Annual Report

20
07

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.

Contents

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.

Once again the Group posted a pleasing set of results with an improvement in all key performance indicators. Despite the adverse and hostile 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 fulfil our vision of delivering world-class financial solutions 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.

History and medium term plan

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

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.

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.

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.

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

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

Income Statement USD'000s	2007	2006	2005	2004	2003
		Restated			
Net interest income after impairment	12,152	16,085	20,353	16,671	9,127
Non interest revenue	37,849	28,849	27,974	29,899	24,249
Total income	50,001	44,934	48,327	46,570	33,376
Operating expenditure	(26,126)	(24,757)	(29,330)	(32,869)	(27,221)
Net operating income	23,875	20,177	18,997	13,701	6,155
Loss on discontinued operations	-	-	-	-	(284)
Other impairments	-	-	(1,845)	(373)	(4,541)
Net operating profit before tax	23,875	20,177	17,152	13,328	1,330
Share of profits of associates and joint venture	540	1,912	813	831	3,139
Profit before tax	24,415	22,089	17,965	14,159	4,469
Tax	(3,417)	(7,444)	(6,611)	(5,571)	(4,214)
Profit for the year	**20,998**	**14,645**	**11,354**	**8,588**	**255**
Attributable to:					
- Ordinary shareholders	20,174	14,587	11,156	9,791	867
- Minorities	824	58	198	(1,203)	(612)
Profit for the year	**20,998**	**14,645**	**11,354**	**8,588**	**255**
Headline earnings	**14,047**	**11,529**	**11,751**	**7,743**	**4,929**
Balance Sheet					
Cash and short term funds	87,832	71,312	37,657	67,414	71,727
Financial assets held for trading or at fair value	143,642	141,709	156,437	128,565	73,300
Loans and advances	207,372	156,396	120,938	161,449	149,230
Investment securities	11,795	8,745	6,340	14,287	7,055
Investment in associates	5,064	7,086	6,261	6,692	1,849
Other assets, tax and investment property	16,426	7,013	6,689	14,600	15,565
Property and equipment	9,178	8,349	3,916	7,976	8,782
Intangible assets	5,824	6,226	7,286	11,051	11,341
	487,133	**406,836**	**345,524**	**412,034**	**338,849**
Shareholders' equity	54,230	46,681	35,999	43,021	35,867
Deposits	326,096	255,239	256,560	286,249	236,479
Derivative financial liabilities	849	1,182	-	-	-
Long term liabilities	96,855	91,132	18,684	30,637	20,959
Other liabilities and tax	9,103	12,602	13,381	31,227	25,783
Preference share liabilities	-	-	20,900	20,900	19,761
	487,133	**406,836**	**345,524**	**412,034**	**338,849**
Shares in issue	132,568,680	132,568,680	113,449,724	113,449,724	113,449,724
Cost to income ratio	47%	50%	55%	62%	68%
Average shareholders' equity	50,456	41,537	39,510	39,444	32,172
Return on average shareholders' equity (attributable)	42%	37%	30%	20%	15%
Net asset value per share (cents)	39.4	33.6	31.7	35.6	27.3
Closing exchange rates to USD:					
Botswana Pula	6.02	6.05	5.51	4.27	4.43
Euro	0.68	0.76	0.85	0.73	0.80
Mozambican Metical (dropped three zeros in 2006)	25.86	25.97	24.18	20.46	23.21
Tanzanian Shilling	1,146.10	1,264.05	1,162.01	1,073.01	1,035.90
Zambian Kwacha	3,850.00	4,390.24	3,480.52	4,700.00	4,500.00
Zimbabwe Dollar (dropped three zeros in 2006)					
- official	30,000.00	250.00	26.00	5.61	0.824
- calculated	4,948,961.54	2,400.99	88.09	6.20	5.00

Salient Features

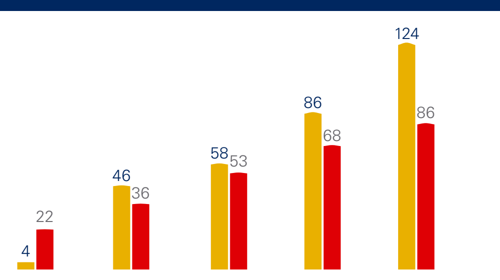
BWP'000s	Inflation adjusted 2007	2006	% change	Historical cost* 2007	2006	% change
Headline earnings	72,798	51,670	41%	86,013	67,613	26%
Attributable profits	101,626	69,606	46%	123,523	85,549	44%
Return on average equity	33%	29%	14%	42%	37%	14%
Headline EPS (thebe)	56.1	41.8	34%	66.3	54.7	21%
Basic EPS (thebe)	78.4	56.3	39%	95.3	69.2	38%
Dividend per share (thebe)	14.0	-	-	14.0	-	-
Cost to income ratio	69%	45%	53%	47%	50%	3%
Net asset value	335,860	285,014	10%	313,813	272,261	15%
NAV per share (pula)	2.53	2.15	18%	2.37	2.05	16%
Total assets	2,953,505	2,462,784	20%	2,930,121	2,447,136	20%

Headline earnings reconciliation:

	Inflation adjusted 2007	2006	Historical cost * 2007	2006
Profit attrubutable to ordinary shareholders	**101,626**	**69,606**	**123,523**	**85,549**
Adjusted for:	(28,828)	(17,936)	(37,510)	(17,936)
Fair value adjustment on investment property	(14,470)	(22,390)	(25,322)	(22,390)
Profit on disposal of subsidiary and associate	(19,047)	-	(19,047)	-
Profit on disposal of property and equipment	(75)	(24)	(22)	(24)
Loss on disposal of available for sale assets	607	-	607	-
Tax effect of adjustments	4,157	4,478	6,274	4,478
Headline earnings	**72,798**	**51,670**	**86,013**	**67,613**

* 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)



- Consistent, sustained earnings growth over the last 5 years
- Full effect of new capital to be felt in 2008

Chairman's Statement

International and Regional Economic Developments

World economic growth is estimated to have slowed down from 5.4% in 2006 to 4.9% in 2007. Growth in the global economy was propelled by robust economic growth in China (11.4%), India (9%) and Russia (8%), among BRIC economies. On balance, the slowdown in the United States (U.S.) economy during 2007 did not have a significant bearing on most developing economies.

In 2008, the growth of the world economy is projected to further slow down to 4.1% as talk of a U.S. recession intensifies. The weak global economic growth is largely a result of the negative effect of financial turbulence related to the U.S. sub-prime mortgage crisis. It is now anticipated that the U.S. economy will continue to slow down in 2008 before recovering in 2009, while expansion in China and India is projected to remain vibrant over the same period. Economic growth in China is projected to moderate to 10%. Notwithstanding the anticipated global economic slow down, growth in Africa is projected to increase to 7% compared to 6% in 2007.

Supported partly by solid demand for commodities, increased capital inflows and debt relief in 2007, economic growth in the Sub-Saharan Africa (SSA) was 6.2%, the highest growth in more than three decades. In 2008, economic growth for the region is projected at 6.9%. In South Africa, a marginally lower growth of 5.1% in 2007 compared to 5.4% in 2006 is partly due to slower growth in developed economies, and falling consumer demand. In terms of nominal GDP, South Africa is by far the largest economy in Africa, and its output is at least 20 times bigger than any of the countries where ABC has operations.

Country	GDP (USDm) 2007	Real GDP Growth rate 2007	Banking Deposits (USDm) 2006	Banking Credit (USDm) 2006	Banking Assets (USDm) 2006	Population (estimated) (million) 2006
Botswana	9 931	5.0%	3 996	2 033	5 696	1.7
Mozambique	8 758	6.8%	1 800	1 024	2 663	20.0
Tanzania	15 675	7.3%	3 216	1 608	4 127	38.2
Zambia	11 448	6.0%	1 790	878	2 432	11.9
Zimbabwe	1 728	-4.8%	611	173	1 096	11.7

Reflecting improved macro-economic stability, 32 out of 44 countries in SSA had single digit inflation levels in 2007. SSA (excluding Zimbabwe) is estimated to have registered an average inflation of 7.5% in 2007 and is projected to slow down to 6.8% in 2008. Increasing integration of developing countries in global markets, and their rising share of international trade have assisted to dampen inflation pressures. Inflation has generally been on a downward trend, although most African countries are still prone to adverse weather conditions such as droughts and floods; which have a significant influence on inflation trends.

The risks to higher inflation outturn and lower economic growth in 2008 exist, particularly in Mozambique, Zambia and Zimbabwe; largely on account of flood-related food shortages. Power shortages already being experienced in South Africa, Botswana, Zambia and Zimbabwe could also translate to a build up in inflation pressures as the various industries could resort to using more expensive alternative sources of power supply. In Tanzania, disturbances related to the disputed election results in Kenya have resulted in shortages and higher fuel prices. Kenya is the regional economic power house in the East African region and has strong trade links with neighbouring countries.

BOTSWANA

The Botswana economy is largely dominated by the mining sector which accounts for about 40% of the total output. In 2007, the economy is estimated to have grown by 6.2% in Pula terms. As measured in US dollar terms, nominal GDP was USD 9.9 billion in 2006 and was estimated to remain static in 2007. GDP per capita was USD 5 167 in 2004 and was estimated to be about USD 5 314 in 2007. High GDP per capita is an indication of high standard of living, and Botswana is one of the few African countries considered to be an upper – middle income country. Reflecting improvement of macro-economic fundamentals, unemployment rate also declined from 19.5% in 2001 to about 17.5% in 2006. In 2007, international reserves stood at USD 10.2 billion or 28 months of goods and services imports. High level of reserves and low external debt position somewhat cushion the country from the impact of external shocks emanating from the narrow export base.

Inflation was generally on a downward trend in the first half of 2007 before picking up pace in the second half of the year. Reflecting the presence of more pronounced inflationary pressures, in December 2007 annual headline inflation surged for the third consecutive month to 8.1%, from 7.7% in November due to high food and oil prices.

Country	Inflation Rate Dec-2007	Avg. 90 day TB Yield Rate Dec-2007	Avg. Prime Lending Rates 2007	Avg. Prime Lending Rates 2006
Botswana	8.1%	11.50%	16.2%	16.5%
Mozambique	10.3%	15.20%	20.1%	19.2%
Tanzania	6.4%	13.90%	14.4%	15.8%
Zambia	8.9%	11.00%	25.0%	27.8%
Zimbabwe	66,212%	340%	559%	419%

This further widened the gap between the actual inflation rate and the upper limit of the Central Bank's 2007 annual target range of 4% to 7%. Annual average inflation in 2007 was 7.1% compared to 11.6% in 2006 and 8.6% in 2005.

The Bank of Botswana has been maintaining a tight monetary policy stance which has seen the Bank rate being fixed at 15% since February 2006, until June 2007, when the Bank rate was reduced by 50 basis points to 14.5%. Since then, the Bank rate has remained unchanged with the aim of sustaining the medium – term inflation path as well as managing inflation expectations, which are key in the price formation process. In 2008, the Bank is likely to maintain the tight monetary policy stance in light of the upside risks to inflation outlook. In the first half of 2008, inflation is expected to remain above the Bank's inflation target range, before retreating to within the target range in the second half of the year.

The broad money supply which averaged 8.2% in 2006 increased significantly in January 2007 to 13.2%. The Bank of Botswana uses commercial bank credit growth to the private sector as the main intermediate target to control money supply, and hence inflation. Annual money supply growth peaked at 33.3% in September 2007 before marginally retreating to 31.5% in December 2007.

The Pula is pegged to a trade-weighted basket of currencies which includes the Rand and the Special Drawing Rights (SDR). The Pula was relatively stable in 2007 and traded at an average of BWP 6.14/1 USD compared to an average rate of BWP 5.82/1 USD in 2006. The Pula therefore depreciated by 5.5% in 2007.

MOZAMBIQUE

The Mozambican economy is largely dependent on the agriculture sector which contributes about 25% to GDP. Manufacturing sector contributes about 15% towards GDP, and commerce accounts for about 22%. The economy is estimated to have grown by 7% in 2007 compared to 8.5% in 2006. The strong economic growth reflects solid performance in construction, financial services, transport and communication and agriculture sectors. Over recent years, Mozambique has been plagued by intermittent floods, particularly in the low lying areas of the Zambezi Valley and southern province of Inhambane. So far, over 70 000 people have been displaced due to the heavy rains which are more likely to result in reduced agriculture yields and possibly food shortages.

Supported by significant inflow of foreign aid, as of September 2007 net international reserves stood at USD 1 479 million or 5.3 months of import cover. The large current account deficit of over 10% of GDP has historically been financed by foreign direct investment (FDI) and official grants. Mozambique is one of the largest recipients of FDI and grants in Africa.

Overall inflation declined to 4.9% in March 2007, the lowest level in 20 months, as a result of falling food prices. Annual inflation has been on an upward trend since, reaching 9.9% in August 2007 and ending the year on a peak at 10.3%, as a result of escalating food prices. The average inflation for 2007 was 8.2%, compared to 13.2% in 2006 and 6.4% in 2005.

In June 2007, the Bank of Mozambique relaxed monetary policy by adjusting downwards the overnight interest rate, the Standing Lending Facility rate, from 17.5% to 15.5%, and has remained unchanged despite rising inflation. Since the removal of interest rate caps in March 2006, the 91-day Treasury bill (T-bill) interest rate has been determined by the market. The T-bill interest rate decreased from 15.99% in March 2007 to 14.75% in December 2007. The moderation in interest rates was partly a result of the decline in issuance of T-bills to ease liquidity induced inflation. Rising inflation against largely stable nominal interest rates resulted in a gradual decline in real returns. Real interest rate for 91-day paper was 4.79% in December 2007 compared to 11.53% in March 2007. Real interest rate or real rate of return refers to the actual return an investor gets if the impact of inflation is discounted.

The monthly average exchange rate was relatively stable during the year, trading in a tight range of between MZN 24.00 – MZN 25.88 to the US dollar. The metical began to stabilise in mid 2006, 18 months after the exchange rate regime was liberalised. The appreciation of the exchange rate in the latter part of 2007 was a result of improved supply of foreign exchange in the economy, and this had a positive effect on the import bill.

TANZANIA

On the backdrop of agriculture recovery and improved electricity supply, Tanzania economy is estimated to have grown by 7.3% in 2007, up from 5.9% in 2006. Tanzania's business environment is however still considered a major obstacle for a more robust economic growth due to poor infrastructure; poor road and railway network and congested ports. As a result, significant donor funding and government budget resources are being directed towards infrastructure development.

Annual inflation was 7.0% in January 2007, and declined to 5.0% in May 2007 in tandem with falling food prices. However since June 2007, food inflation which accounts for 55.9% of the CPI basket, accelerated to a peak of 11.4% in September 2007, largely on account of a hike in transport costs. While aggregate food supply was adequate, challenges were however encountered when transporting food from surplus to deficit areas due to poor transport network. Overall inflation peaked at 9% in July 2007 before decelerating to 6.4% in December 2007. The end of year target inflation was 5%. The 12-months annual headline inflation averaged 7% in 2007 compared to 7.3% in 2006. In 2008, rising oil prices coupled with expected increase in electricity tariffs will continue to exert upward pressure on the cost of utilities and transport, and hence inflation.

The overnight interest rate which peaked at 18.64% in October 2007, fell to 5.37% in December 2007. In September 2007, the Bank of Tanzania increased its foreign exchange sales and reduced its reliance on issuing government securities in order to control liquidity. The Central Bank however intends to shift from weekly to fortnightly Treasury Bill auctions in a step aimed to encourage secondary market activity and increase competition in the primary auctions. Improved discipline by Bank of Tanzania in adhering to pre-announced volumes and maturity structures has already enhanced competition and contributed to falling yields. The Central Bank also substantially lowered the minimum bid amount in the Treasury Bill market from TZS 50 million to TZS 5 million, thereby allowing greater participation by non-bank private investors. The 12 months deposit interest rates averaged 9.3% in 2007 while the lending rates for loans up to one year averaged 14.4%. On balance, the interest spread between lending and deposit interest rates has been narrowing from around 8% in early 2006 to below 5% in 2007, partly signifying improvement in financial deepening.

The exchange rate which had been continuously depreciating against the US dollar for the greater part of 2007, reversed its course in the last quarter of 2007, as a result of the Bank of Tanzania's strategy to mop up liquidity using foreign exchange instead of government securities. In October 2007, average exchange rate appreciated by 6% and further by 2.6% in November 2007 before marginally depreciating by 0.9% in December 2007.

ZAMBIA

The firm commodity prices on the world market spurred growth in many commodity-driven African countries. The rapid expansion in emerging markets such as China and India led to an increase in the appetite for industrial inputs, and consequently, the surge of metal prices. Over recent years, Zambia, the leading producer of copper in Africa, has benefited immensely from soaring copper prices. Copper exports account for about 60% of Zambia's total export earnings. In 2007, the country continued to realise trade surplus on a monthly basis on account of soaring copper prices. In addition, the rise in copper prices resulted in significant investment in the mining sector with positive knock-on effects on the key sectors of the economy such as agriculture, tourism, construction and manufacturing. Against this background, the Zambian economy continued to grow at a robust pace, posting a growth rate of 6% in 2006, and it is estimated to have grown at the same rate in 2007.

Overall inflation which declined to its lowest level in three decades in 2006, however picked up pace in the first quarter of 2007. Inflation was above 10% for seven consecutive months beginning February 2007. In September 2007, inflation however receded to 9.3% and continued its downward trend, ending the year at 8.9%. The Central Bank's end of year inflation target was 5%. Non-food items, which accounts for 42.9% of the CPI basket have been a significant driver of the overall inflation in 2007. In the first half of 2007, higher non-food inflation was partly due the effect of depreciation of the Kwacha on non-food prices.

In line with a tight monetary policy stance, the Bank of Zambia rate, or the policy interest rate was maintained between 11.1% - 14.0% in 2007. The 91-day Treasury bill rate is set at 2 percentage points lower than the policy rate. The average lending rate has remained unchanged at 24.3% since April 2007. Over the years, interest rates have however been falling in line with declining overall inflation. 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.

Buoyed by improved foreign exchange inflows from portfolio investors and strong export earnings, the Kwacha was firm, particularly in the second half of 2007. In January 2007, the Kwacha was quoted at an average of K 4 221/1 USD compared to K 3 834/1 USD in December 2007. Compared to January 2007, the Kwacha appreciated by 9.1% in December 2007. International reserves also improved significantly during the year. As of July 2007, international reserves stood at USD 982.7 million or at least 3 months of import cover, which is the prescribed floor to cushion the economy from external shocks.

