Banks statistics*

## Mozambique

Mozambique is an example of a successful post-conflict transitional economy with impressive average growth rate of 7% over the period 2000 – 2007. The strong economic growth has been on the backdrop of foreign financed mega-projects and a significant inflow of foreign aid. Supported by solid macroeconomic and political stability, the economy has shown strong resilience against unfavourable shocks such as intermittent adverse weather conditions. In 2008, the economy is forecast to have registered robust growth of nearly 7% and it is projected to marginally slow down in 2009.

The stock of net international reserves improved from US$1.492 billion in December 2007 to US$1.606 billion December 2008. The increase in reserves has in part been supported by foreign aid inflows for direct support of the government budget and the Balance of Payments. Historically, the large current account deficit of over 10% of GDP has been financed by foreign direct investment (FDI) and official grants. Mozambique is one of the largest recipients of FDI and grants in Africa.

Annual inflation as measured by Maputo City Consumer Price Index, the official inflation indicator in Mozambique, has been relatively high for the greater part of 2008. Inflation increased from 10.6% in January 2008 to 13% in February – the highest level since October 2006. Although inflation dipped to single digit levels in inflation from South Africa, the country's largest source of imports, also has a significant bearing on the domestic price pressures.

In order to contain inflation pressures, the Bank of Mozambique continued to intervene in the interbank market thereby controlling liquidity in line with inflation, base money and net international reserves program goals. The Bank successfully managed to rein in inflation to its targeted range of 7 – 8% in December 2008.

In January 2008, the Bank of Mozambique marginally relaxed monetary policy by adjusting downwards the overnight interest rate, also known as the Standing Lending Facility rate. In January 2008, the overnight rate, the Bank's key instrument for liquidity management, was reduced by 100 basis points to 14.5%, and remained at the same level for the rest of 2008. The Standing Deposit Facility, another benchmark interest rate for the Bank of Mozambique also remained unchanged at 10.25%. In addition, the mandatory reserve requirements were reduced from 10.15% to 9% with effect from 7 April 2008. These measures were aimed at promoting a firm and sustainable economic growth through empowering banks to effectively conduct their financial intermediation role.

The exchange rate has remained relatively stable during the year, trading in the tight range between MZM23.92 – MZM24.85 to the US Dollar. During the first half of 2008, the Bank of Mozambique intensively intervened in the foreign exchange market by supplying foreign currency in order to meet high demand of foreign currency resulting from increased bills of fuel and food commodities. The foreign exchange sales in the Foreign Exchange Interbank Market have since decreased compared to the first six months of the year, when the market was characterised by high liquidity conditions. The metical however strengthened against the South African rand. South Africa is Mozambique's largest trading partner. The metical averaged MZM2.97/ZAR in 2008 compared to MZM3.63/ZAR in 2007. Therefore the Metical appreciated by 18.2% against the Rand. A considerable depreciation of the Rand was triggered by a rise in global risk aversion to emerging market assets following financial market turmoil in the advanced economies.

## Tanzania

Supported by sound macroeconomic policies, economic growth in Tanzania has averaged 6.5% over the period 2001 – 2007, which compares favourably with the average growth for sub – Saharan Africa. In 2008, the economy is estimated to have grown by about 7%, on the backdrop agriculture sector recovery. Robust mining sector growth of nearly 15% per annum has also been instrumental in supporting economic growth in Tanzania. Expansion in gold mining industry has seen the country becoming the third largest producer of gold in Africa. Tanzania's gold output accounts for about 2% of world output, compared to South Africa, 10%; Ghana, 2.5% and Mali, 1.8%. While commodity prices for most minerals declined significantly during the year owing to weak demand in the wake of global economic recession, gold price has generally been spared due to its safe haven status. Other key sectors such as construction, financial services and telecommunications are expected to perform well in the medium term outlook. The global downturn may however lead to a slowdown in foreign investment, remittances, aid and tourism receipts. Furthermore, the country continues to face bottlenecks in the form of electricity shortfalls, poor road network and the congested Dar es Salam port, which unnecessarily increase the cost of doing business. In order to achieve the country's ambitious poverty reduction goals, the economy needs to grow at over 8% per annum.

Despite the Bank's active sale of foreign currency in order to mop up liquidity, foreign exchange reserves increased from US$2.5 billion in December 2007 to around US$2.7 billion in 2008. The level of reserves was sufficient to cover about five months of import of goods and services, which is higher than most of the neighbouring countries. Tanzanian residents have almost US$1.6 billion of foreign currency deposits lodged with the local banks. A healthy foreign reserves position is also important for the stability of Tanzanian Shilling and confidence in the economy, thereby assisting in the positive build up of inflation expectations.

Annual headline inflation was relatively high during the year, due to elevated global food and oil prices that prevailed in the first three quarters of the year. Although inflation was generally in single digit levels for the first eight months of the year, inflation ended the year on a peak of 13.5%. Domestic food price inflation was high, also peaking at 18.6% in December 2008. Following poor harvest in Kenya in the wake of political crisis at the beginning of 2008, food was exported across the border where it fetched a better price. This in turn created high demand for food in Tanzania, thereby pushing the prices up.

The Bank of Tanzania (BoT) broadly pursues a tight monetary policy underpinned by multiple objectives of controlling money supply growth, while allowing economic growth to benefit from credit expansion to the private sector in order to meet the inflation target. In 2008, money supply growth has varied in the range of 21 – 29%. In 2007, money supply growth was generally lower, hovering in the narrow range of 19.5 – 22.5%. A healthy foreign exchange reserve position has further allowed the BoT to increasingly use foreign exchange sales to sterilize monetary expansion, instead of costly Treasury bill issuances, which are costly due to their high yields. Furthermore, in response to rising inflation pressures towards the end of 2008, BoT also increased the statutory reserve requirements for commercial banks.

The Shilling was fairly strong at the beginning of the year, averaging TZS1,163.1/US$ in January 2008. The exchange rate however came under pressure in the last quarter of 2008, on the backdrop of the global financial turmoil, and a firm US Dollar. The global crisis resulted in speculative demand for foreign exchange which resulted in mild panic leading to buying and hording behaviour. In December, average exchange rate was US$1,276.2/US$. Therefore the Shilling weakened against the US Dollar by about 10% between January and December. The Shilling is likely to remain relatively weak in early 2009, due to high demand of foreign exchange which is usually associated with this period, due to increased food acquisition.

## Zambia

The Zambian economy has performed well in the recent past, with real Gross Domestic Product (GDP) averaging 5.1% per annum during 2001 – 2007. Zambia is the leading producer of cobalt and copper in Africa, and has immensely benefited from soaring copper prices. The country contributes nearly 12% of total world cobalt production and 3% of world copper. Copper exports account for about 70% of Zambia's total export earnings. In addition, copper and cobalt contribute up to 65% of government revenues. The onset of global financial crisis and the resultant correction in commodity prices have already seen a sharp decline in copper prices of up to 60%. Depressed copper prices are likely to regress Zambia's growth momentum as witnessed in 2008. At the time of writing, the economic growth estimates for 2008 have been revised downwards from 7% to 6%.

Propelled by a healthy trade surplus on the back of favourable export earnings, the country's foreign currency reserves grew strongly from US$720m in 2006 to about US$1.1 billion in 2007 and further to US$1.4 billion in 2008. As expected, the trade surplus is however set to fall sharply in line with expected decline in copper exports in 2009, and could have a negative bearing on the reserves.

The monetary policy aimed at consolidating gains achieved in 2007 by targeting a year-end inflation of 7% in 2008 and 5% in 2009. Notwithstanding this objective, annual headline inflation increased from 9.3% in January 2008 to 12.1% in June and ended the year at a peak level of 16.6%. Average inflation for 2008 was 12.4%, compared to 10.7% achieved in 2007. Inflation pressures stemmed primarily from high food costs. The price of food, which constitutes about half of the consumer price basket, peaked at 20.5% in December 2008.

In 2008, annual money supply growth oscillated between a broad range of 20 - 35%. The growth in money supply is partly attributed to changes in foreign exchange inflows as a result of strong export earnings. Foreign exchange deposits make up about 35% of broad money supply.

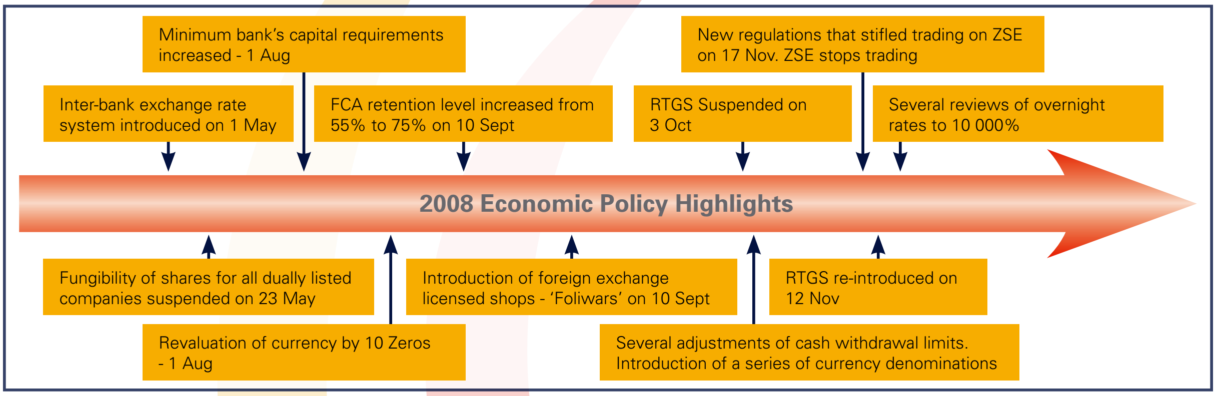
Generally, commercial bank interest rates have been falling, although not as fast as the overall decline in inflation and Treasury bill rates. The fall in interest rates has also been supported by reduced domestic borrowing by government, following increased inflow of debt relief under the Highly Indebted Poor Countries (HIPC) programme. In 2008, the key policy rate (Bank of Zambia rate) and the 91-day TB rate averaged 14.2% and 12.2%, respectively. The 91-day TB rate is generally 200 basis points lower than the bank rate.

Since foreign exchange market is liberalised, the Zambian Kwacha is an independent free floating currency. During the year, exchange rate dynamics were largely influenced by political uncertainty following the death of Zambian President, Mr Levy Mwanawasa, and the eventual election of Mr Rupiah Banda as the new President. During this period, the Kwacha weakened considerably against the US dollar in the wake of uncertainty with regards to political developments in Zambia. In addition, the global financial crisis also weighed heavily on the currency, on the backdrop of risk flight by most foreign investors.

## Zimbabwe

Since the beginning of 2008, authorities have embarked on a number of economic policy prescriptions which in some cases have exacerbated the plight of many business operations with irreversible damage. Concomitantly, in 2008 the economy is estimated to have further declined by a double digit margin, underpinned by sharp declines in all major sectors of the economy. The year 2008 became the tenth year in a row of negative growth in the country's gross domestic product. Over the years spanning between 1999 and 2008, the economy has cumulatively shrunk by nearly 45%.

**A summary of Zimbabwe's Economic Policy Highlights in 2008**



# Chairman's Statement

The local currency came under tremendous siege from unfavourable economic fundamentals, resulting in loss of value of up to 60% on a daily basis, particularly in the second half of the year. Due to waning confidence in the local currency, the economy has thus steadily legally and illegally been dollarized. A government of national unity was formed in February 2009, followed immediately by the official dollarisation of the economy.

Official inflation was last announced in July 2008 at 240 million percent. It is projected that inflation could have ended the year in septillions (24 zeros). Month on month inflation is estimated to have reached millions in tandem with astronomical depreciation of the Zimbabwe Dollar against the greenback. Exchange rate depreciation has a high pass through effect to domestic prices in the economy and has thus become synonymous with inflation. Nonetheless, inflation in local currency terms has increasingly become irrelevant since the majority of transactions are now being conducted in foreign currency (US dollars, South African Rand and to some extent, the Botswana Pula are widely used), with Zimbabwe Dollar based transactions being downgraded to peripheral purposes.

## Capitalisation

In July 2008 shareholders approved a proposal to raise capital by way of a rights issue. After the approval the global financial markets have been in turmoil necessitating that the capital raising exercise be postponed until further notice.

## Outlook

The world economic crisis will probably get worse before it gets better. Commodity prices are not expected to recover any time soon and certainly not in 2009. Whilst African economies are expected to register growth it would be subdued. We have already seen worrying signs in the mining sector particularly in Botswana and Zambia.

The formation of a Government of National Unity in Zimbabwe is a good development and we sincerely hope the deal holds. The major challenge in that market is dollarisation and the fact that most businesses are now undercapitalised. Margins will in all probability go down and we now have to concentrate on our core banking business as the market normalises and growth sets in.

## Dividend

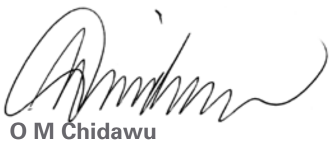
The directors approved an interim dividend of 8 Thebe per ordinary share for the half year ended 30 June 2008. Given the current uncertainty in the global markets, there is a need to conserve cash. As a result, the Directors recommended that a final dividend be passed.

## Board of Directors

Mr. John Moses resigned from the Board with effect from 2 December 2008 to pursue other interests. We would like to thank John for his valuable contribution to the board deliberations and wish him every success in his future endeavors.

## Acknowledgements

I would like to thank the Board, management and staff for their effort in this turbulent market.



**O M Chidawu**
Chairman

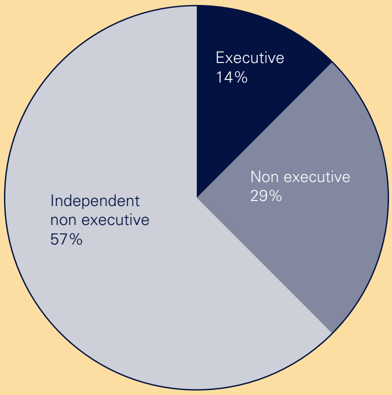
6 April 2009

# Directorate and Group Management

## ABC Holdings Limited - Board of Directors

| | |
|---|---|
| Chairman | Mr. O M Chidawu* |
| | Mr. H Buttery** |
| | Mrs. D Khama** |
| | Mr. N Kudenga* |
| | Mr. T S Mothibatsela** |
| | Mr. H Wasmus** |
| | Mr. D T Munatsi (Group Chief Executive Officer) |

* Non-executive
** Independent non-executive




## Remuneration Committee

| | |
|---|---|
| Chairman | Mr. O M Chidawu |
| | Mr. H Buttery |
| | Mr. N Kudenga |

## Loans Review Committee

| | |
|---|---|
| Chairman | Mr. H Wasmus |
| | Mrs. D Khama |

## Risk and Audit Committee

| | |
|---|---|
| Chairman | Mr. N Kudenga |
| | Mr. T S Mothibatsela |
| | Mr. H Wasmus |

## Executive Committee

| | |
|---|---|
| Chairman | Mr. D T Munatsi |
| | Mr. F Dzanya |
| | Mr. B Moyo |
| | Mr. H Matemera |
| | Mr. B Mudavanhu (appointed February 2009) |

## Group Management

| | |
|---|---|
| Chief Executive Officer: | D T Munatsi |
| Chief Operating Officer: | F M Dzanya |
| Chief Financial Officer: | B Moyo |
| Head of Wholesale Banking: | H Matemera |
| Head of Retail Banking: | A Faulkner |
| Chief Risk Officer: | B Mudavanhu (appointed February 2009) |
| Head of Human Capital: | A Willemse |
| Secretary to the Board: | M de Klerk |
| Chief Information Officer: | J Bosch (appointed January 2009) |
| Chief Legal Officer: | M Vogt (appointed March 2009) |
| Chief Credit Officer: | P Westraadt |

# Board of Directors

## CHIDAWU, Oliver M. (Zimbabwean) - Chairman

Oliver Chidawu is the 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. Mr. Chidawu is a major shareholder in Bitumen Construction Services and Heritage Insurance Company. He was a founding shareholder and director of Heritage Investment Bank that merged with First Merchant Bank in 1997.

## MUNATSI, Douglas T. (Zimbabwean) – Chief Executive Officer

Douglas Munatsi was born in Zimbabwe in 1962. He has been Chief Executive Officer of the ABC Holdings Group since its formation in 2000. Prior to the establishment of African Banking Corporation, Doug founded Heritage Investment Bank (HIB), which quickly established a reputation for successful introduction of innovative capital market products and became one of the leading merchant banks in Zimbabwe. In 1997, together with Anglo American of Zimbabwe which then controlled 43% of First Merchant Bank of Zimbabwe ("FMB"), he successfully negotiated the merger between HIB and FMB. Doug became Managing Director of the merged bank, which retained the First Merchant Bank name. Prior to establishing HIB, he was an executive in the Southern Africa regional mission of the International Finance Corporation (IFC), the private sector arm of the World Bank. Doug holds a Bachelor of Business Studies (Hons) degree from the University of Zimbabwe, a Master of Business Administration (Finance) from the American University, Washington D.C. and AMP from Harvard Business School.

## BUTTERY, Howard J. (South African)

Howard Buttery was born in South Africa in 1946. In his position as Chairman of Bell Equipment Ltd, a listed South African company, his current focus is on the development of a strategic alliance of three international companies namely John Deer (United States), Liebher (Germany) and Hitachi (Japan). In addition to serving on the ABC Holdings board, Mr. Buttery also serves as a non-executive director of several companies, including Rodgers and Company Limited (Mauritius) and two Swiss international management funds.

## KHAMA, Doreen (Motswana)

Doreen Khama was born in Botswana in 1949. Mrs Khama is the Honorary Consul for Austria in Botswana and a practicing lawyer by profession. She is the founder and senior partner of Doreen Khama Attorneys, a legal firm that has been in operation for more than 20 years. The firm has offered legal advice to companies such as Damp Holding AB Sweden, Admiral Leisure World Limited Austria and South Africa, LID Limited Russia and Israel, as well Equity Diamond Cutting Works (Pty) Ltd in South Africa. She is an active business individual nationally, regionally and internationally, and has been able to execute several business developments and maintain a high standing of professional prominence through her affiliations in Greece, Italy and England. She serves as a director and board member for several organisations.

## KUDENGA, Ngoni (Zimbabwean)

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

## MOTHIBATSELA, Tshipa S (Motswana)

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 USA. Mr. Mothibatsela completed a management development program 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.

## WASMUS, Johannes (Dutch)

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 CFO. During this period he was seconded to Inde Bank Malawi as Senior Adviser. He was a senior adviser to FMO until 2007 and is a non-executive director of several companies.

## MUNATSI, Douglas T. (Zimbabwean) – Chief Executive Officer

Douglas Munatsi was born in Zimbabwe in 1962. He has been Chief Executive Officer of the ABC Holdings Group since its formation in 2000. Prior to the establishment of African Banking Corporation, Doug founded Heritage Investment Bank (HIB), which quickly established a reputation for successful introduction of innovative capital market products and became one of the leading merchant banks in Zimbabwe. In 1997, together with Anglo American of Zimbabwe which then controlled 43% of First Merchant Bank of Zimbabwe ("FMB"), he successfully negotiated the merger between HIB and FMB. Doug became Managing Director of the merged bank, which retained the First Merchant Bank name. Prior to establishing HIB, he was an executive in the Southern Africa regional mission of the International Finance Corporation (IFC), the private sector arm of the World Bank. Doug holds a Bachelor of Business Studies (Hons) degree from the University of Zimbabwe, a Master of Business Administration (Finance) from the American University, Washington D.C. and AMP from Harvard Business School.

## DZANYA, Francis - Chief Operating Officer

Francis Dzanya was born in Zimbabwe in 1960. He was appointed as Chief Operating Officer in April 2008. Francis was previously Chief Banking Officer, a position he held since 2003. Francis has over 20 years experience in the banking industry in Southern Africa, of which 10 years was in ABC Holdings and its predecessor companies. Before assuming his current position, Francis was Group Head of Corporate, Private and International Banking and Managing Director of ABC Zimbabwe. Prior to the formation of ABC Holdings in 2000, Francis was General Manager, Corporate, Private and International Banking at First Merchant Bank, a predecessor entity of ABC Holdings. Francis was the General Manager-Risk Management at Heritage Investment Bank (HIB). He also worked for Zimbabwe Banking Corporation in Zimbabwe and Botswana. Francis Dzanya holds a Bachelor of Arts (Honours) degree in Banking, Insurance and Finance from Sheffield Hallam University in the UK and 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.

## MOYO, Beki - Chief Financial Officer

Beki Moyo was born in Zimbabwe in 1967. He is the Group Chief Financial Officer, a position he has held since 2005. Prior to his current appointment, Beki was Group head of Treasury. In the course of a banking career spanning over 10 years, Beki also held the position of Finance Director of ABC Zimbabwe, Executive Director of ABC Botswana and was General Manager – Finance at udc, a predecessor entity of ABC Holdings and Chief Accountant at Stanbic Bank Zimbabwe. Before entering banking, Beki Moyo trained and qualified as a Chartered Accountant with Deloitte and Touché, where he was later appointed Audit Manager. Beki Moyo 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 AMP from Harvard Business School. He is a Chartered Accountant (Zimbabwe).

## MATEMERA Hashmon - Group Head, Wholesale Banking

Hashmon Matemera was born in Zimbabwe in 1964. He was appointed as Group Head, Wholesale Banking in April 2008. Previously he was the Group Head of Treasury and Structured Finance. Hashmon Matemera has over 17 years banking experience gained in merchant banking, commercial banking and as a central banker. Hashmon has held several positions, including Executive Director of Banking Services at ABC Zimbabwe. He also served as General Manager – Risk Management at ABC Zimbabwe, and as Senior Manger - Risk Management at the Commercial Bank of Zimbabwe (CBZ). Prior to joining CBZ, Hashmon spent 10 years at the Reserve Bank of Zimbabwe, mostly in the Supervision and Surveillance Division, where he held the position of Manager – Offsite Supervision, with responsibility for commercial and merchant banks. Hashmon Matemera holds a Bachelor of Science (Honours) degree in Economics, and a Masters of Science in Economics, both from the University of Zimbabwe.

## MUDAVANHU, B (Dr) - Chief Risk Officer

Blessing Mudavanhu was born in Zimbabwe in 1971. He was appointed Group Chief Risk Officer in February 2009. Previously he spent 8 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 in New York. Prior to joining Bank of America Merrill Lynch, Blessing Mudavanhu was a Senior Risk Analytics Associate in the Enterprise Risk Management Group at American International Group, also in New York. Blessing Mudavanhu 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 in the United States. Blessing Mudavanhu also holds a Master of Science in Financial Engineering from the Hass School of Business, University of California at Berkeley in the United States. He has published many research papers in the Journal of Investment Management and in many mathematics journals. Blessing Mudavanhu was an Adjunct Professor of Risk Management at the City University of New York. He is listed in Who's Who in America and is a recipient of the Fulbright Scholarship.

# Company Secretary

## DE KLERK, Markus

Markus de Klerk was born in Zimbabwe in 1966. He is Group Legal Counsel and Secretary to the Board. Markus joined ABC Holdings from Phoenix Associates, where he was a Consultant. Previously, he was with the Merchant Bank of Central Africa for a period of five years where he held various posts in the Recoveries, Risk management and Secretariat Departments. Markus, an admitted Attorney of Zimbabwe, also practiced law in a number of legal firms in Zimbabwe and South Africa. Markus holds Bachelor of Arts and Bachelor of Laws (LLB) degrees from the Kwa-Zulu Natal University.

# Board of Directors

*From left to right:* Ngoni KUDENGA, Oliver M. CHIDAWU - Chairman, Douglas T. MUNATSI – Group Chief Executive Officer, Doreen KHAMA, Howard J. BUTTERY and Johannes WASMUS. Tshipa S Mothibatsela not in the picture.

