BancABC

ABC Holdings Limited
Annual Report
2011

ABOUT BancABC

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

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

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

BancABC

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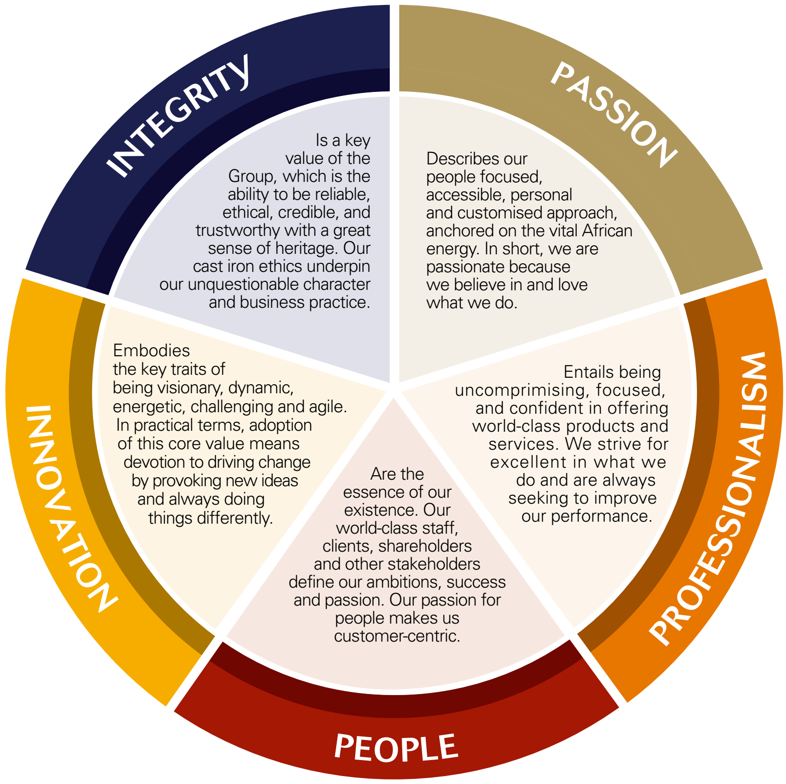
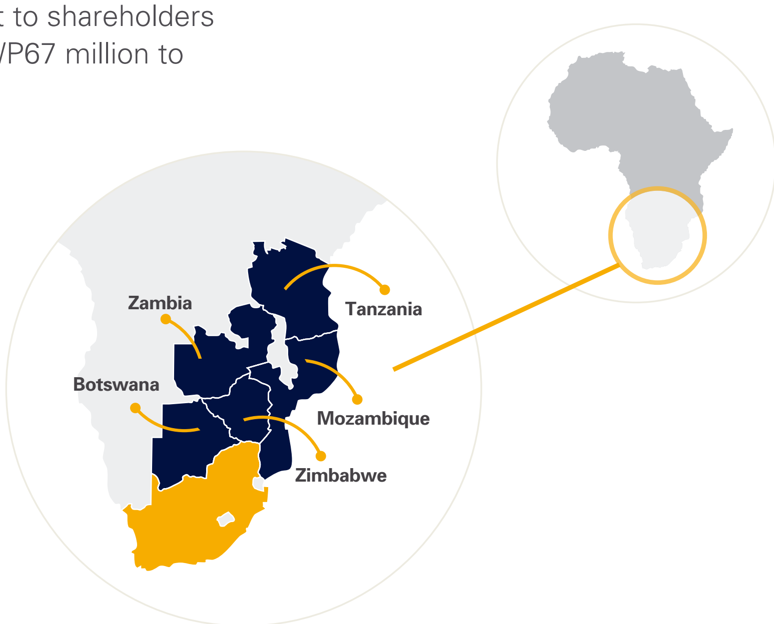
OUR VALUES

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



highlights

- Total income up by 21% from BWP546 million to **BWP659 million**
- Cost to income ratio decreased to **74%** (2010: 77%)
- Net operating income was flat at **BWP113 million** compared to BWP111 million despite a charge of BWP35 million in respect of the fair value loss and additional interest arising from the International Finance Corporation (IFC) convertible loan. Excluding the impact of this convertible loan, net operating income increased by 33%
- Pre-tax profit was 18% up from BWP91 million to **BWP108 million**
- Operating expenses up by 25% from BWP435 million to **BWP546 million** largely due to increased product and branch roll out in Retail and SME banking
- Attributable profit to shareholders up 24% from BWP67 million to **BWP83 million**
- Basic EPS of **56.6 Thebe** (2010: 46.3 Thebe)
- Deposits increased by 50% from BWP4.9 billion to **BWP7.4 billion**
- Loans and advances almost doubled from BWP3.1 billion to **BWP6.1 billion**
- Total assets increased by 53% from BWP6 billion to **BWP9.2 billion**
- Average return on equity at **16%** (2010: 16%)
- Retail Branches have increased to **49** (inclusive of consumer banking branches) from 31 branches in 2010
- Staff numbers increased to **1,008**, compared to 668 as at the end of December 2010



FIVE-YEAR FINANCIAL HIGHLIGHTS

on a historical cost basis in US$'000s

	31 Dec 2011 US$'000s	31 Dec 2010 US$'000s	31 Dec 2009 US$'000s	31 Dec 2008 US$'000s	31 Dec 2007 US$'000s
Income statement					
Net interest income after impairment	48,692	41,542	17,948	20,498	12,152
Non-interest revenue	47,692	38,930	37,402	31,650	37,849
Total income	**96,384**	**80,472**	**55,350**	**52,148**	**50,001**
Operating expenditure	(79,873)	(64,089)	(51,610)	(34,679)	(26,126)
Net income from operations	**16,511**	**16,383**	**3,740**	**17,469**	**23,875**
Share of (losses)/profits of associates and joint venture	(757)	(2,966)	2,281	337	540
Profit before taxation	**15,754**	**13,417**	**6,021**	**17,806**	**24,415**
Taxation	(2,924)	(3,314)	2,225	(4,905)	(3,417)
Profit for the year	**12,830**	**10,103**	**8,246**	**12,901**	**20,998**
Attributable to					
Equity holders of parent	12,143	9,827	8,202	12,592	20,174
Minority interests	687	276	44	309	824
Profit for the year	**12,830**	**10,103**	**8,246**	**12,901**	**20,998**
Balance sheet					
Cash and cash equivalents	166,122	154,997	132,194	68,056	87,832
Financial assets held for trading	86,980	173,375	134,707	90,956	143,642
Financial assets designated at fair value	24,771	12,274	–	–	–
Derivative assets held for risk management	4,320	6,516	1,195	5,891	–
Loans and advances to customers	811,940	477,415	299,099	298,450	207,372
Investments	11,513	8,224	7,387	8,988	11,795
Investment in associates and joint venture	2,343	5,405	6,138	5,471	5,064
Other assets and investment property	32,773	34,048	32,123	14,101	16,426
Property and equipment	68,788	51,217	41,818	28,776	9,178
Intangible assets	17,417	8,903	7,558	5,653	5,824
	1,226,968	**932,374**	**662,219**	**526,342**	**487,133**
Shareholders' equity	81,839	67,911	62,325	60,572	54,230
Deposits	985,260	761,083	502,932	374,385	326,096
Derivative liabilities held for risk management	6,288	162	293	294	849
Borrowed funds	131,167	89,868	81,519	79,565	96,855
Other liabilities and taxation	22,414	13,350	15,151	11,526	9,103
	1,226,968	**932,374**	**662,219**	**526,342**	**487,133**
Shares in issue	149,472,131	146,419,524	146,419,524	146,419,524	132,568,680
Cost to income ratio (%)	74	77	82	59	47
Average shareholders' equity	74,875	65,118	61,449	57,401	50,456
Return on average shareholders' equity (Headline)	16%	15%	13%	23%	42%
Net asset value per share (cents)	54.8	44.7	40.9	39.7	39.4
Closing exchange rates to US$					
Botswana Pula	7.49	6.45	6.67	7.54	6.02
Euro	0.77	0.75	0.69	0.72	0.68
Mozambican Metical	27.31	32.58	29.19	25.50	25.86
Tanzanian Shilling	1,590.01	1,505.01	1,339.51	1,315.02	1,146.01
Zambian Kwacha	5,110.01	4,800.00	4,650.00	4,795.00	3,850.00
Zimbabwe Dollar (dropped 10 zeros in 2008)					
– official	–	–	–	5,059,942.76	30,000.00
– calculated	–	–	–	642,901,315.78	4,948,961.54

salient features

	2011	2010	% change
Income statement (BWP'000s)			
Profit attributable to ordinary shareholders	**83,002**	66,710	24%
Balance sheet (BWP'000s)			
Total assets (attributable)	**9,183,888**	6,011,439	53%
Loans and advances	**6,077,399**	3,078,110	97%
Deposits	**7,374,700**	4,907,045	50%
Net asset value	**596,811**	422,336	41%
Financial performance (%)			
Return on average equity	**16%**	16%	
Return on average assets	**1.2%**	1.3%	
Operating performance (%)			
Non-interest income to total income	**49%**	48%	
Cost to income ratio	**74%**	77%	
Impairment losses on loans and advances to gross average loans and advances	**1.7%**	0.6%	
Effective tax rate	**19%**	25%	
Share statistics (000's)			
Number of shares in issue	**149,473**	146,420	2%
Weighted average number of shares	**146,760**	143,956	2%
Share statistics (thebe)			
Earnings per share	**56.6**	46.3	22%
Dividend per share	**17.5**	10.0	75%
Net asset value per share	**3.99**	2.93	36%

GROUP CHAIRMAN'S REPORT

Group underlying performance during 2011 was strong despite a tough business environment. The Group continued its Retail Banking expansion with significant investment made in expanding the branch network as well as the underlying systems to effectively serve customers in this market segment. Business growth was phenomenal and this lays a strong foundation for the future. Retail Banking is expected to start contributing a greater portion of revenue and profitability going forward, which bodes well for the Group.

GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

The V-shaped economic recovery experienced in 2010 and early 2011 was spearheaded by China and India before quickly spreading to other emerging and developing markets and to a lesser extent developed economies. Any hope of a sustained economic recovery, however, suffered a major setback following the re-emergence of the Euro-debt crisis which entered a perilous new phase. The adverse spill-over effects of the Euro-debt crisis led to high risk aversion and tight financial conditions, triggering a considerable slow-down in economic activities in most advanced economies. Emerging and developing economies have not been spared from the contagion effect as witnessed by the downturn in economic growth.

ECONOMIC GROWTH PERFORMANCE IN ABC MARKETS

Recovery from the global crisis is, however, well underway in the Sub-Saharan Africa (SSA) with most countries now fairly close to the mid 2000s GDP growth levels of between 5% and 6%. Average economic growth in Mozambique, Tanzania and Zambia has been well above the regional average. On a brighter note, Zimbabwe's performance over the last three (3) years has also shown that the country has immense potential to surpass the regional average growth rate, albeit coming off a low base. In Botswana, although economic growth has been commendable, the country is more prone to negative external shocks. Nonetheless, in 2011, economic growth momentum in most regional economies was not affected by the evolving Euro-debt crisis. In 2012, considerable headwinds from slower growth in global economy, lower commodity prices, heightened uncertainty in global financial markets and monetary policy tightening pose significant downside risks to growth prospects.

GDP GROWTH TREND IN ABC MARKETS

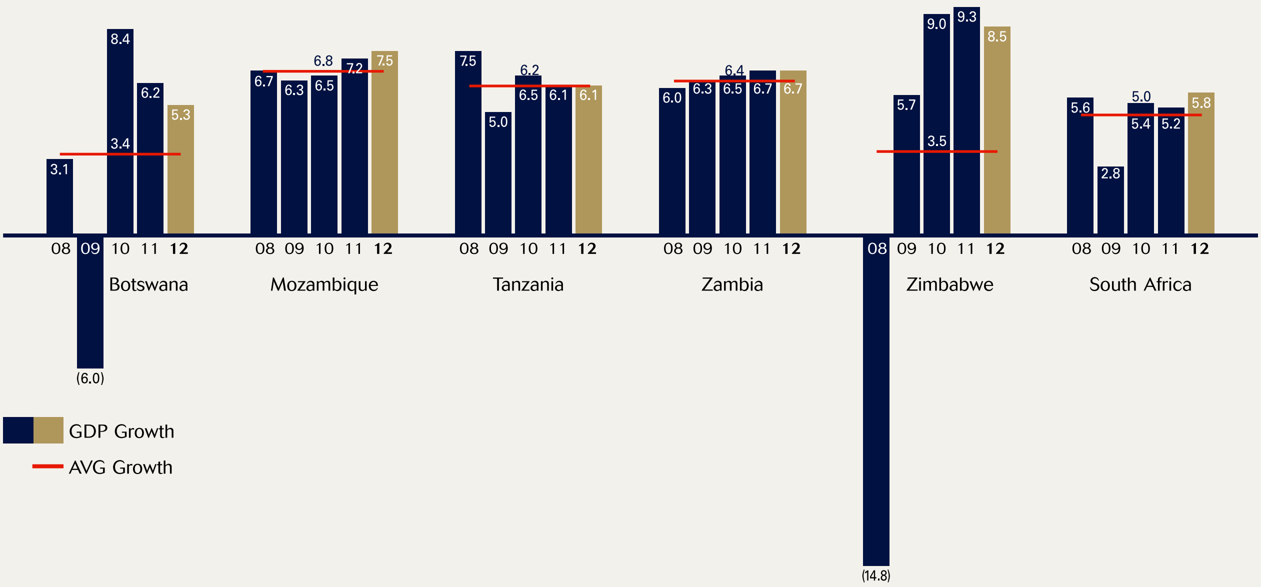
The Botswana economy is estimated to have grown by 6.2% in 2011, largely due to strong performance in construction, mining and manufacturing sectors. Botswana's economic growth remains inextricably linked to global developments particularly via diamonds exports which are highly dependent on the global economic performance.

Despite the weakening global economic prospects, Mozambique remained resilient. The economy is estimated to have grown by 7.2% in 2011 and it is projected to register a stronger growth of 7.5% in 2012. An acceleration of both megaprojects and traditional exports helped offset the increase in the import bill for fuel products and mega-projects investments during 2011.

Economic growth in Tanzania is estimated to have slowed down from 7.0% in 2010 to 6.1% in 2011 largely due to the negative impact of power shortages. The country's power generating capacity was affected by the less than normal rainfall for 2011. Efforts to restore power generation are underway but will take time to be implemented.

Zambia is one of the most stable countries in the Southern African Development Community (SADC) and Africa as a whole. Despite being home to a more competitive political landscape, Zambia has enjoyed political stability for the past two decades with no major conflict. The country has been able to hold successful elections for the past two decades with smooth changeover of power from one political party to another. The Zambian economy has over the years performed very well due to strong macroeconomic policies, favourable external environment in some years

GDP Growth Trend in ABC Markets



and extensive debt relief. Over the years spanning from 2001 to 2011, average economic growth has been 5.7%, which is almost in line with SSA growth average. Importantly, economic growth has been broad-based and less dependent on mining as was the case in the past.

In Zimbabwe, the country has immensely benefited from the use of the multicurrency system, which has brought the much needed economic stability. Having emerged from 10 years of uninterrupted depression, the economy is estimated to have posted a positive growth for the third consecutive year. Albeit coming from a low base, the economy grew by 5.7% in 2009, 8.1% in 2010 and 9.3% in 2011. Good economic growth has largely been underpinned by strong growth in agriculture, mining, and telecommunications sectors.

INFLATION RATE DEVELOPMENTS

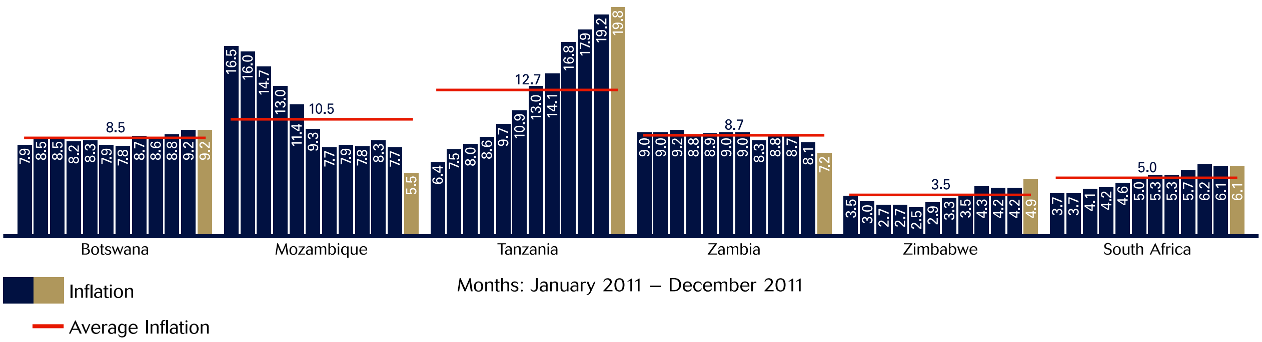
During 2011, inflation surged in a number of SSA countries with East African countries experiencing precipitous increases towards the end of the year. Elevated inflation pressures were mainly emanating from higher food and fuel prices, particularly in non-oil exporting countries.

In Botswana, average annual inflation increased by 1.6 percentage points from 6.9% in 2010 to 8.5% in 2011. During the year, inflation was well above the Central Bank's medium-term range of 3 – 6%. Higher inflation from South Africa, the country's major import source accounting for 70% of total imports has also been transmitted to Botswana's domestic prices through increased imported inflation.

Mozambique witnessed a dramatic collapse in inflation that stood at 16.5% in January 2011 and receded remarkably to end the year at 5.5%. Average inflation for the year was 10.5%, which compared favourably to 12.7% in 2010. In addition to targeting the stock of base money, and hence money supply, the Central Bank has been using the exchange rate as a tool to fight inflation.

East African countries suffered from similar exogenous shocks including a drought induced spiral in food prices that pushed headline inflation higher. However, the acceleration in inflation in Tanzania came considerably later, relative to the experience of Uganda and Kenya. In Tanzania, annual inflation which stood at 6.4% in January was relentlessly on the rise, surging for consecutive months to end the year on a high of 19.8%. Average annual inflation stood at 12.7%, which was significantly higher than 7.2% in 2010.

GDP Growth Trend in ABC Markets



In 2011, Zambian Authorities managed to contain annual inflation within single digit levels, ending the year at 7.2%. Average inflation for the year stood at 8.7%, marginally higher than 8.5% in 2010. Food inflation was relatively low, benefiting from a record high maize harvest for the past two seasons. Non-food price inflation surged during the first quarter of the year largely driven by firm international oil prices.

Zimbabwe, having suffered from the debilitating effects of hyperinflation, enjoyed the benefits of operating under the multicurrency system. It recorded relatively low levels of inflation. Average annual inflation for 2011 was 3.5% compared to 3.1% in 2010. The economy also benefited from a significantly weaker Rand in the second half of 2011 as this dampened imported inflation.

INTEREST RATES DEVELOPMENTS

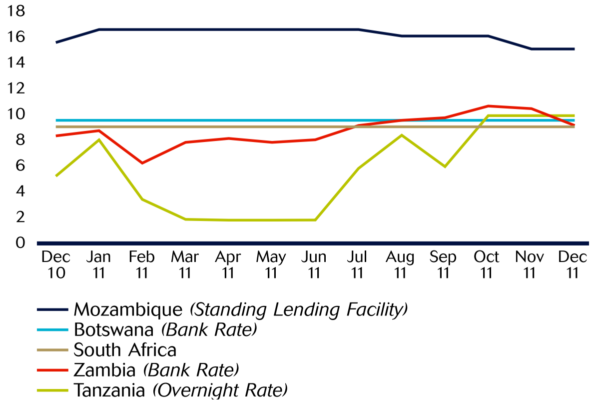
Despite a relatively high inflationary environment in 2011, a number of countries did not tighten their monetary policies. Interest rates have not materially changed from the low levels that prevailed during the 2008/09 global financial crisis.

In 2010, Botswana's Bank Rate remained unchanged at 10% until mid-December 2010 when it was lowered by 50 basis points to 9.5%. Since then, the bank rate remained flat at 9.5% throughout 2011, mimicking South Africa's prime rate which was fixed at 9%. However, the real bank rate was low in 2011, at an average of 1% compared to a long-term average of 3.7%, suggesting some degree of monetary accommodation.

The Bank of Mozambique (BoM) was more concerned with economic growth as well as the risks posed by the global financial markets to Mozambique. This contributed to the MPC's decision to cut the Standing Lending Facility (SLF) rate by 50bps in August 2011 to 16%, while also loosening the monetary conditions by reducing the reserve requirement ratio by 25bps from 9% to 8.75%. In November, BoM further reduced the SLF by 100bps to 15%, taking advantage of decelerating inflation.

Elsewhere in Tanzania, the overnight and T-bill rates, which were 8.0% and 6.4% respectively at the beginning of the year, gradually softened during the year before firming up towards the end of the year as liquidity conditions tightened. The tight liquidity conditions may have led to a failure of a

Policy interest rates (%)



7-year bond auction that was planned for end of August. Correspondingly, for the first time since mid 2009, the weighted interbank rate increased to double digit levels in October and peaked at above 30% in December in sympathy with the tight liquidity conditions.

In Zambia, the central bank significantly reduced the utilisation of open market operations (OMOs) to drain liquidity. Rates fell accordingly, with the overnight lending facility rate falling to 7.5% in mid November, from a high of 18% in the third quarter of the year. Yields on Government securities also fell in line with the increased liquidity. In October, 91-day and 364-day yields which stood at 8.6% and 15.3% respectively, fell by 150bps and 190bps to end the year at 7.1% and 13.4%.

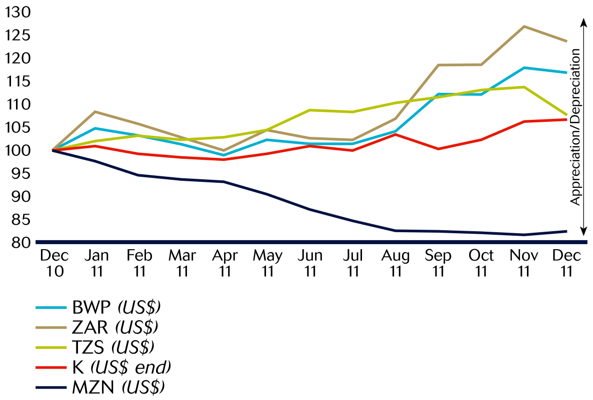
Since dollarisation, Zimbabwe's central bank has played a peripheral role following its loss of the lender of last resort function. As a result, there is no benchmark policy rate to guide the market. This notwithstanding, lending and investment rates firmed in the last quarter of 2011 on the back of persistent liquidity challenges and high credit demand. During the fourth quarter of 2011, nominal lending rates of corporate loans for banks ranged between 8% and 30%, with the majority of banks hovering around the 20% mark. Time deposits, which constitute less than 10% of total bank deposits, attracted rates in the range of 15% to 20%. Smaller financial institutions that were hard hit by the liquidity crunch were offering higher returns on time deposits.

EXCHANGE RATE DEVELOPMENTS

Generally, for many economies in the region that operate flexible exchange rate regime, adverse terms of trade often translate to depreciation of their currencies. Likewise, the World Bank noted that during the downturn of 2009, a third of local currencies in the region depreciated by over 10%.

The Rand weakened considerably during the second half of the year, largely as a result of investor concerns about the pace of global recovery. South Africa, together with Nigeria and Kenya, have the most liquid financial markets and are therefore prone to global shocks. Concomitantly, heightened uncertainty in the global financial markets in the wake of Euro zone crisis adversely impacted on short-term portfolio equity and investment in bonds, thereby affecting the Rand.

Exchange rates movement vs. USD

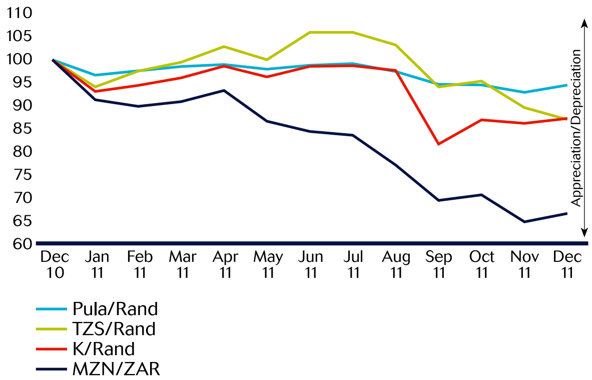


To the extent that the Rand has a dominant weight in the Pula basket of currencies, the Rand weaknesses appear to be transmitted to the Pula. As of end of 2011, the Pula was trading at BWP7.52/US$ compared to BWP6.44/US$ in December 2010, reflecting that the Pula depreciated against the US$ by 16.9%. Similarly, on a year on year basis, the Pula depreciated against the EUR (13.1%), GBP (16.5%) and Yen (22.6%) but appreciated against the ZAR (5.5%).

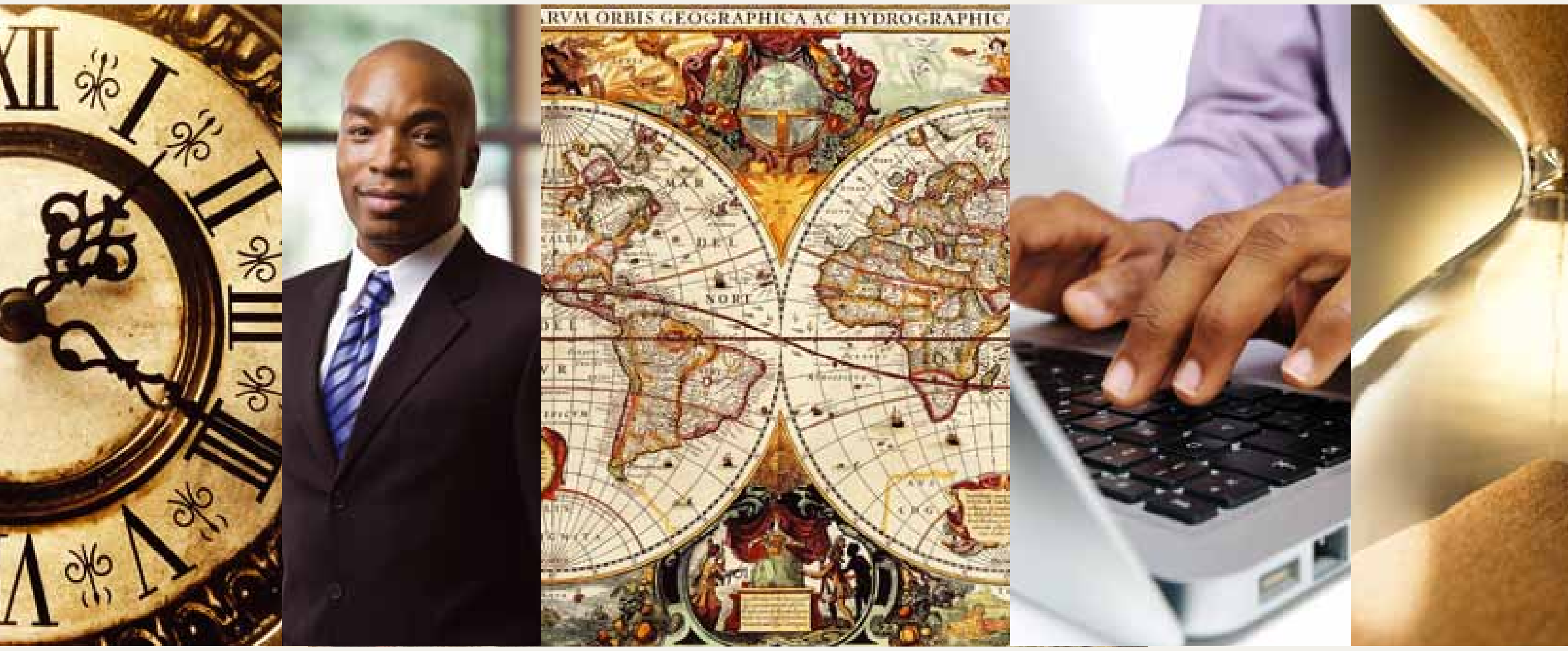
In addition to targeting the stock of base money, and hence money supply, the central bank of Mozambique has been using the exchange rate as a tool to fight inflation. The Metical thus appreciated considerably by 18% against the US$, from MZN32.89/US$ in December 2010 to MZN27.13/US$ in December 2011. The Metical was generally stable against the Rand during the first half of 2011 before strengthening considerably from MZN4.20/ZAR in June to MZN3.32/ZAR in December. Against this background, the relatively stronger Metical helped to dampen imported inflation from SA.

During the first ten months of the year, the Tanzanian Shilling was under consistent pressure against the US dollar. The weighted average exchange rate, which stood at TZS1,470/US$ in December 2010, progressively depreciated by nearly 15% to TZS1,688/US$ in October before reversing the trend during the remainder of the year. The Shilling also recovered well against the Rand during the second half of the year to reverse its earlier losses.

Exchange rates movement vs. USD



The Zambian Kwacha was broadly stable during the first half of the year, trading at an average of ZMK4,761/US$. During the second half of the year, the Kwacha came under pressure on the back of concerns regarding the political landscape as well as deteriorating external factors. As a result, the Kwacha was relatively weak, trading at an average of ZMK4,962/US$. The Kwacha, however, appreciated by 12.7% against the ZAR, from ZMK723/ZAR in December 2010 to ZMK632/ZAR in December 2011.



FINANCIAL SECTOR DEVELOPMENTS

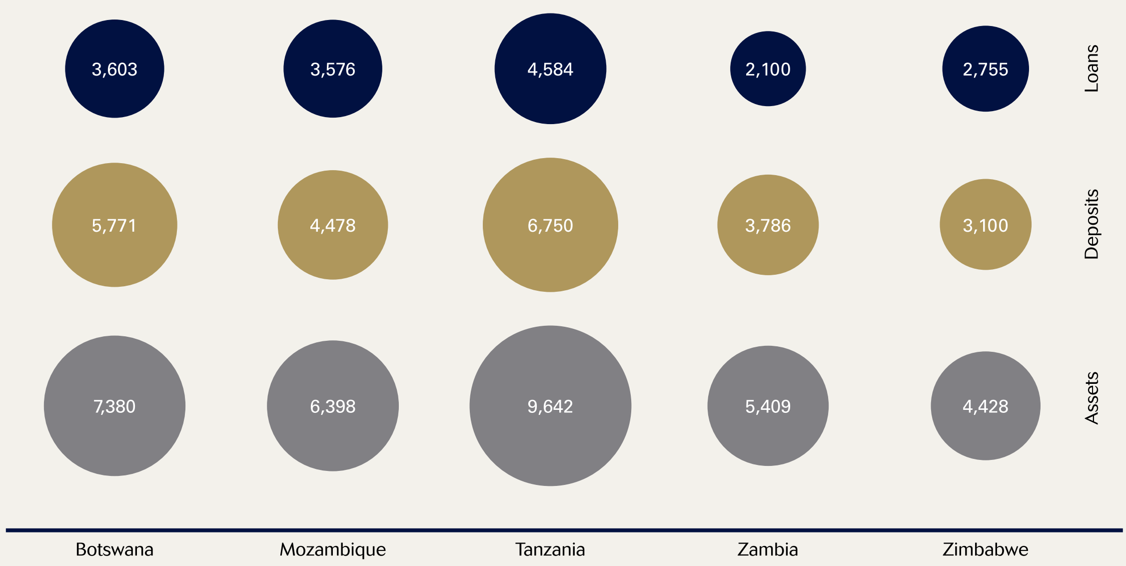
Although the banking sector in most African countries was not directly exposed to the toxic banking assets and financial turmoil in the developed world, the spillover effects were seen through reduced lending activity, deterioration in the quality of loans resulting in precipitous increase in the level of non-performing loans (NPLs), drying up of lines of credits as well as a decline in the level of deposits. Nevertheless, the banking sector in many African countries appears to have weathered the negative effects of the global financial turmoil. In an attempt to prevent any slip-ups, most Central Banks stepped up enforcements to ensure compliance with regulations while, in some cases, they raised the minimum capital requirements.