ZIMBABWE

The Zimbabwe economic performance continued to weaken, with adverse contagion effects on the neighbouring trading partner countries. Over the past decade the economy has been grappling with a host of economic challenges; foreign exchange shortages, widening parallel market activities, and shortages of basic commodities and raw materials, among others. The cumulative impact has been erosion of the production base leading to contraction in economic activity and a hyperinflation environment. The economy has been in decline for nine consecutive years, and in 2007 the economy is estimated to have declined by about 6%. The contraction was characterised by a decline in output across all sectors of the economy, with the exception of agriculture which registered a marginal growth. In particular, contraction in mining sector, notwithstanding the surge in global mineral prices, was dominated by a sharp decline in gold production, which fell to 6.798 tonnes; the lowest level since 1980.

Propelled by excessive growth in money supply and depreciation of exchange rate on the parallel market, annual inflation continued to break new heights in 2007. Inflation surged from 1 593.6% in January 2007 to 66 212.3% in December 2007. In June 2007, the government instituted blanket price controls in an attempt to slow down inflation. This policy stance crippled the economy substantially, and the effects lasted way into 2008, even after partial reversal.

On average, the money market was largely in deficit throughout the year. The monthly average money market deficit position intensified in the last quarter of 2007 due to cash shortages and higher statutory reserve requirements, which were as high as 50% for demand deposits. The inter–bank rate was firm, averaging 220% during the year, and peaked at 950% in December in response to the liquidity crunch in the money market. The punitive overnight accommodation rate for secured lending, the Central Bank's key policy rate, was tightened from 500% to 600% in April 2007. In October 2007, the policy rate was increased to 850% and was further adjusted to 975% in December 2007. The money market was also characterised by shortage of short term investment instruments and only 1-year Treasury bills were on offer at 340% per annum. Commercial bank lending rates and 90-day deposit rates however remained largely unchanged at above 500% per annum and 125% per annum, respectively.

In the absence of money market investment instruments, both the benchmark industrial index and the mining index continue to reach new highs. In December 2007, the benchmark index increased by more than 335 000% on an annual basis, thereby outperforming the debilitating effects of inflation which stood at 66 212.3% in December 2007. Market capitalisation also increased by 366 736% in 12 months to December 2007. In US Dollar terms, market capitalisation increased by a phenomenal 71% during the same period.

The economy was characterised by multiple exchange rate management system, applicable to various users of foreign currency depending on whether their needs fell within or outside the targeted priority list. The official exchange rate is widely viewed as a government transaction rate which was pegged at ZWD 250/1 USD in the first eight months of the year and was later adjusted to ZWD 30 000/1 USD. There was also an implied exchange rate system that was linked to the overnight investment window which was applicable to both exporters and importers and was meant to take into account inflation developments. In addition, there were implied exchange rates applicable to tobacco and gold sectors.

Capitalisation subsequent to year end

During January 2008, the International Finance Corporation ("IFC"), a member of the World Bank Group, subscribed for 13,850,845 ABC Holdings Limited shares at a total cost of BWP 37.4 million, taking its shareholding in ABC Holdings Limited to 10.7% of total issued share capital. A convertible loan of USD 13.5 million is yet to be drawn down. Had the conversion taken place on 31 December 2007, the IFC's shareholding would have increased to 23.8%.

The Directors are pleased to advise shareholders that Citi Venture Capital International Advisers ("CVCI"), a business unit of Citi Alternative Investments and a leading private equity investment adviser, has approved the extension of a two-year convertible loan with a principal amount of USD 25 million to ABC Holdings Limited. With more than forty investment professionals, and offices in London, New York, Hong Kong, New Delhi, Mumbai, Tokyo and Santiago (Chile), CVCI manages over USD 7 billion in investments and committed capital.

The investment remains subject to a number of conditions, including the satisfactory completion of legal documentation, and receipt of approvals and other conditions to be set forth in the definitive legal documentation. The terms and pricing parameters of the investment are expected to be broadly in line with those of the IFC convertible loan. The Board of Directors of ABC Holdings Limited has approved the investment and will recommend the approval of the investment to the shareholders.

The loan by CVCI would be convertible, under certain circumstances, to an equity interest of approximately 20% in ABC Holdings Limited. In order to prevent significant dilution of the existing shareholders and at the same time strengthen the capital position of the Group, the Directors are actively investigating the possibility of a rights issue. Details of this offer will be provided to all shareholders in due course.

Retail project and rollout

Planning for the introduction of the retail business across the Group's footprint is at an advanced stage. This is an ambitious project and the Group is meticulously working for its maiden introduction by the third/fourth quarter of 2008. Alongside this effort, a number of ICT projects are also underway to upgrade the existing banking application and provide the Group with the infrastructural and technical wherewithal to meet growth challenges and the retail project's needs. The financial impact of the retail project will be provided at the next reporting period once the figures have been thoroughly interrogated and quantified.

Dividend

The Board of Directors proposed a gross final dividend for 2007 of 14 thebe (ZWD 529,839.00) per ordinary share. Withholding tax will be deducted from dividend payments in accordance with the Income Tax Act in Botswana and Zimbabwe.

Acknowledgments

I would like to thank management and staff most sincerely for their contribution in producing an impressive set of results.

OM Chidawu
Chairman
13 May 2008

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 J Moses*
	Mr T S Mothibatsela*
	Mr H Wasmus*
	Mr D T Munatsi (Chief Executive Officer)

* Independent non-executive

Remuneration Committee

Chairman	Mr O M Chidawu
	Mr H Buttery
	Mr N Kudenga

Risk and Audit Committee

Chairman	Mr N Kudenga
	Mr J Moses
	Mr T S Mothibatsela
	Mr H Wasmus

Loans Review Committee

Chairman	Mr H Wasmus
	Mrs D Khama
	Mr J Moses

Executive Committee

Chairman	Mr D T Munatsi
	Mr F Dzanya
	Mr B Moyo
	Mr H Matemera

Group Management

Chief Executive Officer	D T Munatsi
Chief Operating Officer	F M Dzanya
Chief Financial Officer	B Moyo
Head-Wholesale Banking	H Matemera
Human Resources	N Gapare
Head of Retail Banking	A Faulkner (w.e.f. April 2008)
Legal Counsel and secretary to the Board	M de Klerk
Chief Information Officer	L W Vermeulen

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. He is also an associate of the Institute of Bankers of Zimbabwe.

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.

MOSES, John (South African)

John Moses was born in South Africa in 1945. He built a distinguished career in banking, commencing with First National Bank in 1975 where he rose through the ranks and retired as Chairman of Regional Banking in 1999. He was a council member of the South African Institute of Bankers before retiring in 2000.

Board of Directors

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.

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 has been a senior adviser to FMO until 2007 and is still a non-executive director of several 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.

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.

Executive Committee

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. He also held the position of 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.

Company Secretary

DE KLERK, Markus - Group Legal Counsel

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.

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
	D T Munatsi
Managing	J Sibanda (w.e.f. 1 January 2008)
Registered address:	999 Avenida Julius Nyerere, Polana Cimento, Maputo, Mozambique.

African Banking Corporation Tanzania Limited

Chairman	J P Kipokola
	R Dave
	J Doriye
	W Nyachia
	D T Munatsi
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 (w.e.f. 1 January 2008)
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
	O Moyo
	F R G Read
	P Sithole
	F E Ziumbe
Managing	Z Shaba (w.e.f. 1 January 2008)
Registered address:	Endeavour Crescent, Mount Pleasant Business Park, Mount Pleasant, Harare, Zimbabwe

Microfin Africa Limited

Chairman	L Mwafulilwa
	G Chabwera
	R Credo
	A Dudhia
	R Liebenthal
	I Mwanza
Managing	R Jere
Registered address:	Stand no. 627, 2nd floor, Bata Building, Southend, Cairo Road, 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, 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

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

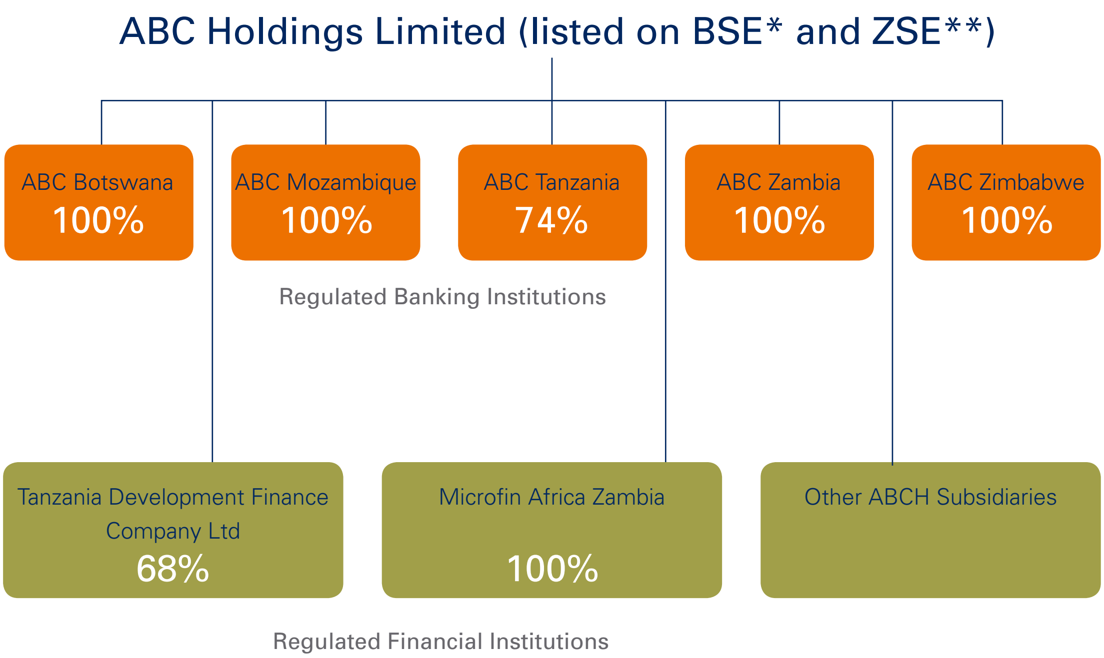
Legal Advisor

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

Auditors

PricewaterhouseCoopers
Plot 50371
Fairgrounds office Park
Gaborone,
Botswana

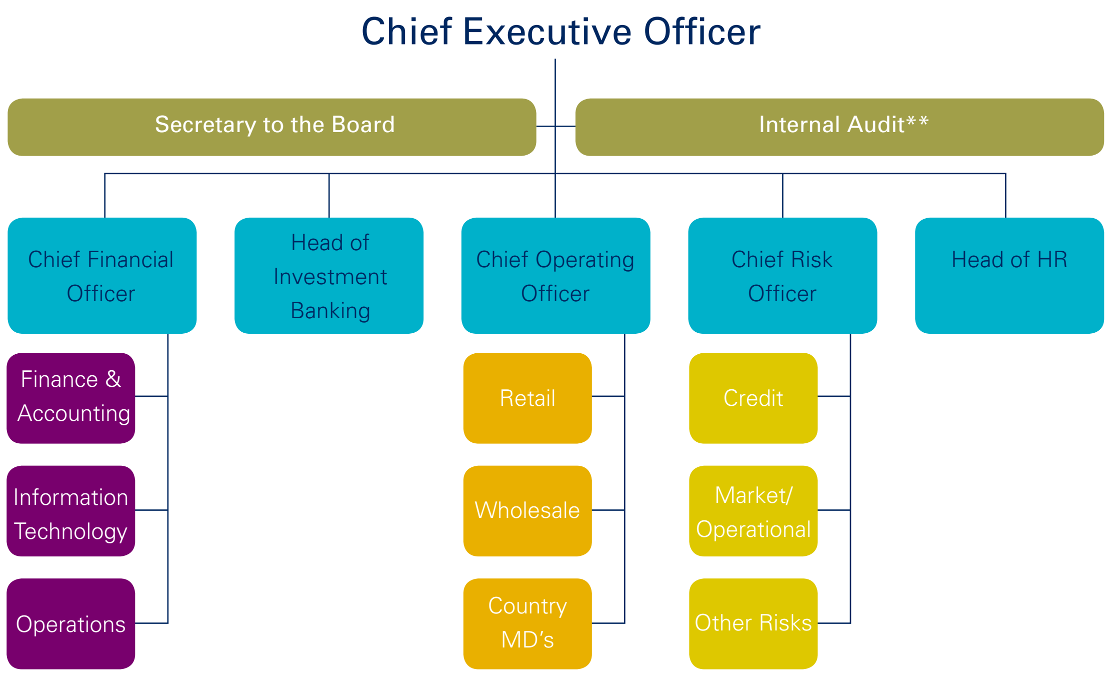
Group Structure: ABC Holdings Limited



- Only significant operating subsidiaries are shown

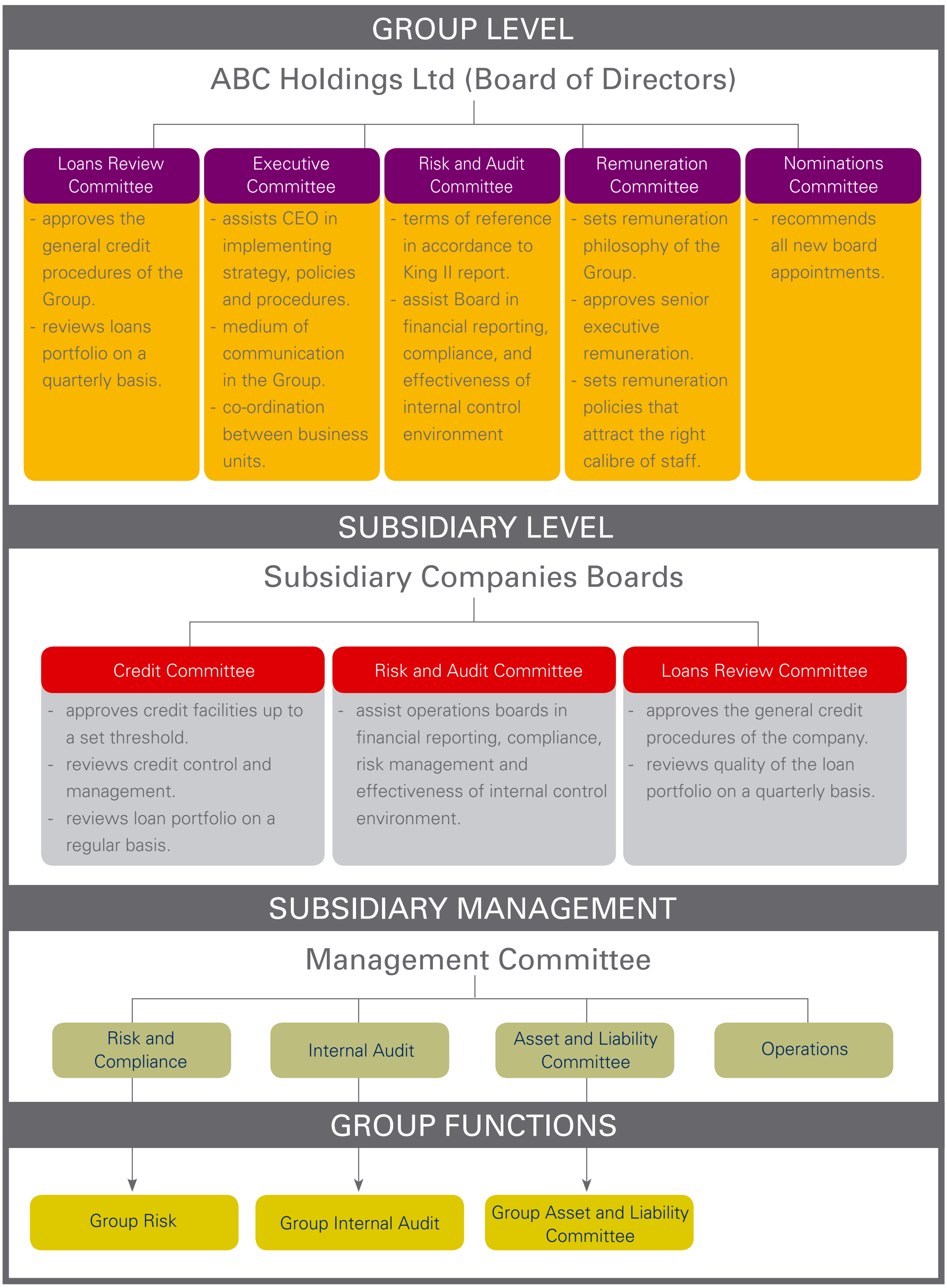
* Botswana Stock Exchange
** Zimbabwe Stock Exchange

Group Management Structure*: ABC Holdings Limited



* With effect from 1 April 2008
** Group Internal Audit reports directly to the Board Audit Committee and to the CEO for administrative purposes

Governance Structures: ABC Holdings Limited



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.

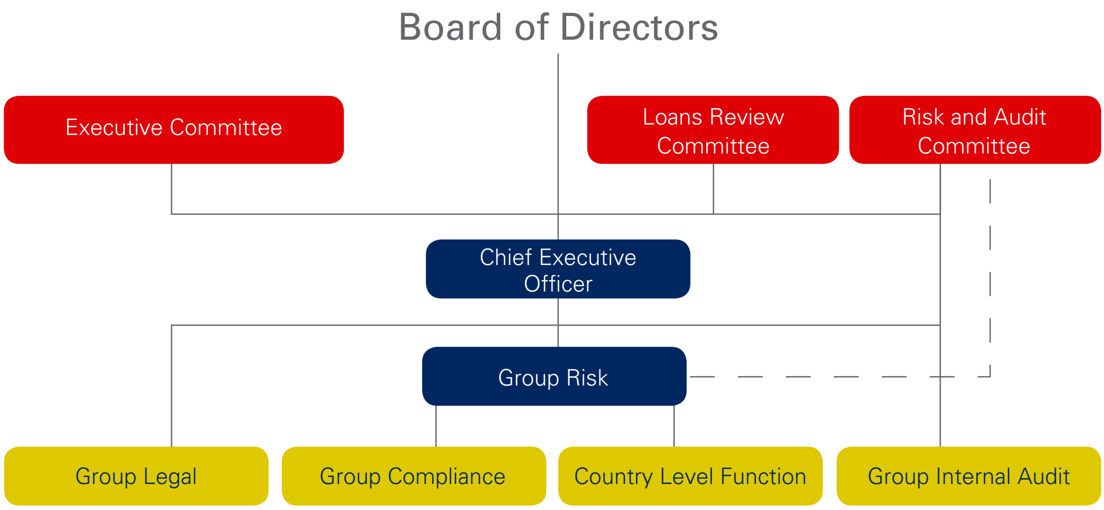
Risk management in the Group is underpinned by the following pillars:

- 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 ensures 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.