# Group Companies Directorate

## African Banking Corporation of Botswana Limited

| | |
|---|---|
| Chairperson | D Khama |
| | L Makwinja |
| | T Mothibatsela |
| | B Moyo |
| | D T Munatsi |
| Managing | J Kurian |
| Registered address: | ABC House, Tholo Office Park, Plot 50669, Fairground Office Park, Gaborone, Botswana. |

## African Banking Corporation Mozambique Limited

| | |
|---|---|
| Chairman | B Alfredo |
| | H Chambisse (appointed March 2008) |
| | D T Munatsi |
| | L S Simao (appointed May 2008) |
| | T E T Venichand (appointed May 2008) |
| Managing | J Sibanda (appointed March 2008) |
| Registered address: | Avenida Julius Nyerere 999, Polana Cimento, Maputo, Mozambique |

## African Banking Corporation Tanzania Limited

| | |
|---|---|
| Chairman | J P Kipokola |
| | R Dave |
| | J Doriye |
| | W Nyachia |
| | D T Munatsi |
| | L Sondo |
| Managing | I Chasosa |
| Registered address: | ABC Tanzania, 1st Floor Barclays House, Ohio Street, Dar es Salaam, Tanzania. |

## African Banking Corporation Zambia Limited

| | |
|---|---|
| Chairman | C Chileshe |
| | N Kudenga |
| | G Narder |
| | B Nundwe |
| | J W Thomas |
| Managing | J McGuffog |
| Registered address: | ABC Pyramid Plaza Building, Plot 746B, Corner Nasser Road / Church Road, Ridgeway, Lusaka, Zambia. |

# African Banking Corporation Zimbabwe Limited

| | |
|---|---|
| Chairman | N Kudenga |
| | H Brits |
| | P Chigumira |
| | F M Dzanya |
| | P Sithole |
| | F E Ziumbe |
| Managing | Z Shaba |
| Registered address: | Endeavour Crescent, Mount Pleasant Business Park,<br>Mount Pleasant, Harare, Zimbabwe |

# Microfin Africa Zambia Limited

| | |
|---|---|
| Chairman | L Mwafulilwa |
| | G Chabwera |
| | R Credo |
| | A Dudhia |
| | R Liebenthal |
| | I Mwanza |
| Managing | R Jere |
| Registered address: | 3nd floor, First Alliance House, Cairo Road, Southend, Lusaka, Zambia. |

# Tanzania Development Finance Company Limited

| | |
|---|---|
| Chairman | J P Kipokola |
| | R Dave |
| | J Doriye |
| | W Nyachia |
| | D T Munatsi |
| Managing | I Chasosa |
| Registered address: | TDFL Building, Ohio Street / Upanga Road. PO Box 2478,<br>Dar es Salam, Tanzania. |

# Incorporation Details

ABC Holdings Limited
Registration number: 99/4865
ABC House, Tholo Office Park,
Plot 50669, Fairground Office Park,
Gaborone,
Botswana

# Legal Advisor

Armstrongs Attoneys
5th Floor, Barclays House
P O Box 1368
Gaborone,
Botswana

# Share Transfer Secretaries

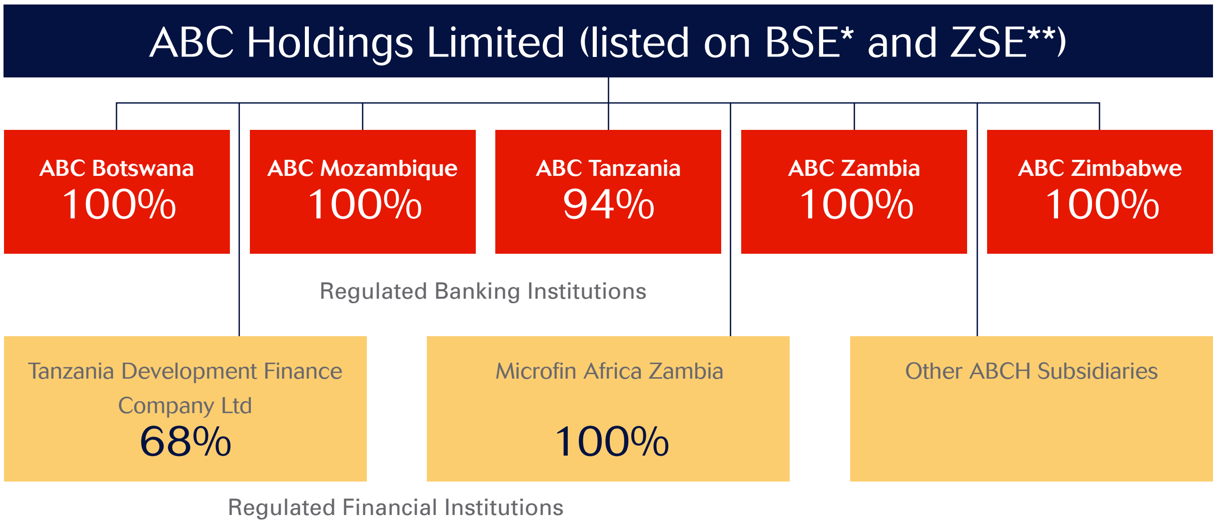
ABC Transfer & Secretarial Services (Pty) Ltd
ABC House, Tholo Office Park,
Plot 50669, Fairground Office Park,
Gaborone,
Botswana

First Transfer Secretaries (Private) Ltd
4th Floor Goldbridge North
Eastgate
Corner Robert Mugabe Way and
Sam Nujoma Street,
P.O. Box 11,
Harare,
Zimbabwe

# Auditors

PricewaterhouseCoopers
Plot 50371
Fairground Office Park
Gaborone,
Botswana

# Group Structure: ABC Holdings Limited




- Only significant operating subsidiaries are shown

* Botswana Stock Exchange
** Zimbabwe Stock Exchange

# Group Management Structure: ABC Holdings Limited


* Group Internal Audit reports directly to the Board Audit Committee, and to the CEO for administrative purposes

# Governance Structures: ABC Holdings Limited

## GROUP LEVEL

### ABC Holdings Ltd (Board of Directors)

**Loans Review Committee**
- approves the general credit procedures of the Group.
- reviews loan portfolio on a quarterly basis.

**Executive Committee**
- assists CEO in implementing strategy, policies and procedures.
- medium of communication in the Group.
- co-ordination between business units.

**Risk and Audit Committee**
- terms of reference in accordance to King II report.
- assist Board in financial reporting, compliance, and effectiveness of internal control environment

**Remuneration Committee**
- sets remuneration philosophy of the Group.
- approves senior executive remuneration.
- sets remuneration policies that attract and retain the right calibre of staff.

**Nominations Committee**
- recommends all new board appointments.

## SUBSIDIARY LEVEL

### Subsidiary Companies Boards

**Credit Committee**
- approves credit facilities up to a set threshold.
- reviews credit control and management.
- reviews loan portfolio on a regular basis.

**Risk and Audit Committee**
- assist operations boards in financial reporting, compliance, risk management and effectiveness of internal control environment.

**Loans Review Committee**
- approves the general credit procedures of the company.
- reviews quality of the loan portfolio on a quarterly basis.

## SUBSIDIARY MANAGEMENT

### Management Committee

- Risk and Compliance → Group Risk
- Internal Audit → Group Internal Audit
- Asset and Liability Committee → Group Asset and Liability Committee
- Operations

## GROUP FUNCTIONS

- Group Risk
- Group Internal Audit
- Group Asset and Liability Committee

# Risk and Governance

## Risk Management

Effective risk management is critical in a complex organisation like ABC Holdings Ltd ("ABCH"). A strong and solid risk management culture exists that ensures proper balance of the diverse risks and rewards inherent in any transaction, and ensures sound business decision making. A culture of risk awareness and compliance is embedded in ABCH's day to day activities.

## Approach to Risk Management

The Board of ABCH 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 in order to mitigate the significant risk faced by the Group;
- ensuring that there is a documented and tested process in place, which allows the Group to continue its critical business in the event of a disastrous incident impacting its activities; and
- reviewing the system of internal control for effectiveness and efficacy.

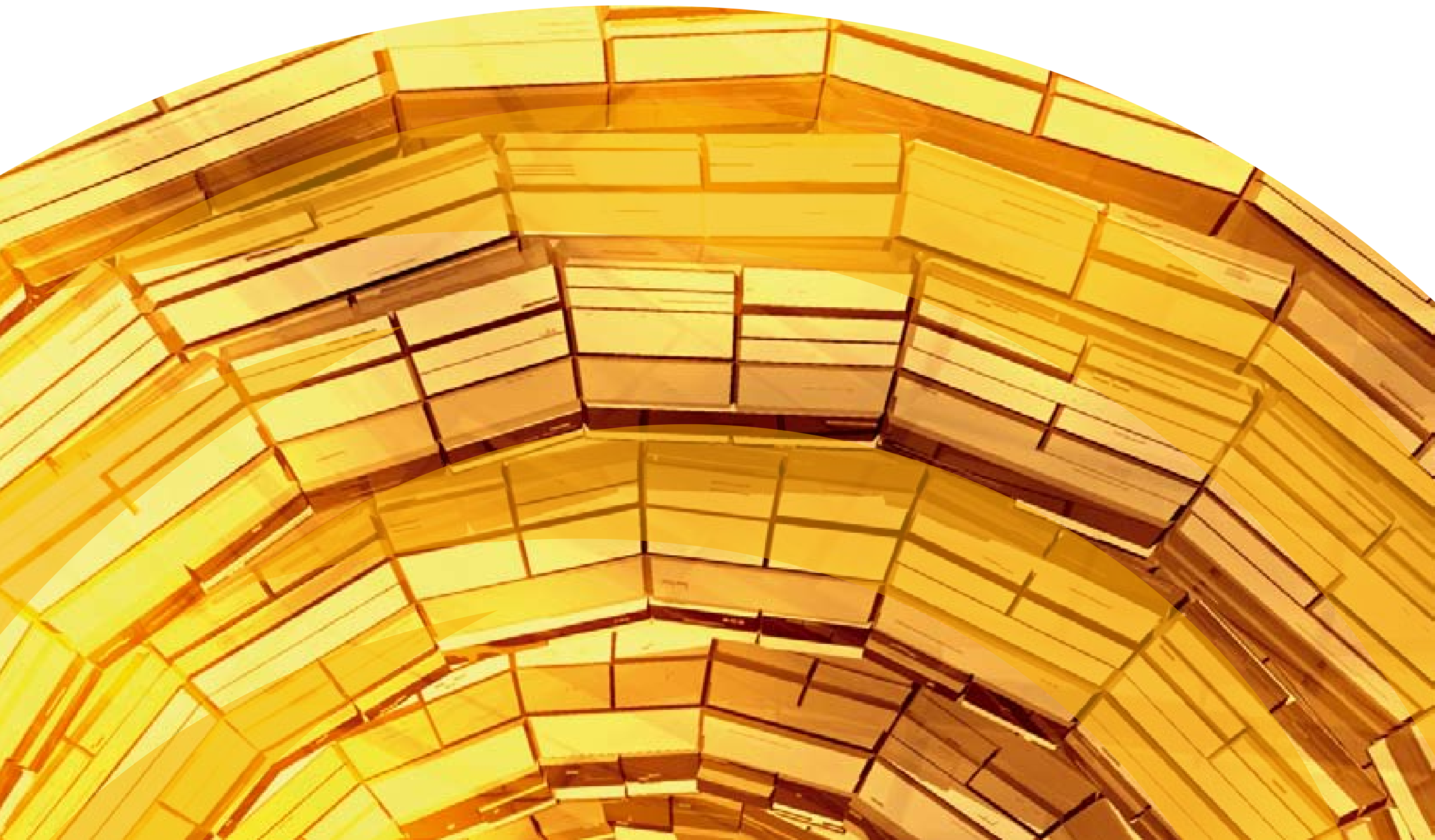
As a banking group, risk identification and management is an integral part of business processes, and a core competence of the Group. The Board has approved a Group Risk Management Framework which applies to all Group companies, and deals with enterprise-wide risk and governance protocol. Risk management in the Group is underpinned by the following pillars:

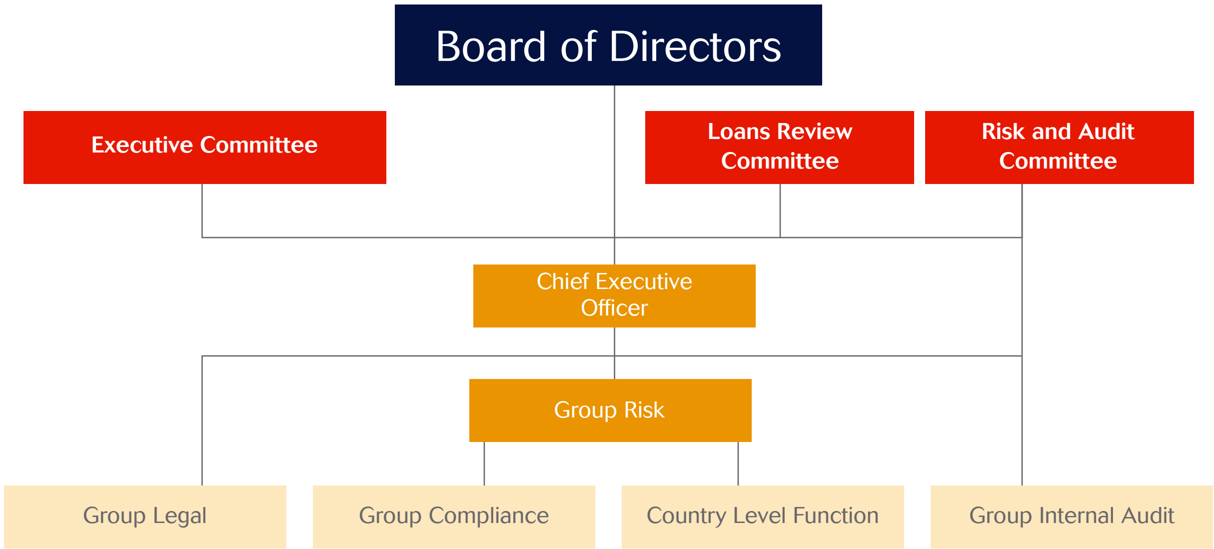
- **Governance Structures**
  The Board has put in place a risk governance structure throughout the Group which ensures effective oversight.

- **Risk Ownership, Identification and Evaluation**
  Ownership and management of risks begins in the business units in each subsidiary. Risks are identified and evaluated at this level. Group risk reviews the action taken in mitigation of identified risks.

- **Group Risk Management Framework**
  The Group has a comprehensive risk management framework which was approved by the Board. The framework documents the risk management policies which are to be followed in the Group. Group Risk management is responsible for maintaining and updating the risk management framework.

- **Reporting**
  Each subsidiary or business unit produces risk reports which are discussed at Board level. Group risk provides detailed risk information to the ABCH Board of Directors. The risk reports contain a balanced assessment of significant risks and the effectiveness of risk management procedures, and management actions in mitigating those risks.






**Role of Group Risk Management**

The Group Risk function is responsible for the maintenance of a culture of risk awareness throughout the Group. While each business unit retains the primary responsibility 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 co-ordinates risk management activities across the Group, ensuring that risk parameters are properly set and adhered to across all risk categories and in all of the Group's businesses. Group Risk ensures that all risk exposures can be measured and effectively monitored across the Group. The effective management of risk is one of the key drivers for 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 capture new policies adopted by the Board of Directors.

Group Risk regularly reports to the Executive Committee and the Risk and Audit Committee; providing the Board with the assurance that it requires that risks are being identified, managed and controlled in the Group. The key role of Group Risk is recognised by ABCH and the function is headed by a member of executive management who reports to the Chief Executive Officer.

**Group Internal Audit**

The primary function of internal audit is to give an objective assurance to the Board that there are adequate management processes 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 which were approved by the Risk and Audit Committee. The terms of reference define the role and objectives, authority and responsibility of the audit function. The reporting structures in the Group ensure that the Group Internal Auditor has unrestricted access to the Chairman of the Risk and Audit Committee and the Chief Executive Officer.

At the beginning of each financial year, Internal Audit carries out a risk assessment for all business units and subsidiaries. A comprehensive audit plan for the year is then derived based on this risk assessment, and identifies areas of focus. The areas of focus are confirmed with executive management before they are approved by the Risk and Audit Committee.

The audit plan is reviewed regularly and any changes are approved by the Risk and Audit Committee.

**Compliance**

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

Compliance risk is managed effectively through the development and implementation of compliance processes, development of effective policies and procedures affecting the respective regulatory framework, and providing advice and training on the constantly changing regulatory issues. A key role of compliance officers in the Group is to develop and maintain sound and smooth working relationships with the various regulators throughout the countries in which ABCH has operations.

### Group Legal

The function is headed by the Group Legal Counsel and is responsible for ensuring that legal risk is adequately managed. This is effected through the use of standard approved legal documentation wherever possible. Specialised external legal advisors are used whenever required for non-standard transactions. The Group Legal Counsel ensures that only approved legal advisors are used to give legal opinions or to draw up specialised agreements.

ABCH is committed to the principles of openness, integrity and accountability. In February 2003, the Board endorsed the adoption of the second report of the King Commission.

### Board of Directors

The Board currently comprises 7 directors, including 4 independent non-executive directors and 2 non-executive directors. The Board composition is balanced so 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 occurs. ABCH Directors' profiles are on pages 18 and 19 of this report.

The roles of Chairman and Chief Executive Officer (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 of strategic direction, monitoring of operational performance and management, risk management processes and policies, compliance and setting of authority levels, as well as the selection of 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 its responsibility for risk to the Risk and Audit Committee. The 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 the risk management structures in the Group and reports to the Board on all risk governance issues.

All directors have direct access to the advice and service of the Group Legal Counsel and Company Secretary and to information on the Group's affairs. A formal board charter has been adopted which deals with the Board's role, responsibilities and procedures.

Country operations have their own boards, with external representation and function within the requirements of their jurisdiction.

The Group Board meets at least four times a year. Several additional telephonic meetings are also held during the year. The CEO and senior executives are available to brief directors where required.

### Board Committees

The Board is assisted in the discharge of its responsibilities by a number of sub-committees. A pictorial representation of the governance structure is on page 27 of this report.

These committees are accountable to the Board, with the exception of the management committee which reports to the executive committee. Minutes of sub-committee meetings are circulated and reported on at the following Board meeting. Senior executives are invited to attend meetings where appropriate.

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

## Directors' attendance at meetings in 2008

| Director | FEB | APR | MAY | AUG | NOV* | DEC |
|---|---|---|---|---|---|---|
| Buttery (I) | A | P | P | A | A | P |
| Chidawu (N) | P | P | P | A | P | P |
| Khama (I) | P | P | P | P | P | P |
| Kudenga (N) | P | A | P | P | A | P |
| Moses (I) (resigned Dec 08) | P | P | P | P | P | P |
| Mothibatsela (I) | P | P | A | P | A | P |
| Munatsi (E) | P | P | P | A | P | P |
| Wasmus (I) | P | P | P | P | A | P |

P – Present A – Apologies * - Special Meeting I - Independent non executive N - Non executive E - Executive

## 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, within the mandate of the Board. EXCO assists the CEO in managing the Group and setting the overall direction of the business of the Group, and acts as a medium of communication and co-ordination between business units and Group companies, and the Board. EXCO meets monthly. During 2006, EXCO was restructured to fall in line with King II guidelines and best international practice. The following divisional and functional heads comprise EXCO:

- Chief Executive Officer (Chairman)
- Chief Operating Officer
- Chief Financial Officer
- Chief Risk Officer
- Group Head of Wholesale Banking

The Group Head of Wholesale Banking was appointed to EXCO at the discretion of the Chief Executive Officer.

The Committee also considers non-remuneration aspects of human resources such as succession planning and skills development within the Group.

## Risk and Audit Committee

| Director | FEB | MAY | AUG | DEC |
|---|---|---|---|---|
| Kudenga (N) | P | P | P | P |
| Moses (I) (resigned Dec 08) | P | P | P | P |
| Mothibatsela (I) | P | A | P | P |
| Wasmus (I) | P | P | P | P |

P – Present A – Apologies I - Independent non executive
N - Non executive E - Executive

The Risk and Audit Committee is chaired by Mr. N. Kudenga, a non-executive director. The committee adopted the Terms of References for both the Risk Committee and Audit Committee as detailed in the King II report. 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 management. The committee met four times in 2008. Issues addressed include the review of accounting policies, internal and external audit functions, IT risks, business continuity planning, financial reporting, operational risks, risk management, capital adequacy, compliance and the adequacy of management information systems, among others.

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

## Loans Review Committee

| Director | FEB | MAY | AUG | DEC |
|---|---|---|---|---|
| Khama (I) | P | P | P | P |
| Moses (I) (resigned Dec 08) | P | P | P | P |
| Mothibatsela (I) | P | A | P | P |
| Wasmus (I) | P | P | P | P |

P – Present A – Apologies I - Independent non executive
N - Non executive E - Executive

The Loans Review Committee consists of 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, and write-offs within the Group. The Committee is further tasked with quarterly review of the adequacy of provisions made in respect of loans and makes recommendations to the Board in this regard.

The Committee met four times in 2008 and issues addressed included the review of the Loans Review Committee Charter, review of the Group Credit Policy and guidelines to ensure that these meet best international banking practice, and the Committee substantially reviewed the Group policy on Insider Lending.

## Remuneration Committee

| Director | FEB | MAY | AUG | DEC |
|---|---|---|---|---|
| Buttery (I) | A | P | A | P |
| Chidawu (N) | P | P | A | P |
| Kudenga (N) | P | P | P | P |

P – Present A – Apologies I - Independent non executive
N - Non executive E - Executive

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

The Remuneration Committee is responsible for setting the remuneration philosophy 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. Annually the Committee reviews the profit sharing scheme which is based on achievement of a specified return to shareholders. The committee met four times in 2008.

### Nominations Committee

| Director | FEB | MAY | AUG | DEC |
|---|---|---|---|---|
| Buttery (I) | A | P | A | P |
| Chidawu (N) | P | P | A | P |
| Kudenga (N) | P | P | P | P |

P – Present   A – Apologies   I - Independent non executive
N - Non executive   E - Executive

The Nominations Committee comprises three nonexecutive 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.

### Organisational Ethics and Business Integrity

The need for the organisation to act professionally at all times is enshrined in the Group's mission statement. Good governance and ethical conduct is critical to counterparty and investor perceptions of a banking group, particularly in Africa. Professional and ethical conduct is an integral part of how the Group conducts its business on a daily basis, and the Group strives to ensure that its integrity and professional conduct is beyond reproach at all times. Every six months each employee's performance is measured against set targets. Leadership development programmes are in place to ensure that ethical conduct is an integral part of the business culture. While it is impossible to achieve a perfect result, the Group attempts to limit the cost of unethical behaviour to our stakeholders.

The Group has adopted a business integrity policy which comprehensively deals with issues such as money laundering, insider trading, bribery, political activities, confidentiality and data privacy, as well as whistle blowing. ABCH adopts a firm approach in dealing with any inappropriate or fraudulent behaviour by management or staff at any level. Policies and procedures are constantly improved to prevent possible future losses in this critical area. Directors and executives disclose any material interests they may have and recuse themselves from participating in discussions on credit or other proposals relating to their interests.

### 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 in respect of dealing of its shares on the Stock Exchanges by employees and directors. A policy is in place prohibiting directors and employees in dealing in the company'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

ABCH 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. ABCH encourages businesses it supports to adopt appropriate health and safety measures and endeavour to comply, within a reasonable period, with local legislative requirements, as far as occupational health and safety is concerned.

### Environmental Policy

ABCH recognises that environmental risks are part of the normal checklist of risk assessment and management. As part of ABCH's credit risk assessment, it seeks to ensure that the environmental effects of its support are assessed and monitored in the planning, implementation and operational stages of a project.

# Chief Executive Officer's Report

ABC Holdings Group produced a good set of results for the year ended 31 December 2008, considering the global financial turmoil that engulfed world economies from the beginning of 2008.

**On an audited inflation adjusted basis:**

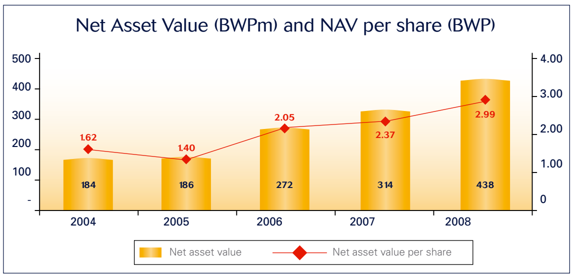
- Attributable profit to shareholders at BWP 85.8 million is 16% lower than the prior year comparative of BWP 101.6 million;
- Basic earnings per share at 60.2 Thebe declined due to a combination of a reduction in earnings and an increase in the number of shares;
- The balance sheet grew by 34 % from BWP 2.95 billion to BWP 3.97 billion, with the loan book increasing by 80% from BWP 1.25 billion to BWP 2.2 billion;
- Deposits increased by 44% from BWP 2 billion to BWP 2.8 billion;
- Average return on equity declined from 33% in 2007 to 22%, while average return on assets went down from 3.8% to 2.5%; and
- The Group's net asset value increased by 30% from BWP 336 million in 2007, to BWP 438 million in December 2008.

## Financial review (on the unaudited historical cost basis)

A historical cost balance sheet, income statement, cash flow statement and statement of changes in equity have been presented as supplementary information for the benefit of shareholders and forms the basis of the financial review. The historical cost information complies with IFRS except for the effects of not applying IAS 29 (Financial reporting in hyperinflationary economies).


Attributable Profit (BWPm) and ROE (%)

# Chief Executive Officer's Report




## Highlights

- Balance sheet growth of 34%
- Loans and advances up 80%
- Customer deposits up 44%
- Net asset value up 39%
- Return on average equity of 23%
- Cost to income ratio of 59%

## Overview

The global economic environment continues to be challenging. Commodity prices have plummeted resulting in the sub-Saharan economies being adversely affected as they are highly dependent on resources.

Attributable profit to ordinary shareholders at BWP 86 million is 31% lower than BWP 124 million reported in prior year. This is largely due to lower mark to market gains on our investment portfolio in Zimbabwe, which decreased by 78% from BWP 116 million in 2007 to BWP 26 million in 2008. On the other hand, total income increased by 18% to BWP 400 million up from BWP 339 million, which is pleasing. In addition, net interest income increased by 72% from BWP 107 million in 2007 to BWP 184 million for the year ended 31 December 2008.

ABC Botswana's profit after tax of BWP 13 million is 70% up on prior year. All revenue lines were significantly better than what was achieved in the prior year. The good results were negated somewhat by huge loan impairments of BWP 22 million, up from BWP 15 million recorded in prior year. ABC Tanzania posted a pleasing set of results with profit after tax of BWP 11.6 million against BWP 6 million achieved in prior year. ABC Mozambique continues to do well and achieved after tax profits of BWP 17 million which is 25% ahead of last year. ABC Zambia posted a loss of BWP 12 million. The loss was due to a high level of impairments, coupled with a huge exchange loss in the fourth quarter due to the volatility of the Zambian Kwacha. The subdued copper price in the international market has resulted in a number of mining and related companies failing to service their loans as they fall due. Consequently, we have seen an upsurge in the level of non performing loans resulting in high impairments.

Earnings per share decreased from 95.3 Thebe per share in 2007 to 60.3 Thebe per share in the current period. Net asset value per share increased to BWP 3.07 as at 31 December 2008 from BWP 2.37 due to profit retention and the ordinary share capital injected by International Finance Corporation (IFC) of BWP 37.4 million on 29 January 2008.

