



A truly African bank



6.2% (2012)

## AVERAGE GDP GROWTH ACROSS THE AFRICAN CONTINENT\*

The roots of BancABC are firmly embedded in the soil of Southern Africa. It is a financial services provider that was conceived in Africa, grew to maturity in Africa and is focused on serving Africans. It is through its heritage, history and operations, that it can claim to be a truly African bank.

The ongoing dedication to creating profitable, lifelong partnerships with clients saw BancABC entering the challenging retail sector in 2009. The provision of competitively structured and priced products and services offered through well-placed branches was well received by consumers. Since their inception, these retail branches have provided the impetus for the exponential growth that has seen BancABC opening 73 retail branches in 4 years. It is intended that this network will grow to 100 branches within the next 3 years.

Increasing penetration of chosen markets has been supported by the Group's strong and increasing geographical footprint, which is underpinned by a strong local presence in these markets and a thorough understanding of the diverse financial markets within the region – knowledge that has been accumulated and strengthened over decades in Southern Africa.

Offering a range of services that cover personal, business and corporate banking requirements as well as asset management, stockbroking and treasury services, BancABC takes considerable pride in the achievements of its professional people who on a daily basis display their commitment to the bank and its clients through the delivery of quality services and products.

It is these people, many of whom have many years of service with BancABC, who will drive the bank to new heights and achievement within the continent that is, and will always be, home to BancABC.

\* Excluding South Africa

5

SADC  
COUNTRIES

RETAIL BRANCHES  
INCREASED TO

73

2012: 61

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## 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 stockbroking. 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.

Attributable profit to shareholders increased by **49%** from **BWP133 million** to **BWP198 million**

Cost to income ratio decreased to **66%** (2012: 71%)

Operating expenses up **29%** from **BWP869 million** to **BWP1,116 million** from continued expansion into Retail & SME Banking market segment



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

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



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

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

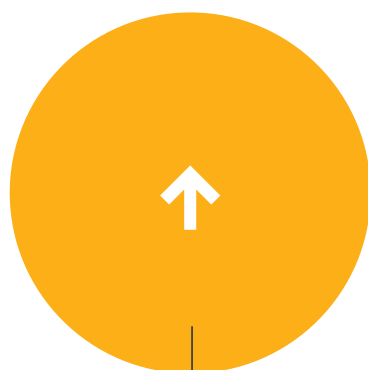
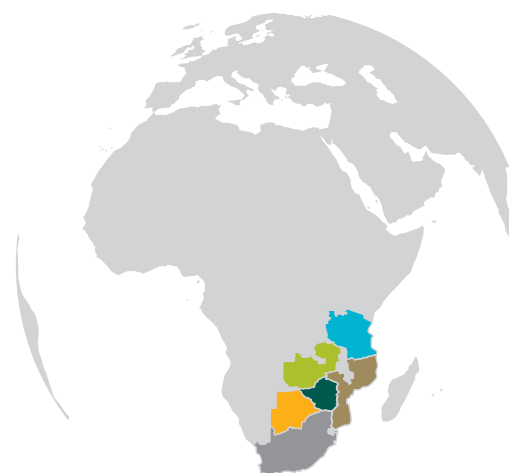
Are the essence of our existence. Our world-class staff, customers, clients, shareholders and stakeholders define our ambitions, success and passion. Our passion for people makes us customer-centric.

Basic EPS of **79.6 thebe**  
 (2012: 72.1 thebe) and diluted EPS of  
**79.0 thebe**  
 (2012: 66.5 thebe)

Deposits increased by **14%**  
 from **BWP10.7 billion** to  
**BWP12.2 billion**

Loans and advances increased  
 by **15%** from **BWP9.1 billion** to  
**BWP10.6 billion**

Total assets increased by **18%**  
 from **BWP13.4 billion** to  
**BWP15.8 billion**

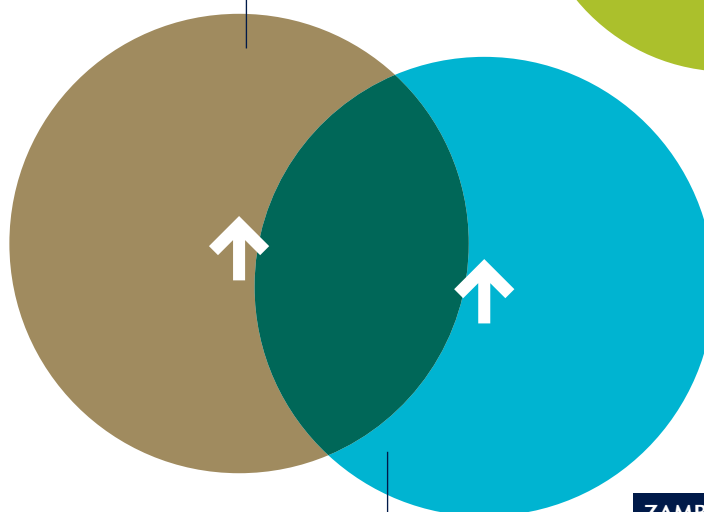


#### BOTSWANA

- **US\$14.6** GDP in billions
- **5.5%** Growth in GDP
- **56** Ease of doing business ranking
- **2.1 million** country population

#### MOZAMBIQUE

- **US\$15.8** GDP in billions
- **7.0%** Growth in GDP
- **139** Ease of doing business ranking
- **23.4 million** country population



### Economic growth in regional markets

(GDP growth% vs Ease of doing business ranking)

STAFF NUMBERS  
INCREASED TO

**1,501**

2012: 1,310



#### ZAMBIA

- **US\$28.1** GDP in billions
- **6.0%** Growth in GDP
- **83** Ease of doing business ranking
- **14.8 million** country population



#### TANZANIA

- **US\$31.9** GDP in billions
- **7.0%** Growth in GDP
- **145** Ease of doing business ranking
- **47.8 million** country population

#### ZIMBABWE

- **US\$13.1** GDP in billions
- **3.4%** Growth in GDP
- **170** Ease of doing business ranking
- **13.3 million** country population

## Five-year financial highlights

ON A HISTORICAL COST BASIS IN US\$'000s

	31 Dec 13 US\$'000s	31 Dec 12 US\$'000s	31 Dec 11 US\$'000s	31 Dec 10 US\$'000s	31 Dec 09 US\$'000s
<b>Income statement</b>					
Net interest income after impairment	80,655	70,388	48,692	41,542	17,948
Non-interest revenue	81,805	72,604	47,692	38,930	37,402
<b>Total income</b>	<b>162,460</b>	<b>142,992</b>	<b>96,384</b>	<b>80,472</b>	<b>55,350</b>
Operating expenditure	(131,965)	(114,316)	(79,873)	(64,089)	(51,610)
<b>Net income from operations</b>	<b>30,495</b>	<b>28,676</b>	<b>16,511</b>	<b>16,383</b>	<b>3,740</b>
Share of (losses)/profits of associates and joint venture	(473)	(741)	(757)	(2,966)	2,281
<b>Profit before taxation</b>	<b>30,022</b>	<b>27,935</b>	<b>15,754</b>	<b>13,417</b>	<b>6,021</b>
Taxation	(9,413)	(10,147)	(2,924)	(3,314)	2,225
<b>Profit for the year</b>	<b>20,609</b>	<b>17,788</b>	<b>12,830</b>	<b>10,103</b>	<b>8,246</b>
Attributable to					
Equity holders of parent	23,457	17,473	12,143	9,827	8,202
Non-controlling interests	(2,848)	315	687	276	44
<b>Profit for the year</b>	<b>20,609</b>	<b>17,788</b>	<b>12,830</b>	<b>10,103</b>	<b>8,246</b>
<b>Balance sheet</b>					
Cash and cash equivalents	262,688	239,288	166,122	154,997	132,194
Financial assets held for trading	143,646	131,643	86,980	173,375	134,707
Financial assets designated at fair value	29,817	24,414	29,563	14,400	–
Derivative assets held for risk management	3,151	4,346	4,320	6,516	1,195
Loans and advances to customers	1,203,236	1,176,838	811,940	477,415	299,099
Investments	7,749	7,014	6,721	6,098	7,387
Investment in associates and joint venture	1,518	1,442	2,343	5,405	6,138
Other assets and investment property	46,433	37,894	32,774	34,048	32,123
Property and equipment	86,279	84,792	68,788	51,217	41,818
Intangible assets	14,820	17,908	17,417	8,903	7,558
	<b>1,799,337</b>	<b>1,725,579</b>	<b>1,226,968</b>	<b>932,374</b>	<b>662,219</b>
Shareholders' equity	165,034	148,788	81,839	67,911	62,325
Deposits	1,391,836	1,373,887	985,260	761,083	502,932
Derivative liabilities held for risk management	4,291	2,911	6,288	162	293
Borrowed funds	200,563	156,079	131,167	89,868	81,519
Other liabilities and taxation	37,613	43,914	22,414	13,350	15,150
	<b>1,799,337</b>	<b>1,725,579</b>	<b>1,226,968</b>	<b>932,374</b>	<b>662,219</b>
Shares in issue	256,885,694	232,805,464	149,472,131	146,419,524	146,419,524
Cost to income ratio	66%	71%	74%	77%	82%
Average shareholders' equity	156,911	115,313	74,875	65,118	61,449
Return on average shareholders' equity	15%	15%	16%	15%	13%
Net asset value per share (cents)	64.3	63.0	53.0	45.0	41.0
<b>Closing exchange rates to US\$</b>					
Botswana Pula	8.78	7.77	7.49	6.45	6.67
Euro	0.73	0.76	0.77	0.75	0.69
Mozambican Metical	30.08	29.75	27.31	32.58	29.19
Tanzanian Shilling	1,587.01	1,585.01	1,590.01	1,505.01	1,339.51
Zambian Kwacha	5.52	5,195.01	5,110.01	4,800.00	4,650.00

## Salient features

	2013	2012	% change
<b>Income statement (BWP'000s)</b>			
Profit attributable to ordinary shareholders	<b>198,454</b>	132,774	49%
<b>Balance sheet (BWP'000s)</b>			
Total assets	<b>15,783,655</b>	13,407,765	18%
Loans and advances	<b>10,554,699</b>	9,144,042	15%
Deposits	<b>12,209,087</b>	10,675,111	14%
Net asset value	<b>1,449,557</b>	1,137,044	27%
<b>Financial performance (%)</b>			
Return on average equity	<b>15%</b>	15%	
Return on average assets	<b>1.2%</b>	1.2%	
<b>Operating performance (%)</b>			
Non-interest income to total income	<b>50%</b>	51%	
Cost to income ratio	<b>66%</b>	71%	
Impairment losses on loans and advances to gross average loans and advances	<b>3.2%</b>	1.8%	
Effective tax rate	<b>31%</b>	36%	
<b>Share statistics (000s)</b>			
Number of shares in issue	<b>256,886</b>	232,806	10%
Weighted average number of shares	<b>249,344</b>	184,194	35%
<b>Share statistics (thebe)</b>			
Basic earnings per share	<b>79.6</b>	72.1	10%
Diluted earnings per share	<b>79.0</b>	66.5	19%
Dividend per share	<b>18.5</b>	16.0	16%
Net asset value per share	<b>5.64</b>	4.88	16%





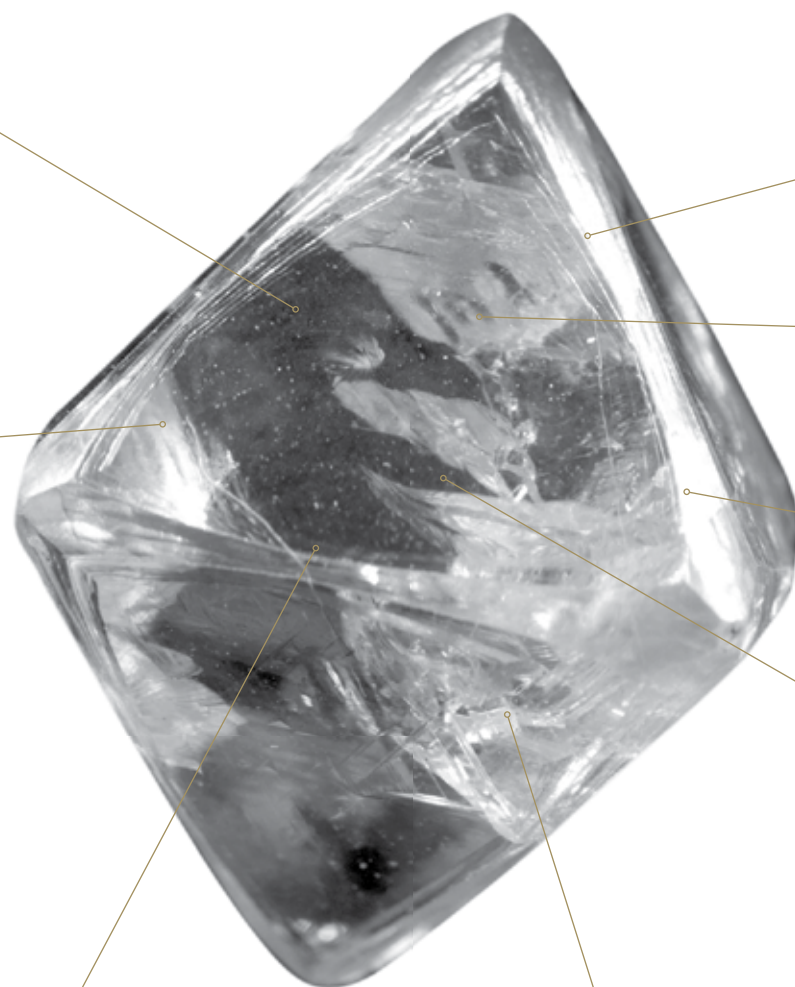
**5.9%** (2013)  
GDP GROWTH



**No.1**

by value producer  
of gem diamonds  
in the world

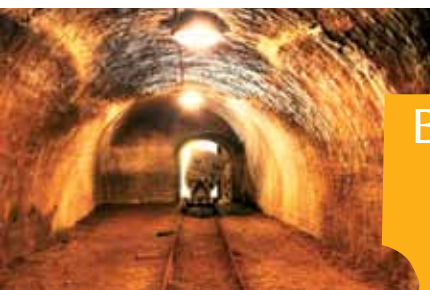
Botswana  
produces an  
average of  
**30 million carats**  
(6,000 kg)  
per annum



**30%**  
of worldwide diamond production  
comes from Botswana and diamond  
mining continues to sustain  
Botswana 43 years on

A middle income country with  
GDP per capita of around  
**\$7,000**





## BOTSWANA

Botswana is home to the **world's largest salt pans** – the Makgadikgadi Pan, with an area of about

**12,000km<sup>2</sup>**

Exports: **Diamonds, copper, nickel, soda ash, meat (beef) and textiles**

Botswana has **maintained one of the world's highest economic growth rates** since independence in 1966

**Tourism is an important industry** in Botswana (second to diamonds), accounting for almost

**12% of GDP**

## GROUP CHAIRMAN'S AND CEO'S REPORT

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**5.1%** ⬆️

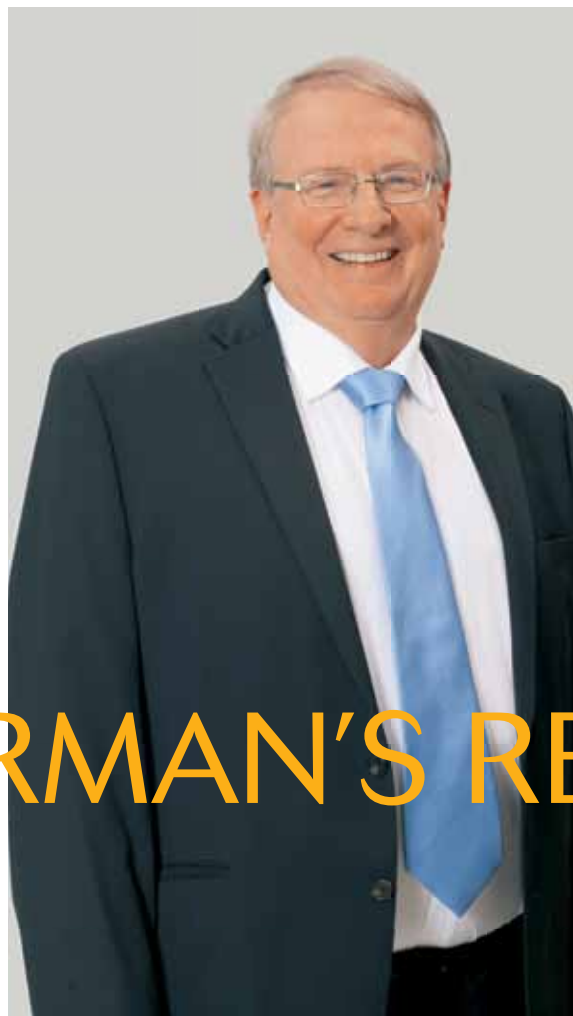
**ECONOMIC  
GROWTH IN SSAs**

2012: 4.8%

**3.0%** ⬇️

**WORLD  
ENVIRONMENT  
GROWTH**

2012: 3.1%



# CHAIRMAN'S REPORT

The Group posted satisfactory results for 2013. Significant growth was recorded on both net interest income and non-interest income in virtually all jurisdictions. However, growth in profitability was negated somewhat by higher impairments compared to previous years. In view thereof, the Board and management are committed to working tirelessly to resolve this issue permanently so that it does not impact performance going forward.



The operating environment continued to be challenging, but the Group's 2013 performance demonstrates the strides that it has made towards becoming a major financial services provider in all the markets we operate in.

## GLOBAL ECONOMIC DEVELOPMENTS

The global economic recovery continues to gather pace, supported by high income countries which will positively contribute to the acceleration in global growth from 3.0% in 2013 to 3.7% in 2014. Across mature economies, growth outlook is set to improve due to the Eurozone which is expected to return to a positive growth rate of about 1.0%, after being in recession for most of the previous two years. In the US, economic growth is expected to markedly improve from 1.9% in 2013 to 2.8% in 2014. GDP growth in emerging and developing economies will slightly be dented by China, whose growth is set to slowdown from 7.7% in 2013 to 7.5% in 2014. China, the world's second largest economy is facing structural and policy challenges which continue to weigh on its economic transformation.

## REGIONAL ECONOMIC DEVELOPMENTS

Economic growth in Sub-Saharan Africa (SSA) has broadly been encouraging, having increased by 4.8% in 2012 and 5.1% in 2013. In 2014, as the global economic environment improves, SSA economic growth is projected to rise further to 6.1%. Nonetheless, middle income countries will likely continue to expand more slowly than the rest of the region, with South Africa (SA) recovering only gradually from the weak growth recorded

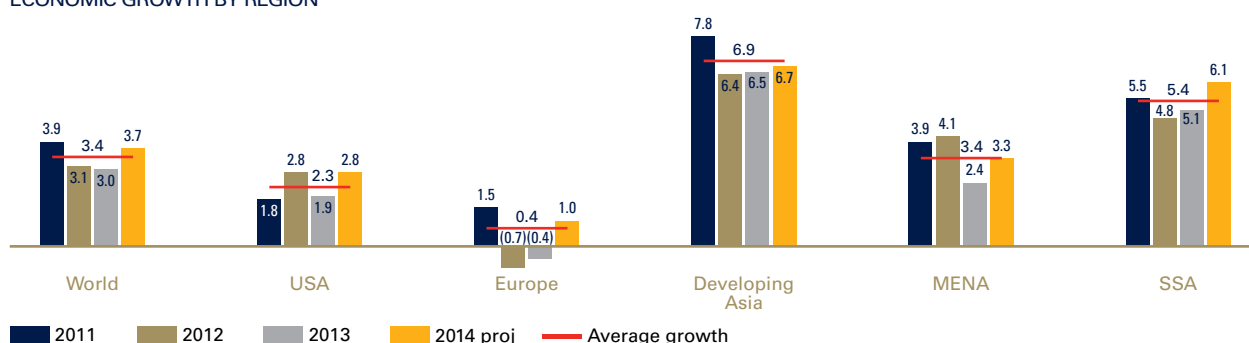
in 2012. This is partly due to SA's closer ties to the troubled Euro-zone as well as the labour unrests in the mining sector.

Importantly, however, SSA's strong performance is not only limited to commodity prices, but more fundamentally, to a growing track record of macroeconomic stability underpinned by firm local demand, increased public infrastructure spending and elevated capital flows.

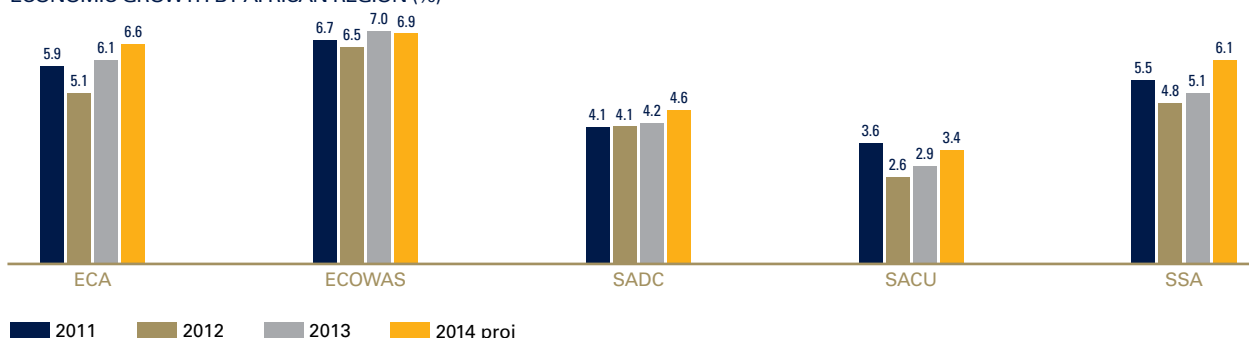
The biggest external risk to the SSA region in 2014 will more likely come from the US Federal Reserve (Fed) tapering of the monetary stimulus programme it had implemented following the economic crisis as some SSA countries may not be completely immune to the ongoing Fed tapering. Already, the US has started to cut back on its bond buying programme, initially from US\$85 billion per month to US\$75 billion and further to US\$65 billion. With liquidity likely to be less abundant in 2014, countries with weaker fundamentals, especially twin deficits (current account and budget deficits), and with heavy foreign investor participation in local markets, are likely to face more challenges than countries with smaller financing needs. South Africa, Ghana and Kenya all appear to be prone to the US Quantitative Easing (QE), while volatility of portfolio flows will present bigger challenges for the rest of the region.

Additional risk to some selected SSA countries could come from some turbulence related to elections in 2014 in South Africa, Mozambique and Namibia. However, given that these elections are unlikely to bring a change of ruling party, the impact of elections may not be as harmful to economic progress as there is likely to be a continuation in policy direction.

## ECONOMIC GROWTH BY REGION



## ECONOMIC GROWTH BY AFRICAN REGION (%)

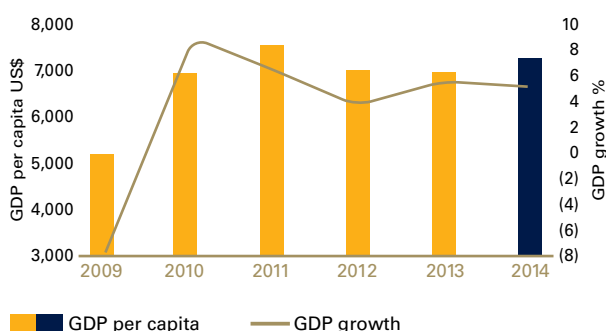


## ECONOMIC GROWTH IN BancABC MARKETS

In the BancABC markets, Mozambique, Tanzania and Zambia have experienced long periods of strong economic growth, placing them among the fastest growing economies in the SSA during the last decade. Due to its reliance on diamond mining, economic growth in Botswana has been more prone to the global downturns, registering negative growth in 2009 as a result of the 2008/09 global financial crisis. In Zimbabwe, economic developments have broadly been influenced by domestic factors. Having endured a decade-long economic decline, Zimbabwe enjoyed a positive growth trend since 2009, although there have been signs of weakening economic activity in 2012 and 2013.

In 2013, Botswana's economy is estimated to have grown by about 5.5%. This good performance was underpinned by strong growth in the mining sector buoyed by the planned relocation of De Beers' diamond-sorting and sales activity from London to Botswana. The 2011 decision to relocate follows years of negotiations between Anglo-American-owned De Beers and the Government of Botswana. Botswana is the largest producer of gem diamonds and home to mines like Jwaneng, which is among the world's richest diamond mines.