Corporate Governance

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 8 directors, including 5 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 23 and 24 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 six 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.

Directors' attendance at meetings in 2007

Director	FEB	APR	MAY	AUG	OCT	DEC
Buttery	P	P	P	P	P	P
Chidawu	P	P	P	P	P	P
Khama	P	P	P	P	P	P
Kudenga	P	P	P	P	P	P
Moses	P	P	P	P	P	P
Mothibatsela	P	P	P	P	P	A
Munatsi	P	P	P	P	P	P
Wasmus	P	P	P	A	P	P

P – Present A – Absent

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 33 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.

Executive Committee

The Executive Committee (EXCO) assists the CEO in managing the Group and implementing strategy, policies and procedures, subject to the Board's limitations on delegation to the CEO.

The CEO's authority in managing the Group is unrestricted. EXCO assists the CEO in managing the Group and setting the overall direction of the business of the Group, and acts as a medium 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

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 2007. 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 thecompany 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

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 2007 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

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 2007.

Nominations Committee

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

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 once again produced a pleasing set of results for the year ended 31 December 2007.

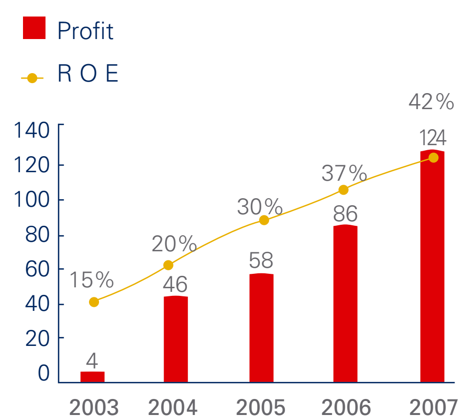
On an inflation adjusted basis:

- Attributable profit to shareholders at BWP 101.6 million is 46% ahead of the prior year comparative of BWP 69.6 million;
- Basic earnings per share at 78.4 thebe increased by 39% from 56.3 thebe recorded in 2006;
- Headline earnings of BWP 72.8 million is 41% higher than BWP 51.7 million achieved in 2006. Headline earnings per share increased by 34% from 41.8 thebe in 2006 to 56.1 thebe;
- The balance sheet grew by 20% to BWP 2.95 billion, with the loan book increasing by 33% to BWP 1.25 billion;
- Deposits increased by BWP 426 million to BWP 1.96 billion;
- Average return on equity increased from 29% to 33%, and average return on assets from 2.6% to 3.8%; and
- The Group's net asset value increased by 18% from BWP 285 million in 2006, to BWP 335.9 million in December 2007.

Financial Review (on a historical cost basis)

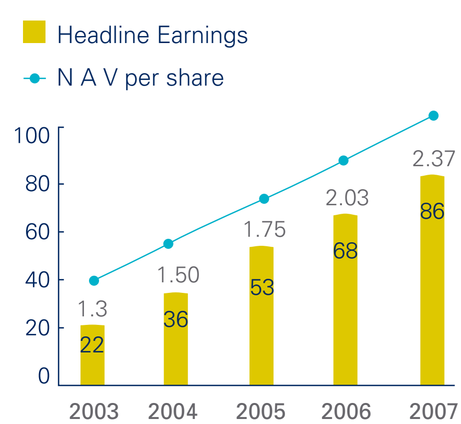
A historical cost balance sheet, income statement, cash flow statement and statement of changes in equity have been presented as supplementary information for the benefit of shareholders, and to form the basis for the financial review (Note 35). This historical cost supplementary information complies with IFRS except for the effects of not applying IAS 29 (Financial Reporting in Hyperinflationary Economies).

Attributable Profit (BWPm) and R O E (%)



• Attributable profits up	44%
• Return on average equity of	42%
• Cost to income ratio down to	47%
• Headline earnings up	26%

Headline Earnings (BWPm) and N A V per share (pula)



• Balance sheet growth of	20%
• Customer deposits up	28%
• Loans and advances up	33%
• Return on assets up to	4.6%

Overview

Attributable profit to shareholders at BWP 123.5 million is 44% ahead of the prior year comparative of BWP 85.5 million. Basic earnings per share at thebe 95.3 increased by 38%. Headline earnings of BWP 86 million is 26% higher than BWP 68 million achieved in 2006. Headline earnings per share increased by 21% from 54.7 thebe in 2006 to 66.3 thebe; this following a 19% growth in 2006. Average return on equity at 42% exceeds the 37% achieved in 2006 and is ahead of the Group's long term target of 40% for the first time. Return on average assets improved from 3.9% to 4.6%. The cost to income ratio declined further from 50% in 2006 to 47%. Net asset value per share improved from BWP 2.05 in 2006, to BWP 2.37.

With the exception of ABC Zambia, all Group subsidiaries recorded profits in 2007. The subsidiaries outside Zimbabwe contributed BWP 32.4 million to attributable profit, a 46% increase on the BWP 22.2 million recorded in 2006. It should be noted that this was achieved in spite of the BWP 13 million negative cost of carry on the BWP 250 million debt raised at the end of 2006. In addition, subsequent to year end, one of ABC Botswana's major clients was put under provisional liquidation, necessitating additional impairments of BWP 13.9 million which has been accounted for in the results. ABC Zambia had a challenging year as interest and foreign exchange margins tightened. With the capital injected in 2006 now reasonably leveraged, ABC Zambia is already showing improved performance. The Zimbabwean operations continue to perform well despite the continued devaluation of the Zimbabwe Dollar, contributing BWP 91.2 million to attributable profits. The implied Zimbabwe dollar exchange rate depreciated further from ZWD 397: BWP 1 in December 2006 to ZWD 822,765: BWP 1 in December 2007; more than 2,000 times. As at 30 April 2008, this exchange rate was ZWD 35,038,868: BWP 1.

Financial performance

Net interest income

Net interest income continues to improve for all subsidiaries except Zimbabwe. Following the injection of Tier II capital in the first half of the year, subsidiaries struggled with the cost of debt. However, there was a marked improvement in the last quarter as the capital has now been fully deployed by the banking operations. Capacity to do significant transactions has improved markedly and the full impact of this capitalisation will be felt in 2008. ABC Botswana and ABC Mozambique are now in a position where net interest income covers operating costs. Notwithstanding the above, overall net interest income declined by 11% to BWP 107.3 million. This was largely due to the massive depreciation of the Zimbabwe Dollar, coupled with a huge increase in non interest earning assets; resulting in net interest income in Zimbabwe declining by more than 100%. In addition, as alluded to above, there was a negative cost of carry on the debt that was raised in the 4th quarter of 2006 which exacerbated the position somewhat.

Impairment of loans and advances

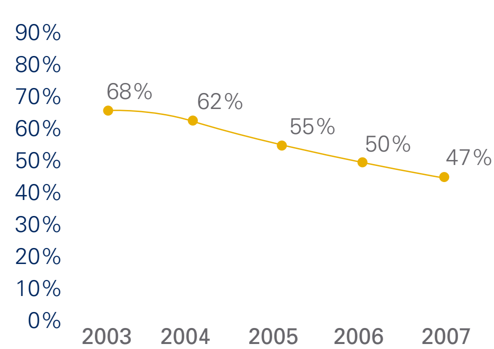
Impairment charge for loans and advances increased by 27% from BWP 26 million to BWP 32.9 million. Other than ABC Botswana and ABC Zambia all other subsidiaries recorded a moderate increase, or reduction in impairments. While significant write backs were made in ABC Botswana, there was need for additional impairments after the end of the reporting period as already described earlier, resulting in an increase in impairments. High impairments in ABC Zambia and Microfin Africa are mainly due to a combination of mark to market at initial measurement of some loans and portfolio impairments in line with IFRS.

Non interest revenue

Subsidiaries outside Zimbabwe contributed 48% of non interest revenue of BWP 231.7 million, up from 43% in 2006. Despite significant growth in trading volumes, foreign exchange margins continued to decrease as competition has intensified. Foreign exchange gains contributed 5% of total non interest revenue, with transaction based fees and gains from the portfolio held for trading and changes in fair value of investment property contributing 32% and 52% respectively.

Operating expenses

Cost to income ratio

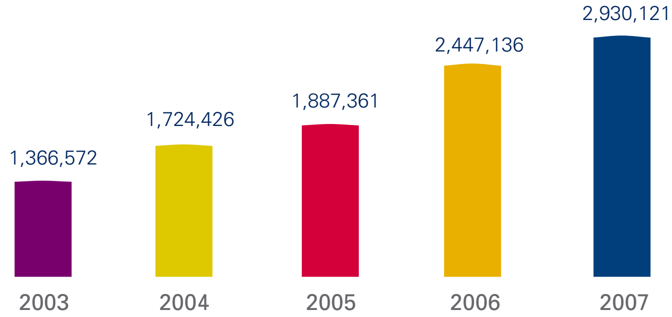


Cost to income ratio down due to a combination of:

- Zimbabwe dollar depreciation
- cost containment

Cost containment continues to improve, with the Group's cost to income ratio declining from 50% to 47%. Group operating expenses increased by 10% to BWP 160 million. However, net interest income only covers 67% of costs, compared to 83% in December 2006, again due to the interest cost on the medium term debt. This trend started reversing in the 3rd quarter of 2007 as the leveraging of the additional capital started to bear fruit.

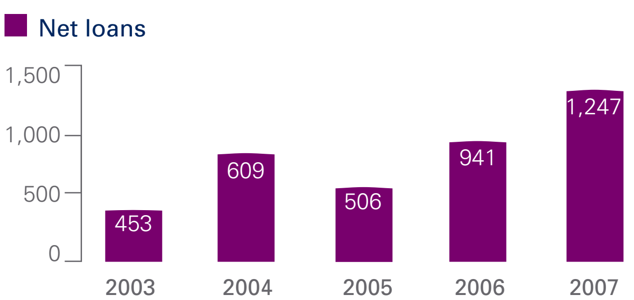
Total assets (BWP'000s)



- 20% balance sheet growth compared to December 2006
- Sustained balance sheet growth since 2003
- Compound annual growth rate of 21.01%

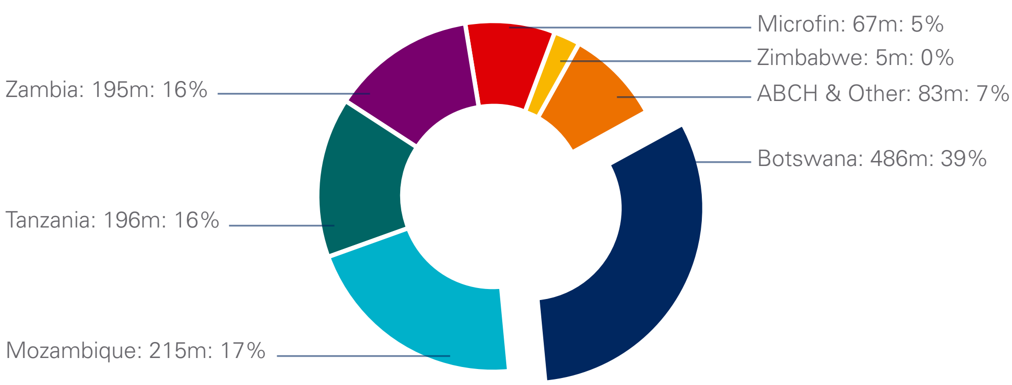
The balance sheet is sound, with the capital adequacy ratio for all banking subsidiaries materially higher than minimum regulatory requirements. The Group balance sheet grew by 20% from BWP 2.4 billion to BWP 2.9 billion. All the subsidiaries registered growth which is commendable. It is pleasing to note that on a year on year basis, loans and advances increased by 33% from BWP 941 million to BWP 1.25 billion. Consequently most of the income is now largely driven by the balance sheet, which reduces volatility and is more desirable.

Loans and advances (BWPm)



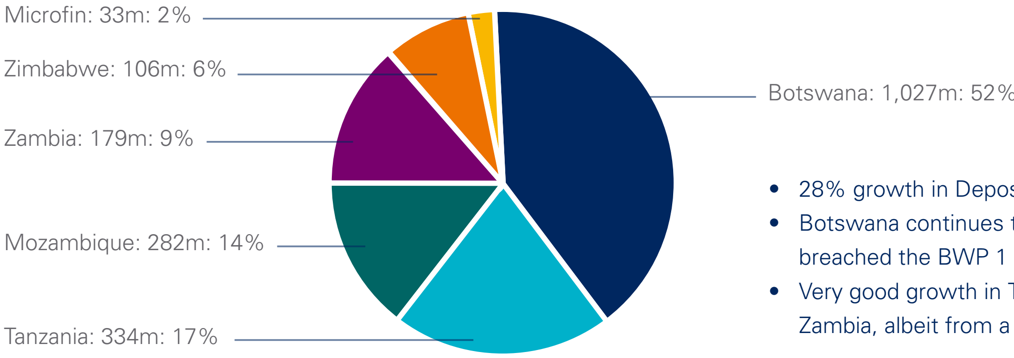
- Net loans increased by 33% from December 2006
- All subsidiaries registered growth
- Overall compound annual growth rate of 28.81%

Loans and advances per subsidiary (BWPm)



- Tanzania and Zambia registered high growth, albeit from a low base.

Deposits (BWPm)



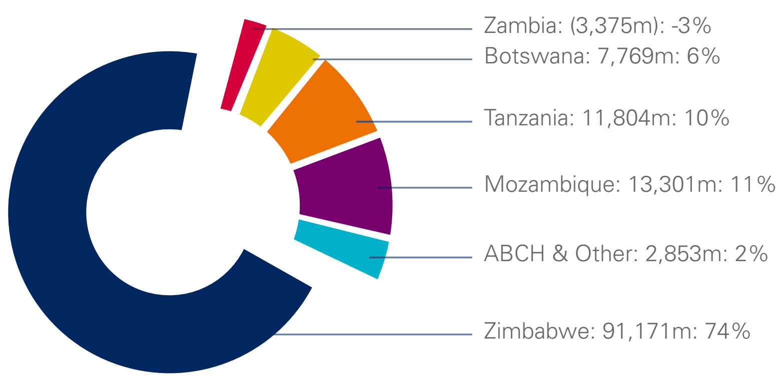
- 28% growth in Deposits
- Botswana continues to lead and breached the BWP 1 billion mark
- Very good growth in Tanzania and Zambia, albeit from a low base

Customer deposits increased by 28% from BWP 1.53 billion to BWP 1.96 billion. ABC Botswana registered a 28% increase in Deposits and for the first time breached the BWP 1 billion mark. Deposits in ABC Tanzania and ABC Zambia grew by 78% and 49% respectively albeit coming off a low base.

Net asset value increased by 15% from BWP 272.3 million to BWP 313.8 million in spite of the increase in the Foreign Currency Translation Reserve ("FCTR"). The FCTR increased by 31% from BWP 314 million to BWP 410.9 million owing to the massive depreciation of the Zimbabwe dollar.

Segmental Analysis

Attributable profit contribution



Botswana

ABC Botswana posted a profit after tax of BWP 7.8 million for the year, down form BWP 11.8 million in 2006. This was largely due to the provisional liquidation of a major client resulting in additional impairments of BWP 13.9 million at year end. Net interest income at BWP 29.5 million is 45% above what was achieved in 2006. Although impairments were higher than anticipated, there were also significant recoveries made on some long outstanding debts. Foreign exchange trading volumes continued to grow, with foreign exchange trading income increasing by 33% over last year. Although cost to income ratio of 53% is up from 49% in 2006, it is pleasing to note that for the first time net interest income to total cost at 110% reflects that net interest income now covers costs, up from 95% in 2006. Total customer deposits breached the BWP 1 billion mark for the first time, exceeding 2006 by 29%. The loan book grew by 41% compared to 2006. The bank is adequately capitalised with a capital adequacy ratio of 18.4%.

Mozambique

ABC Mozambique posted a net profit after tax of BWP 13.3 million, marginally ahead of BWP 13 million recorded in 2006. Net interest income at BWP 23.3 million is 13% ahead of 2006 after accounting for BWP 1 million in suspended interest. The loan book grew by 66% compared to 2006. From the first quarter of 2007, Banco de Moçambique significantly reduced the amount of foreign exchange traded through the auction. As a result, foreign exchange trading income is down 22% compared to prior year. Fee and commission income is up 47% compared to 2006. Cost to income ratio edged up slightly from 64% to 66%. Balance sheet growth was curtailed by constrained deposit growth. Net asset value improved by 16% from BWP 63.9 million to BWP 74.6 million.

Tanzania

ABC Tanzania recorded a significantly better performance than 2006, owing to high loan portfolio growth. The operation posted a profit for the first time since inception, recording a profit of BWP 6.1 million. Net interest income of BWP 13.7 million is 23% higher than BWP 11.1 million achieved in 2006. The loan book grew from BWP 100 million in 2006, to BWP 196 million on the back of a 96% growth in deposits which increased from BWP 188 million to BWP 369 million in 2007. The quality of the loan book continued to improve, with significant write-backs of provisions during the year. Non interest income increased by 31% to BWP 10.6 million. Cost to income ratio of 92%, while still very high, improved from 100. The balance sheet grew by 112% from BWP 226 million in 2006 to BWP 479 million, driven mainly by deposit growth. Net asset value improved from BWP 470,000 to BWP 8.5 million. Capital adequacy ratio is 25.40%

Zambia

ABC Zambia had a challenging year as interest and foreign exchange margins tightened; recording a loss of BWP 3.6 million for the year ended 31 December 2007, compared to a profit of BWP 4 million in 2006. Both ABC Zambia and Microfin Africa Zambia Limited recorded high impairments due to a combination of mark to market at initial measurement of some loans and portfolio impairments in line with International Financial Reporting Standards. Net interest income for the year of BWP 16.1 million is 13% ahead of BWP 14.2 million for 2006. The loan book grew by 79% compared to 2006, although most of this growth was in the last quarter of 2007, hence the marginal impact on profitability during 2007. With the capital injected in 2006 now reasonably leveraged, ABC Zambia is already showing improved performance going into 2008. Interest margins were under pressure as the cost of deposits edged up while the lending rates remained static. While deposit mobilisation remains one of the major focus areas for the operation, it is pleasing to note that customer deposits increased by 50% to BWP 172.1 million during the year under review. Cost to income ratio is high at 91%. Capital adequacy ratio was 32.8%.