# Financial performance

### Net interest income

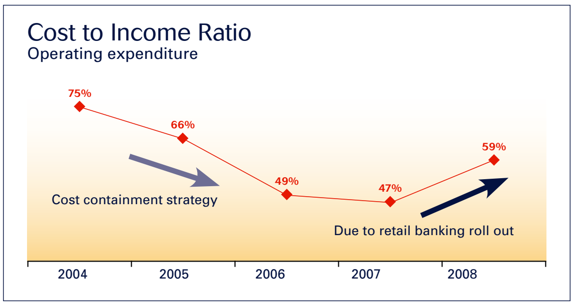
Net interest income increased by 72% from BWP 107 million recorded in 2007 to BWP 184 million. All operating subsidiaries with the exception of ABC Zimbabwe recorded significant growth during the year. Average net interest margin improved from 4.59% in 2007 to 6.20% for the year ended 31 December 2008. The quality of earnings continues to improve as evidenced by the increase in net interest income to total income of 51.7% in 2008 from 35.0% reported in prior year. Net interest income now covers 78% of operating costs up from 67% in the preceding year. The Group's medium term objective is for net interest income to cover operating costs. Of significance is the fact that ABC Tanzania more than doubled its net interest income from BWP 14 million in 2007 to BWP 31 million for the year ended 31 December 2008.

### Impairment losses on loans and advances

The high level of impairment of loans and advances continues to be the Achilles heel of the Group. Loan impairments increased by 35% from BWP 33 million in 2007 to BWP 44 million. It is however pleasing to note that the quality of the book is improving as evidenced by the reduction of adversely classified loans from BWP 154 million to BWP 144 million in 2008. ABC Botswana contributed 50% of these impairments, with ABC Zambia and Microfin Africa contributing 22% and 20% respectively. Very low levels of impairments were recorded in Mozambique and Tanzania which is commendable. In an effort to reduce the level of impairments credit management has been strengthened and is now sufficiently staffed.

### Non interest income

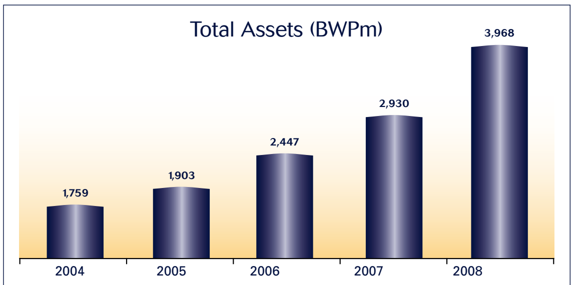
Non interest income decreased marginally by 7% from BWP 232 million recorded in 2007 to BWP 216 million in 2008. The reduction is due to the decrease in investment income in Zimbabwe. All the other subsidiaries recorded significant growth in non-interest income. Foreign currency trading income increased by 190% from BWP 10 million recorded in 2007 to BWP 29 million during the year under review. This was largely due to an increase in volumes particularly in Botswana and to a lesser extent in Mozambique and Tanzania. Fee and commission income increased marginally from BWP 65 million in 2007 to BWP 70 million in 2008.




Operating costs increased by 48% from BWP 160 million to BWP 237 million. The Group has started incurring costs related to the retail banking project but is yet to realise any income as this project will only be launched in the second half of 2009. Operating costs include staff costs which increased by 34% from BWP 91 million in 2007 to BWP 122 million in 2008. This was due to additional employees hired for the new retail banking business and strengthening the credit department. Cost to income ratio increased to 59% from 47% in 2007. This ratio is likely to remain higher than the Group's short term target of 50% as we rump up the retail banking project.

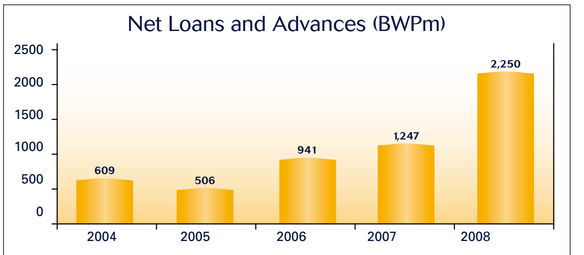
### Balance Sheet

Total balance sheet size increased by 34% from BWP 2.9 billion as at 31 December 2007 to BWP 4.0 billion as at 31 December 2008.




- 34% balance sheet growth compared to December 07
- Sustained balance sheet growth since 2004
- Compound annual growth rate of 23%

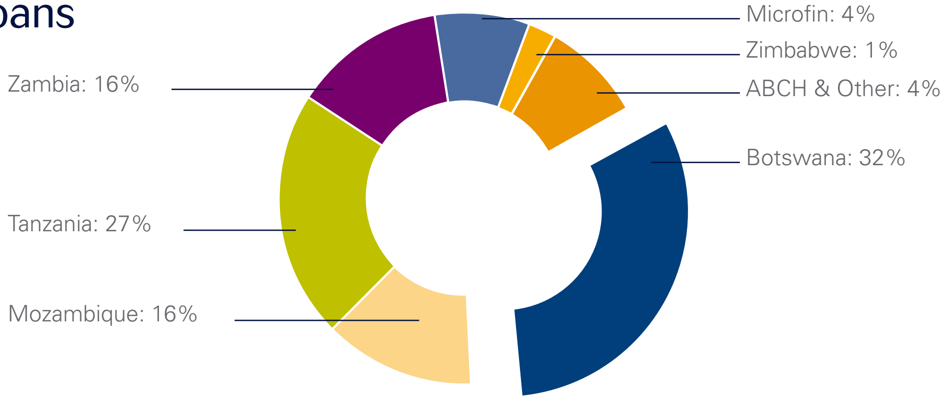
Loans and advances at BWP 2.2 billion are up by 80% from BWP 1.2 billion recorded in the prior year.




- Net loans increased by 80% from December 2007
- Overall compound annual growth rate of 39%

Overall quality of the book has improved with individually impaired loans net of provisions at BWP 26 million, down from BWP 38 million. We believe the balance is adequately secured. The balance sheet mix has improved with loans and advances now accounting for 57% of the total assets up from 43% as at 31 December 2007. As reported above the net interest margin has widened, as loans and advances, which yield higher returns, have increased.

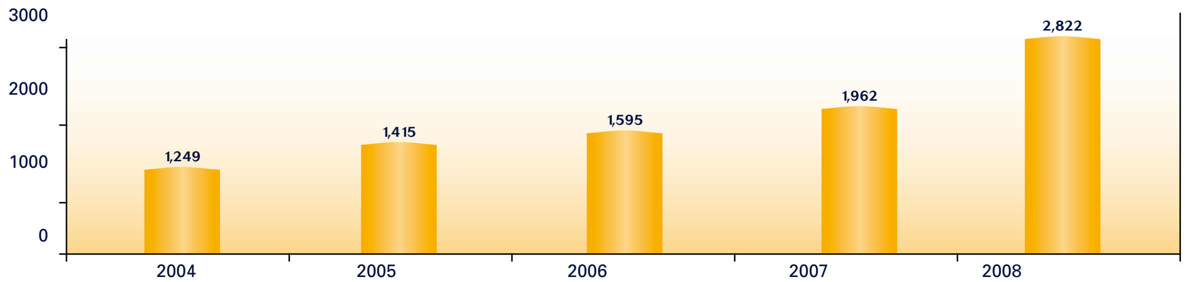
## Loans




- 80% growth in loans
- Growth in excess of 48% in all countries except Zimbabwe
- Growth shows impact of capital injection in late 2007

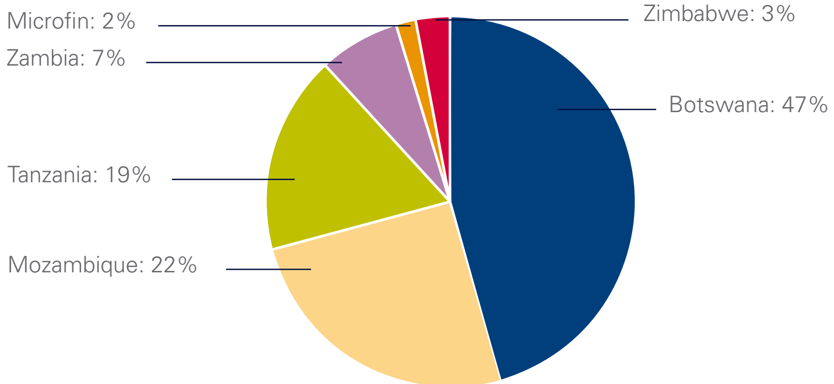
Deposits at BWP 2.8 billion are 44% higher than the prior year figure of BWP 2 billion. The loan to deposit ratio at 80% is higher than the 64% recorded in 2007.

## Deposits (BWPm)

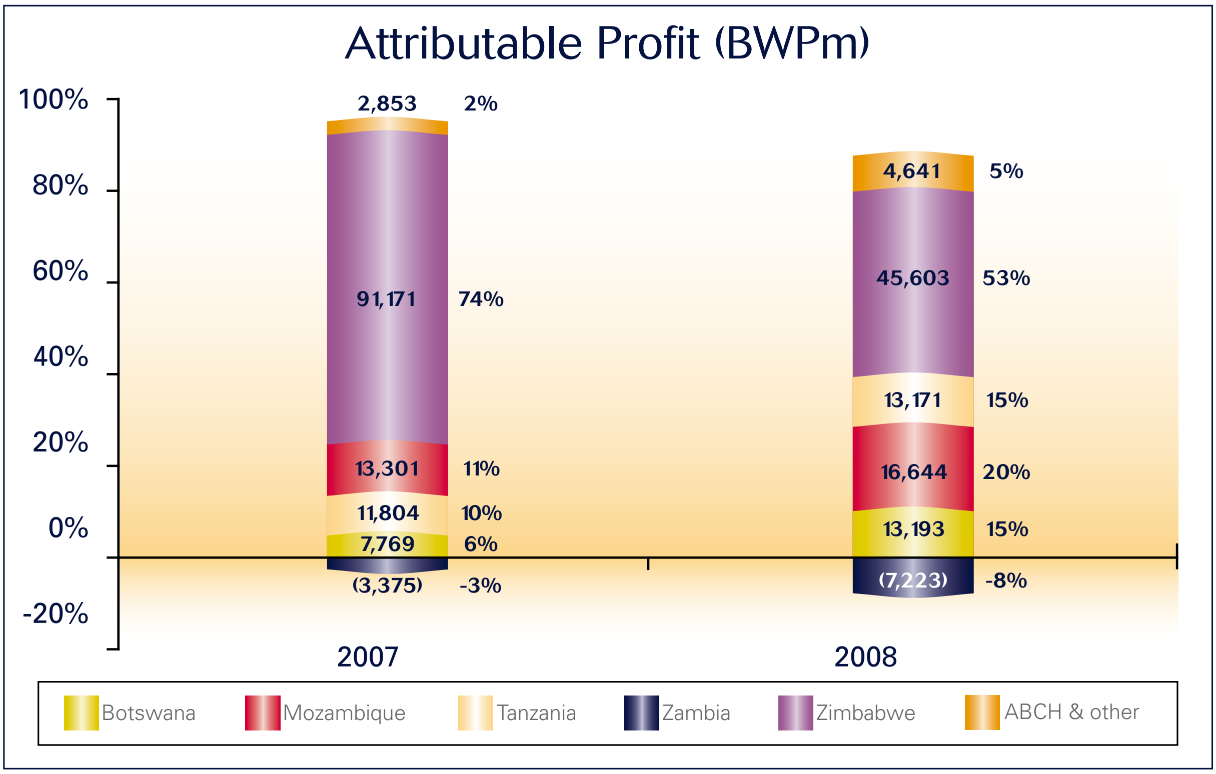



- 44% growth in deposits
- Botswana continues to lead with deposits of BWP 1.3 billion
- Growth of 118% and 63% in Mozambique and Tanzania respectively
  Tanzania, however, is coming off a low base

## Deposits




Net asset value increased by 40% from BWP 314 million to BWP 438 million. Capital adequacy ratio for all subsidiaries was higher than the prescribed regulatory minimum requirements.




## Botswana

ABC Botswana's profit after tax of BWP 13 million is 70% up from prior year. All revenue lines were significantly better than what was achieved in the comparative period. Forex trading volumes were up 96% on prior year, driving forex trading income by 130% to BWP 29 million. Fee and commission income also increased by 45% compared to 2007. Only an increase in impairments from BWP 15 million to BWP 22 million negated such positive progress.

The net loan book grew by 52% to BWP 739 million. Consequently net interest income increased by 40% from BWP 29.5 million to BWP 41.4 million. However, net interest income as a percentage of costs declined to 97% from 110% achieved in prior year, mainly due to retail banking related costs. Regardless, cost to income ratio at 51% is marginally better than the 52% reported in prior year. The asset mix has changed, with higher yeilding loans and advances now constituting 56%, compared to 41% in 2007. Customer deposits increased by 29% to BWP 1.3 billion, the highest in the Group. The loan to deposit ratio improved from 47% in 2007 to 56%. The bank is adequately capitalised with a capital adequacy ratio of 16%.

## Mozambique

ABC Mozambique continues to do well and achieved after tax profits of BWP 17 million which is 25% ahead of prior year. Net interest income at BWP 34.3 million, increased by 47% compared to 2007. The net loan book grew by 69% compared to 2007. Foreign exchange income of BWP 15.2 million was 22% up on prior year, due to increased volumes and higher margins achieved in currency volatility. Fee and commission income increased by 55% compared to 2007, largely due to the increase in loans and advances. Cost to income ratio was marginally up from 66% to 67%. The balance sheet grew by 79%, due to a combination of higher loan book, as well as a 118% growth in deposits. Capital adequacy ratio at 32% comfortably exceeds the regulatory limit of 8%.

## Tanzania

ABC Tanzania posted a pleasing set of results, with profit after tax of BWP 11 million against BWP 6 million achieved in prior year. The bank more than doubled its net interest income from BWP 14 million in 2007 to BWP 31 million for the year ended 31 December 2008. Net interest income coverage of costs improved from 61% in 2007, to 90%. Foreign exchange trading income increased by 263% to BWP 8.7 million on the back of increased volumes and margins, particularly in the last quarter of the year. It is pleasing to note that net operating income increased by 872% from BWP 1.8 million to BWP 17.5 million. Consequently, cost to income ratio declined significantly from 92% to 66%. Balance sheet grew by 70%, boosted by a 63% growth in deposits. Loans and advances increased by a remarkable 205% to BWP 599 million. Capital adequacy ratio was 16%.

## Zambia

ABC Zambia posted a loss of BWP 12 million, which is disappointing. The loss was due to high level of impairments, coupled with a huge exchange loss in November due to the volatility of the Zambian Kwacha. The subdued copper price in the international market has resulted in a number of mining and related companies failing to service their loans as they fall due. Consequently we have seen an upsurge in the level of non performing loans resulting in high impairments. Net interest income after provisions of BWP 13.2 million was slightly higher than that reported in 2007. Cost to income ratio at 107% was higher than 99% in 2007. Total assets increased by 44% to BWP 461 million, with net loans increasing by 84% to BWP 358 million. Capital adequacy ratio was 22%. Deposit mobilisation continues to be a major challenge in Zambia, with deposits increasing marginally by 9% to BWP 195 million. While Microfin Africa Zambia Limited improved its performance over last year, recording a profit of BWP 4.9 million compared to BWP 210,000 in 2007, the level of impairments at BWP 8.6 million is still high; a result of the challenges experienced by the mining sector in Zambia.

## Zimbabwe

The Zimbabwe operations posted a net profit of BWP 45.6 million, a reduction of 50% from prior year. This is largely due to lower mark to market gains on the equity portfolio, which decreased by 78% from BWP 116 million in 2007 to BWP 26 million during the year. The formation of a Government of National Unity in Zimbabwe is a good development and we sincerely hope the deal holds. The major challenge in the market is dollarisation and the fact that most businesses are now under capitalised. Margins will in all probability go down, and we now have to concentrate on our core banking business as the market normalises and growth sets in.

## Business Segment

### Treasury

Treasury income performance for the year was good, with most subsidiaries recording improvements over last year. However, Zambia recorded losses on foreign exchange trading due to the volatility of the Zambian Kwacha and the general slow down in the country's economy in the second half of 2008. Overall, foreign exchange income (excluding hedging) was up a remarkable 637% to BWP 71.5 million compared to 2007. The growth is a result of an increase in volumes, coupled with currency volatility. Group deposits were up 40% to BWP 2.8 billion, with Botswana accounting for 47% of the deposits. Significant deposit growth was recorded in Mozambique (118%), Tanzania (63%), and Botswana (29%).

### Corporate and Private Banking

The performance of Corporate and Private Banking was considerably better than 2007. The additional capital that was injected at the beginning of 2007 has resulted in higher single obligor limits in all the banking subsidiaries. Overall, the gross lending book increased by 71% from BWP 1.4 billion to BWP 2.4 billion. Impairments charge increased from BWP 33 million to BWP 44 million in 2008, with ABC Botswana contributing 50%. All subsidiaries with the exception of Zimbabwe registered considerable growth.

The gross loan book for Botswana increased by 45% to BWP 777 million; as a result net interest income increased by 40% from BWP 29.5 million to BWP 41.4 million. Despite the increase in impairments charge, the quality of the total loan book improved compared to 2007, with 94% of the book being classified as performing, against 89% in 2007.

The gross loan book for ABC Mozambique increased by 70% to BWP 332 million, with the impairment charge reducing from BWP 2.7 million in 2007, to BWP 1 million. owing to the above, net interest income increased by 47% to BWP 34.3 million. ABC Tanzania's gross loan book increased by a commendable 89%, resulting in net interest income doubling to BWP 31 million. It is pleasing to note that 98% of the book is classified as performing. While ABC Zambia registered a good growth in the gross loan book of 82%, the performance was blighted by a high impairment charge of BWP 9.6 million, up from BWP 3.9 million in 2007.

**Micro-finance**

Net interest income increased by 76% from BWP 28.9 million to BWP 50.8 million. The good performance was negated by impairments of loans and advances amounting to BWP 8.6 million. As alluded to above, the mining sector in Zambia has been adversely affected by the global economic crisis. As a result a number of mines have either shut down or are operating under care and maintenance. The net loan book increased by 35% from BWP 67.0 million to BWP 89.8 million. The performance of this division improved compared to 2007, registering a profit of BWP 4.9 million compared to BWP 210,000 in 2007.

**Support Divisions**

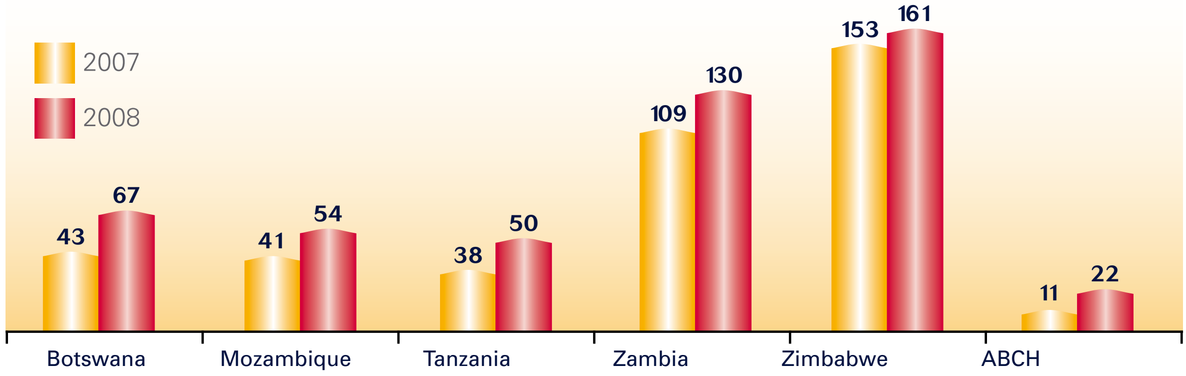
The Group operates a centralised IT unit with responsibility for all aspects of technology development and support services. A major upgrade of the banking system commenced in 2008. The project is three pronged; a review of business processes to align them to best practice across the banks; upgrading the FCC banking system from version 5 to the latest version 7.3 to allow provision of a wider range of products; and introduction of retail banking. The first two stages were completed in 2008, and the completion of the last phase will coincide with the launch of retail banking in the second quarter of 2009. The Group believes technology is a key business enabler of innovative product offering and has therefore made IT one of its key investment areas. In order for the division to offer best in class services a decision has been made to implement the full ITIL management framework, as well as get full ISO 20000 certification by the end of 2010.

Group Finance is responsible for management and financial reporting, regulatory reporting, budgeting and group tax. In conjunction with the banking system upgrade and business process review exercise that began in 2007, Group Finance is working on management information tools that will enhance the quality of both internal and external reporting.

Group Risk is responsible for monitoring the key daily risks faced by the Group, including credit, market and operational risk. The risk management function of the Group is vested in the Group Risk department headed by the Chief Risk Officer who has direct access to the Risk and Audit Committee. Through regular Group Asset and Liability Committee meetings, Group Risk department monitors the different risks facing the banking operations. Credit risk continues to be a key area of attention and Group Risk continues to implement best practice monitoring tools, so as to manage risk on a pro-active basis.

**Staff compliment**

## Staff compliment




- Employee costs 50% of total costs
- Staff compliment of 484 (2007: 395)
- Staff compliment up by 89 people mainly due to retail and credit

Internal Audit plays a key role in maintaining and improving the internal control environment in the Group. The department is headed by the Group Internal Auditor who reports directly to the Risk and Audit Committee and his reports are acted upon by management throughout the Group. In order to improve the internal control environment, all departments are now rated, with adverse reports attracting censure.

The Group Human Capital department is responsible for human capital management and formulating HR and reward strategies for the Group. The head of the HC department reports directly to the Group CEO. The Group has a strong management team within the country operations and at the centre. The team comprises highly qualified human capital practitioners with a wealth of local and international experience. The Group continues to seek to build a deep bench of skilled and experienced managers. In line with this objective, an Executive Development Programme was introduced in conjunction with Gordon Institute of Business Sciences. Its first graduates will be in December 2009. The successful candidates will be deployed in the country operations throughout the region.

## Retail banking project

Retail banking by its very nature is a people and systems intensive business. A number of IT systems for the project have either been acquired or are at an advanced stage of being contracted for. The retail banking head office is now fully staffed and a lot of progress has been made to date. The project will clearly take longer than was previously envisaged. We now anticipate opening a few branches in each country during the course of 2009, starting in July. We are excited about this project but realise that the economic environment is now very different from when it was first conceived. Instead of the aggressive approach that was planned for, we will now proceed in a measured way, and position the business for the economic turnaround.

### Rating

Following improved rating of short term debt in 2006, Global Credit Rating again awarded ABCH Holdings Limited an improved rating of A2 for short term debt, while the rating for long term debt remained unchanged at BBB.

| | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Short term | A3 | A3 | A2 | A2 |
| Long term | | BBB | BBB | BBB |

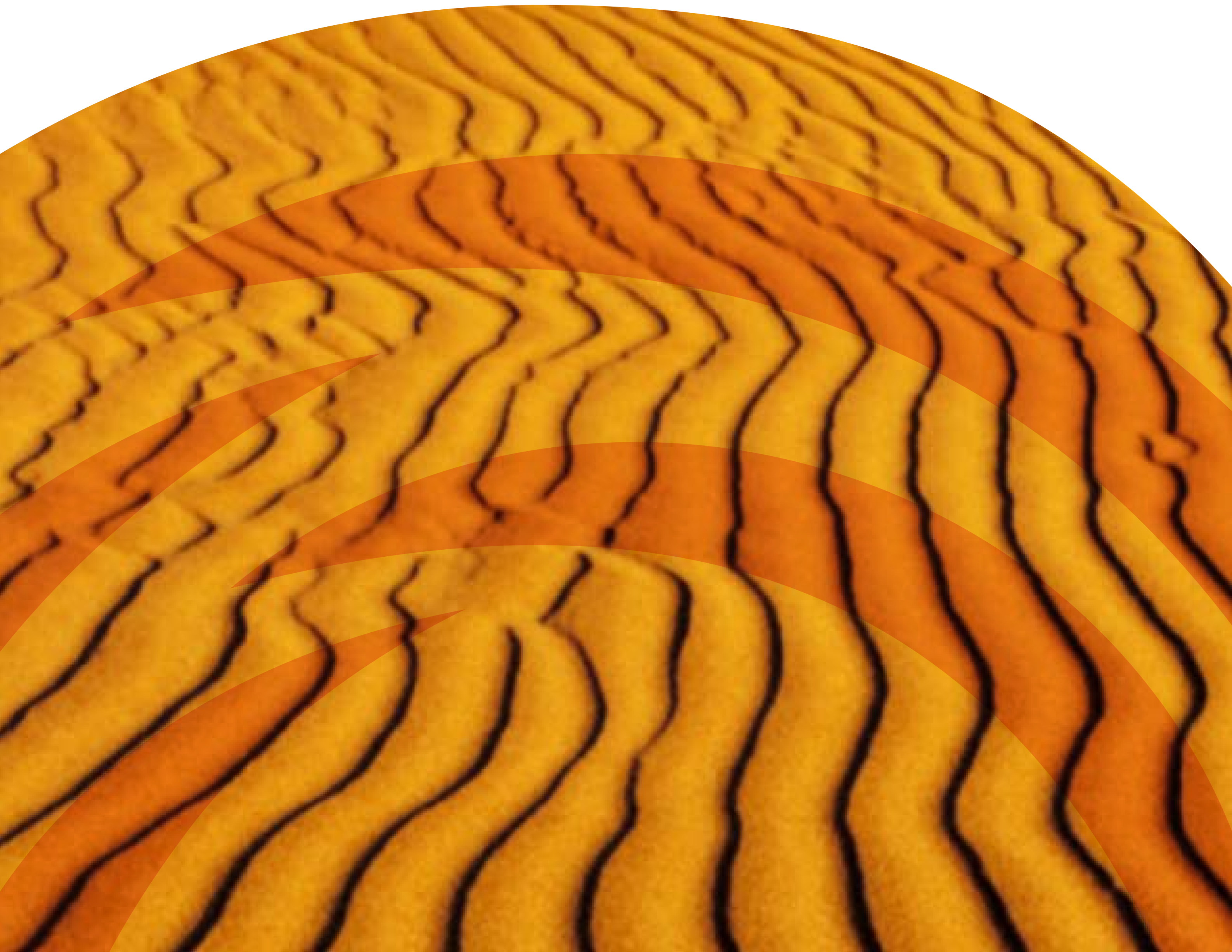
**Outlook**

The world economic recession will in all likelihood be with us for some time. The second wave effects of the recession are likely to be felt in the SSA region, particularly the mining, tourism and agricultural commodity sectors. As a result, we expect economies to grow, but moderately. Liquidity and credit management will need to be managed very closely. The above, coupled with the introduction of retail banking will result in higher costs, and modest revenue growth. The Zimbabwe economy has been dollarised, which brings new and unique challenges. Cost control will continue to be a focus area for the bank. As a result we expect 2009 to be challenging for the banking sector across the board. In spite of this, operations out of Zimbabwe should continue to grow.