### BOTSWANA – GDP GROWTH AND PER CAPITA

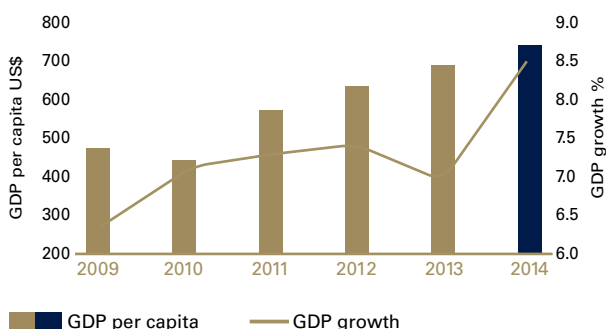


In 2014, economic growth is expected to be around 5% on the back of increased electricity production and a recovery in the mining sector.

In Mozambique, economic growth for 2013 was estimated to be 7.0%. The economy suffered setbacks in early 2013 related to severe floods which destroyed agricultural crops in the southern parts of the country and severely damaged infrastructure (roads, railways and the power transmission line to South Africa).

In 2014, economic growth is projected to accelerate to over 8% supported by strong performance in extractive industries, investment in the natural gas industry and implementation of several infrastructure projects. Nonetheless, Mozambique is exposed to risks of climate disasters, commodity price shocks for its major export or import commodities (coal, gas, fuel), and a decline in donor funding. Domestic risks include delays in upgrading transport infrastructure, especially railways and ports, and electricity supply constraints.

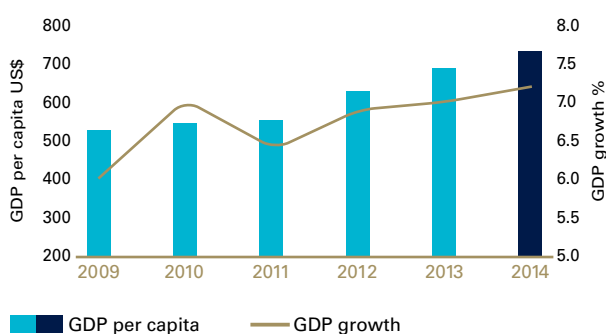
### MOZAMBIQUE – GDP GROWTH AND PER CAPITA



Tanzania is among the fastest growing economies in Africa. Supported by improved power supply, in 2012, the economy grew by 6.9% compared to 6.4% in 2011. The full year GDP growth for 2013 is estimated at 7.0%. Tanzania's economic outlook remains favourable despite being vulnerable to the global economic downturn. Economic growth for 2014 is projected to reach 7.2%.

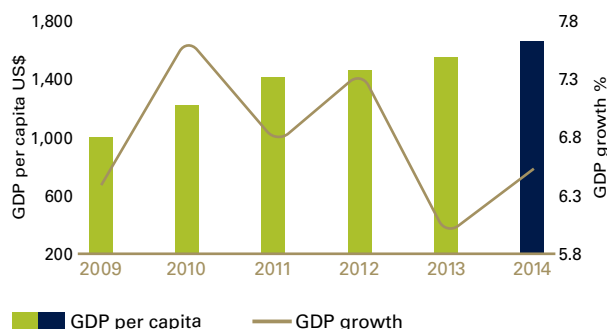
Over the years, GDP per capita has been improving in tandem with economic growth, having increased from US\$340 in 2003 to US\$524 in 2008; US\$629 in 2012 and further to US\$688 in 2013.

### TANZANIA – GDP GROWTH AND PER CAPITA



The Zambian economy grew by 7.3% in 2012, supported by strong performance in agriculture, construction, and communication services. In 2013, a slower growth in the economy of 6.0% was partly attributed to lower agricultural production.

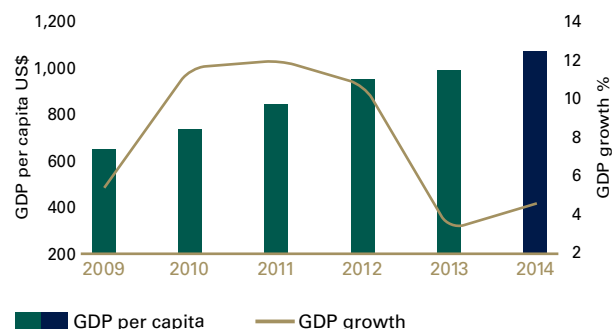
ZAMBIA – GDP GROWTH AND PER CAPITA



The mining sector remains one of the key drivers of the Zambian economy, generating about 80% of foreign earnings. In 2014, copper output is projected to reach 1 million tonnes and could accelerate to 1.5 million in 2015. Economic growth is projected to improve to 6.5% in 2014.

Economic growth in Zimbabwe slowed down considerably from 10.6% in 2012 to 3.4% in 2013, amid an intensified liquidity squeeze and widespread de-industrialisation. Economic performance in 2014 is projected to remain subdued, with the manufacturing sector expected to struggle under the weight of the liquidity squeeze, lack of capital and an influx of imported goods.

ZIMBABWE – GDP GROWTH AND PER CAPITA



The mining sector has been grappling with the effect of lower commodity prices (which have retreated from their peak levels), high cost structure (induced by power shortages), high royalties and the effect of indigenisation. Nonetheless, the mining sector remains the cornerstone for continued economic recovery.

## INFLATION DEVELOPMENTS

Generally, inflation was low and well contained in all BancABC markets, with Zimbabwe recording the lowest inflation level in SSA.

In Botswana, annual inflation remarkably collapsed to 5.8% in June 2013, just below the upper end of Bank of Botswana's medium term range of 3 – 6%. Since then, annual inflation decelerated for consecutive months, falling to 4.1% by year end. This was supported by limited demand side pressures and the impact of the real appreciation of the BWP which curtailed the cost of imported goods. Annual inflation averaged 5.9% in 2013 compared to 7.6% in 2012.

Mozambique experienced flood-related inflation pressures in early 2013, but the impact later dissipated, supported by the recovery of domestic agricultural production after the floods and the appreciation of the Metical vis-à-vis the Rand. Overall, during 2013, annual inflation averaged 4.2%, having doubled from the 2012 rate of 2.1%.

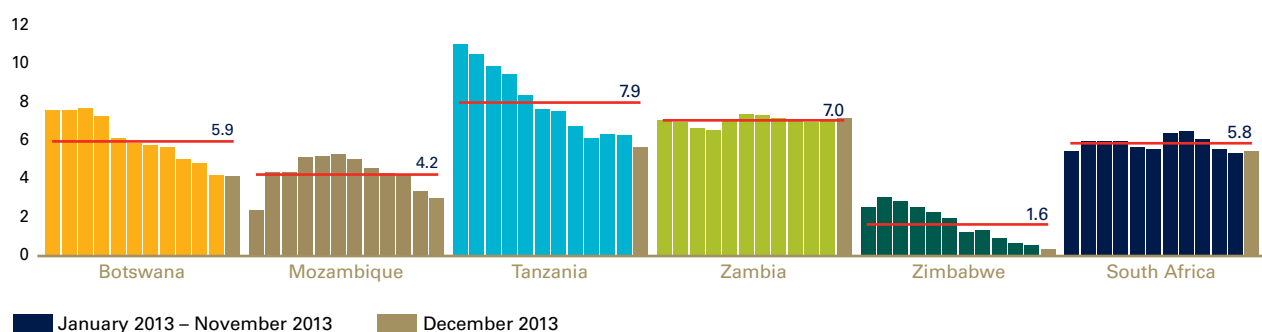
**18%** 

**INCREASE IN NET OPERATING INCOME**  
2013: BWP258 million  
2012: BWP218 million

**20%** 

**INCREASE IN PRE-TAX PROFIT**  
2013: BWP254 million  
2012: BWP212 million

ANNUAL INFLATION RATES IN ABC MARKETS (%)



The low inflation environment in Zimbabwe was underpinned by a weaker ZAR against the US\$ which made imports cheaper, weak domestic demand as a result of stagnant wages, declining economic activity and an entrenched liquidity situation. However, the low inflation which averaged 1.6% in 2013 became synonymous with a troubled economy experiencing deterioration in business conditions and increasingly reliant on imports.

In Tanzania, the disinflation process which commenced in January 2012 when inflation was 19.7% saw annual inflation declining for 21 consecutive months to 6.1% in September 2013. Annual inflation ended the year 2013 at 5.6%, the lowest level since December 2010. Inflation is, however, expected to assume a slightly upward trajectory, although the average for 2014 will be lower, possibly below 7.0%.

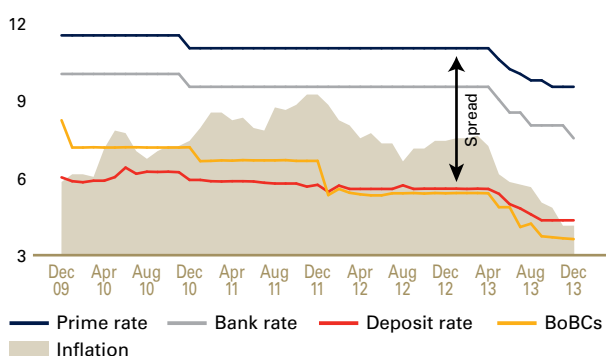
Average annual inflation in Zambia has shown an increasing trend, rising from 6.4% in 2010, to 6.6% in 2012. In 2013, a higher average annual inflation outturn of 7.0% was partly a result of first round effects of the removal of fuel and maize subsidies (estimated at 1 – 1½ percentage points). In addition, the pass-through effect of USD/ZMW on inflation through imported inflation fanned price pressures.

## INTEREST RATE DEVELOPMENTS

The bank rate in Botswana was cut by 50 basis points (bps) to 7.5% on 10 of December 2013. Prior to this latest adjustment, the bank rate had been reduced by a similar margin in April, June and August 2013. As a consequence, the bank rate was lowered by 200 basis points in 2013.

Real bank rate which was around 1.9% in January 2013, however, firmed during the year (due to falling inflation) to 3.2%.

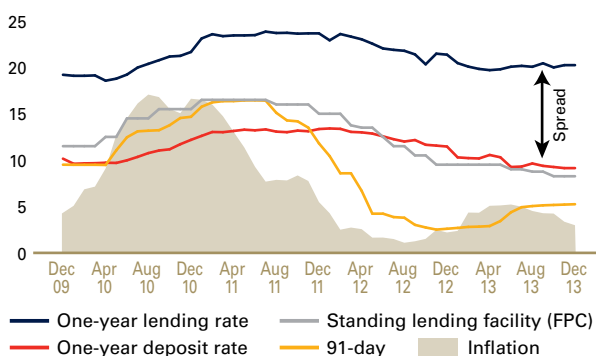
### BOTSWANA INTEREST RATES



The low inflation environment in Mozambique that prevailed since the second half of 2011 allowed the Bank of Mozambique (BM) to adopt a loose monetary policy stance.

As a result, the BM lowered the policy rate (FPC) 11 times by a cumulative 8.25 percentage points (pts) from 16.5% in July 2011 to 8.25% in October 2013. The latest rate cut was effected in October 2013 when the FPC was reduced by 50bps.

### MOZAMBIQUE INTEREST RATES

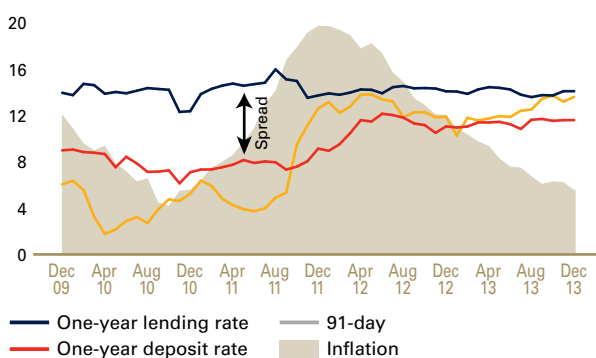


In Tanzania, the 12-month deposit rate averaged 11.3% in 2013 compared to 11.0% in 2012. Similarly, the 12-month lending rate averaged 14.0% in 2013 compared to 14.2% in 2012. Accordingly, interest spread narrowed to 2.7 percentage points from 3.2 percentage points in 2012.

Despite falling inflation, yields on 91-day treasury bills firmed from 10.3% in January 2013 to end the year at about 13.6%.

Reflecting the Bank of Zambia's commitment to tame the surge in the rate of inflation, the policy rate was increased to 9.5% in May 2013 and 9.75% in July 2013. These hikes took the market by surprise given the bank's history of being cautious. Since then, the benchmark lending rate has remained unchanged at 9.75% for the eighth straight month.

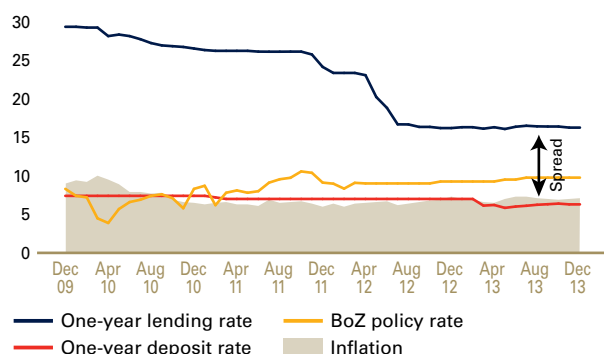
### TANZANIA INTEREST RATES



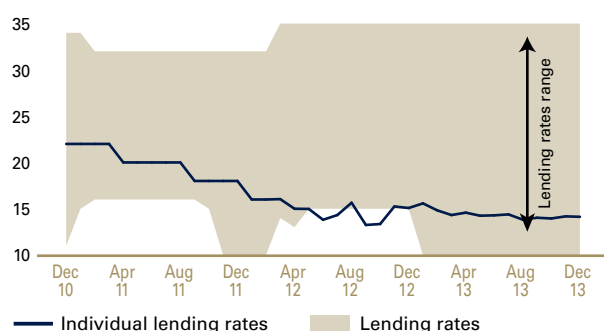
The reluctance in adjusting the policy rate despite the committee's anticipation of elevated inflationary pressures could be a result of the fact that the Bank of Zambia has been under political pressure to lower lending rates and strengthen the Kwacha.

The lending rates continued to vary widely in Zimbabwe, indicating different cost structures among banks in mobilising deposits and savings as well as different risk profiles of borrowers. Despite political pressure to lower lending rates, they broadly remained unchanged, ranging between 6 – 35% in 2013.

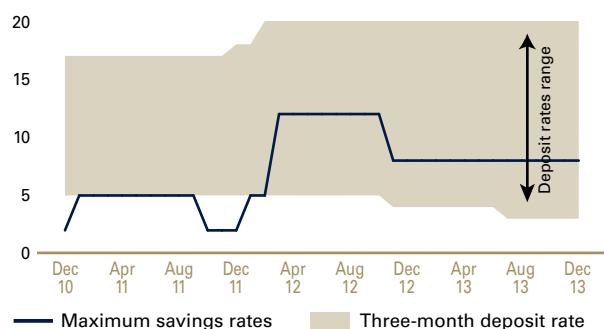
#### ZAMBIA INTEREST RATES



#### ZIMBABWE LENDING RATES



#### ZIMBABWE SAVINGS RATES



Three-month deposit rates broadly varied from 3 – 20% per annum. Banks are now at liberty to determine the level of interest rates following the falling away of the Memorandum of Understanding (MoU) which controlled interest rates and other bank charges.

### EXCHANGE RATE DEVELOPMENT

South Africa's (SA) labour unrests, the phasing out of the US Quantitative Easing (QE) together with the widening current account (CA) deficit had an adverse effect on the strength of the Rand (ZAR). As a result, the ZAR which was trading at 8.45 to the US\$ at the beginning of 2013 continued to lose its foot against the US\$ shedding off 24% to close the year at 10.47.

**14%** 

**INCREASE IN DEPOSITS**  
2013: BWP12.2 billion  
2012: BWP10.7 billion

**15%** 

**INCREASE IN LOANS AND ADVANCES**  
2013: BWP10.6 billion  
2012: BWP9.1 billion

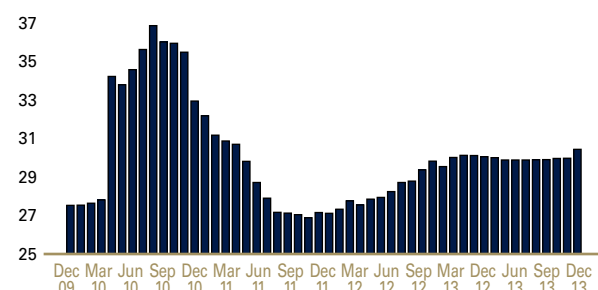
The poor performance of the ZAR also weighed down on the Pula (BWP), since the ZAR has a dominant weight in the BWP basket of currencies. Similarly, in 2013, the BWP depreciated by 12.1% to end the year at BWP8.72/US\$. The BWP, however, appreciated 8.9% against the ZAR.

#### US\$/BWP



The Bank of Mozambique (BM) continued to provide US dollars directly to fuel importers, and was unsurprisingly the dominant provider of foreign exchange in the FX interbank market. The BM's direct intervention thus anchored exchange rate stability against the US\$. As a result, the Metical (MZN) marginally depreciated by 1.5% against the US\$, but appreciated markedly by 17.6% against the ZAR. The stronger MZN against the ZAR also assisted in limiting the cost of imported inflation.

#### US\$/MZN



During H1:13, the Tanzanian Shilling's (TZS) trading range was 1,579 – 1,611 against the US\$ compared with the broader range of 1,576 – 1,621 during H2:13. The Bank of Tanzania (BoT) participated in the FX market only for liquidity management purposes and to smooth out short-term fluctuations in the exchange rate. On the other hand, the BoT sought to increase the level of international reserves as a share of imports.



## US\$/TZS



During 2013, the Zambian Kwacha (ZMW) depreciated by 7% against the US\$ but appreciated by 14% against the ZAR. During H2:2013, the ZMW was marginally weaker, trading in the range 5.24 – 5.60 against the US\$, compared to 5.22 – 5.48 in H1:2013. The ZMW weakness during the last quarter of 2013 was partly due to increased demand for US dollars, largely driven by imports for the festive period. The recent surge in inflation is partly attributed to the pass-through effect of ZMW weakness.

## US\$/ZMW



## BANKING SECTOR DEVELOPMENTS

Total bank deposits (excluding interbank) in Botswana which stood at BWP47,244 million in December 2012 improved marginally to BWP49,217 million in October 2013. However, equivalent deposits in US\$ terms declined from US\$6,076 million to US\$5,798 million, largely due to depreciation of the BWP.

Credit to the private sector grew by 12% from BWP34,550 million in December 2012 to BWP38,842 million in October 2013.

In Mozambique, total bank deposits grew significantly from MZN166.4 billion (US\$5,637 million) in 2012 to MZN180.6 billion (US\$6,046 million) in 2013. During this period, credit to the private sector increased by 23.4% from MZN117.8 billion (US\$3,993 million) to MZN145.4 billion (US\$4,866 million). Of the total loans advanced to the private sector, foreign currency loans account for nearly 23%.

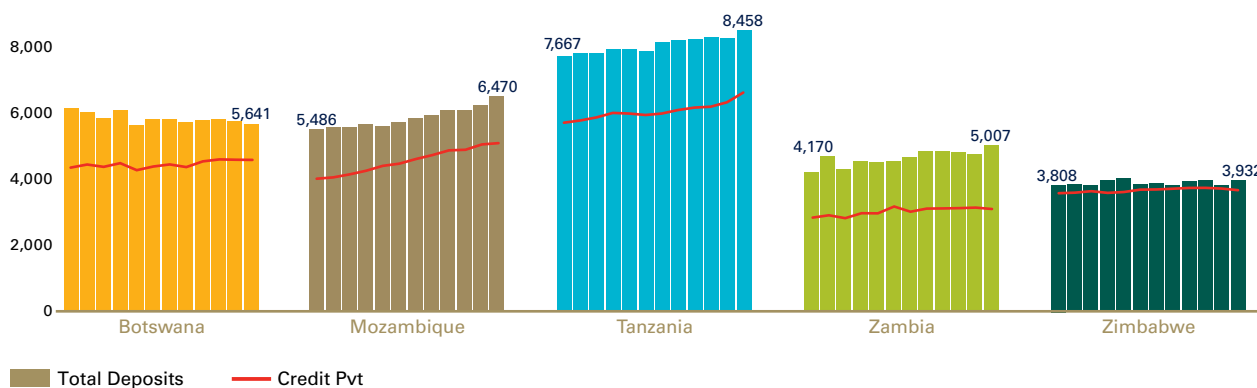
Tanzania boasts the biggest banking system in BancABC markets by deposits and loan size. Total deposits were TZS13.367 billion (US\$8,276 million) in 2013 having grown by 8.5% from 2012. The share of FCA deposits to total deposits is generally high at 31%. The loans to deposit ratio in 2013 was 76%, having gradually improved from below 70% in 2011.

In Zambia, banking sector deposits stood at ZMW26,041 million (US\$4,718 million) in 2013, having increased from ZMW22,683 million (US\$4,407 million) in 2012. To the extent that banks hold a significant proportion of Government securities, the loans to deposit ratio is low at around 66%. The private sector credit is skewed towards the household which accounts for about 38% of total credit.

The banking sector in Zimbabwe was generally stable despite the various underlying macroeconomic challenges and institution-specific weaknesses. Towards the end of 2013, the banking sector was negatively affected by the heightened liquidity squeeze, cash shortages in some banks and the negative news regarding the stability of smaller banks.

As a result of these challenges, in 2013, the deposits were broadly flat at around US\$3.9 billion. Credit to the private sector was around US\$3.7 billion, resulting in the very high loans to deposit ratio of 97%. Over the years, the banking sector witnessed a sharp increase in the level of non-performing loans (NPLs) from 7.4% in 2011 to 13.5% and 15.9% in 2012 and 2013, respectively.

## BANKING SECTOR TOTAL DEPOSITS AND CREDIT TO PRIVATE SECTOR (US\$ million)



## ECONOMIC OUTLOOK

We expect the economic performance of the Sub-Saharan Africa (SSA) economies to remain robust. This is despite the slow-down in China's consumption of base metals which has been driving most of the SSA economies in the recent past. We anticipate increased infrastructure spend, increased local demand for consumer products and increased foreign direct investment to spur economic activity. Most of the infrastructural spend will be financed by new bond issuances. The bond issuance pipeline is receiving significant impetus from the increased appetite for emerging market debt by most western investors who are flush with excess liquidity to channel in these markets. The Eurozone is expected to return to positive growth in 2014 and this will also have a positive impact on the economic growth in the markets we operate in. The stable political environment in the region will help in consolidating the economic growth in these markets.

## GOVERNANCE

In December 2013, Mrs Lakshmi Shyam-Sunder, the IFC representative, resigned from the Board. In addition, both Mr Jyrki Koskelo and Mr Mark Schneiders resigned from ADC, consequently they stepped down from the ABCH Board. Mr Mark Schneiders was reappointed as an independent non-executive director in February 2014. Further, Mr Dirk Harbecke the Chief Executive Officer of ADC was appointed as a non-executive director and we would like to welcome him to the Board. The Group will benefit from his experience obtained over many years in business.


I would like to thank Mrs Shyam-Sunder and Mr Koskelo for their valuable contribution and dedication to the Group over the last few years. I wish them success in all their future endeavours.

## FUND RAISING

During the second half of the year, the Group raised a total of US\$135 million in lines of credit. US\$95 million was invested directly at the Centre with the balance going to BancABC Zimbabwe. Going forward, we would like the Centre to be the lender of last resort to subsidiaries. To this end, negotiations with various investors are at an advanced stage and if successful, we could raise up to US\$360 million in various instruments in the coming months.

## DIVIDEND

In line with the Group dividend policy, a final dividend of 4.5 thebe (about 0.5 US cents) in respect of the year ended 31 December 2013 is being proposed by the Board. This will bring the full year dividend to 18.5 thebe per share (approximately 2.1 US cents). The final dividend will be paid on 2 May 2014 to shareholders on the register at the close of business on 18 April 2014.

**18%**   
**INCREASE IN GROUP  
BALANCE SHEET**  
**2013: BWP15.8 billion**  
 2012: BWP13.4 billion

**73**   
**NUMBER OF  
BRANCHES**  
 2012: 61

## CAUTIONARY ANNOUNCEMENT

On 31 March 2014, the Company and Atlas Mara CO-Nvest (Atlas Mara), a company listed on the London Stock Exchange, announced a possible transaction whereby Atlas Mara will potentially acquire the entire issued share capital of the Company. Atlas Mara has signed sale and purchase agreements with shareholders who currently own 50.1% of the Company. In addition, Atlas Mara has also signed a combination agreement with the African Development Corporation (ADC), which currently controls some 37.7% of the Company. These agreements are conditional upon various regulatory and government approvals being obtained for the acquisition of the Company. Once the agreements are unconditional, Atlas Mara intends to make an offer to the minority shareholders of the Company at a price of US\$0.82 per share. It is envisaged that the entire transaction will be closed within 190 days from the date the transaction was announced. In view of the above, shareholders are advised to exercise caution in dealing with the Company's shares.