Microfin Africa Zambia Limited posted a profit of BWP 210,000, 78% lower than 2006 profit of BWP 969,000. While sales volumes improved compared to 2006, margins continued to decline, resulting in a moderate 11% increase in net interest income to BWP 28.7 million. Balances in arrears as a percentage of total loans dropped from 39.3% in December 2006 to 25% in December 2007. The balance sheet grew by 39% from BWP 51.5 million in December 2006 to BWP 71.8 million at 31 December 2007. Net loans to customers increased by BWP 19 million from BWP 47.9 million in 2006 to close at BWP 66.9 million in 2007. Capital adequacy ratio was 28%.

Zimbabwe

ABC Zimbabwe recorded a profit of BWP 91.2 million, 47% up from BWP 62 million in 2006. The performance is commendable considering the staggering inflation level of 66,212% by December 2007, and the translation rate of ZWD 822,765: BWP 1 in December 2007 (2006: ZWD 397: BWP 1). The profits were mainly attributable to mark to market gains on the investment portfolio. The capital adequacy ratio of the banking operation is 46%. The political and macro-economic environment in Zimbabwe continues to be challenging. Consequently while ABC Zimbabwe will continue to be a significant part of the business, its overall contribution is expected to reduce over time.

Business Segment

Treasury

The division contributed positively to the bottom line albeit at a reduced level. Traditionally treasury has made most of its profits through foreign currency trading.

However of late most of the African currencies have stabilised and in a number of instances, are actually appreciating, particularly against the United States dollar, which is the major currency traded in these markets. As a result, trading is no longer a one way bet. Whereas in the past profits were largely derived from proprietary positions, most of the revenues are now driven by customer transactions. Owing to the above, competition in this business continues to increase resulting in an overall squeeze in margins.

Deposit mobilisation in the wholesale sector in both Zambia and Tanzania continues to be a major challenge. However, notwithstanding the challenges above, the deposit book increased by 28% from BWP 1.5 billion to BWP 1.96 billion.

Corporate and Private Banking

Overall performance for Corporate and Private Banking division was encouraging with the loans and advances book up by 33% to BWP 1.247 billion. It should be noted though that most of the growth was registered in the last quarter of 2007 and hence did not have a huge impact on net interest income. The full benefits of this growth will be felt in 2008. All subsidiaries registered growth in 2007 albeit with varying degrees of success.

In Botswana the gross loan book increased by 43% from BWP 375 million to BWP 535 million. Average net interest margin on loans at 3.5% was however down on the 4% recorded in 2006 reflecting increased competition for both loans and deposits. Regrettably one of the Bank's major clients was placed under provisional liquidation on 31 January 2008, necessitating a specific impairment of some BWP 13.9 million. Indications are that the impairment is sufficient, and consequently there will be no need for additional impairment in 2008 and beyond. The gross loan book in ABC Mozambique increased by 75% from BWP 120 million to BWP 211 million on the back of an increase in capital. Despite an increase in impairments, the quality of the Group loan book is still satisfactory with 89% of the book classified as performing.

The gross loan book in ABC Tanzania almost doubled from BWP 114 million recorded in 2006 to BWP 225 million in 2007, again due to the increase in single obligor limit due to an increase in capital. It is pleasing to note that the Bank has a solid deal pipeline and is projected to grow significantly in 2008. The quality of ABC Tanzania's loan book remains satisfactory with 97% of the book classified as performing. Margins continue to be a challenge as competition particularly for wholesale deposits is intense.

ABC Zambia also recorded solid gains with the gross loan book increasing by 72% from BWP 137 million to BWP 236 million. Whilst the margins in Zambia are good, the quality of the book is a bit of a concern as only 91% is classified as performing, although the balance is provided for.

The socio and economic problems in Zimbabwe are well documented; as a result there is very little activity in Corporate Banking. Due to the hyperinflationary environment monetary assets are depreciating at an alarming rate. We continue to position our business for the elusive turnaround.

All in all, Corporate Banking contributed positively to the Group's bottom line and the trend is expected to continue in 2008.

Microfinance

The performance of this division was somewhat disappointing. As a result a decision has been made to go into a joint venture with a team of experienced micro-financiers. The Group will retain 51% of this business and plans are afoot to roll it out in other sub-Saharan African countries.

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 is underway. 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 the current version 5 to the latest version 7.3 to allow provision of a wider range of products; and introduction of retail banking. The Group believes technology is the 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 2000 certification over a period of 2 years.

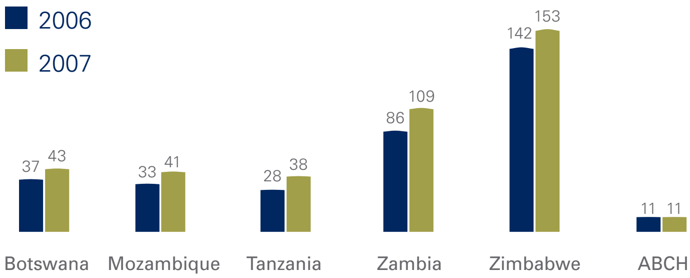
Group Finance is responsible for management and financial reporting, regulatory reporting, budgeting and group tax.

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 meeting, Group Risk department monitors the different risks facing the banking operations. Given the volatile situation in Zimbabwe, liquidity and gap analysis are some of the major focus areas of Group Risk. Credit risk continues to be a key area of attention and Group Risk continues to implement best practice monitoring tools to enhance the quality of exposures.

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.

Staff complement



- Total employee costs up from BWP 82m to BWP 87 m
- Employee costs 54% of total costs
- Staff compliment of 395 (2006: 337)
- Head count set to increase significantly in 2008 due to retail banking roll-out

The Group Human Resources department is responsible for human capital management and formulating HR and reward strategies for the Group. The head of the HR 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 and experienced bankers with a wealth of local and international experience. The Group is seeking to build a deep bench of skilled and experienced managers through its comprehensive Graduate Management Development Programme. An Executive Development Programme has been introduced in conjunction with Gordon Institute of Business Sciences. The first programme will commence on 1st April 2008.

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
Short term	A3	A3	A2
Long term		BBB	BBB
Rating outlook			Positive

Outlook

The 2008 financial year has started on a very positive note, particularly for the subsidiaries outside of Zimbabwe. Business volumes continue to increase albeit on reduced margins. The capital that was injected into the subsidiaries has now been fully deployed and the full benefits of this will start to show in 2008. Sadly the conditions in Zimbabwe continue to deteriorate with inflation for February 2008 at an all time high of 164,800% and projected to worsen in the coming months. As a result, while ABC Zimbabwe will continue to be a significant part of the business, its overall contribution is expected to reduce over time. We are confident that the results for 2008 will be ahead of the 2007 performance. All banking subsidiaries are expected to grow in 2008 affirming the sustainability of the Group's growth in the future. The Group is excited about the new partnerships it is building with international and regional investors. In this regard, the envisaged rights issue should further strengthen the Group's capital, and position it for even greater growth in the coming years.

Acknowledgments

Mr Julius Machapu, who held the position of Chief Risk Officer, left the Group in February 2008 to pursue private interests. I would like to thank Julius for the many years of dedicated service to the Group, and wish him well in his new endeavours.

D T Munatsi
Group Chief Executive Officer
13 May 2008

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 is ABC's next major expansion initiative.

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.

Women

In 2007, ABC Zambia gave financial support towards a fund-raising concert organised by The Darfur Consortium. Featuring a live performance by jazz legend Hugh Masekela, all proceeds from the concert went towards supporting the efforts of women in the Darfur region to empower themselves, their families and communities through a community centre for women. The centre directly supports over 450 women who have been displaced from their homes, including many who have been victims of abuse.

Children and Arts

ABC Botswana donated funds towards a gala dinner organised by the lady Khama Charitable Trust. Proceeds from the dinner went towards facilitating a kidney transplant for a young boy who was in need. The bank also contributed towards a fund-raising dinner made possible by the Sir Ketumile Masire Foundation. The Foundation aims to facilitate proactive participation and support with a special focus on governance, peace and children's welfare.

The Harare International Festival of the Arts (HIFA) has become established as a major highlight on the region's cultural calendar, and the year 2007 was no different. As with all the years since HIFA's inception, ABC Zimbabwe sponsored the opening night under the theme, "Its Show Time". ABC Zimbabwe partnered with the Rotary Club of Borrowdale Brooke to hold a fund-raising golf day. Proceeds from this event were channelled towards the completion of a borehole project at Harare Children's Home. Once complete, the borehole would have the capacity to supply the Home and other surrounding areas with clean water.

ABC Zambia partnered with local NGO, Teach To Fish to launch a High School Art Competition. The aim of the project was to empower young minds through a medium they are passionate about, by placing them in a competitive yet learning environment that would nurture their artistic talent and translate this potential into positive realities. The award presentation was held in July 2007 in Lusaka and was graced by the Deputy Minister of Education, Hon. Lucy Changwe. The winner, Michael Ngoma walked away with a scholarship while the winning school, Matero Boys Secondary received funds for the re-habilitation of any facilities of their choice with a bias towards arts.

Community Initiatives

ABC Mozambique continued its support of Ndyoko, a local organisation that aims to alleviate poverty and empower communities in rural areas through need-specific projects such as provision of clothing and school materials, home development and construction of recreation centres. ABC Mozambique endorses the positive contributions that Ndyoko makes in delivering educated, socially well-adjusted and nurtured youth in these communities. The bank also provided financial assistance towards a project to refurbish an orphanage in Xinavane.

ABC Zambia continued its financial assistance of Our Lady's Hospice in Kalingalinga Township, in support of its efforts to stem the spread of HIV by driving positive attitude and behaviour changes, particularly among the youth. The hospice is run by volunteers and assists people infected or impacted by HIV/AIDS. It focuses on voluntary counselling and testing and ARV dispensation, HIV awareness-building and home-based care support programs in its surrounding community.

The Group continues to support many other worthy causes where it has its footprint, and it is hoped that these contributions and partnerships will enhance and add to the vibrant culture of Africa.

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 has unrestricted access to the Group Risk and Audit Committee; appraises, evaluates and, where necessary recommends improvements in the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function and internal control, accounting policies, reporting and disclosure; and

- The Group Risk and Audit Committee plays 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 resources. These financial statements have accordingly been prepared on that basis.

Based on the information and explanations given by management and the internal auditors, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS, and maintaining accountability for the Group's assets and liabilities. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the Group, has occurred during the year and up to the date of this report.

It is the responsibility of the independent auditor to report on the financial statements. Their report to the members of the Group is set out on pages 54 and 55 of this annual report.

Approval of the annual financial statements

The annual financial statements, which appear on pages 56 to 146, were approved by the Board of directors on 13 May 2008 are signed by:

O M CHIDAWU
CHAIRMAN
13 May 2008

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

Inflation adjusted profit attributable to shareholders increased by 46% to BWP 101.6 million compared with 2006. Consequently, basic earnings per share of 78.4 thebe was 39% higher than 56.3 thebe recorded in 2006. Average return on equity improved from 29% to 33%, while average return on assets increased from 2.6% to 3.8%. The balance sheet grew by 20% to BWP 2.9 billion, with the loan portfolio increasing by 33% to BWP 1.25 billion. Deposits increased by 28% to BWP 1.96 billion. The Group's net asset value improved by 18% from BWP 285 million in 2006 to BWP 335.9 million in 2007.

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 policies can be found on pages 57 to 71.

Subsidiary and associated companies

Details of the Group's subsidiaries are set out in note 11 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

During the financial year, the Group exited Iroko Financial Products Limited. The net assets of Iroko Financial Products Limited were fully impaired in 2006. Net proceeds of BWP 8.853 million were realised during 2007 as an exit settlement.

The Group also disposed of its 40% interest in Capital Properties Limited, held through Tanzania Development Finance Company.

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	
	2007	2006
O M Chidawu	18,158,203	17,981,108
D T Munatsi	15,516,861	14,816,861
N Kudenga	392,465	392,465
Total	**34,067,529**	**33,190,434**

Directors' interests in transactions

Any interests by directors in transactions between the Group and third parties were disclosed to committees that were responsible for approval prior to such approval being granted, and interested parties are required to recuse themselves from any approval process. Details of lending exposures are on 29 note on related party transactions.

Directors' Emoluments

Emoluments in respect of the Group directors (executive and non-executive) are shown in note 4 to the financial statements.

The earnings and perquisites of the Group Chief Executive Officer are approved by the Remuneration Committee of the Board.

Directors and Company Secretary

Full details of the directorate are shown on pages 23 and 24. There were no changes to the Group directorate during 2007. Details of the company secretary are given on page 22.

Brief CV's of directors eligible and available for re-election at the Annual General Meeting are included in the Notice to Shareholders.

Dividends

The Board of Directors approved a gross final dividend for 2007 of 14 thebe (ZWD 529,839.00) per ordinary share. Withholding tax will be deducted from dividend payments in accordance with the Income Tax Act in Botswana and Zimbabwe.

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

Details of material post balance sheet events are set out in note 34 of the financial statements.

13 May 2008

Annual Financial Statements

Contents

PRICEWATERHOUSECOOPERS

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

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

Report on the financial statements

We have audited the annual financial statements and group annual financial statements of ABC Holdings Limited, which comprise the balance sheet and the consolidated balance sheet as at 31 December 2007, 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 56 to 146.

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 accounting policies used and the reasonableness of 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 2007, 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
13 May 2008

Accounting Policies

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 2007 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) and the requirements of the Botswana Companies Act (Chapter 42:01).

In preparing these financial statements, the Group has adopted IFRS7: Financial Instruments Disclosure (including amendments to IAS 1 Presentation of Financial Statements-Capital Disclosures). The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standard, the Group has provided full comparative information.

In addition, on 1 January 2007, the Group adopted IFRIC 7, IFRIC 8, IFRIC 9 and IFRIC 10. The application of these interpretations has not had a significant effect on the 2007 results, nor has it required any restatement of prior period results.

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 2007.

- IFRS 8, Operating Segments (Effective 1 January 2008)
- IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007)
- IFRIC 12, Service Concession Arrangements (effective 1 January 2008)
- IFRIC 13, Customers loyalty programmes (effective 1 July 2008)
- IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Effective 1 January 2008)
- IFRS 3 - Business Combinations (effective 1 July 2009
- IAS 1 Presentation of financial statements (effective 1 January 2009)
- IAS 23 - Borrowing costs (effective 1 July 2009)
- IAS 27 - Consolidated and separate financial statements (effective 1 July 2009)

Basis of preparation

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 of Zimbabwe. The restated results are converted into the Group's presentation currency, Botswana Pula, at the closing rate ruling on 31 December.

The Group presents inflation-adjusted accounts in accordance with IFRS, and historical cost accounts in note 36 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.

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:

- 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.

- 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 no longer 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. Goodwill arising on the acquisition of associates is included in the carrying amount of the associate.

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 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 profit or loss, 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 and 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 and 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 and 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.

Where the valuation models are considered not relevant, the instruments are measured at cost. All changes in fair value are recognised in profit or loss.

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: (a) 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; (b) those that the entity upon initial recognition designates as available for sale; or (c) 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 be relevant 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 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 profit or loss – 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).

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 profit or loss 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 in 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 repledge 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 property valuers based on open market values of the properties. Surpluses and deficits arising thereon are transferred to the property revaluation reserve in equity. The revaluation surplus or deficit is reversed when the asset is disposed of.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the property and equipment. Land is not depreciated.

The estimated useful lives are as follows:

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

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

Fees and commission
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.

Employee benefits

Defined contribution plans

It is the policy of the Group to provide pension fund benefits to employees under defined contribution funds.

The Group's obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Post retirement medical aid benefits

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. In addition, comparative figures have been restated for prior year errors as set out in note 32 of the consolidated Group financial statements and note 19 of the separate company financial statements.

Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or 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 loan and advances to customers and to banks at a counterparty level, the Group considers three components: the probability of default by the client or counterparty on its contractual obligations; the current exposures to the counterparty and its likely future development; and the likely recovery on the defaulted obligations.

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

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed internally and combine statistical analysis for certain categories, as well as credit officer judgment, 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 120 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.

(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.

Impairments Classification

	2007		2006	
Category	Loans and advances (%)	Impairment (%)	Loans and advances (%)	Impairment (%)
Performing	83%	23%	82%	12%
Special mention	6%	7%	8%	12%
Sub-standard	1%	10%	2%	9%
Doubtful	2%	5%	1%	2%
Loss	8%	55%	7%	65%
	100%	100%	100%	100%

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 account of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements. For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount before deducting impairments. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that ABC Holdings Limited would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

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

BWP'000s	2007	2006
Placements with other banks	518,816	420,861
Financial assets held for trading	748,134	781,368
- Government bonds	6,725	23,393
- Corporate bonds	38,155	42,429
- Treasury bills	677,205	703,062
- Banker acceptances and commercial paper	26,049	12,484
Loans and advances at amortised cost	1,362,984	1,019,696
- Mortgage lending	10,056	5,774
- Instalment finance	196,053	126,364
- Corporate lending	995,984	808,236
- Commercial property finance	3,333	-
- Microfinance lending	82,829	58,004
- Other loans and advances	74,729	21,318
Investment securities	26,214	23,921
- Government bonds	-	151
- Promissory notes	26,214	23,770
Prepayments and other receivables	52,512	12,804
Current tax assets	5,015	-
	2,713,675	**2,258,650**

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

Financial guarantees	166,592	37,591
Loan commitments and other credit related liabilities	131,904	126,572
	298,496	**164,163**

50% of the total maximum exposure is derived from loans and advances (2006: 45%); 28% represents financial assets held for trading (2006: 35%).