Acknowledgments

I would like to thank the Board and the entire ABC team for their effort and support during a very challenging year.

D T Munatsi
Group Chief Executive Officer
6 April 2009



# Products and Services

## Products and Services

### WHOLESALE BANKING

**Corporate Banking**
- Working capital finance
- Pre and post-shipment finance
- Term loans
- Asset finance

**Treasury**

*Specialised Finance*
- Commodity finance
- Tax-driven structures
- Projects finance

*Treasury*
- Local money market trading
- FX trading
- Deposit mobilisation

**Investment Banking Services**

*Advisory Services*
- M&A
- New issues
- Project finance advisory
- Buy-outs
- Privatisation

*Wealth Management*
- Institutional asset management
- Retail asset management

### RETAIL BANKING**

- Consumer Banking
  - Current accounts
  - Savings accounts
  - Debit cards
  - Credit cards
- Loans
  - Mortgage finance
  - Motor vehicle and asset finance
  - Personal loans
- Self Service Banking
  - e-Banking
  - Mobile banking
- SME Banking

**Retail Banking rollout is currently underway.

# Corporate Social Investment

African Banking Corporation is a responsible and involved corporate citizen whose focus is on the economic empowerment of women and children of Africa. The Group believes that a vibrant arts and culture environment is a vital expression of the continent's identity and hence it has continued to be a leading and enthusiastic patron of what is at the heart of the African renaissance and spirit; women, children, arts and culture.

## Tanzania

At the beginning of 2008, ABC Tanzania joined hands with Kiota's Women's Health and Development Organization (KIWOHEDE), a non governmental community based organization. KIWOHEDE's mission is to empower underprivileged young girls and women between the ages of 9 and 20, by giving them the opportunity to acquire the skills and knowledge to turn their lives around. They aim to achieve this through basic education, counseling, vocational training and raising awareness of children's and women's rights within the community. The organization also focuses on rehabilitating victims of child trafficking, prostitution and child abuse; all of which are growing concerns in Tanzania.

KIWOHEDE and ABC Tanzania embarked on the "Invest in a child's education" project. This initiative was developed in response to the crucial need to educate the young girls attending the centers, as it would then create an avenue for them to develop and progress with their lives. To initiate the project, five girls from various KIWOHEDE centers were chosen to enroll into the Lutengano Secondary School in Tukuyu, Mbeya. All five girls joined Form 1 in January 2008 and were very grateful to have been given the opportunity to commence with their secondary education.

As part of the continued support to KIWOHEDE, ABC Tanzania staff donated food stuffs and clothing items, a computer, cooker and oven to the KIWOHEDE Bunju Center (Child Trafficking Rehabilitation Center). Other donations were also made to the KIWOHEDE Buguruni Center (The Head Office) during the Christmas season.

## Zimbabwe

In 2008 ABC Zimbabwe partnered with the Rotary club of Borrowdale Brooke in hosting a charity golf day. Proceeds from the event were distributed to a number of Children's homes in Zimbabwe

The bank also sponsored "Christmas in a shoe box", a project that targets about 800 of the poorest children in Harare. Donations were made to the Presbyterian boys club, a learning centre for street boys.

ABC Zimbabwe once again extended its long-time partnership with The Harare International Festival of Arts (HIFA), a culture defining festival filled with creativity and passion. As tradition, this year the bank invested in the opening night of HIFA 2008, and in addition for the first time extended its partnership to include the Global Stage.

## Botswana

In 2008 ABC Botswana made donations to a number of charity organizations. A donation was made to the University of Botswana (U.B.) Foundation, which oversees a Scholarship Endowment Fund that promotes citizen participation in the graduate programmes tenable at the U.B.

Gaborone Inner Wheel was also a beneficiary, and it in turn donates to a number of charities in Botswana such as Mogoditshane Day Care Centre for Orphans, Women's Shelter, Holy Cross Hospice, Bana Ba Keletso, SOS Children's Village, Gamodubu Feeding Project and Camp Hill.

Donations were also made to the Lady Khama Charitable Fund and the President Lt. Gen. S.K.I. Khama's Charitable Fund. The charities support children orphaned by HIV/ Aids, and community based projects helping with those ravaged by the disease.

A donation was also made to the Cheshire Foundation in Botswana which provides rehabilitation services to people with disabilities.

## Zambia

ABC Zambia continued its financial assistance of Our Lady's Hospice in Kalingalinga Township, Lusaka in support of its efforts to stem the spread of HIV by driving positive attitude and behavior changes, particularly among the youth. The Hospice's main focus is on Voluntary Counseling and Testing and ARV dispensation, HIV awareness-building and home-based care support programs in its surrounding community. ABC Zambia has been in partnership with the Hospice since 2005.

ABC Zambia was part of the initiative of the 'Keep Lusaka Clean and Green' campaign, and participated both financially as well as physically. In December 2008, the Bank with other financial institutions in the country took to the streets of Lusaka to clean up and plant trees.

ABC Zambia donated funds towards one of the biggest traditional ceremonies in the country, the Nchwala ceremony from the Eastern Province. Proceeds from the ceremony are channeled towards the day-to-day running of the surrounding communities in the area.

The Bank also contributed towards a dinner dance for the Children of Africa, an NGO set up to look into the plight of orphans and street kids.

## Mozambique

ABC Mozambique continued to sponsor Ndyoko, a local organization that aims to alleviate poverty and empower communities in rural areas through specific need projects such as provision of clothing, school materials, home development and construction of recreation centers.

The bank also contributed towards the rehabilitation of an orphanage in Maputo, and offered a scholarship to a university student through payment of school fees and books.

# 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 cognizance 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 46 of this annual report.

## Approval of the annual financial statements

The directors' report and the annual financial statements, which appear on pages 48 to 129, were approved by the Board of directors on 6 April 2009 and are signed by:

O M CHIDAWU
CHAIRMAN
6 April 2009

D T MUNATSI
GROUP CHIEF EXECUTIVE OFFICER
6 April 2009

# Directors' Report

## Nature of business

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

## Authorised share capital

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

## Group results

On an inflation adjusted basis, attributable profit to shareholders at BWP 85.8 million was 16% lower than the prior year comparative of BWP 101.6 million. Basic earnings per share of 60.3 Thebe declined from 78.4 Thebe due to a combination of a reduction in earnings and an increase in the number of shares. The balance sheet grew by 35% from BWP 2.95 billion to BWP 3.97 billion, with the loan book increasing by 80% from BWP 1.25 billion to BWP 2.2 billion. Deposits increased by 40% from BWP 2.0 billion to BWP 2.8 billion. Average return on equity declined from 33% in 2007 to 22%, and average return on assets went down from 3.8% to 2.5%. The Group's net asset value increased by 30% from BWP 336 million in 2007, to BWP 438 million in December 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 48 to 62.

## Subsidiary and associated companies

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

## Acquisitions and disposals

There were no acquisitions or disposals of subsidiaries or associates during the year. In 2008, the Group wound down its investment in African Banking Corporation International Limited. The net assets of the subsidiary were BWP 11.8 million.

## Directors' interests in the shares of ABC Holdings Limited

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

| Director | Number of shares | |
|---|---|---|
| | 2008 | 2007 |
| O M Chidawu | 18,171,748 | 18,158,203 |
| D T Munatsi | 19,640,702 | 15,516,861 |
| N Kudenga | 362,888 | 362,888 |
| **Total** | **38,175,338** | **34,037,952** |

## Directors' interests in transactions

In terms of ABC Holdings Limited policy, Directors are required to furnish details on an annual basis of their respective personal interests in business concerns which are recorded in a specific register.

Any interests by Directors in transactions between the company and third parties were disclosed to committees that were responsible for approval prior to such approval being granted and interested parties are required to recuse themselves from any approval process. Details of lending exposures are provided in note 27 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 18 and 19. Mr. J Moses resigned from the Board with effect from 2 December 2008. Details of the secretary are given on page 21.

Brief CVs of Directors eligible and available for re-election at the Annual General Meeting are included in the Notice to Shareholders.

## Dividends

The directors approved an interim dividend of 8 Thebe per ordinary share for the half year ended 30 June 2008. Given the current uncertainty in the global markets, there is a need to conserve cash. As a result, the Directors recommended that a final dividend be passed.

## 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

The Zimbabwe economy was officially dollarised in February 2009.

# Annual Financial Statements

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## 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 2008, the income statement and the consolidated income statement, 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, and a summary of significant accounting policies and other explanatory notes, as set out on pages 48 to 129.

### 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 financial statements present fairly, in all material respects, the financial position of the company and of the group as of 31 December 2008, 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
6 April 2009

# Significant Accounting Policies

## Reporting entity

ABC Holdings Limited (the "company") is domiciled in Botswana. The consolidated financial statements of the company for the year ended 31 December 2008 includes 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 2008:

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the group's financial statements.
- IFRIC 12, 'Service Concession Arrangements', addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. This interpretation does not have an impact on the group's financial statements.
- IFRIC 13, 'Customer Loyalty Programmes', addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how much entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. This interpretation does not have an impact on the group's financial statements.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have an impact on the group's financial statements.

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 2008:

- IFRS 8, Operating segments (effective 1 January 2009)
- IAS 23 (Amendment), Borrowing costs (effective from 1 January 2009)
- IFRS 2 (Amendment), Share based payment (effective from 1 January 2009)
- IAS 32 (Amendment), Financial Instruments: Presentation' and IAS 1 (Amendment), Presentation of financial statements-'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009)
- IFRS 1 (Amendment), First adoption of IFRS and IAS 27, Consolidated and separate financial statements (effective from 1 January 2009)
- IAS 27 (Revised), Consolidated and Separate financial statements (effective from 1 July 2009)
- IFRS 3 (Revised), Business Combinations (effective from 1 July 2009)
- IFRS 5 (Amendment), Non-current assets held for sale and discontinued operations (and consequential amendment to IFRS 1, First time adoption) (effective from 1 July 2009)
- IAS 23 (Amendment), Borrowing costs (effective from 1 January 2009)
- IAS 28 (Amendment), Investment in associates (and consequential amendments to IAS 32, Financial Instruments: Presentation and IFRS 7, Financial Instruments: Disclosures) (effective from 1 January 2009)
- IAS 36 (Amendment), Intangible assets (effective from 1 January 2009)
- IAS 19 (Amendment), Employee benefits (effective from 1 January 2009)
- IAS 39 (Amendment), Financial Instruments: Recognition and measurement (effective from 1 January 2009)
- IAS 1 (Amendment), Presentation of financial Instruments' (effective from 1 January 2009)
- IFRIC 15, Agreements for the Construction of Real Estate (effective from 1 January 2009)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective from 1 January 2009)
- IFRIC 18, Transfers of assets from customers (effective from 1 January 2009)

## Basis of preparation

The Group presents inflation-adjusted accounts in accordance with IFRS, and historical cost accounts in note 32 as supplementary information for the benefit of investors. 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 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**

  The financial results of entities in Zimbabwe have been adjusted to reflect the changes in the general level of prices as they operate in a hyperinflationary economy with cumulative three-year inflation of over 100%. The restatement for the purchasing power of the Zimbabwe entities is based on IAS 29 Financial Reporting in Hyperinflationary Economies, 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, as set out in note 5. The restated results are converted into the Group's presentation currency, Botswana Pula, at the closing rates as set out in note 26.

- **Fair value of financial instruments**

  Many of the Group's financial instruments are measured at fair value on the balance sheet and it is usually possible to determine their fair values within a reasonable range of estimates. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of judgement, (e.g. interest rates, volatility and estimated cash flows) and therefore cannot be determined with precision. 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, with Zimbabwe listed equity investments that are not dual listed being valued based on published prices when trading on the Zimbabwe Stock Exchange was suspended on 17 November 2008. 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 judgments 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 are 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 18.

- **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.

### 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 whose revenues and expenses are converted at the closing rate for the year. Foreign exchange differences arising on translation are recognised as foreign currency translation reserve in equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

### Foreign currency transactions

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

### Recognition of assets and liabilities

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

### Derecognition of assets and liabilities

An asset is derecognised when the Group losses 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;
- 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 re-measured 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 and 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.

**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. 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.

# 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); or
c) hedges of a net investment in a foreign operation (net investment hedge).
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 the 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. 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.

## Property and equipment

Land and buildings are shown at fair value based on periodic 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 periodically by independent professional  erty 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 profit or loss as incurred.

## Investment property

Investment properties are properties which are held by the group either to earn rental income or for capital appreciation or for both. Investment property is stated at fair value determined 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 are 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

The Group's segmental reporting is in the form of a geographical analysis. as all current activities are classified as wholesale banking. A geographical segment refers to a distinguishable component of the Group that is engaged in providing a service within a particular economic environment and is subject to risks and rewards that are different from those of the other segments.

## 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. 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 provisioning policies.

The 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 provisioning policies.

The Group has adopted standard provisioning policies which at a minimum comply with the prudential guidelines of the respective countries' central banks. Provisions 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 loans and advances to customers and to banks at a counterparty level, the Group considers three components: the probability of default by the client or counterparty on its contractual obligations; the current exposures to the counterparty and its likely future development; and the likely recovery on the defaulted obligations.

These credit risk measurements, which reflect expected loss, are embedded in the Group's daily operational management. The operational measurements are contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date.

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed internally and combine statistical analysis for certain categories, as well as credit officer judgment, and are validated, where appropriate, by comparison with externally available data. 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 ratings scale

| Category | Description |
|---|---|
| Performing | the credit appears satisfactory |
| Special mention | the credit appears satisfactory but exhibits potential or inherent weaknesses for 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. Some other specific control and mitigation measures are outlined below.

**(a) Collateral**

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

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

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

**(b) Master netting arrangements**

The Group further restricts its exposure to credit losses by entering into master netting arrangements with 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.

## Impairments classification

| Category | 2008 Loans and advances (%) | 2008 Impairment (%) | 2007 Loans and advances (%) | 2007 Impairment (%) |
|---|---|---|---|---|
| Performing | 89% | 12% | 83% | 23% |
| Special mention | 5% | 6% | 6% | 7% |
| Sub-standard | 2% | 7% | 1% | 10% |
| Doubtful | 1% | 7% | 2% | 5% |
| Loss | 3% | 68% | 8% | 55% |
| | **100%** | **100%** | **100%** | **100%** |

**(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.

## Impairment and provisioning 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.

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 commited facilities.

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

| BWP '000s | 2008 | 2007 |
|---|---|---|
| Placements with other banks | 491,904 | 518,816 |
| Derivative financial assets | 44,411 | - |
| Financial assets held for trading | 659,587 | 748,134 |
| - Government bonds | 48,547 | 44,880 |
| - Treasury bills | 594,365 | 677,205 |
| - Bankers acceptances and commercial paper | 16,675 | 26,049 |
| Loans and advances to customers at amortised cost | 2,368,979 | 1,362,984 |
| - Mortgage lending | 16,876 | 10,056 |
| - Instalment finance | 581,413 | 196,053 |
| - Corporate lending | 1,492,425 | 995,984 |
| - Commercial and property finance | 31,293 | 3,333 |
| - Micro-finance lending | 142,625 | 82,829 |
| - Other loans and advances | 104,347 | 74,729 |
| Investment securities | 31,521 | 26,214 |
| - Promissory notes | 31,161 | 26,214 |
| - Unlisted investments | 360 | - |
| Prepayments and receivables | 47,283 | 52,512 |
| Current tax assets | 5,496 | 5,015 |
| | **3,649,181** | **2,713,675** |

**Credit risk exposures relating to off-balance sheet items are as follows:**

| | | |
|---|---|---|
| Financial guarantees | 239,745 | 166,592 |
| Loan commitments and other credit related liabilities | 254,930 | 131,904 |
| | **494,675** | **298,496** |

65% (2007: 50%) of the total maximum exposure is derived from loans and advances; 18% (2007: 28%) 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:

- 94% (2007: 89%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system;
- 89% (2007: 83%) of the loans and advances portfolio is considered to be neither past due nor impaired;
- 6% (2007: 11%) 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 | 2008 | 2007 |
|---|---|---|
| Neither past due nor impaired | 2,114,351 | 1,132,893 |
| Past due but not impaired | 110,817 | 76,175 |
| Individually impaired | 143,811 | 153,916 |
| Gross loans and advances | 2,368,979 | 1,362,984 |
| Less: Allowance for impairment | (119,076) | (115,634) |
| **Net loans and advances** | **2,249,903** | **1,247,350** |

The total impairment of loans and advances is BWP 119.1 million (2007: BWP 115.6 million). Further information of the impairment allowance for loans and advances to customers is provided in Notes 2 and 11.

During the year ended 31 December 2008, the Group's total gross loans and advances increased by 74% (2007:34%) as a result of the expansion of the lending business, especially in Botswana and Tanzania. The Group focused on business with large corporate enterprises with good credit rating or small to medium enterprises providing sufficient collateral.

**(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 by the Group below:

**Internal Grade: Performing**

| BWP'000s | 2008 | 2007 |
|---|---|---|
| Mortgage lending | 16,875 | 9,709 |
| Instalment finance | 519,142 | 148,669 |
| Corporate lending | 1,357,928 | 835,717 |
| Commercial and property finance | 4,229 | 3,333 |
| Micro-finance lending | 114,349 | 61,253 |
| Other loans and advances | 101,828 | 74,212 |
| | **2,114,351** | **1,132,893** |

### (b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not 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**<br>**BWP'000s** | **2,008** | **2,007** |
|---|---|---|
| Instalment finance | 31,478 | 4,477 |
| Corporate lending | 52,293 | 64,566 |
| Commercial and property finance | 26,940 | - |
| Micro-finance lending | - | 7,014 |
| Other loans and advances | 106 | 118 |
| | **110,817** | **76,175** |

**2008**
**Internal Grade: Special mention**

| | 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 loans and advances | 106 | - | - | 106 |
| | **87,618** | **13,526** | **9,673** | **110,817** |

**2007**
**Internal Grade: Special mention**

| | Days past due | | | |
|---|---|---|---|---|
| **BWP'000s** | **1 - 30 days** | **31 - 60 days** | **61 - 90 days** | **Total** |
| Instalment finance | 841 | 3,591 | 45 | 4,477 |
| Corporate lending | 24,913 | 7,180 | 32,473 | 64,566 |
| Micro-finance lending * | 2,501 | 2,815 | 1,698 | 7,014 |
| Other loans and advances | 44 | 32 | 42 | 118 |
| | **28,299** | **13,618** | **34,258** | **76,175** |

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.

* For 2008, 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 BWP 143.8 million (2007: 153.9 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:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| **BWP'000s** | **Gross loans** | **Fair value collateral** | **Gross loans** | **Fair value collateral** |
| Mortgage lending | - | - | 347 | - |
| Instalment finance | 30,793 | 19,694 | 42,907 | 901 |
| Corporate lending | 82,205 | 44,606 | 95,701 | 45,820 |
| Micro-finance lending | 28,276 | - | 14,562 | - |
| Commercial and property finance | 124 | - | - | - |
| Other loans and advances | 2,413 | 1,337 | 399 | 360 |
| | **143,811** | **65,637** | **153,916** | **47,081** |

### (d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status, and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled BWP 48.0 million at 31 December 2008 (2007: BWP 10.5 million).

| **BWP'000s** | **2008** | **2007** |
|---|---|---|
| Instalment finance | 27,450 | 6,191 |
| Corporate lending | 2,195 | 3,077 |
| Other loans and advances | 18,381 | 1,200 |
| | **48,026** | **10,468** |

# Repossessed collateral

During 2008, the Group obtained assets by taking possession of collateral held as security, as follows:

| **Nature of assets**<br>**BWP'000s** | **2008** | **2007** |
|---|---|---|
| Property | 5,239 | 3,991 |
| Cash | - | 23,982 |
| Investment securities | - | 175 |
| Motor Vehicles | 9,990 | - |
| | **15,229** | **28,148** |

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 other assets.

# 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 2008. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

| **2008**<br>**BWP'000s** | **Botswana** | **Mozambique** | **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** |

| **2007**<br>**BWP'000s** | **Botswana** | **Mozambique** | **Tanzania** | **Zambia** | **Zimbabwe** | **Other** | **Total** |
|---|---|---|---|---|---|---|---|
| Placements with other banks | 201,256 | 43,890 | 77,112 | 37,188 | 8,979 | 150,391 | 518,816 |
| Financial assets held for trading | 462,798 | 83,216 | 139,788 | 59,021 | 3,311 | - | 748,134 |
| Loans and advances (net) | 409,338 | 189,214 | 132,176 | 261,891 | 229,292 | 25,439 | 1,247,350 |
| Investment securities | - | - | - | - | - | 26,214 | 26,214 |
| Prepayments and other receivables | 978 | 4,791 | 28,742 | 2,782 | 2,312 | 12,907 | 52,512 |
| Current tax assets | 1,113 | 706 | 898 | 2,296 | 2 | - | 5,015 |
| | **1,075,483** | **321,817** | **378,716** | **363,178** | **243,896** | **214,951** | **2,598,041** |

### (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.

| 2008 BWP '000s | Agriculture | Construction | Wholesale, Retail and Trade | Public Sector | Manufacturing | Mining | Financial Services | Transport & Energy | Individuals | Tourism | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Placements with other banks | - | - | - | - | - | - | 491,904 | - | - | - | - | 491,904 |
| Financial assets held for trading | - | - | 4 | 94,391 | - | 1 | 564,713 | - | - | - | 478 | 659,587 |
| Derivative financial assets | - | - | - | - | - | - | 44,411 | - | - | - | - | 44,411 |
| Loans and advances | 324,440 | 102,694 | 438,465 | 157,074 | 243,603 | 251,595 | 168,604 | 209,466 | 77,872 | 52,351 | 223,739 | 2,249,903 |
| Investment securities | - | - | - | - | - | - | 31,521 | - | - | - | - | 31,521 |
| Prepayments and other receivables | - | - | 1,316 | - | - | - | 18,478 | - | - | - | 27,489 | 47,283 |
| Current tax assets | - | - | - | - | - | - | - | - | - | - | 5,496 | 5,496 |
| **At 31 December 2008** | **324,440** | **102,694** | **439,785** | **251,465** | **243,603** | **251,596** | **1,319,631** | **209,466** | **77,872** | **52,351** | **257,202** | **3,530,105** |

| 2007 BWP '000s | Agriculture | Construction | Wholesale, Retail and Trade | Public Sector | Manufacturing | Mining | Financial Services | Transport & Energy | Individuals | Tourism | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Placements with other banks | - | - | - | - | - | - | 518,816 | - | - | - | - | 518,816 |
| Financial assets held for trading | - | - | - | 139,788 | - | - | 608,346 | - | - | - | - | 748,134 |
| Loans and advances | 78,934 | 74,138 | 314,963 | 76,615 | 121,486 | 212,145 | 67,952 | 95,192 | 88,452 | 7,206 | 110,267 | 1,247,350 |
| Investment securities | - | - | - | - | - | - | 26,214 | - | - | - | - | 26,214 |
| Prepayments and other receivables | - | - | - | - | - | - | 14,423 | - | - | - | 38,089 | 52,512 |
| Current tax assets | - | - | - | - | - | - | - | - | - | - | 5,015 | 5,015 |
| **At 31 December 2007** | **78,934** | **74,138** | **314,963** | **216,403** | **121,486** | **212,145** | **1,235,751** | **95,192** | **88,452** | **7,206** | **153,371** | **2,598,041** |

# Market risk

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

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

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

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

**Market risk measurement techniques**

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

**Foreign exchange risk**

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Group Risk sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2008. 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**