## ACKNOWLEDGEMENTS

I would like to extend my heartfelt gratitude to my fellow directors, management and staff for a satisfactory set of results.



**H J BUTTERY**

*Group Chairman*

**49%** 

**INCREASE IN  
ATTRIBUTABLE  
PROFIT**

**2013: BWP198 million**

2012: BWP133 million

**50%** 

**INCREASE IN NET  
INTEREST INCOME**

**2013: BWP1.010 billion**

2012: BWP673 million



# CHIEF EXECUTIVE OFFICER'S REPORT

The year 2013 was one of consolidation and the Group recorded total revenue growth of 39% from BWP1.2 billion in 2012 to BWP1.7 billion for the year under review, which is pleasing. The Group is beginning to reap the full rewards of converting to a universal bank as evidenced by an increase in business volumes. The number of branches increased to 73 from 61 in the prior year and the number of employees increased to 1,501 from 1,310 in December 2012.



Operations in Botswana, Zambia and Zimbabwe recorded growth in business volumes although it was at a slower pace compared to previous periods as they consolidated their positions in the market. Mozambique and Tanzania did not grow business volumes as anticipated for most of the year, but registered some momentum towards the end of 2013 which positions both businesses well for 2014.

Attributable profit at BWP198 million was 49% higher than the BWP133 million achieved in the prior year. However, basic earnings per share at 79.6 thebe was only 10% higher than the 72.1 thebe achieved in 2012, owing to the higher number of shares following the rights issue concluded in July 2012 and the conversion of the IFC loan to equity. Pre-tax profit at BWP254 million was 20% higher than BWP212 million recorded in 2012.

BancABC Botswana, BancABC Zimbabwe and BancABC Zambia performed exceptionally well. However, BancABC Mozambique's performance in the current period was hampered by higher loan impairments as a result of one, but large, exposure. Notwithstanding the above, the operation still posted a profit, albeit at a significantly reduced level. Sadly, BancABC Tanzania continues to be a challenge for the Group largely as a result of impairments which amounted to BWP135 million for the year under review. Consequently, a huge loss was realised by the operations in Tanzania. Given the challenges that we have encountered not only with the quality of the book but the legal

system in Tanzania, a decision was taken to be aggressive on impairments and we will account for the write backs on receipt of the cash. It is our sincere hope that this problem is now behind us and we can now concentrate on growing the business. The full turnaround will in all likelihood take some 12 to 24 months as a conservative approach to lending will be adopted.

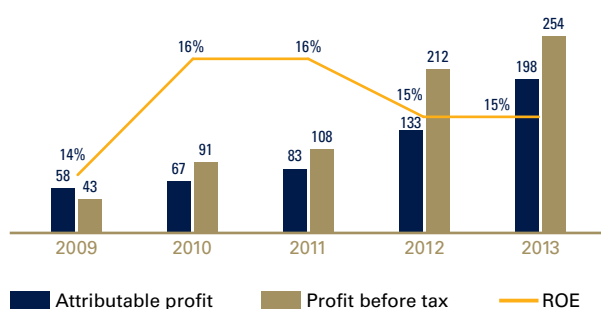
The Group balance sheet increased by 18% from BWP13.4 billion to BWP15.8 billion. Loans and advances were up 15% from BWP9.1 billion to BWP10.6 billion. Deposits, on the other hand, increased by 14% from BWP10.7 billion to BWP12.2 billion.

## FINANCIAL PERFORMANCE

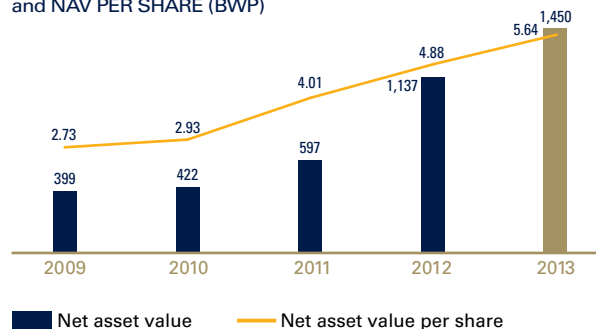
### NET INTEREST INCOME

Net interest income of BWP1.01 billion was 50% ahead of BWP673 million achieved in 2012. All the banking operations with the exception of BancABC Tanzania recorded an increase in net interest income on the back of growth in balance sheet sizes. Net interest margin increased marginally from 6.7% to 7.7% as the contribution of retail banking loans to total assets continued to grow. As at 31 December 2013, the retail banking loan book constituted 42% of the total loan book compared to 40% in 2012. Retail deposits, however, only constituted 12% (2012: 9%) of the total deposit book. Mobilisation of retail deposits will continue to be a focus area for the Group.

PROFIT (BWP million) and ROE (%)



NET ASSET VALUE (BWP million) and NAV PER SHARE (BWP)



### IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Impairments continue to be the Group's nemesis. Net impairments increased by 137% from BWP138 million in 2012 to BWP328 million, which is extremely disappointing. Significant impairments were recorded in Mozambique, Tanzania and Zimbabwe. As alluded to above, Mozambique was affected by one large account which has been struggling to service its debts, hence the need for impairment. In June 2013, a decision was taken to split the Tanzania loan book into a good and bad bank. In order to try and permanently deal with this problem, huge impairments were taken on the bad book and the write backs will be recorded on receipt of the funds. Going forward, the strategy is to grow Government payroll deduction loans with lending to corporates being limited to good credit rated customers. In Zimbabwe, the tight market-wide liquidity position continued to negatively impact borrowers' ability to service their loans. Impairments in Botswana and Zambia were within the Group's target range.

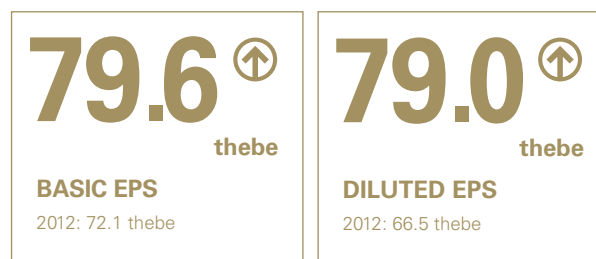
As a consequence, the Group's credit loss ratio at 3.3% was 1.5 percentage points higher than the 1.8% recorded in 2012 and significantly up on the Group target of 1%. The gross NPL increased marginally from 9.2% in 2012 to 9.8% in the current period. However, the net NPL ratio improved significantly to 4.8% from 6.1% in 2012 due to more aggressive impairment of non-performing accounts in the current year.

### NON-INTEREST INCOME

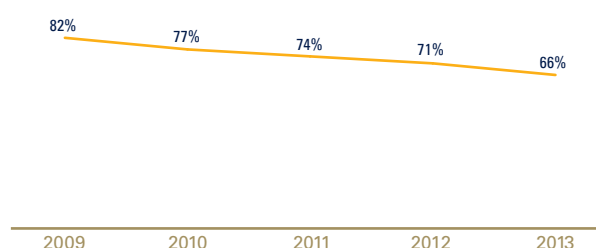
Non-interest income of BWP692 million was ahead of prior year by 25%. The growth in retail banking customer numbers has continued to drive the increase in non-interest income. With the exception of BancABC Zimbabwe, all banking operations registered growth in non-interest income. Fees and commission income in Zimbabwe was hampered by the Memorandum of Understanding between commercial banks and the Reserve Bank of Zimbabwe which capped, and in some instances abolished bank charges. The Memorandum of Understanding was revoked in December 2013 and this could help normalise the level of fees and commissions for the entity going forward.

### OPERATING EXPENDITURE

Operating expenses at BWP1.1 billion were 29% ahead of BWP869 million recorded in 2012. The Group's expansion into the retail banking market segment resulted in higher costs across the network. The cost to income ratio, however, reduced from 71% to 66% owing to higher growth in income with most of the growth emanating from retail banking. The investment in systems and people within the retail banking division has now stabilised and we have achieved critical mass in Botswana, Zambia and Zimbabwe. Going forward, we expect revenues to grow faster than costs and hence, the cost to income ratio should gravitate towards the Group's short term target of 50% in the next few years.



### COST TO INCOME RATIO



### TAXATION

In the current period, the Group had a net tax charge of BWP80 million compared to a tax charge of BWP77 million in the prior year. The effective tax rate is 31% compared to 36% in the prior year. The deferred tax debit is expected to reverse as Tanzanian operations improve.

### BALANCE SHEET

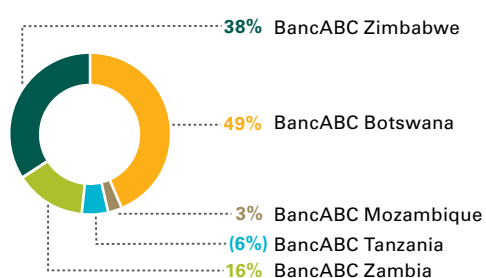
The balance sheet increased by 18% from BWP13.4 billion (US\$1.7 billion) in 2012 to BWP15.8 billion (US\$1.8 billion) as at 31 December 2013. Loans and advances increased to BWP10.6 billion from BWP9.1 billion in December 2012. BancABC Botswana and BancABC Zimbabwe with respective loan books of BWP3.8 billion and BWP3.1 billion constituted the majority of the loan book for the Group. The contribution from the two entities was 65% (2012: 70%). Deposits increased by 14% to BWP12.2 billion from BWP10.7 billion in December 2012 with BancABC Botswana and BancABC Zimbabwe at BWP4.7 billion and BWP2.7 billion, respectively contributing the most to the Group's deposits. The two entities' share of deposits was 61% compared to 69% in 2012. The growth in interest earning assets has translated into higher interest income for the period under review and positions the Group well for further income growth in the coming years.

## ATTRIBUTABLE PROFIT

Banking subsidiaries achieved attributable profits of BWP310 million compared to BWP213 million registered in the prior year, a 46% year-on-year growth. Growth continued being driven by BancABC Botswana, BancABC Zambia and BancABC Zimbabwe all of which produced double-digit growth in attributable profit. However, BancABC Mozambique recorded a decline in profitability by 49%. BancABC Tanzania recorded another loss in the current year.

The loss in Head Office entities together with consolidation adjustments increased by 39% from BWP80 million in the prior year to BWP112 million in the current year. BWP50 million of this attributable loss emanated from TDFL, which is housing the non-performing loans in Tanzania. The loan impairment charge for the entity during the current year was BWP127 million (2012: BWP nil).

### ATTRIBUTABLE PROFIT CONTRIBUTION BY ENTITY



## OPERATIONAL PERFORMANCE

### BOTSWANA

BancABC Botswana's net profit after tax of BWP153 million was 62% higher than BWP94 million recorded in 2012. Total income improved by 54% from BWP287 million to BWP442 million on the back of higher volumes of consumer as well as group scheme loans which attract higher margins. This contributed to growth in net interest income which improved by 55% from BWP252 million in 2012 to BWP391 million in the current year. The loan portfolio only increased by 10% to BWP3.8 billion, but the portfolio mix together with higher average loan balances for the year had a positive impact on net interest income. Impairments increased by 10% from BWP38 million to BWP42 million in the current year as a result of an increase in non-performing accounts. Gross non-performing loans increased to 2.9% from 1.2% in prior year. Net non-performing loans were 1.2% (2012: 0.0%). Non-interest income increased by 30% to BWP94 million owing to higher volumes achieved.

Operating expenses increased by 49% due to an increase in distribution channels as well as the number of employees. The cost to income ratio remained at 51% in the period under review. The bank is well positioned for significant growth going forward as it is now a significant player in the market.

### MOZAMBIQUE

Attributable profit of BWP9 million was 49% lower than prior year. The growth in total income was weighed down by an

increase in impairments during the year. Net interest income increased by 33% to BWP123 million following growth in the interest earning assets. Loans and advances increased by 68% to BWP1.5 billion (2012: BWP877 million) whilst deposits increased by 71% to BWP2.3 billion (2012: BWP1.4 billion). However, this growth in the balance sheet was achieved largely in the last two months of 2013 and hence, had limited benefit to income growth in 2013. Non-interest income also grew by 32% to BWP89 million from increased volumes of trade finance transactions.

The subsidiary's stellar performance on the income side was negated by an increase in net impairments from BWP18 million recorded in prior year to BWP51 million in 2013. The bulk of the charge emanated from one client and this pushed the credit loss ratio upwards from 2.1% in 2012 to 3.5%. Notwithstanding the above, gross NPLs remained at 8.4% but net NPLs declined from 4.2% in 2012 to 1.8% in the current year.

Operating expenses increased by 27% to BWP146 million from increased activity levels in line with the retail banking expansion. The entity's cost to income ratio declined marginally from 72% in prior year to 69% in the current year.

BancABC Mozambique has a strong and highly liquid balance sheet which positions it well for further expansion in retail banking.

### TANZANIA

Once again, BancABC Tanzania posted a weak set of results. The attributable loss for the year declined from BWP39 million in 2012 to BWP20 million during the year under review, largely due to an increase in revenue and a reduction in impairments as the non-performing accounts were all transferred into a special purpose vehicle. Net interest income increased by 32% from BWP29 million in prior year to BWP39 million in the current year on the back of a higher balance sheet. Net interest margins were subdued by high non-performing loan accounts. Gross NPLs declined from 33.3% in the prior year to 6.7% and net NPLs declined from 24.6% to 2.1%.

Non-interest income increased by 27% from BWP54 million in prior year to BWP68 million in the current period due to an increase in transaction volumes. The entity is currently repositioning itself with a strong emphasis into retail banking. This expansion process increased operating expenses by 30% from BWP98 million to BWP128 million. The operation is still not yet out of the woods and more work will need to be done to bring the business into profitability on a sustainable basis.

### ZAMBIA

BancABC Zambia's attributable profit grew by 39% from BWP36 million in the prior year to BWP50 million in the current year. The growth in profitability was driven by the inroads the subsidiary has been making in the retail banking space in the last few years resulting in significantly higher revenue. Net interest income increased by 13% from BWP72 million in prior year to BWP81 million in 2013. The growth in net interest income emanated from the larger loan book in the current year. Loans and advances increased by 34% to BWP1.4 billion and deposits increased by 38% to BWP1.2 billion. Gross NPLs continued trending downwards from 3.3% in prior year to 2.1% as at 31 December 2013.



Non-interest income increased by 44% from BWP110 million in the prior year to BWP158 million in the period under review, from increased transaction volumes in both the wholesale and retail banking divisions. Operating expenses increased by 18% to BWP148 million in the current year from BWP126 million in 2012. The cost to income ratio at 62% is lower than the 69% recorded in the prior year. This ratio is expected to move closer to the Group's short-term target of 50% in 2014.

The subsidiary is on a strong footing for growth going into the future. Total capital was increased to some US\$94 million (ZMW520 million) in December 2013 in line with Bank of Zambia regulatory requirements. Transaction volumes in the wholesale division continue to improve to complement the strong growth that has been achieved in retail banking. The operation has also made significant inroads in diversifying the funding of the balance sheet and this should result in a markedly reduced cost of funds going forward.

## ZIMBABWE

BancABC Zimbabwe's attributable profit of BWP118 million was 14% higher than BWP103 million recorded in the prior year. Despite the challenging operating environment during the year, the subsidiary recorded growth in revenues which was only negated by higher impairments. Net interest income increased by 78% from BWP227 million in 2012 to BWP404 million posted in the current year. However, non-interest income declined by 7% to BWP197 million from BWP212 million in the prior year largely due to a reduction in bank charges as a result of the Memorandum of Understanding signed between the commercial banks and the Reserve Bank of Zimbabwe. Net impairment charges increased by 123% to BWP92 million from BWP41 million recorded in the prior year. This was largely due to tight liquidity conditions prevailing in the economy which resulted in most corporates and individuals failing to service their loans as they fell due. However, gross NPLs declined from 17.1% in the prior year to 12.4% as at 31 December 2013. Net NPLs also declined from 14.2% in the prior year to 8.0% in the current year. Operating expenses increased by 30% from BWP270 million in 2012 to BWP350 million from the increased activity as the number of branches continued to increase.

The liquidity situation in Zimbabwe continues to be problematic and this is impacting on the credit risk profile of most corporates. Lending in the corporate sector has as a consequence been significantly curtailed with most of the growth in the loan book emanating from retail banking, consumer and group loan schemes.

## DIVISIONAL PERFORMANCE

### TREASURY AND STRUCTURED FINANCE

The division had a mixed performance during the year, with wholesale deposits increasing only marginally by 11% from BWP9.7 billion to BWP10.7 billion. The growth in deposits arose principally from BancABC Mozambique and BancABC Zambia both of which significantly grew their deposit base during the year. BancABC Zimbabwe saw a decline in deposits due to continued liquidity challenges in that market. The decline in BancABC Zimbabwe's deposits was more pronounced in

July 2013 owing to the uncertainty prevailing in the market as a result of pending general elections. However, the position started reversing soon after the elections although the overall closing figures were still lower than what was recorded in prior year. BancABC Botswana recorded an 8% increase in wholesale deposits from BWP3.9 billion to BWP4.2 billion and is still the largest contributor to Group total deposits.

Foreign exchange trading income increased by 6% from BWP147 million to BWP156 million. However, money market income grew by 115% from BWP39 million in 2012 to BWP85 million in the year under review. Increased bond trading registered by BancABC Tanzania and BancABC Zambia resulted in a 54% increase in gains from trading activities from BWP26 million in 2012 to BWP40 million in the year under review. Gains on financial assets designated at fair value through profit and loss increased from BWP13 million in 2012 to BWP44 million in the year under review, largely due to a mark-to-market gain of BWP29 million on the Group's investment in Union Bank of Nigeria.

## CORPORATE BANKING

The Corporate Banking loan book recorded a modest growth of 7% from BWP5.5 billion to BWP5.8 billion. The subdued growth is largely as a result of a combination of a deliberate policy to curtail lending in the Corporate Banking space as a diversification strategy as well as constrained liquidity position. As a result, more resources were deployed in the payroll deduction loans business where higher margins at a relatively low risk are obtained. BancABC Zimbabwe remains the largest contributor to the Corporate Banking loan book at BWP2.2 billion which was the same level as in 2012. BancABC Botswana, the next largest contributor at BWP1.4 billion was also flat. However, the division increased transactional and non-funded fee business and this resulted in a 25% growth in transactional fees from BWP118 million in 2012 to BWP147 million in 2013. The division will continue building on the success of this strategy to grow fee income even in 2014 with a view to further broaden the wholesale customer base.

Loan impairments were a challenge for the division in the year under review. The division's share of impairments increased by 171% from BWP106 million to BWP287 million in 2013. The largest contributor to these impairments were the two entities in Tanzania which together contributed about BWP135 million. However, it is interesting to note that NPLs are slowly reducing and the net NPLs have declined sharply as the Group took a more conservative approach to provisioning in the year under review.

## RETAIL AND SME BANKING

The division achieved phenomenal growth during the year with BancABC Botswana, BancABC Zambia and BancABC Zimbabwe consolidating the growth they have achieved in the past few years. Both BancABC Tanzania and BancABC Mozambique achieved some growth in retail business during the year, but they have not yet reached critical mass and hence, the retail business in both operations is still loss making. The roll out of retail products continued across the Group's network, and branches grew from 61 in 2012 to 73 in the year under review.



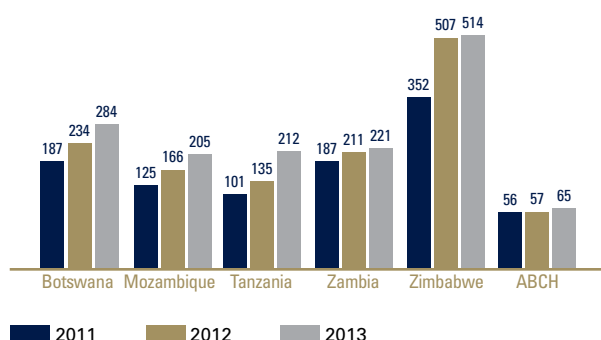
The customer base grew from 188,693 to 277,383 during the year.

Customer deposits increased by 51% from just under BWP1 billion in 2012 to BWP1.5 billion in 2013. Loans and advances increased by 28% from BWP3.7 billion in 2012 to BWP4.7 billion in the current year. The division's loans and advances are predominantly payroll deduction loans from Governments as well as group loan schemes largely from our corporate clients.

The growth in loans and advances in the recent past spurred growth in the division's total income from BWP508 million in 2012 to BWP828 million in 2013. The division will continue running various campaigns in all the markets to further grow business volumes and make the Group, a significant player in the retail space.

### HUMAN CAPITAL

The Group's staff complement continued to increase with the number of staff increasing from 1,310 in 2012 to 1,501 in 2013.




During the year, the division designed a new operating model for the Group. Job profiles for senior executives in line with the new operating model were also designed. The operating model together with the new job profiles for all staff will be rolled out from 2014 onwards.

The division also deployed a new portal where employees can access and for some functions, update various personnel-related details. This will form the basis of the human capital management information system (MIS) once additional modules are implemented in this system.

The division continued to ensure that talented staff receive on-going leadership development training. A new partnership has now been established with Stellenbosch University Business School (USB). The Gordon Institute of Business Science (GIBS) will also continue being used for some of the programmes. In 2013, 63 staff attended programmes that ranged from foundation level courses to those designed for executive management. A major emphasis was placed on the development of standard competencies, technical skills as well as leadership development. In 2014, there will also be increased emphasis on the mentorship programme as well as enrolling more staff for the Institute of Bankers' examinations.

**15%**  
RETURN ON EQUITY  
2012: 15%

**66%**   
COST TO INCOME  
RATIO  
2012: 71%

The Executive Coaching Programme for EXCO members, Functional Heads and all Managing Directors and Deputy Managing Directors continued running during the year. The objective of training at this level is to ensure that executive and senior management's leadership skills are further developed, that they remain focused on business challenges and have the ability to proactively identify solutions for day-to-day operational issues.

The Group continued its Graduate Development Programme during the year. In this vein, it recruited 12 top graduates during the year. These graduates will serve in various areas of the bank once they have successfully completed the two-year Graduate Development Programme.

The balanced scorecard has now been in use in the Group for a number of years. During the year, the Group embarked on an exercise to improve the various strategy maps being used with a view to better align subsidiary strategy setting and performance monitoring to the Head Office. Personal scorecards will also be revamped to make them more aligned to each entity's strategy. The whole process will also improve goal setting, performance evaluation and enable the Group to better align staff rewards to performance. A balanced scorecard reporting tool that will aggregate data at Group level is also being rolled out and should be in use by mid-2014.

The Human Capital & Learning Strategy was put into effect in 2012. Significant progress continues being made in measuring and controlling staff costs, effecting new staff policies, introducing long service awards, improving the number of staff receiving training, a reduction in staff attrition levels and the creation of Learning Centres in all subsidiaries, as well as identifying and tracking top talent in all subsidiaries.

### OTHER SUPPORT DIVISIONS

The Group operates a centralised Information Technology (IT) function which is one of the key enablers for the business. The IT division, during the year, improved the stability of key production applications with application uptimes increasing significantly. Proactive monitoring of the core banking system, internet banking, card systems and the wide area network has helped to address issues as they arise.

Going forward, the division's focus will be to improve processes within the IT space, lower IT costs and help business roll out innovative solutions to customers in a cost-effective manner. Considerable attention will be focused on the core banking system during 2014 to address any outstanding issues that

users have been experiencing over the last couple of years, improve products in the system and train users on a continuous basis. Governance activities such as audit, change management and information security will continue being improved upon. The special project ("Run the Bank") team has now been on site for a little over a year and will continue assisting the Group's IT staff with stabilising and improving the "Run the Bank" services.

The Banking Operations department is the processing hub of the bank and seeks to provide the bank's revenue generating departments with a robust, efficient and effective processing platform, so that they can offer external customers the desired quality of service. Banking Operations is therefore engaged in a continuous process of improvement to ensure that it is constantly meeting the changing demands of its internal and external customers, and ensuring that customer value is maximised. The department strives to be at the forefront of innovation, and continuously explores more proficient ways of processing transactions to meet changing business needs. As the business grows, the department is seeking to grow its capacity in terms of processing systems, product knowledge, and capacity handling through automation, while ensuring that the bank has adequate processes, procedures and support structures that militate against attendant risks.