The banking sector in Botswana is regulated and supervised by the Bank of Botswana. The sector can broadly be divided into two main segments: the banking sector and the non-banking financial sector. The banking sector is mainly comprised of commercial banks while the non-banking financial sector is mainly comprised of insurers, pension funds, asset managers, microfinance institutions and other credit institutions. The negative impact of the global financial crisis was felt through a decline in both Pula and foreign currency denominated deposits while the level of non-performing loans edged up slightly in 2010.

However, banking sector deposits continue to increase, having fully recovered from the indirect effects of financial crisis. Total deposits that stood at BWP37,572 million (US$5,632 million) in December 2009 marginally improved to BWP41,619 million (US$6,463 million) in December 2010 and stood at BWP44,221 million (US$6,120 million in September 2011. The share of foreign currency denominated deposits (FCAs) has however not recovered from the levels that prevailed prior to the global recession. As of September 2011, the share of short-dated deposits accounted for 62% of total deposits (i.e. call, 38%; current, 17%; and savings, 7%). The savings accounts are considered short-term since they are mostly used as transactional accounts. The balance of 38% of total deposits is considered time deposits, consisting of 88-day (14%), 6 months (20%) and over 12 months (4%) deposits. As of September 2011, total bank loans to the private sector amounted to BWP26,053 million (US$3,606 million), having increased by BWP4,348 million (US$311 million) from BWP21,706 million (US$3,295 million) in September 2010.

Mozambique's domestic banking system is dominated by high foreign ownership and most banks are adequately capitalised. The number of banks operating in the market has increased from 14 in 2008 to 16 from December 2010. The Mozambican banking system remains highly concentrated with the three largest banks, which are all foreign owned, accounting for 80% of the system's assets.

ABC Markets – Size of Banking Systems in US$ million



Authorities have also lowered reserve requirements for banks to 8.5% in an attempt to allow more room for credit creation by banks in light of the unfolding current international crisis and uncertainty. Total bank deposits improved from MZN114 billion (US$3,468 million) in December 2010 to MZN120 billion (US$4,478 million) in November 2011 largely reflecting full scale banking sector recovery and increasing confidence. In 2011, due to a continuously strengthening Metical, businesses appear to be relinquishing their FCAs deposits in preference to the Metical denominated deposits. Consequently, the ratio of FCAs to total deposits declined from 43% in September 2010 to 40% in March 2011 and further to 31% in November 2011. Outstanding private sector credit stood at MZN96 billion (US$3,576 million) in November 2011 compared to MZN93 billion (US$2,626 million) in November 2010. This represents an annual increase of MZN3 billion or a growth rate of 3.4%. However, the concentration of loans on single borrowers and tight liquidity conditions remain major concerns for the banking sector.

In Tanzania, the banking sector experienced a significant increase in NPLs largely due to the lagged impact of the global financial crisis in some sectors as well as high delinquency in household loans. However, the level of NPLs has started to decline. The NPLs were 8% of total loans at the end of September 2011, down from nearly 10% at the beginning of the year, reflecting efforts to strengthen loan collection, follow-up and tightened underwriting standards. Total bank deposits increased by US$933 million from US$5,816 million in October 2010 to US$6,750 million in October 2011. As of October 2011, foreign currency deposits accounted for about 37% of total deposits. Annual growth in private sector credit also improved to 31% in October 2011 compared to 20.3% during the same month in 2010. In nominal terms credit to the private sector grew by US$731 million from US$3,884 million in October 2010 to US$4,615 million in October 2011.

The Zambian banking sector experienced a decline in deposit levels in the last quarter of the year. In January 2011, total bank deposits at US$3,607 million steadily increased to their highest level of US$3,966 million in October before retreating to US$3,786 million – possibly due to the impact of the depreciating Kwacha during this period. Private sector credit increased by 29% from K8,298 billion (US$1,683 million) in November 2010 to K10,702 billion (US$2,100 million) in November 2011. Household loans account for about 34% of total loan portfolio.

In January 2012, the Zambian Minister of Finance announced a radical change in the minimum capital requirements for banks. By 31 December 2012, foreign owned banks are required to have minimum tier I capital of US$100 million and locally owned banks are required to have US$20 million as minimum tier I capital. There are some interim mile-stones that banks should meet in as far as minimum capital is concerned before the final deadline of 31 December 2012.

Until recently, Zimbabwe's banking sector recovery had been relatively smooth, with Government projecting strong growth rate of 24% and 23% in 2011 and 2012, respectively. During the second half of 2011, the banking sector was trapped in a liquidity squeeze that potentially threatened to cause irreparable damage to some banks. The liquidity challenges intensified during the festive season on the backdrop of:

- overly high import bill compared to exports receipts – partly triggered by a surge in second hand car imports following a threat to ban used cars that are older than five years;
- government expenditure overruns since August 2011 that saw the fiscal surplus being depleted from US$220 million to US$30 million by year end; and
- high value cash withdrawals during the festive season

This notwithstanding, Zimbabwe's banking sector deposits have grown in leaps and bounds on the back of increasing confidence. Against this background, deposits held by banks grew by over US$900 million from US$2,328 million in December 2010 to US$3,300 million in December 2011. Deceleration in the deposit growth during the second half of 2011 was largely attributable to persistent liquidity challenges during this period. Total credit advanced by banks continued on an upward trend, increasing by 163% from US$636 million in December 2009 to US$1 677 million in December 2010 and by 69% to US$2,838 million in December 2011. However, most banks deliberately reduced lending on the back of tight liquidity conditions that prevailed during the second half of 2011.

OUTLOOK

The global economy is going through a difficult patch due to the adverse impact of the worsening Euro-debt problems. According to the World Bank and the IMF, capital inflows to the developing countries declined by almost half compared to 2010, while growth in several major developing countries (Brazil, India, and to a lesser extent, Russia, South Africa and Turkey) has slowed down partly in reaction to domestic policy tightening. Elsewhere, the Euro area could enter into a mild recession in 2012 as a result of the rise in sovereign yields, the effects of bank deleveraging on the real economy and the effect of fiscal consolidation.

Despite the existence of multiple shocks such as heightened uncertainty and slowdown in the global economy, volatile and high fuel and food prices, SSA continued its post-crisis recovery trajectory. According to the World Bank, over a third of countries in the region attained GDP growth rate of at least 6%. Strong economic growth has been supported by both domestic and external demand – supported by higher commodity prices.

Economic growth in the ABC markets is expected to remain on a positive trajectory, although the downside risks of a possible global downturn could be damaging. In Zimbabwe, investors and businesses alike remain wary of a possible election later on during the year. As a result, the country will continue to find it difficult to shake off its high political risk tag that has made it difficult for banks to access the much needed external lines of credit.

STAFF SHARE PURCHASE ALLOCATION

During the year, 3.1 million new shares together with 2.3 million treasury shares, were issued to staff at a discount of 15% on the share price as at 14th March 2011. This brings the total number of issued shares to 149,472,131 out of an authorised number of shares of 150 million.

GOVERNANCE

The Board was further strengthened by the appointment of Mr Mark M Schneiders, the Chief Development Officer of African Development Corporation in December 2011. I would like to welcome Mr Schneiders to the Board. Mr Schneiders brings a wealth of international banking experience accumulated over many years in the financial services sector.

REGIONAL ECONOMIC OUTLOOK

	World Bank Outlook			IMF Outlook		
	2011	2012	2013	2011	2012	2013
World Economy	2.7	2.5	3.1	3.8	3.3	3.9
Euro Area	1.6	(0.3)	1.1	1.6	(0.5)	0.8
Developing Asia	n/a	n/a	n/a	7.9	7.3	7.8
Sub-Saharan Africa	4.9	5.3	5.6	4.9	5.5	5.3

There are, however, growing fears that if the Euro-debt crisis evolves into a major crisis, the global downturn may be longer than it was in 2008/09. This is due to the fact that high-income countries do not have the fiscal or monetary space to bail out banking systems or stimulate demand. The risks of a global downturn could severely harm SSA's growth prospects. As in the 2008/09 global crisis, a reduction in global demand for the region's exports could lead to sharp declines in commodity prices and hence export and government revenues.

RIGHTS ISSUE

The balance sheet of the Group has significantly increased over the last couple of years. As a result, it would not be possible to grow any further without additional capital being sourced. BancABC Botswana, BancABC Tanzania and BancABC Zimbabwe are now at a stage where their capital adequacy levels are very close to regulatory minimums.

At the same time BancABC Mozambique is no longer able to fully support its very good clients as they have grown faster than the bank. In 2008 the bank took a strategic decision to expand its product offering to include Retail Banking. This growth has been funded entirely from internally generated funds. This line of business is now showing lots of potential and indications are that it should make profits in 2012. However, it is very capital, systems and people intensive. In view thereof, the Board has recommended that US$50 million be raised immediately by way of a rights issue in order to ensure that the Group does not lose the momentum that has been created. African Development Corporation, a 23.2% shareholder in the Group, has agreed to underwrite the entire issue. Further details are contained in the circular to shareholders that will be released shortly after the publication of this report.

As alluded to earlier in this report, the Bank of Zambia has increased the minimum level of capital from some US$2 million to US$100 million. The Board is currently evaluating all the options to address this new requirement. Shareholders will be advised of any new developments in this regard as necessary.

DIVIDEND

In line with the Group dividend policy, a final dividend of 10.5 Thebe in respect of the year ended 31 December 2011 is being proposed by the Board. This will bring the full year dividend to 17.5 thebe per share. The final dividend will be paid on 4 May 2012 to shareholders on the register at the close of business on 13 April 2012.

ACKNOWLEDGEMENTS

I would like to thank my fellow directors, management and staff for the strong results posted by the Group. This positions the Group well for growth in future.

HJ Buttery
Group Chairman

The rest of the operations delivered pleasing performance punctuated by increased revenue and disparate but increased activity in the retail business, which continued to improve from strength to strength. Staff numbers have swelled from 668 in December 2010 to 1,008 in December 2011 even though a significant number are on short-term contracts. Total assets grew from BWP6 billion in December 2010 to BWP9 billion by December 2011, total deposits from BWP5 billion to BWP7 billion and total loans from BWP3 billion to BWP6 billion. This growth is a reflection of many years of dedication and systematic execution by the Group and its subsidiaries. Operations are getting close to critical mass and I am pleased by the subsidiaries' performance in 2011. We ended 2011 with Botswana, Mozambique, Zambia and Zimbabwe producing increased year-on-year profits averaging about US$5 million each. This is a giant leap from the results these subsidiaries have been posting in the past. The expansion the Group is undertaking has necessitated the need to raise more capital by way of a rights issue.

GROUP CEO'S REPORT

During 2011, the Group performed satisfactorily ending the year stronger than the 2010 financial year. This progressively brighter picture was spoiled by high NPLs and market risk in Tanzania.

Market Analysis

Some very positive developments have taken place within the Southern African Development Community (SADC) region in the energy sector. Texas-based Anadarko Petroleum Corporation (Anadarko) recently announced a large natural gas find off the northern Mozambican coast in the Rovuma Basin increasing its estimated recoverable resources from 15 to 30 trillion cubic feet of gas. Anadarko has awarded a contract to a US based company KBR, Inc. to design a liquefied natural gas (LNG) plant for Mozambique. Anadarko co-owners are Mitsui of Japan (20 per cent), BPRL Ventures and Videocon (both of India, with 10 per cent each) and Cove Energy of Britain (8.5 per cent). The Mozambican government is represented by Empresa Nacional de Hidro-carbonetos which holds a 15 per cent interest in the fields. In addition, ENI and Anadarko have made a sizeable petroleum discovery off Mozambique's coast.

On the other hand, Tanzania is predicted to become an important gas producer by the end of the decade. Significant natural gas discoveries have also been made off the coast of Tanzania. The country is expected to receive FDI in excess of US$7 billion from Ophir Energy and its partner British Gas. Combined with Angola, these finds in Mozambique and Tanzania will introduce a new dimension in the oil and gas sector and put the SADC on the global energy map. The upstream and downstream effects will feed into our businesses in these key markets and position us for accelerated growth in the coming years.

The Botswana Democratic Party celebrates its 50th year anniversary in 2012. This democratic milestone is coming soon after the ANC of South Africa celebrated 100 years in 2012. This is a positive development in the interests of democracy.

In Zambia, the election of President Michael Sata introduced a new dimension to politics in that country. The transition was peaceful. The recent victory of the Zambian national team at the continental soccer tournament AFCON was a great unifying event that lifted the spirits of all Zambians and extends to the whole SADC region.

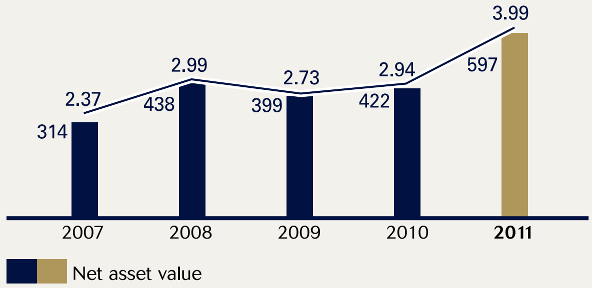
The Zimbabwean political landscape is still governed by the Government of National Unity between ZANU-PF and the two MDC political parties. The enactment of the new constitution, whose review is currently in process, should pave way for elections. However, the timing for the enactment of the new constitution and the eventual elections is currently unknown.

FINANCIAL REVIEW

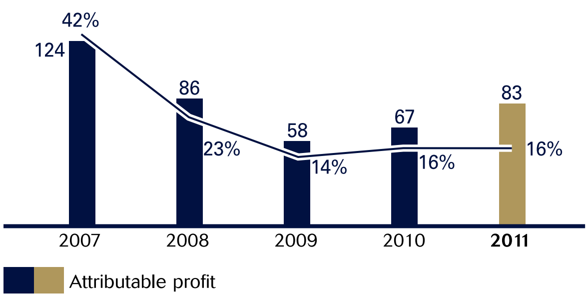
The Group posted a strong set of results for the period with all the banking subsidiaries, with the exception of Tanzania, reporting excellent results. Attributable profit at BWP83 million, is 24% higher than the BWP67 million achieved in the previous year. The profitability achieved is particularly pleasing when viewed against the background of the Group's ongoing massive investment in the Retail Banking business, which continued despite the mixed economic conditions that were a dominant characteristic of the banking sector during the reporting period. The Group balance sheet increased by 53% from BWP6 billion to BWP9.2 billion. Loans and advances were up almost two fold from BWP3.1 billion to BWP6.1 billion. This was largely funded by deposits that increased by 50% from BWP4.9 billion to BWP7.4 billion. All major lines of business recorded significant growth during the year. The Group now has 49 Retail branches including consumer lending branches, up significantly from 31 branches in 2010. Rapid expansion of retail banking operations continued, with BWP177 million being spent on essential hardware and software during the last 24 months. As was to be expected, staff numbers continued to grow. By the end of the reporting year staff numbers, including temporary and contract workers, stood at 1,008, compared to 668 at the end of December 2010. Whilst the Retail Banking business is still recording losses, excluding Zimbabwe, where it is already profitable, we are happy with the progress made to date in Botswana and Zambia.

OVERVIEW

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



Attributable profit (BWP m) **and ROE** (%)



Net interest income

Net interest income of BWP412 million was 38% ahead of the BWP298 million achieved in 2010. All entities recorded an increase in net interest income on the back of significant growth in balance sheet sizes. Net interest margin declined slightly from 6.6% to 6.3%. However, this is expected to increase in the coming periods as the Retail Banking loan book grows. As at 31 December 2011, the Retail Banking loan book constituted 20% of the total loan book compared to 8% in 2010.

Impairment losses on loans and advances

Net impairments of BWP80 million were about five times up on the BWP16 million prior year net charge. The increase was partly due to portfolio impairments that increased in line with the growth in the loan book, doubling from BWP3.1 billion to BWP6.1 billion. The credit loss ratio deteriorated from 0.6% in 2010 to 1.7% at the end of 2011. It should be noted, however, that the quality of the book continues to improve with gross non-performing loans down from 8.3% to 6.7%. Net non-performing loans also reduced markedly and are now down to 3.3% from 4.2% in the previous year. The largest contributor to the impairment charges were BancABC Tanzania and BancABC Zimbabwe, which had net impairments of BWP33 million and BWP32 million respectively.

Fifty percent (50%) of the impairment in Tanzania is in respect of a loan which was guaranteed by the Government of Tanzania (GoT). Unfortunately, a lower balance was signed off owing to the protracted time it took to conclude this issue. Consequently, a decision was taken to write-off interest that accrued to December 2012. In addition, a lower negotiated interest rate was applied when the GoT took over the loan and therefore gave rise to a loss on derecognition of the old loan and recognition of the new loan to the GoT. The increase in BancABC Zimbabwe impairments was due to a combination of portfolio impairments and down-grading of a few loans granted to a number of small and medium sized companies. The liquidity situation in Zimbabwe had an adverse impact on the cash flows of the bank's small to medium-sized customers, which has affected their ability to service their loans as they fall due.

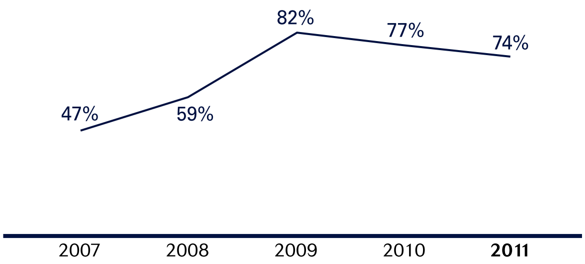
Non-interest income

Non-interest income of BWP326 million was ahead of the prior year by 23%. This income is net of BWP27 million relating to the fair value loss on the IFC loan conversion option. This loss is largely as a result of the significant increase in the Company's share price but does not have any impact on the cashflows of the business. This amount will be transferred to equity on conversion or reversed to income if IFC does not convert the loan to equity by 13 May 2013. Excluding this amount, non-interest income increased by 34%. BancABC Zimbabwe performed strongly when compared to prior year as fees, commissions and trading income improved. Following the introduction of Retail Banking and the increased market penetration achieved through additional outlets created during the year, all subsidiaries with the exception of BancABC Tanzania saw an increase in business volumes, reflected in higher transaction and trading income. Money market interest rates moved up significantly, between September 2011 and year-end, in Tanzania. For example, the inter-bank rates moved from around 4% at the beginning of 2011 and peaked at 33% by year-end. As a result, the Group had to book huge mark-to-market losses on its trading book. Owing to the above, BancABC Tanzania's non-interest income was lower than the previous year.

Operating expenditure

Operating expenses at BWP546 million were 25% ahead of the BWP435 million recorded in 2010. Expansion of the Retail Banking products and the increasing retail branch footprint resulted in higher costs across the network. These costs are expected to increase further in 2012, but stabilise thereafter as the business achieves critical mass. Notwithstanding the above, the cost to income ratio reduced from 77% to 74%. The cost to income ratio is expected to continue on a downward trend as revenue is expected to increase more rapidly than costs. The cost to income ratio should decline and move closer to the Group's medium-term target of 50% within the next 24 months.

Cost to Income Ratio



Taxation

The Group had a net tax charge of BWP20 million compared to a tax charge of BWP22 million in the previous year. The effective tax rate is 19% compared to 25% in the previous year, when the Group incurred higher losses in its share of associate results where no tax benefit could be derived. Current year effective tax rate is also lower, due to BancABC Zambia recognising a deferred tax asset that had previously not been recognised. BancABC Zambia is now highly profitable and the tax losses will all be utilised.

Balance sheet

The balance sheet increased by 53% from BWP6.0 billion (US$0.9 billion) in 2010 to BWP9.2 billion (US$1.2 billion) as at 31 December 2011, a major milestone, with the threshold of US$1 billion being crossed for the first time in the Group's history.

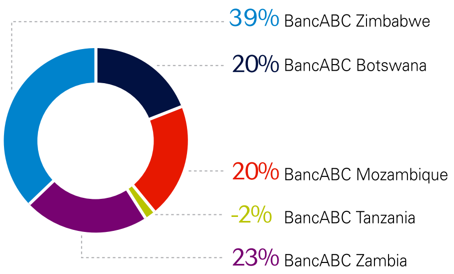
Loans and advances increased to BWP6.1 billion from BWP3.1 billion in December 2010. BancABC Zimbabwe loan book of BWP2 billion constitutes the largest contribution of 33%. Deposits increased to BWP7.4 billion from BWP4.9 billion in December 2010. The full impact of the massive growth in the balance sheet will be felt in subsequent reporting periods through increased income.

Attributable profit

Banking subsidiaries achieved attributable profits of BWP141 million, compared to the BWP97 million registered in the previous year. All subsidiaries produced substantial double-digit growth in attributable profit with the exception of BancABC Tanzania, which recorded a loss for the year. BancABC Botswana's net profit after tax of BWP28 million was 40% higher than BWP20 million recorded in 2010. This was largely due to an increase in business volumes in both Retail and Wholesale banking divisions. We expect Botswana to record phenomenal growth in 2012. BancABC Mozambique experienced a surge in net interest income resulting from better margins compared to prior year. This drove the 26% increase in attributable profits.

BancABC Zambia had a phenomenal 184% increase in attributable profit due to the growth in the consumer lending book, coupled with the BWP10 million deferred tax asset recognised during the year. BancABC Zimbabwe's attributable profit of BWP55 million was 106% up on the BWP27 million recorded in 2010. The deteriorating liquidity situation in Zimbabwe affected this growth in the second half of the year. The loss in head office entities, together with consolidation adjustments, increased by 92% from BWP30 million in the previous year to BWP58 million in the current year. This was largely due to a fair value loss and additional interest expense on the IFC convertible loan of BWP35 million.

Attributable profit contribution by entity



OPERATIONAL PERFORMANCE

Botswana

BancABC Botswana grew its market share significantly during the year under review. This was through the in-roads made in the Retail segment in that market. The bank introduced new innovative lending products which enabled it to acquire a number of Retail customers within a relatively short period. The bank was the pioneer in offering the prepaid "chip and pin" cards and demand for this service is growing exponentially.

BancABC Botswana's attributable profit of BWP28 million was 40% ahead of the prior year. Total income improved by 37% from BWP85 million to BWP116 million on the back of an increase in both volumes and margins. Net interest income improved by 54% to BWP79 million mainly due to improved margins and a substantial increase in the balance sheet size. The loan portfolio increased by 109% from BWP795 million to BWP1.6 billion. As a result, portfolio impairments increased during the year. Non-performing loans continue to decline and reduced to 2.2% from 9% in the previous year. Non-interest income increased by 36% to BWP45 million, due to increased transaction volumes.

Operating expenses increased by 41% due to an increase in activity as the entity made inroads into the Retail Banking market. BancABC successfully signed a number of agreements with Government unions for consumer lending business. This lucrative business is highly competitive in Botswana, with a number of institutions operating in this space. Cost to income ratio improved marginally from 70% to 67% in 2011.

The bank is well positioned for significant growth going forward. The income stream is now well diversified with Retail Banking projected to contribute significantly to income in the coming year.

Mozambique

BancABC Mozambique achieved strong growth in the Wholesale business as well as in growing Retail deposits. Attributable profit of BWP29 million was 26% ahead of the previous year. This was driven by the high growth in net interest income, which increased by 109% to BWP61 million following improvements in margins, as well as growth in the interest earning assets.

Loans and advances increased by 80% to BWP762 million and deposits increased by 45% to BWP1.2 billion. Interest margins steadily improved during the year as the interest rate shocks experienced in the previous year dissipated. Non-interest income increased by 12% to BWP65 million despite the decline in foreign exchange trading margins following increased intervention from the central bank during the year. The fall in margins was offset by an increase in trading volumes.

Net impairments increased from BWP2 million to BWP5 million largely due to growth in the loan book. Operating expenses increased by 43% to BWP81 million from increased activity levels in line with the current drive to make inroads into the retail space.

Going forward, BancABC Mozambique will build on the success achieved in raising retail deposits to grow consumer finance loans. The operation is also pursuing opportunities available through payroll deduction schemes.

Tanzania

BancABC Tanzania had a twin-setback in the form of impairments and interest rate risk, both of which increased during the fourth quarter. The rapid increase in market interest rates resulted in higher mark-to-market losses for the trading book in a market where the secondary market is under-developed. Inter-bank interest rates moved from 4% to peak at 33% in December 2011.

All the other rates moved in tandem with the increase in inter-bank rates. Rates on the operation's 5 and 10 year Government bond portfolio moved from 11% and 13% to 13% and 15% respectively. Owing to these factors, the bank suffered a mark-to-market loss of BWP13 million.

In addition, the GoT decided to take over one of the BancABC Tanzania loans that it had guaranteed. Unfortunately, there was a discrepancy between what GoT approved and the carrying amount in BancABC Tanzania's books, due to the GoT taking over six months to make a decision. As a result, the bank suffered a loss of BWP17 million through the reduction in interest rate and the impairment of the loan. Total impairments for the operation at BWP33 million were 82% higher than BWP18 million recorded in the previous year. The high impairments coupled with mark-to-market losses resulted in the operation recording an attributable loss of BWP3 million for the year.

Total income at BWP56 million was lower than BWP68 million achieved in 2010. On the other hand, operating expenses increased by 30% to BWP62 million due to the expansion in Retail Banking activities.

We expect the difficult trading environment to continue into the first quarter of 2012 and gradually improve as the year progresses.

Zambia

BancABC Zambia was successful in expanding the consumer lending business during the year.

At BWP32 million, BancABC Zambia's attributable profit was three-times that achieved in the previous year.

Growth in profits emanated from the significant increase registered in the consumer banking segment where business underwritten increased substantially leading to an increase in revenues. In addition, BWP10 million was recognised as a deferred tax asset as the business is now on a solid footing. This tax asset will be fully utilised within the next 18 months.

Loans and advances in the consumer lending division increased by 242% from BWP92 million to BWP314 million. Whilst the bank gained some traction in its wholesale banking activities during the fourth quarter, the results from this segment are still regarded as unsatisfactory. Both wholesale loans and deposits are still way below the optimal levels required to ensure sustainable revenues. The Wholesale Banking Division saw loans and advances grow by 87% to BWP263 million, while deposits increased by 116%, as market confidence in the bank continued to improve.

Total income increased by 10% from BWP92 million to BWP101 million on the back of a 63% increase in non-interest income as fees from consumer lending increased significantly during the year. Operating expenses remained largely unchanged despite the increase in business activity. This was largely due to realisation of the full benefits of the merger of the two businesses (the bank and the microfinance entity) that was embarked on in 2009/2010.

The subsidiary is on a strong footing for growth in 2012 and beyond. Transaction volumes in the wholesale division are showing signs of improvement, but the majority of the growth in business volumes in the near future will be from the consumer lending division. The bank has embarked on an aggressive cross-selling exercise, as most of the consumer lending customers are currently using a single product and there are major opportunities to mine the relationships and increase product offerings and utilisation by a growing customer base.

Zimbabwe

BancABC Zimbabwe continued the growth pattern experienced in the recent past and has become one of the leading banks in that market. The continued acquisition of Retail customers has enabled the bank to build critical mass and compete at the same level as the more established commercial banks.

BancABC Zimbabwe's attributable profit of BWP55 million was 106% higher than that recorded in the prior year. The increase in attributable profit was due to the strong business growth during the year, which gave rise to higher net interest and non-interest income which increased by 137% and 51% to BWP136 million and BWP129 million respectively.

Loans and advances increased by 132% to BWP2 billion and deposits increased by 88% to BWP2 billion. Growth in loans and advances had an adverse impact on impairments, which increased from BWP2 million in 2010 to BWP32 million in the period under review. While gross non-performing loans remained low at 5.87%, the impairments emanated from an increased loan book and a deterioration of the quality of loans in the SME sector. Operating expenses increased by 39% to BWP149 million due to the increase in the number of branches as a result of the Retail Banking roll out. The liquidity situation in Zimbabwe deteriorated in the second half of the year. This is expected to continue in the foreseeable future as there is no interbank market and lender of last resort. This situation is further exacerbated by the fact that imports currently significantly exceed exports in a currency that the central bank does not print. The bank has therefore deliberately undertaken to improve liquidity at the expense of profitability. As a result, while the business is projected to register significant growth, profitability will not grow by the same magnitude.

BUSINESS SEGMENTS

Treasury

The division had an excellent year with wholesale deposits increasing by 42% from BWP4.75 billion to BWP6.76 billion. At US$985 million, the total deposits were just shy of a major milestone of US$1 billion. Indications are that this should be attained earlier in the first quarter of 2012. All subsidiaries had substantial growth in customer deposits which helped fund the growth in the balance sheet which increased by 53%.

Money market and foreign exchange trading income also increased with the latter growing by 9% from BWP106 million to BWP116 million and the former by 8% to BWP48 million. Trading activities remained high during the year leading to growth in income. However, during the fourth quarter, Tanzania suffered higher volatility in money market interest rates which resulted in mark-to-market losses that wiped out trading gains the entity had achieved earlier during the year.

Zimbabwe experienced serious liquidity challenges in the fourth quarter. This situation is expected to improve in the first quarter of 2012 with the opening of tobacco auction floors and increased activity by the diamond traders. Liquidity management has become a major focus area for the Group. On the trading front, treasury will focus on customer flows rather than proprietary trading.

Corporate banking and structured finance

The division's loan book grew by 63% from BWP3 billion to BWP4.9 billion on the back of increased market penetration across the footprint. This had a positive impact on interest income from loans and advances which increased by 48% to BWP666 million and on arrangement fees which increased by 29% to BWP79 million.

Despite higher impairments on a large corporate client in Tanzania, the quality of the loan book continued to improve with gross non-performing loans (NPLs) declining to 7.4% from 8.6% and net NPLs to 3.6% from 4.6% in the previous year. The largest contributor to the division's loan assets was Zimbabwe, which contributed 33% followed closely by Botswana at 27%.

Given the tight liquidity conditions in Zambia and Zimbabwe, the division is increasingly focusing on non-funded transactions and has made significant progress particularly in Zambia where this business now accounts for 50% of the corporate banking business.

Retail and SME banking

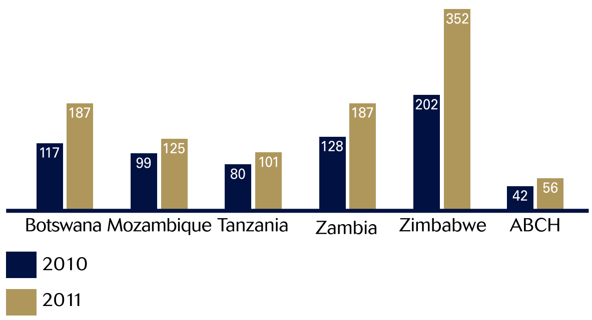
The retail banking division achieved phenomenal growth during the year, albeit from a low base. It continued rolling out products across the Group's footprint and these have been well received. The number of branches and consumer lending outlets increased from 31 to 49 as at 31 December 2011.