**BWP'000s**

| **2008** | **EUR** | **USD** | **BWP** | **ZAR** | **ZWD** | **TZS** | **ZMK** | **MZN** | **JPY** | **OTHER** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and short term funds | 766 | 219,701 | 112,068 | 13,992 | (7,228) | 58,846 | 60,053 | 29,041 | - | 25,811 | 513,050 |
| Financial assets held for trading | 451 | 3,491 | 452,131 | (652) | 150 | 94,391 | 20,091 | 89,285 | - | 249 | 659,587 |
| Financial assets desig-nated at fair value | - | - | - | - | 26,100 | - | - | - | - | - | 26,100 |
| Derivative financial assets* | - | 60,878 | - | - | - | - | - | - | 163,809 | (180,276) | 44,411 |
| Loans and advances | 22,172 | 1,068,958 | 478,218 | 20,345 | 18,990 | 244,489 | 185,528 | 211,203 | - | - | 2,249,903 |
| Investment securities | - | 27,852 | 31,161 | - | - | 8,388 | 360 | - | - | - | 67,761 |
| Prepayments and other receivables | 39 | 26,273 | 3,427 | 706 | 1,321 | 12,344 | 3,040 | 133 | - | - | 47,283 |
| Current tax asset | - | - | 1,490 | - | - | 981 | 3,025 | - | - | - | 5,496 |
| Investments in associ-ates | - | - | 14,010 | - | 22,945 | 4,304 | - | - | - | - | 41,259 |
| Property and equipment | - | - | 9,977 | 30,360 | 122,365 | 3,041 | 14,098 | 37,101 | - | - | 216,942 |
| Investment property | - | - | 2,400 | - | 45,232 | - | - | - | - | - | 47,632 |
| Intangible assets | - | - | 35,546 | - | - | 1,312 | 1,503 | 4,258 | - | - | 42,619 |
| Deferred tax asset | - | - | 2,654 | 471 | - | 2,770 | - | - | - | - | 5,895 |
| | **23,428** | **1,407,153** | **1,143,082** | **65,222** | **229,875** | **430,866** | **287,698** | **371,021** | **163,809** | **(154,216)** | **3,967,938** |
| Deposits | 82,814 | 852,283 | 1,063,334 | 47,997 | 35,847 | 318,025 | 108,677 | 313,375 | - | - | 2,822,352 |
| Derivative financial liabilities* | - | 126,066 | - | - | - | 30,896 | 25,594 | - | - | (180,339) | 2,217 |
| Creditors and accruals | 7,777 | 11,447 | 6,015 | 1,754 | (1,198) | 7,319 | 1,972 | 2,768 | - | - | 37,854 |
| Current tax liabilities | - | - | 1,485 | - | 2,061 | 17 | 1,941 | 527 | - | - | 6,031 |
| Deferred tax liabilities | - | - | 1,681 | - | 38,875 | - | 416 | 2,190 | - | - | 43,162 |
| Borrowed funds | 25,176 | 99,963 | 257,328 | 77 | - | 28,434 | 25,027 | - | 163,809 | - | 599,814 |
| | **115,767** | **1,089,759** | **1,329,843** | **49,828** | **75,585** | **384,691** | **163,627** | **318,860** | **163,809** | **(180,339)** | **3,511,430** |
| **Net on-balance sheet position** | **(92,339)** | **317,394** | **(186,761)** | **15,394** | **154,290** | **46,175** | **124,071** | **52,161** | **-** | **26,123** | **456,508** |
| **Credit commitments** | **27,953** | **258,988** | **104,086** | **34,808** | **-** | **34,300** | **20,180** | **14,360** | **-** | **-** | **494,675** |

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

| **2007** | **EUR** | **USD** | **BWP** | **ZAR** | **ZWD** | **TZS** | **ZMK** | **MZN** | **JPY** | **OTHER** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and short term funds | 27,191 | 113,952 | 156,726 | 14,332 | 3,505 | 55,555 | 17,889 | 38,045 | 101,116 | - | 528,311 |
| Financial assets held for trading | - | - | 462,799 | - | 3,311 | 139,690 | 59,021 | 83,216 | - | 97 | 748,134 |
| Financial assets desig-nated at fair value | - | - | - | - | 115,878 | - | - | - | - | - | 115,878 |
| Loans and advances | 15,229 | 528,523 | 331,695 | 8,478 | 5,354 | 80,943 | 146,551 | 130,577 | - | - | 1,247,350 |
| Investment securities | 2 | 22,035 | 26,214 | - | 17,591 | 4,715 | 388 | - | - | - | 70,945 |
| Prepayments and other receivables | 710 | 38,071 | 2,772 | 388 | 2,312 | 1,565 | 2,509 | 4,185 | - | - | 52,512 |
| Current tax asset | - | - | 1,113 | - | 2 | 1,434 | 2,466 | - | - | - | 5,015 |
| Investments in associates | - | - | 1,938 | - | 40,782 | 4,304 | - | - | - | - | 47,024 |
| Property and equipment | - | - | 4,376 | 300 | 29,507 | 2,135 | 12,030 | 13,458 | - | - | 61,806 |
| Investment property | - | - | 1,760 | - | 26,642 | - | - | - | - | - | 28,402 |
| Intangible assets | - | - | 34,465 | - | 223 | 282 | 226 | 59 | - | - | 35,255 |
| Deferred tax asset | - | - | 2,175 | 999 | 727 | 8,913 | - | 59 | - | - | 12,873 |
| | **43,132** | **702,581** | **1,026,033** | **24,497** | **245,834** | **299,536** | **241,080** | **269,599** | **101,116** | **97** | **2,953,505** |
| Deposits | 8,403 | 455,002 | 811,396 | 31,600 | 105,607 | 247,586 | 121,798 | 180,087 | - | - | 1,961,479 |
| Derivative financial liabilities | - | - | - | - | - | 5,110 | - | - | - | - | 5,110 |
| Creditors and accruals | 43 | 7,443 | 6,297 | 875 | 5,119 | 3,323 | 3,138 | 1,045 | - | - | 27,283 |
| Current tax liabilities | - | 991 | 641 | - | 1,857 | - | 170 | (170) | - | - | 3,489 |
| Deferred tax liabilities | - | - | (430) | - | 25,508 | - | 231 | - | - | - | 25,309 |
| Borrowed funds | 30,445 | 133,911 | 256,018 | 319 | 17,591 | 2,791 | 20,479 | - | 121,035 | - | 582,589 |
| | **38,891** | **597,347** | **1,073,922** | **32,794** | **155,682** | **258,810** | **145,816** | **180,962** | **121,035** | **-** | **2,605,259** |
| **Net on-balance sheet position** | **4,241** | **105,234** | **(47,889)** | **(8,297)** | **90,152** | **40,726** | **95,264** | **88,637** | **(19,919)** | **97** | **348,246** |
| **Credit commitments** | **36,160** | **87,354** | **98,854** | **17,235** | **32,935** | **9,693** | **11,925** | **4,340** | **-** | **-** | **298,496** |

### Interest rate risk

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

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

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

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

| 2007 BWP'000s | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| Assets | 772,527 | 538,862 | 629,386 | 465,754 | 546,976 | 2,953,505 |
| Total equity | - | - | - | - | 348,246 | 348,246 |
| Liabilities | 1,063,885 | 694,267 | 306,624 | 492,395 | 48,088 | 2,605,259 |
| **Total interest repricing gap** | **(291,358)** | **(155,405)** | **322,762** | **(26,641)** | **150,642** | **-** |

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

| BWP'000s | 2008 | 2007 |
|---|---|---|
| **ABC Botswana** | | |
| ABC Botswana constituted 33% of the Group's total assets. | | |
| Change in net interest income (+50 basis points) | 797 | 1,056 |
| As a percentage of total Shareholders equity | 1.00% | 2.00% |
| Change in net interest income (-50 basis points) | (797) | (1,056) |
| As a percentage of total Shareholders equity | -1.00% | -2.00% |
| **ABC Mozambique** | | |
| ABC Mozambique constitued 16% of the Group's total assets | | |
| Change in net interest income (+50 basis points) | (228) | (169) |
| As a percentage of total Shareholders equity | -0.20% | -0.20% |
| Change in net interest income (-50 basis points) | 228 | 169 |
| As a percentage of total Shareholders equity | 0.20% | 0.20% |
| **ABC Tanzania** | | |
| ABC Tanzania constituted 20% of the Group's total assets | | |
| Change in net interest income (+50 basis points) | (120) | (181) |
| As a percentage of total Shareholders equity | -0.10% | -2.20% |
| Change in net interest income (-50 basis points) | 120 | 181 |
| As a percentage of total Shareholders equity | 0.10% | 2.20% |
| **ABC Zambia** | | |
| ABC Zambia constituted 12% of the Group's total assets. | | |
| Change in net interest income (+50 basis points) | 315 | 169 |
| As a percentage of total Shareholders equity | 0.10% | 0.00% |
| Change in net interest income (-50 basis points) | 315 | 157 |
| As a percentage of total Shareholders equity | 0.10% | 0.00% |
| **ABC Zimbabwe** | | |
| ABC Zimbabwe constituted 6% of the Group's total assets | | |
| Change in net interest income (+50 basis points) | 812 | 427 |
| As a percentage of total Shareholders equity | 0.70% | - |
| Change in net interest income (-50 basis points) | (1,770) | (427) |
| As a percentage of total Shareholders equity | -1.50% | -0.90% |
| **Microfin Africa Zambia** | | |
| Microfin constituted 3% of the Group's total assets. | | |
| Change in net interest income (+50 basis points) | 27 | 34 |
| As a percentage of total Shareholders equity | 0.20% | 0.40% |
| Change in net interest income (-50 basis points) | (27) | (34) |
| As a percentage of total Shareholders equity | -0.20% | -0.40% |

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

### Sensitivity analysis of market price

The Group holds listed equities with a fair value of BWP 26.1 million (2007: BWP 115.9 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 it's 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 unforseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

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

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

The Groups's maturity analysis (on a discounted cash flow basis) as at 31 December 2008 was as follows:

| **2008**<br>**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 financial 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 asset | 3,026 | - | - | 2,470 | 5,496 |
| Investment in associates | 15 | - | - | 41,244 | 41,259 |
| Property and equipment | - | - | - | 216,942 | 216,942 |
| Investment properties | - | - | - | 47,632 | 47,632 |
| Intangible assets | - | - | - | 42,619 | 42,619 |
| Deferred tax asset | - | - | 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 |
| **Total equity and liabilities** | **1,890,073** | **723,188** | **334,195** | **1,020,482** | **3,967,938** |
| | | | | | |
| **Net maturity gap** | **(753,624)** | **(159,698)** | **737,349** | **175,973** | **-** |

| **2007**<br>**BWP'000s** | **Up to 1 month** | **1-3 months** | **3-12 months** | **Greater than 1 year** | **Total** |
|---|---|---|---|---|---|
| Cash and short term funds | 495,171 | 26,251 | 6,889 | - | 528,311 |
| Financial assets held for trading | 328,366 | 207,173 | 169,380 | 159,093 | 864,012 |
| Loans and advances | 171,492 | 173,275 | 494,075 | 408,508 | 1,247,350 |
| Investment securities | 17,981 | - | - | 52,964 | 70,945 |
| Prepayments and other receivables | 19,605 | 2,091 | 28,516 | 2,300 | 52,512 |
| Current tax asset | - | - | 5,015 | - | 5,015 |
| Investment in associates | - | - | - | 47,024 | 47,024 |
| Property and equipment | - | - | - | 61,806 | 61,806 |
| Investment properties | - | - | - | 28,402 | 28,402 |
| Intangible assets | - | - | - | 35,255 | 35,255 |
| Deferred tax asset | - | - | 12,873 | - | 12,873 |
| **Total Assets** | **1,032,615** | **408,790** | **716,748** | **795,352** | **2,953,505** |
| | | | | | |
| **Shareholders equity and liabilities** | | | | | |
| Equity | - | - | - | 348,246 | 348,246 |
| **Liabilities** | | | | | |
| Deposits | 1,046,482 | 594,973 | 320,024 | - | 1,961,479 |
| Derivative financial liabilities | - | - | - | 5,110 | 5,110 |
| Creditors and accruals | 13,219 | 1,215 | 10,862 | 1,987 | 27,283 |
| Current tax liabilities | - | - | 3,489 | - | 3,489 |
| Deferred tax liabilities | - | - | 25,309 | - | 25,309 |
| Borrowed funds | 4,785 | 363 | 73,181 | 504,260 | 582,589 |
| **Total equity and liabilities** | **1,064,486** | **596,551** | **432,865** | **859,603** | **2,953,505** |
| | | | | | |
| **Net maturity gap** | **(31,871)** | **(187,761)** | **283,883** | **(64,251)** | **-** |

### Funding approach

Sources of liquidity are regularly reviewed by the Asset and Liability Committees to maintain a wide diversification by currency, geography, provider, product and term. The Group has negotiated convertable loan facilities as described in note 31.

### Non-derivative cash flows

The table below presents the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

| 2008<br>BWP'000s | Up to 1 month | 1-3 months | 3-12 months | Greater than 1 year | Total |
|---|---|---|---|---|---|
| Deposits | 1,895,709 | 683,719 | 261,579 | 8,350 | 2,849,357 |
| Derivative financial liabilities | - | - | 2,217 | - | 2,217 |
| Creditors and accruals | 22,194 | 8,102 | 2,212 | 5,346 | 37,854 |
| Current tax liabilities | 3,473 | 1,073 | 1,485 | - | 6,031 |
| Deferred tax liabilities | - | - | 1,683 | 41,479 | 43,162 |
| Borrowed funds | 519 | 36,674 | 164,889 | 831,307 | 1,033,389 |
| **Total liabilities** | **1,921,895** | **729,568** | **434,065** | **886,482** | **3,972,010** |

| 2007<br>BWP'000s | Up to 1 month | 1-3 months | 3-12 months | Greater than 1 year | Total |
|---|---|---|---|---|---|
| Deposits | 1,057,749 | 885,837 | 50,452 | 6,134 | 2,000,172 |
| Derivative financial liabilities | - | - | - | 5,110 | 5,110 |
| Creditors and accruals | 13,219 | 1,215 | 10,862 | 1,987 | 27,283 |
| Current tax liabilities | - | - | 3,489 | - | 3,489 |
| Deferred tax liabilities | - | - | 25,309 | - | 25,309 |
| Borrowed funds | 109,115 | 54,800 | 118,418 | 839,593 | 1,121,926 |
| **Total liabilities** | **1,180,083** | **941,852** | **208,530** | **852,824** | **3,183,289** |

# Off-balance sheet items

| BWP'000s | 2008 | 2007 |
|---|---|---|
| **(a) Contingent liabilities** | | |
| Contingent liabilities comprise of: | | |
| Guarantees | 239,745 | 166,592 |
| Letters of credit and other contingent liabilities | 245,930 | 131,904 |
| | **494,675** | **298,496** |

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 2008, are summarised below:

| | | |
|---|---|---|
| Less than one year | 358,201 | 293,393 |
| Between one and five years | 136,474 | 5,103 |
| | **494,675** | **298,496** |

| | | |
|---|---|---|
| **(b) Capital commitments** | | |
| Approved and contracted for | 69,803 | - |
| Approved but not contracted for | 63,979 | 40,353 |
| | **133,782** | **40,353** |

| | | |
|---|---|---|
| **(c) Non-cancelable operating leases commitments** | | |
| Office premises | 42,828 | 16,569 |
| Equipment and motor vehicles | 324 | 80 |
| | **43,152** | **16,649** |

Future minimum lease payments under non-cancelable operating leases are as follows:

| | | |
|---|---|---|
| Less than one year | 9,980 | 2,404 |
| Between one and five years | 18,790 | 10,213 |
| Over five years | 14,382 | 4,032 |
| | **43,152** | **16,649** |

# Fair value of financial assets and liabilities

**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:

| | Carrying value | Fair value | Unrecog-nised profit/(loss) | Carrying value | Fair value | Unrecog-nised profit/(loss) |
|---|---|---|---|---|---|---|
| **BWP'000s** | **2008** | **2008** | **2008** | **2007** | **2007** | **2007** |
| Borrowed funds | 599,814 | 647,554 | 47,740 | 582,589 | 625,240 | 42,651 |

### Financial instruments not measured at fair value

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

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

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

#### (iii) Investment securities
Investment securities include only interest-bearing assets held to maturity, and unlisted equities; assets classified as available for sale are measured at fair value. Fair value for held 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 stimated using discounted cash flow analysis.

## 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 Authorties. 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 2008 all regulated banking operations compiled 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:

**Historical cost basis**

| BWP'000s | ABC Botswana | ABC Zimbabwe | ABC Zambia | ABC Tanzania | ABC Mozambique | Microfin |
|---|---|---|---|---|---|---|
| **Tier I Capital** | | | | | | |
| Share capital and premium | 34,070 | 66,418 | 40,413 | 128,973 | 41,512 | 3,717 |
| Capital reserves and retained earnings | 34,772 | (40,927) | 2,854 | (21,436) | 52,448 | 9,612 |
| Prepayments | - | - | - | (5,902) | - | - |
| Exposures to insiders | - | (4) | - | - | - | - |
| Current year retained profit | 13,193 | - | - | - | - | - |
| **Total qualifying for Tier 1 Capital** | **82,035** | **25,487** | **43,267** | **101,635** | **93,960** | **13,329** |
| **Tier II Capital** | | | | | | |
| Shareholder's loan | 31,977 | - | 38,686 | - | 40,583 | 7,539 |
| 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** | **-** | **52,743** | **7,539** |
| **Total Capital** | **123,846** | **50,974** | **81,953** | **101,635** | **146,703** | **20,868** |
| **Risk Weighted Assets** | | | | | | |
| On balance sheet assets | 739,251 | 196,187 | 354,416 | 597,774 | 439,641 | 94,400 |
| Off balance sheet assets | 59,128 | 75,386 | 11,090 | 36,331 | 13,742 | - |
| **Total risk weighted assets** | **798,379** | **271,573** | **365,506** | **634,105** | **453,383** | **94,400** |
| Capital adequacy ratio | 16% | 19% | 22% | 16% | 32% | 22% |
| Minimum regulatory capital adequacy ratio | 15% | 10% | 10% | 12% | 8% | 17% |

The increase of the regulatory capital in the year of 2008 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

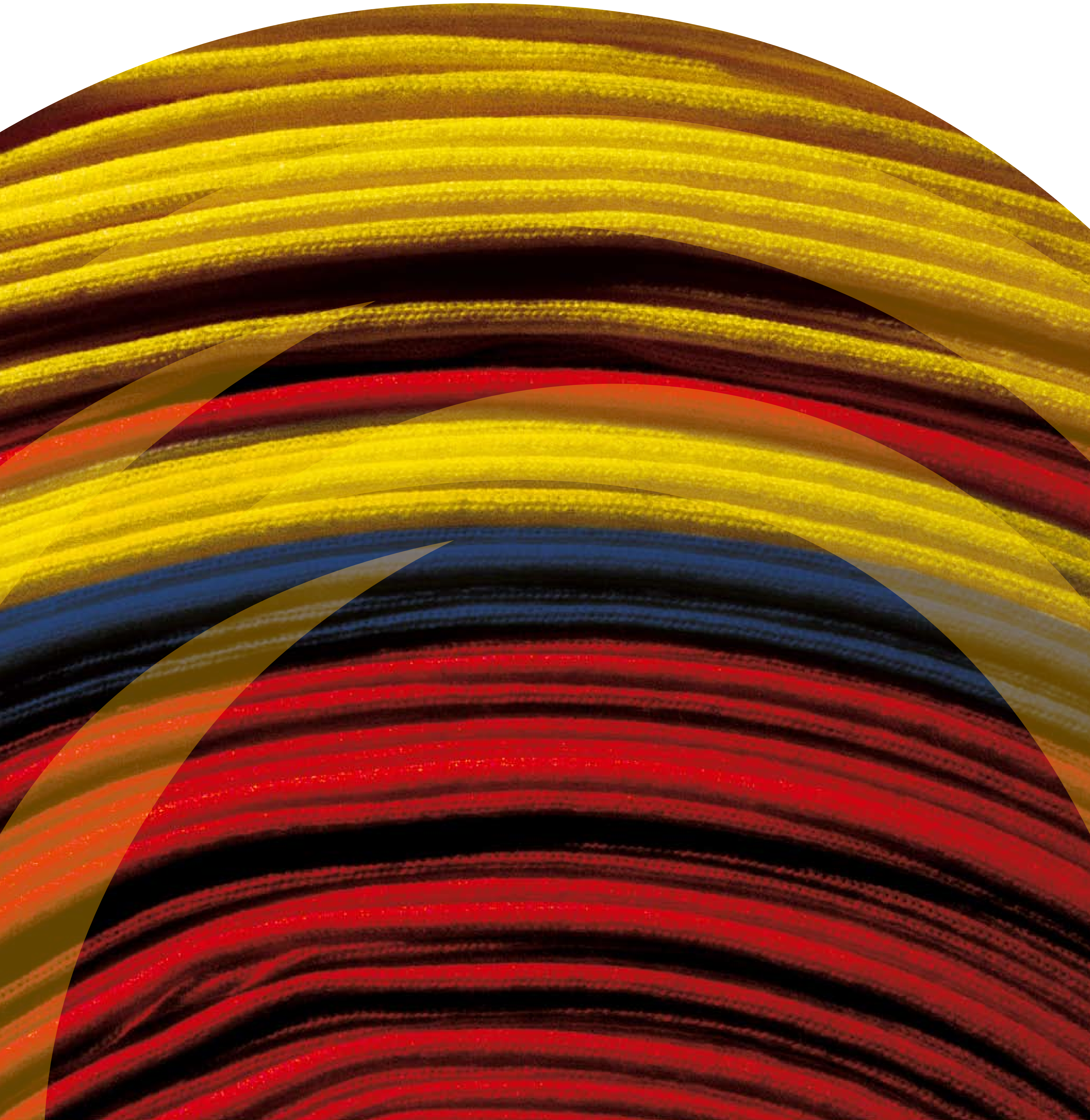
### By geographical segment

The Group operates in five geographical areas. In all the geographical areas, the Group's main activities are corporate and private banking services, while Mozambique also offers retail banking services. The major geographical segments are shown below:

| **2008 BWP'000s** | **Botswana** | **Mozam-bique** | **Tanzania** | **Zimbabwe** | **Zambia** | **ABCH and Other** | **Total** |
|---|---|---|---|---|---|---|---|
| Net interest income after impairment of loans and advances | 18,931 | 33,250 | 29,054 | 55 | 55,356 | 3,384 | 140,030 |
| Total operating income | 60,476 | 61,106 | 57,892 | 61,831 | 67,434 | 47,417 | 356,156 |
| Operating profit | 17,851 | 19,906 | 22,002 | 61,841 | (4,337) | 2,010 | 119,273 |
| Share of results of associates | - | - | - | - | - | 2,300 | 2,300 |
| Profit before tax | 17,851 | 19,906 | 22,002 | 61,841 | (4,337) | 4,310 | 121,573 |
| Income tax expense | (4,658) | (3,262) | (6,718) | (16,449) | (2,886) | 331 | (33,642) |
| **Profit for the year** | **13,193** | **16,644** | **15,284** | **45,392** | **(7,223)** | **4,641** | **87,931** |
| Segment assets | 1,309,517 | 648,736 | 870,019 | 270,945 | 581,508 | 245,954 | 3,926,679 |
| Associates | - | - | 4,304 | 15 | - | 36,940 | 41,259 |
| **Total assets** | **1,309,517** | **648,736** | **874,323** | **270,960** | **581,508** | **282,894** | **3,967,938** |
| | | | | | | | |
| **Segment liabilities** | **1,195,505** | **490,961** | **731,309** | **127,597** | **455,778** | **510,280** | **3,511,430** |
| | | | | | | | |
| **Other segment items:** | | | | | | | |
| Capital expenditure | 6,627 | 8,849 | 1,713 | 18 | 5,293 | 30,597 | 53,097 |
| Depreciation | 950 | 2,808 | 987 | - | 3,500 | 567 | 8,812 |
| Amortisation | 510 | 229 | 356 | - | 834 | - | 1,929 |
| Impairment charge | 22,458 | 1,045 | 36 | 1 | 18,205 | 2,620 | 44,365 |
| Other non-cash (income)/ expenses | - | (24) | (14) | (81,846) | 1,142 | - | (80,742) |
| Operating expenses | 42,626 | 41,200 | 35,890 | 47 | 71,772 | 45,406 | 236,941 |

| **2007 BWP'000s** | **Botswana** | **Mozam-bique** | **Tanzania** | **Zimbabwe** | **Zambia** | **ABCH and other** | **Total** |
|---|---|---|---|---|---|---|---|
| Net interest income after impairment of advances | 14,509 | 20,544 | 12,055 | (16,391) | 35,754 | (7,098) | 59,373 |
| Total operating income | 35,702 | 39,151 | 35,680 | 25,991 | 49,692 | 27,677 | 213,893 |
| Operating profit | 9,266 | 13,412 | 11,720 | 84,835 | (2,825) | 2,072 | 118,480 |
| Share of results of associates | - | - | - | 1,550 | - | 2,992 | 4,542 |
| Profit before tax | 9,266 | 13,412 | 11,720 | 86,385 | (2,825) | 5,064 | 123,022 |
| Tax | (1,497) | (111) | 5,128 | (17,112) | (550) | (2,211) | (16,353) |
| **Profit for the year** | **7,769** | **13,301** | **16,848** | **69,273** | **(3,375)** | **2,853** | **106,669** |
| | | | | | | | |
| Segment assets | 1,186,572 | 361,864 | 529,645 | 277,306 | 394,393 | 156,701 | 2,906,481 |
| Associates | - | - | 4,304 | 17,853 | - | 24,867 | 47,024 |
| **Total assets** | **1,186,572** | **361,864** | **533,949** | **295,159** | **394,393** | **181,568** | **2,953,505** |
| | | | | | | | |
| **Segment liabilities** | **1,117,714** | **287,227** | **494,714** | **163,077** | **331,705** | **210,822** | **2,605,259** |
| | | | | | | | |
| **Other segment items:** | | | | | | | |
| Capital expenditure | 3,861 | 2,918 | 1,268 | 2,998 | 9,637 | 375 | 21,057 |
| Depreciation | 403 | 1,508 | 515 | 233 | 1,842 | 456 | 4,957 |
| Amortisation | 2 | 254 | 416 | - | 309 | 1,216 | 2,197 |
| Impairment charge | 14,974 | 2,725 | 750 | 16 | 9,230 | 5,188 | 32,883 |
| Other non-cash (income)/ expenses | (22) | - | (59) | 20,559 | 259 | 8,597 | 29,334 |
| Operating expenses | 26,436 | 25,738 | 23,960 | 17,062 | 52,517 | 25,607 | 171,320 |