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:

- 89% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2006: 90%);
- 83% of the loans and advances portfolio are considered to be neither past due nor impaired (2006: 82%);
- 11% of loans and advances is individually impaired (2006: 10%);
- 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, share 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	2007	2006
Neither past due nor impaired	1,132,893	834,591
Past due but not impaired	76,175	79,557
Individually impaired	153,916	105,548
Gross loan and advances	1,362,984	1,019,696
Less: Allowance for impairment	(115,634)	(78,967)
Net loan and advances	**1,247,350**	**940,729**

The total impairment provision for loans and advances is BWP 115.6 million (2006: BWP 79 million) of which 11% (2006: 10%) relates to impairments on individually impaired loans. 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 2007, the Group's total gross loans and advances increased by 34% as a result of the expansion of the lending business, especially in Botswana, Zambia and Tanzania. The Group focused on business with large corporate enterprises with good credit rating or retail customers 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:

BWP'000s Internal Grade: Performing	2007	2006
Mortgage lending	9,709	5,467
Instalment finance	148,669	104,190
Corporate lending	835,717	678,005
Commercial property finance	3,333	-
Microfinance lending	61,253	26,158
Other loans and advances	74,212	20,771
	1,132,893	**834,591**

(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:

BWP'000s Internal Grade: Special mention	2007	2006
Instalment finance	4,477	1,939
Corporate lending	64,566	68,599
Microfinance lending	7,014	8,986
Other loans and advances	118	33
	76,175	**79,557**

Loans and advances past due but not impaired: age analysis

Internal Grade: Special mention

2007	Days past due			
BWP'000s	1 - 30 days	31 - 60 days	61 - 90 days	Total
Internal Grade: Special mention				
Instalment finance	841	3,591	45	4,477
Corporate Lending	24,913	7,180	32,473	64,566
Microfinance 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**

2006	Days past due			
	1 - 30 days	31 - 60 days	61 - 90 days	Total
Internal Grade: Special mention				
Instalment finance	1,892	22	25	1,939
Corporate lending	7,314	2,703	58,582	68,599
Microfinance lending	3,411	2,849	2,726	8,986
Other loans and advances	22	11	-	33
	12,639	**5,585**	**61,333**	**79,557**

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.

(c) Loans and advances individually impaired

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is BWP 153.9 million (2006: BWP 105.5 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:

	2007		2006	
BWP'000s	Gross Loans	Fair value of collateral	Gross Loans	Fair value of collateral
Mortgage lending	347	-	307	-
Instalment finance	42,907	901	20,235	1,190
Corporate lending	95,701	45,820	61,632	43,052
Microfinance lending	14,562	-	22,860	-
Other loans and advances	399	360	514	-
	153,916	**47,081**	**105,548**	**44,242**

(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 judgment 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 10.5 million at 31 December 2007 (2006: BWP 4.8 million).

BWP'000s	2007	2006
Instalment finance	6,191	4,808
Corporate lending	3,077	-
Other loans and advances	1,200	-
	10,468	**4,808**

Repossessed collateral

During 2007, the Group obtained assets by taking possession of collateral held as security, as follows:

BWP'000s	
Nature of assets	**2007**
Property	3,991
Cash	23,982
Investment securities	175
Carrying amount	**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 of risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2007. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

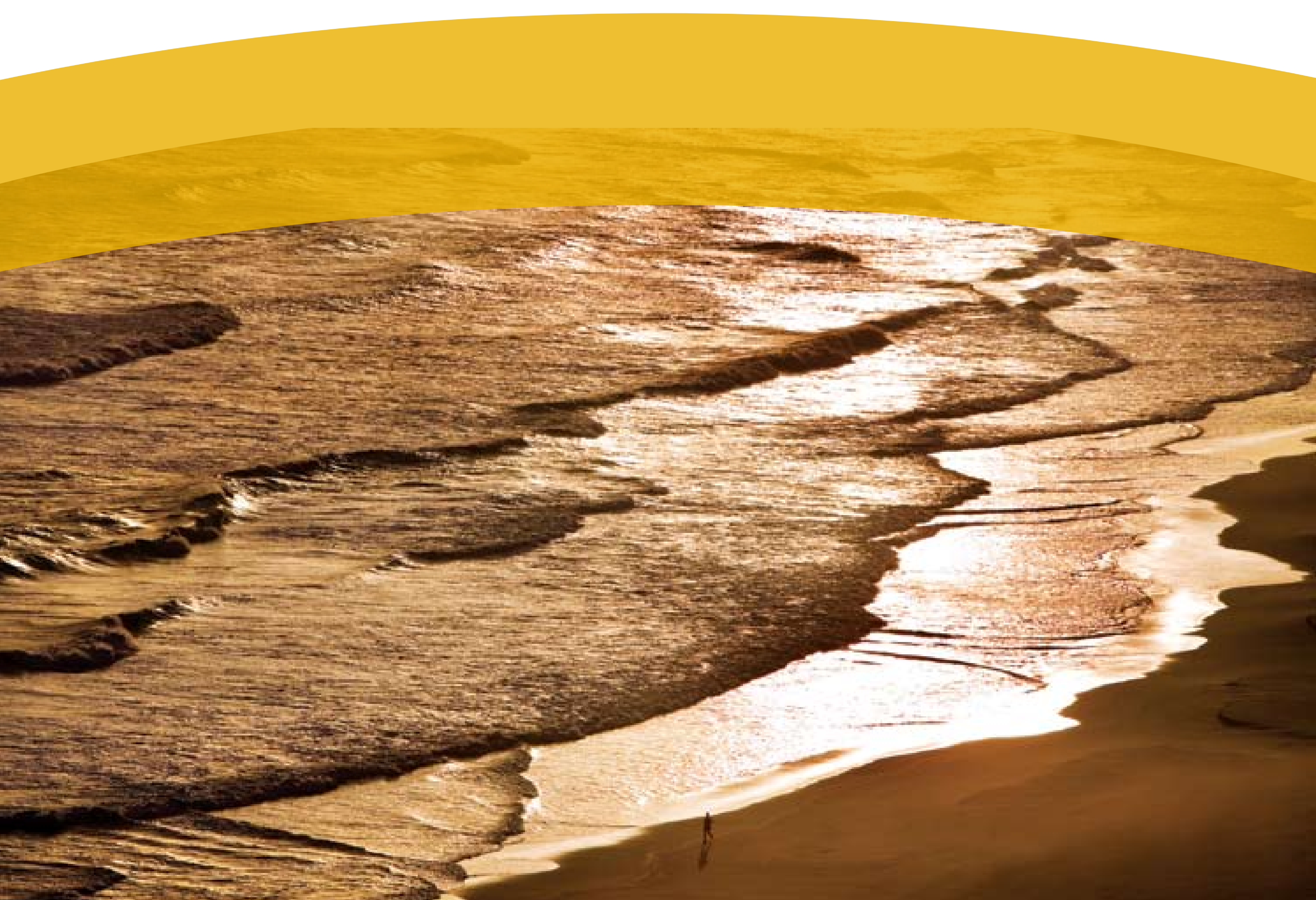
2007 BWP'000s	Botswana	Mozambique	Tanzania	Zambia	Zimbabwe	Other	Total
Placements with other banks	201,256	43,890	77,112	37,188	8,979	150,391	518,816
Financial assets held for trading	462,798	83,216	139,788	59,021	3,311	-	748,134
Loans and advances	409,338	189,214	132,176	261,891	229,292	25,439	1,247,350
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**

2006 BWP'000s	Botswana	Mozambique	Tanzania	Zambia	Zimbabwe	Other	Total
Placements with other banks	123,001	140,225	72,508	50,004	10,519	24,604	420,861
Financial assets held for trading	578,937	78,846	44,611	23,548	55,426	-	781,368
Loans and advances	327,084	118,877	106,386	171,408	216,974	-	940,729
Investment securities	-	-	-	-	151	23,770	23,921
Prepayments and other receivables	1,470	236	3,970	4,143	2,243	742	12,804
	1,030,492	338,184	227,475	249,103	285,313	49,116	2,179,683

(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.

2007 BWP'000s	Agricul-ture	Con-struction	Whole-sale, Re-tail and Trade	Public Sector	Manu-facturing	Mining	Financial Services	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	301,117	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**	**344,221**	**2,598,041**
At 31 December 2006	**93,404**	**40,810**	**92,488**	**100,332**	**100,672**	**135,719**	**1,288,960**	**327,293**	**2,179,678**



Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or 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 rates, 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 2007. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

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

At 31 December 2007

BWP'000s	EUR	USD	BWP	ZAR	ZWD	Other	Total
Cash and short term funds	27,191	113,952	156,726	14,332	3,505	212,605	528,311
Financial assets held for trading	-	-	462,799	-	3,311	282,024	748,134
Financial assets held at fair value	-	-	-	-	115,878	-	115,878
Loans and advances	15,229	528,523	331,695	8,478	5,354	358,071	1,247,350
Investment securities	2	22,035	26,214	-	17,591	5,103	70,945
Investment in associates	-	-	1,938	-	40,782	4,304	47,024
Prepayments and other receivables	710	38,071	2,772	388	2,312	8,259	52,512
Current tax assets	-	-	1,113	-	2	3,900	5,015
Property and equipment	-	-	4,376	300	29,507	27,623	61,806
Investment property	-	-	1,760	-	26,642	-	28,402
Intangible assets	-	-	34,465	-	223	567	35,255
Deferred tax asset	-	-	2,175	999	727	8,972	12,873
	43,132	**702,581**	**1,026,033**	**24,497**	**245,834**	**911,428**	**2,953,505**
Deposits	8,403	455,002	811,396	31,600	105,607	549,471	1,961,479
Derivative financial liabilities	-	-	-	-	-	5,110	5,110
Creditors and accruals	43	7,443	6,297	875	5,119	7,506	27,283
Current tax liabilities	-	991	641	-	1,857	-	3,489
Deferred tax liability	-	-	2,052	-	25,508	(2,251)	25,309
Borrowed funds	30,445	133,911	256,018	319	17,591	144,305	582,589
	38,891	**597,347**	**1,076,404**	**32,794**	**155,682**	**704,141**	**2,605,259**
Net on-balance sheet position	**4,241**	**105,234**	**(50,371)**	**(8,297)**	**90,152**	**207,287**	**348,246**
Credit commitments	**36,160**	**87,354**	**98,854**	**17,235**	**32,935**	**25,958**	**298,496**
At 31 December 2006							
Total assets	25,404	674,311	880,044	40,149	290,355	552,521	2,462,784
Total liabilities	47,916	665,771	663,020	27,353	249,602	515,578	2,169,240
Net on-balance sheet position	**(22,512)**	**8,540**	**217,024**	**12,796**	**40,753**	**36,943**	**293,544**
Credit commitments	**2,489**	**59,609**	**91,656**	**598**	**-**	**9,811**	**164,163**

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 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.

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**	-
2006						
Assets	1,256,924	316,341	554,447	183,733	151,339	2,462,784
Total equity	-	-	-	-	293,544	293,544
Liabilities	1,114,791	276,367	603,947	103,898	70,237	2,169,240
Total interest repricing gap	**142,133**	**39,974**	**(49,500)**	**79,835**	**(212,442)**	-

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

ABC Botswana constituted 40% of the Group's total assets. The table below illustrates the impact of a possible 50 basis points interest rate movement.

BWP'000s	2007	2006
Change in 2007 net interest income arising from a shift in yield curves of +50 basis points	1,056	(1,227)
As a percentage of total Shareholders equity	2%	-2%
Change in 2007 net interest income arising from a shift in yield curves of - 50 basis points	(1,056)	1,227
As a percentage of total Shareholders equity	-2%	2%

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 115,878,000 (2006: BWP 71,018,000). 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, monitored by Group Treasury and, includes:

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

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

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

The Groups's maturity analysis (on a discounted cash flow basis) as at 31 December 2007 was as follows:

BWP'000s

As at 31 December 2007	Up to 1 month	1 - 3 months	3 - 12 months	Greater than 1 year	Total
Assets					
Cash and short term funds	495,171	26,251	6,889	-	528,311
Financial assets	328,366	207,173	169,380	159,093	864,012
Loans and advances	171,492	173,275	494,075	408,508	1,247,350
Prepayments and other receivables	19,605	2,091	28,516	2,300	52,512
Investment securities	17,981	-	-	52,964	70,945
Investment in associates		-	-	47,024	47,024
Investment properties		-	-	28,402	28,402
Property and equipment	-	-	-	61,806	61,806
Tax assets	-		5,015	-	5,015
Deferred tax assets	-	-	12,873	-	12,873
Intangible assets	-	-	-	35,255	35,255
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
Borrowed funds	4,785	363	73,181	504,260	582,589
Current tax liabilities	-	-	3,489	-	3,489
Deferred tax liability	-	-	25,309	-	25,309
Creditors and accruals	13,219	1,215	10,862	1,987	27,283
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)**	**-**
As at 31 December 2006	**(60,068)**	**(72,083)**	**385,760**	**(253,609)**	**-**

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.

Non-derivative cash flows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the 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.

2007

BWP'000s	1 month	1 -3 months	3 -12 months	Greater than 1 yr	Total
Deposits	1,057,749	885,837	50,452	6,134	2,000,172
Derivative financial instruments	-	-	-	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 liability	-	-	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**

2006	1 month	1 -3 months	3 -12 months	Greater than 1 yr	Total
Deposts	959,042	356,893	441,444	2,405	1,759,784
Derivative financial instruments	-	-	-	7,110	7,110
Creditors and accruals	35,207	1,453	4,574	1,838	43,072
Current tax liabilities	6,947	96	-	-	7,043
Deferred tax liability	-	-	-	28,579	28,579
Borrowed funds	9,275	13,467	51,840	841,230	915,812
Total liabilities	**1,010,471**	**371,909**	**497,858**	**881,162**	**2,761,400**

Off-balance sheet items

(a) Loan commitments and other financial facilities

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 (Note 24) as at 31 December 2007, are summarised below:

BWP'000s	2007	2006
Less than one year	293,393	164,163
Between one and five years	5,103	-
	298,496	164,163

(b) Capital commitments

Capital commitments for the acquisition of buildings and equipment are detailed in note 25.1

(c) Non-cancelable operating leases commitments

The future minimum lease payments under non-cancelable operating leases are disclosed in Note 25.2

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:

BWP'000s	Carrying value 2007	Fair value 2007	Unrecognised profit/(loss) 2007	Carrying value 2006	Fair value 2006	Unrecognised profit/(loss) 2006
Financial assets						
Placements with other banks	518,816	518,816	-	420,861	420,861	-
Loans and advances:	1,362,984	1,362,984	-	1,019,696	1,019,696	-
- Mortgage lending	10,056	10,056	-	5,774	5,774	-
- Instalment finance	196,053	196,053	-	126,364	126,364	-
- Corporate lending	995,984	995,984	-	808,236	808,236	-
- Commercial property finance	3,333	3,333	-	-	-	-
- Microfinance lending	82,829	82,829	-	58,004	58,004	-
- Other loans and advances	74,729	74,729	-	21,318	21,318	-
Investment securities:	52,964	52,964	-	51,812	51,812	
- Government bonds	-	-	-	151	151	-
- Promissory notes*	26,214	26,214	-	23,770	23,770	-
- Unlisted equities	26,750	26,750	-	27,891	27,891	-
Other debt securities	17,590	17,590	-	138	138	-
	1,952,354	**1,952,354**	-	**1,492,507**	**1,492,507**	-
Financial liabilities						
Deposits	1,961,479	1,961,479	-	1,535,272	1,535,272	-
Creditors and accruals	27,283	27,283	-	43,072	43,072	-
Current tax liabilities	3,489	3,489	-	7,043	7,043	-
Borrowed funds	582,589	625,239	(42,650)	548,164	560,872	(12,708)
	2,574,840	**2,617,490**	**(42,650)**	**2,133,551**	**2,146,259**	**(12,708)**

*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 20.

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 loan and amortised through interest income as part of the effective interest rate. Loans and advances are stated net of allowances for specific and portfolio impairment.

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

(iv) Deposits and borrowed funds
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

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

(v) Off-balance sheet financial instruments
The estimated fair values of the off-balance sheet financial instruments are based on markets prices for similar facilities. When this information is not available, fair value is estimated 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 Authority. The required information is filed with the Authority 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 2007 all regulated banking operations complied with all externally imposed capital requirements.

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

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

Historical Cost basis

BWP'000s	ABC Botswana	ABC Zimbabwe	ABC Zambia	ABC Tanzania	ABC	Microfin
Tier I Capital						
Share capital and premium	34,070	-	41,486	50,260	34,458	5,065
Capital reserves and retained earnings	33,489	23,710	12,243	(1,560)	40,178	3,894
Total qualifying for Tier I capital	**67,559**	**23,710**	**53,729**	**48,700**	**74,636**	**8,959**
Tier II Capital						
Shareholder's loan	31,987	-	29,997	24,350	28,409	6,316
General debt provision	5,324	16	2,294	382	16,917	631
Other	312	16,985		-	-	543
Total qualifying as Tier II capital	**37,623**	**17,001**	**32,291**	**24,732**	**45,326**	**7,490**
Total Capital	**105,182**	**40,711**	**86,020**	**73,432**	**119,962**	**16,449**
Risk Weighted Assets						
On balance assets	607,294	86,533	220,929	230,928	224,221	70,227
Off balance assets	-	-	45,245	29,976	41,131	-
Total risk weighted assets	**607,294**	**86,533**	**266,174**	**260,904**	**265,352**	**70,227**
Capital Adequacy Ratio	17%	47%	32%	28%	45%	23%
Regulatory Capital Adequacy Ratio	15%	10%	10%	12%	8%	17%

The increase of the regulatory capital in the year of 2007 is mainly due to the increase of shareholders loans at subsidiary level, as well as contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the lending business in most of the subsidiaries.

This statement has been prepared by applying the risk weightings applicable to regulated banks in Botswana, to all Group assets, in order to derive a consolidated Group position. It is intended as a guideline only.