Customer deposits almost quadrupled from BWP153 million in 2010 to BWP610 million in 2011. Loans and advances increased eleven-fold from BWP109 million in 2010 to BWP1.2 billion in the current year. The increase in loans and advances is largely on the back of consumer loans from our corporate clients and government employees.

The rollout of additional products helped increase the division's total income, with total revenue up five-fold from BWP27 million in prior year to BWP160 million in the current year. Operating expenses were BWP174 million (2010: BWP105 million) and it is evident that though the division is still loss-making, it is closer to breaking even and it is expected to be profitable during 2012. A number of products were initiated during the year prime among which were VISA prepaid, VISA debit and VISA credit cards. Internet banking is currently being tested and is expected to be rolled out throughout the entire platform by end of the first half of 2012.

Human Capital

The Group's staff compliment continued to increase with the number of staff increasing from 668 in 2010 to 1,008 in 2011.



During the year, the division continued with its Leadership Development Programme in partnership with University of Pretoria's Gordon Institute of Business Science (GIBS). This was a three-year programme whose objective was to raise the leadership capacity of the Group's managers at all levels. The programme was a success and it came to an end in 2011. Related to the GIBS programme is the Executive Coaching programme with Landelhani. This is an on-going programme which was put in place for the bank's senior managers with a view to broadening their leadership capability. The programme will continue in 2012.

The Group also runs an on-going Mentorship Programme for its managers to complement the abovementioned programmes. Overall the output of all these initiatives has been enthusiastic support from the participants and enhanced leadership skills across the whole Group. This will remain a major thrust of human investment in the Group for the future.

The Group continued its ever popular Graduate Management Development Programme with the recruitment of 28 new graduates for 2012. These are specially selected graduates who are taken through an accelerated programme on various facets of banking to enable them to join at a relatively senior level within the Group as soon as they complete the 18 months programme.

The Balanced Scorecard (BSC) is the Group's chosen strategic management and performance monitoring tool. In 2011 the Group was able to cascade it down to the individual level. All employees regardless of rank now have their individual BSC scorecard and are now monitored and rewarded based on the attainment of their Key Performance Indicators (KPIs). This has helped bring focus in the business and ensures that employees concentrate on activities that will bring the most value to the Group.

Going forward, the human capital division will continue to entrench strategic human capital management practices, improve overall employee productivity, drive people costs down and drive a robust talent management system that includes succession planning. The overall objective is to attract, develop and retain highly skilled employees within the Group.

Other supporting divisions

The Group operates a centralised Information Technology (IT) function which is the key enabler to the business. The focus of IT during the year was to support business expansion, mostly on the Retail banking front. The department was bolstered with additional staff who have brought much needed skills internally to service internal and external customers more efficiently and effectively. The core banking software for the Group was successfully upgraded during the year and this puts the Group in a better position to be able to seamlessly interface the core system with other support systems that are utilised within the Group.

Over the last couple of years, we have had challenges in IT due to the fact that we have been building multiple platforms within the division. Consequently the major area of focus in the first half of 2012 would be to stabilise the core banking system and improve connectivity by ensuring that wherever possible we use fibre optic networks as opposed to the current scenario where VSAT is still dominant.

The Group's Banking Operations department supports various revenue-generating departments. The department continuously looks for new and better ways of servicing the customer and at the same time reduce the error rate to negligible figures. The department also ensures that all processes are relevant, documented and up-to-date. During the year, reviews of various processes were done with a view to improving transaction handling capability and where possible to automate these processes. Straight-through processing will also be implemented in the back office area to ensure that the error rate is reduced and also improve on our speed of processing transactions.

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

Group Risk manages all risks that the Group is exposed to from all its activities. The department has various committees that identify and manage various types of risks. The key committees are the Asset and Liability Management Committee and the Operational Risk Committee. The Legal and Compliance department is also charged with the day-to-day management of legal and compliance risks. To this end, the department developed standardised documents for wholesale and retail banking. It strengthened structures in the subsidiaries and established a centralised filing system for all legal documentation. In addition, the Legal and Compliance department advised management and the Board of Directors on various matters including corporate policies in line with the new corporate governance recommendations made in the King III Report on corporate governance. The Group Legal Counsel, who heads this department, also provides legal services to the Group as required or in conjunction with external attorneys.

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

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

Outlook

The world economic environment will remain challenging as we do not believe we have seen the last of the Euro zone debt crisis. Liquidity will in all likelihood continue to be a challenge and hence it is critical that liquidity management remains a key area of focus in 2012. Notwithstanding the above, we believe Africa is the next big economic frontier and there are huge opportunities in the markets in which we operate. Business growth in both retail and wholesale banking has been phenomenal and this lays a strong foundation for the future. Retail banking is expected to start contributing a greater portion of revenue and profitability going forward. We are reasonably optimistic that the Group is well positioned to deliver strong results in 2012 and beyond.

Acknowledgements

I would like to extend my sincere appreciation to the Board for its guidance and support, and management together with all BancABC staff for their support and commitment to The Big Push effort to achieve our BHAG by 2015. The 2011 instalment is a big investment in our quest to achieve our goal of being the preferred banking partner in Africa. After a few years of investing in the Retail expansion, staff are beginning to reap the rewards of their efforts and determination in ensuring that our strategy will be achieved.

Douglas T Munatsi
Group Chief Executive Officer

SOCIAL AND ENVIRONMENTAL POLICY

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

This policy framework commits the Group to:

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

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

The key components of the ESRP are:

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

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

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

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

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

As an emerging Pan-African financial institution, BancABC recognises that it has a responsibility to uplift and play an active role in the communities in which it operates by supporting two pillars it has identified for action, namely:

- *Women and Children* – by assisting with the economic upliftment of these groups, presently the most vulnerable groups on the African continent.
- *Arts and Culture* – vibrant arts and culture are a vital expression of Africa's identity and as such, deserve to be nurtured and celebrated.

We strive to invest in sustainable projects and, through the involvement of our staff, actively demonstrate our goodwill and commitment to enhancing the lives of the disadvantaged through involvement in community-based initiatives.

Botswana

In Botswana, BancABC Botswana assisted a disabled wheelchair-bound artist, Ms Apeksha Bijoor to hold her first public art exhibition at the Maharaja Conference Centre during October 2011. The bank, the main sponsor of the event, contributed BWP50,000 towards the event. The art exhibition was a major success. However, it is with a great sense of sadness that we report that Ms Bijoor passed away on 17th January 2012, only a few months after this event.

In December 2011, BancABC Botswana donated 65 wheel-chairs to His Excellency, The President of the Republic of Botswana, Lieutenant General Seretse Khama Ian Khama at the Tlokweng Main Kgotla. On the same day, bank staff spent the day at the "I Am Special Educational Society" in Tlokweng together with staff from the President's Office to paint the centre and work on the vegetable garden. The bank contributed BWP200,000 towards these two initiatives.

Mozambique

In 2011 a corporate social investment (CSI) committee was created in Mozambique to identify and contribute to worthwhile causes, while managing them and seeing them through to completion. Of the proposals and requests received in 2011, it was decided to sponsor the creation of a small library/reading room at a school for special needs children at one of the two existing schools for such children in Mozambique.

The classroom selected for the transformation into a library was painted and refurbished. A computer, a TV, toys and an array of children's books were also purchased for the facility.

Tanzania

During 2011, BancABC Tanzania supported various initiatives, clearly demonstrating its commitment to Tanzania and its people.

On 4 March 2011, an accidental bomb blast left hundreds of people in Gongo la Mboto homeless. To assist with immediate relief efforts, BancABC Tanzania donated 200 mosquito nets to help victims of the blast.

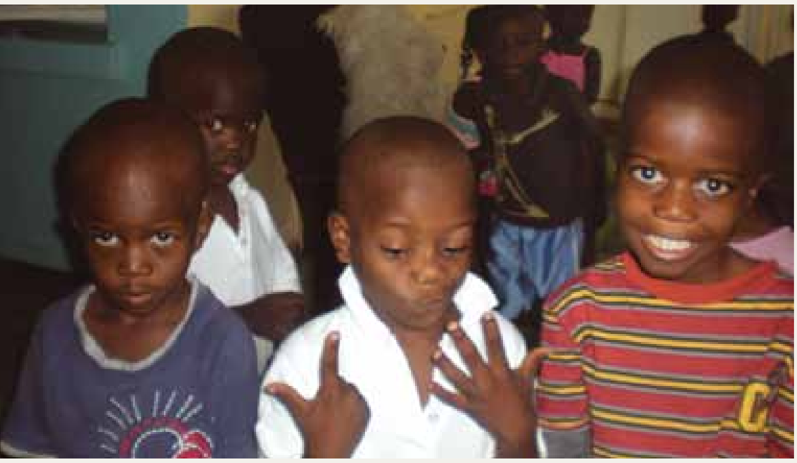
BancABC Tanzania, participated as a co-sponsor of the Diplomatic Spouses Group (DSG) in its main Annual Charity fundraising bazaar. BancABC was the only bank to support this event.

BancABC Tanzania also donated school items worth TZS2.5 million to children whose families were affected by the floods in the city of Dar es Salaam. The items included shoes, school uniforms, pens, exercise books, school bags, compasses and socks.

We will continue to monitor the ongoing needs of communities and respond where we can.

Zambia

BancABC Zambia staff identified St. Martin's orphanage as a worthy initiative during 2011. The home cares for 29 abandoned children, as well as children of parents who do not have the capacity to take care of their children due to a variety of causes. Staff members in our Kitwe Office contributed money from their thirteenth cheques, a donation that was matched by management. The contributions were used to buy an assortment of groceries and shoes for the orphans.



BancABC Zambia is also committed to Our Lady's Hospice in Kalingalinga, Lusaka. The hospice provides day care, home-based care and hospital facilities to people suffering from HIV/AIDS. It also gives support in providing Anti-Retro Viral treatment to some patients. BancABC Zambia supports the hospice by providing a monthly donation to assist the lab to buy necessary supplies.

During the year, BancABC Zambia also supported the Zambia Judo Association by sponsoring the tracksuits used at all international events, and the Zambia Cycling Union by sponsoring their cycling event to support healthy living in Zambia.

Zimbabwe

BancABC Zimbabwe has invested heavily in the Harare International Festival of The Arts (HIFA). The partnership with HIFA began in 2000 with BancABC sponsoring the opening day. Since then, HIFA has become one of the largest festivals of its type in Africa, attracting international artists and tourists, and promoting local arts and culture.

Other CSR initiatives that the bank was involved in included:

- Assisting a 26-year old woman with her medical costs. Her treatment is currently on-going and the bank continues to meet most of the medical expenses.
- Assisting the Mutemwa Leprosy and Care Centre with the restoration of its electricity supply after it was disconnected due to its inability to meet these costs. A monthly stipend continues to be made to cover these costs.
- Paid the overdue school fees for the Fountain of Harare Shelter for Destitutes, a voluntary organisation that assists destitute women, orphans and vulnerable children. It trains women in sewing skills and pays school fees and buys uniforms for the children.
- Paid a once-off amount to cover the travel expenses and learning materials for a deaf woman who had been accepted for tertiary education at the prestigious National Institute for the Deaf in Cape Town.
- Adopting the Entembeni Old People's Home for a year, donating a generator and providing a monthly donation to cover the purchase of groceries and fuel.

RISK AND GOVERNANCE REPORT

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

RISK MANAGEMENT

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

The Group's primary risks are outlined below:

Market risk

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

Credit risk

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

Liquidity risk

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

Operational risk

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

Legal risk

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

Regulatory and legislative risks

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

ROLE OF GROUP RISK MANAGEMENT

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

The Group's Approach to Risk Management

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

Approach to Risk Management

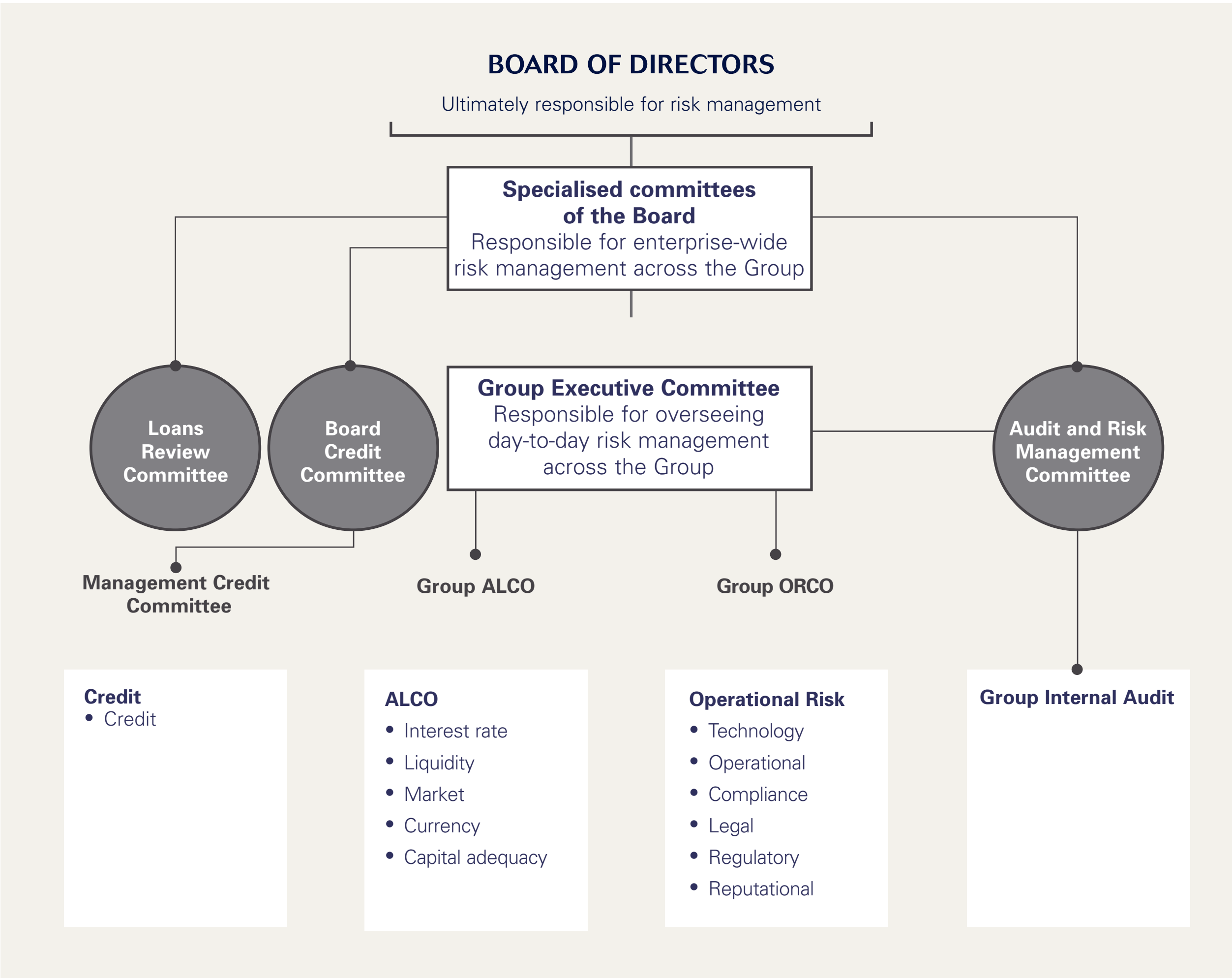
The Board recognises that it is ultimately responsible and accountable to shareholders for:

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

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

Group Risk Management Objectives

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



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

Group Risk Management Framework

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

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

Reporting

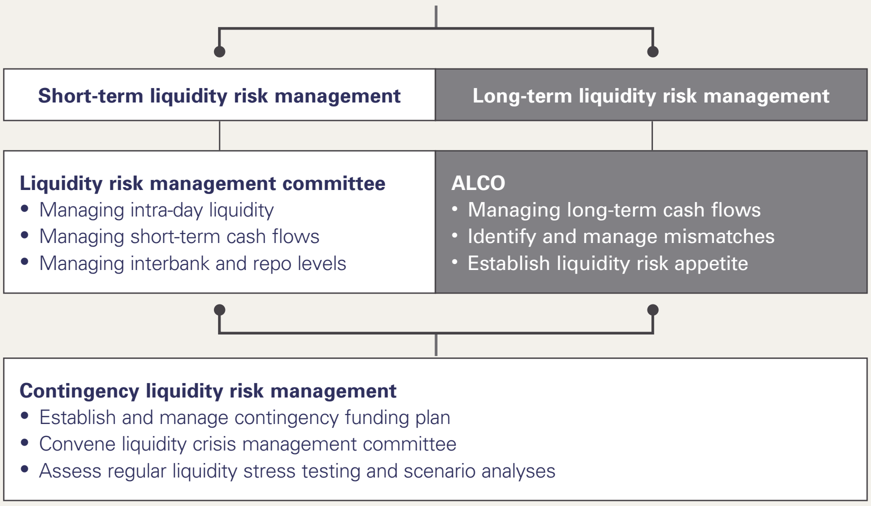
Each subsidiary or business unit produces risk reports which, along with the detailed risk information provided by Group Risk Management, is discussed by the Board. The risk reports present a balanced assessment of significant risks and the effectiveness of risk management procedures, and management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

CAPITAL AND LIQUIDITY RISK MANAGEMENT

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

ALCO reports to the Risk and Audit Committee in terms of the Group Risk Management Framework. Capital adequacy

LIQUIDITY RISK MANAGEMENT STRUCTURE



and the use of regulatory capital are reported periodically to the central banks of the Group's operating countries, in line with respective regulatory requirements. ALCO comprises broadly representative executive and senior managers including the Group CEO, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Group Head of Corporate Banking, Group Head of Treasury, Group Head of Retail Banking and Country Managing directors.

Liquidity is of critical importance to financial institutions as has been recently reminded by the recent failures of global financial institutions, in large partly due to insufficient liquidity. Our markets present larger challenges primarily due to an under-developed secondary securities market and illiquid government securities. As such, the bank has in place a comprehensive liquidity and funding policy to address both firm-specific and market-wide liquidity events. Our primary objective is to be able to fund the bank and to enable our core businesses to continue to operate and meet their obligations under adverse circumstances.

We have established liquidity guidelines that are intended to ensure that we have sufficient asset-based liquidity to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. Our guidelines include maintaining an adequate liquidity reserve to cover our potential funding requirements and diversified funding sources to avoid over-dependence on volatile, less reliable funding markets.

We seek to manage liquidity risk according to the following principles;

- *Excess liquidity* – We seek to maintain excess liquidity to meet a broad and comprehensive range of potential cash outflows and collateral needs in a stressed environment.
- *Asset-Liability Management* – Through ALCO, we assess anticipated holding periods for our assets and their potential illiquidity in a stressed environment. We manage maturity mismatches and level of funding diversification across markets, products and counter-parties and seek to maintain liabilities of appropriate tenor relative to our asset base.
- *Contingency Funding Plan* – We seek to maintain a contingency funding plan to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The framework sets the plan of action to fund normal business activity in emergency and stress situations.

Liquidity risk is broadly managed by ALCO in terms of the Group risk management framework. A liquidity risk committee meets on a weekly basis to access and manage the overall liquidity of the Group. The Group approaches liquidity cautiously and conservatively by managing the liquidity profile with a preference for long-term, fixed rate funding. As such, the Group is exposed to funding liquidity risk.

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

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

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

There has been a refinement of the capital management framework, incorporating all the best practices in risk management since the financial crisis happened. Implementation of the international accord on revised risk-based capital rules known as "Basel II" continues to progress. Our Capital management framework is for the most part guided by Basel II. In theory, Basel II attempts to accomplish this by setting up risk and capital management requirements designed to ensure that a bank has adequate capital for the risk the bank exposes itself to through its lending and investment practices. Generally speaking, these rules mean that the greater risk to which the bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its solvency and overall economic stability.

CREDIT RISK MANAGEMENT

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

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

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

Approach to Measuring Credit Risk

The Group's approach to measuring credit risk aims to align with international best practice and is, in all substantial aspects, aligned with the standard approach and methodology employed by international financial institutions. Credit risk is broken down into the common risk components of probability of default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), modelled at a client, facility and portfolio level. These risk components are used in the calculation of a number of aggregate risk measures such as Expected Loss (EL). The models used by the Group are aimed to be compliant with Basel II and regulatory requirements. BancABC default probability table below shows the mapping of the corporate rating to retail credit scoring to align credit risk appetite assessment and tolerance across consumer and corporate businesses.

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

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

Probability of Default (PD)

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

Exposure at Default (EAD)

In general EAD can be defined as an estimation of the extent to which a bank may be exposed to a counterparty in the event of a counterparty's default within a one-year period. The Group calculates EAD estimates for each facility through models developed and based on internal and external default data as well as credit experts' experience with particular products or client groups. EAD estimates incorporate both on- and off-balance sheet exposures resulting in a capital requirement that incorporates existing exposures, as well as exposures that are contingent on a counterparty's use of an available facility.

Loss Given Default (LGD)

The third major risk component measures the loss expected on a particular facility in the event of default and thus recognises any credit risk mitigants employed by the bank, such as collateral, third party guarantees, credit derivative protection or other credit hedges. LGD estimates are calculated through internally developed models, as well as a broad base of expert judgment from credit representatives and the results are primarily driven by the type and amount of collateral held.

Expected Loss and Capital requirements

The three components, PD, EAD and LGD, are building blocks used in a variety of measures of risk across the entire portfolio. EL is the measurement of loss, which enables the application of consistent credit risk measurement across all retail and wholesale credit exposures. LGD, EAD and PD estimates are also used in a range of business applications, including pricing, customer and portfolio strategy and performance measurement. EL estimates can be compared directly to portfolio impairment figures within the regulatory capital calculation to ensure that the organisation's estimates of EL from doing business are sufficiently covered by the level of general impairments raised. Any situations in which general impairments are insufficient to cover total EL in totality have a direct bearing on the Group's capital requirement to ensure that these potential losses can be absorbed.

OPERATIONAL RISK MANAGEMENT

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

Managing operational risk requires timely and reliable as well as a strong control culture. We seek to manage our operational risk through:

- active participation of all business units in identifying and mitigating key operational risks across the Group;
- the training and development of the banks employees;
- independent control and support functions that monitor operational risk periodically; and
- a network of systems and tools throughout the bank to facilitate the collection of data used to analyse and assess our operational risk exposure.

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

Our operational risk framework is in part designed to comply with operational risk measurement and assessment rules under Basel II. The Group's operational risk management processes focus primarily on risk assessment, loss data collection and the tracking of key risk indicators. The results of these processes are used to raise awareness of operational risk management and to enhance the internal control environment, with the ultimate aim of reducing losses.

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

STRESS TESTING

As a part of our core risk management practices, we conduct enterprise-wide stress tests on a periodic basis to better understand earnings, capital and liquidity sensitivities to certain economic and business scenarios, including economic and market conditions that are more severe than anticipated.

These enterprise-wide stress tests provide an under-standing of the potential impacts from our risk profile to earnings, capital and liquidity, and serve as a key component of our capital management practices. Scenarios are selected by senior management. Impacts to each line of business from each scenario are then determined and analysed, primarily leveraging the models and processes utilised in everyday management routines.

Impacts are assessed along with potential mitigating actions that may be taken. Analysis from such stress scenarios is compiled for and reviewed through our weekly Liquidity Risk Management Committee, Asset Liability Market Risk Committee, Executive Management Committee and the Board's Risk and Audit Committee, and serves to inform and be incorporated, along with other core business processes, into decision-making by management and the Board. We have made substantial commitment through development of tools and systems to establish stress testing capabilities as a core business process.

COMPLIANCE RISK MANAGEMENT

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

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

LEGAL RISK MANAGEMENT

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

GROUP INTERNAL AUDIT

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

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

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

CORPORATE GOVERNANCE

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

BOARD OF DIRECTORS

The Board currently comprises nine directors, including four independent non-executive directors, two non-executive directors and three executive directors. This balanced representation ensures that no one individual or small group can dominate decision making. The depth of experience and diversity of the Board ensures that robust and forthright debate on all issues of material importance to the Group can take place. Profiles of directors appear on pages 40 to 41 of this report.

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

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

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

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

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

The Board meets at least four times annually. Additional telephonic meetings are also conducted during the year. The CEO and senior executives are available to brief directors when required.

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

Director	March	June	Aug	Dec
Buttery	P	P	P	P
Khama	P	P	P	P
Kudenga	P	P	P	P
Munatsi	P	P	P	P
Wasmus	P	P	P	P
Ipe	P	P	*	*
Shyam-Sunder	P	P	P	P
Moyo	P	P	P	P
Dzanya	P	P	P	P
Schneiders	n/a	n/a	n/a	P

P: Present
A: Absent
**: Resigned*

Board committees

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

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

Executive Committee

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

The following divisional and functional heads comprise EXCO: CEO (Chairman), Chief Operating Officer, Chief Financial Officer, Chief Risk Officer and the Managing Director of BancABC Zimbabwe.

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

Risk and Audit Committee

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

Meetings are held regularly throughout the year and are attended by external and internal auditors, as well as senior executive managers. The committee met four times in 2011. Issues addressed included reviewing accounting policies, implementing Basel II, disposing of certain Group assets, capital raising initiatives, the internal audit ratings policy, IT connectivity issues, business continuity planning, financial reporting, operational risks, capital adequacy and compliance, among others.

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

Loans Review Committee

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

The committee met four times in 2011 and issues addressed included the review of Group and country credit policies and guidelines to ensure that these meet best international banking practice, as well as the delinquent loan recovery strategy and adequacy of Group provisions.

Credit Committee

The committee was established in 2010. It is chaired by Mr Buttery and has a mandate to approve loans above the internal management limit of US$7 million. The committee meets when required to approve loans.

Remuneration Committee

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

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

Nominations Committee

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

Dealing on stock exchanges

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

Health and safety policy

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

Environmental policy

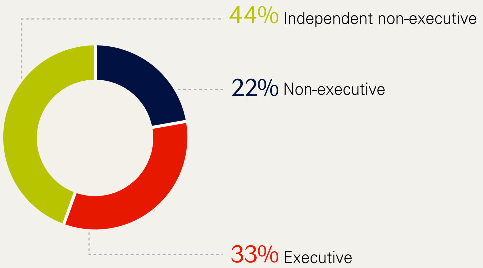
The Group's directorate and management recognise that sustainable development depends on a positive balance between economic development and environmental protection. The Group believes that conserving the global environment is the responsibility of every individual, and as a good corporate citizen it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

ABC Holdings

DIRECTORS AND GROUP MANAGEMENT

ABC Holdings Limited Board of Directors	• Howard J Buttery**	Chairman
	• Doreen Khama**	
	• Ngoni Kudenga**	
	• Mark Schneiders*	
	• Johannes Wasmus**	
	• Lakshmi Shyam-Sunder*	
*Non-executive	• Douglas T Munatsi	Group Chief Executive Officer
**Independent non-executive	• Bekithemba Moyo	
	• Francis Dzanya	
Remuneration Committee	• Howard J Buttery	Chairman
	• Ngoni Kudenga	
Loans Review Committee	• Doreen Khama	Chairperson
	• Lakshmi Shyam-Sunder	
Credit Committee	• Howard J Buttery	Chairman
	• Johannes Wasmus	
	• Douglas T Munatsi	
Nominations Committee	• Howard J Buttery	Chairman
	• Ngoni Kudenga	
Risk and Audit Committee	• Ngoni Kudenga	Chairman
	• Johannes Wasmus	
	• Lakshmi Shyam-Sunder	
Executive Committee	• Douglas T Munatsi	Chairman
	• Francis Dzanya	
	• Beki Moyo	
	• Hashmon Matemera	
	• Dr Blessing Mudavanhu	
Group Management	• Nagarajan Santhanam	Chief Information Officer
	• Bruce Jonker	Group Internal Auditor
	• Cornelius Munyurwa	Group Head Banking Operations
	• Leah Banda	Group Head Marketing
	• Andrea Prazakova	Group Head Retail Banking
	• Johan Testa	Group Head Treasury
	• Melanie Vogt	Chief Legal Officer and Secretary to the Board
	• Paul Westraadt	Chief Credit Officer
	• Andre Willemse	Group Head Human Capital
	• Wallace Siakachoma	Group Finance Executive
	• Dana Botha	Group Head of Corporate Banking

Composition of the board



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

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

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

Howard has extensive knowledge of business across the African continent offering key in-sight to the organisation.

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

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

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

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

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

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

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

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

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

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

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

3 Dr Lakshmi Shyam-Sunder
(American)
Board Member
Non-Executive Director

Lakshmi Shyam-Sunder was born in America in 1956. Lakshmi is CFO and Director, Finance and Risk Multilateral Investment Guarantee Agency at the World Bank Group. She has wide-ranging financial experience, which includes a period on the Finance Faculty of the MIT Sloan School of Management in the USA and at the Tuck School of Business Administration, Dartmouth College.

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

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

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

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

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

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

6 **Johannes Wasmus**
(Dutch)
Board Member
Non-Executive Director

Hans Wasmus was born in Holland in 1941. Hans has been a director since 2003, and has served as Chairman of the Loans Review Committee. He currently is a member of the Risk and Audit Committee.

Hans previously served as Chief Financial Officer and Regional Manager for Africa at FMO, a Netherlands-based development finance institution.

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

5 **Ngoni Kudenga**
(Zimbabwean)
Board Member
Non-Executive Director

Ngoni Kudenga was born in Zimbabwe in 1952. Mr Kudenga has been a director since 2000, chairman of the Risk and Audit Committee since 2000, a member of the Remuneration and Nominations Committees since 2007.

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

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

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

7 **Mark M Schneiders**
(Dutch)
Board Member

Mark Schneiders was born in The Netherlands in 1956. Mark has more than 27 years of banking sector experience in various wholesale and private banks within Africa and around the globe serving as an entrepreneurial finance professional. He has held various positions that include Managing Director with ING Financial Institutions in Amsterdam.

Mark has extensive experience with company mergers, building new markets and setting up retail banking businesses in a variety of countries including Switzerland, The Netherlands, Spain, Curaçao, Argentina, Venezuela, Hong Kong and USA. He was appointed to the Board on 9th December 2011.

Mark holds a Bachelor's and Master's degree in law from the University of Leiden, The Netherlands, and completed the Advanced Management Program at Harvard Business School and various banking management programs at INSEAD (Cedep).

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

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

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

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

EXECUTIVE MANAGEMENT COMMITTEE

① **Hashmon Matemera**
(Zimbabwean)
Managing Director
BancABC Zimbabwe

Hashmon Matemera was born in Zimbabwe in 1964. Hashmon has been a member of the Executive Committee since 2006. He was the Group Head of Wholesale Banking from 2007 before becoming Managing Director of BancABC Zimbabwe in 2011.

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

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

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

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITY

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

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

To enable the directors to meet these responsibilities:

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

It is the responsibility of the independent auditors to report on financial statements. Their report to the members of the Company is set out on page 48 of this annual report.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors' report and the annual financial statements, which appear on pages 49 to 147, were approved by the Board of directors on 22 March 2012 and are signed by:

H Buttery
Chairman

D T Munatsi
Group Chief Executive Officer

27 March 2012

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 (trading under the brand name BancABC) which comprise diverse financial services activities in the areas of corporate banking, treasury services, Retail and SME Banking, asset management, and stockbroking among other banking services. African Banking Corporation aims to deliver world-class financial solutions to the Sub-Saharan African region.