The Group Project Management Office (PMO) provides the Group with a centrally integrated role on project delivery by standardising project management practices throughout the organisation. This, in conjunction with improved project management communication, assists senior executives and stakeholders to keep abreast of the status of various projects, a benefit that assists decision-making and the achievement of strategic objectives. The function also assists the business by seeking ways to reduce costs, improve processes, increase productivity and improve customer experience through the introduction of new and improved technologies that contribute to the bottom line.

Group Finance is responsible for financial management and reporting, regulatory reporting, budgeting and Group tax. The division continues to develop state-of-the-art financial reporting systems to meet increased needs for timely financial and related information to the various stakeholders within and outside the Group. It will also continue improving business efficiencies to optimise the Group's operating expenses and will ensure that the Group gravitates towards an optimal tax structure.

Group Risk manages all risks that the Group is exposed to from the full range of its activities. Various committees identify and manage different identified types of risks. Apart from the Board committees, Group Risk coordinates the Asset and Liability Management Committee and the Operational Risk Committee.

The Legal and Compliance department is responsible for managing day-to-day compliance and legal risk. The department

endeavours to separate legal and compliance functions in order to maintain good corporate governance practices. The department's main functions include, but are not limited to, reviewing and negotiating contracts (corporate, banking and service contracts), assisting in the development of banking products, drafting various capital raising documents (prospectuses and lending agreements), addressing regulatory inquiries, managing litigation, registers and monitors the Group's trademarks, drafting and filing regulatory documents and drafting and implementing compliance policies and procedures. In addition, Legal/Compliance professionals are responsible for providing advice and support with respect to all banking and corporate-related issues.

Group Credit monitors the loan portfolio of the Group and ensures that it is not exposed to undue risk from new business that is underwritten. In addition, it monitors existing customers who may be facing financial challenges that impact on their ability to meet their commitments. The division is currently revamping operating procedures to ensure that the Group reduces non-performing loans to less than 3% and the credit loss ratio to less than 1% within the next 12 to 18 months.

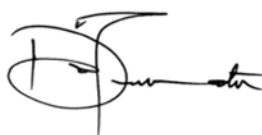
Group Internal Audit is an independent objective assurance and consulting activity designed to add value and improve the Group's operations. Internal Audit plays a key role in maintaining and improving the internal control process and risk management within the Group. The Group Head of Internal Audit reports directly to the Risk and Audit Committee.

## OUTLOOK

Over the last couple of years, the Group has experienced tremendous growth in balance sheet size, income and profitability. This growth is expected to continue, albeit at a slower level as retail banking has now reached critical mass in Botswana, Zambia and Zimbabwe. Liquidity challenges currently being experienced in Zimbabwe dictate that we exercise extreme caution when lending in that market. It is possible that some customers through no fault of theirs might not be able to service their debts as they fall due. Management of liquidity and credit will continue to be the Group's areas of focus in the near term. The balance sheet is sound and positions the Group well for further growth in 2014.

## ACKNOWLEDGEMENTS

I would like to extend my heartfelt gratitude to my fellow directors, management and staff for a satisfactory set of results.



**D 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.



**3.4%** (2013)  
GDP GROWTH



## Maize

is the country's **largest domestic crop**

As in other Southern African countries, **Zimbabwean soil is rich in raw minerals**

**Diamonds have been found** in considerable deposits

The Marange

## **diamond fields**

are thought to be **amongst the richest in the world**



Exports: **Platinum, cotton, tobacco, gold, ferroalloys** and **textiles/clothing**

Has the **highest literacy rate in Africa** of  
**90.9%**

Has a **multi-currency system**

The country has the **world's largest known platinum** reserves after South Africa

## CORPORATE SOCIAL RESPONSIBILITY REPORT

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# CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

As a company that is active in key African markets, BancABC acknowledges that it has a duty to act responsibly to its shareholders, business partners, employees and society in each of the countries where it conducts business. As a responsible corporate citizen within each of these countries, BancABC also recognises the importance of giving back to communities by helping to enrich the lives of those who are economically or socially disadvantaged.

We work towards achieving this objective by focusing on two areas within society. The first area selected for BancABC social investment is vulnerable women and children who face major challenges across the continent. The second is Arts and Culture, which are vibrant expressions of Africa's unique identity. An integral part of BancABC's commitment to giving back to communities is the commitment of its staff who volunteer their time and skills to identify and assist with selected projects.

An overview of activities across BancABC subsidiaries is presented below:

## BOTSWANA

It is estimated that 15% of Botswana's population have lives that are impacted on by people with disabilities that range in severity. To many of these 96,125 people, one of the major day-to-day challenges they face is the ability to move from place to place. This lack of mobility impacts on their social and business lives and also limits their opportunities to meet and mingle with others.

Towards the end of 2013, BancABC was privileged to be able to take concrete action to reduce this challenge to the disabled by handing over 50 wheelchairs to the Office of the President, for People living with Disabilities.

The official handing over ceremony took place in Gaborone, the capital of Botswana, where the Assistant Minister of Presidential Affairs, GUS Matlabaphiri received the equipment.

During the year, BancABC Botswana partnered with the National Blood Transfusion Centre (NBTC) and hosted the country's first "Blood Donation Drive", which, under the theme "Share Blood, Share Life", was aimed at sensitising citizens about the importance of donating blood and the essential role played by a blood bank in maintaining stocks of blood to assist those in need of transfusions. The focus here was on drawing attention that with only 22,000 units in stock, the country was lagging its required stock levels by 45%. It was this vast need that saw BancABC Botswana taking the lead in saving lives, coining their campaign the "45% Gap".

**39%** 

**INCREASE IN TOTAL  
INCOME BEFORE  
IMPAIRMENTS**

**2013: BWP1,702 million**

2012: BWP1,225 million

**18%** 

**INCREASE IN NET  
OPERATING INCOME**

**2013: BWP258 million**

2012: BWP218 million

The target during the two-day campaign was for BancABC to obtain 100 donations – a target that was exceeded, enabling 48,150 ml of blood to be collected. The event will now become a fixture on the calendar, allowing people to donate blood twice yearly.

Undoubtedly the most ambitious project during calendar year 2013 was BancABC Botswana's commitment with the local council to assist with building homes for destitute families and people. The project began midway through the year in Tonota, but was unfortunately delayed due to unexpected issues arising regarding water supply and allied problems. One of the homes to be completed soon will house a family of 22, which will include a number of intellectually-challenged children. The project will also assist an elderly, destitute man a few kilometres from Tonota with a water connection and fence around his property.

## MOZAMBIQUE

During the first three months of 2013, Mozambique was struck by flooding that resulted in hardship for thousands of people across the country.

BancABC Mozambique launched an internal campaign to assist those left destitute by the floods. Staff donated clothes and non-perishable goods which were collected by Red Cross Mozambique and then distributed to those in need. Management backed this initiative with a cash contribution that was used to buy food and other essential items for the cause.

On 1 June 2013, the International Children's Day, a group of institutions joined forces and helped children from the 1 de Maio orphanage; a donation of food, clothes and toys was made to the orphanage. BancABC Mozambique supplied 100 branded T-shirts for the children to wear on the day.

The programme for the day included a trip to the museum, movies, fun at an entertainment centre and lunch. To promote a culture of saving lives, especially in the festive season when there is particularly high demand for blood by hospitals, BancABC partnered with the Central Hospital, Banco de Sangue in a "Share Blood, Save Lives" campaign across all the provinces in Mozambique.







Chirinda High School



*Kings Primary School*



In Mozambique's education sector, BancABC rewarded the top two Financial Management students at the Universidade Politecnica, with cash awards to acknowledge their achievements and also motivate others to excel.

## TANZANIA

BancABC Tanzania engaged in various activities during calendar 2013 to promote its involvement in local society.

In January 2013, BancABC Tanzania donated 100 dustbins to Kinondoni Municipal at the launching party of the local football tournament named Kombe la Mayor (Mayor's Cup), an intervention by the Mayor to raise awareness about littering. The dustbins, all branded with the BancABC logo, are now in service across Dar es Salaam.

BancABC Tanzania participated in the Bank of Tanzania's launch of the Mwalimu Julius Kambarage Nyerere Memorial Scholarship Fund which is dedicated to funding undergraduate female students to pursue mathematics and science-related studies at Tanzanian Universities.

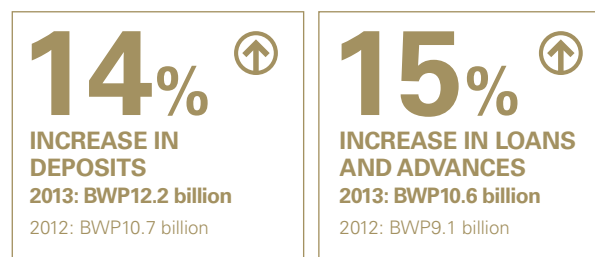
A corporate dinner for Muslim clients, an annual event known as the BancABC Iftar Dinner, was held at the Kilimanjaro Hotel in Dar es Salaam. Through this event, BancABC demonstrated its recognition and support for the cultural beliefs and faiths of all its stakeholders.

## ZAMBIA

In Zambia, BancABC continued to support the "Our Lady's Hospice" initiative in Kalingalinga.

Besides making monthly contributions, BancABC helped identify a number of various activities that could be initiated to help the hospice raise money from its current supporters and members of the public. One such initiative was the "Sponsor a Bed a Day" that took place during August at the Intercontinental Hotel, Lusaka.

BancABC Zambia showed its support of education by donating some refurbished computers to the Mary Gold Primary school to assist staff to introduce computers to their pupils.



On the sporting front, a donation was made to the Junior Squash Club to support the Zambia under 20 Squash team that represented the country through to the finals in the All Africa Championship in Namibia. Zambia emerged from the event with a silver medal.

## ZIMBABWE

As an enthusiastic supporter of Arts and Culture, which stamps Zimbabwe's identity on the African continent and is also vital for economic growth and social wellbeing of the country, BancABC Zimbabwe continued supporting Arts and Culture through the sponsorship of the Harare International Festival of Arts (HIFA) opening night, a culture defining festival filled with creativity and passion. This year HIFA took pride in Zimbabwean artists also promoting up-and-coming artists, giving them the platform to showcase their talents. The bank has sponsored the festival since inception.

To encourage the children of Kings Primary School to grow their sportsmanship with equal opportunities and self-esteem in competition with other schools, BancABC Zimbabwe donated a boy's soccer kit and girl's netball kit to the developing school in Victoria Falls.

The bank also donated netball and soccer kits as well as equipment to Chirinda High, a rural school situated in the Marange area in Mutare, a remote town in Zimbabwe; a donation greatly received and appreciated as it made a noteworthy change into the nurturing of children's sports talent as it also provides brighter prospects for a livelihood in sports.



**7.3%** (2013)  
GDP GROWTH



**No.1** African  
copper producer

Copper mining is  
central to Zambia's  
economic prospects

The **Copper Belt or Copperbelt**  
(usually spelt as one word) is the  
copper mining area of Central Africa  
which runs in Zambia's **Copperbelt  
Province**



**8TH** largest copper  
producer in the world





Exports: **Copper, cobalt, electricity, tobacco, flowers and cotton**

Over  
**900,000**  
metric tonnes produced  
in a year

**27** new mining and  
exploration licences approved  
in January 2013

**Agriculture accounted for 85% employment in rural areas**, with tobacco being one of the most grown crops

## RISK AND GOVERNANCE REPORT

for the year ended 31 December 2013

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# RISK AND GOVERNANCE REPORT

## RISK MANAGEMENT

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

### MARKET RISK

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

### CREDIT RISK

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

### LIQUIDITY RISK

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

### OPERATIONAL RISK

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

### LEGAL RISK

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

### REGULATORY AND LEGISLATIVE RISKS

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

## ROLE OF GROUP RISK MANAGEMENT

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

## THE GROUP'S APPROACH TO RISK MANAGEMENT

The Group's approach to risk management involves a number of fundamental elements that drive its processes across the Group. The procedure and methodology is described in the Group's 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.

Risk management in the Group is underpinned by governance structures as well as risk ownership, identification and evaluation. Ownership and management of risks begins in the business units of each subsidiary, who identify and evaluate risks particular to their function. Group Risk Management reviews actions taken by business units to mitigate identified risks.

### GROUP RISK MANAGEMENT OBJECTIVES

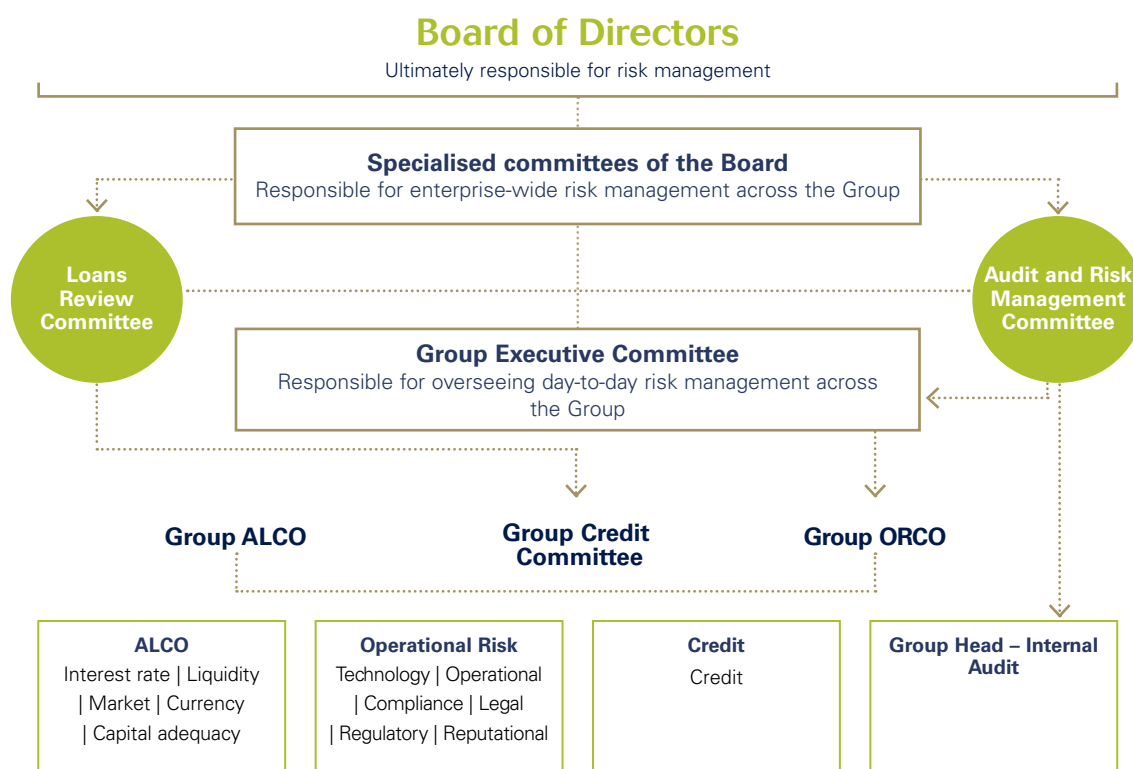
The Group Risk Management function, as mandated by the Board of Directors is to:

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

### GROUP RISK MANAGEMENT FRAMEWORK

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

- 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.

## GROUP ENTERPRISE-WIDE RISK MANAGEMENT

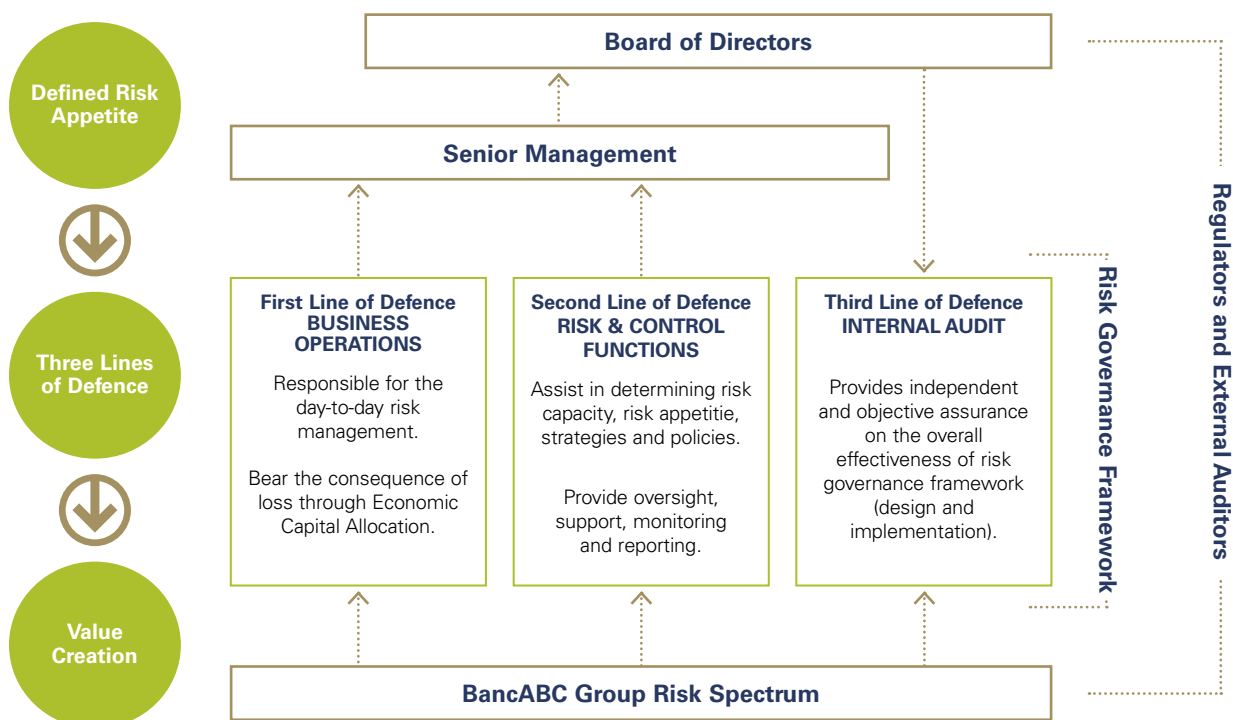
The BancABC Group Enterprise Risk Management (ERM) philosophy is about the establishment and execution of bank-wide criteria for the acceptance, monitoring, control and management of risk. Its ultimate purpose is the creation of shareholder value.

The BancABC Board of Directors recognises that every aspect of banking involves making decisions based on taking a view on inherent risk. The Group has adopted an enhanced Enterprise-Wide Risk Management approach in which the Group risk spectrum is managed on an integrated basis. The principles of risk management used in the BancABC ERM framework are Proportionate, Aligned, Comprehensive, Embedded and Dynamic (PACED).

Principle	Description
<b>Proportionate</b>	Risk management activities must be proportionate to the level of risk faced by the organisation.
<b>Aligned</b>	Risk management activities need to be aligned with the other activities in the organisation.
<b>Comprehensive</b>	In order to be fully effective, the risk management approach must be comprehensive.
<b>Embedded</b>	Risk management activities need to be embedded within the organisation.
<b>Dynamic</b>	Risk management activities must be dynamic and responsive to emerging and changing risks.

The ERM methodology within the Group uses the “Three Lines of Defence Approach” in its implementation of the bank-wide risk management framework. This is coupled with best practice adopted from various frameworks such as the COSO, ISO 31000, King III, Basel II & III and others relevant to the Group risk spectrum.

## BancABC Group Enterprise-wide Risk Management Framework





Within the Group ERM methodology is a risk assessment framework that enables BancABC to ensure that risk taken is within the approved risk appetite. Risk appetite is set and approved, through various frameworks and policies by the Board of Directors. The risk assessment process involves identifying, measuring potential impact and managing risks on the basis of standards in the Group Risk Assessment Framework. This process reduces the exposure of the bank to inherent risks within the risk-taking process by ensuring that actions are taken to transfer, mitigate, avoid or accept risks within the Group's risk spectrum.

## CAPITAL AND LIQUIDITY RISK MANAGEMENT

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

ALCO reports to the Risk and Audit Committee in terms of the Group Risk Management Framework. Capital adequacy and the use of regulatory capital are reported periodically to the central banks of the Group's operating countries, in line with respective regulatory requirements. ALCO broadly comprises of 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 and Group Head of Retail Banking.

Liquidity is of critical importance to financial institutions as has been recently reminded by the recent failures of global financial institutions in large part due to insufficient liquidity. Our markets

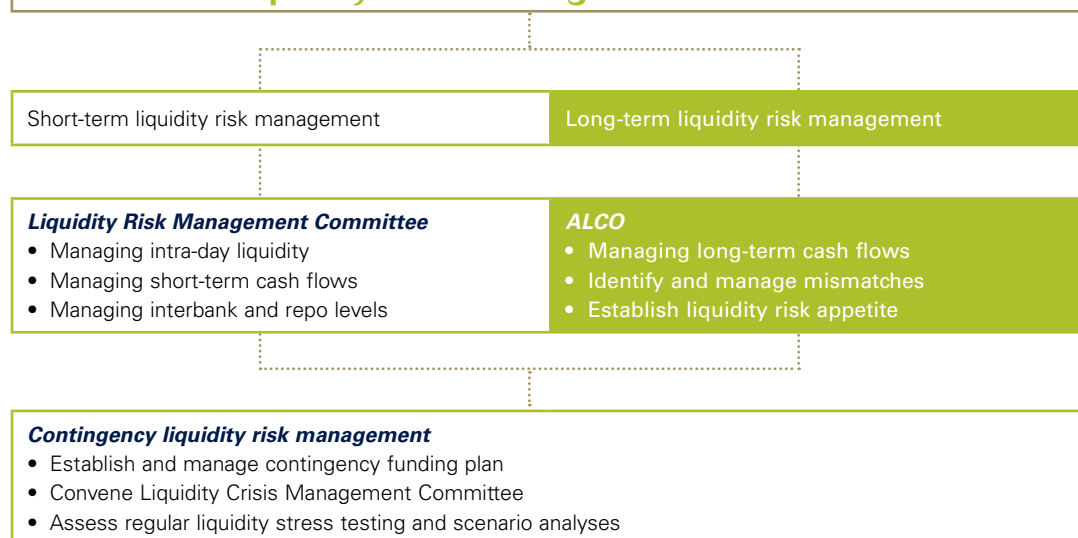
present larger challenges primarily due to an under-developed secondary securities market and illiquid government securities. As such, the bank has in place a comprehensive liquidity and funding policy to address both firm-specific and market-wide liquidity events. Our primary objective is to be able 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 counterparties 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 Management Structure



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

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

### PROBABILITY OF DEFAULT (PD)

The PD measures the likelihood of a client defaulting on its obligations within the next 12 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 which incorporates existing exposures, as well as exposures which 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 judgement 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 bank's 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 Market and Operational Risk, Group Head of Banking Operations and Chief Legal Officer.

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 AND SCENARIO ANALYSIS

Stress testing and scenario analysis are used to assess the financial capability of the Group to continue operating effectively and efficiently under extreme but plausible trading conditions. 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 understanding of the potential impacts from our risk profile to earnings, capital and liquidity, and serve as a key component of our capital management practices. Thus, such stress testing and scenario analysis help to inform management with respect to the identification of future risks and the setting of the Group's risk appetite. 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.

Stress testing and scenario analysis 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

The Group recognises its accountability to all its stakeholders under the legal and regulatory requirements applicable to its business and is committed to high standards of integrity and fair dealing. The Group is committed in its business dealings, to complying with both the spirit and the letter of the applicable regulations and laws and to always act with due skill, care and diligence in all its dealings. The Board of ABC Holdings Limited and its respective subsidiaries are ultimately accountable to their stakeholders for overseeing compliance.

The responsibility to facilitate compliance throughout the BancABC Group has been delegated to the appointed compliance officer of each subsidiary in the Group who supervises the compliance function. The compliance function assesses, advises on, monitors and reports on regulatory compliance risk of each Group company. The management of compliance risk forms part of the overall risk management framework of the Group.

### LEGAL RISK MANAGEMENT

Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. The Group's Chief Legal Officer is responsible for identifying, avoiding or mitigating legal risk.

### 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, in an attempt to enhance its corporate governance practices, the Board has incorporated some of the principles of the King III report 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 eight directors, including five non-executive directors, four of which are independent, 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 an independent non-executive director appointed by the Board.

The Board is responsible to stakeholders 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 conducted as required 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	May	July	Dec
Buttery	■	■	■	■
Khama	■	■	■	■
Kudenga	■	■	■	■
Munatsi	■	■	■	■
Shyam-Sunder*	■	■	■	■
Moyo	■	■	■	■
Dzanya	■	■	■	■
Schneiders	■	■	■	■
Koskelo*	■	■	■	■

■ **Present**

□ **Absent**

\* *resigned after the December 2013 meeting*

**8**  
BOARD MEMBERS

**5**  
NON-EXECUTIVE  
DIRECTORS  
4 of which are  
independent

**3**  
EXECUTIVE  
DIRECTORS

## 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 advisors 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 the 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 the Risk and Audit Committee in line with the King Commission guidelines 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 2013.