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 upon 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 segment are shown below:

2007

BWP'000s	Botswana	Mozambique	Tanzania	Zimbabwe	Zambia	ABCH and Other	Total
Net interest income after impairment of loans and 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
Income tax expense	(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 and amortisation	405	1,763	931	233	2,151	1,671	7,154
Impairment charge	14,974	2,725	750	16	9,230	5,188	32,883
Other non-cash expenses / (income)	(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

2006

BWP'000s	Botswana	Mozam-bique	Tanzania	Zimba-bwe	Zambia	ABCH and Other	Total
Net interest income after impairment of loans and advances	12,706	18,859	6,329	61,691	26,184	3,426	129,195
Total operating income	36,196	39,436	17,207	197,860	46,954	748	338,401
Operating profit	14,846	14,158	(515)	98,729	5,810	(27,743)	105,285
Share of results of associates	-	-	4,309	1,539	-	5,368	11,216
Profit before tax	14,846	14,158	3,794	100,268	5,810	(22,375)	116,501
Income tax expense	(3,034)	(1,144)	(3,189)	(37,473)	(810)	(907)	(46,557)
Profit for the year	**11,812**	**13,014**	**605**	**62,795**	**5,000**	**(23,282)**	**69,944**
Segment assets	1,311,771	381,629	262,512	211,302	270,198	(23,524)	2,413,888
Associates	-	-	18,490	8,363	-	22,043	48,896
Total assets	**1,311,771**	**381,629**	**281,002**	**219,665**	**270,198**	**(1,481)**	**2,462,784**
Segment liabilities	**1,244,212**	**317,727**	**259,710**	**101,144**	**211,921**	**34,526**	**2,169,240**
Other segment items:							
Capital expenditure	307	1,635	310	7,529	1,451	248	11,480
Depreciation and amortisation	816	1,717	1,005	-	1,777	3,476	8,791
Impairment charge	7,671	1,790	3,094	911	13,796	(896)	26,366
Other non-cash expenses / (income)	-	(73)	(10)	(19,555)	(13)	8,514	(11,137)
Operating expenses	21,079	23,561	16,716	31,511	39,570	33,059	165,496

Capital expenditure comprises additions to property and equipment (note 16)

Consolidated Financial Statements

Consolidated income statement for the year ended 31 December 2007

BWP'000s	Notes	2007	2006
			Restated
Interest and similar income		388,496	474,717
Interest expense and similar charges		(296,240)	(319,156)
Net interest income before impairment of advances	1	92,256	155,561
Impairment of loans and advances	2	(32,883)	(26,366)
Net interest income after impairment of advances		59,373	129,195
Non interest income	3	154,520	209,206
Total income		213,893	338,401
Operating expenditure	4	(171,320)	(165,496)
Gain/(loss) on net monetary position	5	75,907	(67,620)
Net income from operations		118,480	105,285
Share of profits of associates	14	4,542	11,216
Profit before tax		123,022	116,501
Tax	6	(16,353)	(46,557)
Profit for the year		**106,669**	**69,944**
Attributable to:			
Ordinary shareholders		101,626	69,606
Minorities		5,043	338
Profit for the year		**106,669**	**69,944**
Earnings per share (thebe)	7	78.4	56.3
Dividend per share (thebe)	31	14.0	-

Consolidated balance sheet as at 31 December 2007

BWP'000s	Notes	2007	2006 Restated
ASSETS			
Cash and short term funds	8	528,311	428,947
Financial assets held for trading	9	748,134	781,368
Financial assets designated at fair value	10	115,878	71,018
Loans and advances	11	1,247,350	940,729
Investment securities	13	70,945	52,601
Prepayments and other receivables	12	52,512	12,804
Current tax assets		5,015	-
Investment in associates	14	47,024	48,896
Property and equipment	16	61,806	54,136
Investment property	15	28,402	24,171
Intangible assets	18	35,255	42,906
Deferred tax assets	17	12,873	5,208
TOTAL ASSETS		**2,953,505**	**2,462,784**
EQUITY AND LIABILITIES			
Liabilities			
Deposits	19	1,961,479	1,535,272
Derivative financial liabilities	22	5,110	7,110
Creditors and accruals	21	27,283	43,072
Current tax liabilities		3,489	7,043
Deferred tax liability	17	25,309	28,579
Borrowed funds	20	582,589	548,164
Total liabilities		**2,605,259**	**2,169,240**
Equity			
Stated capital	23	270,189	270,157
Foreign currency translation reserve		(119,842)	(45,616)
Non distributable reserves		46,767	19,527
Distributable reserves		138,746	40,946
Equity attributable to ordinary shareholders		**335,860**	**285,014**
Minority interest		12,386	8,530
Total Equity		**348,246**	**293,544**
TOTAL EQUITY AND LIABILITIES		**2,953,505**	**2,462,784**

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	Distributable reserves	Minority interest	Total equity
Balance as previously stated at 1 January 2006	225,205	(28,386)	205	443	1,364	17,107	-	-	(21,464)	13,152	207,626
Prior year restatements (note 32)		7,599							(6,459)		1,140
Restated balance at 1 January 2006	225,205	(20,787)	205	443	1,364	17,107	-	-	(27,923)	13,152	208,766
Restated profit for the year									69,606	338	69,944
Shares issued	43,291										43,291
Restated foreign currency translation differences		(24,829)								(4,960)	(29,789)
Revaluation of property (net of deferred tax)				(443)					380		(63)
Movement in general credit risk reserve			84						(84)		-
Movement in statutory reserves						1,033			(1,033)		-
Movement in available for sale reserves:					(266)						(266)
- Arising in current year					(448)						(488)
- realised through profit and loss					222						222
Disposal of treasury shares	1,661										1,661
Restated balance at 31 December 2006	**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)		-
Movement in available for sale reserves:					486						486
- Arising in current year					308						308
- realised through profit and loss					178						178
Consolidation of treasury shares	32							(2,933)			(2,901)
Balance 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**

Consolidated cash flow statement for the year ended 31 December 2007

BWP'000s	Notes	2007	2006 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		**61,181**	**(76,613)**
Cash generated from operating activities		135,748	138,661
Net profit before tax		**123,022**	**116,501**
Adjusted for:			
Impairment of loans and advances		32,883	26,366
Depreciation and amortisation		7,154	8,791
Hedging reserve		(2,889)	-
Net losses on derivative financial instruments		10,073	9,417
Fair value gains on investment properties		(14,880)	(22,390)
Profit on disposal of subsidiary	33	(8,853)	-
Profit on disposal of associate	33	(10,687)	-
Profit on sale of property and equipment		(75)	(24)
Tax paid		(12,905)	(36,666)
Net cash inflow from operating activities before changes in operating funds		**122,843**	**101,995**
Net decrease in operating funds		**(61,662)**	**(178,608)**
Increase in operating assets		(462,694)	(296,808)
Increase in operating liabilities		401,032	118,200
CASH FLOWS FROM INVESTING ACTIVITIES		**(11,798)**	**(4,729)**
Purchase of property and equipment		(21,057)	(5,894)
Proceeds on disposal of property and equipment		406	1,165
Proceeds on disposal of subsidiary	33	8,853	-
CASH FLOWS FROM FINANCING ACTIVITIES		**19,341**	**375,110**
Proceeds from issue of shares		-	44,952
Repayment of preference share liability		-	(115,056)
Purchase of treasury and preference shares		(4,790)	-
Increase in borrowed funds		24,131	445,214
Increase in cash and cash equivalents		**68,724**	**293,768**
Cash and cash equivalents at the beginning of the year		369,947	207,304
Exchange adjustment on opening balance		7,585	(131,125)
Cash and cash equivalents at the end of the year	8	**446,256**	**369,947**

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
1. NET INTEREST INCOME		
Interest and similar income		
Cash and short term funds	29,610	50,244
Investment securities at amortised cost	157,332	196,126
Loans and advances at amortised cost	201,554	228,347
	388,496	**474,717**
Interest expense		
Deposits	172,366	250,856
Borrowed funds	123,874	62,533
Preference shares	-	5,767
	296,240	**319,156**
Net interest income	**92,256**	**155,561**

Interest income suspended on impaired financial assets amount to BWP 2.548 million (2006: BWP 1.796 million).

	2007	2006
2. IMPAIRMENT OF LOANS AND ADVANCES		
Specific impairments	27,158	34,299
Portfolio impairments	5,772	2,534
Recoveries of loans and advances previously written off	(47)	(10,467)
	32,883	**26,366**

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
3. NON INTEREST INCOME		
Gains from trading activities	**11,660**	**48,549**
Gains on investment securities:		
-held for trading	274	3,916
-designated at fair value	21,637	53,828
Net losses on derivative financial instruments	(10,073)	(9,417)
(Loss)/gain on realisation of available-for-sale securities	(178)	222
Dividends received	3,191	3,773
Listed shares - fair value through profit and loss	121	141
Unlisted shares - fair value through profit and loss	3,070	3,632
Fee and commission income	74,177	74,036
Net fee income on loans and advances	49,982	8,512
Net fee income on held to maturity investments	208	142
Net fee income on available for sale securities	1,679	965
Net fee income from trust and fiduciary activities	7,376	11,282
Other fee income	14,932	53,135
Other non interest income	65,492	82,848
Money market trading income	7,137	15,840
Fair value gains on investment properties at fair value	14,880	22,390
Rental and other income	12,654	15,740
Profit on disposal of property, plant & equipment	75	24
Foreign exchange income	8,317	28,854
Profit on disposal of subsidiary	8,853	-
Profit on disposal of associate	10,687	-
Net gains on hedging activities	2,889	-
	154,520	**209,206**

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
4. OPERATING EXPENDITURE		
Administrative expenses	56,101	51,808
Property lease rentals	5,699	6,389
Staff costs (note 4.1)	90,583	86,729
Auditors remuneration	2,268	2,632
Depreciation	4,957	5,536
Amortisation of software	2,197	3,255
Directors remuneration (4.2)	9,515	9,147
	171,320	**165,496**

4.1 Staff Costs		
Salaries	56,531	55,224
Employer contributions to post retirement funds	2,199	1,867
Other staff costs	31,853	29,638
	90,583	86,729

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	6,540	6,579
Non-executive Directors		
Fees as director of holding company	2,218	1,832
Fees as director of subsidiaries	757	736
	2,975	2,568
	9,515	9,147

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
5. GAIN/(LOSS) ON NET MONETARY POSITION		
Zimbabwe operations	75,907	(67,620)

The financial results in Zimbabwe have been adjusted to reflect changes in general level of prices as the subsidiaries operate in a hyperinflationary economy with a cumulative three year inflation rate of over 100%. The gain/(loss) on net monetary position is calculated by converting the balance sheet and income statement using factors derived from the countrywide consumer price index published by the Central Statistical Office of Zimbabwe. Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date. Non monetary assets and liabilities and components of shareholders' equity are restated by the relevant monthly conversion factors.

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

The restatement was calculated by conversion factors derived from the consumer price index as follows:

Date	Index	Conversion factor
31 December 2007	441,490,119	1
31 December 2006	665,774	663
31 December 2005	48,206	9,158

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
6. TAX		
Current tax expense		
Current year	8,277	18,871
Over provision in prior years	(1,868)	(330)
Bank levies	1,818	1,957
Tax on treasury bills/ other bills income	2	658
	8,229	21,156
Deferred tax		
Accruals	(1,268)	(457)
Impairment losses	226	(800)
Property and equipment	5,103	9,613
Gains and investments	10,957	15,180
Tax losses	(6,894)	1,865
	8,124	25,401
Total tax expense per income statement	**16,353**	**46,557**
Reconciliation of effective tax charge:		
Profit before tax	123,022	116,501
Income tax using standard corporate tax rates	39,241	43,410
Non-deductible expenses	10,493	12,998
Tax exempt revenues	(18,054)	(7,712)
Tax incentives	(15,565)	(8,177)
Effect of tax losses utilised	286	3,753
Over provision in prior years	(1,868)	(330)
Bank levies	1,820	2,615
Current tax expense per income statement	**16,353**	**46,557**
Effective tax rate	**13%**	**40%**
7. EARNINGS PER SHARE		
Basic Earnings per share		
Profit attributable to ordinary shareholders	101,626	69,606
Weighted average number of ordinary shares in issue ('000)	129,655	123,688
Basic earnings per share	**78.4**	**56.3**
Number of shares ('000)		
Shares in issue at beginning of the year	132,569	113,450
Shares issued during the year	-	19,119
Closing number of shares in issue	**132,569**	**132,569**
Weighted average number of ordinary shares	**129,655**	**123,688**

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
8. CASH AND SHORT TERM FUNDS		
Cash on hand	9,495	8,086
Balances with central banks	15,161	46,974
Balances with other banks	421,600	314,887
Cash and cash equivalents	446,256	369,947
Statutory reserve balances	82,055	59,000
Cash and short term funds	**528,311**	**428,947**

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

9. FINANCIAL ASSETS HELD FOR TRADING		
Government bonds	6,725	23,393
Corporate bonds	38,155	42,429
Treasury bills and other open market instruments	677,205	703,062
Bankers acceptances and commercial paper	26,049	12,484
	748,134	**781,368**

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

10. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE		
Listed equities	**115,878**	**71,018**

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
11. LOANS AND ADVANCES		
Mortgage lending	10,056	5,774
Instalment finance	196,053	126,364
Corporate lending	995,984	808,236
Commercial property finance	3,333	-
Microfinance lending	82,829	58,004
Other loans and advances	74,729	21,318
	1,362,984	1,019,696
Less impairments (Note 11.1)	(115,634)	(78,967)
Net loans and advances	**1,247,350**	**940,729**

11.1 IMPAIRMENT OF LOANS AND ADVANCES - MOVEMENT ANALYSIS

2007

BWP'000s

Total impairment of advances	Total impairment	Mortgage lending	Instalment finance	Corporate lending	Commercial property finance	Microfinance lending	Other
Opening balance	78,967	7	8,948	58,843	-	10,118	1,051
Transfer 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**

2006

Total impairment of advances	Total impairment	Mortgage lending	Instalment finance	Corporate lending	Commercial property finance	Microfinance lending	Other
Opening balance	51,114	-	6,698	33,616	-	10,625	175
Exchange and inflation adjustment	(3,419)	-	(20)	(3,820)	-	-	421
Bad debts written off	(10,452)	-	-	(293)	-	(10,159)	-
Net new impairments created	40,356	7	2,270	27,972	-	9,652	455
Impairments created	40,646	7	2,270	27,972	-	9,942	455
Impairments released	(290)	-	-	-	-	(290)	-
Suspended interest	1,368	-	-	1,368	-	-	-
Closing balance	**78,967**	**7**	**8,948**	**58,843**	**-**	**10,118**	**1,051**

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
12. PREPAYMENTS AND OTHER RECEIVABLES		
Accounts receivable and prepayments	38,958	7,141
Other amounts due	13,554	5,663
	52,512	12,804

All prepayments and other receivables are classified as current.

13. INVESTMENT SECURITIES		
Available for sale	44,731	28,831
-Government bonds	-	151
-Listed equities	17,981	789
-Unlisted equities	26,750	27,891
Held to maturity		
- Promissory notes	26,214	23,770
	70,945	52,601

14. INVESTMENT IN ASSOCIATES		
Carrying value at beginning of the year	48,896	34,467
Exchange rate and inflation adjustment	13,167	10,172
Reclassification during the year	-	1,102
Share of profits	4,542	11,216
Tax	(3,189)	(4,287)
Disposals	(13,201)	-
Less: Dividend received	(3,191)	(3,774)
	47,024	48,896

14. INVESTMENT IN ASSOCIATES (continued)

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

BWP'000s

2007	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)	1549	21%	31 March
Star Africa Corporation 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	4,252		
2006								
Lion of Tanzania Insurance company Limited	Tanzania	15,685	11,865	3,922	102	490	38%	31 December
Capital Properties Limited	Tanzania	36,220	16,056	13,707	(6,457)	3,820	40%	31 December
PG Industries (Zimbabwe) Limited	Zimbabwe	18,336	6,740	8,363	(3,233)	1,539	21%	31 March
Star Africa Corporation Limited (Held through CBAQ Limited)	Zimbabwe	22,308	17,013	22,383	17,088	5,367	21%	31 March
Pyramid Plaza (Pty) Ltd	Zambia	-	-	521	-	-	25%	31 December
		92,549	51,674	48,896	7,500	11,216		

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 was as follows:

BWP'000s	2007	2006
PG Industries (Zimbabwe) Limited	20,883	14,666
Star Africa Corporation Limited (Held through CBAQ Limited)	22,389	48,937

15. INVESTMENT PROPERTY

	2007	2006
Balance at the beginning of the year	24,171	10,811
Exchange and inflation adjustment	(10,649)	(9,030)
Increase in fair value	14,880	22,390
Balance at end of the year	**28,402**	**24,171**
Rental income recognised in the income statement (BWP'000)	149	627

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

Notes to the financial statements for the year ended 31 December 2007

BWP'000s

16. PROPERTY AND EQUIPMENT	Land and buildings	Motor vehicles	Computer and office equipment	Furniture and fittings	Total
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**
Cost or valuation at 31 December 2005	13,227	6,904	75,314	9,225	104,670
Exchange and inflation adjustments	(1,488)	(1,428)	(7,505)	(436)	(10,857)
Additions	7,112	1,826	1,991	551	11,480
Revaluations surplus (gross of deferred tax)	23,143	-	-	-	23,143
Disposals	(1,141)	(418)	(300)	(82)	(1,941)
Cost or valuation at 31 December 2006	40,853	6,884	69,500	9,258	126,495
Accumulated depreciation at 31 December 2005	(616)	(2,964)	(65,182)	(4,052)	(72,814)
Exchange and inflation adjustments	118	216	3,695	1,162	5,191
Disposals	150	311	17	322	800
Charge for the year	(496)	(908)	(2,917)	(1,215)	(5,536)
Accumulated depreciation at 31 December 2006	(844)	(3,345)	(64,387)	(3,783)	(72,359)
Carrying amount at 31 December 2006	**40,009**	**3,539**	**5,113**	**5,475**	**54,136**

On 31 December 2007, buildings situated in Zimbabwe were revalued by independent professional valuers based on open market values of the properties.

The carrying amount of revalued property, plant and equipment had it not been revalued is as follows (BWP'000s):

2007	BWP 14,035
2006	BWP 11,335

BWP'000s	2007	2006
17. DEFERRED TAX		
Balance at beginning of the year	23,371	8,993
Exchange and inflation adjustment	(20,902)	(11,088)
Income statement charge	8,124	25,401
Deferred tax on amounts charged to equity	1,843	65
Balance at the end of the year	**12,436**	**23,371**
Disclosed as follows:		
Deferred tax asset	(12,873)	(5,208)
Deferred tax liability	25,309	28,579
	12,436	**23,371**
Tax effects of temporary differences:		
Accruals	(2,826)	(1,053)
Impairment losses	-	(703)
Property and equipment	3,987	9,149
Unrealised gains on investments	21,953	11,348
Tax losses	(10,678)	4,630
	12,436	**23,371**

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
18. INTANGIBLE ASSETS		
Goodwill	34,467	34,467
Software	788	8,439
	35,255	**42,906**
Goodwill		
Cost	67,342	67,342
Impairment losses	(32,875)	(32,875)
Carrying amount at the end of the year	**34,467**	**34,467**
Software		
Cost		
Balance at the beginning of the year	29,858	30,900
Exchange rate and inflation adjustment	(16,533)	(2,568)
Additions	259	1,526
	13,584	**29,858**
Amortisation		
Balance at beginning of the year	(21,419)	(21,881)
Exchange and inflation adjustment	10,820	3,717
Amortisation charge	(2,197)	(3,255)
	(12,796)	**(21,419)**
Carrying amount at the end of the year	**788**	**8,439**

The impairment test of goodwill is based on assumptions that take into account risk and uncertainty. The impairment test makes a number of assumptions regarding projected cash flows, considering local market conditions and management's 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 5 years
- Projected residual value growth of equity portfolio of 10% per annum for 5 years
- Weighted average cost of capital of 22.5%

Management determined free cash flows and residual value based on past performance and its expectations of market developments. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the operation.