AUTHORISED SHARE CAPITAL

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

GROUP RESULTS

The Group posted a strong set of results for the period with all the banking subsidiaries, with the exception of Tanzania, reporting excellent results. Attributable profit at BWP83 million, is 24% higher than the BWP67 million achieved in the previous year. The profitability achieved was despite the Group's on-going massive investment in the Retail Banking business, which continued in the midst of mixed economic conditions that were a dominant characteristic of the banking sector during the reporting period. The Group balance sheet increased by 53% from BWP6 billion to BWP9.2 billion. Loans and advances were up almost two fold from BWP3.1 billion to BWP6.1 billion. This was largely funded by deposits that increased by 50% from BWP4.9 billion to BWP7.4 billion. All major lines of business recorded significant growth during the year. The Group now has 49 Retail branches including consumer lending branches, up significantly from 31 retail branches in 2010. Rapid expansion of retail banking operations continued, with BWP177 million being spent on essential hardware and software during the last 24 months. As was to be expected, staff numbers continued to grow. By the end of the reporting year staff numbers, including temporary and contract workers, stood at 1,008, compared to 668 at the end of December 2010.

The financial statements have been prepared in accordance with International Financial Reporting Standards and the accounting policies of the Group, which are considered by the directors to be appropriate. Accounting policies have been applied in a manner consistent with that in the previous financial year and details of significant accounting policies can be found on pages 49 to 63.

SUBSIDIARY AND ASSOCIATED COMPANIES

Details of the Group's subsidiaries are set out in note 15 of the separate Company financial statements. Details of the Group associate companies are in note 13 of the consolidated Group financial statements.

ACQUISITIONS AND DISPOSALS

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

DIRECTORS' INTERESTS IN THE SHARES OF ABC HOLDINGS LIMITED

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

	Number of shares	
Director	**2011**	**2010**
D T Munatsi	23,223,154	21,438,619
N Kudenga	366,814	365,947
F M Dzanya	3,094,774	2,765,583
B Moyo	7,119,958	7,099,957
Total	**33,804,700**	**31,670,106**

DIRECTORS' INTERESTS IN TRANSACTIONS

In terms of ABC Holdings Limited policy, Directors are required to furnish details on an annual basis of their respective personal interests in business concerns which are recorded in a specific register. Any interests by Directors in transactions between the Company and third parties were disclosed to committees that were responsible for approval prior to such approval being granted and interested parties are required to recuse themselves from any approval process. Details of lending exposures are provided in note 25 on related party transactions.

DIRECTORS EMOLUMENTS

Directors' emoluments in respect of the Group's directors (Executive and Non-Executive) are shown in note 4 to the financial statements. The earnings and perquisites of the Group Chief Executive Officer and executive management are approved by the Remuneration Committee of the Board.

DIRECTORS AND SECRETARIES

Full details of the directorate are shown on pages 40 and 41. Details of the secretary are given on page 39. Brief CVs of directors eligible and available for re-election at the Annual General Meeting are included in the Notice to Shareholders.

DIVIDENDS

The Directors have declared a final dividend of BWP0.105 (10.5 Thebe) per share in respect of the year ended 31 December 2011. This brings the full year dividend to 17.5 Thebe. The dividend will be paid on 4th May 2012 to shareholders registered in the books of the Company at the close of business on Friday, 13th April 2012.

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.

EVENTS AFTER THE REPORTING DATE

There were no significant events after the reporting date.

BancABC Zimbabwe head office

BancABC Botswana head office

ANNUAL FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF ABC HOLDINGS LIMITED

Report on the financial statements

We have audited the accompanying consolidated annual financial statements and annual financial statements of ABC Holdings Limited, which comprise the consolidated and separate balance sheets as at 31 December 2011, and the consolidated and separate income statements, the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 49 to 147.

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 for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 about 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 of the financial statements, 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 give a true and fair view of, the consolidated and separate financial position of ABC Holdings Limited as at 31 December 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Auditors
Practicing member: Rudi Binedell (20040091.18)

27 March 2012
Gaborone

PricewaterhouseCoopers, Plot 50371, Fairground Office Park, Gaborone, P O Box 294, Gaborone, Botswana
T: (267) 395 2011, F: (267) 397 3901, www.pwc.com/bw

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

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 December 2011

REPORTING ENTITY

ABC Holdings Limited (the "Company") is domiciled in Botswana. The consolidated financial statements of the Company for the year ended 31 December 2011 include the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and its jointly controlled entities.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. In preparing these financial statements, the Group adopted the following interpretations effective in 2011, that are relevant to the Group:

- Amendment to IAS 24, 'Related Party Disclosures', provides partial relief from the requirement for government related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party. The adoption of the standard has no impact to the Group in the current year.
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The adoption of the standard has no impact to the Group in the current year.
- Improvements to IFRSs, This is a collection of amendments to IFRSs. These amendments are the result of conclusions the IASB reached on proposals made in its annual improvements project. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRSs. Some amendments involve consequential amendments to other IFRSs.

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 2011:

- Amendment to IFRS 7, 'Financial Instruments: Disclosures' – Transfer of financial assets (effective from 1 July 2011)
- Amendment to IFRS 7, 'Financial Instruments: Disclosure' (effective from 1 January 2013)
- Amendment to IAS 12, 'Income taxes' on deferred tax (effective from 1 January 2012)
- Amendments to IAS 1, 'Presentation of Financial Statements', on presentation of items of OCI (effective from 1 July 2012)
- Amendments to IAS 19, 'Employee benefits' (effective from 1 January 2013)
- IFRS 9, 'Financial Instruments' (effective from 1 January 2013)
- Amendments to IFRS 9, 'Financial Instruments' (effective from 1 January 2013)
- IFRS 10, 'Consolidated financial statements' (effective from 1 January 2013)
- IFRS 11, 'Joint arrangements' (effective from 1 January 2013)
- IFRS 12, 'Disclosures of interests in other entities' (effective from 1 January 2013)
- IFRS 13, 'Fair value measurement' (effective from 1 January 2013)
- IAS 27 (revised 2011), 'Separate financial statements' (effective from 1 January 2013)
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective from 1 January 2013)
- Amendments to IAS 32, 'Financial Instruments: Presentation' (effective from 1 January 2014)

The Group is yet to assess the full impact of the above standards and interpretations.

BASIS OF PREPARATION

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

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

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

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

- **Fair value of derivatives**

  The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

- **Held-to-maturity investments**

  The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value, not amortised cost.

- **Income taxes**

  The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- **Goodwill impairment**

  The Group assesses goodwill for impairment on an annual basis based on value in use calculations. Significant estimates and judgements are applied in projecting the future pre-tax cash flows, the appropriate growth and discount rates. The assumptions applied in testing goodwill for impairments at year end are discussed in note 17.

- **Impairment of associates**

  The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the income statement.

FUNCTIONAL AND PRESENTATION CURRENCY

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

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control is defined as the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. Accounting policies of subsidiaries conform to the policies adopted by the Group for its banking and investment management activities. Investments in subsidiaries are accounted for at cost less impairment losses in the Company accounts. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

Associates

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

Jointly controlled entities

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

Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and in such instances the Group determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

Transactions eliminated on consolidation

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

Goodwill

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

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the sum of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Transaction costs for any business combinations prior to 1 January 2010 are capitalised as part of the cost of an acquisition. Transaction costs on or after 1 January 2010 are recognised within profit and loss as and when they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of an acquisition over the Group's share of the fair value of identifiable net assets acquired is recorded as goodwill and accounted for in terms of accounting policy, Intangible assets. The Group elects to measure non-controlling interests on the acquisition date at either fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

Transactions with non-controlling interests

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

Common control transactions

Entities are under common control when the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination and where control is not transitory. The acquirer in a business combination under common control does not restate any assets and liabilities to their fair values. Instead, the acquirer incorporates the assets and liabilities at their pre-combination carrying amounts without fair value uplift. No goodwill is recorded. Any difference between the cost of investment and the carrying value of the net assets is recorded in equity, which could impact on distributable profits, depending on local legislation. This applies whether the consideration was for shares or cash. The acquirer's financial statements include the acquired entity's results from the date of the business combination.

Foreign entities

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

Foreign currency transactions

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

Recognition of assets and liabilities

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

Derecognition of assets and liabilities

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

Cash and cash equivalents

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

FINANCIAL ASSETS

Initial recognition

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

Financial assets at fair value through profit or loss

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

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

The fair value designation, once made, is irrevocable. Subsequent to initial recognition, the fair values are 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 or loss are measured at initial recognition and subsequently at fair value based on quoted market price using the bid/offer mid rate at the balance sheet date. If there is no quoted market price in an active market, the instruments are measured using valuation models. All changes in fair value are recognised in the income statement.

Loans and receivables

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

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

Loans and advances are accounted for on an amortised cost basis using the effective interest rate. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the Group's advances are included in the loans and receivables category. They are stated net of allowances for specific and portfolio impairment. Included in loans and advances are finance lease receivables. Finance lease receivables are those leases where the Group transfers substantially all the risk and reward incidental to ownership of an asset. Finance lease charges are recognised in income using the effective interest rate method.

Held-to-maturity investments

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

Available-for-sale financial assets

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

Reclassification of financial assets

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

Fair value

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

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

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

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

IMPAIRMENT OF FINANCIAL ASSETS

a) Assets carried at amortised cost

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

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral; and
- downgrading below investment grade level.

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

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses. Subsequent to impairment, the effects of discounting unwind over time as interest income.

b) Assets classified as available-for-sale

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

c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

OFFSETTING FINANCIAL INSTRUMENTS

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is not recognised in the statement of financial position. These differences are however kept track of for disclosure purposes. However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to profit or loss.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Certain derivatives embedded in other financial instruments, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge);
c) hedges of a net investment in a foreign operation (net investment hedge); or
d) derivatives that do not qualify for hedge accounting.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group documents at inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

a) Fair value hedge

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

b) Cash flow hedge

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

c) Net investment hedge

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

d) Derivatives that do not qualify for hedge accounting

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

FINANCIAL GUARANTEES

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

DERECOGNITION OF FINANCIAL INSTRUMENTS

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

REPURCHASE AGREEMENTS

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

PROPERTY AND EQUIPMENT

Land and buildings are shown at fair value based on annual valuations by external independent valuers under hyperinflationary economies, otherwise at least once every three years. All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment. Surpluses and deficits arising thereon are transferred to the property revaluation reserve in equity. The revaluation surplus or deficit is reversed when the asset is disposed of. Owner-occupied properties are held for use in the supply of services or for administrative purposes. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the property and equipment. Land is not depreciated. The estimated useful lives are as follows:

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

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

INVESTMENT PROPERTY

Investment properties are properties which are held by the Group either to earn rental income or for capital appreciation or for both. Investment property is stated at fair value determined annually by an independent registered valuer under hyper-inflationary economies, otherwise at least once every three years. Fair value is based on open market value and any gain or loss arising is recognised in the income statement. Fair value adjustments on investment properties are included in the income statement as investment gains or losses in the period in which these gains or losses arise and are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination. The deemed cost for any reclassification 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 that it is available for use. The estimated useful life is three to five years. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

FINANCIAL LIABILITIES

Financial liabilities include 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. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Derivative financial instruments are dealt with in terms of specific policy specified above.

PROVISIONS AND CONTINGENT LIABILITIES

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

MANAGED FUNDS AND TRUST ACTIVITIES

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

SHARE CAPITAL

Preference share capital

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

Repurchase of share capital

Shares repurchased by Group companies are classified as treasury shares, and held at cost. These shares are treated as a deduction from the issued share capital and the cost price of the shares is presented as a deduction from total equity. Fair value changes recognised in the subsidiary's financial statements on equity investments in the holding entity's shares, are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

OPERATING INCOME

Income such as revenue derived from service fees, net interest income, commissions, net surplus arising from trading activities and other income are included in operating income.

INTEREST

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

FEE AND COMMISSION INCOME

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

NET TRADING INCOME

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

DIVIDENDS

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

RENTAL INCOME

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

LEASES

Group as lessee

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

Group as lessor

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

REPOSSESSED ASSETS

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

EMPLOYEE BENEFITS

Defined contribution plans

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

Termination benefits

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

Leave pay accrual

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

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Additional income taxes that arise from the distribution of dividend are recognised at the same time as the liability to pay the related dividend is recognised. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets or liabilities are measured using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is not recognised for the following temporary differences:

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

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

SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Group Executive Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8, the Group has the following business segments: Banking operations in Botswana, Mozambique, Tanzania, Zambia and Zimbabwe and non-banking operations arising from ABCH and non-banking subsidiaries.

FINANCIAL RISK MANAGEMENT

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

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

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

CREDIT RISK

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Country (or Sovereign) risk is part of overall credit risk and is managed as part of the credit risk management function as it has a major impact on individual counterparties' ability to perform. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The Group Risk team reviews subsidiary risk exposures regularly, and reports to the Board of Directors.

The Board has defined and documented a credit policy for the Group which forms the basis of credit decisions. This policy includes a framework of limits and delegation of credit approval authority that are strictly adhered to; refer to "Risk and Governance" – page 28. No one individual has the power to authorise credit exposures. Each subsidiary has a credit committee which operates within the defined limits set by the Board. These committees are responsible for the management of credit risk within their country including, credit decisions, processes, legal and documentation risk and compliance with impairment policies.

The Group Risk department regularly reviews each subsidiary's adherence to required standards.

The Executive Committee reports to the Board and is responsible for approval of credit decisions that are above country limits, recommendations on exposure limits and impairment policies.

The Group has adopted standard impairment policies which at a minimum comply with the prudential guidelines of the respective countries' central banks. Impairments are determined monthly at subsidiary level and are subject to regular review by Group Risk.

CREDIT RISK MANAGEMENT

Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Group considers three components: the probability of default by the client or counterparty on its contractual obligations; the current exposures to the counterparty and its likely future development; and the likely recovery on the defaulted obligations.

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

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed internally and combine statistical analysis for certain categories, as well as credit officer judgement. Clients of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Group's internal rating scale

Category	Description
Performing	The credit appears satisfactory
Special mention	The credit appears satisfactory but exhibits potential or inherent weaknesses which, if not attended to, may weaken the asset or prospects of collection in full e.g. poor documentation or 30 days but less than 90 days in arrears
Sub-standard	The credit has defined weaknesses that may jeopardise liquidation of the debt i.e the paying capacity of the borrower is doubtful or inadequate, or more than 90 days but less than 180 days in arrears
Doubtful	Credit facilities with above weaknesses and has deteriorated further to the extent that even with the existing security, full recovery will not be possible, or 180 days but less than 12 months in arrears
Loss	Facilities considered impossible to collect with little or no realisable security, or more than 12 months in arrears

RISK LIMIT CONTROL AND MITIGATION POLICIES

The Group manages, limits and controls concentrations of credit risk in respect of individual counterparties and groups, and to industries and countries. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of Directors, and reviewed regularly. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice.

The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

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

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

(b) Master netting arrangements

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

(c) Credit-related commitments

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

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

(d) Derivatives

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

IMPAIRMENT POLICIES

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

IMPAIRMENTS CLASSIFICATION

	2011		2010	
Category	Loans and advances (%)	Impairments (%)	Loans and advances (%)	Impairments (%)
Performing	87%	17%	86%	19%
Special mention	6%	8%	6%	8%
Sub-standard	4%	15%	3%	6%
Doubtful	1%	7%	1%	12%
Loss	2%	53%	4%	55%
	100%	**100%**	100%	100%

Impairments are managed on an expected loss basis, and are recorded on an actual loss basis.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower;
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral; and
- downgrading below "Performing" level.

The Group's policy requires the review of individual financial assets at least once a month, or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgement and statistical techniques.

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

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

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

BWP'000s	2011	2010
Placements with other banks	1,114,126	924,561
Derivative financial assets	32,337	42,012
Financial assets held for trading	651,049	1,117,827
– Government bonds	52,747	102,766
– Corporate bonds	26,709	5,677
– Treasury bills	571,593	1,007,913
– Bankers acceptances and commercial paper	–	1,471
	185,412	75,034
Financial assets designated at fair value	185,412	75,034
Loans and advances to customers at amortised cost	6,294,959	3,216,575
– Mortgage lending	65,201	14,659
– Instalment finance	331,826	320,602
– Corporate lending	4,440,053	2,567,327
– Commercial and property finance	169,531	45,151
– Micro-finance lending	354,374	135,870
– Consumer lending	933,974	132,966
Investment securities	42,172	38,502
– Promissory notes	42,172	38,502
Prepayments and receivables	172,000	188,306
Current tax assets	8,458	6,388
	8,500,513	**5,609,205**
Contingent liabilities		
Credit exposures relating to off-balance sheet items are as follows:		
Guarantees	337,516	210,146
Loan commitments and other credit related facilities	95,387	129,805
	432,903	**339,951**

74% (2010: 57%) of the total maximum exposure is derived from loans and advances, while 8% (2010: 20%) represents financial assets held for trading.

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

- 93% (2010: 92%) of the gross loans and advances portfolio is categorised in the top two grades of the internal rating system;
- 87% (2010: 86%) of the gross loans and advances portfolio is considered to be "neither past due nor impaired";
- 7% (2010: 8%) of gross loans and advances are "individually impaired";
- the Group continues to improve its credit selection and monitoring processes; and
- loans and advances to corporates are generally backed by collateral.

NATURE OF SECURITY HELD

The nature of security held ranges from cash security, assets financed, bonds over residential and commercial property, shares and stock in trade.

CREDIT QUALITY

Loans and advances

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

Distribution of loans and advances by credit quality:

BWP'000s	2011	2010
Neither past due nor impaired	5,472,461	2,765,645
Past due but not impaired	404,327	182,600
Individually impaired	418,171	268,330
Gross loans and advances	6,294,959	3,216,575
Less: Allowance for impairment	(217,560)	(138,465)
Net loans and advances	**6,077,399**	**3,078,110**

The total impairment of loans and advances is BWP217.6 million (2010: BWP138.5 million).

Further information on the impairment allowance for loans and advances to customers is provided in Notes 2 and 10.

During the year ended 31 December 2011, the Group's total gross loans and advances increased by 95% (2010: increased by 51%), attributable to improved economic activity in the markets the Group operates in. Loans and advances to the corporate sector continue to form the bulk of the Group's lending portfolio, but consumer and micro-finance lending also grew strongly as the Group continues to expand in the Retail market segment.

(a) Distribution of loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted below:

Internal Grade: Performing

BWP'000s	2011	2010
Mortgage lending	56,973	14,659
Instalment finance	266,236	283,447
Corporate lending	3,791,223	2,192,573
Commercial and property finance	150,220	45,151
Micro-finance lending	354,374	103,231
Consumer lending	853,435	126,584
	5,472,461	**2,765,645**

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

Internal Grade: Special mention

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired.

Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

2011	Days past due			
BWP'000s	1 – 30 days	31 – 60 days	61 – 90 days	Total
Internal Grade: Special mention				
Mortgage lending	3,095	3,047	–	6,142
Instalment finance	15,378	10,601	340	26,319
Corporate lending	140,865	143,776	49,682	334,323
Commercial and property finance	5,118	–	–	5,118
Consumer lending	27,796	1,546	3,083	32,425
	192,252	**158,970**	**53,105**	**404,327**

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

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

Collateral taken for this category includes cash, mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities and equities.

All micro-finance lending past due in 2011 was categorised as "individually impaired" advances.

(c) Loans and advances individually impaired

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is BWP418.2 million (2010: BWP268.3 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, is as follows:

	2011			2010		
BWP'000s	Gross loans	Fair value collateral	Under-collateral-isation*	Gross loans	Fair value collateral	Under-collateral-isation*
Mortgage lending	2,086	2,086	–	–	–	–
Instalment finance	39,271	17,890	21,381	32,640	8,458	24,182
Corporate lending	314,507	134,440	180,067	221,003	128,457	92,546
Micro-finance lending	–	–	–	8,305	–	8,305
Commercial and property finance	14,193	14,193	–	–	–	–
Consumer lending	48,114	–	48,114	6,382	253	6,129
	418,171	**168,609**		**268,330**	**137,168**	

** The under-collateralisation amount is considered for impairment. It includes an exposure in the ABC Holdings Company stand-alone financial statements of BWP91.6 million. The exposure is meeting the terms of a repayment plan agreed to subsequent to the financial year-end. Interest of BWP28.2 million was not recognised on this exposure during the financial year. This interest amount is not recoverable in terms of the repayment plan.*

Collateral taken for this category includes cash, mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities and equities.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status, and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans totalled BWP27.2 million at 31 December 2011 (2010: BWP179.2 million).

BWP'000s	2011	2010
Mortgage lending	942	–
Corporate lending	24,941	179,189
Consumer lending	1,324	–
	27,207	**179,189**

REPOSSESSED COLLATERAL

During 2011, the Group obtained assets by taking possession of collateral held as security, as follows:

Nature of assets	2011	2010
Property	–	2,655
Cash security	–	1,005
Motor vehicles	50	589
Carrying amount	**50**	**4,249**

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

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

OTHER CLASSES OF FINANCIAL ASSETS

All other classes of financial assets are allocated the internal grade "performing" and are neither past due nor impaired.

These classes of financial assets are subjected to the same credit processes as loans and advances.

Concentration risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical regions as of 31 December 2011.

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

2011 BWP'000s	Botswana	Mozam-bique	Tanzania	Zambia	Zimbabwe	Other	Total
Placements with other banks	286,932	198,364	235,938	167,552	114,457	110,883	1,114,126
Financial assets held for trading	418,406	119,904	49,073	36,957	26,709	–	651,049
Financial assets designated at fair value	–	–	–	–	110,421	74,991	185,412
Derivative financial assets	1,230	135	4,710	63	2	26,197	32,337
Loans and advances (net of impairments)	1,410,762	761,938	582,758	603,581	2,684,717	33,643	6,077,399
Investment securities	42,172	–	–	–	–	–	42,172
Prepayments and other receivables	3,868	4,467	15,286	10,166	134,835	3,378	172,000
Current tax asset	–	–	8,458	–	–	–	8,458
	2,163,370	**1,084,808**	**896,223**	**818,319**	**3,071,141**	**249,092**	**8,282,953**

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

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

2011 BWP'000s	**Agriculture**	**Construction**	**Wholesale, retail and trade**	**Public sector**	**Manufacturing**
Placements with other banks	–	–	–	–	–
Financial assets held for trading	–	7,692	1,547	49,073	–
Financial assets designated at fair value	77,125	–	–	–	14,390
Derivative financial assets	–	–	135	–	–
Loans and advances	520,430	349,656	1,137,253	130,781	574,760
Investment securities	–	–	–	–	–
Prepayments and other receivables	–	–	17,209	–	–
Current tax assets	–	–	–	8,458	–
	597,555	**357,348**	**1,156,144**	**188,312**	**589,150**

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

MARKET RISK

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

Market and foreign currency exposures related to dealing positions are housed and managed in the Treasury division within a framework of pre-approved dealer, currency and counterparty limits.

All trading positions are marked to market as required by IAS 39.

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

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

Mining	Financial services	Transport & energy	Individuals	Tourism	Other	Total
–	1,114,126	–	–	–	–	1,114,126
–	575,267	–	–	–	17,470	651,049
–	93,897	–	–	–	–	185,412
–	32,202	–	–	–	–	32,337
842,833	516,236	292,734	1,256,703	94,851	361,162	6,077,399
–	42,172	–	–	–	–	42,172
–	116,803	–	–	–	37,988	172,000
–	–	–	–	–	–	8,458
842,833	**2,490,703**	**292,734**	**1,256,703**	**94,851**	**416,620**	**8,282,953**

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

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 2011. 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 2011 BWP'000s	EUR	USD	BWP	ZAR
Cash and short-term funds	47,371	533,626	302,208	54,662
Financial assets held for trading	451	27,588	418,406	–
Financial assets designated at fair value	–	185,412	–	–
Derivative financial asset*	–	4,594	6,091	1,327
Loans and advances	21,228	3,292,744	1,465,953	2,077
Investment securities	–	9,266	42,172	–
Prepayments and other receivables	1,527	150,478	1,986	1,277
Current tax asset	–	–	–	–
Investment in associates	–	4,472	11,275	–
Property and equipment	–	219,737	134,475	33,022
Investment property	–	2,021	–	–
Intangible assets	–	16,164	52,252	9
Deferred tax asset	–	25,255	15,064	444
	70,577	**4,471,357**	**2,449,882**	**92,818**
Deposits	70,909	3,216,730	2,255,519	50,026
Derivative financial liabilities*	–	151,959	–	–
Creditors and accruals	100	61,549	24,746	10,813
Current tax liabilities	–	17,250	5,322	–
Deferred tax liabilities	–	443	4,485	–
Borrowed funds	4,942	573,220	275,540	–
	75,951	**4,021,151**	**2,565,612**	**60,839**
Net on-balance sheet position	**(5,374)**	**525,336**	**(190,860)**	**31,979**
Credit commitments	**52,995**	**272,999**	**36,742**	**57,955**

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

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

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

TZS	ZMK	MZN	JPY	Other	Total
117,438	35,486	131,153	12,859	8,628	1,243,431
47,742	36,957	119,905	–	–	651,049
–	–	–	–	–	185,412
–	–	216	125,214	(105,105)	32,337
249,866	363,753	573,533	–	108,245	6,077,399
31,314	1,363	–	–	2,059	86,174
6,376	4,424	1,793	–	4,139	172,000
–	–	–	–	8,458	8,458
1,792	–	–	–	–	17,539
23,859	34,796	68,991	–	–	514,880
–	–	–	–	–	2,021
19,518	6,376	36,043	–	–	130,362
6,200	15,863	–	–	–	62,826
504,105	**499,018**	**931,634**	**138,073**	**26,424**	**9,183,888**
583,897	358,311	789,209	14,013	36,086	7,374,700
–	–	216	–	(105,106)	47,069
7,442	11,321	10,266	–	4,190	130,427
–	1,612	3,433	–	–	27,617
1,756	–	3,036	–	–	9,720
742	–	–	125,212	2,132	981,788
593,837	**371,244**	**806,160**	**139,225**	**(62,698)**	**8,571,321**
(89,732)	**127,774**	**125,474**	**(1,152)**	**89,122**	**612,567**
12,212	**–**	**–**	**–**	**–**	**432,903**

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

INTEREST RATE RISK

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

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

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Variable rate financial instruments are categorised in the "up to 1 month" column.

2011 BWP'000s	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**Total interest sensitive**	**Non-interest bearing**	**Total**
Cash and short-term funds	506,658	184,439	–	–	691,097	552,334	1,243,431
Financial assets held for trading	79,971	405,150	98,857	48,054	632,032	19,017	651,049
Financial assets designated at fair value	16,635	–	–	149,869	166,504	18,908	185,412
Derivative financial assets	–	–	–	–	–	32,337	32,337
Loans and advances	3,350,971	374,551	1,078,255	1,273,622	6,077,399	–	6,077,399
Investment securities	–	–	–	43,599	43,599	42,575	86,174
Prepayments and other receivables	–	–	–	–	–	172,000	172,000
Current tax asset	–	–	–	–	–	8,458	8,458
Investment in associates	–	–	–	–	–	17,539	17,539
Property and equipment	–	–	–	–	–	514,880	514,880
Investment property	–	–	–	–	–	2,021	2,021
Intangible assets	–	–	–	–	–	130,362	130,362
Deferred tax asset	–	–	–	–	–	62,826	62,826
Assets	**3,954,235**	**964,140**	**1,177,112**	**1,515,144**	**7,610,631**	**1,573,257**	**9,183,888**
Equity	**–**	**–**	**–**	**–**	**–**	**612,567**	**612,567**
Deposits	4,781,494	1,677,412	857,957	301	7,317,164	57,536	7,374,700
Derivative financial liabilities	–	–	–	–	–	47,069	47,069
Creditors and accruals	–	–	–	–	–	130,427	130,427
Current tax liabilities	–	–	–	–	–	27,617	27,617
Deferred tax liability	–	–	–	–	–	9,720	9,720
Borrowed funds	24,262	228,704	222,818	506,004	981,788	–	981,788
Liabilities	**4,805,756**	**1,906,116**	**1,080,775**	**506,305**	**8,298,952**	**272,369**	**8,571,321**
Total interest repricing gap	**(851,521)**	**(941,976)**	**96,337**	**1,008,839**	**(688,321)**	**688,321**	**–**

2010 BWP'000s	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Total interest sensitive	Non-interest bearing	Total
Cash and short-term funds	357,223	37,460	13,938	–	408,621	590,717	999,338
Financial assets held for trading	378,344	602,713	28,973	99,822	1,109,852	7,975	1,117,827
Financial assets designated at fair value	–	–	–	64,028	64,028	15,111	79,139
Derivative financial assets	–	–	–	–	–	42,012	42,012
Loans and advances	1,649,168	501,197	439,560	488,185	3,078,110	–	3,078,110
Investment securities	–	–	–	38,502	38,502	14,521	53,023
Prepayments and other receivables	–	–	–	–	–	188,306	188,306
Current tax asset	–	–	–	–	–	6,388	6,388
Investment in associates	–	–	–	–	–	34,845	34,845
Property and equipment	–	–	–	–	–	330,218	330,218
Investment property	–	–	–	–	–	3,878	3,878
Intangible assets	–	–	–	–	–	57,402	57,402
Deferred tax asset	–	–	–	–	–	20,953	20,953
Assets	**2,384,735**	**1,141,370**	**482,471**	**690,537**	**4,699,113**	**1,312,326**	**6,011,439**
Equity	**–**	**–**	**–**	**–**	**–**	**437,858**	**437,858**
Deposits	2,719,674	1,535,951	627,545	23,875	4,907,045	–	4,907,045
Derivative financial liabilities	–	–	–	–	–	1,047	1,047
Creditors and accruals	–	–	–	–	–	64,017	64,017
Current tax liabilities	–	–	–	–	–	6,819	6,819
Deferred tax liability	–	–	–	–	–	15,233	15,233
Borrowed funds	20,607	96,721	4,331	457,761	579,420	–	579,420
Liabilities	**2,740,281**	**1,632,672**	**631,876**	**481,636**	**5,486,465**	**87,116**	**5,573,581**
Total interest repricing gap	**(355,546)**	**(491,302)**	**(149,405)**	**208,901**	**(787,352)**	**787,352**	**–**

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

BWP'000s	2011 Pre-tax	2011 Post-tax	2010 Pre-tax	2010 Post-tax
BancABC Botswana				
ABC Botswana constituted 28% of the Group's total assets.				
Change in net interest income (+50 basis points)	761	593	278	209
As a percentage of total Shareholders equity	0.47%	0.36%	0.26%	0.20%
Change in net interest income (-50 basis points)	(761)	(593)	(278)	(209)
As a percentage of total Shareholders equity	-0.47%	-0.36%	-0.26%	-0.20%
BancABC Zambia				
ABC Zambia constituted 10% of the Group's total assets.				
Change in net interest income (+50 basis points)	322	193	65	39
As a percentage of total Shareholders equity	0.45%	0.27%	0.00%	0.00%
Change in net interest income (-50 basis points)	(322)	(193)	(65)	(39)
As a percentage of total Shareholders equity	-0.45%	-0.27%	0.00%	0.00%
BancABC Mozambique				
ABC Mozambique constituted 13% of the Group's total assets				
Change in net interest income (+50 basis points)	(66)	(45)	296	201
As a percentage of total Shareholders equity	-0.04%	-0.03%	0.22%	0.17%
Change in net interest income (-50 basis points)	66	45	(296)	(201)
As a percentage of total Shareholders equity	0.04%	0.03%	0.22%	-0.17%
BancABC Tanzania				
ABC Tanzania constituted 10% of the Group's total assets				
Change in net interest income (+50 basis points)	592	414	1,411	988
As a percentage of total Shareholders equity	0.60%	0.42%	1.45%	1.01%
Change in net interest income (-50 basis points)	(592)	(414)	(1,411)	(988)
As a percentage of total Shareholders equity	-0.60%	-0.42%	-1.45%	-1.01%
BancABC Zimbabwe				
ABC Zimbabwe constituted 29% of the Group's total assets				
Change in net interest income (+50 basis points)	-797	-591	3,108	2,308
As a percentage of total Shareholders equity	-0.28%	-0.21%	1.13%	0.88%
Change in net interest income (-50 basis points)	797	591	(3,108)	(2,308)
As a percentage of total Shareholders equity	0.28%	0.21%	-1.13%	-0.88%

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

Sensitivity analysis of market price

The Group holds, directly or through its associates, listed equities with a fair value of BWP33.3 million (2010: BWP17.4 million).