# Consolidated Financial Statements



# Consolidated income statement
# for the year ended 31 December 2008

| BWP '000s | Notes | 2008 | 2007 |
|---|---|---|---|
| Interest and similar income | | 456,474 | 388,496 |
| Interest expense and similar charges | | (272,079) | (296,240) |
| **Net interest income before impairment of advances** | **1** | **184,395** | **92,256** |
| Impairment of loans and advances | **2** | (44,365) | (32,883) |
| **Net interest income after impairment of advances** | | **140,030** | **59,373** |
| Non interest income | **3** | 216,126 | 154,520 |
| **Total income** | | **356,156** | **213,893** |
| Operating expenditure | **4** | (236,941) | (171,320) |
| Gain on net monetary position | **5** | 58 | 75,907 |
| **Net income from operations** | | **119,273** | **118,480** |
| Share of profits of associates | **14** | 2,300 | 4,542 |
| **Profit before tax** | | **121,573** | **123,022** |
| Tax | **6** | (33,642) | (16,353) |
| **Profit for the year** | | **87,931** | **106,669** |
| | | | |
| Attributable to: | | | |
| Ordinary shareholders | | 85,818 | 101,626 |
| Minorities | | 2,113 | 5,043 |
| **Profit for the year** | | **87,931** | **106,669** |
| | | | |
| Earnings per share (thebe) | **7** | 60.2 | 78.4 |
| Dividend per share (thebe) | | 8.0 | 14.0 |

# Consolidated balance sheet
# as at 31 December 2008

| BWP '000s | Notes | 2008 | 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short term funds | 8 | 513,050 | 528,311 |
| Financial assets held for trading | 9 | 659,587 | 748,134 |
| Financial assets designated at fair value | 10 | 26,100 | 115,878 |
| Derivative financial assets | 22 | 44,411 | - |
| Loans and advances | 11 | 2,249,903 | 1,247,350 |
| Investment securities | 13 | 67,761 | 70,945 |
| Prepayments and other receivables | 12 | 47,283 | 52,512 |
| Current tax assets | | 5,496 | 5,015 |
| Investment in associates | 14 | 41,259 | 47,024 |
| Property and equipment | 16 | 216,942 | 61,806 |
| Investment properties | 15 | 47,632 | 28,402 |
| Intangible assets | 18 | 42,619 | 35,255 |
| Deferred tax assets | 17 | 5,895 | 12,873 |
| **TOTAL ASSETS** | | **3,967,938** | **2,953,505** |
| | | | |
| **EQUITIES AND LIABILITIES** | | | |
| **Liabilities** | | | |
| Deposits | 19 | 2,822,352 | 1,961,479 |
| Derivative financial liabilities | 22 | 2,217 | 5,110 |
| Creditors and accruals | 21 | 37,854 | 27,283 |
| Current tax liabilities | | 6,031 | 3,489 |
| Deferred tax liabilities | 17 | 43,162 | 25,309 |
| Borrowed funds | 20 | 599,814 | 582,589 |
| | | **3,511,430** | **2,605,259** |
| **Equity** | | | |
| Stated capital | 23 | 307,586 | 270,189 |
| Foreign currency translation reserve | | (223,083) | (119,842) |
| Non distributable reserves | | 162,258 | 46,767 |
| Distributable reserves | | 190,893 | 138,746 |
| **Equity attributable to ordinary shareholders** | | **437,654** | **335,860** |
| | | | |
| Minority interest | | 18,854 | 12,386 |
| | | | |
| **Total equity** | | **456,508** | **348,246** |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | | **3,967,938** | **2,953,505** |

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

| BWP'000s | Stated capital | Foreign currency translation reserve | Regulatory general credit risk reserve | Property revaluation reserve | Available for sale reserve | Statutory reserve | Hedging reserve | Treasury shares reserve | Distrib-utable reserves | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2007 | 270,157 | (45,616) | 289 | - | 1,098 | 18,140 | - | - | 40,946 | 8,530 | 293,544 |
| Profit for the year | - | - | - | - | - | - | - | - | 101,626 | 5,043 | 106,669 |
| Foreign currency translation differences | - | (74,226) | - | - | - | - | - | - | - | 702 | (73,524) |
| Revaluation of property net of deferred tax | - | - | - | 10,027 | - | - | - | - | - | - | 10,027 |
| Net investment hedging reserve | - | - | - | - | - | - | (2,889) | - | - | - | (2,889) |
| Share of reserves in associate companies | - | - | - | 18,723 | - | - | - | - | - | - | 18,723 |
| Purchase of shares from minorities | - | - | - | - | - | - | - | - | - | (1,889) | (1,889) |
| Movement in statutory reserves | - | - | - | - | - | 3,826 | - | - | (3,826) | - | - |
| Consolidation of treasury shares | 32 | - | - | - | - | - | - | (2,933) | - | - | (2,901) |
| Movement in available for sale reserves: | - | - | - | - | 486 | - | - | - | - | - | 486 |
| - Arising in current year | - | - | - | - | 308 | - | - | - | - | - | 308 |
| - Realised through profit and loss | - | - | - | - | 178 | - | - | - | - | - | 178 |
| **Balance as at 31 December 2007** | **270,189** | **(119,842)** | **289** | **28,750** | **1,584** | **21,966** | **(2,889)** | **(2,933)** | **138,746** | **12,386** | **348,246** |
| Profit for the year | - | - | - | - | - | - | - | - | 85,818 | 2,113 | 87,931 |
| Shares issued | 37,397 | - | - | - | - | - | - | - | - | - | 37,397 |
| Foreign currency translation differences | - | (103,241) | - | - | - | - | - | - | - | 6,068 | (97,173) |
| Revaluation of property net of deferred tax | - | - | - | 110,018 | - | - | - | - | - | - | 110,018 |
| Movement in general credit risk reserve | - | - | 4,536 | - | - | - | - | - | (4,536) | - | - |
| Net investment hedging reserve | - | - | - | - | - | - | (13) | - | - | - | (13) |
| Purchase of shares from minorities | - | - | - | - | - | - | - | - | 1,713 | (1,713) | - |
| Movement in statutory reserves | - | - | - | - | - | 2,498 | - | - | (2,498) | - | - |
| Disposal of treasury shares | - | - | - | - | - | - | - | 359 | - | - | 359 |
| Dividend | - | - | - | - | - | - | - | - | (30,227) | - | (30,227) |
| Movement in available for sale reserves: | - | - | - | - | (1,907) | - | - | - | 1,877 | - | (30) |
| - Arising in current year | - | - | - | - | (1,907) | - | - | - | 1,877 | - | (30) |
| **Balance as at 31 December 2008** | **307,586** | **(223,083)** | **4,825** | **138,768** | **(323)** | **24,464** | **(2,902)** | **(2,574)** | **190,893** | **18,854** | **456,508** |

# Consolidated cash flow statement
# for the year ended 31 December 2008

| BWP'000s | 2008 | 2007 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | **57,267** | **61,181** |
| Cash generated from operating activities | 92,178 | 135,748 |
| **Net profit before tax** | **121,573** | **123,022** |
| **Adjusted for:** | | |
| Impairment of loans and advances | 44,365 | 32,883 |
| Depreciation and amortisation | 10,741 | 7,154 |
| Hedging reserve | (13) | (2,889) |
| Net (gains)/losses on derivative financial instruments | (38,585) | 10,073 |
| Fair value gains on investment properties | (45,861) | (14,880) |
| Profit on disposal of subsidiary | - | (8,853) |
| Profit on disposal of associate | - | (10,687) |
| Profit on sale of property and equipment | (42) | (75) |
| Tax paid | (5,422) | (12,905) |
| Net cash inflow from operating activities before changes in operating funds | 86,756 | 122,843 |
| Net decrease in operating funds | (29,489) | (61,662) |
| Increase in operating assets | (894,981) | (462,694) |
| Increase in operating liabilities | 865,492 | 401,032 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | **(62,583)** | **(11,798)** |
| Purchase of property and equipment | (63,103) | (21,057) |
| Proceeds on disposal of property and equipment | 520 | 406 |
| Proceeds on disposal of subsidiary | - | 8,853 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | **36,137** | **19,341** |
| Proceeds from issue of shares | 37,397 | - |
| Purchase of treasury and preference shares | - | (4,790) |
| Increase in borrowed funds | 28,967 | 24,131 |
| Dividends paid | (30,227) | - |
| **Increase in cash and cash equivalents** | **30,821** | **68,724** |
| Cash and cash equivalents at the beginning of the year | 446,256 | 369,947 |
| Exchange adjustment on opening balance | (56,569) | 7,585 |
| **Cash and cash equivalents at the end of the year*** | **420,508** | **446,256** |
| *Cash and cash equivalents excludes statutory reserves | | |
| Cash and cash equivalents | 420,508 | 446,256 |
| Statutory reserves | 92,542 | 82,055 |
| **Cash and short term funds** | **513,050** | **528,311** |

# Notes to the financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **1. NET INTEREST INCOME** | | |
| **Interest and similar income** | | |
| Cash and short term funds | 49,188 | 29,610 |
| Investment securities at amortised cost | 98,921 | 157,332 |
| Loans and advances at amortised cost | 308,365 | 201,554 |
| | **456,474** | **388,496** |
| **Interest expense** | | |
| Deposits | 189,954 | 172,366 |
| Borrowed funds | 82,125 | 123,874 |
| | **272,079** | **296,240** |
| **Net interest income** | **184,395** | **92,256** |

Interest income suspended on impaired financial assets amount to BWP 2,172 million (2007: BWP 2,548 million).

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **2. IMPAIRMENT OF LOANS AND ADVANCES** | | |
| Specific impairments | 33,331 | 27,158 |
| Portfolio impairments | 12,784 | 5,772 |
| Total impairment charge | 46,115 | 32,930 |
| Recoveries of loans and advances previously written off | (1,750) | (47) |
| | **44,365** | **32,883** |

# Notes to the financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **3. NON INTEREST INCOME** | | |
| Gains from trading activities: | 64,412 | 11,660 |
| Gains on investment securities: | 25,827 | 21,911 |
| - held for trading | (142) | 274 |
| - designated at fair value | 25,969 | 21,637 |
| Net profit/(losses) on derivative financial instruments* | 38,585 | (10,073) |
| Loss on realisation of available-for-sale securities | - | (178) |
| Dividends received: | 3,342 | 3,191 |
| Listed shares - fair value through profit and loss | - | 121 |
| Unlisted shares - fair value through profit and loss | 3,342 | 3,070 |
| Fee and commission income: | 70,430 | 74,177 |
| Net fee income on loans and advances | 45,074 | 49,982 |
| Net fee income on held to maturity investments | - | 208 |
| Net fee income on available for sale securities | - | 1,679 |
| Net fee income from trust and fiduciary activities | 2,061 | 7,376 |
| Other fee income | 23,295 | 14,932 |
| Other non interest income: | 77,942 | 65,492 |
| Money market trading income | 594 | 7,137 |
| Fair value gains on investment properties at fair value | 45,861 | 14,880 |
| Rental and other income | 1,984 | 12,654 |
| Profit on disposal of property, plant & equipment | 42 | 75 |
| Foreign exchange income* | 29,448 | 8,317 |
| Profit on disposal of subsidiary | - | 8,853 |
| Profit on disposal of associate | - | 10,687 |
| Net gains on hedging activities | 13 | 2,889 |
| | **216,126** | **154,520** |

* Foreign exchange income includes a foreign exchange loss of BWP 62 million arising from the Japanese Yen exposure with NDB, disclosed in note 20. Net profit on derivative financial instruments includes an offsetting fair value gain arising from an equal but opposite notional Japanese Yen derivative asset.

# Notes to the financial statements
# for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **4. OPERATING EXPENDITURE** | | |
| Administrative expenses | 84,005 | 55,156 |
| Property lease rentals | 8,578 | 5,699 |
| Staff costs (note 4.1) | 121,646 | 90,583 |
| Auditors remuneration | 4,255 | 3,213 |
| Depreciation | 8,812 | 4,957 |
| Amortisation of software | 1,929 | 2,197 |
| Directors remuneration (note 4.2) | 7,716 | 9,515 |
| | **236,941** | **171,320** |

| | | |
|---|---|---|
| **4.1 Staff Costs** | | |
| Salaries | 96,618 | 56,531 |
| Employer contributions to post retirement funds | 3,287 | 2,199 |
| Other staff costs | 21,741 | 31,853 |
| | 121,646 | 90,583 |

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 | 5,273 | 6,540 |
| **Non-executive directors** | | |
| Fees as director of holding company | 1,787 | 2,218 |
| Fees as director of subsidiaries | 656 | 757 |
| | 2,443 | 2,975 |
| | 7,716 | 9,515 |

# Notes to the financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **5. GAIN ON NET MONETARY POSITION** | | |
| Zimbabwe operations | **58** | **75,907** |

The financial results of entities in Zimbabwe have been adjusted to reflect the changes in the general level of prices as they operate in a hyperinflationary economy. The restatement for the purchasing power of the Zimbabwe entities is based on IAS 29 'Financial Reporting in Hyperinflationary Economies', 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 restated results are converted into the Group's presentation currency, Botswana Pula, at the closing rate ruling on the reporting date as set out in note 26. No such adjustments have been made in the supplementary historical cost financial information.

All items in the income statement are restated by applying the relevant monthly, yearly or year-end conversion factors. The effect of inflation on the net monetary position of the Zimbabwe entities are included in the income statement as a gain on net monetary position.

The derived conversion factors were as follows:

| Date | Index | Conversion factor |
|---|---|---|
| 31 December 2008 | 396,909,035,709,534,000,000,000,000 | 1 |
| 31 December 2007 | 441,490,119 | 899,021,334,939,975,000 |
| 31 December 2006 | 665,774 | 1,974,721 |

# Notes to the financial statements
# for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **6. TAX** | | |
| **Current tax expense** | | |
| Current year | 5,460 | 8,277 |
| Under/(over) provision in prior years | 1,316 | (1,868) |
| Bank levies | 2,035 | 1,820 |
| | 8,811 | 8,229 |
| **Deferred tax** | | |
| Accruals | 208 | (1,268) |
| Impairment losses | 1,777 | 226 |
| Property and equipment | 22,455 | 5,103 |
| (Losses)/gains on investments | (6,801) | 10,957 |
| Tax losses | 7,192 | (6,894) |
| | 24,831 | 8,124 |
| **Total tax expense per income statement** | **33,642** | **16,353** |
| Reconciliation of effective tax charge: | | |
| Profit before tax | 121,573 | 123,022 |
| Income tax using standard corporate tax rates | 44,564 | 39,241 |
| Non-deductible expenses | 3,107 | 10,493 |
| Tax exempt revenues | (13,852) | (18,054) |
| Tax incentives | (3,528) | (15,565) |
| Effect of tax losses utilised | - | 286 |
| Under/(over) provision in prior years | 1,316 | (1,868) |
| Bank levies | 2,035 | 1,820 |
| **Current tax expense per income statement** | **33,642** | **16,353** |
| **Effective tax rate** | **28%** | **13%** |
| **7. EARNINGS PER SHARE** | | |
| **Basic earnings per share** | | |
| Profit attributable to ordinary shareholders | 85,818 | 101,626 |
| Weighted average number of ordinary shares in issue ('000) | 142,635 | 129,655 |
| **Basic earnings per share** | **60.2** | **78.4** |
| **Number of shares ('000)** | | |
| Shares in issue at beginning of the year | 132,569 | 132,569 |
| Ordinary shares issued during the year | 13,851 | - |
| **Total company** | **146,420** | **132,569** |
| Recognised as treasury shares | (2,574) | (2,915) |
| **Total Group** | **143,846** | **129,654** |
| **Weighted average number of ordinary shares** | **142,635** | **129,655** |

# Notes to the financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **8. CASH AND SHORT TERM FUNDS** | | |
| Cash on hand | 21,146 | 9,495 |
| Balances with central banks | 55,619 | 15,161 |
| Balances with other banks | 343,743 | 421,600 |
| Cash and cash equivalents | 420,508 | 446,256 |
| Statutory reserve balances | 92,542 | 82,055 |
| | **513,050** | **528,311** |

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

| | 2008 | 2007 |
|---|---|---|
| **9. FINANCIAL ASSETS HELD FOR TRADING** | | |
| Government bonds | 48,547 | 44,880 |
| Treasury bills and other open market instruments | 594,365 | 677,205 |
| Bankers acceptances and commercial paper | 16,675 | 26,049 |
| | **659,587** | **748,134** |

All financial assets held for trading are carried at fair value.

| | 2008 | 2007 |
|---|---|---|
| **10. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE** | | |
| Listed equities | 26,100 | 115,878 |
| | **26,100** | **115,878** |

| | 2008 | 2007 |
|---|---|---|
| **11. LOANS AND ADVANCES** | | |
| Mortgage lending | 16,876 | 10,056 |
| Instalment finance | 581,413 | 196,053 |
| Corporate lending | 1,492,425 | 995,984 |
| Commercial property finance | 31,293 | 3,333 |
| Microfinance lending | 142,625 | 82,829 |
| Other loans and advances | 104,347 | 74,729 |
| Gross loans and advances | 2,368,979 | 1,362,984 |
| Less impairments (Note 11.1) | (119,076) | (115,634) |
| **Net loans and advances** | **2,249,903** | **1,247,350** |

# Notes to the financial statements
# for the year ended 31 December 2008

## 11.1 IMPAIRMENT OF LOANS AND ADVANCES - MOVEMENT ANALYSIS

| 2008<br>BWP '000s | Total impairment | Mortgag lending | Instalment finance | Corporate lending | Commercial and property finance | Microfinance lending | Other |
|---|---|---|---|---|---|---|---|
| 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 | 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** |
| **2007** | | | | | | | |
| Opening balance | 78,967 | 7 | 8,948 | 58,843 | - | 10,118 | 1,051 |
| Transfers to subsidiary | (521) | - | - | (521) | - | - | - |
| Exchange and inflation adjustment | 1,509 | - | - | (609) | - | - | 2,118 |
| Reclassifications | 1,694 | 1,376 | (104) | (508) | - | 606 | 324 |
| Bad debts written off | (615) | - | - | (615) | - | - | - |
| Net new impairments created | 31,306 | 47 | 6,027 | 19,987 | 20 | 5,131 | 94 |
| Impairments created | 32,027 | 47 | 6,027 | 20,445 | 20 | 5,394 | 94 |
| Impairments released | (721) | - | - | (458) | - | (263) | - |
| Suspended interest | 3,294 | - | - | 3,287 | - | - | 7 |
| **Closing balance** | **115,634** | **1,430** | **14,871** | **79,864** | **20** | **15,855** | **3,594** |

# Notes to the financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **12. PREPAYMENTS AND OTHER RECEIVABLES** | | |
| Accounts receivable and prepayments | 33,651 | 38,958 |
| Security deposits | 11,519 | 9,068 |
| Other amounts due | 2,113 | 4,486 |
| | **47,283** | **52,512** |

All prepayments and other receivables are classified as current.

| | 2008 | 2007 |
|---|---|---|
| **13. INVESTMENT SECURITIES** | | |
| Available for sale | 36,600 | 44,731 |
| - Listed equities | - | 17,981 |
| - Unlisted equities | 36,240 | 26,750 |
| - Unlisted investments | 360 | - |
| Held to maturity | | |
| - Promissory notes | 31,161 | 26,214 |
| | **67,761** | **70,945** |

| | 2008 | 2007 |
|---|---|---|
| **14. INVESTMENT IN ASSOCIATES** | | |
| Carrying value at the beginning of the year | 47,024 | 48,896 |
| Exchange rate and inflation adjustment | (17,837) | 13,167 |
| Share of profits | 2,300 | 4,542 |
| Tax | - | (3,189) |
| Disposals | - | (13,201) |
| Additions | 9,772 | - |
| Less: Dividend received | - | (3,191) |
| | **41,259** | **47,024** |

# Notes to the financial statements for the year ended 31 December 2008

## 14. INVESTMENT IN ASSOCIATES (continued)

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

| 2008 BWP '000s | Country of incorporation | Assets | Liabilities | Carrying amount | Goodwill | Profit/ (loss) | % Interest held | Reporting date |
|---|---|---|---|---|---|---|---|---|
| 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 |
| Starafricacorporation Limited* (Held through CBAQ Limited) | Zimbabwe | 12,392 | 8,064 | 22,378 | 18,050 | - | 26% | 31 March |
| | | 52,543 | 37,778 | 41,259 | 26,494 | 2,300 | | |

| 2007 BWP '000s | Country of incorporation | Assets | Liabilities | Carrying amount | Goodwill | Profit/ (loss) | % Interest held | Reporting date |
|---|---|---|---|---|---|---|---|---|
| Lion of Tanzania Insurance Company Limited | Tanzania | 15,685 | 11,483 | 4,304 | 102 | - | 38% | 31 December |
| PG Industries (Botswana) Limited | Botswana | 11,577 | 9,088 | 2,489 | - | - | 37% | 31 March |
| PG Industries (Zimbabwe) Limited | Zimbabwe | 29,968 | 8,882 | 17,853 | (3,233) | 1,549 | 21% | 31 March |
| Starafricacorporation Limited (Held through CBAQ Limited) | Zimbabwe | 12,392 | 8,064 | 22,378 | 18,050 | 2,993 | 26% | 31 March |
| | | 69,622 | 37,517 | 47,024 | 14,919 | 4,542 | | |

* IFRS compliant management accounts not available.

In 2007 the Group fully impaired its investment in Pyramid Plaza (Pty) Ltd, and disposed of all its interest in Capital Properties Limited. The fair value of the Group's interest in listed associate companies (listed in Zimbabwe) was as follows:

| BWP '000s | 2008 | 2007 |
|---|---|---|
| PG Industries (Zimbabwe) Limited | 3,299 | 20,833 |
| Starafricacorporation Limited (Held through CBAQ Limited) | 57,827 | 22,389 |

| | | |
|---|---|---|
| **15. INVESTMENT PROPERTY** | | |
| Balance at the beginning of the year | 28,402 | 24,171 |
| Exchange and inflation adjustment | (26,631) | (10,649) |
| Increase in fair value | 45,861 | 14,880 |
| **Balance at end of the year** | **47,632** | **28,402** |
| Rental income recognised in the income statement | 112 | 149 |

Investment property compromises 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.