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 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 on at least a quarterly basis. 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 2013.

### CREDIT COMMITTEE

The committee is chaired by Mr H 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.



## COMPOSITION OF THE BOARD

50%

INDEPENDENT  
NON-EXECUTIVE

13%  
NON-EXECUTIVE

37%  
EXECUTIVE

# DIRECTORS AND GROUP MANAGEMENT

### ABC Holdings Limited Board of Directors

- Howard J Buttery\*\* *Group Chairman*
- Doreen Khama\*\*
- Ngoni Kudenga\*\*
- Mark Schneiders\*\*
- Dirk Harbecke\*
- Douglas T Munatsi *Group Chief Executive Officer*
- Francis Dzanya
- Bekithemba Moyo

\* Non-executive

\*\* Independent non-executive

<b>Remuneration Committee</b>	→ Howard J Buttery → Ngoni Kudenga	<i>Chairman</i>
<b>Loans Review Committee</b>	→ Doreen Khama → Ngoni Kudenga	<i>Chairperson</i>
<b>Credit Committee</b>	→ Howard J Buttery → Douglas T Munatsi → Mark Schneiders	<i>Chairman</i>
<b>Nominations Committee</b>	→ Howard J Buttery → Ngoni Kudenga	<i>Chairman</i>
<b>Risk and Audit Committee</b>	→ Ngoni Kudenga → Doreen Khama	<i>Chairman</i>
<b>Executive Committee</b>	→ Douglas T Munatsi → Francis Dzanya → Bekithemba Moyo → Hashmon Matemera → Dr Blessing Mudavanhu	<i>Chairman</i>
<b>Group Management</b>	→ Nagarajan Santhanam → Bruce Jonker → Cornelius Munyurwa → Leah Banda → Andrea Prazakova → Johan Testa → Melanie Vogt  → Paul Westraadt → Andre Willemse → Wallace Siakachoma → Dana Botha → Winnie Thothela → Clemence Chimwanda	<i>Chief Information Officer</i> <i>Group Internal Auditor</i> <i>Group Head Banking Operations</i> <i>Group Head Marketing</i> <i>Group Head Retail Banking</i> <i>Group Head Treasury</i> <i>Chief Legal Officer and Secretary to the Board</i> <i>Chief Credit Officer</i> <i>Group Head Human Capital</i> <i>Group Finance Executive</i> <i>Group Head of Corporate Banking</i> <i>Group Head Project Management Office</i> <i>Group Head of Market and Operational Risk</i>



**Howard J Buttery**  
(SOUTH AFRICAN)

*Non-Executive Director  
Board Chairman*

Howard Buttery was born in Durban, South Africa in 1946. After completing his studies and articles of clerkship with one of the big four accounting firms, he started his career with Bell Equipment Limited in March 1973 as Group Financial Director and was appointed as the Executive Chairman in 1977, a position he held until 30 June 2010. He has nearly 40 years of experience in the forestry, mining, construction and sugar industries around the world. His particular interest has been in the development of trade between South Africa and the Sub-Saharan African states. He has worked extensively in the West, Central and East African economies and has served on a number of boards throughout this region.

Howard has served on the Board since 2002. He is also the Executive Chairman of I.A. Bell & Company (Pty) Limited which holds the Bell family's investment in Bell Equipment Limited and a number of financial services companies. Howard sits on the boards of a number of private companies throughout the world and continues to make African inter-regional trade the centre of his interests.



**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 Limited, 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.



**Doreen Khama**  
(MOTSWANA)

*Non-Executive Director  
Board Member*

Doreen Khama was born in Botswana in 1949. Doreen has been a director since 2007 and is the chairperson of the 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.



**Ngoni Kudenga**  
(ZIMBABWEAN)

*Non-Executive Director  
Board Member*

Ngoni Kudenga was born in Zimbabwe in 1952. Ngoni has been a director since 2000, chairman of the Risk and Audit Committee since 2000, and 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.



**Francis Dzanya**  
(ZIMBABWEAN)

*Group Chief Operating Officer  
Board Member*

Francis Dzanya was born in Zimbabwe in 1960. Francis 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 Investment Bank 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.



**Beki Moyo**  
(ZIMBABWEAN)

*Group Chief Financial Officer  
Board Member*

Beki Moyo was born in Zimbabwe in 1967. Beki has been the Chief Financial Officer since 2005. In the course of his banking career spanning about 20 years, Beki has held various senior positions within ABC Holdings Limited.

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 Bank 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.



**Dirk Harbecke**  
(GERMAN)

*Non-Executive Director  
Board Member*

Dirk Harbecke was born in Germany in 1972. Dirk is Chief Executive Officer of ADC African Development Corporation, a German listed, emerging pan-African banking group with a strong footprint in Southern Africa via ABC Holdings Limited as well as exposure to West Africa via Union Bank of Nigeria. Dirk has more than 16 years' experiences as a senior executive, entrepreneur and investor.

Before founding ADC in 2007, Dirk worked as a Manager at Boston Consulting Group (BCG), focusing on the restructuring and set-up of financial services institutions in Europe and the Middle East. Dirk has extensive international experience in developed and emerging markets having worked in Germany, France, the UK, USA, China, Tunisia, Egypt and numerous SSA countries.

Dirk has a joint honours degree in Journalism (Master) and Economics (Bachelor) from the University of Dortmund/Germany and an MBA from St. Gallen University in Switzerland.



**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 the USA. Mark resigned from the Board in his capacity as a representative for African Development Corporation on 3 December 2013 and was reappointed to the Board on 20 February 2014 as an independent director.

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



**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.

Hashmon has over 20 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.



**Dr Blessing Mudavanhu**  
(ZIMBABWEAN)

*Group Chief Risk Officer*

Blessing Mudavanhu was born in Zimbabwe in 1971. Dr Mudavanhu was appointed Chief Risk Officer in February 2009. Blessing spent many years working on Wall Street in New York, where 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 Haskins School of Business, University of California at Berkeley.

**Douglas T Munatsi**  
(ZIMBABWEAN)

*Group Chief Executive Officer*

**Francis Dzanya**  
(ZIMBABWEAN)

*Group Chief Operating Officer*

**Beki Moyo**  
(ZIMBABWEAN)

*Group Chief Financial Officer*



# DIRECTORS' RESPONSIBILITY STATEMENT

## RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation, of the financial statements 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.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Company and the Group to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead. The financial statements have accordingly been prepared on this basis.

The annual financial statements have been prepared in accordance with the provisions of the Botswana Companies Act Chapter 42:01 (as amended), the Botswana Stock Exchange Regulations and International Financial Reporting Standards relating to companies and banks.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

## APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The consolidated and separate annual financial statements of the Group, as identified in the first paragraph, were approved by the Board of Directors on 21 February 2014 and signed by:



**H BUTTERY**

*Group Chairman*

24 March 2013



**D T MUNATSI**

*Group Chief Executive Officer*



# 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 & SME Banking, asset management and stock broking among other banking services. African Banking Corporation aims to deliver world-class financial solutions to the Sub-Saharan African region.

## SHARE CAPITAL

During the year, the Group issued an additional 24,080,230 shares to the International Finance Corporation (IFC) pursuant to its option to convert its loan into ordinary shares in the Company. Following this conversion, the number of shares in the Company's stated capital increased from 232,805,464 to 256,885,694.

## SHAREHOLDING

Pursuant to the rights issue undertaken during 2012, the underwriter, ADC and its affiliates became the holders of 51% of the shares of the Company. In line with the Botswana Stock Exchange listing regulations, ADC made a mandatory offer to minorities. Pursuant to the offer, ADC and its affiliates acquired an additional 3% of the shares in the Company. As a result, ADC and its affiliates currently hold 54.1% of the shares of ABC Holdings Limited.

## GROUP RESULTS

Attributable profit at BWP198 million was 49% higher than the BWP133 million achieved in the prior year. However, basic earnings per share at 79.6 thebe was only 10% higher than the 72.1 thebe achieved in 2012, owing to the higher number of shares following the rights issue concluded in July 2012 and the conversion of the IFC loan to equity. Pre-tax profit at BWP254 million was 20% higher than the BWP212 million recorded in 2012.

BancABC Botswana, BancABC Zimbabwe and BancABC Zambia performed exceptionally well. However, BancABC Mozambique's performance in the current period was hampered by higher loan impairments as a result of one, but large, exposure. Notwithstanding the above, the operation still posted a profit, albeit at a significantly reduced level. Sadly, BancABC Tanzania continues to be a challenge for the Group largely as a result of impairments which amounted to BWP135 million for the year under review. Consequently, a huge loss was realised by the operations in Tanzania. Given the challenges that we have encountered not only with the quality of the book but the legal system in Tanzania, a decision was taken to be aggressive on impairments and we will account for the write backs on

**18%** 

**INCREASE IN  
GROUP BALANCE  
SHEET**

**2013: BWP15.8 billion**

2012: BWP13.4 billion

**15%** 

**INCREASE IN  
LOANS AND  
ADVANCES**

**2013: BWP10.6 billion**

2012: BWP9.1 billion

receipt of the cash. It is our sincere hope that this problem is now behind us and we can now concentrate on growing the business. The full turnaround will in all likelihood take some 12 to 24 months as a conservative approach to lending will be adopted.

The Group balance sheet increased by 18% from BWP13.4 billion to BWP15.8 billion. Loans and advances were up 15% from BWP9.1 billion to BWP10.6 billion. Deposits, on the other hand, increased by 14% from BWP10.7 billion to BWP12.2 billion.

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 61.

## 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:

Director	Number of shares	
	2013	2012
D T Munatsi	<b>17,657,718</b>	17,637,718
N Kudenga	<b>6,978</b>	66,814
F M Dzanya	<b>2,385,166</b>	2,521,894
B Moyo	<b>6,065,207</b>	6,065,207
D Harbecke	<b>128,635</b>	–
<b>Total</b>	<b>26,243,704</b>	<b>26,291,633</b>





### 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 to 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 BWP0.045 (4.5 thebe) per share in respect of the year ended 31 December 2013. This brings the full year dividend to 18.5 thebe. The dividend will be paid on 2 May 2014 to shareholders registered in the books of the Company at the close of business on Friday, 18 April 2014.

### INSURANCE

ABC Holdings Limited and its subsidiaries are insured against banking risks, asset losses, professional indemnity and directors' and officers' claims at a level of cover, which is considered to be adequate by the directors.

### POST-BALANCE SHEET EVENTS

On 31 March 2014, Atlas Mara reached agreements with selected shareholders of the Company to acquire, for cash or shares, ABC Holdings Limited shares representing 50.1% of the total shares issued at a price of \$0.82 per share or the equivalent in Atlas Mara shares.

Atlas Mara also entered into a "Business Combination Agreement" with African Development Corporation (ADC) wherein Atlas Mara stated its intention to, directly or through a subsidiary, make a public share-for-share takeover offer for all outstanding shares of ADC. If successful, Atlas Mara will effectively control a further 37.7% of the Company currently held by ADC.

In addition to the above, Atlas Mara also entered into a "Co-operation Agreement" with ABCH whereby Atlas Mara stated its intention to, subject to the completion of the conditional purchase agreements above, make a mandatory public offer for all remaining outstanding shares of ABC Holdings Limited (approximately 12%) for cash and/or Atlas Mara shares, at a price of \$0.82 per share (or the Atlas Mara share equivalent).

Atlas Mara was formed by Atlas Merchant Capital LLC and Mara Group Holdings Limited and listed on the main market of the London Stock Exchange in December 2013. Atlas Merchant Capital LLC and Mara Group Holdings Limited are led by Bob Diamond, former CEO of Barclays Plc, and Ashish J Thakkar, the founder of a diversified African investment group, Mara, respectively.

The completion of the transactions will in particular be conditional upon regulatory and Government approvals where required; and in the case of the conditional purchase agreements with selected ABCH shareholders, consent of ADC. In the case of the mandatory offer for the outstanding shares in ABCH, relevant approvals and conditions will be detailed in an offer document to be circulated to ABCH shareholders.

The above transactions were yet to be completed at the time of this report.



**7.0%** (2013 est)  
GDP GROWTH



**25%** of the  
GDP depends on  
agriculture

Coffee is the country's  
largest export

Agriculture employs **80%**  
of the workforce

**Nickel** should start being  
mined at the end of 2015





**US\$3 billion**

invested to develop the **Mchuchuma** coal and **Liganga** iron ore projects



The financial sector in Tanzania has expanded in recent years and foreign-owned banks account for about

**48%** of the **banking industry's** total assets

**700,000**

**metric tonnes of coffee** was produced during the year

Exports: **Coffee, gold, cashews** and **cotton**

## ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2013

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## **Independent Auditor's Report To the members of ABC Holdings Limited**

We have audited the consolidated and separate annual financial statements of ABC Holdings Limited, which comprise the consolidated and separate statements of financial position at 31 December 2013, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate changes in equity and consolidated and separate cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set on pages 49 to 163.

### *Directors' Responsibility for the Financial Statements*

The 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 misstatement, 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 consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of ABC Holdings Limited at 31 December 2013, 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.

**KPMG**  
Certified Auditors  
Practising Member: AG Devlin (19960060.23)

Gaborone  
25 March 2014



## Significant accounting policies for the year ended 31 December 2013

### REPORTING ENTITY

ABC Holdings Limited (the “Company”) is domiciled in Botswana. The consolidated financial statements of the Company for the year ended 31 December 2013 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 Group prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The accounting policies disclosed for the consolidated financial statements apply equally to the Company’s separate financial statements unless otherwise specified. In preparing these financial statements, the Group adopted the following interpretations effective in 2013 that are relevant to the Group:

- Amendments to IAS 1, “Presentation of Financial Statements” on presentation of items of Other Comprehensive Income (OCI) (effective from 1 July 2012)
- Amendment to IFRS 7, “Financial Instruments: Disclosures” on asset and liability offsetting (effective from 1 January 2013)
- Amendment to IFRSs 10 and 12 on transition guidance (effective from 1 January 2013)
- Annual improvements 2011 (effective from 1 January 2013). These annual improvements, address six issues in the 2009 – 2011 reporting cycle. It includes changes to IFRS 1, “First time adoption”; IAS 1, “Financial Statement Presentation”; IAS 16, “Property, Plant and Equipment”; IAS 32, “Financial Instruments: Presentation” and IAS 34, “Interim Financial Reporting”
- IFRS 10, “Consolidated Financial Statements” (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)

The nature and effect of the changes are explained below:

#### (a) Subsidiaries

As a result of IFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its investees at 1 January 2013. There were no changes in the entities that the Group has control over and implicitly no changes in recognised assets and liabilities and comprehensive income of the Group following this reassessment.

#### (b) Disclosure of interests in other entities

As a result of IFRS 12, the Group has expanded its disclosures about its interests in subsidiaries (see note 15 under the separate financial statements) and equity accounted investees (see note 13 under the consolidated financial statements).

#### (c) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regard on pages 85 to 92 under financial assets and liabilities measured at fair value.

#### (d) Presentation of items of OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of the items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been represented accordingly.

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2013:

- The amendments to IAS 32, “Financial Instruments: Presentation” on Offsetting Financial Assets and Financial Liabilities. These amendments clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legal enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual or interim periods beginning on or after 1 January 2014. The amendments are not expected to have a material impact on the Group’s financial statements.
- IFRS 9, “Financial Instruments” IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities and hedge accounting. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The adoption of this standard, when it becomes effective, is expected to have an impact on the Group’s financial assets, but no material impact on the Group’s financial liabilities.
- The amendments to IAS 36, “Impairment of Assets” on Recoverable Amount Disclosures for Non-financial Assets effective from 1 January 2014. The amendments restrict the requirement to disclose the recoverable amount of an asset

or cash-generating unit (CGU) to periods in which an impairment loss has been recognised or reversed. They also expand and clarify disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal. This is not expected to have any significant impact on the Group's disclosures of impairments of non-financial assets.

- The amendments to IFRS 10, IFRS 12 and IAS 27 in relation to investment entities. These amendments define an investment entity and provide exemptions for an investment entity not to consolidate investments in entities that it controls, but to measure those investments at fair value, with changes in fair value recognised in profit or loss. The amendments, which are effective for accounting periods commencing on or after 1 January 2014, are not expected to have any material impact on the Group's financial statements.
- The amendments to IAS 39, "Financial Instruments: Recognition and Measurement" on Novation of Derivatives and Continuation of Hedge Accounting. These amendments stipulate that hedge accounting may not be discontinued if the hedging instrument is novated to a central counterparty by both parties as a consequence of laws and regulations without changes in its terms except as necessary for the novation. The amendments, which are effective for accounting periods commencing on or after 1 January 2014, are not expected to have any material impact on the Group's financial statements.

## 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 statement of financial position, 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.

## SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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. Each entity in the Group determines its own functional currency.

If the functional currency of the foreign subsidiaries does not correspond to that of the Group, their financial statements are translated into Botswana Pula. Equity items are translated at historical rates, while asset and liability items are translated at the closing rate. The subsidiaries' income and expense items

are translated using average rates. Any resulting currency translation differences are recorded without an effect on profit or loss until the disposal of the subsidiary and reported as a separate item in equity. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments are treated as assets or liabilities of the foreign operation and translated at the closing rate.

## BASIS OF CONSOLIDATION SUBSIDIARIES

Subsidiaries are those enterprises controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the 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.

For acquisitions achieved in stages, interests already held are remeasured through profit or loss. For deconsolidations, the net carrying amounts of the debit differences are taken into account in the calculation of the gain/loss on disposal. Changes in shareholdings which do not lead to a loss of control are recognised in other comprehensive income as an equity transaction between shareholders. These transactions do not lead to the recognition of goodwill or the realisation of gains on sale.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and related non-controlling interest and other components of equity. Any resulting gains or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

## INTERESTS IN EQUITY-ACCOUNTED INVESTEEES

The Group's interests in equity-accounted investees comprise interests in associates. Associates are those enterprises in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, 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.

## STRUCTURED ENTITIES

Structured entities are entities that are created to accomplish a narrow and well-defined objective. A structured entity is consolidated if, based on an evaluation of the substance of its relationship with the Group and the structured entity's risks and rewards, the Group concludes that it controls the structured entity.

The assessment of whether the Group has control over a structured entity 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 structured entity, or additional transactions between the Group and the structured entity. 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 structured entity 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 a structured entity, the Group performs a reassessment of control over the structured entity.

## 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 acquisition 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 non-controlling interest. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested annually for impairment. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based

on the relative values of the disposed operation and the portion of the cash-generating unit retained. 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 as a gain on bargain purchase.

## 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 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.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 "Financial Instruments: Recognition and Measurement", is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 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 or disposal-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.

In the separate financials, the acquirer and transferor account for common control transactions on the basis that the parties are separate entities in their own right and the accounting reflects the actual terms of the transaction. The acquirer accounts for the transaction at the actual price paid. In the transferor's books, the difference between the consideration received and the carrying amount of the investment is recognised immediately to profit or loss.

### 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 arising on translation are recognised in the income statement and shown under non-interest 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.

### PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables that are not financial assets are carried at amortised cost. Identifiable risks of default are accounted for by means of write-downs.

### 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 remeasured at each reporting date. Gains and losses arising from changes therein are recognised in interest income for all dated financial assets and in non-interest income 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 amortised cost using the effective interest method, 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

A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values which the Group Chief Financial Officer oversees. The Group also uses third party specialist valuers for more complex level 3 instruments.

The valuation team within the Group’s Finance function regularly reviews significant unobservable inputs and valuation adjustments used to measure fair values to assess whether the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included under the fair value section from page 85 to 92.

## 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 profit or loss. 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 recognised in profit or loss by adjusting the allowance account. Subsequent to impairment, the effects of the unwinding of the discount is recognised in profit or loss as interest income.

#### **(B) ASSETS CLASSIFIED AS AVAILABLE-FOR-SALE**

The Group assesses at each reporting 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.

#### **(D) COLLATERAL VALUATION**

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Group's quarterly reporting schedule; however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

#### **(E) COLLATERAL REPOSSESSED**

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Group's policy.

#### **OFFSETTING FINANCIAL INSTRUMENTS**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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 remeasured 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 income statement, but it is deferred in the balance sheet and released to the income statement over the life of the derivative. 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 "non-interest income – net gains/losses on derivative financial instruments." Effective changes in fair value of currency futures are reflected in "non-interest income – forex trading income and currency revaluation." Any ineffectiveness is recorded in "non-interest income – gains on financial assets at fair value through profit or loss." 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) NET INVESTMENT HEDGE

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and presented in the foreign currency translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

#### (C) 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 "non-interest income – gains on financial assets at fair value through profit or loss – held for trading." 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 "non-interest income – gains on financial assets at fair value through profit or loss – 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 impairment of loans and advances.

#### 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. However, management conducts annual assessments, to ensure that the carrying amount of land and buildings is not significantly different from fair value. 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. 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. 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
- Computer and office equipment 3 – 5 years
- Furniture and fittings 5 – 10 years
- Motor 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 hyperinflationary 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.

### INTANGIBLE ASSETS OTHER THAN GOODWILL 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

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation 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). In determining value in use, the estimated future cash flows are discounted using a current market interest rate, which reflects the asset's specific risks. An impairment loss is immediately recorded as an expense. Non-financial assets other than goodwill and other indefinite lived assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## FINANCIAL LIABILITIES

Financial liabilities include deposits, other borrowed funds and derivative financial liabilities. 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.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instruments as a whole the amount separately determined for the debt component.

## 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

### 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 reissued, any consideration received is included in shareholders' equity.

## DIVIDENDS

Dividends are recognised as a liability in the period in which they are approved by shareholders. Dividends declared are recognised directly in equity.

## 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.

## OTHER RESERVES

The reserves recorded in equity (Other comprehensive income) on the Group's balance sheet include:

- available-for-sale reserve, which comprises changes in fair value of available-for-sale investments;
- property revaluation reserve, which comprises changes in fair value of land and buildings;
- foreign currency translation reserve, which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging; and
- other capital reserve, which includes the portions of compound financial liabilities that qualify as equity, as well as statutory, share based payments, treasury shares and other banking regulatory credit risk reserves.

## 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 net income from operations.

## 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.

## DIVIDEND INCOME

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.

## OTHER NON-INTEREST INCOME

Revenue and income from the provision of services is recognised when the amount of income and the costs in connection with providing the services as well as the percentage of completion can be reliably measured as of the reporting date.

## 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

Reposessed 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.

### SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### LONG-TERM EMPLOYEE BENEFITS

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

### SHARE-BASED PAYMENT TRANSACTIONS

The grant-date fair value of share-based payment awards granted to employees is recognised as staff costs, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

## 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 assets and liabilities are recognised for temporary differences between the tax base of the assets and liabilities and their carrying amounts pursuant to the IFRS financial statements using the liability method. 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.

Deferred tax assets for temporary differences and for unused tax losses are recognised at the probable amount of temporary differences or unused tax losses that can be offset against future positive taxable income. 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 operating 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 expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

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

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

### CREDIT RISK

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

The Board has defined and documented a credit policy for the Group which forms the basis of credit decisions. This policy includes a framework of limits and delegation of credit approval authority which are strictly adhered to; refer to "Risk and Governance" on page 30. 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. There is also a Board Credit Committee that approves any loans above the EXCO limit.

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 reporting 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
<b>Performing</b>	The credit appears satisfactory
<b>Special mention</b>	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
<b>Sub-standard</b>	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
<b>Doubtful</b>	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
<b>Loss</b>	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 statement of financial position 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**

Category	2013		2012	
	Loans and advances (%)	Impairments (%)	Loans and advances (%)	Impairments (%)
Performing	78	13	85	19
Special mention	12	5	6	5
Sub-standard	2	9	3	22
Doubtful	2	9	1	4
Loss	6	64	5	50
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

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 the reporting 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 statement of financial position, 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 the Group 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:**

<b>BWP'000s</b>	<b>2013</b>	<b>2012</b>
Placements with other banks	2,030,148	1,585,580
Derivative financial assets	27,636	33,769
Financial assets held for trading	1,260,049	1,022,864
– Government bonds	71,892	73,580
– Corporate bonds	35,803	30,206
– Treasury bills	1,152,354	919,078
	261,552	189,698
Financial assets designated at fair value	261,552	189,698
Loans and advances to customers at amortised cost	11,166,059	9,460,235
– Mortgage lending	349,044	268,054
– Instalment finance	670,372	561,501
– Corporate lending	5,381,767	4,611,729
– Commercial and property finance	53,716	54,066
– Consumer lending	4,711,160	3,964,885
Investment securities	49,523	45,853
– Promissory notes	49,523	45,853
	<b>14,794,967</b>	<b>12,337,999</b>
<b>Contingent liabilities</b>		
Credit exposures relating to off-balance sheet items are as follows:		
Guarantees	671,224	613,547
Loan commitments and other credit-related facilities	99,522	183,052
	<b>770,746</b>	<b>796,599</b>

74% (2012: 75%) of the total maximum exposure is derived from loans and advances, while 11% (2012: 8%) represents financial assets held for trading.