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

LIQUIDITY RISK

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin call for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the consolidated statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

Liquidity risk management process

The Group holds liquidity reserves in highly tradable instruments or money market placements which are immediately available if required. Liquidity is assessed by currency as well as by time bracket. Group liquidity management is dependent upon accurate cash flow projections and the monitoring of its future funding requirements. The Group's liquidity management process is monitored by Group Treasury and includes:

Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;

- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforseen interruption to cash flow;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

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

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

The Group's maturity analysis (on a discounted cash flow basis) as at 31 December 2011 was as follows:

2011 BWP'000s	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**Greater than 1 year**	**Total**
Cash and short-term funds*	1,049,890	193,541	–	–	1,243,431
Financial assets held for trading	87,545	423,413	112,098	27,993	651,049
Financial assets designated at fair value	8,616	–	–	176,796	185,412
Derivative financial assets	6,139	–	–	26,198	32,337
Loans and advances	1,234,660	442,777	1,757,424	2,642,538	6,077,399
Investment securities	–	–	1,363	84,811	86,174
Prepayments and other receivables	9,248	1,030	161,722	–	172,000
Current tax asset	–	225	8,233	–	8,458
Investment in associates	–	–	–	17,539	17,539
Property and equipment	–	–	–	514,880	514,880
Investment property	–	–	–	2,021	2,021
Intangible assets	–	–	–	130,362	130,362
Deferred tax asset	–	–	–	62,826	62,826
Total assets	**2,396,098**	**1,060,986**	**2,040,840**	**3,685,964**	**9,183,888**
Shareholders equity and liabilities					
Equity	**–**	**–**	**–**	**612,567**	**612,567**
Liabilities					
Deposits	4,839,030	1,677,412	837,759	20,499	7,374,700
Derivative financial liabilities	216	–	–	46,853	47,069
Creditors and accruals	81,995	9,945	38,487	–	130,427
Current tax liabilities	4,051	4,427	19,139	–	27,617
Deferred tax liabilities	–	–	–	9,720	9,720
Borrowed funds	4,458	14,909	380,122	582,299	981,788
Total equity and liabilities	**4,929,750**	**1,706,693**	**1,275,507**	**1,271,938**	**9,183,888**
Net maturity gap	**(2,533,652)**	**(645,707)**	**765,333**	**2,414,026**	**–**
Contingent liabilities	**288,048**	**61,277**	**1,928**	**81,650**	**432,903**

** Included in the 'Up to 1 month' bucket are statutory reserve balances of BWP378.7 million (2010: BWP211.3 million).*

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

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

Funding approach

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

Non-derivative cashflow

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

2011 BWP'000s	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	31 Dec 2011
Deposits	4,872,611	1,689,052	843,573	20,642	7,425,878	(51,178)	7,374,700
Creditors and accruals	81,995	9,945	38,487	–	130,427	–	130,427
Current tax liabilities	4,051	4,427	19,139	–	27,617	–	27,617
Borrowed funds	6,347	24,075	598,430	942,192	1,571,044	(589,256)	981,788
Total liabilities	**4,965,004**	**1,727,499**	**1,499,629**	**962,834**	**9,154,966**	**(640,434)**	**8,514,532**

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

The Group principally uses cash and short-term funds together with financial assets held for trading to manage liquidity risk.

Derivative financial liabilities cash flows

The table below presents the cash flows payable by the Group for derivative financial liabilities by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted nominal currency swap cash flows for the liability leg of such swaps, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows:

2011	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total
Derivative financial liabilities	762,158	215,275	–	–	977,433

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

With the exception of swaps where on-going cashflows are settled on a gross basis, all derivative financial liabilities are settled on a net basis.

Financial assets and liabilities measured at fair value

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is, derived from prices) (level 2); or
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011:

	2011				2010			
BWP'000s	Quoted prices Level 1	Observable inputs Level 2	Unobservable inputs Level 3	Total at fair value	Quoted prices Level 1	Observable inputs Level 2	Unobservable inputs Level 3	Total at fair value
Financial assets held for trading	–	651,049	–	651,049	–	1,117,827	–	1,117,827
Financial assets designated at fair value*	33,297	–	152,115	185,412	15,111	–	64,028	79,139
Derivative financial assets	–	32,337	–	32,337	–	42,012	–	42,012
Investment securities**	–	–	44,002	44,002	–	–	14,521	14,521
Total assets at fair value	**33,297**	**683,386**	**196,117**	**912,800**	**15,111**	**1,159,839**	**78,549**	**1,253,499**
Derivative financial liabilities***	–	–	47,069	47,069	–	1,047	–	1,047
Total liabilities at fair value	**–**	**–**	**47,069**	**47,069**	**–**	**1,047**	**–**	**1,047**

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

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

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

Specific valuation techniques used to value financial instruments include:

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

* Level 3 input:

In estimating the fair value of instruments under level 3 at 31 December 2011, the following assumptions were applied for investments in convertible debentures of BWP77 million (2010: BWP64 million) included in this category:

- volatility in the price of the underlying equity instrument of 50% (2010: 50%); and
- credit spread of 12.54% (2010: 12.54%).

The balance included in this category at 31 December 2011 of BWP75 million comprises of an investment made in September 2011 in a Special Purpose Entity (SPE) which in turn is invested in another syndicated SPE which, with the funds of other investors, is held to invest in a foreign bank (refer to note 9).

** The investment securities comprise of unlisted equities. The unlisted equities have been valued based on the value of recent trades in these equities where available. They comprise of shareholdings smaller than 20% in a number of private companies.

*** For the detailed assumptions relating to the valuation of level 3 derivative financial liabilities see note 21.2

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

	2011					
	Trading securities	Trading derivatives	Debt or equity investments	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
Opening balance	**–**	**–**	**78,549**	**78,549**	**–**	**–**
Total gains or losses						
– in profit and loss	–	–	27,611	27,611	27,485	27,485
– in other comprehensive income	–	–	–	–	–	–
Purchases	–	–	89,599	89,599	19,584	19,584
Issues	–	–	–	–	–	–
Settlements	–	–	–	–	–	–
Exchange rate adjustment	–	–	358	358	–	–
Transfers out of level 3	–	–	–	–	–	–
Closing balance	**–**	**–**	**196,117**	**196,117**	**47,069**	**47,069**

	2010					
	Trading securities	Trading derivatives	Debt or equity investments	Total at fair value	Derivative financial liabilities	Total liabilities at fair value
Opening balance	**–**	**–**	**14,450**	**14,450**	**–**	**–**
Total gains or losses						
– in profit and loss	–	–	–	–	–	–
– in other comprehensive income	–	–	–	–	–	–
Purchases	–	–	65,543	65,543	–	–
Issues	–	–	–	–	–	–
Settlements	–	–	–	–	–	–
Exchange rate adjustment	–	–	(1,444)	(1,444)	–	–
Transfers out of level 3	–	–	–	–	–	–
Closing balance	**–**	**–**	**78,549**	**78,549**	**–**	**–**

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:

	2011			2010		
	Carrying value	Fair value	Unrecognised profit/(loss)	Carrying value	Fair value	Unrecognised profit/(loss)
Borrowed funds	**981,788**	**1,068,349**	**(86,561)**	**579,420**	**648,603**	**(69,183)**

Financial instruments not measured at fair value, where the carrying value is estimated to approximate the fair value of these instruments, were as follows:

(i) Placements with other banks

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

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

(ii) Loans and advances

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

(iii) Investment securities

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

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

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

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

OFF-BALANCE SHEET ITEMS

BWP'000s	2011	2010
(a) Contingent liabilities		
Guarantees	337,516	210,146
Letters of credit, loan commitments and other contingent liabilities	95,387	129,805
	432,903	**339,951**
The timing profile of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities as at 31 December 2011, are summarised below:		
Less than one year	351,253	267,814
Between one and five years	81,650	72,137
	432,903	**339,951**
(b) Capital commitments		
Approved and contracted for	10,782	15,604
Approved but not contracted for	93,571	68,004
	104,353	**83,608**
(c) Non-cancellable operating leases commitments		
Future minimum lease payments under non-cancelled operating leases are as follows:		
Office premises	64,353	36,285
Equipment and motor vehicles	–	984
	64,353	**37,269**
Non-cancellable operating leases are payable as follows:		
Less than one year	6,327	9,241
Between one and five years	33,403	22,649
Over five years	24,623	5,379
	64,353	**37,269**

CAPITAL MANAGEMENT

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

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

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

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

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

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

Regulatory minimum capital adequacy ratios for the Group's banking operations based on December 2011 returns submitted to regulatory authorities, are summarised below:

	2011				
BWP'000s	**BancABC Botswana**	**BancABC Zimbabwe**	**BancABC Zambia**	**BancABC Tanzania**	**BancABC Mozambique**
Tier I Capital					
Share capital and premium	71,470	171,272	81,004	128,973	61,810
Capital reserves and retained earnings*	89,325	91,913	(3,297)	(31,784)	58,041
Allocation for market and operational risk	–	(6,589)	–	–	–
Intangible assets (software)/deferred charges	–	–	–	–	(20,754)
Prepayments	–	–	–	(9,036)	–
Exposures to insiders	–	(5,219)		–	–
Total qualifying for Tier I capital	**160,795**	**251,377**	**77,707**	**88,153**	**99,097**
Tier II capital					
Shareholder's loan	68,439	–	54,304	–	52,415
General debt provision	5,523	14,924	–	–	–
Current year's unpublished profits	–	–	–	–	–
Fair value revaluation/available for sale reserve	–	1,265	–	–	–
Other	–	–	–	–	–
Revaluation reserves (limited to Tier I capital)	1,151	1,318	–	–	–
Total qualifying for Tier II capital	**75,113**	**17,507**	**54,304**	**–**	**52,415**
Tier III capital	–	6,589	–	–	–
Total qualifying for Tier III capital	**–**	**6,589**	**–**	**–**	**–**
Total capital	**235,908**	**275,473**	**132,011**	**88,153**	**151,512**
Risk weighted assets**					
On balance sheet assets	1,471,292	2,508,637	620,270	682,417	958,287
Off balance sheet assets	29,653	19,485	207,135	43,371	25,571
Total risk weighted assets	**1,500,945**	**2,528,122**	**827,405**	**725,788**	**983,858**
Capital adequacy ratio	16%	11%	16%	12%	15%
Minimum regulatory capital adequacy ratio	15%	10%	10%	12%	8%

** Net of foreign currency translation reserve.*

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

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

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

CAPITAL ALLOCATION

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

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

SEGMENT ANALYSIS

By geographical segment

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

The Group has six main business segments, comprising:

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

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

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

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

As the banking operations comprise of stand alone banks, each banking operation is funded with tier I and II capital from ABCH. Interest is charged at rates disclosed in the ABCH Company stand alone financial statements on page 124. Other material items of income or expense between the business segments comprise of management fees and dividends.

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

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

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

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

The segment information provided to the Group Executive Committee for the reportable segments for the year ended 31 December 2011 is as follows:

	2011							
BWP'000s	BancABC Botswana	BancABC Mozambique	BancABC Tanzania	BancABC Zimbabwe	BancABC Zambia	Head office and other**	Consolidation entries****	Total
Net interest income after impairment of loans and advances*	70,339	55,294	17,734	90,244	67,070	32,144	–	332,825
Total income	116,481	120,660	55,639	218,943	100,902	119,834	(73,650)	658,809
Net income from operations	32,551	39,862	(6,123)	70,242	21,382	28,597	(73,650)	112,861
Share of results of associates	–	–	–	730	–	(5,907)	–	(5,177)
Profit before tax	32,551	39,862	(6,123)	70,972	21,382	22,690	(73,650)	107,684
Income tax	(4,546)	(10,998)	2,580	(15,882)	10,489	(1,629)	–	(19,986)
Profit for the year	**28,005**	**28,864**	**(3,543)**	**55,090**	**31,871**	**21,061**	**(73,650)**	**87,698**
Attributable profit	**28,005**	**28,864**	**(3,326)**	**55,090**	**31,871**	**16,148**	**(73,650)**	**83,002**
Financial assets held for trading	418,406	119,904	49,073	19,016	36,957	7,693	–	651,049
Loans and advances	1,658,100	761,897	572,697	2,033,159	576,910	474,636	–	6,077,399
Segment assets (excluding associates)	2,564,270	1,220,893	918,312	2,618,330	883,887	1,641,051	(680,394)	9,166,349
Associates	–	–	–	4,472	–	13,067	–	17,539
Total assets	**2,564,270**	**1,220,893**	**918,312**	**2,622,802**	**883,887**	**1,654,118**	**(680,394)**	**9,183,888**
Deposits	2,563,126	1,216,349	1,060,686	1,986,419	548,120	–	–	7,374,700
Borrowed funds	133,016	–	23,253	151,400	76,836	597,283	–	981,788
Segment liabilities* **	**2,329,837**	**995,901**	**819,786**	**2,339,194**	**765,957**	**1,320,646**	**–**	**8,571,321**
Other segment items:								
Capital expenditure	20,899	32,171	24,188	115,903	29,755	32,100	–	255,016
Depreciation	5,456	7,608	3,266	9,367	3,458	2,860	–	32,015
Amortisation	4,348	5,522	1,514	2,382	1,691	427	–	15,884
Impairment charge	9,135	5,409	32,949	31,331	681	32	–	79,537
Operating expenses	83,930	80,798	61,762	148,702	79,520	91,236	–	545,948

* *After eliminations.*
** *Reflects non-banking operations in various geographical sectors.*
*** *Includes inter-company assets or liabilities.*
**** *The main consolidation entry relates to the elimination of inter-group dividends of BWP74 million as well as the investment in subsidiaries of BWP713 million net of goodwill of BWP33 million.*

	2010							
BWP'000s	**BancABC Botswana**	**BancABC Mozambique**	**BancABC Tanzania**	**BancABC Zimbabwe**	**BancABC Zambia**	**Head office and Other****	**Consolidation entries**	**Total**
Net interest income after impairment of loans and advances*	51,610	26,641	29,975	55,255	70,790	47,748	–	282,019
Total income	84,964	83,967	67,855	140,347	91,562	112,298	(34,686)	546,307
Net income from operations	25,594	27,370	20,186	28,787	11,203	34,119	(36,045)	111,214
Share of results of associates	–	–	–	228	–	(20,362)	–	(20,134)
Profit before tax	25,594	27,370	20,186	34,083	11,203	8,689	(36,045)	91,080
Income tax	(5,554)	(4,450)	(3,351)	(7,344)	–	(808)	(988)	(22,495)
Profit for the year	**20,040**	**22,919**	**16,834**	**26,739**	**11,203**	**7,883**	**(37,033)**	**68,585**
Attributable profit	**20,040**	**22,919**	**15,805**	**26,739**	**11,203**	**7,037**	**(37,033)**	**66,710**
Financial assets held for trading	884,934	77,897	126,693	1,658	20,328	6,317	–	1,117,827
Loans and advances	794,615	424,274	446,426	895,169	232,721	284,905	–	3,078,110
Segment assets (excluding associates)	1,989,701	718,762	727,993	1,515,559	375,189	1,406,464	(757,072)	5,976,596
Associates	–	–	–	4,760	–	30,085	–	34,845
Total assets	**1,989,701**	**718,762**	**727,993**	**1,520,319**	**375,189**	**1,436,547**	**(757,072)**	**6,011,439**
Deposits	1,966,307	836,104	795,640	1,056,032	252,962	–	–	4,907,045
Borrowed funds	85,076	–	–	19,336	29,016	445,992	–	579,420
Segment liabilities***	**1,818,748**	**556,374**	**630,561**	**1,329,071**	**288,845**	**963,160**	**(13,178)**	**5,573,581**
Other segment items:								
Capital expenditure	23,838	10,895	14,455	29,546	2,162	2,095	–	82,991
Depreciation	3,423	4,318	2,717	7,657	2,572	2,457	1,358	24,502
Amortisation	1,073	2,152	591	–	1,159	–	–	4,975
Impairment charge	(158)	2,416	18,063	2,187	(3,458)	(3,224)	–	15,826
Operating expenses	59,370	56,597	47,670	106,593	80,360	83,145	1,358	435,093

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

CONSOLIDATED GROUP FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2011

BWP'000s	Notes	2011	2010
Interest and similar income		821,900	594,837
Interest expense and similar charges		(409,538)	(296,992)
Net interest income before impairment of advances	1	**412,362**	**297,845**
Impairment of loans and advances	2	(79,537)	(15,826)
Net interest income after impairment of advances		**332,825**	**282,019**
Non-interest income	3	325,984	264,288
Total income		**658,809**	**546,307**
Operating expenditure	4	(545,948)	(435,093)
Net income from operations		**112,861**	**111,214**
Share of results of associates	13	(5,177)	(20,134)
Profit before tax		**107,684**	**91,080**
Tax	5	(19,986)	(22,495)
Profit for the year		**87,698**	**68,585**
Attributable to:			
Ordinary shareholders		83,002	66,710
Minorities		4,696	1,875
Profit for the year		**87,698**	**68,585**
Basic earnings per share (Thebe)	6	56.6	46.3
Dividend per share (Thebe)	28	17.5	10.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

BWP'000s	2011	2010
Profit for the year	**87,698**	**68,585**
Other comprehensive income	**101,846**	**(46,506)**
Exchange differences on translating foreign operations	102,415	(48,834)
Revaluation of property	1,833	(1,982)
Share of reserves in associate companies	(1,901)	3,016
Movement in available-for-sale reserves	(132)	24
Income tax relating to components of other comprehensive income	(369)	1,270
Total comprehensive income for the year	**189,544**	**22,079**
Total comprehensive income attributable to:		
Ordinary shareholders	183,775	23,267
Minorities	5,769	(1,188)
	189,544	**22,079**

CONSOLIDATED BALANCE SHEET

as at 31 December 2011

BWP'000s	Notes	2011	2010
ASSETS			
Cash and short-term funds	7	1,243,431	999,338
Financial assets held for trading	8	651,049	1,117,827
Financial assets designated at fair value	9	185,412	79,139
Derivative financial assets	21	32,337	42,012
Loans and advances	10	6,077,399	3,078,110
Investment securities	12	86,174	53,023
Prepayments and other receivables	11	172,000	188,306
Current tax assets		8,458	6,388
Investment in associates	13	17,539	34,845
Property and equipment	15	514,880	330,218
Investment property	14	2,021	3,878
Intangible assets	17	130,362	57,402
Deferred tax assets	16	62,826	20,953
Total assets		**9,183,888**	**6,011,439**
EQUITIES AND LIABILITIES			
Liabilities			
Deposits	18	7,374,700	4,907,045
Derivative financial liabilities	21	47,069	1,047
Creditors and accruals	20	130,427	64,017
Current tax liabilities		27,617	6,819
Deferred tax liabilities	16	9,720	15,233
Borrowed funds	19	981,788	579,420
		8,571,321	**5,573,581**
Equity			
Stated capital	22	316,592	307,586
Foreign currency translation reserve		(246,046)	(347,388)
Non-distributable reserves		182,593	162,535
Distributable reserves		343,672	299,603
Equity attributable to ordinary shareholders		**596,811**	**422,336**
Minority interest		15,756	15,522
Total equity		**612,567**	**437,858**
TOTAL EQUITY AND LIABILITIES		**9,183,888**	**6,011,439**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

	Attributable to owners of the parent				
BWP'000s	**Stated capital**	**Foreign currency translation reserve**	**Regulatory general credit risk reserve**	**Property revaluation reserve**	**Available-for-sale reserve**
Balance as at 1 January 2010	**307,586**	**(298,715)**	**4,170**	**116,535**	**728**
Comprehensive income:					
Profit for the year	–	–	–	–	–
Other comprehensive income:	**–**	**(48,673)**	**889**	**2,608**	**24**
Exchange differences on translating foreign operations	–	(45,771)	–	–	–
Revaluation of property net of deferred tax	–	–	–	(712)	–
Movement in general credit risk reserve	–	–	889	–	–
Hedging reserve transfer	–	(2,902)	–	–	–
Share of reserves in associate companies	–	–	–	3,320	–
Movement in statutory reserves	–	–	–	–	–
Disposal of treasury shares		–	–	–	–
Movement in available for sale reserves:	–	–	–	–	24
– Arising in current year	–	–	–	–	24
TOTAL COMPREHENSIVE INCOME	**–**	**(48,673)**	**889**	**2,608**	**24**
Balance as at 31 December 2010	**307,586**	**(347,388)**	**5,059**	**119,143**	**752**
Comprehensive income:					
Profit for the year	–	–	–	–	–
Other comprehensive income:	**–**	**101,342**	**8,832**	**(860)**	**(132)**
Exchange differences on translating foreign operations	–	101,342	–	–	–
Revaluation of property net of deferred tax	–	–	–	1,464	–
Movement in general credit risk reserve	–	–	8,832	–	–
Share of reserves in associate companies	–	–	–	(2,324)	–
Movement in statutory reserves	–	–	–	–	–
Movement in available for sale reserves:	–	–	–	–	(132)
– Realised through profit and loss	–	–	–	–	(132)
TOTAL COMPREHENSIVE INCOME	**–**	**101,342**	**8,832**	**(860)**	**(132)**
Transactions with owners					
Dividends paid	–	–	–	–	–
Dividends paid by subsidiaries to minority interests	–	–	–	–	–
Disposal of treasury shares	–	–	–	–	–
Discount on new shares issued to staff	–	–	–	–	–
Proceeds from shares issued	9,006	–	–	–	–
Total transaction with owners	**9,006**	**–**	**–**	**–**	**–**
Balance as at 31 December 2011	**316,592**	**(246,046)**	**13,891**	**118,283**	**620**

Attributable to owners of the parent							
Statutory reserve	**Hedging reserve**	**Share based payments reserve**	**Treasury share reserve**	**Distributable reserves**	**Total**	**Minority interest**	**Total Equity**
28,052	**(2,902)**	**–**	**(2,574)**	**246,189**	**399,069**	**16,710**	**415,779**
–	–	–	–	66,710	66,710	1,875	68,585
11,900	**2,902**	**–**	**203**	**(13,296)**	**(43,443)**	**(3,063)**	**(46,506)**
–	–	–	–	–	(45,771)	(3,063)	(48,834)
–	–	–	–	–	(712)	–	(712)
–	–	–	–	(889)	–	–	–
–	2,902	–	–	–	–	–	–
205	–	–	–	(509)	3,016	–	3,016
11,695	–	–	–	(11,695)	–	–	–
–	–	–	203	(203)	–	–	–
–	–	–	–	–	24	–	24
–	–	–	–	–	24	–	24
11,900	**2,902**	**–**	**203**	**53,414**	**23,267**	**(1,188)**	**22,079**
39,952	**–**	**–**	**(2,371)**	**299,603**	**422,336**	**15,522**	**437,858**
–	–	–	–	83,002	83,002	4,696	87,698
9,847	**–**	**–**	**–**	**(18,256)**	**100,773**	**1,073**	**101,846**
–	–	–	–	–	101,342	1,073	102,415
–	–	–	–	–	1,464	–	1,464
–	–	–	–	(8,832)	–	–	–
255	–	–	–	168	(1,901)	–	(1,901)
9,592	–	–	–	(9,592)	–	–	–
–	–	–	–	–	(132)	–	(132)
–	–	–	–	–	(132)	–	(132)
9,847	**–**	**–**	**–**	**64,746**	**183,775**	**5,769**	**189,544**
–	–	–	–	(25,161)	(25,161)	–	(25,161)
–	–	–	–	–	–	(5,535)	(5,535)
–	–	(1,028)	2,371	4,484	5,827	–	5,827
–	–	2,379	–	–	2,379	–	2,379
–	–	(1,351)	–	–	7,655	–	7,655
–	**–**	**–**	**2,371**	**(20,677)**	**(9,300)**	**(5,535)**	**(14,835)**
49,799	**–**	**–**	**–**	**343,672**	**596,811**	**15,756**	**612,567**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2011

BWP'000s	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES	**(175,580)**	**219,100**
Cash generated from operating activities	263,802	154,379
Net profit before tax	**107,684**	**91,080**
Adjusted for:		
Impairment of loans and advances	79,537	15,826
Depreciation and amortisation	47,899	29,477
Net unrealised losses/(gains) on derivative financial instruments	17,122	(1,725)
Fair value gains on investment properties	–	(125)
Profit on disposal of investment property	(395)	–
Loss from associates	5,177	20,134
Discount on new shares issued to staff	2,379	–
Impairment of investment in associates	4,292	–
Loss/(profit) on disposal of property and equipment	107	(288)
Tax paid	(53,328)	(25,522)
Net cash inflow from operating activities before changes in operating funds	**210,474**	**128,857**
Net (decrease)/increase in operating funds	**(386,054)**	**90,243**
Increase in operating assets	(3,460,992)	(1,671,299)
Increase in operating liabilities	3,074,938	1,761,542
CASH FLOWS FROM INVESTING ACTIVITIES	**(244,185)**	**(79,350)**
Purchase of property and equipment	(174,441)	(82,991)
Purchase of intangible assets	(80,575)	(13,087)
Additions to investment property	(38)	(336)
Purchase of associates	(1,665)	(11,314)
Proceeds on disposal of property and equipment	206	8,006
Proceeds on disposal of investment property	2,709	20,372
Proceeds on disposal of associate	9,619	–
CASH FLOWS FROM FINANCING ACTIVITIES	**392,795**	**40,075**
Increase in borrowed funds	410,009	40,075
Dividend paid	(25,161)	–
Dividends paid by subsidiaries to minority interests	(5,535)	–
Disposal of treasury shares	5,827	–
Proceeds from issue of shares	7,655	–
(Decrease)/increase in cash and cash equivalents	**(26,970)**	**179,825**
Cash and cash equivalents at the beginning of the year	788,026	701,766
Exchange adjustment on opening balance	103,678	(93,565)
Cash and cash equivalents at the end of the year	**864,734**	**788,026**
Cash and cash equivalents	864,734	788,026
Statutory reserves	378,697	211,312
Cash and short-term funds	**1,243,431**	**999,338**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011

BWP'000s	2011	2010
1. NET INTEREST INCOME		
Interest and similar income		
Cash and short-term funds	19,073	66,462
Investment securities and dated financial instruments	137,240	78,506
Loans and advances at amortised cost	665,587	449,869
	821,900	**594,837**
Interest expense		
Deposits	347,142	248,013
Borrowed funds	62,396	48,979
	409,538	**296,992**
Net interest income	**412,362**	**297,845**
2. IMPAIRMENT OF LOANS AND ADVANCES		
Specific impairments	55,721	18,146
Portfolio impairments	24,002	2,691
Impairments prior to recoveries	79,723	20,837
Recoveries of loans and advances previously written off	(186)	(5,011)
	79,537	**15,826**
3. NON-INTEREST INCOME		
Gains from trading activities:	31,277	46,561
Gains on financial assets at fair value through profit and loss	48,399	44,836
– held for trading	18,705	33,496
– designated at fair value	29,694	11,340
Net (losses)/gains on derivative financial instruments*	(17,122)	1,725
Dividends received:	131	123
Listed shares – fair value through profit or loss	131	123
Fee and commission income:	162,148	103,189
Net fee income on loans and advances	77,867	60,516
Net fee income from trust and fiduciary activities	21,731	7,998
Cash transaction fees	5,646	14,566
Other fee income	56,904	20,109
Other non-interest income:	132,428	114,415
Money market trading income	–	(6)
Fair value gains on investment properties at fair value (Note 14)	–	125
Rental and other income	15,987	7,632
(Loss)/profit on disposal of property and equipment	(107)	288
Forex trading income and currency revaluation**	116,153	106,090
Profit on disposal of investment properties	395	–
Service charges recoveries	–	286
	325,984	**264,288**

* *Net (losses)/gains on derivative financial instruments include net gains of BWP10 million (2010: BWP1.7 million) arising from the USD: Japanese Yen derivative swap, and net losses of BWP27 million (2010: nil) arising from the derivative conversion option included in the IFC convertible loan (note 21).*

** *Foreign exchange income includes a foreign exchange loss of BWP26 million (2010: loss of BWP10.7 million) arising from the Japanese Yen exposure with NDB, disclosed in note 19. Net gains/(losses) on derivative instruments include an offsetting fair value gain arising from an equal but opposite nominal Japanese Yen derivative asset.*

BWP'000s		2011	2010
4.	**OPERATING EXPENDITURE**		
	Administrative expenses	186,579	150,971
	Property lease rentals	20,234	20,971
	Staff costs (note 4.1)	264,560	217,346
	Auditor's remuneration	6,479	4,786
	Impairment of investment in associate (note 13)	4,292	–
	Depreciation (note 15)	32,015	24,502
	Amortisation of software (note 17)	15,884	4,975
	Directors remuneration (note 4.2)	15,905	11,542
		545,948	**435,093**
4.1	**Staff Costs**		
	Salaries	164,164	163,701
	Employer contributions to post retirement funds	16,546	13,576
	Other staff costs	83,850	40,069
		264,560	**217,346**
	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	**12,251**	**8,013**
	Non-executive directors		
	Fees as director of holding company	2,769	2,617
	Fees as director of subsidiaries	885	912
		3,654	**3,529**
		15,905	**11,542**
	Details of other transactions and balances with related parties have been disclosed under note 25.		
5.	**TAX**		
	Current tax expense		
	Current year	59,343	22,438
	Under/(over) provision in prior years	1,026	(544)
	Withholding tax	4,953	–
	Bank levies	–	231
		65,322	**22,125**
	Deferred tax		
	Accruals	(5,209)	285
	Impairment losses	(13,623)	(123)
	Property and equipment	1,481	3,485
	Gains and investments	1,533	(3,654)
	Tax losses	(29,518)	377
		(45,336)	**370**
	Total tax expense per income statement	**19,986**	**22,495**

BWP'000s	2011	2010
5. TAX (continued)		
Reconciliation of effective tax charge:		
Profit before tax*	**107,684**	**91,080**
Income tax using corporate tax rates*	52,575	39,065
Non-deductible expenses	368	1,267
Tax exempt revenues	(18,896)	(12,375)
Tax incentives	(3,059)	(5,149)
Tax on dividends received	4,893	–
Under/(over) provision in prior years	1,026	(544)
Tax losses of prior years now raised/claimed	(16,394)	–
Bank levies	–	231
Rate change	(527)	–
Current tax expense per income statement	**19,986**	**22,495**
Effective tax rate	**19%**	**25%**

** Profit before tax is net of inter-group dividends. Income tax using corporate tax rates is calculated prior to this elimination.*

5.1 Income tax effects relating to components of other comprehensive income

BWP'000s	2011 Before tax	2011 Tax (charge)/ credit	2011 After tax	2010 Before tax	2010 Tax (charge)/ credit	2010 After tax
Exchange differences on translating foreign operations	102,415	–	102,415	(48,834)	–	(48,834)
Revaluation of property net of deferred tax	1,833	(369)	1,464	(1,982)	1,270	(712)
Share of reserves in associate companies	(1,901)	–	(1,901)	3,016	–	3,016
Movement in available for sale reserves	(132)	–	(132)	24	–	24
Other comprehensive income	**102,215**	**(369)**	**101,846**	**(47,776)**	**1,270**	**(46,506)**

BWP'000s	2011	2010
6. EARNINGS PER SHARE		
Basic earnings per share		
Profit attributable to ordinary shareholders ('000)	83,002	66,710
Weighted average number of ordinary shares in issue ('000)	146,760	143,956
Basic earnings per share (Thebe)	**56.6**	**46.3**
Number of shares ('000)		
Shares in issue at beginning of the year	146,420	146,420
Ordinary shares issued during the year	3,053	–
Total Company	**149,473**	**146,420**
Recognised as treasury shares	–	(2,371)
Total Group	**149,473**	**144,049**
Weighted average number of ordinary shares	**146,760**	**143,956**

BWP'000s	2011	2010
7. CASH AND SHORT-TERM FUNDS		
Cash on hand	129,306	74,777
Balances with central banks	40,549	42,722
Balances with other banks	694,879	670,527
Cash and cash equivalents	864,734	788,026
Statutory reserve balances	378,697	211,312
	1,243,431	**999,338**

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

BWP'000s	2011	2010
8. FINANCIAL ASSETS HELD FOR TRADING		
Government bonds	52,747	102,766
Corporate bonds	26,709	5,677
Treasury bills and other open market instruments	571,593	1,007,913
Bankers acceptances and commercial paper	–	1,471
	651,049	**1,117,827**

Investment in government bonds and treasury bills by subsidiaries is partly for liquidity requirements as stipulated by local central banks and also as a source of diversification of the assets portfolio. There are no cross-border investments in government securities by any of the subsidiaries and the holding company. The Group also invests in tradeable paper issued by large corporates in the respective markets.