# Notes to the financial statements for the year ended 31 December 2008

## 16. PROPERTY AND EQUIPMENT

| BWP '000s | Land and buildings | Motor vehicles | Computer and office equipment | Furniture and fittings | Total |
|---|---|---|---|---|---|
| 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 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** |
| Cost or valuation at 31 December 2006 | 40,853 | 6,884 | 69,500 | 9,258 | 126,495 |
| Exchange and inflation adjustments | (14,890) | (3,787) | (54,146) | 1,179 | (71,644) |
| Additions | 4,995 | 2,273 | 7,494 | 6,295 | 21,057 |
| Revaluations surplus (gross of deferred tax) | 12,717 | - | - | - | 12,717 |
| Disposals | - | (217) | (153) | (587) | (957) |
| Cost or valuation at 31 December 2007 | 43,675 | 5,153 | 22,695 | 16,145 | 87,668 |
| Accumulated depreciation at 31 December 2006 | (844) | (2,854) | (63,988) | (3,763) | (71,449) |
| Exchange and inflation adjustments | (822) | 1,369 | 51,603 | (2,232) | 49,918 |
| Disposals | - | 217 | 94 | 315 | 626 |
| Charge for the year | (491) | (1,075) | (2,008) | (1,383) | (4,957) |
| Accumulated depreciation at 31 December 2007 | (2,157) | (2,343) | (14,299) | (7,063) | (25,862) |
| **Carrying amount at 31 December 2007** | **41,518** | **2,810** | **8,396** | **9,082** | **61,806** |

On 31 December 2008, buildings situated in Zimbabwe were revalued by independent professional valuers based on open market values of the properties.

| BWP '000s | 2008 | 2007 |
|---|---|---|
| The carrying amount of revalued property had it not been revalued is as follows: | - | 14,035 |

# Notes to the financial statements
# for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **17. DEFERRED TAX** | | |
| Balance at the beginning of the year | 12,436 | 23,371 |
| Exchange and inflation adjustment | (26,921) | (20,902) |
| Income statement charge | 24,831 | 8,124 |
| Deferred tax on amounts charged to equity | 26,921 | 1,843 |
| | **37,267** | **12,436** |
| Disclosed as follows: | | |
| Deferred tax assets | (5,895) | (12,873) |
| Deferred tax liabilities | 43,162 | 25,309 |
| | **37,267** | **12,436** |
| Tax effects of temporary differences: | | |
| Accruals | (2,618) | (2,826) |
| Impairment losses | 1,777 | - |
| Property and equipment | 26,442 | 3,987 |
| Unrealised gains on investment | 15,152 | 21,953 |
| Tax losses | (3,486) | (10,678) |
| | **37,267** | **12,436** |

# Notes to the financial statements
# for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **18. INTANGIBLE ASSETS** | | |
| Goodwill | 32,544 | 34,467 |
| Software | 10,075 | 788 |
| | **42,619** | **35,255** |
| **Goodwill** | | |
| Cost | 67,342 | 67,342 |
| Impairments losses | (34,798) | (32,875) |
| Carrying amount at the end of the year | 32,544 | 34,467 |
| **Software** | | |
| **Cost** | | |
| Balance at the beginning of the year | 13,584 | 29,858 |
| Exchange and inflation adjustment | (2,124) | (16,533) |
| Additions | 11,267 | 259 |
| | 22,727 | 13,584 |
| **Amortisation** | | |
| Balance at the beginning of the year | (12,796) | (21,419) |
| Exchange and inflation adjustment | 2,073 | 10,820 |
| Amortisation charge | (1,929) | (2,197) |
| | (12,652) | (12,796) |
| Carrying amount at the end of the year | 10,075 | 788 |

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 cashflows, considering local market conditions and management's judgment 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 free cash flows growth of 10% per annum for 3 years
- Projected residual value growth of equity portfolio of 10% per annum for 3 years
- Weighted average cost of capital of 20.2%

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

# Notes to the financial statements
# for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **19. DEPOSITS** | | |
| Deposits from banks | 421,671 | 176,565 |
| Deposits from other customers | 2,343,056 | 1,695,230 |
| Deposits under repurchase agreements | 57,625 | 89,684 |
| | **2,822,352** | **1,961,479** |
| **Payable on demand** | | |
| Corporate customers | 672,054 | 487,182 |
| Public Sector | 12,359 | 23,129 |
| Private banking customers | 163,612 | 82,488 |
| Other financial institutions | 7,515 | 18,030 |
| Banks | 165,572 | 67,296 |
| | 1,021,112 | 678,125 |
| **Term deposits** | | |
| Corporate customers | 716,282 | 793,574 |
| Public sector | 722,891 | 190,066 |
| Private banking customers | 38,109 | 56,810 |
| Other financial institutions | 67,859 | 116,044 |
| Banks | 256,099 | 126,860 |
| | 1,801,240 | 1,283,354 |
| | **2,822,352** | **1,961,479** |
| **Geographical analysis of deposits:** | | |
| Botswana | 1,280,265 | 1,015,982 |
| Mozambique | 614,790 | 282,105 |
| Tanzania | 544,583 | 365,780 |
| Zambia | 242,706 | 212,374 |
| Zimbabwe | 129,056 | 105,607 |
| Other | 10,952 | 20,369 |
| | **2,822,352** | **1,961,479** |

# Notes to the financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **20. BORROWED FUNDS** | | |
| National Development Bank of Botswana Limited | 163,810 | 116,926 |
| BIFM Capital Investment Fund One (Pty) Ltd | 257,328 | 257,005 |
| Other | 178,676 | 208,658 |
| | **599,814** | **582,589** |
| **Fair value** | | |
| National Development Bank of Botswana Limited | 182,186 | 129,378 |
| BIFM Capital Investment Fund One (Pty) Ltd | 286,692 | 287,204 |
| Other | 178,676 | 208,658 |
| | **647,554** | **625,240** |

**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 - BWP 62 500 000

30 September 2018 - BWP 62 500 000

30 September 2019 - BWP 62 500 000

30 September 2020 - BWP 62 500 000

**Other borrowings**

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

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **Maturity analysis** | | |
| On demand to one month | 5 | 3,797 |
| One month to three months | 27,394 | 2,120 |
| Three months to one year | 75,544 | 73,181 |
| Over one year | 496,871 | 503,491 |
| | **599,814** | **582,589** |

| BWP'000s | 2008 | 2007 |
|---|---|---|
| **21. CREDITORS AND ACCRUALS** | | |
| Accrued expenses | 31,733 | 19,030 |
| Other amounts due | 6,121 | 8,253 |
| | **37,854** | **27,283** |

Creditors and accruals are due and payable within twelve months.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

### 22.1 Derivatives

**Cross-currency interest rate swaps**

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

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

The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, to 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 2008** | | |
| **Cross currency interest rate swaps** | | |
| Designated at fair value through profit or 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) |
| | | |
| **At 31 December 2007** | | |
| **Cross currency interest rate swaps** | | |
| Designated at fair value through profit or loss | 121,059 | (2,229) |
| Held for hedging | 48,000 | (2,881) |
| **Total recognised derivatives** | | **(5,110)** |
| | | |
| Comprising: | | |
| Derivative financial liabilities | | (5,110) |

# Notes to the financial statements for the year ended 31 December 2008

### 22.2 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 2008, the swap (as included in derivative financial instruments) had a positive fair value of BWP 3,665,286 (2007: negative BWP 2,881,000). Foreign currency losses amounting to BWP 2,902,000 (2007:2,889,000) have been deferred in equity for the year ended 31 December 2008. No ineffectiveness was recognised in the income statement that arose from hedges of net investments in the foreign operation. No amounts were withdrawn from equity during the year, as there was no disposal or part disposal of the specific foreign operation.

| **BWP'000s** | **2008** | **2007** |
|---|---|---|
| **23. STATED CAPITAL** | | |
| **23.1 Authorised** | | |
| 150 000 000 shares of BWP 0.05 each | 7,500 | 7,500 |
| **23.2 Issued and fully paid** | | |
| 146 419 524 (2007: 132 568 680) shares of BWP 0.05 each | 7,320 | 6,628 |
| Share premium | 300,266 | 263,561 |
| **Total group** | **307,586** | **270,189** |

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 2008, 2,573,633 shares were held by ABC Zimbabwe, (2007: 2,915,311).

# Notes to the financial statements
# for the year ended 31 December 2008

| BWP'000s | 2008 | 2007 |
|---|---|---|
| **24. FUNDS UNDER MANAGEMENT** | | |
| Funds under management | **26,756** | **323,303** |

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.

**25. 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

| 26. EXCHANGE RATES | Closing Dec 08 | Average Dec 08 | Closing Dec 07 | Average Dec 07 |
|---|---|---|---|---|
| United States Dollar | 0.1327 | 0.1464 | 0.1663 | 0.1633 |
| Zimbabwe Dollar (million)* | 88,265,289,801 | n/a | 0.8228 | n/a |
| Tanzanian Shilling | 174.4380 | 177.3201 | 190.5384 | 201.3648 |
| Zambian Kwacha | 636.0633 | 554.7651 | 640.0710 | 649.777 |
| Mozambican Metical | 3.3826 | 3.5727 | 4.2995 | 4.2347 |
| South African Rand | 1.2452 | 1.2049 | 1.1329 | 1.1457 |

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

# Notes to the financial statements for the year ended 31 December 2008

## 27. RELATED PARTY TRANSACTIONS

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

ABC Holdings Limited is the holding company in the ABC Group.

### Subsidiary companies and associates

ABC Holdings Limited and its subsidiaries entered into various financial services contracts with fellow subsidiaries and associates during the year. These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties. Loans to associates as at 31 December 2008 amounted to BWP 74.5 million (2007: BWP 35.3 million) which represents 17%(2007: 11%) of shareholders' funds.

ABC Consulting and Management Services Limited has entered into management services agreements with Group companies on an arms length basis. Details of disclosures of investments in subsidiaries are set out in note 14 of the separate company financial statements. Details of associate companies are set out in note 14 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 is shown on pages 18 and 19.

The total exposure of the Group to directors, officers and parties related to them in terms of IAS 24 as at 31 December 2008 is BWP 38.9 million (2007: BWP 59.2 million) which represents 9% (2007: 19%) of shareholders' funds.

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

| BWP '000s | 2008 Balance | 2008 Interest | 2007 Balance | 2007 Interest |
|---|---|---|---|---|
| **Loans and advances to entities related through shareholding:** | | | | |
| Starafricacorporation Limited | 22,992 | 676 | - | - |
| P G Industries (Botswana) Limited | 15,393 | 1,597 | 10,947 | 880 |
| Pyramid Plaza (Pty) Ltd | 36,094 | 4,293 | 24,396 | 3,128 |
| | **74,479** | **6,566** | **35,343** | **4,008** |
| **Loans and advances to entities related to directors:** | | | | |
| Loans and advances to entities related to O M Chidawu | - | - | 4,353 | 54 |
| Loans and advances to entities related to O M Chidawu and N Kudenga | - | - | 4,202 | 490 |
| Loans and advances to entities related to D T Munatsi | 9,810 | 102 | 7,820 | 81 |
| Loans and advances to entities related to N Kudenga | 1,744 | 16 | - | - |
| | **11,554** | **118** | **16,375** | **625** |
| **Loans and advances to directors:** | | | | |
| O M Chidawu | 14,741 | 2,089 | 28,830 | 944 |
| T Mothibatsela | - | - | 231 | 34 |
| D T Munatsi | 1,657 | 187 | 1,470 | 200 |
| D Khama* | 200 | - | 200 | - |
| | **16,598** | **2,276** | **30,731** | **1,178** |
| * Guarantees | | | | |
| **Loans and advances to key management:** | | | | |
| F Dzanya | 4,930 | 618 | 5,480 | 588 |
| B Moyo | 2,882 | 372 | 3,398 | 335 |
| H Matemera | 2,943 | 331 | 2,612 | 335 |
| J Machapu | - | 11 | 589 | 62 |
| | **10,757** | **1,332** | **12,079** | **1,320** |
| **Specific impairments on balances with related parties:** | | | | |
| Pyramid Plaza (Pty) Ltd | 11,218 | - | - | - |
| **Deposits held by entities related to directors and key management:** | | | | |
| D Khama | 3,954 | 33 | 162 | 64 |
| DT Munatsi | 10,025 | 213 | 7,798 | - |
| O M Chidawu and N Kudenga | - | - | 14 | - |
| | **13,979** | **246** | **7,974** | **64** |
| **Deposits held by directors and key management:** | | | | |
| N Kudenga | 897 | 11 | - | - |
| F Dzanya | 786 | 26 | - | 86 |
| B Moyo | 2,556 | 29 | 2,347 | 99 |
| H Matemera | 33 | 6 | 116 | 21 |
| D T Munatsi | 98 | 73 | 1,155 | 142 |
| J Machapu | - | - | 84 | 25 |
| | **4,370** | **145** | **3,702** | **373** |
| **Remuneration to key management personnel:** | | | | |
| Short-term employment benefits | 13,417 | | 16,899 | |
| Post-employment benefits | 273 | | 348 | |
| | **13,690** | | **17,247** | |

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.

# Notes to the financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **28. COLLATERAL** | | |
| **28.1 Liabilities for which collateral is pledged** | | |
| Deposits from banks | 23,460 | 14,486 |
| Deposits from customers | 9,007 | 51,380 |
| Borrowed funds | 75,484 | 76,911 |
| | **107,951** | **142,777** |

Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:

| | | |
|---|---|---|
| Assets pledged to secure these liabilities are carried at amortised cost and are included under the following: | | |
| Cash and short term funds | 33,419 | 1,298 |
| Advances | - | 7,813 |
| Financial assets held for trading | 143,857 | 137,785 |
| | **177,276** | **146,896** |

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

| | | |
|---|---|---|
| **28.2 Collateral accepted as security for assets** | | |
| Deposits | 49,627 | 99,450 |
| Mortgage bonds, inventory, plant and equipment, shares, letter of undertaking | 656,735 | 242,331 |
| | **706,362** | **341,781** |

ABC Holdings Limited is obligated 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.

## 29. CONTINGENT LIABILITIES

The contingent liabilities of the Group are disclosed on page 80.

## 30. COMMITMENTS

The commitments of the Group are disclosed on page 80.

# Notes to the financial statements
# for the year ended 31 December 2008

**31. DIVIDEND**

The directors approved an interim dividend of 8 Thebe per ordinary share for the half year ended 30 June 2008. Given the current uncertainty in the global markets, there is a need to conserve cash. Owing to the above the Directors recommended that a final dividend be passed.

**32. ACQUISITIONS AND DISPOSAL OF SUBSIDIARY COMPANIES**

During 2007, the Group sold its investment in Iroko Financial Products Limited. The net assets of Iroko Financial Products Limited of BWP 11.8 million were fully impaired in 2006. Net proceeds of BWP 8.9 million were realised during 2007 as an exit settlement.

In 2007, the Group also disposed of its 40% interest in Capital Properties Limited, held through Tanzania Development Finance Company, for a consideration of USD 4.1 million (BWP 24.6 million). The Group's share of net asset value on date of disposal was BWP 13.2 million. A profit of BWP 10.7 million was realised, and the proceeds were received subsequent to year end.

During 2008, additional capital of BWP 84.2 million was injected into African Banking Corporation Tanzania Limited, increasing the Group's effective shareholding from 74% to 94%.

In 2008, the Group wound down its investment in African Banking Corporation International Limited. The net assets of the subsidiary were BWP 11.8 million. There were no new acquisitions during 2008.

**33. POST BALANCE SHEET EVENTS**

During February 2009, the Zimbabwean economy was officially dollarised.

# Notes to the financial statements
# for the year ended 31 December 2008

## 34. SUPPLEMENTARY HISTORICAL COST INFORMATION

Supplemental historical cost information, which has not been restated for the effects of IAS 29 (Financial Reporting in Hyperinflation Economies), is set out below.

### 34.1 Consolidated income statements for the year ended 31 December 2008

| | Historical cost (Supplemental) | |
|---|---|---|
| **BWP'000s** | **2008** | **2007** |
| Interest and similar income | 456,471 | 325,857 |
| Interest expense and similar charges | (272,058) | (218,569) |
| **Net interest income before impairment of advances** | **184,413** | **107,288** |
| Impairment losses on loans advances | (44,365) | (32,883) |
| **Net interest income after impairment of advances** | **140,048** | **74,405** |
| Non interest income | 216,235 | 231,741 |
| **Total income** | **356,283** | **306,146** |
| Operating expenditure | (236,931) | (159,965) |
| **Net income from operations** | **119,352** | **146,181** |
| Share of profits of associates | 2,300 | 3,308 |
| **Profit before tax** | **121,652** | **149,489** |
| Tax | (33,510) | (20,923) |
| **Profit for the year** | **88,142** | **128,566** |
| | | |
| **Attributable to:** | | |
| Ordinary shareholders | 86,029 | 123,523 |
| Minorities | 2,113 | 5,043 |
| **Profit for the year** | **88,142** | **128,566** |
| Earnings per share (thebe) | 60.3 | 95.3 |
| Dividend per share (thebe) | 8.0 | 14.0 |

# Notes to the financial statements
# for the year ended 31 December 2008

### 34.2 Consolidated balance sheet as at 31 December 2008

| | Historical cost (Supplemental) | |
|---|---|---|
| **BWP'000s** | **2008** | **2007** |
| **ASSETS** | | |
| Cash and short term funds | 513,050 | 528,311 |
| Financial assets held for trading | 659,587 | 748,134 |
| Financial assets designated at fair value | 26,100 | 115,878 |
| Derivative financial assets | 44,411 | - |
| Loans and advances | 2,249,903 | 1,247,350 |
| Investment securities | 67,761 | 70,945 |
| Prepayments and other receivables | 47,283 | 52,512 |
| Current tax assets | 5,496 | 5,015 |
| Investment in associates | 41,243 | 30,461 |
| Property and equipment | 216,929 | 55,207 |
| Investment properties | 47,632 | 28,402 |
| Intangible assets | 42,619 | 35,033 |
| Deferred tax assets | 5,895 | 12,873 |
| **TOTAL ASSETS** | **3,967,909** | **2,930,121** |
| **EQUITY AND LIABILITIES** | | |
| **Liabilities** | | |
| Deposits | 2,822,352 | 1,961,479 |
| Derivative financial liabilities | 2,217 | 5,110 |
| Creditors and accruals | 37,854 | 27,283 |
| Current tax liabilities | 6,031 | 3,489 |
| Deferred tax liabilities | 43,010 | 23,972 |
| Borrowed funds | 599,814 | 582,589 |
| **Total liabilities** | **3,511,278** | **2,603,922** |
| **Equity** | | |
| Stated capital | 307,586 | 270,189 |
| Foreign currency translation reserve | (492,178) | (410,873) |
| Non distributable reserves | 182,932 | 67,418 |
| Distributable reserves | 439,437 | 387,079 |
| **Equity attributable to ordinary shareholders** | **437,777** | **313,813** |
| Minority interest | 18,854 | 12,386 |
| **Total equity** | **456,631** | **326,199** |
| **TOTAL EQUITY AND LIABILITIES** | **3,967,909** | **2,930,121** |

# Notes to the financial statements for the year ended 31 December

**34.3 Consolidated statement of changes in equity for the year ended 31 December 2008**

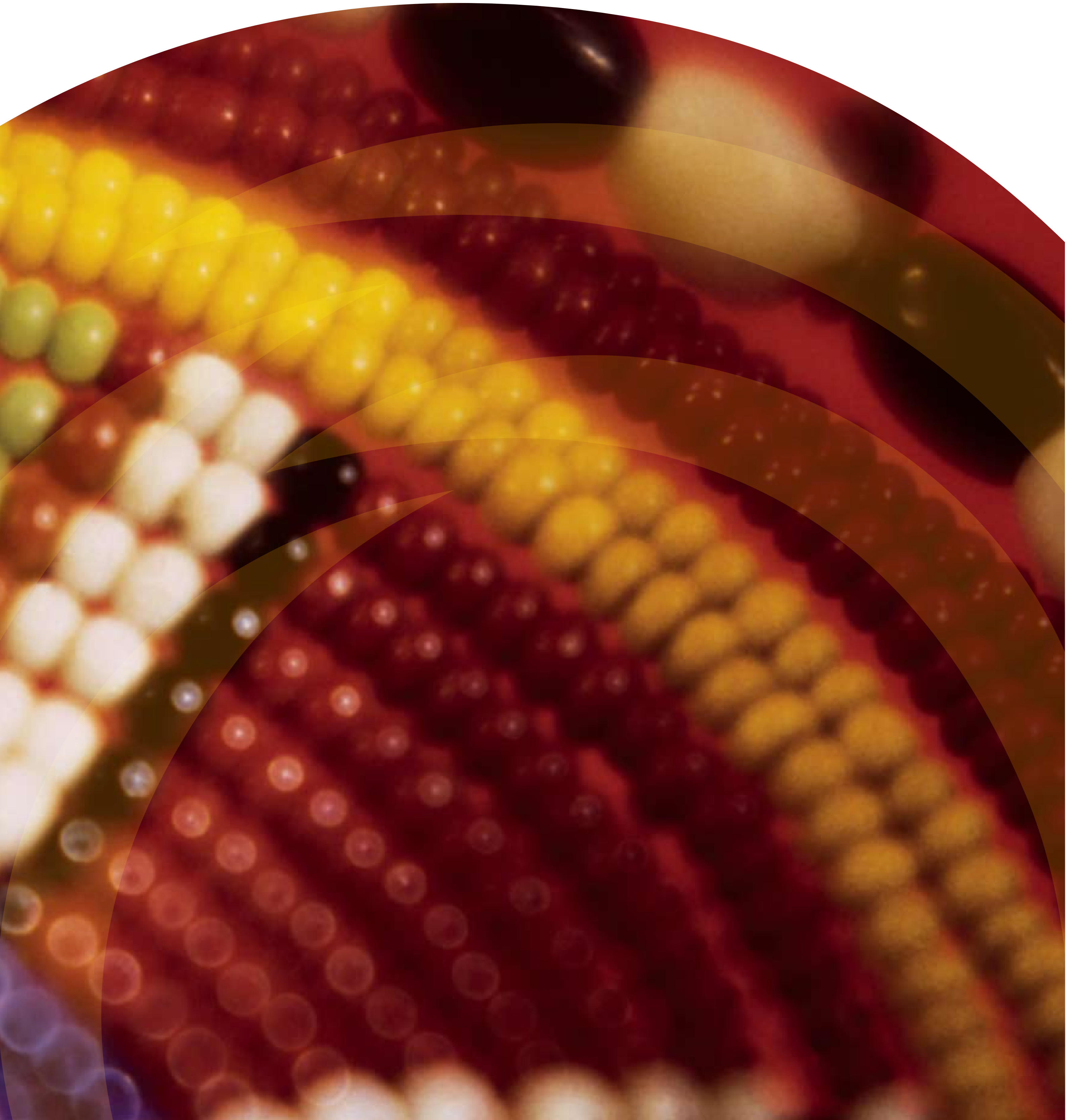
| Historical cost (Supplemental) BWP'000s | Stated capital | Foreign currency translation reserve | Regulatory general credit risk reserve | Property revaluation reserve | Available for sale reserve | Statutory reserve | Hedging reserve | Treasury shares reserve | Distrib-utable reserves | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2007** | **270,157** | **(314,348)** | **289** | **36,737** | **908** | **11,136** | **-** | **-** | **267,382** | **8,530** | **280,791** |
| Profit for the year | - | - | - | - | - | - | - | - | 123,523 | 5,043 | **128,566** |
| Foreign currency translation differences | - | (96,525) | - | - | - | - | - | - | - | 702 | **(95,823)** |
| Revaluation of property net of deferred tax | - | - | - | 16,771 | - | - | - | - | - | - | **16,771** |
| Net investment hedging reserve | - | - | - | - | - | - | (2,889) | - | - | - | **(2,889)** |
| Share of reserve in associate companies | - | - | - | 3,087 | - | - | - | - | - | - | **3,087** |
| Purchase of shares from minorities | - | - | - | - | - | - | - | - | - | (1,889) | **(1,889)** |
| Movement in statutory reserves | - | - | - | - | - | 3,826 | - | - | (3,826) | - | **-** |
| Consolidation of treasury shares | 32 | - | - | - | - | - | - | (2,933) | - | - | **(2,901)** |
| Movement in available for sale reserves: | - | - | - | - | 486 | - | - | - | - | - | **486** |
| - Arising in current year | - | - | - | - | 308 | - | - | - | - | - | **308** |
| - Realised through profit and loss | - | - | - | - | 178 | - | - | - | - | - | **178** |
| **Balance as at 31 December 2007** | **270,189** | **(410,873)** | **289** | **56,595** | **1,394** | **14,962** | **(2,889)** | **(2,933)** | **387,079** | **12,386** | **326,199** |
| Profit for the year | - | - | - | - | - | - | - | - | 86,029 | 2,113 | **88,142** |
| Shares issued | 37,397 | - | - | - | - | - | - | - | - | - | **37,397** |
| Foreign currency translation differences | - | (81,305) | - | - | - | - | - | - | - | 6,068 | **(75,237)** |
| Revaluation of property net of deferred tax | - | - | - | 110,041 | - | - | - | - | - | - | **110,041** |
| Movement in general credit risk reserve | - | - | 4,536 | - | - | - | - | - | (4,536) | - | **-** |
| Net investment hedging reserve | - | - | - | - | - | - | (13) | - | - | - | **(13)** |
| Purchase of shares from minorities | - | - | - | - | - | - | - | - | 1,713 | (1,713) | **-** |
| Movement in statutory reserves | - | - | - | - | - | 2,498 | - | - | (2,498) | - | **-** |
| Disposal of treasury shares | - | - | - | - | - | - | - | 359 | - | - | **359** |
| Dividend | - | - | - | - | - | - | - | - | (30,227) | - | **(30,227)** |
| Movement in available for sale reserves: | - | - | - | - | (1,907) | - | - | - | 1,877 | - | **(30)** |
| - Arising in current year | - | - | - | - | (1,907) | - | - | - | 1,877 | - | **(30)** |
| **Balance as at 31 December 2008** | **307,586** | **(492,178)** | **4,825** | **166,636** | **(513)** | **17,460** | **(2,902)** | **(2,574)** | **439,437** | **18,854** | **456,631** |

# Notes to the financial statements for the year ended 31 December 2008

## 34.4 Consolidated cash flow statement for the year ended 31 December 2008

| | Historical cost (Supplemental) | |
|---|---|---|
| **BWP'000s** | **2008** | **2007** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | **59,859** | **62,702** |
| Cash generated from operating activities | 92,246 | 150,508 |
| **Net profit before tax** | **121,652** | **149,489** |
| **Adjusted for:** | | |
| Impairment of loans and advances | 44,365 | 32,883 |
| Depreciation and amortisation | 10,741 | 6,922 |
| Hedging reserve | (13) | (2,889) |
| Net (gains)/losses on derivative financial instruments | (38,585) | 10,073 |
| Fair value gains on investment properties | (45,872) | (26,408) |
| Profit on disposal of subsidiary | - | (8,853) |
| Profit on disposal of associate | - | (10,687) |
| Profit on sale of property and equipment | (42) | (22) |
| Tax paid | (1,726) | (11,049) |
| **Net cash inflow from operating activities before changes in operating funds** | **90,520** | **139,459** |
| **Net decrease in operating funds** | **(30,661)** | **(76,757)** |
| Increase in operating assets | (896,153) | (498,781) |
| Increase in operating liabilities | 865,492 | 422,024 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | **(65,175)** | **(9,460)** |
| Purchase of property and equipment | (65,695) | (18,653) |
| Proceeds on disposal of property and equipment | 520 | 340 |
| Proceeds on disposal of subsidiary | - | 8,853 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | **36,137** | **19,341** |
| Proceeds from issue of shares | 37,397 | - |
| Purchase of treasury and preference shares | - | (4,790) |
| Increase in borrowed funds | 28,967 | 24,131 |
| Dividends paid | (30,227) | - |
| **Increase in cash and cash equivalents** | **30,821** | **72,583** |
| Cash and cash equivalents at the beginning of the year | 446,256 | 369,947 |
| Exchange adjustment on opening balance | (56,569) | 3,726 |
| **Cash and cash equivalents at the end of the year*** | **420,508** | **446,256** |
| *Cash and cash equivalents excludes statutory reserves | | |
| Cash and cash equivalents | 420,508 | 446,256 |
| Statutory reserves | 92,542 | 82,055 |
| **Cash and short term funds** | **513,050** | **528,311** |