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

- 90% (2012: 91%) of the gross loans and advances portfolio is categorised in the top two grades of the internal rating system;
- of these amounts, 78% (2012: 85%) of the gross loans and advances portfolio is considered to be “neither past due nor impaired”;
- 10% (2012: 9%) 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.



**Analysis of maximum exposure to credit risk and collateral and other credit enhancements**

The following table shows the maximum exposure to credit risk by class of financial asset. It also shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

**Type of collateral or credit enhancement**

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held		
		Cash	Securities	Letters of credit/ guarantees
<b>31 December 2013</b>				
Placement with other banks	<b>2,030,148</b>	–	–	–
Derivative financial assets				
– Forward foreign exchange contracts	27,636	–	–	–
	<b>27,636</b>	–	–	–
Financial assets held for trading				
– Government bonds	71,892	–	–	–
– Treasury bills and other open market instruments	1,152,354	–	–	–
– Bankers' acceptance and commercial paper	35,803	–	–	–
	<b>1,260,049</b>	–	–	–
Financial assets designated at fair value				
– Listed equities	4,337			
– Listed debentures	33,887			
– Unlisted equities and debentures	223,328			
	<b>261,552</b>	–	–	–
Loans and advances to customers at amortised cost				
– Mortgage lending	349,044	–	–	–
– Instalment finance	670,372	–	–	–
– Corporate lending	5,381,767	194,494	199,936	118,179
– Commercial and property finance	53,716	–	–	–
– Consumer lending	4,711,160	91,459	–	–
	<b>11,166,059</b>	<b>285,953</b>	<b>199,936</b>	<b>118,179</b>
Investment securities				
– Promissory notes	49,523	–	–	–
	<b>49,523</b>	–	–	–
	<b>14,794,967</b>	<b>285,953</b>	<b>199,936</b>	<b>118,179</b>
<b>Off-balance sheet items</b>				
Letters of credit for customers	99,522	30,672	–	–
Guarantees	671,224	–	–	–
	<b>15,565,713</b>	<b>316,625</b>	<b>199,936</b>	<b>118,179</b>

\* Vehicles, machinery, other fixed assets, inventory and trade receivables.

Fair value of collateral and credit enhancements held						
Property	Other*	Netting agreements	Surplus collateral	Total collateral	Net exposure	
-	-	-	-	-	2,030,148	
-	-	-	-	-	27,636	
-	-	-	-	-	27,636	
-	-	-	-	-	71,892	
-	-	-	-	-	1,152,354	
-	-	-	-	-	35,803	
-	-	-	-	-	1,260,049	
				-	4,337	
				-	33,887	
				-	223,328	
-	-	-	-	-	261,552	
323,331	-	-	-	323,331	25,713	
122,230	30,528	-	-	152,758	517,614	
2,214,003	881,371	-	-	3,607,983	1,773,784	
40,948	12,767	-	18,063	71,778	(18,062)	
256,170	11,505	-	-	359,134	4,352,026	
2,956,682	936,171	-	18,063	4,514,984	6,651,075	
-	-	-	-	-	49,523	
-	-	-	-	-	49,523	
2,956,682	936,171	-	18,063	4,514,984	10,279,983	
-	-	-	-	30,672	68,850	
-	-	-	-	-	671,224	
2,956,682	936,171	-	18,063	4,545,656	11,020,057	

## Type of collateral or credit enhancement

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held		
		Cash	Securities	Letters of credit/ guarantees
<b>31 December 2012</b>				
Placement with other banks	<b>1,585,580</b>	–	–	–
Derivative financial assets				
– Forward foreign exchange contracts	33,769	–	–	–
	<b>33,769</b>	–	–	–
Financial assets held for trading				
– Government bonds	73,580	–	–	–
– Treasury bills and other open market instruments	919,078	–	–	–
– Bankers' acceptance and commercial paper	30,206	–	–	–
	<b>1,022,864</b>	–	–	–
Financial assets designated at fair value				
– Listed equities	9,928	–	–	–
– Listed debentures	27,201	–	–	–
– Unlisted equities and debentures	152,569	–	–	–
	<b>189,698</b>	–	–	–
Loans and advances to customers at amortised cost				
– Mortgage lending	268,054	–	–	–
– Instalment finance	561,501	–	–	–
– Corporate lending	4,611,729	85,779	–	10,332
– Commercial and property finance	54,066	–	–	–
– Consumer lending	3,964,885	–	–	–
	<b>9,460,235</b>	<b>85,779</b>	–	<b>10,332</b>
Investment securities				
– Promissory notes	45,853	–	–	–
	<b>45,853</b>	–	–	–
	<b>12,337,999</b>	<b>85,779</b>	–	<b>10,332</b>
<b>Off-balance sheet items</b>				
Letters of credit for customers	183,052	–	–	–
Guarantees	613,547	–	–	–
	<b>13,134,598</b>	<b>85,779</b>	–	<b>10,332</b>

\* Vehicles, machinery, other fixed assets, inventory and trade receivables.

## Fair value of collateral and credit enhancements held

Property	Other*	Netting agreements	Surplus collateral	Total collateral	Net exposure
-	-	-	-	-	<b>1,585,580</b>
-	-	-	-	-	33,769
-	-	-	-	-	<b>33,769</b>
-	-	-	-	-	73,580
-	-	-	-	-	919,078
-	-	-	-	-	30,206
-	-	-	-	-	<b>1,022,864</b>
-	-	-	-	-	9,928
-	-	-	-	-	27,201
-	-	-	-	-	152,569
-	-	-	-	-	<b>189,698</b>
210,063	-	-	-	210,063	57,991
87,237	120,946	-	-	208,183	353,318
1,750,741	347,840	-	-	2,194,692	2,417,037
53,306	-	-	-	53,306	760
-	9,411	-	-	9,411	3,955,474
<b>2,101,347</b>	<b>478,197</b>	-	-	<b>2,675,655</b>	<b>6,784,580</b>
-	-	-	-	-	45,853
-	-	-	-	-	<b>45,853</b>
<b>2,101,347</b>	<b>478,197</b>	-	-	<b>2,675,655</b>	<b>9,662,344</b>
-	-	-	-	-	183,052
4,122	35,444	-	-	39,566	573,981
<b>2,105,469</b>	<b>513,641</b>	-	-	<b>2,715,221</b>	<b>10,419,377</b>

## 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	2013	2012
Neither past due nor impaired	8,652,045	8,020,250
Past due but not impaired	1,395,703	565,367
Individually impaired	1,118,311	874,618
Gross loans and advances	11,166,059	9,460,235
Less: Allowance for impairment	(611,360)	(316,193)
<b>Net loans and advances</b>	<b>10,554,699</b>	<b>9,144,042</b>

The total impairment of loans and advances is BWP611.4 million (2012: BWP316.2 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 2013, the Group's total gross loans and advances increased by 18% (2012: increased by 50%), attributable to continued expansion in consumer and personal loans in Botswana, Mozambique and Zimbabwe. Loans and advances to the corporate sector continue to form a major part of the Group's lending portfolio.

#### (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	2013	2012
Mortgage lending	279,535	264,805
Instalment finance	436,890	471,430
Corporate lending	3,639,197	3,439,016
Commercial and property finance	42,935	52,958
Consumer lending	4,253,488	3,792,041
	<b>8,652,045</b>	<b>8,020,250</b>



**(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:

<b>2013</b>	<b>Days past due</b>			
	<b>1 – 30 days</b>	<b>31 – 60 days</b>	<b>61 – 90 days</b>	<b>Total</b>
<b>BWP'000s</b>				
<b>Internal Grade: Special mention</b>				
Mortgage lending	25,256	34,214	2,751	62,221
Instalment finance	34,032	11,032	15,964	61,028
Corporate lending	509,630	190,903	267,411	967,944
Commercial and property finance	8,675	–	1,573	10,248
Consumer lending	186,918	89,147	18,197	294,262
	<b>764,511</b>	<b>325,296</b>	<b>305,896</b>	<b>1,395,703</b>

<b>2012</b>	<b>Days past due</b>			
	<b>1 – 30 days</b>	<b>31 – 60 days</b>	<b>61 – 90 days</b>	<b>Total</b>
<b>BWP'000s</b>				
<b>Internal Grade: Special mention</b>				
Instalment finance	14,727	25,884	16,104	56,715
Corporate lending	127,578	103,206	207,336	438,120
Consumer lending	31,346	21,691	17,495	70,532
	<b>173,651</b>	<b>150,781</b>	<b>240,935</b>	<b>565,367</b>

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.

**(c) Loans and advances individually impaired**

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is BWP1,118.3 million (2012: BWP874.6 million).

Under-collateralised loans are considered for impairment. 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.

**REPOSSESSED COLLATERAL**

During 2013, the Group obtained assets by taking possession of collateral held as security. At 31 December 2013, these comprised of:

<b>Nature of assets</b>	<b>2013</b>	<b>2012</b>
Property	14,572	13,031
Motor vehicles	725	2,218
<b>Carrying amount</b>	<b>15,297</b>	<b>15,249</b>

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

Repossessed property is classified in the statement of financial position under prepayments and other receivables. Repossessed property, is moderately liquid with a readily available market. The Group normally recovers at least 90% of the carrying amount of each property.

**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 region as of 31 December 2013.

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

<b>2013</b> <b>BWP'000s</b>	<b>Botswana</b>	<b>Mozam- bique</b>	<b>Tanzania</b>	<b>Zambia</b>	<b>Zimbabwe</b>	<b>Other</b>	<b>Total</b>
Placements with other banks	493,699	329,381	116,702	417,987	659,472	12,907	2,030,148
Financial assets held for trading	504,183	297,813	211,571	192,316	54,166	–	1,260,049
Financial assets designated at fair value	–	–	102,766	–	38,224	120,562	261,552
Derivative financial assets	–	166	26,986	240	244	–	27,636
Loans and advances (net of impairments)	3,502,381	1,471,361	754,073	1,417,375	3,404,356	5,153	10,554,699
Investment securities	49,523	5,962	5,530	2,084	4,876	–	67,975
Prepayments and other receivables	17,174	9,446	16,138	27,437	190,297	1,159	261,651
Current tax asset	8,630	5,285	17,622	–	1,455	–	32,993
	<b>4,575,590</b>	<b>2,119,414</b>	<b>1,251,388</b>	<b>2,057,439</b>	<b>4,353,090</b>	<b>139,781</b>	<b>14,496,702</b>

<b>2012</b> <b>BWP'000s</b>	<b>Botswana</b>	<b>Mozam- bique</b>	<b>Tanzania</b>	<b>Zambia</b>	<b>Zimbabwe</b>	<b>Other</b>	<b>Total</b>
Placements with other banks	397,307	173,925	145,877	180,763	560,436	127,272	1,585,580
Financial assets held for trading	732,972	107,085	53,131	54,637	75,039	–	1,022,864
Financial assets designated at fair value	–	–	72,507	–	37,129	80,062	189,698
Derivative financial assets	4,122	124	20,876	133	–	8,514	33,769
Loans and advances (net of impairments)	3,023,147	876,853	754,173	1,059,824	3,393,644	36,401	9,144,042
Investment securities	45,853	–	–	–	–	–	45,853
Prepayments and other receivables	10,263	5,364	23,658	8,962	141,271	4,524	194,042
Current tax asset	3,485	4,245	15,628	–	8,299	–	31,657
	<b>4,217,149</b>	<b>1,167,596</b>	<b>1,085,850</b>	<b>1,304,319</b>	<b>4,215,818</b>	<b>256,773</b>	<b>12,247,505</b>

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

<b>2013</b> <b>BWP'000s</b>	<b>Agriculture</b>	<b>Construction</b>	<b>Wholesale, retail and trade</b>	<b>Public sector</b>	<b>Manufacturing</b>
Placements with other banks	—	—	—	—	—
Financial assets held for trading	—	—	1,942	229,934	33,861
Financial assets designated at fair value	—	—	—	—	38,224
Derivative financial assets	—	—	—	—	—
Loans and advances	575,964	386,858	896,524	211,184	753,516
Investment securities	—	—	102	—	5
Prepayments and other receivables	—	—	1,023	—	—
Current tax assets	—	—	—	32,992	—
	<b>575,964</b>	<b>386,858</b>	<b>899,591</b>	<b>474,110</b>	<b>825,606</b>

<b>2012</b> <b>BWP'000s</b>	<b>Agriculture</b>	<b>Construction</b>	<b>Wholesale, retail and trade</b>	<b>Public sector</b>	<b>Manufacturing</b>
Placements with other banks	—	—	—	—	—
Financial assets held for trading	—	—	—	—	4,015
Financial assets designated at fair value	—	—	—	—	27,201
Derivative financial assets	—	—	—	—	—
Loans and advances	595,062	365,041	753,732	176,535	814,746
Investment securities	—	—	—	—	—
Prepayments and other receivables	—	—	2,225	—	—
Current tax assets	—	—	—	19,874	—
	<b>595,062</b>	<b>365,041</b>	<b>755,957</b>	<b>196,409</b>	<b>845,962</b>

## 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 and energy	Individuals	Tourism	Other	Total
–	2,030,148	–	–	–	–	2,030,148
–	994,312	–	–	–	–	1,260,049
–	149,610	73,718	–	–	–	261,552
–	27,471	–	–	–	165	27,636
848,388	302,307	463,845	5,128,518	86,255	901,340	10,554,699
304	64,527	–	–	–	3,037	67,975
7,898	235,580	–	–	–	17,150	261,651
–	–	–	–	–	–	32,992
<b>856,590</b>	<b>3,803,955</b>	<b>537,563</b>	<b>5,128,518</b>	<b>86,255</b>	<b>921,692</b>	<b>14,496,702</b>

Mining	Financial services	Transport and energy	Individuals	Tourism	Other	Total
–	1,585,580	–	–	–	–	1,585,580
333	993,228	–	–	–	25,288	1,022,864
45,860	116,637	–	–	–	–	189,698
–	33,646	–	–	–	123	33,769
1,077,569	670,221	506,156	3,801,458	99,818	283,704	9,144,042
–	45,853	–	–	–	–	45,853
–	165,770	–	–	–	26,047	194,042
–	8,184	–	–	–	3,599	31,657
<b>1,123,762</b>	<b>3,619,119</b>	<b>506,156</b>	<b>3,801,458</b>	<b>99,818</b>	<b>338,761</b>	<b>12,247,505</b>

## 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 2013.

Included in the table are the Group's total assets and liabilities (financial and non-financial) at carrying amounts, categorised by currency.



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

At 31 December 2013  
BWP'000s

	EUR	USD	BWP	ZAR
Cash and short-term funds	41,133	1,114,785	431,836	35,556
Financial assets held for trading	–	55,729	504,183	–
Financial assets designated at fair value	–	218,931	–	–
Derivative financial asset*	10,740	623,014	22,458	74,589
Loans and advances	27,374	4,915,953	3,429,812	35,197
Investment securities	982	3,894	49,523	–
Prepayments and other receivables	23	214,053	13,982	1,178
Current tax asset	–	1,454	8,630	–
Investment in associates	–	7,210	4,006	–
Property and equipment	–	457,417	81,803	27,089
Intangible assets	60	22,654	51,532	75
Deferred tax asset	–	16,693	25,879	2,207
	<b>80,312</b>	<b>7,651,787</b>	<b>4,623,644</b>	<b>175,891</b>
Deposits	76,629	4,483,385	3,937,405	95,467
Derivative financial liabilities*	812	673,386	31,278	47,193
Creditors and accruals	300	108,003	19,465	11,240
Current tax liabilities	–	–	2,131	–
Deferred tax liabilities	–	1,808	3,932	–
Borrowed funds	3,012	1,340,174	274,093	–
	<b>80,753</b>	<b>6,606,756</b>	<b>4,268,304</b>	<b>153,900</b>
<b>Net on-balance sheet position</b>	<b>(441)</b>	<b>1,045,031</b>	<b>355,340</b>	<b>21,991</b>
<b>Credit commitments</b>	<b>82,660</b>	<b>194,128</b>	<b>17,826</b>	<b>11,252</b>

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

A reasonably possible strengthening (weakening) of the Euro, US Dollar, Botswana Pula, South African Rand, Tanzanian Shilling, Zambian Kwacha, Mozambican Metical and Japanese Yen against all other currencies at 31 December 2013 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

Currency	31 December 2013			
	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
EUR (3% movement)	(93)	93	(68)	68
USD (4% movement)	(6,918)	6,918	(4,997)	4,997
BWP (10% movement)	54,023	(54,023)	42,130	(42,130)
ZAR (10% movement)	2,519	(2,519)	1,818	(1,818)
TZS (5% movement)	(1,579)	1,579	(1,105)	1,105
ZMW (10% movement)	22,282	(22,282)	14,476	(14,476)
MZN (5% movement)	(33,867)	33,867	(25,146)	25,146
JPY (3% movement)	(9)	9	(7)	7

	<b>TZS</b>	<b>ZMW</b>	<b>MZN</b>	<b>JPY</b>	<b>Other</b>	<b>Total</b>
	35,816	428,122	207,449	300	9,286	2,304,283
	210,008	192,316	297,813	–	–	1,260,049
	42,621	–	–	–	–	261,552
	266,715	240	–	78,800	(1,048,920)	27,636
	315,703	1,146,310	684,304	–	46	10,554,699
	5,530	2,084	5,962	–	–	67,975
	25	27,337	4,971	–	82	261,651
	17,622	–	5,286	–	–	32,992
	2,104	–	–	–	–	13,320
	37,367	51,715	101,430	–	11	756,832
	18,847	9,630	27,204	–	–	130,002
	62,135	5,750	–	–	–	112,664
	<b>1,014,493</b>	<b>1,863,504</b>	<b>1,334,419</b>	<b>79,100</b>	<b>(1,039,495)</b>	<b>15,783,655</b>
	751,639	1,138,064	1,709,675	12,140	4,683	12,209,087
	266,715	–	–	–	(981,744)	37,640
	15,579	139,665	455	–	1,176	295,883
	–	10,786	–	–	–	12,917
	–	8,554	6,849	–	–	21,143
	97	–	74,769	67,175	–	1,759,320
	<b>1,034,030</b>	<b>1,297,069</b>	<b>1,791,748</b>	<b>79,315</b>	<b>(975,885)</b>	<b>14,335,990</b>
	<b>(19,537)</b>	<b>566,435</b>	<b>(457,329)</b>	<b>(215)</b>	<b>(63,610)</b>	<b>1,447,665</b>
	<b>87,903</b>	<b>288,262</b>	<b>88,715</b>	<b>–</b>	<b>–</b>	<b>770,746</b>

**At 31 December 2012****BWP'000s**

	EUR	USD	BWP	ZAR
Cash and short-term funds	10,835	888,020	428,322	202,102
Financial assets held for trading	–	75,039	732,972	–
Financial assets designated at fair value	834	162,210	–	–
Derivative financial asset*	–	216,315	2,852	9,871
Loans and advances	30,349	4,316,279	2,936,109	2,497
Investment securities	–	–	45,853	–
Prepayments and other receivables	802	149,554	10,778	1,546
Current tax asset	–	8,298	3,485	–
Investment in associates	–	5,089	4,246	–
Property and equipment	308	402,163	70,538	31,628
Intangible assets	–	21,399	54,679	136
Deferred tax asset	–	27,927	18,019	1,268
	<b>43,128</b>	<b>6,272,293</b>	<b>4,307,853</b>	<b>249,048</b>
Deposits	31,102	4,230,128	3,647,113	356,936
Derivative financial liabilities*	–	573,679	–	8,851
Creditors and accruals	133	80,011	61,420	13,421
Current tax liabilities	–	10,529	988	–
Deferred tax liabilities	–	1,553	4,009	–
Borrowed funds	7,736	736,050	373,388	–
	<b>38,971</b>	<b>5,631,950</b>	<b>4,086,918</b>	<b>379,208</b>
<b>Net on-balance sheet position</b>	<b>4,157</b>	<b>640,343</b>	<b>220,935</b>	<b>(130,160)</b>
<b>Credit commitments</b>	<b>20,399</b>	<b>301,197</b>	<b>8,988</b>	<b>85,840</b>

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

A reasonably possible strengthening (weakening) of the Euro, US Dollar, Botswana Pula, South African Rand, Tanzanian Shilling, Zambian Kwacha, Mozambican Metical and Japanese Yen against all other currencies at 31 December 2012 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

Currency	31 December 2012			
	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
EUR (3% movement)	163	(163)	92	(92)
USD (4% movement)	17,334	(17,334)	13,599	(13,599)
BWP (5% movement)	(6,405)	6,405	(5,003)	5,003
ZAR (10% movement)	(12,622)	12,622	(9,655)	9,655
TZS (5% movement)	(9,330)	9,330	(6,315)	6,315
ZMW (5% movement)	7,832	(7,832)	5,087	(5,087)
MZN (5% movement)	(3,048)	3,048	(2,072)	2,072
JPY (3% movement)	(471)	471	(368)	368

TZS	ZMW	MZN	JPY	Other	Total
120,034	42,830	167,126	–	–	1,859,269
53,132	54,637	107,084	–	–	1,022,864
26,654	–	–	–	–	189,698
507,537	–	1,572	94,411	(798,789)	33,769
273,497	794,119	682,961	–	108,231	9,144,042
4,904	1,781	1,962	–	–	54,500
23,658	6,640	991	–	73	194,042
15,629	–	4,245	–	–	31,657
1,866	–	–	–	–	11,201
22,303	41,453	90,445	–	–	658,838
19,485	11,089	32,357	–	–	139,145
19,308	2,218	–	–	–	68,740
<b>1,088,007</b>	<b>954,767</b>	<b>1,088,743</b>	<b>94,411</b>	<b>(690,485)</b>	<b>13,407,765</b>
856,745	425,334	1,094,125	13,710	19,918	10,675,111
235,532	–	2,791	–	(798,232)	22,621
19,265	119,496	9,244	–	375	303,365
–	8,666	–	–	–	20,183
6,332	894	4,882	–	–	17,670
772	–	–	94,785	–	1,212,731
<b>1,118,646</b>	<b>554,390</b>	<b>1,111,042</b>	<b>108,495</b>	<b>(777,939)</b>	<b>12,251,681</b>
<b>(30,639)</b>	<b>400,377</b>	<b>(22,299)</b>	<b>(14,084)</b>	<b>87,454</b>	<b>1,156,084</b>
<b>41,366</b>	<b>227,228</b>	<b>98,381</b>	<b>13,200</b>	<b>–</b>	<b>796,599</b>

## INTEREST RATE RISK

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

The Asset and Liability Committee (ALCO) is responsible for managing interest rate and liquidity risk in the Group. Asset and Liability Management Committees have been established in each subsidiary and meet on a monthly basis. They operate within the prudential guidelines and policies established by Group ALCO.

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

The table below summarises the Group's total exposure to interest rate risks on financial and non-financial instruments. 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.