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
19. DEPOSITS		
Deposits from Banks	176,565	218,154
Deposits from other customers	1,695,230	1,272,481
Deposits under repurchase agreements	89,684	44,637
	1,961,479	1,535,272
Payable on demand		
Corporate customers	487,182	252,772
Public Sector	23,129	41,423
Private banking customers	82,488	42,520
Other financial institutions	18,030	47,152
Banks	67,296	148,491
	678,125	532,358
Term deposits		
Corporate customers	793,574	360,807
Public sector	190,066	398,114
Private banking customers	56,810	26,025
Other financial institutions	116,044	148,305
Banks	126,860	69,663
	1,283,354	1,002,914
	1,961,479	1,535,272
Geographical analysis		
Botswana	1,026,846	839,193
Mozambique	282,105	311,290
Tanzania	334,547	188,472
Zambia	212,374	153,798
Zimbabwe	105,607	42,519
	1,961,479	1,535,272

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	Fair value	2006	Fair value
20. BORROWED FUNDS				
National Development Bank of Botswana Limited	116,926	129,378	121,018	133,726
BIFM Capital Investment Fund One (Pty) Ltd	257,005	287,204	248,383	248,383
Other borrowings	208,658	208,658	178,763	178,763
	582,589	**625,240**	**548,164**	**560,872**

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	2007	2006
21. CREDITORS AND ACCRUALS		
Accrued expenses	19,030	19,119
Other amounts due	8,253	23,953
	27,283	**43,072**

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

The notional amounts of the financial instruments provide a basis of comparison with instruments recognised on the 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 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		
At 31 December 2007	**Notional amount**	**Fair value**
Cross currency interest rate swaps		
Designated at fair value through profit and loss	121,059	(2,229)
Held for hedging	48,000	(2,881)
Total recognised derivative liabilities		**(5,110)**
At 31 December 2006		
Cross currency interest rate swaps		
Designated at fair value through profit and loss	169,059	(7,110)
Total recognised derivative liabilities		**(7,110)**

Notes to the financial statements for the year ended 31 December 2007

22.2 Hedging activities

On 1 January 2007, the Group designated a cross currency swap as a hedge against the currency translation risk of its net investments in the Zambian subsidiary. At 31 December 2007, the swap (as included in derivative financial instruments) had a negative fair value of BWP 2,881,000 (2006: negative BWP 3,322,000). Foreign currency losses amounting to BWP 2,889,000 have been deferred in the foreign currency translation reserve component of equity for the year ended 31 December 2007. 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	2007	2006
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		
132 568 680 (2006: 132 568 680) shares of BWP 0.05 each	6,628	6,628
Share premium	263,561	263,561
Total Company	270,189	270,189
Recognised as treasury shares	-	(32)
Total Group	**270,189**	**270,157**

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 meeting of the company. Treasury shares comprise the cost of the company's own shares held by a subsidiary company. As at 31 December 2007, 2,915,311 shares were held by ABC Zimbabwe, (2006: 2,924,239).

23.3 Reconciliation of the number of shares in issue

At the beginning of the year	132,568,680	113,449,724
Shares issued in respect of conversion of preference shares	-	11,344,972
Shares issued to staff under staff share purchase scheme	-	7,773,984
At the end of the year	**132,568,680**	**132,568,680**

Notes to the financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
24. CONTINGENT LIABILITIES		
Guarantees	166,592	37,591
Letters of credit and other contingent liabilities	131,904	126,572
	298,496	**164,163**

BWP'000s	2007	2006
25.COMMITMENTS		
25.1 Capital commitments		
Approved and contracted for	-	6,189
Approved but not contracted for	40,353	46,045
	40,353	**52,234**

Funds to meet these commitments will be provided from existing Group resources.

25.2 Operating leases		
Office premises	16,569	18,864
Equipment and motor vehicles	80	159
	16,649	19,023
Non-cancelable operating leases are payable as follows:		
Less than one year	2,404	2,307
Between one and five years	10,213	10,845
Over five years	4,032	5,871
	16,649	**19,023**

Notes to the financial statements for the year ended 31 December 2007

BWP'000s

26. FUNDS UNDER MANAGEMENT

	2007	2006
Funds under management	323,303	256,330

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.

27. 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 the 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 employee and the employer contribute.

Amounts recognised in expenses have been disclosed in Note 4.1

28. EXCHANGE RATES	Closing 31 December 2007	Average 31 December 2007	Closing 31 December 2006	Average 31 December 2006
United States Dollar	0.166	0.163	0.165	0.171
Zimbabwe Dollar	822,765	822,765	397	397
Tanzanian Shilling	190.54	201.36	209.07	213.14
Zambian Kwacha	640.07	649.78	726.15	622.07
Mozambican Metical	4.30	4.23	4.30	4.48
South African Rand	1.13	1.15	1.16	1.16

29. 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 2007 amounted to BWP 35.3 million (2006: BWP 34 million) which represents 10% (2006: 12%) of shareholders' funds.

Notes to the financial statements for the year ended 31 December 2007

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 11 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 23 and 24. The total exposure of the Group to directors, officers and parties related to them in terms of IAS 24 as at 31 December 2007 is BWP 59.2 million (2006: BWP 18.6 million) which represents 18% (2006: 7%) 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	2007	2006
Loans and advances to entities related through shareholding:	**35,343**	**33,982**
Loans and advances to entities related to directors:		
Loans and advances to entities related to O M Chidawu	4,353	501
Loans and advances to entities related to O M Chidawu and N Kudenga	4,202	3,744
Loans and advances to entities related to D T Munatsi	7,820	-
	12,173	4,245
Loans and advances to directors:		
O M Chidawu	28,830	-
T Mothibatsela	231	-
D Khama*	200	-
	29,261	-
*Guarantee		
Loans and advances to key management:		
D T Munatsi	1,470	2,020
F Dzanya	5,480	5,117
B Moyo	3,398	2,451
H Matemera	2,612	4,255
J Machapu	589	545
	15,794	**14,388**
Deposits held by entities related to directors and key management:	**7,974**	**3,150**
Deposits held by directors and key management:	**3,702**	**5,200**
Remuneration to key management personnel		
Short-term employment benefits	16,899	22,252
Post-employment benefits	348	408
Discount on shares issued	-	475
	17,247	**23,135**

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 2007

BWP'000s

30. COLLATERAL

	2007	2006
30.1 Liabilities for which collateral is pledged		
Deposits from banks	14,486	2,899
Deposits from customers	51,380	16,498
Borrowed funds	76,911	61,230
	142,777	**80,627**
Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
Cash and short term funds	1,298	-
Advances	7,813	-
Financial assets held for trading	137,785	112,887
Other	-	36,112
	146,896	**148,999**

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

	2007	2006
30.2 Collateral accepted as security for assets		
Deposits from customers	99,450	265,107
Mortgage bonds, shares, inventory, plant and equipment	242,331	180,300
	341,781	**445,407**
The fair value of financial assets accepted as collateral that the company is permitted to sell or re-pledge in the absence of default is:	217,870	196,341
The fair value of financial assets accepted as collateral that have been sold or repledged was:	220	-

ABC Holdings Limited is obligated to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.

31. DIVIDEND

The Board of Directors have approved a final dividend for the year ended 31 December 2007 of 14 thebe (ZWD 529,839) per ordinary share, payable to ordinary shareholders registered in the records of the company as at the close of business on the 4th April 2008. The dividend shall be paid on or about Monday 7th April 2008 or in accordance with the rules of the Botswana Stock Exchange. All transfer books and registers of members will be closed from the 4th April 2008 to the 7th April 2008 both dates inclusive. Withholding taxes will be deducted from divided payments in accordance with the Income Tax Act in Botswana and Zimbabwe.

Notes to the financial statements for the year ended 31 December 2007

32. RESTATEMENT OF COMPARATIVES

BWP'000s

Consolidated income statement

	Previously stated	Restated	Difference	Note
Interest and similar income	476,653	474,717	(1,936)	Correction to account for three derivative swap agreements net and at fair value. They were previously accounted for gross at notional cost as derivative assets and derivative liabilities.
Interest expense and similar charges	(323,816)	(319,156)	4,660	See above
Non interest income	220,487	209,206	(11,281)	Derivative adjustment BWP 9,418 - (see above), and FCTR - BWP 1,863 (see below)
Tax	(47,899)	(46,557)	1,342	See above
Profit attributable to ordinary shareholders	76,821	69,606	(7,215)	See above
Earnings per share (thebe)	62.0	56.3	(5.7)	See above

Consolidated balance sheet

Derivative financial liabilities	416	7,110	6,694	See above
Foreign currency translation reserve	(55,464)	(45,616)	9,848	Reversal of Foreign Currency Translation Reserve ("FCTR") arising from the ABC Holdings Company financial statements due to application of a USD functional currency contrary to the disclosed BWP functional currency.
Opening retained earnings	(21,464)	(27,923)	6,459	See above
Profit for the year	76,821	69,606	(7,215)	See above

ABC Holdings Limited

Notes to the financial statements for the year ended 31 December 2007

33. ACQUISITIONS AND DISPOSALS OF SUBSIDIARY COMPANIES

During the financial year, the Group sold its investment in Iroko Financial Products Limited. The net assets of Iroko Financial Products Limited of BWP 11.816 million were fully impaired in 2006. Net proceeds of BWP 8,853 million were realised during 2007 as an exit settlement.

The Group also disposed of its 40% interest in Capital Properties Limited, held through Tanzania Development Finance Company, for a consideration of USD 4.082 million (BWP 24.55 million). The Group's share of net asset value on date of disposal was BWP 13.201 million. A profit of BWP 10.687 million was realised, and the proceeds were received subsequent to year end.

Notes to the financial statements for the year ended 31 December 2007

34. POST BALANCE SHEET EVENTS

During January 2008, the International Finance Corporation ("IFC"), a member of the World Bank Group, subscribed for 13,850,845 ABCH shares at a total cost of BWP 37.4 million, taking its shareholding in ABCH to 10.7% of total issued share capital. A convertible loan of USD 13.5 million is yet to be drawn down. Had the conversion taken place on 31 December 2007, the IFC's shareholding would have increased to 23.8%.

Citi Venture Capital International Advisers ("CVCI"), a business unit of Citi Alternative Investments and a leading private equity investment adviser, has approved the extension of a two-year convertible loan with a principal amount of USD 25 million to ABC Holdings Limited.

The investment remains subject to a number of conditions, including the satisfactory completion of legal documentation, receipt of approvals and other conditions to be set forth in the definitive legal documentation. The terms and pricing parameters of the investment are expected to be broadly in line with those of the IFC convertible loan. The Board of Directors of ABC Holdings Limited has approved the investment and will recommend the approval of the investment to the shareholders.

The loan by CVCI would be convertible, under certain circumstances, to an equity interest of approximately 20% in ABC Holdings Limited. In order to prevent significant dilution of the existing shareholders and at the same time strengthen the capital position of the Group, the Directors are actively investigating the possibility of a rights issue. Details of this offer will be provided to all shareholders in due course.

The Group disposed of 49% of its shareholding in Microfin Africa Zambia Limited with effect from 1 April 2008 for a consideration of USD 5 million (BWP 30.08 million). The net asset value was BWP 9 million on the effective date of disposal.

The implied Zimbabwe dollar exchange rate depreciated further from ZWD 822,765: BWP 1 on 31 December 2007, to ZWD 35,038,868: BWP 1 as at 30 April 2008.

Notes to the financial statements for the year ended 31 December 2007

35. 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.

35.1 Consolidated income statement for the year ended 31 December 2007

	Historical cost (Supplemental)	
BWP'000s	2007	2006
		Restated
Interest and similar income	325,857	307,855
Interest expense and similar charges	(218,569)	(187,153)
Net interest income before impairment of advances	107,288	120,702
Impairment of loans and advances	(32,883)	(26,366)
Net interest income after impairment of advances	74,405	94,336
Non interest income	231,741	169,199
Total income	306,146	263,535
Operating expenditure	(159,965)	(145,203)
Net income from operations	146,181	118,332
Share of profits of associates	3,308	11,216
Profit before tax	149,489	129,548
Tax	(20,923)	(43,661)
Profit for the year	**128,566**	**85,887**
Attributable to:		
Ordinary shareholders	123,523	85,549
Minorities	5,043	338
Profit for the year	**128,566**	**85,887**
Earnings per share (thebe)	95.3	69.2
Dividend per share (thebe)	14.0	-

Notes to the financial statements for the year ended 31 December 2007

35.2 Consolidated balance sheet as at 31 December 2007

	Historical cost (Supplemental)	
BWP'000s	2007	2006
		Restated
ASSETS		
Cash and short term funds	528,311	428,947
Financial assets held for trading	748,134	781,368
Financial assets designated at fair value	115,878	71,018
Loans and advances	1,247,350	940,729
Investment securities	70,945	52,601
Prepayments and other receivables	52,512	12,804
Current tax assets	5,015	-
Investment in associates	30,461	42,622
Property and equipment	55,207	50,217
Investment property	28,402	24,171
Intangible assets	35,033	37,451
Deferred tax assets	12,873	5,208
TOTAL ASSETS	**2,930,121**	**2,447,136**
EQUITY AND LIABILITIES		
Liabilities		
Deposits	1,961,479	1,535,272
Derivative financial liabilities	5,110	7,110
Creditors and accruals	27,283	42,683
Current tax liabilities	3,489	7,043
Deferred tax liability	23,972	26,073
Borrowed funds	582,589	548,164
Total liabilities	**2,603,922**	**2,166,345**
Equity		
Stated capital	270,189	270,157
Foreign currency translation reserve	(410,873)	(314,348)
Non distributable reserves	67,418	49,070
Distributable reserves	387,079	267,382
Equity attributable to ordinary shareholders	**313,813**	**272,261**
Minority interest	12,386	8,530
Total Equity	**326,199**	**280,791**
TOTAL EQUITY AND LIABILITIES	**2,930,121**	**2,447,136**

35.3 Consolidated statement of changes in equity for the year ended 31 December 2007

HISTORICAL COST - Supplemental BWP'000s	Stated capital	Foreign currency translation reserve	Regulatory general credit risk reserve	Property revalua-tion reserve	Available for sale reserve	Statutory reserve	Hedging reserve	Treasury shares reserve	Distrib-utable reserves	Minority interest	Total equity
Balance as previously stated at 1 January 2006	225,205	(253,712)	205	12,831	1,364	10,103	-	-	189,031	13,152	198,179
Prior year restatements		7,599							(6,459)		1,140
Restated balance at 1 January 2006	225,205	(246,113)	205	12,831	1,364	10,103	-	-	182,572	13,152	199,319
Restated profit for the year									85,549	338	85,887
Shares issued	43,291										43,291
Restated foreign currency translation differences		(68,235)								(4,960)	(73,195)
Revaluation of property net of deferred tax				23,906					378		24,284
Movement in general credit risk reserve			84						(84)		-
Movement in statutory reserves						1,033			(1,033)		-
Movement in available for sale reserves:					(456)						(456)
- arising in current year					(678)						(678)
- realised through profit and loss					222						222
Disposal of treasury shares	1,661										1,661
Restated balance at 31 December 2006	**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 reserves in associate companies				3,087							3,087
Purchase of shares from minorities										(1,889)	(1,889)
Movement in statutory reserves						3,826			(3,826)		-
Movement in available for sale reserves:					486						486
- arising in current year					308						308
- realised through profit and loss					178						178
Consolidation of treasury shares	32							(2,933)			(2,901)
Balance 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**

Notes to the financial statements for the year ended 31 December 2007

35.4 Consolidated cash flow statement for year ended 31 December 2007

	Historical cost (Supplemental)	
BWP'000s	2007	2006
		Restated
CASH FLOWS FROM OPERATING ACTIVITIES	**62,702**	**(126,954)**
Cash generated from operating activities	150,508	151,708
Net profit before tax	**149,489**	**129,548**
Adjusted for:		
Impairment of loans and advances	32,883	26,366
Depreciation and amortisation	6,922	8,791
Hedging reserve	(2,889)	-
Net losses on derivative financial instruments	10,073	9,417
Fair value gains on investment properties	(26,408)	(22,390)
Profit on disposal of subsidiary	(8,853)	-
Profit on disposal of associates	(10,687)	-
Profit on sale of property and equipment	(22)	(24)
Tax paid	(11,049)	(32,434)
Net cash inflow from operating activities before changes in operating funds	**139,459**	**119,274**
Net decrease in operating funds	**(76,757)**	**(246,228)**
Increase in operating assets	(498,781)	(364,428)
Increase in operating liabilities	422,024	118,200
CASH FLOWS FROM INVESTING ACTIVITIES	**(9,460)**	**(4,170)**
Purchase of property and equipment	(18,653)	(5,335)
Proceeds on disposal of property and equipment	340	1,165
Proceeds on disposal of subsidiary	8,853	-
CASH FLOWS FROM FINANCING ACTIVITIES	**19,341**	**375,110**
Proceeds from issue of shares	-	44,952
Repayment of preference share liability	-	(115,056)
Purchase of treasury and preference shares	(4,790)	-
Increase in borrowed funds	24,131	445,214
Increase in cash and cash equivalents	**72,583**	**243,986**
Cash and cash equivalents at the beginning of the year	369,947	207,304
Exchange adjustment on opening balance	3,726	(81,343)
Cash and cash equivalents at the end of the year	**446,256**	**369,947**

Company separate financial statements

Company income statement for the year ended 31 December 2007

BWP'000s	Notes	2007	2006 Restated
Interest and similar income		34,189	13,496
Interest expense and similar charges		(36,171)	(10,958)
Net interest income before impairment of advances	1	(1,982)	2,538
Impairment of loans and advances	2	521	(1,638)
Net interest income after impairment of advances		(1,461)	900
Non interest income	3	29,574	2,590
Total income		28,113	3,490
Operating expenditure	4	(19,589)	(25,135)
Profit/(loss) before tax		8,524	(21,645)
Tax	5	34	4,183
Profit/(loss) for the year		**8,558**	**(17,462)**
Attributable to:			
Ordinary shareholders		**8,558**	**(17,462)**