# Company separate financial statements



# ABC Holdings Limited

## Company income statement
## for the year ended 31 December 2008

| BWP '000s | Notes | 2008 | 2007 |
|---|---|---|---|
| Interest and similar income | | 41,677 | 34,189 |
| Interest expense and similar charges | | (38,109) | (36,171) |
| **Net interest income before impairment of advances** | **1** | **3,568** | **(1,982)** |
| Impairment of loans and advances released | **2** | 1,892 | 521 |
| **Net interest income after impairment of advances** | | **5,460** | **(1,461)** |
| Non interest income | **3** | 43,791 | 29,574 |
| **Total Income** | | **49,251** | **28,113** |
| Operating expenditure | **4** | (32,148) | (19,589) |
| **Profit before tax** | | **17,103** | **8,524** |
| Tax | **5** | 264 | 34 |
| **Profit for the year** | | **17,367** | **8,558** |

# Company balance sheet as at 31 December 2008

| BWP '000s | Notes | 2008 | 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short term funds | 6 | 984 | - |
| Derivative financial assets | 15 | 44,411 | - |
| Loans and advances | 7 | 93,998 | 79,134 |
| Intercompany balances | 8 | 51,866 | 43,865 |
| Investment securities | 9 | 31,161 | 26,214 |
| Prepayments and other receivables | 10 | 12,855 | 12,663 |
| Property and equipment | 11 | 89 | 128 |
| Deferred tax assets | 12 | 694 | 430 |
| Loans to subsidiary companies | 13 | 141,635 | 158,652 |
| Investment in subsidiaries | 14 | 483,883 | 412,242 |
| **TOTAL ASSETS** | | **861,576** | **733,328** |
| **EQUITY AND LIABILITIES** | | | |
| **Liabilities** | | | |
| Derivative financial liabilities | 15 | 2,217 | 5,336 |
| Creditors and accruals | 16 | 7,232 | 6,063 |
| Intercompany balances | 8 | 98,969 | 47,094 |
| Borrowed funds | 17 | 461,612 | 407,826 |
| **Total Liabilities** | | **570,030** | **466,319** |
| **Equity** | | | |
| Stated capital | 18 | 307,586 | 270,189 |
| Distributable reserves | | (16,040) | (3,180) |
| **Equity attributable to ordinary shareholders** | | **291,546** | **267,009** |
| **EQUITY AND LIABILITIES** | | **861,576** | **733,328** |

# Company statement of changes in equity for the year ended 31 December 2008

| BWP'000s | Stated capital | Distributable reserves | Total equity |
|---|---|---|---|
| Balance as at 1 January 2007 | 270,189 | (11,738) | 258,451 |
| Profit for the year | - | 8,558 | 8,558 |
| **Balance as at 31 December 2007** | **270,189** | **(3,180)** | **267,009** |
| Profit for the year | - | 17,367 | 17,367 |
| Shares issued | 37,397 | - | 37,397 |
| Dividend | - | (30,227) | (30,227) |
| **Balance as at 31 December 2008** | **307,586** | **(16,040)** | **291,546** |

# Company cash flow statement
# for the year ended 31 December 2008

| BWP'000s | Notes | 2008 | 2007 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | **(5,333)** | **105,804** |
| Cash (utilised in)/generated from operating activities | | (23,318) | 5,251 |
| **Net profit before tax** | | **17,103** | **8,524** |
| **Adjusted for:** | | | |
| Impairment of loans and advances released | | (1,892) | (521) |
| Depreciation and amortisation | | 56 | 28 |
| Reinstatement of shareholder's loan | | - | (4,000) |
| Net (gains)/losses on derivative financial instruments | | (38,585) | 10,073 |
| Profit on disposal of subsidiary | | - | (8,853) |
| **Net increase in operating funds** | | **17,985** | **100,553** |
| (Increase)/decrease in operating assets | | (31,828) | 102,154 |
| Increase/(decrease) in operating liabilities | | 49,813 | (1,601) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | **(54,639)** | **(88,983)** |
| Purchase of property and equipment | | (14) | (156) |
| Investment in subsidiaries | | (71,641) | (1,892) |
| Proceeds on disposal of subsidiary | | - | 8,853 |
| Changes in loans to subsidiaries | | 17,016 | (95,788) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | **60,956** | **(26,037)** |
| Proceeds from issue of shares | | 37,397 | - |
| Increase/(decrease) in borrowed funds | | 53,786 | (26,037) |
| Dividends paid | | (30,227) | - |
| **Increase/(decrease) in cash and cash equivalents** | | **984** | **(9,216)** |
| Cash and cash equivalents at the beginning of the year | | - | 9,216 |
| **Cash and cash equivalents at the end of the year** | | **984** | **-** |

# Notes to the company financial statements for the year ended 31 December 2008

## ACCOUNTING POLICIES

The accounting policies of the Company and the Group are set out on pages 48 to 62.

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **1. NET INTEREST INCOME** | | |
| **Interest and similar income** | | |
| Cash and short term funds | 21,405 | 4,559 |
| Investment securities at amortised cost | 4,948 | 2,428 |
| Loans and advances at amortised cost | 15,324 | 27,202 |
| | **41,677** | **34,189** |
| **Interest expense** | | |
| Borrowed funds | 38,109 | 36,171 |
| | **38,109** | **36,171** |
| **Net interest income** | **3,568** | **(1,982)** |
| **2. IMPAIRMENT OF LOANS AND ADVANCES** | | |
| Impairment released to subsidiary | (1,892) | (521) |
| | **(1,892)** | **(521)** |
| **3. NON INTEREST INCOME** | | |
| Gains/(losses) from trading activities: | 38,585 | (10,073) |
| - Net gains/(losses) on derivative financial instruments* | 38,585 | (10,073) |
| Dividends received: | 21,267 | 5,500 |
| - Subsidiary companies | 21,267 | 5,500 |
| Fee and commission income: | 15,045 | 33,808 |
| - Net fee income on loans and advances at amortised cost | 15,045 | 33,808 |
| Other non interest (losses)/income: | (31,106) | 339 |
| Foreign exchange loss* | (31,106) | (8,514) |
| Profit on disposal of subsidiary | - | 8,853 |
| | **43,791** | **29,574** |

* Foreign exchange income includes a foreign exchange loss of BWP 62 million arising from the Japanese Yen exposure with NDB, disclosed in note 17. Net profit on derivative financial instruments includes an offsetting fair value gain arising from an equal but opposite notional Japanese Yen derivative asset.

# Notes to the company financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **4. OPERATING EXPENDITURE** | | |
| Administrative expenses | 18,920 | 8,649 |
| Staff costs | 5,424 | 1,691 |
| Auditors remuneration | 691 | 463 |
| Depreciation | 56 | 28 |
| Directors remuneration | 7,057 | 8,758 |
| | **32,148** | **19,589** |
| **5. TAX** | | |
| Profit before tax | 17,103 | 8,524 |
| Income tax using standard corporate tax rate | 2,566 | 1,279 |
| Effect of tax losses utilised | (2,830) | (1,313) |
| **Current deferred tax expense per income statement** | **(264)** | **(34)** |
| **Effective tax rate** | **-2%** | **0%** |
| **6. CASH AND SHORT TERM FUNDS** | | |
| Balances with banks | **984** | **-** |

# Notes to the company financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | Fair value | 2007 | Fair value |
|---|---|---|---|---|
| **7. LOANS AND ADVANCES** | | | | |
| Corporate lending | 77,783 | 66,846 | 50,444 | 36,756 |
| Other loans* | 27,152 | 27,152 | 42,378 | 42,378 |
| | 104,935 | 93,998 | 92,822 | 79,134 |
| Less: Allowance for impairments | (10,937) | - | (13,688) | - |
| **Net loans and advances** | **93,998** | **93,998** | **79,134** | **79,134** |

*Related party loans and advances included in the above are set out in note 19.

| | 2008 | 2007 |
|---|---|---|
| **7.1 MATURITY ANALYSIS** | | |
| On demand to one month | 112 | 1,023 |
| One month to three months | 40,120 | 29,535 |
| Three months to one year | 50,033 | 38,420 |
| Greater than one year | 3,733 | 10,156 |
| | **93,998** | **79,134** |
| **7.2 IMPAIRMENT OF LOANS AND ADVANCES - MOVEMENT ANALYSIS** | | |
| Opening balance | 13,688 | 14,283 |
| Exchange rate difference | (859) | (74) |
| Impairments released | (1,892) | (521) |
| **Closing balance** | **10,937** | **13,688** |

All the loans have floating interest rates.

# Notes to the company financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | Fair value | 2007 | Fair value |
|---|---|---|---|---|
| **8. INTERCOMPANY BALANCES** | | | | |
| **8.1 Balances due from:** | | | | |
| African Banking Corporation of Botswana Limited | - | - | 34,819 | 34,819 |
| African Banking Corporation Zambia Limited | 4,992 | 4,992 | - | - |
| African Banking Corporation Zimbabwe Limited | 11,563 | 11,563 | 6,340 | 6,340 |
| Tanzania Development Finance Company Limited | 4,146 | 4,146 | 2,706 | 2,706 |
| ABC South Africa and other non-banking subsidiaries | 31,165 | 31,165 | - | - |
| | **51,866** | **51,866** | **43,865** | **43,865** |
| **8.2 Balances due to:** | | | | |
| African Banking Corporation of Botswana Limited | 53,946 | 53,946 | - | - |
| African Banking Corporation Mozambique Sarl | 95 | 95 | 53 | 53 |
| African Banking Corporation Tanzania Limited | 720 | 720 | 2,680 | 2,680 |
| African Banking Corporation (International) Limited | - | - | 8,888 | 8,888 |
| EDFUND S.A. | 44,096 | 44,096 | 35,184 | 35,184 |
| ABC South Africa and other non-banking subsidiaries | 112 | 112 | 289 | 289 |
| | **98,969** | **98,969** | **47,094** | **47,094** |

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

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **9. INVESTMENT SECURITIES** | | |
| Held to maturity | | |
| - Promissory notes | **31,161** | **26,214** |

The promissory notes are partial security for the loan from BIFM (Note 17). 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 17.

# Notes to the company financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **10. PREPAYMENTS AND OTHER RECEIVABLES** | | |
| Accounts receivable and prepayments | 576 | 1,307 |
| Security deposit | 11,516 | 9,068 |
| Other amounts due | 763 | 2,288 |
| | **12,855** | **12,663** |

All prepayments and other receivables are classified as current.

| BWP '000s | Computer and office equipment | Total |
|---|---|---|
| **11. PROPERTY AND EQUIPMENT** | | |
| 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** |
| Cost or valuation at 31 December 2006 | - | - |
| Additions | 156 | 156 |
| Cost or valuation at December 2007 | 156 | 156 |
| Accumulated depreciation at December 2006 | - | - |
| Charge for the year | (28) | (28) |
| Accumulated depreciation at December 2007 | (28) | (28) |
| **Carrying amount at December 2007** | **128** | **128** |

# Notes to the company financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **12. DEFERRED TAX** | | |
| Balance at the beginning of the year | (430) | (385) |
| Movement in accounting and accrual provisions | - | (11) |
| Income statement charge | (264) | (34) |
| Balance at the end of the year | **(694)** | **(430)** |
| | | |
| **Tax effect of temporary differences:** | | |
| - Accounting accruals | 2,887 | 2,887 |
| - Tax losses | (3,581) | (3,317) |
| | **(694)** | **(430)** |
| | | |
| **13. LOANS TO SUBSIDIARY COMPANIES** | | |
| African Banking Corporation of Botswana Limited | 31,977 | 31,987 |
| African Banking Corporation Tanzania Limited | - | 58,135 |
| African Banking Corporation Zambia Limited | 38,656 | 30,844 |
| African Banking Corporation Mozambique Sarl | 40,584 | 31,370 |
| Microfin Africa Zambia Limited | 30,418 | 6,316 |
| | **141,635** | **158,652** |

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.

# Notes to the company financial statements for the year ended 31 December 2008

| | Nature of business | Ownership of ordinary shares 2008 % | Ownership of ordinary shares 2007 % | Carrying value 2008 BWP'000s | Carrying value 2007 BWP'000s |
|---|---|---|---|---|---|
| **14. INVESTMENT IN SUBSIDIARIES** | | | | | |
| **Botswana** | | | | | |
| African Banking Corporation Botswana Limited | Registered bank | 100 | 100 | 52,241 | 52,241 |
| African Banking Corporation International Limited | Registered bank | - | 100 | - | 10,779 |
| Bohemian Private Limited | Investment holding company | 100 | 100 | 4,000 | 4,000 |
| **Mozambique** | | | | | |
| African Banking Corporation 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** | | | | | |
| African Banking Corporation Tanzania Limited | Registered bank | 94* | 74 | 128,397 | 45,977 |
| Tanzania Development Finance Company Limited | Financial services | 68 | 68 | 15,949 | 15,949 |
| **Zambia** | | | | | |
| African Banking Corporation Zambia Limited | Registered bank | 100 | 100 | 40,974 | 40,974 |
| Microfin Africa Zambia Limited | Micro-finance | 100 | 100 | 921 | 921 |
| **Zimbabwe** | | | | | |
| African Banking Corporation Holdings (Zimbabwe) Limited | Registered merchant bank, Stockbroking and Asset Management | 100 | 100 | 144,690 | 144,690 |
| **Luxembourg** | | | | | |
| EDFUND S.A. | Management services | 100 | 100 | 48,959 | 48,959 |
| | | | | **483,883** | **412,242** |

*effective shareholding

During 2008, the company wound down its investment in African Banking Corporation International Limited. The net assets of the subsidiary were BWP 11.8 million.

Additional capital of BWP 84.2 million was injected into African Banking Corporation Tanzania Limited, increasing the company's effective shareholding from 74% to 94%.

# Notes to the company financial statements for the year ended 31 December 2008

## 15. 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 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 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 2008** | | |
| Cross currency interest rate swaps: | | |
| Designated at fair value through profit and loss | 186,094 | 42,194 |
| **Total recognised derivatives** | | **42,194** |
| Comprising: | | |
| Derivative financial assets | | 44,411 |
| Derivative financial liabilities | | (2,217) |
| **At 31 December 2007** | | |
| Cross currency interest rate swaps: | | |
| Designated at fair value through profit and loss | 169,059 | (5,336) |
| **Total recognised derivatives** | | **(5,336)** |
| Comprising: | | |
| Derivative financial liabilities | | (5,336) |

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **16. CREDITORS AND ACCRUALS** | | |
| Accrued expenses | 4,491 | 5,152 |
| Other amounts due | 2,741 | 911 |
| | **7,232** | **6,063** |

Creditors and accruals are due and payable within twelve months.

# Notes to the company financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | Fair value | 2007 | Fair value |
|---|---|---|---|---|
| **17. BORROWED FUNDS** | | | | |
| National Development Bank of Botswana Limited | 163,810 | 182,186 | 116,926 | 129,378 |
| BIFM Capital Investment Fund One (Pty) Ltd | 257,328 | 286,692 | 257,005 | 287,204 |
| Other borrowings | 40,474 | 40,474 | 33,895 | 33,895 |
| | **461,612** | **509,352** | **407,826** | **450,477** |

| **17.1 Maturity analysis** | **2008** | **2007** |
|---|---|---|
| On demand to one month | - | 3,797 |
| One month to three months | - | 2,120 |
| Three months to one year | 37,724 | 73,181 |
| Greater than one year | 423,888 | 328,728 |
| | **461,612** | **407,826** |

### 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 - BWP 62 500 000

30 September 2018 - BWP 62 500 000

30 September 2019 - BWP 62 500 000

30 September 2020 - BWP 62 500 000

### Other borrowings

Other borrowings relate to medium to long term funding from international financial institutions for onward lending to ABC clients.

# Notes to the company financial statements for the year ended 31 December 2008

| BWP '000s | 2008 | 2007 |
|---|---|---|
| **18. STATED CAPITAL** | | |
| **18.1 Authorised** | | |
| 150 000 000 shares of BWP 0.05 each | 7,500 | 7,500 |
| **18.2 Issued and fully paid** | | |
| 146 419 524 (2007: 132 568 680) shares of BWP 0.05 each | 7,320 | 6,628 |
| Share premium | 300,266 | 263,561 |
| **Total company** | **307,586** | **270,189** |

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 meetings of the company.

| | | |
|---|---|---|
| **18.3 Reconciliation of the number of shares in issue** | | |
| Shares at the beginning of the year | 132,568,680 | 132,568,680 |
| Shares issued | 13,850,844 | - |
| **At the end of the year** | **146,419,524** | **132,568,680** |

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 BWP 37.4 million, taking its shareholding in ABCH to 10.7% of total issued share capital.

# Notes to the company financial statements for the year ended 31 December 2008

## 19. RELATED PARTY TRANSACTIONS

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

| BWP '000s | 2008 | | 2007 | |
|---|---|---|---|---|
| | Balance | Interest | Balance | Interest |
| **Loans and advances to entities related through shareholding:** | | | | |
| Star Africa Corporation Limited | 22,992 | 676 | - | - |
| Pyramid Plaza (Pty) Ltd | - | - | 1,927 | - |
| | **22,992** | **676** | **1,927** | **-** |
| **Loans and advances to directors:** | | | | |
| O M Chidawu | 14,741 | 2,089 | 28,830 | 944 |
| D T Munatsi | 1,657 | 187 | 1,470 | 200 |
| | **16,398** | **2,276** | **30,300** | **1,144** |
| **Loans and advances to key management:** | | | | |
| F Dzanya | 4,930 | 618 | 5,480 | 588 |
| B Moyo | 2,882 | 372 | 3,398 | 336 |
| H Matemera | 2,943 | 331 | 2,612 | 335 |
| J Machapu | - | 11 | 589 | 62 |
| | **10,757** | **1,332** | **12,079** | **1,321** |

There were no specific impairments on balances with related parties.

# Analysis of shareholders

| Range | No. of holders | % of total holders | No. of shares | % of total shares |
|---|---|---|---|---|
| 0 - 50,000 | 3,326 | 96.43% | 3,169,377 | 2.16% |
| 50,000 - 100,000 | 44 | 1.28% | 2,629,777 | 1.80% |
| 100,001 - 500,000 | 44 | 1.28% | 9,566,855 | 6.53% |
| 500,001 - 1,000,000 | 10 | 0.29% | 6,139,462 | 4.19% |
| 1,000,001 - 10,000,000 | 20 | 0.58% | 70,484,319 | 48.14% |
| Above 10,000,000 | 5 | 0.14% | 54,429,734 | 37.18% |
| | **3,449** | **100.00%** | **146,419,524** | **100.00%** |

## Top 10 Shareholders as at 31 December 2008

| Name | No. of shares | Percentage holding |
|---|---|---|
| Shares held by and on behalf of D T Munatsi | 19,640,702 | 13.41% |
| Shares held by and on behalf of O M Chidawu | 18,171,748 | 12.41% |
| Old Mutual Life Assurance Co. of Zimbabwe Limited | 15,886,983 | 10.85% |
| International Finance Corporation | 15,642,155 | 10.68% |
| Stanbic Nominees Botswana - In Respect of BIFM and Botswana Public Officers Pension Fund | 11,578,891 | 7.91% |
| Barclays Botswana Nominees (Pty) Ltd - In Respect of Zephyr Fund Managers | 8,498,942 | 5.80% |
| Stanbic Nominees Botswana - In respect of M00161 | 6,807,439 | 4.65% |
| Barclays Botswana Nominees (Pty) Ltd - In Respect of SIMS 212/005 | 6,286,432 | 4.29% |
| New Africa Nominees (Private) Limited | 4,029,239 | 2.75% |
| Nerderlandse Financierings-Maatschappij Voor Ontwikkelinslan | 3,582,623 | 2.46% |
| **Total top ten shareholders** | **110,125,154** | **75.21%** |
| Other shareholders | 36,294,370 | 24.79% |
| **Total shares in issue** | **146,419,524** | **100.00%** |

## Geographical analysis of shareholders

| Region | No. of holders | % of total holders | No. of shares | % of total shares |
|---|---|---|---|---|
| Americas | 10 | 0% | 24,155,591 | 16% |
| Botswana | 212 | 6% | 41,613,844 | 29% |
| Europe | 39 | 1% | 7,200,938 | 5% |
| South Africa | 60 | 2% | 113,288 | 0% |
| Zimbabwe | 3,094 | 90% | 72,135,967 | 49% |
| Other | 34 | 1% | 1,199,896 | 1% |
| | **3,449** | **100.00%** | **146,419,524** | **100.00%** |

# Notice to shareholders

NOTICE IS HEREBY GIVEN that the Tenth Annual General Meeting of members of ABC Holdings Limited will be held in the Boardroom of ABC Holdings Limited, Tholo Park, Plot 50669, Fairground Office Park, Gaborone, Botswana on Tuesday 26th May 2009, at 08h00 for the following purpose:-

## ORDINARY BUSINESS:

To consider and adopt the following Resolutions:

**Resolution 1:**
To receive and consider the annual financial statements for the year ended 31 December 2008 including the Chairman's statement, Directors report and Auditors report.

**Resolution 2:**
To approve the remuneration of Directors for the year ended 31 December 2008.

**Resolution 3:**
To elect Directors in place of those retiring by rotation in accordance with the provisions of article 67 as read with article 73 of the Company's Articles of Association.

In this regard Messrs Mothibatsela, Munatsi and Wasmus retire from the Board and, Messrs Mothibatsela, Munatsi and Wasmus being available and eligible offer themselves for re-election.

**Resolution 4:**
To approve the remuneration of the Auditors for the year ended 31 December 2008.

**Resolution 5:**
To appoint PricewaterhouseCoopers as the auditors for the ensuing year.

**Resolution 6:**
To approve interim dividend number 5 of BWP 0.08 (ZW$4.57 revalued) per share declared on the 12th August 2008 and paid on the 30th September 2008.

**Note**
A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, vote and speak on his stead. A proxy need not be a member of the Company. Proxy forms should be forwarded to reach the registered office of the Company not more than 48 hours nor less than 24 hours before the time of the holding of the meeting.

**Registered Office:**
ABC House, Tholo Park, Plot 50669
Fairgrounds Office Park, private Bag 00303
Gaborone, Botswana

By order of the Board
M de Klerk
Secretary to the Board
6 April 2009

### Biographies of directors standing for re-election at the Annual General Meeting

**T S Mothibatsela**
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 USA. Mr. Mothibatsela completed a management development program 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.

**D T Munatsi**
Douglas Munatsi was born in Zimbabwe in 1962. He has been Chief Executive Officer of the ABC Holdings Group since its formation in 2000. Prior to the establishment of African Banking Corporation, Doug founded Heritage Investment Bank (HIB), which quickly established a reputation for successful introduction of innovative capital market products and became one of the leading merchant banks in Zimbabwe. In 1997, together with Anglo American of Zimbabwe which then controlled 43% of First Merchant Bank of Zimbabwe ("FMB"), he successfully negotiated the merger between HIB and FMB. Doug became Managing Director of the merged bank, which retained the First Merchant Bank name. Prior to establishing HIB, he was an executive in the Southern Africa regional mission of the International Finance Corporation (IFC), the private sector arm of the World Bank. Doug holds a Bachelor of Business Studies (Hons) degree from the University of Zimbabwe, a Master of Business Administration (Finance) from the American University, Washington D.C. and AMP from Harvard Business School.

**H Wasmus**
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 CFO. During this period he was seconded to Inde Bank Malawi as Senior Adviser. He was a senior adviser to FMO until 2007 and is a non-executive director of several companies.

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.

AFRICAN BANKING
CORPORATION

# ABC HOLDINGS LIMITED

Incorporated in the Republic of Botswana
on the 1st December 1999
Registration number: 99/4865

## FORM OF PROXY

For use at the Tenth Annual General Meeting of Shareholders of ABC Holdings Limited to be held at 08h30 on Tuesday 26th May 2009 at the registered office of the Company ABC House, Tholo Park, Plot 50669, Fairground Office Park, Private Bag 00303, Gaborone, Botswana.

PLEASE READ THE NOTES HERETO BEFORE COMPLETING THIS FORM

I/We ..........................................................................................
(NAME (S) IN BLOCK LETTERS)

being the holder of shares in ABC Holdings Limited do hereby appoint (see notes below):

1. .......................................................................................... or failing him/her;

2. .......................................................................................... or failing him/her;

3. the Chairman of the Annual General Meeting; as my/our proxy to act for me/us at the Annual General Meeting, for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my /our name/s (in accordance with the following instructions):

| | Number of ordinary shares | | |
|---|---|---|---|
| RESOLUTION | For | Against | Abstain |
| Ordinary Resolution 1 | | | |
| Ordinary Resolution 2 | | | |
| Ordinary Resolution 3 | | | |
| Ordinary Resolution 4 | | | |
| Ordinary Resolution 5 | | | |
| Ordinary Resolution 6 | | | |

SIGNED AT .................................................................... ON .......................................................................... 2008

SIGNATURE .................................................................... ASSISTED BY ..........................................................................
(where applicable)

Each ordinary shareholder is entitled to appoint one or more proxies (who need not be a member of the Company) to attend, speak and vote in place of the ordinary shareholder at the Annual General Meeting.

# NOTES:

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "the Chairman of the Annual General Meeting", but such deletion must be initialed by the shareholder. The person whose name appears first on the form of proxy and whose name has not been deleted shall be entitled to act as proxy to the exclusion of those whose names follow.

2. If the shareholder completing the form does not indicate how the proxy is to vote on any resolution, the Chairman shall be deemed authorised and be entitled to vote on such resolution as he/she deems fit.

3. The authority of a person signing proxy under a power of attorney or on behalf of a company must be attached to the proxy unless that authority has already been recorded by the Company Secretary or waived by the Chairman of the Annual General Meeting.

4. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms thereof should the shareholder wish to do so.

5. The Chairman of the Annual General Meeting may accept a proxy form which is completed and / or received other than in accordance with these instructions, provided that he is satisfied as to the manner in which a shareholder wishes to vote.

6. Any alteration or correction to this form must be initialed by the signatory/ signatories.

# Contact information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