2013 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	975,427	61,464	89	–	1,036,980	1,267,303	2,304,283
Financial assets held for trading	696,990	359,285	116,272	87,502	1,260,049	–	1,260,049
Financial assets designated at fair value	–	–	22,643	11,247	33,890	227,662	261,552
Derivative financial assets	–	–	–	–	–	27,636	27,636
Loans and advances	6,884,257	413,045	639,860	2,617,537	10,554,699	–	10,554,699
Investment securities	–	–	4,879	55,485	60,364	7,611	67,975
Prepayments and other receivables	–	–	–	–	–	261,651	261,651
Current tax asset	–	–	–	–	–	32,992	32,992
Investment in associates	–	–	–	–	–	13,320	13,320
Property and equipment	–	–	–	–	–	756,832	756,832
Intangible assets	–	–	–	–	–	130,002	130,002
Deferred tax asset	–	–	–	–	–	112,664	112,664
<b>Assets</b>	<b>8,556,674</b>	<b>833,794</b>	<b>783,743</b>	<b>2,771,771</b>	<b>12,945,982</b>	<b>2,837,673</b>	<b>15,783,655</b>
<b>Equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,447,665</b>	<b>1,447,665</b>
Deposits	5,948,424	3,673,392	2,512,374	74,897	12,209,087	–	12,209,087
Derivative financial liabilities	–	–	–	–	–	37,640	37,640
Creditors and accruals	–	–	–	–	–	295,883	295,883
Current tax liabilities	–	–	–	–	–	12,917	12,917
Deferred tax liability	–	–	–	–	–	21,143	21,143
Borrowed funds	552,809	225,835	189,476	791,200	1,759,320	–	1,759,320
<b>Liabilities</b>	<b>6,501,233</b>	<b>3,899,227</b>	<b>2,701,850</b>	<b>866,097</b>	<b>13,968,407</b>	<b>367,583</b>	<b>14,335,990</b>
<b>Total interest re-pricing gap</b>	<b>2,055,441</b>	<b>(3,065,433)</b>	<b>(1,918,107)</b>	<b>1,905,674</b>	<b>(1,022,425)</b>	<b>1,022,425</b>	<b>–</b>

<b>2012</b>	Up to	1 – 3	3 – 12	1 – 5	Total	Non-	
<b>BWP'000s</b>	1 month	months	months	years	interest sensitive	interest-bearing	Total
Cash and short-term funds	1,000,109	76,298	–	–	1,076,407	782,862	1,859,269
Financial assets held for trading	667,072	87,776	156,861	95,374	1,007,083	15,781	1,022,864
Financial assets designated at fair value	–	–	16,833	19,425	36,258	153,440	189,698
Derivative financial assets	–	–	–	–	–	33,769	33,769
Loans and advances	4,050,313	714,292	1,650,475	2,728,962	9,144,042	–	9,144,042
Investment securities	–	895	–	47,634	48,529	5,971	54,500
Prepayments and other receivables	–	–	–	221	221	193,821	194,042
Current tax asset	–	–	–	–	–	31,657	31,657
Investment in associates	–	–	–	–	–	11,201	11,201
Property and equipment	–	–	–	–	–	658,838	658,838
Intangible assets	–	–	–	–	–	139,145	139,145
Deferred tax asset	–	–	–	–	–	68,740	68,740
<b>Assets</b>	<b>5,717,494</b>	<b>879,261</b>	<b>1,824,169</b>	<b>2,891,616</b>	<b>11,312,540</b>	<b>2,095,225</b>	<b>13,407,765</b>
<b>Equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,156,084</b>	<b>1,156,084</b>
Deposits	7,610,080	2,812,489	252,542	–	10,675,111	–	10,675,111
Derivative financial liabilities	–	–	–	–	–	22,621	22,621
Creditors and accruals	–	–	–	–	–	303,365	303,365
Current tax liabilities	–	–	–	–	–	20,183	20,183
Deferred tax liability	–	–	–	–	–	17,670	17,670
Borrowed funds	20,802	156,382	594,134	441,413	1,212,731	–	1,212,731
<b>Liabilities</b>	<b>7,630,882</b>	<b>2,968,871</b>	<b>846,676</b>	<b>441,413</b>	<b>11,887,842</b>	<b>363,839</b>	<b>12,251,681</b>
<b>Total interest re-pricing gap</b>	<b>(1,913,388)</b>	<b>(2,089,610)</b>	<b>977,493</b>	<b>2,450,203</b>	<b>(575,302)</b>	<b>575,302</b>	<b>–</b>



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

BWP'000s	2013		2012	
	Pre-tax	Post-tax	Pre-tax	Post-tax
<b>BancABC Botswana</b>				
ABC Botswana constituted 31% of the Group's total assets.				
Change in net interest income (+50 basis points)	5,957	4,647	1,262	984
As a percentage of total shareholders' equity	1.06%	0.83%	0.31%	0.24%
Change in net interest income (-50 basis points)	(5,957)	(4,647)	(1,262)	(984)
As a percentage of total shareholders' equity	(1.06%)	(0.83%)	(0.31%)	(0.24%)
<b>BancABC Zambia</b>				
ABC Zambia constituted 13% of the Group's total assets.				
Change in net interest income (+50 basis points)	87	56	(2,225)	(1,335)
As a percentage of total shareholders' equity	0.02%	0.01%	(1.51%)	(0.91%)
Change in net interest income (-50 basis points)	(87)	(56)	2,225	1,335
As a percentage of total shareholders' equity	(0.02%)	(0.01%)	1.51%	0.91%
<b>BancABC Mozambique</b>				
ABC Mozambique constituted 15% of the Group's total assets.				
Change in net interest income (+50 basis points)	(778)	(529)	43	29
As a percentage of total shareholders' equity	(0.35%)	(0.24%)	0.02%	0.02%
Change in net interest income (-50 basis points)	778	529	(43)	(29)
As a percentage of total shareholders' equity	0.35%	0.24%	(0.02%)	(0.02%)
<b>BancABC Tanzania</b>				
ABC Tanzania constituted 7% of the Group's total assets.				
Change in net interest income (+50 basis points)	1,620	1,134	1,320	924
As a percentage of total shareholders' equity	0.82%	0.57%	2.17%	1.52%
Change in net interest income (-50 basis points)	(1,620)	(1,134)	(1,320)	(924)
As a percentage of total shareholders' equity	(0.82%)	(0.57%)	(2.17%)	(1.52%)
<b>BancABC Zimbabwe</b>				
ABC Zimbabwe constituted 29% of the Group's total assets.				
Change in net interest income (+50 basis points)	29,449	21,866	(3,426)	(2,544)
As a percentage of total shareholders' equity	3.94%	2.92%	(0.81%)	(0.60%)
Change in net interest income (-50 basis points)	(29,449)	(21,866)	3,426	2,544
As a percentage of total shareholders' equity	(3.94%)	(2.92%)	0.81%	0.60%

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 and debentures with a fair value of BWP161.3 million (2012: BWP117.2 million). BWP40.7 million (2012: BWP37.1 million) of these shares are listed on the Zimbabwe Stock Exchange and BWP120.6 million (2012: BWP80.1 million) are listed on the Nigerian Stock Exchange. A 2% movement in the ZSE composite index and a 5% movement on the Nigerian composite index would have had an increase in profit or loss of BWP6.8 million (2012: BWP4.7 million) and equity of BWP5.9 million (2012: BWP4.1 million).

### 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 calls 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 unforeseen interruption to cash flow;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

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

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

The Group's maturity analysis (on a discounted cash flow basis) of all assets, liabilities and equity as at 31 December 2013 was as follows:

<b>2013 BWP'000s</b>	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>Greater than 1 year</b>	<b>Total</b>
Cash and short-term funds*	2,194,525	109,758	–	–	2,304,283
Financial assets held for trading	696,987	359,285	116,272	87,505	1,260,049
Financial assets designated at fair value	240	566	26,415	234,331	261,552
Derivative financial assets	27,636	–	–	–	27,636
Loans and advances	2,478,715	508,682	1,104,059	6,463,243	10,554,699
Investment securities	2,084	–	4,879	61,012	67,975
Prepayments and other receivables	221,280	12,691	27,680	–	261,651
Current tax asset	–	10,087	22,905	–	32,992
Investment in associates	–	–	–	13,320	13,320
Property and equipment	–	–	–	756,832	756,832
Intangible assets	–	–	–	130,002	130,002
Deferred tax asset	–	–	–	112,664	112,664
<b>Total assets</b>	<b>5,621,467</b>	<b>1,001,069</b>	<b>1,302,210</b>	<b>7,858,909</b>	<b>15,783,655</b>
<b>Shareholders' equity and liabilities</b>					
<b>Equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,447,665</b>	<b>1,447,665</b>
<b>Liabilities</b>					
Deposits	5,948,423	3,673,392	2,512,375	74,897	12,209,087
Derivative financial liabilities	2,079	–	8,808	26,753	37,640
Creditors and accruals	98,847	14,098	182,938	–	295,883
Current tax liabilities	–	910	12,007	–	12,917
Deferred tax liabilities	–	–	–	21,143	21,143
Borrowed funds	535,289	21,025	78,762	1,124,244	1,759,320
<b>Total equity and liabilities</b>	<b>6,584,638</b>	<b>3,709,425</b>	<b>2,794,890</b>	<b>2,694,702</b>	<b>15,783,655</b>
<b>Net maturity gap</b>	<b>(963,171)</b>	<b>(2,708,356)</b>	<b>(1,492,680)</b>	<b>5,164,207</b>	<b>–</b>
<b>Contingent liabilities</b>	<b>60,510</b>	<b>171,691</b>	<b>345,986</b>	<b>192,559</b>	<b>770,746</b>

\* Included in the "Up to 1 month" bucket are statutory reserve balances of BWP706.6 million (2012: BWP544.4 million).

<b>2012</b>	Up to	1 – 3	3 – 12	Greater	
<b>BWP'000s</b>	1 month	months	months	than 1 year	Total
Cash and short-term funds*	1,749,767	109,502	–	–	1,859,269
Financial assets held for trading	690,740	102,178	148,973	80,973	1,022,864
Financial assets designated at fair value	521	7,233	14,586	167,358	189,698
Derivative financial assets	3,723	–	–	30,046	33,769
Loans and advances	2,426,909	273,488	1,226,925	5,216,720	9,144,042
Investment securities	1,765	–	–	52,735	54,500
Prepayments and other receivables	39,814	16,761	137,467	–	194,042
Current tax asset	–	7,641	24,016	–	31,657
Investment in associates	–	–	–	11,201	11,201
Property and equipment	–	–	–	658,838	658,838
Intangible assets	–	–	–	139,145	139,145
Deferred tax asset	–	–	–	68,740	68,740
<b>Total assets</b>	<b>4,913,239</b>	<b>516,803</b>	<b>1,551,967</b>	<b>6,425,756</b>	<b>13,407,765</b>
<b>Shareholders' equity and liabilities</b>					
<b>Equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,156,084</b>	<b>1,156,084</b>
<b>Liabilities</b>					
Deposits	6,482,429	2,930,376	1,262,306	–	10,675,111
Derivative financial liabilities	22,621	–	–	–	22,621
Creditors and accruals	150,833	13,870	138,662	–	303,365
Current tax liabilities	15,480	–	4,703	–	20,183
Deferred tax liabilities	6	19	49	17,596	17,670
Borrowed funds	2,324	41,089	713,524	455,794	1,212,731
<b>Total equity and liabilities</b>	<b>6,673,693</b>	<b>2,985,354</b>	<b>2,119,244</b>	<b>1,629,474</b>	<b>13,407,765</b>
<b>Net maturity gap</b>	<b>(1,760,454)</b>	<b>(2,468,551)</b>	<b>(567,277)</b>	<b>4,796,282</b>	<b>–</b>
<b>Contingent liabilities</b>	<b>117,884</b>	<b>190,690</b>	<b>420,633</b>	<b>67,392</b>	<b>796,599</b>

\* Included in the "Up to 1 month" bucket are statutory reserve balances of BWP544.4 million.

### Funding approach

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

**NON-DERIVATIVE CASH FLOW**

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

<b>2013</b> <b>BWP'000s</b>	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>Greater than 1 year</b>	<b>Total</b>	<b>Effect of discount/ financing rates</b>	<b>31 Dec 2013</b>
Deposits	6,069,082	3,699,085	2,266,422	234,138	12,268,727	(59,639)	12,209,088
Creditors and accruals	98,847	14,098	182,938	–	295,883	–	295,883
Current tax liabilities	–	910	12,007	–	12,917	–	12,917
Borrowed funds	534,980	30,006	105,062	1,287,041	1,957,089	(197,769)	1,759,320
<b>Total liabilities</b>	<b>6,702,909</b>	<b>3,744,099</b>	<b>2,566,429</b>	<b>1,521,179</b>	<b>14,534,616</b>	<b>(257,408)</b>	<b>14,277,208</b>

<b>2012</b> <b>BWP'000s</b>	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>Greater than 1 year</b>	<b>Total</b>	<b>Effect of discount/ financing rates</b>	<b>31 Dec 2012</b>
Deposits	6,485,429	2,959,573	1,389,558	–	10,834,560	(159,449)	10,675,111
Creditors and accruals	150,833	13,870	138,662	–	303,365	–	303,365
Current tax liabilities	15,480	–	4,703	–	20,183	–	20,183
Borrowed funds	2,408	51,452	743,993	630,254	1,428,107	(215,376)	1,212,731
<b>Total liabilities</b>	<b>6,654,150</b>	<b>3,024,895</b>	<b>2,276,916</b>	<b>630,254</b>	<b>12,586,215</b>	<b>(374,825)</b>	<b>12,211,390</b>

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

**DERIVATIVE FINANCIAL LIABILITIES CASH FLOW**

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:

<b>2013</b>	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>Greater than 1 year</b>	<b>Total</b>
Derivative financial liabilities	<b>225,327</b>	<b>345,891</b>	<b>362,807</b>	<b>47,720</b>	<b>981,745</b>
<b>2012</b>					
Derivative financial liabilities	835,123	85,295	115,942	17,523	1,053,883

With the exception of swaps where ongoing cash flows are settled on a gross basis, all derivative financial liabilities are settled on a net basis.

**FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE**

Fair value measurements are disclosed by level. The fair value hierarchy is as follows:

- 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).

**(a) Accounting classifications and fair values**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount			
		Held for trading	Designated at fair value	Derivative financial instruments	Held-to-maturity
<b>31 December 2013</b>					
<b>BWP'000s</b>	Notes				
<b>Financial assets measured at fair value</b>					
Government bonds	8	71,892	–	–	–
Corporate bonds	8	35,803	–	–	–
Treasury bills and other open market instruments	8	1,152,354	–	–	–
Listed equities	9,12	–	4,337	–	–
Listed debentures	9	–	33,887	–	–
Unlisted equities and debentures	9,12	–	223,328	–	–
Forward foreign exchange contracts – held for trading	21	–	–	27,636	–
		<b>1,260,049</b>	<b>261,552</b>	<b>27,636</b>	<b>–</b>
<b>Financial assets not measured at fair value</b>					
Cash and short-term funds	7	–	–	–	–
Loans and advances	10	–	–	–	–
Prepayments and other receivables	11	–	–	–	–
Promissory notes	12	–	–	–	49,523
		<b>–</b>	<b>–</b>	<b>–</b>	<b>49,523</b>
<b>Financial liabilities measured at fair value</b>					
Cross-currency interest rate swaps	21	–	–	(8,808)	–
Forward foreign exchange contracts – held for trading	21	–	–	(2,078)	–
Equity derivative	21	–	–	(26,754)	–
		<b>–</b>	<b>–</b>	<b>(37,640)</b>	<b>–</b>
<b>Financial liabilities not measured at fair value</b>					
Deposits	18	–	–	–	–
Borrowed funds	19	–	–	–	–
Creditors and accruals	20	–	–	–	–
		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Carrying amount				Fair value			
Loans and receivables	Available- for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
–	–	–	71,892	–	71,892	–	71,892
–	–	–	35,803	–	35,803	–	35,803
–	–	–	1,152,354	–	1,152,354	–	1,152,354
–	2,525	–	6,862	6,862	–	–	6,862
–	–	–	33,887	33,887	–	–	33,887
–	15,927	–	239,255	–	120,562	118,693	239,255
–	–	–	27,636	–	27,636	–	27,636
<b>–</b>	<b>18,452</b>	<b>–</b>	<b>1,567,689</b>	<b>40,749</b>	<b>1,408,247</b>	<b>118,693</b>	<b>1,567,689</b>
2,304,283	–	–	2,304,283				
10,554,699	–	–	10,554,699				
261,651	–	–	261,651				
–	–	–	49,523				
<b>13,120,633</b>	<b>–</b>	<b>–</b>	<b>13,170,156</b>				
–	–	–	(8,808)	–	(8,808)	–	(8,808)
–	–	–	(2,078)	–	(2,078)	–	(2,078)
–	–	–	(26,754)	–	–	(26,754)	(26,754)
<b>–</b>	<b>–</b>	<b>–</b>	<b>(37,640)</b>	<b>–</b>	<b>(10,886)</b>	<b>(26,754)</b>	<b>(37,640)</b>
–	–	(12,209,087)	(12,209,087)				
–	–	(1,759,320)	(1,759,320)				
–	–	(295,883)	(295,883)				
<b>–</b>	<b>–</b>	<b>(14,264,290)</b>	<b>(14,264,290)</b>				



		Carrying amount			
31 December 2012					
BWP'000s	Notes	Held for trading	Designated at fair value	Derivative financial instruments	Held-to-maturity
<b>Financial assets measured at fair value</b>					
Government bonds	8	73,580	–	–	–
Corporate bonds	8	30,206	–	–	–
Treasury bills and other open market instruments	8	919,078	–	–	–
Listed equities	9,12	–	9,928	–	–
Listed debentures	9	–	27,201	–	–
Unlisted equities and debentures	9,12	–	152,569	–	–
Cross-currency interest rate swaps	21	–	–	8,914	–
Forward foreign exchange contracts – held for trading	21	–	–	24,855	–
		<b>1,022,864</b>	<b>189,698</b>	<b>33,769</b>	<b>–</b>
<b>Financial assets not measured at fair value</b>					
Cash and short-term funds	7	–	–	–	–
Loans and advances	10	–	–	–	–
Prepayments and other receivables	11	–	–	–	–
Promissory notes	12	–	–	–	45,853
		<b>–</b>	<b>–</b>	<b>–</b>	<b>45,853</b>
<b>Financial liabilities measured at fair value</b>					
Forward foreign exchange contracts – held for trading	21	–	–	(2,790)	–
Equity derivative	21	–	–	(19,831)	–
		<b>–</b>	<b>–</b>	<b>(22,621)</b>	<b>–</b>
<b>Financial liabilities not measured at fair value</b>					
Deposits	18	–	–	–	–
Borrowed funds	19	–	–	–	–
Creditors and accruals	20	–	–	–	–
		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Carrying amount				Fair value			
Loans and receivables	Available-for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
–	–	–	73,580	–	73,580	–	73,580
–	–	–	30,206	–	30,206	–	30,206
–	–	–	919,078	–	919,078	–	919,078
–	–	–	9,928	9,928	–	–	9,928
–	–	–	27,201	27,201	–	–	27,201
–	8,647	–	161,216	–	–	161,216	161,216
–	–	–	8,914	–	8,914	–	8,914
–	–	–	24,855	–	24,855	–	24,855
<b>–</b>	<b>8,647</b>	<b>–</b>	<b>1,254,978</b>	<b>37,129</b>	<b>1,056,633</b>	<b>161,216</b>	<b>1,254,978</b>
1,859,269	–	–	1,859,269				
9,144,042	–	–	9,144,042				
194,042	–	–	194,042				
–	–	–	45,853				
<b>11,197,353</b>	<b>–</b>	<b>–</b>	<b>11,243,206</b>				
–	–	–	(2,790)	–	(2,790)	–	(2,790)
–	–	–	(19,831)	–	–	(19,831)	(19,831)
<b>–</b>	<b>–</b>	<b>–</b>	<b>(22,621)</b>	<b>–</b>	<b>(2,790)</b>	<b>(19,831)</b>	<b>(22,621)</b>
–	–	(10,675,111)	(10,675,111)				
–	–	(1,212,731)	(1,212,731)	–	–	(1,282,661)	(1,282,661)
–	–	(303,365)	(303,365)				
<b>–</b>	<b>–</b>	<b>(12,191,207)</b>	<b>(12,191,207)</b>				

**(b) Measurement of fair values****(i) Valuation techniques and significant unobservable inputs**

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as significant unobservable inputs used.

**Financial instruments measured at fair value**

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Government securities and corporate bonds	Market comparison technique: The fair values are based on market players' quotations in the secondary market. Similar instruments are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable	Not applicable
Forward exchange contracts and interest rate swaps	Market comparison technique: The fair values are based on market players' quotations in the secondary market. Similar instruments are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable	Not applicable
Unlisted debentures	Quoted prices as adjusted for intermediaries' retained earnings: The fair values are based on quoted prices of the underlying equity investment which is quoted on the Nigerian Stock Exchange as adjusted for the retained earnings of the investment vehicles excluding the fair value gains from the investment.	Not applicable	Not applicable
Unlisted equities	Market comparison technique: The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee on actual EBITDA for the year ended 31 December 2012 or book value of the investee as at 30 September 2013. The estimate is adjusted for the effect of the non-marketability of the equity securities.	<ul style="list-style-type: none"> <li>Adjusted price to book ratio (2013: 1.28 – 1.43)</li> <li>Adjusted EV/EBITDA (2013: 3.9 – 4.8)</li> </ul>	The estimated fair value would increase/(decrease) if: <ul style="list-style-type: none"> <li>the adjusted price to book ratio increased (decreased)</li> <li>the adjusted EV/EBITDA increased (decreased)</li> </ul>

**Financial instruments not measured at fair value**

Type	Valuation technique	Significant unobservable inputs
Cash and short-term funds	Discounted cash flows	Not applicable
Loans and advances	Discounted cash flows	Not applicable
Promissory notes	Discounted cash flows	Not applicable
Prepayments and other receivables	Discounted cash flows	Not applicable
Creditors and accruals	Discounted cash flows	Not applicable
Deposits	Discounted cash flows	Not applicable
Borrowed funds	Discounted cash flows	Not applicable

## (ii) Level 3 fair values

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

<b>2013</b> <b>BWP'000s</b>	<b>Debt or equity investments</b>	<b>Total assets at fair value</b>	<b>Derivative financial liabilities</b>	<b>Total liabilities at fair value</b>
<b>Opening balance</b>	161,216	161,216	22,621	22,621
Total gains or losses in profit or loss*	61,474	61,474	–	–
Purchases	2,525	2,525	4,133	4,133
Exchange rate adjustment	14,040	14,040	–	–
Transfers out of level 3 to level 2	(120,562)	(120,562)	–	–
<b>Closing balance</b>	<b>118,693</b>	<b>118,693</b>	<b>26,754</b>	<b>26,754</b>

<b>2012</b> <b>BWP'000s</b>	<b>Debt or equity investments</b>	<b>Total assets at fair value</b>	<b>Derivative financial liabilities</b>	<b>Total liabilities at fair value</b>
Opening balance	196,117	196,117	47,069	47,069
Total gains or losses in profit or loss*	40,915	40,915	19,661	19,661
Purchases	2,166	2,166	–	–
Settlements	(86,371)	(86,371)	–	–
Transfer to equity	–	–	(44,109)	(44,109)
Exchange rate adjustment	8,389	8,389	–	–
<b>Closing balance</b>	<b>161,216</b>	<b>161,216</b>	<b>22,621</b>	<b>22,621</b>

\* Gains and losses in profit or loss have been recognised under the line item "gains on financial assets at fair value through profit or loss – designated at fair value".

## Transfers out of level 3 to level 2

The Group invested BWP75 million in a Special Purpose Entity (SPE) (ADC Enterprises Limited) in September 2011 with a further BWP5 million being invested in 2012. The funds were in turn invested in another syndicated SPE which, together with funds from other investors, was invested in a bank listed on the Nigerian Stock Exchange (NSE). The investment has been valued at its quoted price on the NSE as adjusted for the retained earnings in the SPEs excluding the fair value of the underlying investment. The investment was previously categorised as Level 3 due to lack of audited financial statements for the SPEs.

The SPEs' audited financial statements for 2011 and 2012 were obtained during the current financial period and it was possible to fairly value the full investment using the valuation technique outlined above.

## (c) Sensitivity analysis

For the fair values of unlisted equities – designated at fair value through profit or loss, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

	<b>Profit or loss</b>		<b>Equity</b>	
	<b>Increase</b>	<b>Decrease</b>	<b>Increase</b>	<b>Decrease</b>
Average price to book ratio (5% movement)	1,424	(1,424)	997	(997)
Book value (2% movement)	570	(570)	399	(399)
Adjusted EV/EBITDA (5% movement)	8,356	(8,356)	5,849	(5,849)
EBITDA (2% movement)	3,342	(3,342)	2,340	(2,340)

**(d) Financial instruments not measured at fair value**

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 include 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. All placements are floating rate placements.

**(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 interest 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.

The majority of deposits are at floating rates, or when at fixed rates, fixed for less than three months.