Company balance sheet as at 31 December 2007

BWP'000s	Notes	2007	2006 Restated
ASSETS			
Cash and short term funds	6	-	9,216
Loans and advances	7	79,134	57,753
Intercompany balances	8	43,865	194,405
Investment securities	10	26,214	23,770
Prepayments and other receivables	9	12,663	577
Deferred tax asset	15	430	385
Loans to subsidiary companies	12	158,652	62,864
Property and equipment	17	128	-
Investment in subsidiaries	11	412,242	406,352
TOTAL ASSETS		**733,328**	**755,322**
EQUITY AND LIABILITIES			
Liabilities			
Derivative financial liabilities		5,336	7,110
Creditors, accruals and provisions	14	6,063	11,600
Intercompany balances	8	47,094	44,298
Borrowed funds	13	407,826	433,863
Total liabilities		**466,319**	**496,871**
Equity			
Stated capital	16	270,189	270,189
Distributable reserves		(3,180)	(11,738)
Equity attributable to ordinary shareholders		267,009	258,451
TOTAL EQUITY AND LIABILITIES		**733,328**	**755,322**

Company statement of changes in equity for the year ended 31 December 2007

BWP'000s	**Stated capital**	**Foreign currency translation reserve**	**Distributable reserves**	**Total equity**
Balance as previously stated at 1 January 2006	226,898	(7,599)	23,999	243,298
Prior year restatement (Note 19)	-	7,599	(18,275)	(10,676)
Restated balance at 1 January 2006	226,898	-	5,724	232,622
Restated loss for the year	-	-	(17,462)	(17,462)
Shares issued	43,291	-	-	43,291
Restated balance at 31 December 2006	**270,189**	-	**(11,738)**	**258,451**
Profit for the year	-	-	8,558	8,558
Balance at 31 December 2007	**270,189**	-	**(3,180)**	**267,009**

Company cash flow statement for the year ended 31 December 2007

BWP'000s	Note	2007	2006 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		105,804	(236,025)
Cash generated from operating activities:		5,251	(10,589)
Net profit before tax		8,524	(21,645)
Adjusted for:			
Impairment of loans and advances		(521)	1,638
Depreciation and amortisation		28	-
Reinstatement of shareholder's loan		(4,000)	-
Net losses on derivative financial instruments		10,073	9,418
Profit on disposal of subsidiary		(8,853)	-
Net increase/(decrease) in operating funds		100,553	(225,436)
Increase/(decrease) in operating assets		102,154	(81,429)
Decrease in operating liabilities		(1,601)	(144,007)
CASH FLOWS FROM INVESTING ACTIVITIES		(88,983)	(118,518)
Purchase of property and equipment		(156)	-
Investment in subsidiaries		(1,892)	(81,472)
Proceeds on disposal of subsidiary	18	8,853	-
Changes in loans to subsidiaries		(95,788)	(37,046)
CASH FLOWS FROM FINANCING ACTIVITIES		(26,037)	363,759
Proceeds from issue of shares		-	44,952
Repayment of preference share liability		-	(115,056)
(Decrease)/increase in borrowed funds		(26,037)	433,863
(Decrease)/Increase in cash and cash equivalents		(9,216)	9,216
Cash and short term funds at the beginning of the year		9,216	-
Cash and short term funds at the end of the year		**-**	**9,216**

Notes to the company financial statements for the year ended 31 December 2007

ACCOUNTING POLICIES

The accounting policies of the Company and the Group are set out on pages 57 to 71.

BWP'000s	2007	2006
1. NET INTEREST INCOME		
Interest and similar income		
Cash and short term funds	4,559	2,767
Investment securities at amortised cost	2,428	112
Loans and advances at amortised cost	27,202	10,617
	34,189	**13,496**
Interest expense		
Borrowed funds	36,171	5,191
Preference shares	-	5,767
	36,171	**10,958**
Net interest income	**(1,982)**	**2,538**
2. IMPAIRMENT OF LOANS AND ADVANCES		
Specific impairments	-	12,105
Impairment released to subsidiary	(521)	-
Recoveries of bad debts previously written off	-	(10,467)
	(521)	**1,638**
3. NON INTEREST INCOME		
Losses from trading activities:	(10,073)	(9,418)
- Net losses on derivative financial instruments	(10,073)	(9,418)
Dividends received:	5,500	5,900
- Subsidiary companies	5,500	5,900
Fee and commission income:	33,808	7,493
- Net fee income on loans and advances at amortised cost	33,808	8,665
- Other fee income	-	(1,172)
Other non interest income/(losses)	339	(1,385)
Loss on disposal of property, plant and equipment	-	(138)
Profit on disposal of subsidiary	8,853	-
Foreign exchange loss	(8,514)	(1,247)
	29,574	**2,590**

Notes to the company financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
4. OPERATING EXPENDITURE		
Administrative expenses	8,649	13,988
Staff costs	8,231	10,156
Auditors remuneration	463	294
Depreciation	28	-
Directors remuneration	2,218	697
	19,589	**25,135**

5. TAX		
Profit / (loss) before tax	8,524	(21,645)
Income tax using standard corporate tax rates	1,279	(3,247)
Effect of tax losses utilised	(1,313)	(936)
Current deferred tax expense per income statement	**(34)**	**(4,183)**
Effective tax rate	0%	(19%)

6. CASH AND SHORT TERM FUNDS		
Balances with banks	-	**9,216**

BWP'000s

7. LOANS AND ADVANCES

	2007	Fair value	2006	Fair value
Corporate lending	50,444	50,444	72,036	72,036
Other loans and advances	42,378	42,378	-	-
Gross loans and advances	92,822	92,822	72,036	72,036
Less: impairments	(13,688)		(14,283)	
Net loans and advances	**79,134**		**57,753**	

7.1 MATURITY ANALYSIS

	2007	2006
On demand to one month	1,023	-
One month to three months	29,535	2,030
Three months to one year	38,420	55,723
Greater than one year	10,156	-
	79,134	**57,753**

7.2 IMPAIRMENT OF LOANS AND ADVANCES - MOVEMENT ANALYSIS

	2007	2006
Opening balance	14,283	-
Exchange rate difference	(74)	2,178
Impairments created	-	12,105
Impairments released	(521)	-
Closing balance	**13,688**	**14,283**

The tenure of the loans range from three months to two years and all have floating interest rates.

Notes to the company financial statements for the year ended 31 December 2007

BWP'000s	2007	Fair value	2006	Fair value
8. INTERCOMPANY BALANCES				
8.1 Balances due from:				
African Banking Corporation of Botswana Limited	34,819	34,819	187,736	187,736
African Banking Corporation Mozambique Sarl	-	-	91	91
African Banking Corporation Tanzania Limited	-	-	541	541
African Banking Corporation Zambia Limited	-	-	57	57
African Banking Corporation Zimbabwe Limited	6,340	6,340	5,852	5,852
Tanzania Development Finance Company Limited	2,706	2,706	-	-
ABC South Africa and other non-banking subsidiaries	-	-	128	128
	43,865	**43,865**	**194,405**	**194,405**
8.2 Balances due to:				
African Banking Corporation Mozambique Sarl	53	53	-	-
African Banking Corporation Tanzania Limited	2,680	2,680	-	-
African Banking Corporation (International) Limited	8,888	8,888	8,933	8,933
EDFUND S.A.	35,184	35,184	35,365	35,365
ABC South Africa and other non-banking subsidiaries	289	289		-
	47,094	**47,094**	**44,298**	**44,298**

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

BWP'000s	2007	2006
9. PREPAYMENTS AND OTHER RECEIVABLES		
Accounts receivable and prepayments	1,307	577
Security deposit	9,068	-
Other amounts due	2,288	-
	12,663	**577**

Prepayments and other receivables are classified as current.

Notes to the company financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
10. INVESTMENT SECURITIES		
Held to maturity		
- Promissory notes	26,214	23,770

The promissory notes are partial security for the loan from BIFM (Note 13). 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 13.

Notes to the company financial statements for the year ended 31 December 2007

		Ownership of ordinary shares		Carrying value	
		2007	2006	2007	2006
	Nature of business	%	%	BWP'000s	BWP'000s
11. INVESTMENT IN SUBSIDIARIES					
Botswana					
African Banking Corporation of Botswana Limited	Registered bank	100	100	52,241	52,241
African Banking Corporation International Limited	Registered bank	100	100	10,779	10,779
Bohemian Private Limited	Investment holding company	100	100	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	74	74	45,977	45,977
Tanzania Development Finance Company Limited	Financial services	68	68	15,949	14,059
Zambia					
African Banking Corporation Zambia Limited	Registered bank	100	100	40,974	40,974
Microfin Africa Zambia Limited	Microfinance	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
				412,242	**406,352**

BWP'000s	2007	2006
12. LOANS TO SUBSIDIARY COMPANIES		
African Banking Corporation of Botswana Limited	31,987	31,000
African Banking Corporation Mozambique Sarl	31,370	-
African Banking Corporation Tanzania Limited	58,135	25,815
African Banking Corporation Zambia Limited	30,844	-
Microfin Africa Zambia Limited	6,316	6,049
	158,652	62,864

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.

BWP'000s	2007	Fair value	2006	Fair value
13. BORROWED FUNDS				
National Development Bank of Botswana Limited	116,926	129,378	121,018	133,726
BIFM Capital Investment Fund One (Pty) Ltd	257,005	287,204	248,383	248,383
Other borrowings	33,895	33,895	64,462	64,462
	407,826	450,477	433,863	446,571

Maturity analyses	2007	2006
On demand to one month	3,797	562
One month to three months	2,120	-
Three months to one year	73,181	72,449
Over one year	328,728	360,852
	407,826	433,863

National Development Bank of Botswana Limited (NDB)

The loan from NDB 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.

Notes to the company financial statements for the year ended 31 December 2007

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.

BWP'000s	2007	2006
14. CREDITORS, ACCRUALS AND PROVISIONS		
Accrued expenses	5,152	10,989
Leave pay provision	797	611
Other amounts due	114	-
	6,063	**11,600**

Other liabilities are due and payable within twelve months.

15. DEFERRED TAX		
Balance at beginning of the year	(385)	(1,237)
Exchange and inflation adjustment	-	(647)
Movement in accounting and accrual provisions	(11)	5,682
Income tax charge	(34)	(4,183)
Balance at the end of the year	**(430)**	**(385)**
Tax effect of temporary differences:		
- Accounting accruals	2,887	2,785
- Tax losses	(3,317)	(3,170)
	(430)	**(385)**

Notes to the company financial statements for the year ended 31 December 2007

BWP'000s	2007	2006
16. STATED CAPITAL		
16.1 Authorised		
150 000 000 shares of BWP 0.05 each	7,500	7,500
16.2 Issued and fully paid		
132 568 680 (2006: 132 568 680) shares of BWP 0.05 each	6,628	6,628
Share premium	263,561	263,561
Total Company	**270,189**	**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.

	2007	2006
16.3 Reconciliation of the number of shares in issue		
At the beginning of the year	132,568,680	113,449,724
Shares issued in respect of conversion of preference shares	-	11,344,972
Shares issued to staff under staff share purchase scheme	-	7,773,984
At the end of the year	**132,568,680**	**132,568,680**

Notes to the company financial statements for the year ended 31 December 2007

BWP'000s

17. PROPERTY AND EQUIPMENT

	Computer and office equipment	Total
Cost or valuation at 31 December 2006	-	-
Additions	156	156
Cost or valuation at 31 December 2007	**156**	**156**
Accumulated depreciation at 31 December 2006	-	-
Charge for the year	(28)	(28)
Accumulated depreciation at 31 December 2007	**(28)**	**(28)**
Carrying amount at 31 December 2007	**128**	**128**
Carrying amount at 31 December 2006	**-**	**-**

18. ACQUISITIONS AND DISPOSALS OF SUBSIDIARY COMPANIES

During the financial year, the company sold its investment in Iroko Financial Products Limited. The net assets of Iroko Financial Products Limited of BWP 11.816 million were fully impaired in 2006. Net proceeds of BWP 8.853 million were realised during 2007 as an exit settlement.

BWP'000s

19. RESTATEMENT OF COMPARATIVES

Income statement	Previously stated	Restated	Difference	Note
Interest and similar income	15,432	13,496	(1,936)	Correction to account for three derivative swap agreements net and at fair value. They were previously accounted for gross at notional cost as derivative assets and derivative liabilities.
Interest expense and similar charges	(15,618)	(10,958)	4,660	See above
Non interest income	14,260	2,590	(11,670)	Derivative adjustment BWP 9,418 - (see above), and FCTR - BWP 2,252 (see below)
Tax	2,841	4,183	1,342	See above
Loss attributable to ordinary shareholders	(9,858)	(17,462)	(7,604)	See above

Balance sheet	Previously stated	Restated	Difference	Note
Derivative financial liabilities	416	7,110	6,694	See above
Foreign currency translation reserve	(9,851)	-	9,851	Reversal of Foreign Currency Translation Reserve ("FCTR") arising from the ABC Holdings Company financial statements due to application of a USD functional currency contrary to the disclosed BWP functional currency.
Retained earnings	14,141	(11,738)	(25,879)	See above
Opening retained earnings	23,999	5,724	(18,275)	FCTR adjustment (BWP 6,459) and impairment of Iroko (BWP 11,816)
Profit for the year	(9,858)	(17,462)	(7,604)	See above

Notes to the company financial statements for the year ended 31 December 2007

20. Post balance sheet events

During January 2008, the International Finance Corporation ("IFC"), a member of the World Bank Group, subscribed for 13,850,845 ABCH shares at a total cost of BWP 37.4 million, taking its shareholding in ABCH to 10.7% of total issued share capital. A convertible loan of USD 13.5 million is yet to be drawn down. Had the conversion taken place on 31 December 2007, the IFC's shareholding would have increased to 23.8%.

Citi Venture Capital International Advisers ("CVCI"), a business unit of Citi Alternative Investments and a leading private equity investment adviser, has approved the extension of a two-year convertible loan with a principal amount of USD 25 million to ABC Holdings Limited.

The investment remains subject to a number of conditions, including the satisfactory completion of legal documentation, receipt of approvals and other conditions to be set forth in the definitive legal documentation. The terms and pricing parameters of the investment are expected to be broadly in line with those of the IFC convertible loan. The Board of Directors of ABC Holdings Limited has approved the investment and will recommend the approval of the investment to the shareholders.

The loan by CVCI would be convertible, under certain circumstances, to an equity interest of approximately 20% in ABC Holdings Limited. In order to prevent significant dilution of the existing shareholders and at the same time strengthen the capital position of the company, the directors are actively investigating the possibility of a rights issue. Details of this offer will be provided to all shareholders in due course.

The Company disposed of 49% of its shareholding in Microfin Africa Zambia Limited with effect from 1 April 2008 for a consideration of USD 5 million (BWP 30.08 million). The net asset value was BWP 9 million on the effective date of disposal.

Analysis of shareholders

Range	No. of holders	% of total holders	No. of shares	% of total shares
0 - 50,000	3,040	97.22%	4,390,840	3.31%
50,000 - 100,000	39	1.25%	2,769,919	2.09%
100,001 - 500,000	13	0.42%	6,794,365	5.13%
500,001 - 1,000,000	9	0.29%	5,507,277	4.15%
1,000,001 - 10,000,000	23	0.74%	72,738,800	54.87%
Above 10,000,000	3	0.10%	40,367,479	30.45%
	3,127	**100.00%**	**132,568,680**	**100.00%**

Top 10 Shareholders as at 31 December 2007

Name	No. of shares	Percentage holding
Old Mutual Life Assurance Co. of Zimbabwe Limited	15,877,513	11.98%
Broadway Investments (Private) Limited - In Respect of O M Chidawu	13,103,411	9.88%
Stanbic Nominees Botswana - In Respect of BIFM and Botswana Public Officers Pension Fund	11,386,555	8.59%
Covenant Capital Partners (Private) Limited - In Respect of D T Munatsi	9,435,002	7.12%
Barclays Botswana Nominees (Pty) Ltd - In Respect of Zephyr Fund Managers	8,498,942	6.41%
Waughco Nominees (Private) Limited - In Respect of Bindura Nickel and private individuals	6,168,616	4.65%
Swiss Confederation	4,446,000	3.35%
Dresdner Bank Luxembourg S.A. - In Respect of O M Chidawu	4,184,714	3.16%
Dennilton Investments	4,156,618	3.14%
Nerderlandse Financierings-Maatschappij Voor Ontwikkelinslan	3,582,623	2.70%
Total top ten shareholders	80,839,994	60.98%
Other shareholders	51,728,686	39.02%
Total shares in issue	**132,568,680**	**100.00%**

Notice to shareholders

NOTICE IS HEREBY GIVEN that the Ninth 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 Thursday 26th June 2008, 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 2007 including Chairman's statement, Directors, and Auditors report.

Resolution 2:

To approve the remuneration of Directors for the year ended 31 December 2007.

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

Resolution 4:

To approve the remuneration of the Auditors for the year ended 31 December 2007.

Resolution 5:

To appoint Auditors for the ensuing year.

SPECIAL BUSINESS

To consider and approve, with or without amendment, as deemed fit, the proposals and resolutions contained in the Supplementary Circular delivered to shareholders contemporaneously with this AGM notice in respect of the proposed rights issue.

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
13 May 2008

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

H J Buttery

Howard Buttery was born in South Africa in 1956. In his position as Chairman of Bell Equipment Limited, a listed South African company, his current focus is on the strategic alliance between development of 3 international companies, namely John Deere (United States), Liebher (Germany) as well as Hitachi (Japan). He also serves on a number of boards – firstly as non-executive director of Rogers and Company Limited (Mauritius), and secondly as non-executive director of two international management funds (Swiss).

O M Chidawu

Oliver Chidawu was born in Zimbabwe in 1954. He is a first generation entrepreneur who founded and manages the Kuchi Group of companies that 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.

N Kudenga

Ngoni Kudenga was born in Zimbabwe in 1952. He is a Chartered Accountant and holds a bachelor of Accountancy degree from the University of Zimbabwe and is a fellow of the Chartered Institute of Management Accountants of Zimbabwe. He is past president of the Institute of Chartered Accounts. Currently he is the Managing Partner of BDO Kudenga & Co., Chartered Accountants of Zimbabwe. He serves on the boards of Bindura Nickel Corporation, Anglo American Corporation Zimbabwe and several private 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 Ninth Annual General Meeting of Shareholders of ABC Holdings Limited to be held at 08h00 on Thursday 26th June 2008 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		
	For	Against	Abstain
Ordinary Resolution 1			
Ordinary Resolution 2			
Ordinary Resolution 3			
Ordinary Resolution 4			
Ordinary Resolution 5			

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.

AFRICAN BANKING
CORPORATION