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

BWP'000s	2011	2010
9. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE		
Listed equities	18,907	4,105
Listed debentures	14,390	11,006
Unlisted debentures	152,115	64,028
	185,412	**79,139**

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

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

The unlisted debentures comprise of an investment in 12% convertible debentures issued by Star Africa Corporation Limited and a 10% convertible loan to ADC Enterprises Limited (refer to the overview of valuation assumptions included in the financial risk management section of the financial statements).

BWP'000s	2011	2010
10. LOANS AND ADVANCES		
Mortgage lending	65,201	14,659
Instalment finance	331,826	320,602
Corporate lending	4,440,053	2,567,327
Commercial and property finance	169,531	45,151
Micro-finance lending	354,374	135,870
Consumer lending	933,974	132,966
	6,294,959	3,216,575
Less impairments (Note 10.1)	(217,560)	(138,465)
Net loans and advances	**6,077,399**	**3,078,110**

BWP'000s	2011	2010
10. LOANS AND ADVANCES (continued)		
10.1 Analysis of impairments		
Specific impairments	173,008	121,472
Portfolio impairments	44,552	16,993
	217,560	**138,465**

10.2 Impairment of loans and advances – movement analysis

BWP'000s	Total impairments	Mortgage lending	Instalment finance	Corporate lending	Commercial and property finance	Micro-finance lending	Consumer lending
2011							
Opening balance	138,465	1,378	25,651	94,216	1,423	14,510	1,287
Exchange adjustment	22,656	(144)	4,593	14,509	1	974	2,723
Bad debts written off	(23,284)	–	(17,430)	–	–	(5,854)	–
Net new impairments created (Note 2)	79,723	–	–	71,692	–	2,221	5,810
Impairments created	79,723	–	–	71,692	–	2,221	5,810
Closing balance	**217,560**	**1,234**	**12,814**	**180,417**	**1,424**	**11,851**	**9,820**

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

BWP'000s	2011	2010
11. PREPAYMENTS AND OTHER RECEIVABLES		
Accounts receivable and prepayments	144,512	171,358
Security deposits	5,262	3,467
Other amounts due	22,226	13,481
	172,000	**188,306**

BWP'000s	2011	2010
12. INVESTMENT SECURITIES		
Available for sale		
Unlisted equities	44,002	14,521
Held to maturity		
Promissory notes	42,172	38,502
	86,174	**53,023**

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

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

BWP'000s	2011	2010
13. INVESTMENT IN ASSOCIATES		
Carrying value at the beginning of the year	34,845	40,946
Exchange rate adjustment	2,150	(1,346)
Reclassification during the year	–	1,049
Share of (losses)/profits	(5,177)	(23,828)
Tax	(132)	3,694
Share of other comprehensive income	(1,901)	3,016
Disposals*	(9,619)	–
Impairment (note 4)	(4,292)	–
Additions*	1,665	11,314
	17,539	**34,845**

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

13.1 Investment in associates

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

BWP'000s	Country of incorporation	Assets	Liabilities	Carrying amount	Share of profit/ (loss)	Impair-ment during the year	% interest held	Reporting date
2011								
Lion of Tanzania Insurance Company Limited	Tanzania	23,281	18,746	3,881	305	–	38%	31 December
PG Industries (Botswana) Limited*	Botswana	30,800	24,358	9,186	(1,892)	4,292	37%	31 March
Credit Insurance Zimbabwe Limited	Zimbabwe	8,644	4,224	4,472	954	–	24%	31 December
Prestige Investments Private Limited**	Zimbabwe	–	–	–	(4,544)	–	0%	31 December
		62,725	**47,328**	**17,539**	**(5,177)**	**4,292**		

13.1 Investment in associates (continued)

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

** IFRS compliant management accounts not available.*

* In assessing investments in associates for impairment, the following assumptions were applied in assessing PG Industries Botswana Limited, which generated a loss during the year, for impairment:

- projected compounded free cashflows of BWP5.3 million, BWP4.5 million and BWP4.8 million over the next 3 years;
- terminal value based on 3.5% long-term cash flow growth rate; and
- weighted average cost of capital of 12.72%

The equity accounted numbers, other than for Lion of Tanzania, are based on management accounts. Lion of Tanzania was equity accounted using audited annual financial statements for the year ended 31 December 2010.

** On 31 August 2011, the Group divested from Prestige Investment Private Limited. The dissolution of the Company was by way of a distribution of assets to the shareholders of the Company on that date. The Group received shares that it was entitled to in PG Industries (Zimbabwe) Limited. As the effective shareholding of the Group in PG Industries (Zimbabwe) Limited is less than 20%, these shares were transferred to investment securities held at fair value through profit or loss. The carrying amount of the Group's investment in Prestige Investments Private Limited and PG Industries Zimbabwe Limited on 31 August 2011 was BWP9.6 million. The fair value of the PG shares recognised was BWP9.6 million. These shares were accounted for as financial assets designated at fair value.

14. INVESTMENT PROPERTY

BWP'000s	2011	2010
Balance at the beginning of the year	3,878	25,851
Exchange rate adjustment	419	195
Disposal	(2,314)	(20,372)
Transfer to property and equipment	–	(2,257)
Additions	38	336
Increase/(decrease) in fair value (Note 3)	–	125
Balance at end of the year	**2,021**	**3,878**
Rental income recognised in the income statement	**1,493**	**471**

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 every 3 years as applicable.

15. PROPERTY AND EQUIPMENT

BWP'000s	Land and buildings	Motor vehicles	Computer and office equipment	Furniture and fittings	Total
Cost or valuation at prior year	248,600	12,173	87,163	40,239	388,175
Exchange adjustment	36,301	2,548	2,553	4,688	46,090
Additions	83,827	7,539	47,436	35,639	174,441
Revaluations surplus (gross of deferred tax)*	1,833	–	–	–	1,833
Reclassifications	–	–	160	(160)	–
Disposals	(158)	(506)	(3)	(204)	(871)
Cost or valuation at 31 December 2011	**370,403**	**21,754**	**137,309**	**80,202**	**609,668**
Accumulated depreciation at December 2010	(9,107)	(6,276)	(31,093)	(11,481)	(57,957)
Exchange adjustment	(457)	(576)	(3,379)	(1,109)	(5,521)
Disposals	98	372	(3)	91	558
Reclassifications	–	–	959	(812)	147
Charge for the year	(6,743)	(2,135)	(17,608)	(5,529)	(32,015)
Accumulated depreciation at 31 December 2011	(16,209)	(8,615)	(51,124)	(18,840)	(94,788)
Carrying amount at 31 December 2011	**354,194**	**13,139**	**86,185**	**61,362**	**514,880**
Cost or valuation at prior year	219,576	10,039	61,908	25,111	316,634
Exchange adjustment	(3,907)	(701)	(3,383)	1,411	(6,580)
Additions	29,556	3,441	36,227	13,767	82,991
Revaluations deficit (gross of deferred tax)	1,118	–	–	–	1,118
Transfer from Investment property	2,257	–	–	–	2,257
Disposals	–	(606)	(7,589)	(50)	(8,245)
Cost or valuation at 31 December 2010	**248,600**	**12,173**	**87,163**	**40,239**	**388,175**
Accumulated depreciation at December 2009	(3,636)	(4,818)	(21,033)	(8,172)	(37,659)
Exchange adjustment	205	(116)	3,139	449	3,677
Disposals	–	527	–	–	527
Charge for the year	(5,676)	(1,869)	(13,199)	(3,758)	(24,502)
Accumulated depreciation at 31 December 2010	(9,107)	(6,276)	(31,093)	(11,481)	(57,957)
Carrying amount at 31 December 2010	**239,493**	**5,897**	**56,070**	**28,758**	**330,218**

** Land and buildings are revalued by independent professional valuers based on open market value every 3 years. In the current year, certain land and buildings in Botswana were revalued at BWP27.9 million. The carrying cost of this land and buildings had the revaluation not been done would have been BWP26 million.*

BWP'000s	2011	2010
Carrying amount of revalued land and buildings had it not been revalued, including exchange differences	**193,285**	**120,351**

BWP'000s	2011	2010
16. DEFERRED TAX		
Balance at the beginning of the year	5,720	6,694
Exchange adjustment	2,419	1,213
Income statement charge (Note 5)	45,336	(370)
Deferred tax on amounts charged to equity	(369)	(1,817)
	53,106	**5,720**
Disclosed as follows:		
Deferred tax asset	62,826	20,953
Deferred tax liability	(9,720)	(15,233)
	53,106	**5,720**
Tax effects of temporary differences:		
Accruals	(1,848)	2,693
Impairment losses	16,476	483
Property and equipment	(8,889)	(6,715)
Unrealised losses/(gains) on investment	1,272	(984)
Unearned income	6,876	704
Revaluation surplus	(716)	(2,920)
Tax losses	39,935	12,459
	53,106	**5,720**
17. INTANGIBLE ASSETS		
Goodwill	32,544	32,544
Software	97,818	24,858
	130,362	**57,402**
Goodwill		
Cost	67,342	67,342
Impairments losses	(34,798)	(34,798)
Carrying amount at the end of the year	**32,544**	**32,544**
Software		
Cost		
Balance at the beginning of the year (software)	41,791	34,161
Exchange rate adjustment	15,000	(5,457)
Additions	80,575	13,087
	137,366	**41,791**
Amortisation		
Balance at the beginning of the year	(16,933)	(16,284)
Exchange rate adjustment	(6,731)	4,326
Amortisation charge (Note 4)	(15,884)	(4,975)
	(39,548)	**(16,933)**
Carrying amount at the end of the year	**97,818**	**24,858**

17. INTANGIBLE ASSETS (continued)

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

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

- Projected compounded free cash flows growth of 26% per annum for 5 years, (2010: 20% per annum for 5 years)
- Terminal value based on 5% long-term cash flow growth rate, (2009: 5%)
- Weighted average cost of capital of 11.24%, (2010: 18.41%)

Management determined free cash flows, residual value and growth rates based on past performance and its expectations of market developments. The discount rates are pre-tax and reflect specific risks relating to the operation. The weighted average cost of capital has been impacted by movements in the Botswana Stock Exchange all share index and also the increased borrowings at lower rates than the older loans.

BWP'000s	2011	2010
18. DEPOSITS		
Deposits from banks	557,228	618,267
Deposits from other customers	6,817,472	4,288,718
Deposits under repurchase agreements	–	60
	7,374,700	**4,907,045**
Payable on demand		
Corporate customers	2,221,361	1,146,908
Public Sector	321,993	105,696
Retail customers	446,355	151,687
Other financial institutions	191,659	29,664
Banks	169,287	405,299
	3,350,655	**1,839,254**
Term deposits		
Corporate customers	975,023	1,226,249
Public sector	1,927,913	1,148,080
Retail customers	107,862	176,441
Other financial institutions	625,306	304,053
Banks	387,941	212,968
	4,024,045	**3,067,791**
	7,374,700	**4,907,045**
Geographical analysis		
Botswana	2,563,126	1,810,308
Mozambique	1,216,349	836,104
Tanzania	1,060,686	795,640
Zambia	548,120	252,961
Zimbabwe	1,986,419	1,065,048
Other	–	146,984
	7,374,700	**4,907,045**

BWP'000s	2011	2010
19. BORROWED FUNDS		
Convertible bond	84,619	–
Other borrowed funds	897,169	579,420
	981,788	**579,420**
(a) Convertible bond		
Face value of convertible bond issued on 13th May 2011	88,787	–
Derivative component (note 21.2)	(19,367)	–
Liability component on initial recognition	69,420	–
Interest expense	7,209	–
Upfront loan arrangement fees	(728)	–
Interest paid	(1,368)	–
Exchange rate movement	10,086	–
	84,619	**–**

During the year, the Group issued a US Dollar denominated convertible loan to International Finance Corporation (IFC) for US$13.5 million. The loan attracts interest of 6 months LIBOR + 3.75% per annum, payable semi-annually and it is convertible at IFC's option as follows:

- BWP3.15 per share at any time during the period from 13th May 2011 to 12th May 2012;
- BWP3.24 per share at any time during the period from 13th May 2012 to 12th May 2013; or
- If at any time during the conversion period, the Group raises additional capital, a price equal to the price of the shares issued as part of such a capital raising exercise.

The redemption dates for the principal amount are as follows:

15th Mar 2013 – US$3,500,000
15th Mar 2014 – US$3,500,000
15th Sep 2013 – US$3,500,000
15th Sep 2014 – US$3,048,969

The carrying amount of this convertible loan approximates its fair value at 31 December 2011.

	2011	2010
(b) Other borrowed funds		
National Development Bank of Botswana Limited	125,212	121,080
BIFM Capital Investment Fund One (Pty) Ltd	255,862	257,328
Afrexim Bank	209,262	–
Standard Chartered Bank Botswana Limited	113,325	96,721
Other	193,508	104,291
	897,169	**579,420**
Fair value		
National Development Bank of Botswana Limited	152,466	124,961
BIFM Capital Investment Fund One (Pty) Ltd	315,169	322,630
Afrexim Bank	209,262	–
Standard Chartered Bank Botswana Limited	113,325	96,721
Other	193,508	104,291
	983,730	**648,603**

19. BORROWED FUNDS (continued)

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% per annum. 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 for the principal amount are as follows:

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

Afrexim Bank Limited

This is a US$50 million trade finance facility availed to the Group on a one year renewable basis by Afrexim Bank Limited from September 2011. The Group had utilised US$28 million of this facility at 31 December 2011. It attracts interest at LIBOR + 4% and it is repayable on the earlier of when the underlying customers funded repay their respective loans or within one year, but with a provision to extend it for another one year period.

Standard Chartered Bank Botswana Limited

This is a US$15 million one year facility issued to BancABC Botswana by Standard Chartered Bank Botswana Limited. The loan was initially granted on 22 June 2006 and has been renewed annually ever since. It matures on 30 June 2012. It attracts interest of LIBOR + 3.39% and it is secured by Bank of Botswana Certificates amounting to BWP109 million.

Other borrowings

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

BWP'000s	2011	2010
Maturity analysis		
On demand to one month	4,458	1,276
One to three months	14,909	7,615
Three months to one year	380,122	82,862
Over one year	582,299	487,667
	981,788	**579,420**

20. CREDITORS AND ACCRUALS

BWP'000s	2011	2010
Accrued expenses	49,970	50,756
Other amounts due	80,457	13,261
	130,427	**64,017**

21. DERIVATIVE FINANCIAL INSTRUMENTS

BWP'000s	2011 Assets	2011 Liabilities	2010 Assets	2010 Liabilities
Cross-currency interest rate swaps	26,197	–	19,464	–
Convertible bond option	–	46,852	–	–
Forward foreign exchange contracts – held for trading	6,140	217	22,548	1,047
	32,337	**47,069**	**42,012**	**1,047**

21.1 Cross-currency interest rate swaps

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

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

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

BWP'000s	Notional amount	Fair value
At 31 December 2011		
Cross currency interest rate swaps		
Designated at fair value through profit and loss	125,212	26,197
Total recognised derivatives		**26,197**
Comprising:		
Derivative financial assets		26,197
Derivative financial liabilities		–
At 31 December 2010		
Cross currency interest rate swaps		
Designated at fair value through profit and loss	122,087	19,464
Total recognised derivatives		**19,464**
Comprising:		
Derivative financial assets		19,464
Derivative financial liabilities		–

BWP'000s	2011	2010
21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)		
21.2 Convertible bond option		
Value on initial recognition on 13th May 2011	19,367	–
Fair value loss	27,485	–
	46,852	**–**

The convertible bond option is in relation to the IFC convertible loan issued by the Group on 13th May 2011. See also note 19.

The key assumptions in the valuation of the conversion option were as follows:

- ABCH share price at year-end of BWP4.55
- Volatility of 35% (ABCH share price and US dollar)
- Spot exchange rate – BWP7.47/US$
- Forward foreign exchange rates for first 12 months obtained from Bloomberg and were extended beyond 12 months by extrapolating at a constant growth rate
- Credit spread of 3.75% above LIBOR
- Conversion price of BWP3.24 used
- Dividend yield of 3% assumed

Sensitivity: a change in volatility from 35% to 48% results in a BWP5 million change in the fair value of this derivative.

21.3 Forward foreign exchange contracts

The notional amounts of outstanding forward foreign exchange contracts at 31 December 2011 were BWP977 million (2010: BWP364 million).

These result in derivative financial assets of BWP6.1 million (2010: BWP22.5 million) and derivative financial liabilities of BWP0.2 million (2010: BWP1 million)

BWP'000s	2011	2010
22. STATED CAPITAL		
22.1 Authorised		
150 000 000 shares of BWP0.05 each	**7,500**	**7,500**
22.2 Issued and fully paid		
149 472 131 (2010: 146 419 524) shares of BWP0.05 each	7,474	7,320
Share premium	309,118	300,266
Total Company	**316,592**	**307,586**
Total Group	**316,592**	**307,586**

BWP'000s	Share capital	Share premium	Total
At 1 January 2010 and 2011	7,320	300,266	307,586
Issue of shares	154	8,852	9,006
At 31 December 2011	**7,474**	**309,118**	**316,592**

The holders of ordinary shares are entitled to receive a dividend as declared from time to time and are entitled to one vote per share at the annual general meeting of the Company. Treasury shares comprise the cost of the Company's own shares held by subsidiaries. As at 31 December 2011, there were no treasury shares held within the Group (2010: 2,370,657).

BWP'000s	2011	2010
23. FUNDS UNDER MANAGEMENT		
Funds under management	**368,977**	**240,759**

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

24. EMPLOYEE BENEFITS

The Group uses a combination of externally administered defined contribution schemes and, where there is a mandatory requirement, state social security schemes. Both the employee and employer contribute to these schemes. The Group does not operate any defined benefit scheme.

Amounts recognised in expenses have been disclosed in Note 4.1

25. RELATED PARTY TRANSACTIONS

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

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

Subsidiary companies and associates

ABC Holdings Limited and its subsidiaries entered into various financial services contracts with fellow subsidiaries and associates during the year. These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties. Loans to associates as at 31 December 2011 amounted to BWP8.6 million (2010: BWP9.6 million) which represents 1.4% (2010: 2%) of shareholders' funds, and 0.1% (2010: 0.3%) of gross loans. In addition, financial assets designated at fair value include an investment in debentures issued by PG Industries (Zimbabwe) valued at BWP14 million (2010: BWP11 million).

ABC Consulting and Management Services Limited has entered into management services agreements with Group companies on an arm's length basis. Details of disclosures of investments in subsidiaries are set out in note 15 of the separate Company financial statements. Details of associate companies are set out in note 13 of the consolidated Group financial statements.

Shareholders

During the year, the Group invested in ADC Enterprises Limited which is a 100% subsidiary of African Development Corporation (ADC). ADCE in turn is invested in a syndicated special purpose entity which, with the funds of other investors, is held to invest in a foreign bank. ADC is a significant shareholder of the Group. The investment balance as at 31 December 2011 was BWP75 million and has been classified as fair value through profit or loss.

Directors and officers

Emoluments to directors have been disclosed in note 4.2. The list of directors of ABC Holdings is shown on page 39. The total exposure of the Group to directors, officers and parties related to them in terms of IAS 24 as at 31 December 2011 is BWP20.8 million (2010: BWP20.4 million) which represents 3% (2010: 5%) of shareholders' funds.

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

25. RELATED PARTY TRANSACTIONS (continued)

BWP'000s	2011 Balance	2011 Interest	2010 Balance	2010 Interest
Loans and advances to entities related through shareholding:				
PG Industries (Botswana) Limited	8,626	1,405	9,615	195
Star Africa Corporation	–	–	–	738
	8,626	**1,405**	**9,615**	**933**
Loans and advances to entities related to directors:				
Loans and advances to entities related to N Kudenga	4,604	531	174	64
Loans and advances to entities related to FM Dzanya	435	17	921	2
	5,039	**548**	**1,095**	**66**
Loans and advances to directors:				
D T Munatsi	2,237	218	2,982	255
F Dzanya	7,079	612	6,624	734
B Moyo	3,849	303	3,040	392
	13,165	**1,133**	**12,646**	**1,381**
Loans and advances to key management:				
H Matemera	–	198	4,746	462
B Mudavanhu	2,586	121	1,885	49
	2,586	**319**	**6,631**	**511**
Financial assets designated at fair value held with entities related through shareholding:				
Listed debentures:				
PG Industries (Zimbabwe) Limited	–	–	11,006	–
	–	**–**	**11,006**	**–**
Deposits held by entities related to directors and key management:				
D Khama – Doreen Khama Attorneys Trust Account	9,460	93	5,833	206
Kudenga & Company Chartered Accountants	7	–	–	–
Deposits from entities related to F Dzanya	801	–	–	–
Deposits from entities related to D T Munatsi	–	–	6	–
	10,268	**–**	**5,839**	**206**
Deposits held by directors and key management:				
N Kudenga	57	–	–	–
F Dzanya	44	–	32	–
B Moyo	6	–	73	–
H Matemera	–	–	10	–
D Khama	571	–	2,666	181
D T Munatsi	250	–	70	1
	928	**–**	**2,851**	**182**
Remuneration to key management personnel:				
Short-term employment benefits	15,455		13,264	
Post-employment benefits	1,241		1,296	
Discount on shares issued	934		–	
	17,630		**14,560**	

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

The Group assists officers and employees in respect of housing, motor vehicle and personal loans at subsidised rates in some instances. Consistent policies and processes govern the granting and terms of such loans.

In 2011, PG Industries (Zimbabwe) Limited ceased to be an associate of the Group.

26. EXCHANGE RATES

	Closing Dec 11	Average Dec 11	Closing Dec 10	Average Dec 10
United States Dollar	0.134	0.146	0.155	0.147
Tanzanian Shilling	212.345	231.829	233.427	210.117
Zambian Kwacha	682.442	711.427	744.484	707.889
Mozambican Metical	3.647	4.194	5.053	4.994
South African Rand	1.083	1.059	1.028	1.080

BWP'000s	2011	2010
27. COLLATERAL		
27.1 Liabilities for which collateral is pledged		
Deposits from banks	207,127	46,156
Deposits from customers	343,579	63,732
Borrowed funds	108,560	116,860
	659,266	**226,748**
Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
Cash and short-term funds	20,515	–
Bankers' acceptances	405,221	–
Financial assets held for trading	233,530	233,868
	659,266	**233,868**
These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.		
27.2 Collateral accepted as security for assets		
Deposits from customer	290,517	402,840
Mortgage bonds, inventory, plant and equipment, shares, letter of undertaking	1,494,989	1,428,452
	1,785,506	**1,831,292**
ABC Holdings Limited is obliged to return equivalent securities. The Group is not permitted to sell or repledge collateral in the absence of default.		
These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.		
28. ORDINARY DIVIDENDS		
Dividend of 10 Thebe per share paid on 12th April 2011 to shareholders on the register on 1st April 2011	14,642	–
Dividend of 7 Thebe per share paid on 16th September 2011 to shareholders on the register on 2nd September 2011	10,519	–
	25,161	**–**
The Board of Directors proposed a gross final dividend in respect of the year ended 31 December 2011 of 10.5 Thebe per ordinary share.		
This will bring the full year dividend to 17.5 Thebe per share.		

29. ACQUISITIONS AND DISPOSAL OF ASSOCIATE COMPANIES

During 2011 the Group acquired additional shares in PG Industries (Zimbabwe) for BWP1.7 million. Subsequently in August 2011, the Group disposed of its interest in Prestige, an investment company that was housing the PG Industries (Zimbabwe) shares. Each party was then handed over the shares in PG Industries (Zimbabwe) that they were entitled to in full and final settlement of the transaction.

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

During 2010 the Group acquired a 2% interest in PG Industries (Zimbabwe) Limited for BWP1.6 million, following the under-writing of a right issue, and indirectly invested an additional BWP4.2 million by following existing rights.

In addition, the Group acquired listed convertible debentures in PG Industries (Zimbabwe) Limited as detailed in note 9.

30. EVENTS AFTER THE REPORTING DATE

There were no significant events after the reporting date.

31. RESTATEMENT

Comparative numbers for interest income and interest expense were restated by BWP55.62 million respectively to eliminate interest on transactions between subsidiaries. The restatement had no impact on income before and after tax, or on equity. The restatement is summarised as follows:

BWP'000	Previously stated	Restated
Interest and similar income	650,466	594,837
Interest expense and similar charges	(352,621)	(296,992)
	297,845	**297,845**

COMPANY SEPARATE FINANCIAL STATEMENTS

COMPANY INCOME STATEMENT

for the year ended 31 December 2011

BWP'000s	Notes	2011	2010
Interest and similar income		110,153	102,202
Interest expense and similar charges		(77,918)	(56,748)
Net interest income	1	**32,235**	**45,454**
Non-interest income	2	63,564	56,056
Other impairments	3	–	(4,340)
Total income		**95,799**	**97,170**
Operating expenditure	4	(78,821)	(83,923)
Profit before tax		**16,978**	**13,247**
Tax	5	122	(633)
Profit for the year		**17,100**	**12,614**

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

BWP'000s	2011	2010
Profit for the year	17,100	12,614
Total comprehensive income for the year	**17,100**	**12,614**

COMPANY BALANCE SHEET

as at 31 December 2011

BWP'000s	Notes	2011	2010
ASSETS			
Cash and short-term funds	6	5,102	22,660
Financial assets designated at fair value	17	152,115	64,028
Derivative financial assets	16	26,316	19,464
Loans and advances	7	281,111	193,370
Inter-company balances	8	77,652	58,433
Investment securities	9	42,172	38,502
Prepayments and other receivables	10	7,577	18,607
Property and equipment	11	263	790
Deferred tax assets	12	15,017	10,002
Loans to subsidiary companies	13	177,547	158,053
Intangible assets	14	215	–
Investment in subsidiaries	15	680,626	602,077
TOTAL ASSETS		**1,465,713**	**1,185,986**
EQUITY AND LIABILITIES			
Liabilities			
Derivative financial liabilities	16	46,971	–
Creditors and accruals	18	9,110	6,147
Inter-company balances	8	482,884	449,064
Borrowed funds	19	615,201	427,028
Total liabilities		**1,154,166**	**882,239**
Equity			
Stated capital	20	316,592	307,586
Distributable reserves		(5,045)	(3,839)
Equity attributable to ordinary shareholders		**311,547**	**303,747**
EQUITY AND LIABILITIES		**1,465,713**	**1,185,986**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

BWP'000s	Stated capital	Treasury share reserve	Distributable reserves	Total equity
Balance as at 31 December 2009	**307,586**	**–**	**(16,453)**	**291,133**
Comprehensive income:				
Profit for the year	–	–	12,614	12,614
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**12,614**	**12,614**
Balance as at 31 December 2010	**307,586**	**–**	**(3,839)**	**303,747**
Comprehensive income:				
Profit for the year	–	–	17,100	17,100
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**17,100**	**17,100**
Transactions with owners:				
Shares issued	9,006	–	–	9,006
Dividends paid during the year	–	–	(25,161)	(25,161)
Acquisition of treasury shares from subsidiary	–	(2,371)	2,371	–
Disposal of treasury shares	–	2,371	4,484	6,855
Balance as at 31 December 2011	**316,592**	**–**	**(5,045)**	**311,547**

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2011

BWP'000s	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES	**(98,146)**	**149,638**
Cash generated from operating activities	34,654	16,116
Net profit before tax	**16,978**	**13,247**
Adjusted for:		
Other impairments	–	4,340
Depreciation and amortisation	554	254
Net losses/(gains) on derivative financial instruments	17,122	(1,725)
Tax paid	(4,893)	(1,166)
	29,761	14,950
Net increase in operating funds	**(127,907)**	**134,688**
Increase in operating assets	(211,661)	(183,084)
Increase in operating liabilities	83,754	317,772
CASH FLOWS FROM INVESTING ACTIVITIES	**(98,285)**	**(135,194)**
Purchase of intangible assets	(619)	(806)
Proceeds on disposal of property and equipment	377	–
Investment in subsidiaries	(78,549)	(118,759)
Changes in loans to subsidiaries	(19,494)	(15,629)
CASH FLOWS FROM FINANCING ACTIVITIES	**178,873**	**8,165**
Increase in borrowed funds	188,173	8,165
Proceeds from issue of shares	9,006	–
Proceeds from issue of treasury shares	6,855	–
Dividend paid	(25,161)	–
(Decrease)/Increase in cash and cash equivalents	**(17,558)**	**22,609**
Cash and cash equivalents at the beginning of the year	22,660	51
Cash and cash equivalents at the end of the year	**5,102**	**22,660**

ACCOUNTING POLICIES

The accounting policies of the Company and the Group are set out on pages 49 to 63.

BWP'000s	2011	2010
1. NET INTEREST INCOME		
Interest and similar income		
Cash and short-term funds	238	7,525
Investment securities at amortised cost	3,670	3,670
Loans and advances at amortised cost*	88,556	73,406
Inter-company	17,689	17,601
	110,153	**102,202**
Interest expense		
Borrowed funds	64,578	42,921
Inter-company	13,340	13,827
	77,918	**56,748**
Net interest income	**32,235**	**45,454**

** Interest income includes interest of BWP30.8 million pertaining to an individually impaired exposure. In terms of a loan syndication agreement with BancABC Zimbabwe, a portion of the exposure arising from this interest accrual was sold to BancABC Zimbabwe, and subsequently impaired. In the consolidated financial statements, BWP14.5 million of this interest income was eliminated against the impairment charge processed by BancABC Zimbabwe.*

BWP'000s	2011	2010
2. NON-INTEREST INCOME		
(Losses)/gains from trading activities:	(9,526)	7,082
– Designated at fair value	7,596	5,357
– Net (losses)/gains on derivative financial instruments*	(17,122)	1,725
Dividends received:	72,967	37,456
– Subsidiary companies	72,967	37,456
Fee and commission income:	2,570	9,600
– Net fee and commission income	2,570	9,600
Other non-interest income:	(2,447)	1,918
Rentals and other income	–	–
Foreign exchange income and currency revaluation**	(2,447)	1,918
	63,564	**56,056**

** Net (losses)/gains on derivative financial instruments include net gains of BWP10 million arising from the USD:Japanese Yen derivative swap, and net losses of BWP27 million arising from the derivative convertion option included in the IFC convertible loan (note 19).*
*** Foreign exchange income includes a foreign exchange loss of BWP26 million (2010: loss of BWP10.7 million) arising from the Japanese Yen exposure with NDB, disclosed in note 19. Net gain/(losses) on derivative financial instruments includes an offsetting fair value gain arising from an equal but opposite nominal Japanese Yen derivative asset.*

BWP'000s	2011	2010
3. OTHER IMPAIRMENTS		
Impairment of investment in subsidiaries		
EDFUND S.A.	–	4,340
		4,340

BWP'000s	2011	2010
4. OPERATING EXPENDITURE		
Inter-company management fees	50,175	59,103
Administrative expenses	5,922	5,362
Staff costs	5,532	7,464
Auditors' remuneration	1,618	1,110
Depreciation (note 11)	150	254
Amortisation of software (note 14)	404	–
Directors' remuneration	15,020	10,630
	78,821	**83,923**
5. TAX		
Profit before tax	16,978	13,247
Income tax using standard corporate tax rate	2,531	1,987
Tax exempt revenues	(10,945)	(5,618)
Non-deductible expenses	16	617
Tax on dividends received	4,893	1,165
Tax losses of prior years not claimed	3,383	2,482
Tax (income)/expense per income statement	**(122)**	**633**
Effective tax rate	1%	(5%)
5.1 Current tax expense		
Deferred tax		
Tax losses	(5,015)	(532)
Current tax		
Tax on dividends received	4,893	1,165
Total tax (income)/expense per income statement	**(122)**	**633**
6. CASH AND SHORT-TERM FUNDS		
Balances with banks	**5,102**	**22,660**
Balances with banks include bank accounts with group companies that total BWP552 thousand.		
These accounts are maintained to make dividend payments.		
7. LOANS AND ADVANCES		
Corporate lending	267,946	165,570
Other*	13,165	27,800
	281,111	193,370
Less: Allowance for impairments	–	–
Net loans and advances	**281,111**	**193,370**
** Related party loans and advances included in the above are set out in note 21.*		
The fair value of net loans and advances approximates their carrying amount.		
7.1 Maturity analysis		
On demand to one month	2,658	135,389
One month to three months	2,249	40,410
Three months to one year	263,040	2,430
Greater than one year	13,164	15,141
	281,111	**193,370**

BWP'000s	2011	2010
7. LOANS AND ADVANCES (continued)		
7.2 Impairment of loans and advances		
– Movement analysis		
Opening balance	–	6,674
Exchange rate adjustment	–	(94)
Bad debts written off	–	(6,580)
Impairments created	–	–
Closing balance	**–**	**–**

The loans all have floating interest rates which range from 8.5% to 19.6% (2010: 9.75% to 43%). The loans are denominated in Botswana Pula and United States Dollars.

BWP'000s	2011	Fair value	2010	Fair value
8. INTER-COMPANY BALANCES				
8.1 Balances due from:				
BancABC Zambia Limited	–	–	4,541	4,541
ABCH Management Support Services (Pty) Ltd and other non-banking subsidiaries*	77,652	77,652	53,892	53,892
	77,652	**77,652**	**58,433**	**58,433**
8.2 Balances due to:				
BancABC Botswana Limited	266,662	266,662	157,192	157,192
BancABC Mozambique Sarl	20,458	20,458	109,840	109,840
BancABC Tanzania Limited	44,710	44,710	66,745	66,745
BancABC Zambia Limited	9,633	9,633	–	–
BancABC Zimbabwe, Second Nominees and Capital Partners	97,524	97,524	71,423	71,423
EDFUND S.A.	43,799	43,799	37,713	37,713
Tanzania Development Finance Company Limited	98	98	6,151	6,151
	482,884	**482,884**	**449,064**	**449,064**

** The amount includes an interest free loan of BWP35.7 million (2010: BWP37.4 million) pertaining to ABCH Management Support Services (Pty) Ltd, (ABC South Africa). The loan has no fixed terms of repayment. In addition, the amount includes a loan of BWP18.8 million (2010: nil) to Kendra (Pvt) Ltd, (a group company in Zambia). As the entity reflects a negative net asset value of BWP4.7 million at 31 December 2011, ABC Holdings committed to provide financial support to the entity to enable it to carry on its operations as a going concern and to meet its obligations as and when they fall due in the foreseeable future.*

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

The balances are denominated in Botswana Pula: -BWP242.5 million (2010: -BWP164.3 million); United States Dollars:

-BWP256.2 million (2010: -BWP276.2 million); South African Rands: BWP13.5 million (2010: BWP49.1 million); and Euro nil (2010: 0.8 million).

BWP'000s	2011	2010
9. INVESTMENT SECURITIES		
Held-to-maturity		
– Promissory notes	**42,172**	**38,502**

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

BWP'000s	2011	2010
10. PREPAYMENTS AND OTHER RECEIVABLES		
Accounts receivable and prepayments	2,219	3,985
Security deposit	3,744	3,224
Other amounts due	1,614	11,398
	7,577	**18,607**

All prepayments and other receivables are classified as current.

11. PROPERTY AND EQUIPMENT

BWP'000s	Computer and office equipment	Furniture and fittings	Total
Cost or valuation at 31 December 2010	977	267	1,244
Disposals	(619)	–	(619)
Cost or valuation at December 2011	358	267	625
Accumulated depreciation at December 2010	(445)	(9)	(454)
Disposals	242	–	242
Charge for the year	(97)	(53)	(150)
Accumulated depreciation at December 2011	(300)	(62)	(362)
Carrying amount at December 2011	**58**	**205**	**263**
Cost or valuation at 31 December 2009	438	–	438
Additions	539	267	806
Cost or valuation at December 2010	977	267	1,244
Accumulated depreciation at December 2009	(200)	–	(200)
Charge for the year	(245)	(9)	(254)
Accumulated depreciation at December 2010	(445)	(9)	(454)
Carrying amount at December 2010	**532**	**258**	**790**

BWP'000s	2011	2010
12. DEFERRED TAX		
Balance at the beginning of the year	(10,002)	(9,470)
Income statement charge (note 5)	(5,015)	(532)
Balance at the end of the year	**(15,017)**	**(10,002)**
Tax effect of temporary differences:		
– Property and Equipment	(32)	–
– Unrealised gain on investments	(3,306)	–
– Tax losses	(11,679)	(10,002)
	(15,017)	**(10,002)**

BWP'000s	2011	2010
13. LOANS TO SUBSIDIARY COMPANIES		
BancABC Botswana Limited	70,614	65,902
BancABC Zambia Limited	53,804	46,058
BancABC Mozambique Sarl	53,129	46,093
	177,547	**158,053**

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

The loans are denominated in Botswana Pula: BWP32 million (2010: BWP32 million) and United States Dollars: BWP146.9 million (2010: BWP126.1 million).

BWP'000s	2011	2010
14. INTANGIBLE ASSETS		
Cost		
Additions	619	–
	619	**–**
Amortisation		
Amortisation charge (note 4)	(404)	–
	(404)	**–**
Carrying amount at the end of the year	**215**	**–**

15. INVESTMENT IN SUBSIDIARIES

	Nature of business	Ownership of ordinary shares 2011 %	2010 %	Carrying value 2011 BWP'000s	2010 BWP'000s
Botswana					
BancABC Botswana Limited	Registered bank	100	100	89,641	52,241
Bohemian Private Limited	Investment holding company	100	100	4,000	4,000
Capital Partners Private Limited	Investment holding company	100	100	2,019	2,019
Mozambique					
BancABC Mozambique Sarl	Registered bank	100	100	68,050	68,050
South Africa					
ABCH Management Support Services (Proprietary) Limited	Management services	100	100	–	–
Tanzania					
BancABC Tanzania Limited	Registered bank	94*	94*	128,397	128,397
Tanzania Development Finance Company Limited	Financial services	68	68	15,949	15,949
Zambia					
BancABC Zambia Limited	Registered bank	100	100	82,486	78,776
Zimbabwe					
BancABC Zimbabwe Limited	Registered merchant bank, Stockbroking and Asset Management	100	100	248,049	210,610
Luxembourg					
EDFUND S.A.**	Management services	100	100	42,035	42,035
				680,626	602,077

** Effective shareholding.*
*** In 2009 the investment in EDFUND S.A. was impaired by BWP2.6 million as the carrying amount exceeded the net asset value, and the entity does not generate income. In 2010, the investment was further impaired by BWP4.3 million.*

16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swaps	26,197	–	19,464	–
Convertible bond option	–	46,852	–	–
Forward foreign exchange contracts – held for trading	119	119	–	–
	26,316	**46,971**	**19,464**	**–**

Cross-currency interest rate swaps

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

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

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

BWP'000s	Notional amount	Fair value
At 31 December 2011		
Cross-currency interest rate swaps:		
Designated at fair value through profit and loss	125,212	26,197
Total recognised derivatives		**26,197**
At 31 December 2010		
Cross-currency interest rate swaps:		
Designated at fair value through profit and loss	121,080	19,464
Total recognised derivatives		**19,464**

BWP'000s	2011	2010
16.1 Convertible bond option		
Value on initial recognition on 13th May 2011	19,367	–
Fair value loss	27,485	–
	46,852	**–**

For details of the assumptions taken in valuing the convertible option and the sensitivity thereof, please refer to note 21.2 in the Group financial statements.

16.2 Forward foreign exchange contracts

The notional amounts of outstanding forward foreign exchange contracts at 31 December 2011 were BWP14.4 million (2010: nil).

BWP'000s	2011	2010
17. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE		
Unlisted debentures	**152,115**	**64,028**

The unlisted debentures comprise of:

- investment in 5 year 12% convertible debentures issued by Star Africa Corporation Limited, convertible at the option of the holder after 2 years, with interest being paid quarterly on 31 March, 30 June, 30 September and 31 December. The balance is denominated in United States dollars.
- from October 2011, an investment of US$10 million in a 5 year 10% convertible loan to ADC Enterprises Limited, convertible on maturity or liquidating on the occurance of a specified 'liquidity event' in the shareholders agreement, with interest being paid as and when sufficient funds are available from returns earned on the ultimate investment. The balance is denominated in United States Dollars.

Both investments are carried at fair value.

BWP'000s	2011	2010
18. CREDITORS AND ACCRUALS		
Accrued expenses	2,825	3,010
Items in transit	3,653	–
Other amounts due	2,632	3,137
	9,110	**6,147**

Creditors and accruals are due and payable within twelve months.

BWP'000s	2011	Fair value	2010	Fair value
19. BORROWED FUNDS				
Convertible bond	84,619	84,619	–	–
Other borrowed funds	530,582	617,142	427,028	496,211
	615,201	**701,761**	**427,028**	**496,211**
(a) Convertible bond				
Face value of convertible bond issued on 13th May 2011	88,787	88,787	–	–
Derivative component (note 16.1)	(19,367)	(19,367)	–	–
Liability component on initial recognition	69,420	69,420	–	–
Interest expense	7,209	7,209	–	–
Upfront loan arrangement fees	(728)	(728)	–	–
Interest paid	(1,368)	(1,368)	–	–
Exchange rate movement	10,086	10,086	–	–
	84,619	**84,619**	**–**	–

During the year, the Group issued a US Dollar denominated convertible loan to International Finance Corporation (IFC) for US$13.5 million. The loan attracts interest of 6 months LIBOR + 3.75% per annum, payable semi-annually and it is convertible at IFC's option as follows:

- BWP3.15 per share at any time during the period from 13th May 2011 to 12th May 2012;
- BWP3.24 per share at any time during the period from 13th May 2012 to 12th May 2013; or
- if at any time during the conversion period, the Group raises additional capital, a price equal to the price of the shares issued as part of such a capital raising exercise.

The redemption dates for the principal amount are as follows:

15th March 2013 – US$3,500,000
15th March 2014 – US$3,500,000
15th September 2013 – US$3,500,000
15th September 2014 – US$3,048,969

BWP'000s	2011	Fair value	2010	Fair value
19. BORROWED FUNDS (continued)				
(b) Other borrowed funds				
National Development Bank of Botswana Limited	125,212	152,466	121,080	124,961
BIFM Capital Investment Fund One (Pty) Ltd	255,862	315,168	257,328	322,630
Afrexim Bank Limited	112,063	112,063	–	–
Standard Chartered Bank Botswana Limited	37,445	37,445	32,248	32,248
Other borrowings	–	–	16,372	16,372
	530,582	**617,142**	**427,028**	**496,211**

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% per annum. 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 for the principal amount are as follows:

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

Afrexim Bank Limited

This is a US$50 million trade finance facility availed to the Group on a one year renewable basis by Afrexim Bank Limited from September 2011. The Group had utilised US$28 million of this facility at 31 December 2011. It attracts interest at LIBOR + 4% and it is repayable on the earlier of when the underlying customers funded repay their respective loans or within one year, but with a provision to extend it for another one year period. Only the portion related to ABCH has been recognised in the Company financial statements.

Standard Chartered Bank Botswana Limited

This is a US$15 million one year facility issued to BancABC Botswana by Standard Chartered Bank Botswana Limited. The loan was initially granted on 22 June 2006 and has been renewed annually ever since. It matures on 30th June 2012. It attracts interest of LIBOR + 3.39% and it is secured by Bank of Botswana Certificates amounting to BWP109 million. Only the portion syndicated to ABCH has been recognised in the Company financial statements.

Other borrowings

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

BWP'000s	2011	2010
19.1 Maturity analysis		
One month to three months	8,550	7,328
Three months to one year	177,003	10,081
Greater than one year	429,648	409,619
	615,201	**427,028**

	2011	2010
20. STATED CAPITAL		
20.1 Authorised		
150 000 000 shares of BWP0.05 each	**7,500**	**7,500**
20.2 Issued and fully paid		
149 472 131 (2010: 146 419 524) shares of BWP0.05 each	7,474	7,320
Share premium	309,118	300,266
Total Company	**316,592**	**307,586**

	Share capital	Share premium	Total
At 1 January 2010 and 2011	7,320	300,266	307,586
Issue of shares	154	8,852	9,006
At 31 December 2011	**7,474**	**309,118**	**316,592**

The holders of ordinary shares are entitled to receive a dividend as declared from time to time and are entitled to one vote per share at the annual general meetings of the Company.

	2011	2010
20.3 Reconciliation of the number of shares in issue		
Shares at the beginning of the year	146,419,524	146,419,524
Shares issued	3,052,607	–
At the end of the year	**149,472,131**	**146,419,524**

21. 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.

Subsidiary companies and associates

ABC Holdings Limited is the holding company in the ABC Group. 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/from subsidiary companies have been disclosed in note 8 and 13 and interest on these in note 1. Dividends received from subsidiaries have been disclosed in note 2. Bank balances with subsidiaries is disclosed in note 6.

ABC Consulting and Management Services Limited and ABCH Management Support Services (Pty) Limited have entered into management services agreements with the Company on an arm's length basis. Details of inter-company management fees incurred during the year have been disclosed on note 4.

Details of disclosures of investments in subsidiaries are set out in note 15. Details of associate companies are set out in note 13 of the Group financial statements.

Shareholders

During the year, the Company invested in ADC Enterprises Limited, which is a 100% subsidiary of African Development Corporation (ADC). ADCE in turn is invested in a syndicated SPE which, with the funds of other investors, is held to invest in a foreign bank. ADC is a significant shareholder of the Group. The investment balance as at 31 December 2011 was BWP75 million and has been classified as fair value through profit or loss.

21. RELATED PARTY TRANSACTIONS (continued)

Directors and officers

Emoluments to directors have been disclosed in note 4. Particulars of other lending transactions entered into with related parties are as follows:

	2011		2010	
	Balance	Interest	Balance	Interest
Loans and advances to entities related through shareholding:	–	–	–	738
Star Africa Corporation Limited*	–	–	–	738
Loans and advances to directors:				
DT Munatsi	2,237	240	2,104	237
F Dzanya	7,079	563	6,624	734
B Moyo	3,849	278	3,040	392
	13,165	**1,081**	**11,768**	**1,363**
Loans and advances to key management:				
H Matemera	–	198	3,737	421
	–	**198**	**3,737**	**421**

There were no specific impairments on balances with related parties.

** The Group disposed of its interest in Star Africa Corporation Limited in the prior year.*

BWP'000s	2011	2010
22. OFF-BALANCE SHEET ITEMS		
22.1 Contingent liabilities		
The Company has agreed to provide its subsidiary Kendra (Pvt) Ltd with the required operational and financial support (see note 8 for details)		
As at 31 December 2011, Kendra (Pvt) Ltd's liabilities exceeded its assets by BWP4.7 million.		
22.2 Capital commitments		
Approved and contracted for the next year	–	–
23. COLLATERAL		
23.1 Liabilities for which collateral is pledged		
Borrowed funds	255,862	257,328
	255,862	**257,328**
Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
Investment securities	42,172	38,502
	42,172	**38,502**
23.2 Collateral accepted as security for assets		
Mortgage, bonds, inventory and debtors	101,307	–
	101,307	**–**
The Company is obliged to return equivalent securities. The Company is not permitted to sell or repledge collateral in the absence of default. These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.		
24. ORDINARY DIVIDENDS		
Dividend of 10 Thebe per share paid on 12th April 2011 to shareholders on the register on 1st April 2011	14,642	–
Dividend of 7 Thebe per share paid on 16th September 2011 to shareholders on the register on 2nd September 2011	10,519	–
	25,161	**–**
The Board of Directors proposed a gross final dividend in respect of the year ended 31 December 2011 of 10.5 Thebe per ordinary share.		
This will bring the full year dividend to about 17.5 Thebe per share.		

FINANCIAL RISK MANAGEMENT

The credit risk management policies of the Company and Group are set out on pages 64 to 71 of the Group financial statements.

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

The following table presents the maximum exposure to credit risk of balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements. For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount before deducting impairments.

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

BWP'000s	2011	2010
Placements with banks	5,102	22,660
Derivative financial assets	26,316	19,464
Financial assets designated at fair value	152,115	64,028
Loans and advances to customers at amortised cost	281,111	193,370
– Corporate Lending	267,947	165,570
– Other loans and advances	13,164	27,800
Investment securities	42,172	38,502
– Promissory notes	42,172	38,502
Loans to subsidiaries	177,547	158,053
Inter-company balances	77,652	58,433
	762,015	**554,510**

CREDIT QUALITY

Loans and advances

The following tables reflect broadly, stable credit quality of the Company's exposures.

Distribution of loans and advances by credit quality:

BWP'000s	2011	2010
Neither past due nor impaired	189,520	193,370
Individually impaired	91,591	–
Gross Loans and Advances	281,111	193,370
Less: Allowance for impairment	–	–
Net Loans and Advances	**281,111**	**193,370**

(a) Distribution of loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted below:

Internal grade: Performing

BWP'000s	**31 December 2011**	**31 December 2010**
Corporate lending	176,356	165,570
Other loans and advances	13,164	27,800
	189,520	**193,370**

(b) Loans and advances individually impaired

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is BWP91.6 million (2010: nil).

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 Company as security, are as follows:

	2011			**2010**		
BWP'000s	**Individually Impaired**	**Fair value collateral**	**Under-collater-alisation***	**Individually Impaired**	**Fair value collateral**	**Under-collater-alisation***
Corporate Lending	91,591	–	91,591	–	–	–
	91,591	**–**	**91,591**	**–**	**–**	**–**

** Individually impaired loans comprise of a single exposure to a corporate export entity in Zimbabwe. No impairment has been raised in the Company financial statements as the carrying amount of the exposure equates to the discounted present value of a repayment plan agreed to with the debtor. Subsequent to the financial year end, BWP43.4 million has been received in terms of this plan. The balance is receivable on 5 May and 30 June 2012.*

The overdue interest relating to the impaired loan was suspended in full in the Group financial statements.

CONCENTRATION RISK OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE

(a) Geographical sectors

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by geographical regions as of 31 December 2011.

	2011						
BWP'000s	**Botswana**	**Mozam-bique**	**Tanzania**	**Zambia**	**Zimbabwe**	**Other**	**Total**
Placements with banks	105	–	–	–	496	4,501	5,102
Financial assets designated at fair value	–	–	–	–	77,125	74,990	152,115
Derivative financial assets	–	–	–	–	119	26,197	26,316
Loans and advances	51,313	–	–	–	229,798	–	281,111
Investment securities	42,172	–	–	–	–	–	42,172
Inter-company balances	31,902	–	–	18,815	–	26,935	77,652
	125,492	**–**	**–**	**18,815**	**307,538**	**132,623**	**584,468**

	2010						
BWP'000s	**Botswana**	**Mozam-bique**	**Tanzania**	**Zambia**	**Zimbabwe**	**Other**	**Total**
Placements with banks	50	–	–	–	19,445	3,165	22,660
Financial assets designated at fair value	–	–	–	–	64,028	–	64,028
Derivative financial assets	–	–	–	–	–	19,464	19,464
Loans and advances	19,356	–	–	–	168,870	5,144	193,370
Investment securities	38,502	–	–	–	–	–	38,502
Inter-company balances	20,622	–	–	4,541	–	33,270	58,433
	78,530	**–**	**–**	**4,541**	**252,343**	**61,043**	**396,457**

CONCENTRATION RISK OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE

(b) Industry Sectors

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

	2011				
BWP'000s	**Agriculture**	**Construction**	**Wholesale, retail and trade**	**Public sector**	**Manu-facturing**
Placements with banks	–	–	–	–	–
Financial assets designated at fair value	–	–	77,125	–	–
Derivative financial assets	–	–	–	–	–
Loans and advances	–	–	145,887	–	–
Investment securities	–	–	–	–	–
Inter-company balances	–	–	–	–	–
	–	**–**	**223,012**	**–**	**–**

	2010				
BWP'000s	**Agriculture**	**Construction**	**Wholesale, retail and trade**	**Public sector**	**Manu-facturing**
Placements with banks	–	–	–	–	–
Financial assets designated at fair value	–	–	64,028	–	–
Derivative financial assets	–	–	–	–	–
Loans and advances	2,067	–	–	–	–
Investment securities	–	–	–	–	–
Inter-company balances	–	–	–	–	–
	2,067	**–**	**64,028**	**–**	**–**

2011						
Mining and Energy	Financial Services	Transport	Individuals	Tourism	Other	Total
–	5,102	–	–	–	–	5,102
–	74,991	–	–	–	–	152,116
–	26,316	–	–	–	–	26,316
122,061	–	–	13,163	–	–	281,111
–	42,172	–	–	–	–	42,172
–	77,652	–	–	–	–	77,652
122,061	**226,233**	**–**	**13,163**	**–**	**–**	**584,469**

2010						
Mining and Energy	Financial Services	Transport	Individuals	Tourism	Other	Total
–	22,660	–	–	–	–	22,660
–	–	–	–	–	–	64,028
–	19,464	–	–	–	–	19,464
135,389	28,115	–	27,799	–	–	193,370
–	38,502	–	–	–	–	38,502
–	58,433	–	–	–	–	58,433
135,389	**167,174**	**–**	**27,799**	**–**	**–**	**396,457**

MARKET RISK

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

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

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

	2011			
BWP'000s	**EUR**	**USD**	**BWP**	**ZAR**
Cash and short-term funds	–	3,691	105	1,306
Financial assets designated at fair value	–	152,115	–	–
Loans and advances	–	229,797	51,314	–
Investment securities	–	–	42,172	–
Prepayments and other receivables	674	6,007	896	–
Derivative financial assets*	–	–	6,091	119
Inter-company balances	–	49,264	1,454	26,934
Property and equipment	–	–	263	–
Total Intangible assets	–	–	215	–
Deferred tax assets	–	–	15,017	–
Investment in subsidiaries	–	292,104	93,641	–
Loans to subsidiaries	–	145,866	31,681	–
Total assets	**674**	**878,844**	**242,849**	**28,359**
Derivative financial liabilities*	–	151,958	–	119
Creditors and accruals	–	6,269	76	2,765
Borrowed funds	–	234,128	255,861	–
Inter-company balances	(116)	225,598	243,980	13,422
Total liabilities	**(116)**	**617,953**	**499,917**	**16,306**
Net on-balance sheet position	**790**	**260,891**	**(257,068)**	**12,053**

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

Market risk measurement techniques

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

Foreign Exchange Risk

The Company 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 Company's exposure to foreign currency exchange rate risk at 31 December 2011.

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

2011					
TZS	ZMK	MZN	JPY	Other	Total
–	–	–	–	–	5,102
–	–	–	–	–	152,115
–	–	–	–	–	281,111
–	–	–	–	–	42,172
–	–	–	–	–	7,577
–	–	–	125,212	(105,106)	26,316
–	–	–	–	–	77,652
–	–	–	–	–	263
–	–	–	–	–	215
–	–	–	–	–	15,017
144,345	82,486	68,050	–	–	680,626
–	–	–	–	–	177,547
144,345	**82,486**	**68,050**	**125,212**	**(105,106)**	**1,465,713**
–	–	–	–	(105,106)	46,971
–	–	–	–	–	9,110
–	–	–	125,212	–	615,201
–	–	–	–	–	482,884
–	**–**	**–**	**125,212**	**(105,106)**	**1,154,166**
144,345	**82,486**	**68,050**	**–**	**–**	**311,547**

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

	2010			
BWP'000s	**EUR**	**USD**	**BWP**	**ZAR**
Cash and short-term funds	–	22,610	50	–
Financial assets designated at fair value	–	64,028	–	–
Loans and advances	–	134,294	59,076	–
Investment securities	–	–	38,502	–
Prepayments and other receivables	–	12,413	6,150	44
Inter-company balances	58	(6,722)	28,825	36,272
Derivative financial assets*	–	1,139	4,011	–
Property and equipment	–	–	790	–
Deferred tax assets	–	–	10,002	–
Investment in subsidiaries	–	254,665	56,241	–
Loans to subsidiaries	–	158,053	–	–
Total assets	**58**	**640,480**	**203,647**	**36,316**
Derivative financial liabilities*	–	106,766	–	–
Creditors and accruals	–	3,729	21	2,397
Borrowed funds	758	47,861	257,329	–
Inter-company balances	(802)	269,519	193,173	(12,826)
Total liabilities	(44)	427,875	450,523	(10,429)
Net on-balance sheet position	**102**	**212,605**	**(246,876)**	**46,745**

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

2011					
TZS	ZMK	MZN	JPY	Other	Total
–	–	–	–	–	22,660
–	–	–	–	–	64,028
–	–	–	–	–	193,370
–	–	–	–	–	38,502
–	–	–	–	–	18,607
–	–	–	–	–	58,433
–	–	–	121,080	(106,766)	19,464
–	–	–	–	–	790
–	–	–	–	–	10,002
144,345	78,776	68,050	–	–	602,077
–	–	–	–	–	158,053
144,345	**78,776**	**68,050**	**121,080**	**(106,766)**	**1,185,986**
–	–	–	–	(106,766)	–
–	–	–	–	–	6,147
–	–	–	121,080	–	427,028
–	–	–	–	–	449,064
–	–	–	121,080	(106,766)	882,239
144,345	**78,776**	**68,050**	**–**	**–**	**303,747**

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

In order to reduce interest rate risk, the majority of the Company's lending is on a variable interest rate with a term of less than one year.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Variable rate financial instruments are categorised in the "Up to 1 month" column.

	2011					
BWP'000s	**>1 Month**	**1 – 3 Months**	**3 – 12 Months**	**1 – 5 Years**	**Non-interest bearing**	**Total**
Cash and short-term funds	5,102	–	–	–	–	5,102
Financial assets designated at fair value	2,246	–	–	149,869	–	152,115
Derivative financial assets	–	–	–	–	26,316	26,316
Loans and advances	189,520	–	91,591	–	–	281,111
Investment securities	–	–	–	42,172	–	42,172
Prepayments and other receivables	–	–	–	–	7,577	7,577
Inter-company balances	58,837	18,815	–	–	–	77,652
Property and equipment	–	–	–	–	263	263
Intangible assets	–	–	–	–	215	215
Deferred tax asset	–	–	–	–	15,017	15,017
Investment in subsidiaries	–	–	–	–	680,626	680,626
Loans to subsidiaries	–	–	–	177,547	–	177,547
Total assets	**255,705**	**18,815**	**91,591**	**369,588**	**730,014**	**1,465,713**
Shareholders equity and liabilities						
Equity	–	–	–	–	311,547	311,547
Derivative financial liabilities	–	–	–	–	46,971	46,971
Creditors and accruals	–	–	–	–	9,110	9,110
Borrowed funds	–	92,144	149,509	373,548	–	615,201
Inter-company balances	431,705	51,179	–	–	–	482,884
Total equity and liabilities	**431,705**	**143,323**	**149,509**	**373,548**	**367,628**	**1,465,713**
Total interest repricing gap	**(176,000)**	**(124,508)**	**(57,918)**	**(3,960)**	**362,386**	**–**

BWP'000s	2010 >1Month	1 – 3 Months	3 – 12 Months	1 – 5 Years	Non-interest bearing	Total
Cash and short-term funds	22,660	–	–	–	–	22,660
Financial assets designated at fair value	–	–	–	64,028	–	64,028
Derivative financial assets	–	–	–	–	19,464	19,464
Loans and advances	193,370	–	–	–	–	193,370
Investment securities	–	–	–	38,502	–	38,502
Prepayments and other receivables	–	–	–	–	18,607	18,607
Inter-company balances	58,433	–	–	–	–	58,433
Property and equipment	–	–	–	–	790	790
Deferred tax asset	–	–	–	–	10,002	10,002
Investment in subsidiaries	–	–	–	–	602,077	602,077
Loans to subsidiaries	–	–	–	158,053		158,053
Total assets	**274,463**	**–**	**–**	**260,583**	**650,940**	**1,185,986**
Shareholders equity and liabilities						
Equity	–	–	–	–	303,747	303,747
Creditors and accruals	–	–	–	–	6,147	6,147
Borrowed funds	–	7,328	10,081	409,619	–	427,028
Inter-company balances	449,064	–	–	–	–	449,064
Total equity and liabilities	**449,064**	**7,328**	**10,081**	**409,619**	**309,894**	**1,185,986**
Total interest repricing gap	**(174,601)**	**(7,328)**	**(10,081)**	**(149,036)**	**341,046**	**–**

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

BWP'000s	2011	2010
Shift in yield curves of +50 basis points	(1,445)	(885)
Percentage of Shareholders Equity (+50 basis points)	0.0%	(0.0)%
Shift in yield curves of -50 basis points	1,445	885
Percentage of Shareholders Equity (-50 basis points)	0.0%	(0.0)%

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

LIQUIDITY RISK

Liquidity risk is the risk that the Company 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.

	2011				
BWP'000s	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**Greater than 1 Year**	**Total**
Cash and short-term funds	5,102	–	–	–	5,102
Financial assets designated at fair value	2,246	–	–	149,869	152,115
Derivative financial assets	119	–	–	26,197	26,316
Loans and advances	2,658	2,249	263,040	13,164	281,111
Investment securities	–	–	–	42,172	42,172
Prepayments and other receivables	120	–	7,457	–	7,577
Inter-company balances	58,837	18,815	–	–	77,652
Property and equipment	–	–	–	263	263
Intangible assets	–	–	–	215	215
Deferred tax asset	–	–	–	15,017	15,017
Investment in subsidiaries	–	–	–	680,626	680,626
Loans to subsidiaries	–	–	–	177,547	177,547
Total assets	**69,082**	**21,064**	**270,497**	**1,105,070**	**1,465,713**
Shareholders equity and liabilities					
Equity	–	–	–	311,547	311,547
Derivative financial liabilities	119	–	–	46,852	46,971
Creditors and accruals	9,110	–	–	–	9,110
Borrowed funds	–	8,550	177,003	429,648	615,201
Inter-company balances	431,705	51,179	–	–	482,884
Total equity and liabilities	**440,934**	**59,729**	**177,003**	**788,047**	**1,465,713**
Net maturity gap	**(371,852)**	**(38,665)**	**93,494**	**317,023**	**–**

	2010				
BWP'000s	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**Greater than 1 Year**	**Total**
Cash and short-term funds	22,660	–	–	–	22,660
Financial assets designated at fair value	–	–	–	64,028	64,028
Derivative financial assets	–	–	–	19,464	19,464
Loans and advances	135,389	40,410	2,430	15,141	193,370
Investment securities	–	–	–	38,502	38,502
Prepayments and other receivables	18,607	–	–	–	18,607
Inter-company balances	–	–	58,433	–	58,433
Property and equipment	–	–	–	790	790
Deferred tax asset	–	–	–	10,002	10,002
Investment in subsidiaries	–	–	–	602,077	602,077
Loans to subsidiaries	–	–	–	158,053	158,053
Total assets	**176,656**	**40,410**	**60,863**	**908,057**	**1,185,986**
Shareholders equity and liabilities					
Equity	–	–	–	303,747	303,747
Creditors and accruals	6,147	–	–	–	6,147
Borrowed funds	–	7,328	10,081	409,619	427,028
Inter-company balances	449,064	–	–	–	449,064
Total equity and liabilities	**455,211**	**7,328**	**10,081**	**713,366**	**1,185,986**
Net maturity gap	**(278,555)**	**33,082**	**50,782**	**194,691**	**–**

NON-DERIVATIVE CASH FLOW

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

	2011						
BWP'000s	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	Total
Creditors and accruals	9,110	–	–	–	9,110	–	9,110
Borrowed funds	–	16,878	345,911	826,958	1,189,747	(574,546)	615,201
Inter-company balances	376,351	70,242	38,144	–	484,737	(1,853)	482,884
Total liabilities	**385,461**	**87,120**	**384,055**	**826,958**	**1,683,594**	**(576,399)**	**1,107,195**

	2010						
BWP'000s	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	Total
Creditors and accruals	6,147	–	–	–	6,147	–	6,147
Borrowed funds	7,640	53,202	327,318	409,618	797,778	(370,750)	427,028
Inter-company balances	449,681	3,921	–	–	453,602	(4,538)	449,064
Total liabilities	**463,468**	**57,123**	**327,318**	**409,618**	**1,257,527**	**(375,288)**	**882,239**

The Company principally uses cash and short-term funds together with financial assets held for trading to manage liquidity risk.

DERIVATIVE FINANCIAL LIABILITIES CASH FLOWS

The table below presents the cash flows payable by the Company for derivative financial liabilities by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted nominal currency swap cash flows for the liability leg of such swaps, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash inflows:

	2011				
BWP'000s	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total
Derivative financial liabilities	**4,647**	**6,616**	**3,137**	**–**	**14,400**

	2010				
BWP'000s	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total
Derivative financial liabilities	**–**	**–**	**–**	**–**	**–**

With the exception of swaps where on-going cashflows are settled on a gross basis, all derivative financial liabilities are settled on a net basis.

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2011:

	2011			
BWP'000s	**Quoted prices Level 1**	**Observable input Level 2**	**Un-observable inputs Level 3**	**Total at fair value**
Assets				
Financial assets designated at fair value	–	–	152,115	152,115
Derivative financial assets	–	26,197	–	26,197
Total assets at fair value	**–**	**26,197**	**152,115**	**178,312**
Liabilities				
Derivative financial liabilities	–	–	46,852	46,852
Total liabilities at fair value	**–**	**–**	**46,852**	**46,852**

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

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

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

Specific valuation techniques used to value financial instruments include:

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

2010			
Quoted prices Level 1	Observable input Level 2	Un-observable inputs Level 3	Total at fair value
–	–	–	–
–	–	64,028	64,028
–	**–**	**64,028**	**64,028**
–	–	–	–
–	**–**	**–**	**–**

Assets and liabilities measured at fair value for level 3

The following table presents the changes in level 3 instruments for the year ended at fair value at 31 December 2011:

	2011					
BWP'000s	**Trading securities**	**Trading derivatives**	**Debt or equity investments**	**Total assets at fair value**	**Derivative financial liabilities**	**Total liabilities at fair value**
Assets						
Opening balance	–	–	64,028	64,028	–	–
Gains/Loss in P&L	–	–	13,096	13,096	27,485	27,485
Purchases	–	–	74,991	74,991	19,486	19,486
Closing balance	**–**	**–**	**152,115**	**152,115**	**46,971**	**46,971**

	2010					
BWP'000s	**Trading securities**	**Trading derivatives**	**Debt or equity investments**	**Total assets at fair value**	**Derivative financial liabilities**	**Total liabilities at fair value**
Liabilities						
Opening balance	–	–	–	–	–	–
Gains/Loss in P&L			(1,515)	(1,515)	–	–
Purchases	–	–	65,543	65,543	–	–
Closing balance	**–**	**–**	**64,028**	**64,028**	**–**	**–**

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

Financial assets not measured at fair value where the carrying value is estimated to approximate the fair value of the instrument, are as follows:

Basis of measurement

(i) Placements with other banks

Placements with other banks includes inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount.

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

(ii) Loans and advances

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

(iii) Investment securities

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

(iv) Deposits

The estimated fair value of 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) Inter-company balances and loans to subsidiaries

The balances with subsidiary companies are carried at amortised cost. The carrying amount approximates their fair value.

ANALYSIS OF SHAREHOLDERS

for the year ended 31 December 2011

Range	Number of holders	% of total holders	Number of shares	% of total holders
0 – 50,000	3,491	97.43%	6,539,648	4.38%
50,001 – 100,000	42	1.17%	3,188,633	2.13%
100,001 – 500,000	32	0.89%	5,766,667	3.86%
500,001 – 1,000,000	2	0.06%	1,583,674	1.06%
1,000,001 – 10,000,000	12	0.33%	42,952,915	28.74%
Above 10,000,000	4	0.12%	89,440,594	59.83%
	3,583	**100.00%**	**149,472,131**	**100.00%**

Top 10 shareholders as at 31 December 2011

Shareholder	Shares	% holding
1 African Development Corporation	34,684,220	23.20%
2 Shares held by and on behalf of DT Munatsi	23,223,154	15.54%
3 Old Mutual Life Assurance Co. of Zimbabwe Ltd	15,891,065	10.63%
4 International Finance Corporation	15,642,155	10.47%
5 Botswana Insurance Fund Management	9,965,436	6.67%
6 Shares held by and on behalf of B Moyo	7,119,958	4.76%
7 SCBN-SIMS	6,794,419	4.55%
8 Nederlandse Financierings-Maatschappij Voor Ontwikkelingslande	3,582,623	2.40%
9 Shares held by and on behalf of FM Dzanya	3,094,774	2.07%
10 SCBN-OTHER	2,666,647	1.78%
Total top 10 shareholders	**122,664,451**	**82.07%**
Other shareholders	26,807,680	17.93%
	149,472,131	**100.00%**

Geographical analysis of shareholders

Region	Number of holders	% of total holders	Number of shares	% of total shares
Americas	17	0.47%	15,762,554	10.55%
Botswana	322	8.99%	23,755,950	15.89%
Europe	27	0.75%	3,767,206	2.52%
Mauritius	1	0.03%	34,684,220	23.20%
South Africa	74	2.07%	1,089,707	0.73%
Zimbabwe	2,391	66.73%	68,161,775	45.60%
Other	751	20.96%	2,250,719	1.51%
	3,583	**100.00%**	**149,472,131**	**100.00%**

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in doubt as to the action you should take in relation to this document, please consult your stockbroker, banker, legal advisor or other professional advisor immediately.

Action required:

1. If you have disposed of all of your shares in ABC Holdings Limited, this circular should be delivered to the agent through whom you have disposed such shares for onward transmission to the acquirer of those shares.

2. A notice convening the 12th annual general meeting of shareholders of ABC Holdings Limited ("AGM"), to be held at 09h30 on Wednesday 30 May 2012 at the Boardroom at BancABC Botswana, ABC House, Plot 62433, Fairground Office Park, Gaborone, is attached hereto, which notice forms an integral part of this Circular.

3. A form of proxy is also attached to the AGM notice and Shareholders who are unable to attend the AGM should complete the attached form of proxy and return it to the registered office of the Company so as to be received by no later than 09h30 on Tuesday 29 May 2012. Submission of a form of proxy will not preclude shareholders from attending and voting in person at the AGM should they so desire.

ABC Holdings

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

CIRCULAR TO SHAREHOLDERS

Regarding:

– a waiver by shareholders of the obligation to make an offer to minority shareholders;
– amendments to the existing Memorandum and Articles of Association and the adoption of a Constitution in terms of Section 43(3) of the Companies Act in place of the existing Memorandum and Articles of Association;

and enclosing:

– the biographies of directors retiring and standing for re-election;
– a notice of General Meeting;
– a form of proxy.

Sponsoring Broker

Stockbrokers Botswana Ltd.
Member of the Botswana Stock Exchange

CONTENTS

DEFINITIONS

In this circular unless otherwise stated or the context otherwise requires, the words in the first column have the meanings stated opposite them in the second column, words in the singular include the plural and vice-versa, and words importing natural persons shall include juristic persons, whether corporate or incorporate, and vice versa:

"ADC"	African Development Corporation, a company incorporated in Mauritius;
"Act"	the Companies Act, Act No 32 of 2004, CAP 42:01 of the Laws of Botswana as amended;
"Articles"	the Articles of Association of ABC Holdings Limited as at date hereof;
"BSE"	the Botswana Stock Exchange;
"Botswana"	the Republic of Botswana;
"Circular"	this circular dated 8 May 2012 including the annexures hereto, the notice of General Meeting and form of proxy;
"Directors"	the Board of Directors of ABC Holdings Limited;
"ABC Holdings Limited or the Company"	ABC Holdings Limited (registration number 99/4865) a company incorporated in the Republic of Botswana and listed on the BSE and ZSE;
"General Meeting"	the Annual General Meeting of Shareholders to be held on 30 May 2012;
"Memorandum of Association"	the Memorandum of Association of ABC Holdings Limited as amended as the date hereof;
"Notice"	the Notice of the General Meeting attached to this Circular;
"Offer Price"	means a price of BWP4.28 (four Botswana Pula and twenty eight Thebe) or the USD equivalent thereof at a date to be determined per ordinary share at which price the Shareholders will be entitled to subscribe for the Shares offered pursuant to the Rights Offer;
"Rights Offer"	the offer of 83,333,333 shares to be made by the Company to shareholders on the basis of the Rights Offer Share to 1.79 shares held;
"Resolutions"	the resolutions reflected in the Notice of Meeting incorporated within this Circular;
"Shareholders"	holders of Ordinary Shares of the Company; and
"ZSE"	Zimbabwe Stock Exchange.

SALIENT DATES AND TIMES (YEAR 2012)

Circular posted to shareholders of ABC Holdings on	Tuesday 8 May 2012
Forms of proxy to be received by 09h30	Tuesday 29 May 2012
Annual General Meeting at 09h30	Wednesday 30 May 2012

The above dates and times are subject to change. Any amendment will be published in the press.

ABC Holdings

DIRECTORS:

Howard Buttery (Chairman)
Ngoni Kudenga
Doreen Khama
Hans Wasmus
Lakshmi Shyam-Sunder
Mark M Schneiders
Douglas T Munatsi
Francis M Dzanya
Bekithemba Moyo

CIRCULAR TO SHAREHOLDERS OF ABC HOLDINGS LIMITED

PART 1: WAIVER OF THE OBLIGATION TO MAKE AN OFFER TO SHAREHOLDERS

1. The Purpose of Part 1 of the Circular

The purpose of this Part 1 of the Circular and the Notice is to furnish information to the shareholders as to the proposed resolution for waiver of the possible obligation of ADC to make an offer to purchase shares of Shareholders, other than ADC, at the Offer Price, which shareholders will be asked to approve, as special business, at the General Meeting.

2. Reasons for the Waiver

In terms of the BSE Requirements, if a person, including an existing shareholder acquires more than 35% of the issued shares of a company listed on the BSE, that person is required to make an offer to acquire / purchase the shares of the other shareholders ("the minorities") at the price that person acquired the shares.

The BSE can grant a waiver of the obligation to make this offer.

ABCH is to make a renounceable Rights Offer to its shareholders, in terms of which ABCH seeks to raise BWP356,666,666 (the equivalent of USD50,000,000) and offers to shareholders 83 333 333 shares in ABCH at a price of P4.28 (or the USD equivalent thereof) ("the Offer Price") on the basis of one new offer share for every 1.79 ordinary shares held by a shareholder.

In terms of the BSE Requirements a rights offer is to be underwritten.

ADC, a substantial shareholder holding approximately 23.20% of the issued shares in ABCH will follow its rights to acquire shares in the Rights Offer and is prepared to underwrite the Rights Offer, and subscribe for Rights Offer Shares not taken up by shareholders, by exercising their rights, or by third parties who have acquired such rights from shareholders, at the close of the Rights Offer.

Depending on the take up of Rights Offer Shares by shareholders other than ADC and third parties, ADC may be required to subscribe for Rights Offer Shares not taken up, and such shares when added to the Shares acquired by ADC in following its rights as Shareholder and the Shares in ABCH already held by ADC, could result in ADC holding more than 35% of the then issued shares (after the Rights Offer) of ABCH.

In terms of the BSE Requirements, ADC would be obliged to make an offer to all other shareholders of ABCH to acquire the shares in ABCH held by them, at a price of P4.28 (or the USD equivalent thereof) per share. The underwriting agreement is conditional upon the wayver being obtained.

ABCH made application to the BSE to waive the requirement / obligation for ADC to make such an offer. The BSE has indicated it will waive the requirement provided that, inter alia, the majority of independent shareholders other than ADC waive the obligation also.

Accordingly the Board seeks an ordinary resolution of independent shareholders other than ADC, to waive the requirement.

The Board is of the view that the Rights Offer is essential to the Company:

i. to enable it to complete its retail banking roll out (to which substantial amounts of money have already been invested) by further investment in systems, people and distribution channels;

ii. to increase the capital of each of its operating subsidiaries;

iii. to enable each of its operating subsidiaries to grow its footprint and market share in each country of operation.

iv. to enable each subsidiary to be rated in the top ten of banks in the country of its operation.

Importantly all funds paid for Rights Offer Shares will accrue to the Company.

Full details of the Rights Offer will be available in a circular and prelisting statement to be made available to shareholders prior to the General Meeting.

The Rights Offer cannot be proceeded with unless underwritten.

Shareholders support for the Underwriting by granting the waiver is requested.

PART 2: AMENDMENTS TO THE EXISTING MEMORANDUM AND ARTICLES OF ASSOCIATION

1. Purpose of Part 2 of the Circular

The purpose of Part 2 the Circular and the Notice is to furnish information to the Shareholders as to the proposed amendments to the Articles of Association which Shareholders will be asked to approve as by way of resolution as special resolution and ordinary resolution special business at the General Meeting:

a. the adoption of a new Constitution in terms of section 43(3) of the Companies Act in place of the existing Articles of Association that amends the Articles of Association to bring it in line with the Act and such other changes as are required to update the Articles of Association in line with relevant statutes and current trends in corporate governance; and

b. authorising the Directors to take all such steps and sign all such documents as are necessary to give effect to the resolutions passed at this meeting.

2. Reasons for Amendments

It is sought to amend the Articles of Association of the Company to effect the substantive changes outlined below.

Adoption of a Constitution
In terms of the Act, which came into force on 3 July 2007, any existing Company which has as its Constitution, a Memorandum and Articles of Association, is not entitled to amend such a document unless it consolidates both documents into a single document known as the "Constitution".

It is proposed that the Memorandum and Articles of Association be amended and a Constitution adopted through the procedures set out in this circular.

The Constitution, a draft of which is available for inspection at the registered office of the Company, during normal business hours from 10 May 2012 until the date of the AGM, will include amendments to the existing Articles of Association that include the following:

(i) amendments to bring the Constitution in line with mandatory changes as introduced by the Act as read together with the BSE Listings Requirements (such changes include the removal of references to authorized share capital; references to circumstances in which the Act allows for the Company to give financial assistance to purchase its own shares, mandatory provisions on notice period to call meetings, etc) and to update references to the Act to reflect the appropriate reference in the new Companies Act;

(ii) amendments to bring the Constitution in line with the most current trends in corporate governance as referenced by the BSE Guidelines on Corporate Governance and international guidelines such as the King Reports on Corporate Governance

(iii) amendments to provide for uncertificated shares; and

(iv) formal amendments as to grammar and language to avoid repetition or extraneous provisions.

The Constitution does not incorporate the objects of the Company, which has been rendered unnecessary by the provision of the current Companies Act, which makes the provisions relating to objects optional.

PART 3: BIOGRAPHIES OF DIRECTORS

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

Dr Lakshmi Shyam-Sunder (55)

Lakshmi Shyam-Sunder is the Chief Finance Officer and Director of the Multilateral Investment Guarantee Agency at the World Bank Group.

She has wide-ranging financial experience, which includes a period on the Finance Faculty of the MIT Sloan School of Management in the USA and at the Tuck School of Business Administration, Dartmouth College. She has also consulted on finance, valuation, and risk management topics for financial institutions and corporations in the United States, for the US Government and financial institutions in emerging markets.

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

She serves on the Boards and Risk and Finance Committees of some IFC's client companies.

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

Douglas T Munatsi

Douglas "Doug" Munatsi has been Chief Executive Officer of the ABC Holdings Group since its formation in 2000.

Involved in the world of finance and banking for his entire career, he has served as an executive in the Southern Africa regional mission of the International Finance Corporation (IFC), the private sector arm of the World Bank.

He went on to establish Heritage Investment Bank (HIB), an investment bank which established a reputation for the successful introduction of innovative capital market products. Under his guidance, HIB 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. He became Managing Director of the merged bank, which continued to operate under the First Merchant Bank identity and remained in this position until the formation of ABC Holdings.

His qualifications include a Bachelor of Business (Hon) degree from the University of Zimbabwe, an MBA from the American University in Washington DC and an AMP from Harvard Business School.

Mark M Schneiders

Mark Schneiders has more than 27 years of banking sector experience in various wholesale and private banks within African banks and around the globe serving as an entrepreneurial finance professional. He has held various positions that include Managing Director with ING Financial Institutions in Amsterdam.

Mr Schneiders has extensive experience with company mergers, building new markets and setting up retail bank businesses in a variety of countries including Switzerland, The Netherlands, Spain, Curaçao, Argentina, Venezuela, Hong Kong and USA. He was appointed to the Board on 9 December 2011.

He holds a Bachelor's and Master's degree in law from the University of Leiden, The Netherlands, and has completed the Advanced Management Program at Harvard Business School and banking management programs at INSEAD (Cedep).

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 five working days prior to the date of the Annual General Meeting.

ANNOUNCEMENT

The results of the special business that is to be voted on at the Annual General Meeting will be announced in the press on or before 5th June 2012.

ANNUAL GENERAL MEETING

Following hereafter and forming part of the Circular, is the Notice of the Annual General Meeting of Shareholders of ABC Holdings Limited to be held at the Boardroom, ABC House, BancABC Botswana,, Plot 62433, Fairground Office Park, Gaborone, Botswana, on Wednesday 30 May 2012 at 09h30 for the purpose of considering the business of the Annual General Meeting and of considering the special business.

Shareholders who are unable to attend the General Meeting and who wish to be represented thereat, are requested to complete and return the attached form of proxy in accordance with the instructions contained therein and in the Notice of the Annual General Meeting.

A proxy need not be a Member of the Company.

By order of the Board

M Vogt
Secretary to the Board of Directors

Gaborone

24 April 2012

Registered Office:

Rhoss (Pty) Ltd, Unit 2, Plot 8884, Rizika House, African Mall, Gaborone, Botswana.

ABC Holdings

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

Howard Buttery (Chairman)
Ngoni Kudenga
Doreen Khama
Hans Wasmus
Lakshmi Shyam-Sunder
Mark Schneiders
Douglas T Munatsi
Francis M Dzanya
Bekithemba Moyo

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Shareholders of the Company will be held at the Boardroom, ABC House, BancABC Botswana, Plot 62433, Fairground Office Park, Gaborone, Botswana on Wednesday 30 May 2012 at 09h30 for the purpose of transacting the following ordinary and special business and considering and if deemed fit, passing, the following resolutions:

ORDINARY BUSINESS:

1. To read the notice convening the meeting.

2. To receive, consider, and adopt the annual financial statements for the year ended 31 December 2011, including the Chairman's statement, Directors' report and Auditors' report.

3. To approve the remuneration of the Directors for the year ended 31 December 2011.

4. To note that Directors, Dr Shyam-Sunder, Mr Wasmus and Mr Munatsi retire by rotation in terms of Article 67 of the Articles of Association and to re-elect Dr Shyam-Sunder and Mr Munatsi who being eligible, offer themselves for re-election.

5. To ratify the appointment of Mr Mark Martijn Schneiders as a director of the Company.

6. To appoint auditors for the ensuing year and to fix their remuneration.

SPECIAL BUSINESS:

1. To consider waiver of the BSE requirement that ADC in the event it acquires such number of Right Offer Shares, pursuant to the Rights Offer and the underwriting thereof, which together with the shares already held by it, ADC make an offer to purchase the shares in ABCH held by other shareholders at a price of P4.28.

2. To amend the Articles of Association and to adopt a Constitution in its place under section 43(3) of the Act.

Ordinary Resolution 1:

To approve the annual financial statements for the year ended 31st December 2011, including the Chairman's statement, Directors' report and Auditor's report.

Ordinary Resolution 2:

To approve the remuneration of Directors for the year ended 31 December 2011.

Ordinary 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 Dr Shyam-Sunder retires by rotation and being available and eligible offers herself for re-election.

Ordinary Resolution 4:

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 Mr. Munatsi retires by rotation and being available and eligible offers himself for re-election.

Ordinary Resolution 5:

To ratify the appointment of Mr Mark Martijn Schneiders as a director of the Company.

Ordinary Resolution 6:

To appoint the Auditors for the Company for the ensuing year.

Ordinary resolution 7:

To waive the requirement set forth in the BSE Requirements that a person acquiring more than 35% of the issued share capital of a company, in the instance of African Development Corporation ("ADC") in the event that pursuant to the Rights Offer and the Underwriting thereof, ADC acquires Rights Offer Shares which together with the shares already held by it will result in ADC holding more than 35% of the issued shares of the Company.

Special Resolution 1:

Resolved to replace the Memorandum and Articles of Association of the Company in their entirety with a Constitution, a draft of which Constitution is available for inspection from 10 May 2012 to the date of the General Meeting at the Company's registered office.

Ordinary Resolution 8:

The Directors be and are hereby authorized to take such steps and sign all such other documents as are necessary to give effect to the resolutions passed at this meeting.

VOTING AND PROXIES

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

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

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

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

In order to be effective, a duly completed form of proxy must be received at the Registered Office of the Company, Rhoss (Pty) Ltd, Unit 2, Plot 8884, Rizika House, African Mall, Gaborone, Botswana by not later than 09h30 on Tuesday 29 May 2012.

By Order of the Board

M Vogt
Secretary to the Board of Directors

NOTES:

ABC Holdings

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

FORM OF PROXY

For completion by holders of Ordinary Shares

PLEASE READ THE NOTES OVERLEAF BEFORE COMPLETING THIS FORM.

EXPRESSIONS USED IN THIS FORM SHALL, UNLESS THE CONTEXT REQUIRES OTHERWISE, BEAR THE SAME MEANINGS AS IN THE CIRCULAR TO SHAREHOLDERS OF ABC HOLDINGS LIMITED ISSUED ON 8 MAY 2012.

For use at the Annual General Meeting of Shareholders of the Company to be held at the Boardroom, ABC House, BancABC Botswana, Plot 62433, Fairground Office Park, Gaborone, Botswana on 30 May 2012 at 09h30.

I/We ______________________________
(Name/s in block letters)

Of ______________________________
(Address)

Appoint (see note 2):

1. ______________________________ or failing him/her,

2. ______________________________ or failing him/her,

3. ______________________________ the Chairman of the Meeting,

as my/our proxy to act for me/us at the General Meeting which will be held, in addition to considering the ordinary business, for the purpose of considering and if deemed fit, passing with or without modification, the resolutions to be proposed under the special business vote thereat and at each adjournment thereof, and to vote for or against the resolutions and/or abstain from voting in respect of the Ordinary Shares registered in my/our name in accordance with the following instructions (see note 2):

	Number of Ordinary Shares		
	For	Against	Abstain
1. Ordinary Resolution 1			
2. Ordinary Resolution 2			
3. Ordinary Resolution 3			
4. Ordinary Resolution 4			
5. Ordinary Resolution 5			
6. Ordinary Resolution 6			
7. Special Resolution 1			
8. Ordinary Resolution 7			

Signed at ______________ on ______________ day of ______________ 2012

Signature ______________________________ Assisted by (where applicable)

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

Please read the notes on the reverse side hereof.

NOTES

1. A Shareholder must insert the names of two alternative proxies of the Shareholder's choice in the space provided, with or without deleting "Chairman of the Annual General Meeting". The person whose name appears first on the form of proxy, and whose name has not been deleted will be entitled to act as proxy to the exclusion of those whose names follow.
2. A Shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the Shareholder in the appropriate space provided. Failure to comply herewith will be deemed to authorise the proxy to vote at the General Meeting as he/she deems fit in respect of the Shareholder's votes exercisable thereat, but where the proxy is the Chairman, failure to comply will be deemed to authorise the proxy to vote in favour of the resolution. A Shareholder or his/her proxy is obliged to use all the votes exercisable by the Shareholder or by his/her proxy.
3. Forms of proxy must be lodged at or posted to the Registered Office of the Company, Rhoss (Pty) Ltd, Unit 2, Plot 8884, Rizika House, African Mall, Gaborone, Botswana, or PO Box 1882, Gaborone, Botswana, to be received not less than 24 hours before the Annual General Meeting on 30 May 2012 at 09h30.
4. The completion and lodging of this form will not preclude the relevant Shareholder from attending the General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such Shareholder wish to do so.
5. The Chairman of the General Meeting may reject or accept any form of proxy not completed and/or received other than in accordance with these notes provided that he is satisfied as to the manner in which the Shareholder concerned wishes to vote.
6. An instrument of proxy shall be valid for the General Meeting as well as for any adjournment thereof, unless the contrary is stated thereon.
7. A vote given in accordance with the terms of a proxy shall be valid, notwithstanding the previous death or insanity of the Shareholder, or revocation of the proxy, or of the authority under which the proxy was executed, or the transfer of the Ordinary Shares in respect of which the proxy is given, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company not less than one hour before the commencement of the General Meeting or adjourned General Meeting at which the proxy is to be used.
8. The authority of a person signing the form of proxy under a power of attorney or on behalf of a company must be attached to the form of proxy, unless the authority or full power of attorney has already been registered by the Company or the Transfer Secretaries.
9. Where Ordinary Shares are held jointly, all joint Shareholders must sign.
10. A minor must be assisted by his/her guardian, unless relevant documents establishing his/her legal capacity are produced or have been registered by the Company.

COMPANY INFORMATION

ABC Holdings Limited

Directors: H Buttery, F Dzanya, D Khama, N Kudenga, B Moyo, D T Munatsi, L Shyam-Sunder, J Wasmus, M Schneiders

ABC House, Plot 62433, Fairground Office Park,
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www.bancabc.com

Administrative office – South Africa
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Johannesburg, South Africa
Tel: +27 (11) 722 5300 Fax: +27 (11) 722 5360

BancABC Botswana

Directors: D Khama, L Makwinja, B Moyo, D T Munatsi, J Kurian

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Game City Branch +267 3704700
mybancbw@bancabc.com

BancABC Mozambique SA

Directors: B Alfredo, H Chambisse, D T Munatsi, L S Simao, T E T Venichand, J Sibanda, F Mucave

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abcmoz@bancabc.com

BancABC Tanzania

Directors: J P Kipokola, R Dave, J Doriye, W Nyachia, D T Munatsi, L Sondo, B Nyoni

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Quality Center Branch +255 22 2865904-10
abctz@africanbankingcorp.com & abctz@bancabc.com

Tanzania Development Finance Company Limited

Directors: J P Kipokola, J Doriye, W Nyachia, D T Munatsi, B Nyoni

1st Floor Barclays House, Ohio Street,
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PO Box 2478, Dar es Salaam, Tanzania
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abctz@africanbankingcorp.com & abctz@bancabc.com

BancABC Zambia

Directors: C Chileshe, D T Munatsi, C Simatyaba, J W Thomas, L Mwafulilwa, A Dudhia, R Credo, J Muwo

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abcz@bancabc.com

BancABC Zimbabwe

Directors: N Kudenga, P Sithole, F E Ziumbe, N M Matimba, A Mabhena, F M Dzanya, H Matemera,T W Mudangwe

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Chiredzi branch +263 (31) 2254-6/413609
Graniteside branch +263 (4) 781046/7; 781615-7
Heritage branch +263 (4) 781837-40
Hotsprings branch +263 772 456 188; 772 732 014
Hwange branch +263 (281) 21703-10
Kwekwe branch +263 (55) 25216-23
Jason Moyo branch +263 (9) 73700-11
Msasa branch +263 (4) 486087; 486139; 486508
Mt. Pleasant branch +263 (4) 369260-99
Mutare branches: Main +263 (20) 67939; 67941
Manica Centre +263 (20) 68255/69/78/79
Redcliff branch +263 (55) 62875-82
Victoria Falls branch +263 (13) 45101-8
TSF Branch +263 (4) 667039; 667892
Zvishavane branch +263 (51) 2940-4
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