**OFF-BALANCE SHEET ITEMS**

<b>BWP'000s</b>	<b>2013</b>	<b>2012</b>
<b>(a) Contingent liabilities</b>		
Guarantees	671,224	613,547
Letters of credit, loan commitments and other contingent liabilities	99,522	183,052
	<b>770,746</b>	<b>796,599</b>
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, are summarised below:		
Less than one year	578,187	729,207
Between one and five years	192,559	67,392
	<b>770,746</b>	<b>796,599</b>
<b>(b) Capital commitments</b>		
Approved and contracted for	–	2,678
Approved but not contracted for	65,764	60,515
	<b>65,764</b>	<b>63,193</b>
<b>(c) Non-cancelable operating lease commitments</b>		
Future minimum lease payments under non-cancelable operating leases are as follows:		
Office premises	134,721	95,245
	<b>134,721</b>	<b>95,245</b>
Non-cancelable operating leases are payable as follows:		
Less than one year	28,804	11,966
Between one and five years	81,130	22,455
Over five years	24,787	60,824
	<b>134,721</b>	<b>95,245</b>

## 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 2013, 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 2013 returns submitted to regulatory authorities, are summarised below:

2013 BWP'000s	BancABC Botswana	BancABC Zimbabwe	BancABC Zambia	BancABC Tanzania	BancABC Mozambique
<b>Tier I capital</b>					
Share capital and premium	222,479	397,950	368,976	272,485	81,318
Capital reserves and retained earnings	342,106	275,976	42,595	(111,305)	104,994
Allocation for market and operational risk	–	(22,157)	–	–	–
Intangible asset software	–	–	–	(18,847)	(29,047)
Prepayments	–	–	–	(8,453)	–
Exposures to insiders	–	(27,952)	–	–	–
<b>Total qualifying for Tier I capital</b>	<b>564,585</b>	<b>623,817</b>	<b>411,571</b>	<b>133,880</b>	<b>157,265</b>
<b>Tier II capital</b>					
Shareholders' loan	118,758	–	411,571	–	70,206
General debt provision	21,939	42,151	–	–	–
Revaluation reserves (limited to Tier I capital)	1,352	36,305	–	–	–
<b>Total qualifying for Tier II capital</b>	<b>142,049</b>	<b>78,456</b>	<b>411,571</b>	<b>–</b>	<b>70,206</b>
<b>Tier III capital</b>	<b>–</b>	<b>22,157</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total qualifying for Tier III capital</b>	<b>–</b>	<b>22,157</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total capital</b>	<b>706,634</b>	<b>724,430</b>	<b>823,142</b>	<b>133,880</b>	<b>227,471</b>
<b>Risk-weighted assets*</b>					
On-balance sheet assets	3,745,614	3,594,356	1,298,367	909,492	1,469,727
Off-balance sheet assets	9,058	768,632	177,892	133,652	51,641
<b>Total risk-weighted assets</b>	<b>3,754,672</b>	<b>4,362,988</b>	<b>1,476,259</b>	<b>1,043,144</b>	<b>1,521,368</b>
Capital adequacy ratio	19%	17%	56%	13%	15%
Minimum regulatory capital adequacy ratio	15%	12%	10%	12%	8%

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



Regulatory minimum capital adequacy ratios for the Group's banking operations based on December 2012 returns submitted to regulatory authorities, are summarised below:

<b>2012 BWP'000s</b>	BancABC Botswana	BancABC Zimbabwe	BancABC Zambia	BancABC Tanzania	BancABC Mozambique
<b>Tier I capital</b>					
Share capital and premium	222,479	195,232	148,116	128,973	81,319
Capital reserves and retained earnings	183,758	170,846	(614)	(112,921)	65,262
Allocation for market and operational risk	–	(18,973)	–	–	–
Intangible assets (software)/ deferred charges	–	–	–	–	(17,941)
Prepayments	–	3	–	(10,437)	–
Exposures to insiders	–	(23,872)	–	–	–
<b>Total qualifying for Tier I capital</b>	<b>406,237</b>	<b>323,236</b>	<b>147,502</b>	<b>5,615</b>	<b>128,640</b>
<b>Tier II capital</b>					
Shareholders' loan	108,730	136,028	82,905	51,802	62,184
General debt provision	18,687	32,733	–	–	–
Fair value revaluation/ available-for-sale reserve	–	5,842	–	–	–
Revaluation reserves (limited to Tier I capital)	1,352	30,094	–	–	–
<b>Total qualifying for Tier II capital</b>	<b>128,769</b>	<b>204,697</b>	<b>82,905</b>	<b>51,802</b>	<b>62,184</b>
<b>Tier III capital</b>	<b>–</b>	<b>18,973</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total qualifying for Tier III capital</b>	<b>–</b>	<b>18,973</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total capital</b>	<b>535,006</b>	<b>546,906</b>	<b>230,407</b>	<b>57,417</b>	<b>190,824</b>
Risk-weighted assets*					
On-balance sheet assets	3,280,435	3,579,286	1,047,631	881,357	1,093,708
Off-balance sheet assets	9,808	488,560	268,318	84,560	38,473
<b>Total risk-weighted assets</b>	<b>3,290,243</b>	<b>4,067,846</b>	<b>1,315,949</b>	<b>965,917</b>	<b>1,132,181</b>
Capital adequacy ratio	16%	13%	18%	6%	17%
Minimum regulatory capital adequacy ratio	15%	12%	10%	12%	8%

\* 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 an increase in shareholders' loans at subsidiary level, as well as contributions of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the lending business in most of the subsidiaries.

## CAPITAL ALLOCATION

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

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

## SEGMENT ANALYSIS

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 who 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 operating 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.

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 Tier II capital from ABCH. Interest is charged at rates disclosed in the ABCH Company stand-alone financial statements on page 136. Other material items of income or expense between the operating 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 statement of financial position.

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 2013 is as follows:

<b>2013 BWP'000s</b>	<b>BancABC Botswana</b>	<b>BancABC Mozambique</b>	<b>BancABC Tanzania</b>	<b>BancABC Zimbabwe</b>
External revenue	415,419	112,020	49,295	501,657
Inter-segment revenue	27,070	48,283	48,780	7,256
Total revenue*	442,489	160,303	98,075	508,913
Net income from operations	196,177	14,244	(29,912)	158,733
Share of results of associates	—	—	—	903
Profit before tax	196,177	14,244	(29,912)	159,636
Income tax	(43,191)	(5,204)	9,862	(41,960)
<b>Profit for the year</b>	<b>152,986</b>	<b>9,040</b>	<b>(20,050)</b>	<b>117,676</b>
<b>Attributable profit</b>	<b>152,986</b>	<b>9,040</b>	<b>(19,581)</b>	<b>117,676</b>
Financial assets held for trading	504,183	297,813	211,570	54,167
Loans and advances	3,750,476	1,471,307	574,897	3,074,298
Segment assets (excluding associates)	4,923,453	2,288,680	1,064,608	4,535,947
Associates	—	—	—	7,210
<b>Total assets</b>	<b>4,923,453</b>	<b>2,288,680</b>	<b>1,064,608</b>	<b>4,543,157</b>
Deposits	4,725,874	2,321,477	1,298,507	2,708,592
Borrowed funds	17,754	74,768	22,516	431,911
<b>Segment liabilities***</b>	<b>4,237,729</b>	<b>1,997,214</b>	<b>867,126</b>	<b>3,795,522</b>
Other segment items:				
Capital expenditure	24,155	18,711	23,297	28,912
Depreciation	10,188	14,191	6,348	29,167
Amortisation	7,193	12,576	8,105	7,536
Impairment charge	41,901	50,983	8,787	92,185
Operating expenses	246,312	146,058	127,987	350,182

\* The primary business of the Group is to provide banking services. Interest income forms a significant portion of the total income. The chief operating decision maker (CODM) assesses the Group on net margin.

\*\* Reflects non-banking operations in various geographical sectors.

\*\*\* Includes both inter-Company assets and liabilities.

\*\*\*\* The main consolidation entry relates to the elimination of inter-group income and dividends of BWP74 million as well as the investment in subsidiaries of BWP1,435 million net of goodwill of BWP33 million.

BancABC Zambia	ABCH and non-banking subsidiaries**	Sub-total	Consolidation entries****	Total
231,867	(133,744)	1,176,514	197,937	1,374,451
–	140,757	272,146	(272,146)	–
231,867	7,013	1,448,660	(74,209)	1,374,451
83,651	(90,691)	332,202	(74,209)	257,993
–	(4,907)	(4,004)	–	(4,004)
83,651	(95,598)	328,198	(74,209)	253,989
(33,762)	34,622	(79,633)	–	(79,633)
<b>49,889</b>	<b>(60,976)</b>	<b>248,565</b>	<b>(74,209)</b>	<b>174,356</b>
<b>49,889</b>	<b>(37,347)</b>	<b>272,663</b>	<b>(74,209)</b>	<b>198,454</b>
192,316	–	1,260,049	–	1,260,049
1,389,671	294,050	10,554,699	–	10,554,699
2,105,691	2,286,674	17,205,053	(1,434,718)	15,770,335
–	6,110	13,320	–	13,320
<b>2,105,691</b>	<b>2,292,784</b>	<b>17,218,373</b>	<b>(1,434,718)</b>	<b>15,783,655</b>
1,154,637	–	12,209,087	–	12,209,087
40,405	1,171,966	1,759,320	–	1,759,320
<b>1,281,079</b>	<b>2,157,321</b>	<b>14,335,991</b>	<b>–</b>	<b>14,335,991</b>
19,351	12,747	127,173	–	127,173
9,466	4,806	74,166	–	74,166
4,496	104	40,010	–	40,010
7,392	126,726	327,974	–	327,974
148,215	97,704	1,116,458	–	1,116,458

<b>2012</b>	BancABC	BancABC	BancABC	BancABC
<b>BWP'000s</b>	Botswana	Mozambique	Tanzania	Zimbabwe
External revenue	254,163.2	105,834.5	9,334.3	387,708.1
Inter-segment revenue	32,447.8	35,550.5	35,467.7	9,968.9
Total revenue*	286,611	141,385	44,802	397,677
Net income from operations	121,100	25,949	(53,659)	127,459
Share of results of associates	–	–	–	262
Profit before tax	121,100	25,949	(53,659)	127,721
Income tax	(26,666)	(8,387)	12,563	(24,370)
<b>Profit for the year</b>	<b>94,434</b>	<b>17,562</b>	<b>(41,096)</b>	<b>103,351</b>
<b>Attributable profit</b>	<b>94,434</b>	<b>17,562</b>	<b>(38,579)</b>	<b>103,351</b>
Financial assets held for trading	732,972	107,085	53,132	75,039
Loans and advances	3,410,837	876,809	746,817	2,980,618
Segment assets (excluding associates)	4,795,247	1,323,679	1,101,274	4,231,622
Associates	–	–	–	5,089
<b>Total assets</b>	<b>4,795,247</b>	<b>1,323,679</b>	<b>1,101,274</b>	<b>4,236,711</b>
Deposits	4,262,406	1,355,372	1,147,955	3,075,237
Borrowed funds	202,321	–	22,649	246,214
<b>Segment liabilities***</b>	<b>4,274,192</b>	<b>1,071,349</b>	<b>1,040,486</b>	<b>3,677,570</b>
Other segment items:				
Capital expenditure	26,087	35,861	13,046	80,432
Depreciation	7,123	9,441	4,414	21,836
Amortisation	5,254	10,650	5,874	4,907
Impairment charge	38,104	18,228	38,464	41,305
Operating expenses	165,510	115,436	98,461	270,218

\* The primary business of the Group is to provide banking services. Interest income forms a significant portion of the total income. The chief operating decision maker (CODM) assesses the Group on net margin.

\*\* Reflects non-banking operations in various geographical sectors.

\*\*\* Includes both inter-Company assets and liabilities.

\*\*\*\* The main consolidation entry relates to the elimination of inter-group dividends of BWP116 million as well as the investment in subsidiaries of BWP900 million net of goodwill of BWP33 million.

BancABC Zambia	ABCH and non-banking subsidiaries**	Sub-total	Consolidation entries****	Total
173,431.4	7,003.9	937,475	149,087	1,086,562
7,882.6	143,317.3	264,635	(264,635)	–
181,314	150,321	1,202,110	(115,548)	1,086,562
55,363	57,239	333,451	(115,548)	217,903
–	(5,892)	(5,630)	–	(5,630)
55,363	51,347	327,821	(115,548)	212,273
(19,359)	(10,889)	(77,108)	–	(77,108)
<b>36,004</b>	<b>40,458</b>	<b>250,713</b>	<b>(115,548)</b>	<b>135,165</b>
<b>36,004</b>	<b>35,550</b>	<b>248,322</b>	<b>(115,548)</b>	<b>132,774</b>
54,636	–	1,022,864	–	1,022,864
1,033,715	95,246	9,144,042	–	9,144,042
1,401,376	1,410,993	14,264,191	(867,627)	13,396,564
–	6,112	11,201	–	11,201
<b>1,401,376</b>	<b>1,417,105</b>	<b>14,275,392</b>	<b>(867,627)</b>	<b>13,407,765</b>
834,141	–	10,675,111	–	10,675,111
62,105	679,442	1,212,731	–	1,212,731
<b>1,170,970</b>	<b>1,017,114</b>	<b>12,251,681</b>	<b>–</b>	<b>12,251,681</b>
12,889	4,331	172,646	–	172,646
6,659	4,500	53,973	–	53,973
3,363	188	30,236	–	30,236
188	1,883	138,172	–	138,172
125,951	93,082	868,658	–	868,658



## Consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER 2013

BWP'000s	Notes	2013	2012
Interest and similar income		1,928,833	1,383,015
Interest expense and similar charges		(918,502)	(709,981)
<b>Net interest income before impairment of advances</b>	1	<b>1,010,331</b>	<b>673,034</b>
Impairment of loans and advances	2	(327,974)	(138,172)
<b>Net interest income after impairment of advances</b>		<b>682,357</b>	<b>534,862</b>
Non-interest income	3	692,094	551,700
<b>Total income</b>		<b>1,374,451</b>	<b>1,086,562</b>
Operating expenditure	4	(1,116,458)	(868,659)
<b>Net income from operations</b>		<b>257,993</b>	<b>217,903</b>
Share of results of associates	13	(4,004)	(5,630)
<b>Profit before tax</b>		<b>253,989</b>	<b>212,273</b>
Tax	5	(79,633)	(77,108)
<b>Profit for the year</b>		<b>174,356</b>	<b>135,165</b>
Attributable to:			
Ordinary shareholders		198,454	132,774
Non-controlling interest		(24,098)	2,391
<b>Profit for the year</b>		<b>174,356</b>	<b>135,165</b>
Basic earnings per share (thebe)	6	79.6	72.1
Diluted earnings per share (thebe)	6	79.0	66.5

## Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2013

BWP'000s	2013	2012
<b>Profit for the year</b>	<b>174,356</b>	<b>135,165</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</b>	<b>97,052</b>	<b>8,993</b>
Exchange differences on translating foreign operations	116,422	6,127
Net loss on hedge of net investment in foreign operations	(16,343)	–
Share of reserves in associate companies	551	456
Movement in available-for-sale reserves	(3,578)	2,410
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</b>	<b>1,246</b>	<b>42,760</b>
Revaluation of property	1,424	51,705
Income tax relating to components of other comprehensive income	(178)	(8,945)
Other comprehensive income net of tax	98,298	51,753
<b>Total comprehensive income for the year</b>	<b>272,654</b>	<b>186,918</b>
<b>Total comprehensive income attributable to:</b>		
Ordinary shareholders	293,586	183,634
Non-controlling interest	(20,932)	3,284
	<b>272,654</b>	<b>186,918</b>

# Consolidated statement of financial position

AS AT 31 DECEMBER 2013

BWP'000s	Notes	2013	2012
<b>ASSETS</b>			
Cash and short-term funds	7	2,304,283	1,859,269
Financial assets held for trading	8	1,260,049	1,022,864
Financial assets designated at fair value	9	261,552	189,698
Derivative financial assets	21	27,636	33,769
Loans and advances	10	10,554,699	9,144,042
Investment securities	12	67,975	54,500
Prepayments and other receivables	11	261,651	194,042
Current tax assets		32,992	31,657
Investment in associates	13	13,320	11,201
Property and equipment	15	756,832	658,838
Intangible assets	17	130,002	139,145
Deferred tax assets	16	112,664	68,740
<b>TOTAL ASSETS</b>		<b>15,783,655</b>	<b>13,407,765</b>
<b>EQUITIES AND LIABILITIES</b>			
<b>Liabilities</b>			
Deposits	18	12,209,087	10,675,111
Derivative financial liabilities	21	37,640	22,621
Creditors and accruals	20	295,883	303,365
Current tax liabilities		12,917	20,183
Deferred tax liabilities	16	21,143	17,670
Borrowed funds	19	1,759,320	1,212,731
		<b>14,335,990</b>	<b>12,251,681</b>
<b>Equity</b>			
Stated capital	22	781,025	663,401
Foreign currency translation reserve		(143,899)	(240,812)
Non-distributable reserves		242,196	337,691
Distributable reserves		570,235	376,764
<b>Equity attributable to ordinary shareholders</b>		<b>1,449,557</b>	<b>1,137,044</b>
Non-controlling interest		(1,892)	19,040
<b>Total equity</b>		<b>1,447,665</b>	<b>1,156,084</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15,783,655</b>	<b>13,407,765</b>

# Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2013

	ATTRIBUTABLE TO OWNERS OF THE PARENT			
BWP'000s	Stated capital	Foreign currency translation reserve	Regulatory risk reserve	Property revaluation reserve
<b>Balance as at 1 January 2012</b>	<b>316,592</b>	<b>(246,046)</b>	<b>13,891</b>	<b>118,283</b>
<b>Comprehensive income:</b>				
Profit for the year	–	–	–	–
<b>Other comprehensive income:</b>	<b>–</b>	<b>5,234</b>	<b>–</b>	<b>42,931</b>
Exchange differences on translating foreign operations	–	5,234	–	–
Revaluation of property net of deferred tax	–	–	–	42,760
Share of reserves in associate companies	–	–	–	171
Movement in available-for-sale reserves:	–	–	–	–
– Arising in current year	–	–	–	–
– Realised through profit and loss	–	–	–	–
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>–</b>	<b>5,234</b>	<b>–</b>	<b>42,931</b>
<b>Transfers within equity</b>				
Movement in general credit risk reserve	–	–	24,668	–
Movement in statutory reserves	–	–	–	–
<b>Total transfers within equity</b>	<b>–</b>	<b>–</b>	<b>24,668</b>	<b>–</b>
<b>Transactions with owners</b>				
Dividends paid	–	–	–	–
Convertible bond-equity component	–	–	–	–
Net proceeds from shares issued	346,809	–	–	–
<b>Total transactions with owners</b>	<b>346,809</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Balance as at 31 December 2012</b>	<b>663,401</b>	<b>(240,812)</b>	<b>38,559</b>	<b>161,214</b>
<b>Comprehensive income:</b>				
Profit for the year	–	–	–	–
<b>Other comprehensive income:</b>	<b>–</b>	<b>96,913</b>	<b>–</b>	<b>869</b>
Exchange differences on translating foreign operations	–	113,256	–	–
Net loss on hedge of net investment in foreign operations	–	(16,343)	–	–
Revaluation of property net of deferred tax	–	–	–	869
Share of reserves in associate companies	–	–	–	–
Movement in available-for-sale reserves:	–	–	–	–
– Arising in current year	–	–	–	–
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>–</b>	<b>96,913</b>	<b>–</b>	<b>869</b>
<b>Transfers within equity</b>				
Movement in general credit risk reserve	–	–	(19,482)	–
Movement in statutory reserves	–	–	3,319	–
<b>Total transfers within equity</b>	<b>–</b>	<b>–</b>	<b>(16,163)</b>	<b>–</b>
<b>Transactions with owners</b>				
Dividends paid	–	–	–	–
Net proceeds from shares issued	117,624	–	–	–
<b>Total transactions with owners</b>	<b>117,624</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Balance as at 31 December 2013</b>	<b>781,025</b>	<b>(143,899)</b>	<b>22,396</b>	<b>162,083</b>

## ATTRIBUTABLE TO OWNERS OF THE PARENT

Available- for-sale reserve	Statutory reserve	Convertible bond	Distributable reserves	Total	Non- controlling interest	Total equity
620	49,799	–	343,672	596,811	15,756	612,567
–	–	–	132,774	132,774	2,391	135,165
2,410	285	–	–	50,860	893	51,753
–	–	–	–	5,234	893	6,127
–	–	–	–	42,760	–	42,760
–	285	–	–	456	–	456
2,410	–	–	–	2,410	–	2,410
2,285	–	–	–	2,285	–	2,285
125	–	–	–	125	–	125
2,410	285	–	132,774	183,634	3,284	186,918
–	–	–	(24,668)	–	–	–
–	40,695	–	(40,695)	–	–	–
–	40,695	–	(65,363)	–	–	–
–	–	–	(34,319)	(34,319)	–	(34,319)
–	–	44,109	–	44,109	–	44,109
–	–	–	–	346,809	–	346,809
–	–	44,109	(34,319)	356,599	–	356,599
3,030	90,779	44,109	376,764	1,137,044	19,040	1,156,084
–	–	–	198,454	198,454	(24,098)	174,356
(3,578)	551	–	377	95,132	3,166	98,298
–	–	–	–	113,256	3,166	116,422
–	–	–	–	(16,343)	–	(16,343)
–	–	–	377	1,246	–	1,246
–	551	–	–	551	–	551
(3,578)	–	–	–	(3,578)	–	(3,578)
(3,578)	–	–	–	(3,578)	–	(3,578)
(3,578)	551	–	198,831	293,586	(20,932)	272,654
–	–	–	19,482	–	–	–
–	(33,065)	–	29,746	–	–	–
–	(33,065)	–	49,228	–	–	–
–	–	–	(54,588)	(54,588)	–	(54,588)
–	–	(44,109)	–	73,515	–	73,515
–	–	(44,109)	(54,588)	18,927	–	18,927
(548)	58,265	–	570,235	1,449,557	(1,892)	1,447,665

# Consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2013

BWP'000s	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(227,584)</b>	<b>49,964</b>
Cash generated from operating activities	715,013	445,675
<b>Net profit before tax</b>	<b>253,989</b>	<b>212,273</b>
<b>Adjusted for:</b>		
Impairment of loans and advances	327,974	138,172
Depreciation and amortisation	114,175	84,205
Dividends receivable	(5,266)	(6,598)
Net unrealised losses on derivative financial instruments	19,085	11,875
Re-measurement of investment property	–	176
Loss from associates	4,004	5,630
Impairment of investment in associates	1,082	–
Profit on disposal of property and equipment	(30)	(58)
Tax paid	(135,628)	(116,004)
<b>Net cash inflow from operating activities before changes in operating funds</b>	<b>579,385</b>	<b>329,671</b>
<b>Net decrease in operating funds</b>	<b>(806,969)</b>	<b>(279,707)</b>
Increase in operating assets	(1,573,392)	(3,863,473)
Increase in operating liabilities	766,423	3,583,766
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(126,106)</b>	<b>(162,456)</b>
Purchase of property and equipment	(105,435)	(138,110)
Purchase of intangible assets	(21,738)	(34,537)
Purchase of associates	(4,849)	–
Dividends received	5,266	6,598
Proceeds on disposal of property and equipment	650	1,748
Proceeds on disposal of investment property	–	1,845
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>508,680</b>	<b>552,590</b>
Increase in borrowed funds	563,268	240,100
Dividend paid	(54,588)	(34,319)
Proceeds from issue of shares	–	364,253
Share issue expenses	–	(17,444)
<b>Increase in cash and cash equivalents</b>	<b>154,990</b>	<b>440,098</b>
Cash and cash equivalents at the beginning of the year	1,314,895	864,734
Exchange adjustment on opening balance	127,777	10,063
<b>Cash and cash equivalents at the end of the year</b>	<b>1,597,662</b>	<b>1,314,895</b>
Cash and cash equivalents	1,597,662	1,314,895
Statutory reserves	706,621	544,374
<b>Cash and short-term funds</b>	<b>2,304,283</b>	<b>1,859,269</b>

# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2013

BWP'000s	2013	2012
<b>1. NET INTEREST INCOME</b>		
<b>Interest and similar income</b>		
Cash and short-term funds	65,774	20,041
Investment securities and dated financial instruments	70,963	98,771
Loans and advances at amortised cost	1,792,096	1,264,203
	<b>1,928,833</b>	<b>1,383,015</b>
<b>Interest expense</b>		
Deposits	783,930	575,650
Borrowed funds	134,572	134,331
	<b>918,502</b>	<b>709,981</b>
<b>Net interest income</b>	<b>1,010,331</b>	<b>673,034</b>
<b>2. IMPAIRMENT OF LOANS AND ADVANCES</b>		
Specific impairments	326,493	111,044
Portfolio impairments	9,754	31,374
Impairments prior to recoveries	336,247	142,418
Recoveries of loans and advances previously written off	(8,273)	(4,246)
	<b>327,974</b>	<b>138,172</b>
<b>3. NON-INTEREST INCOME</b>		
Gains from trading activities:	65,684	27,474
Gains on financial assets at fair value through profit or loss	84,769	39,349
– held for trading	40,363	26,191
– designated at fair value	44,406	13,158
Net losses on derivative financial instruments*	(19,085)	(11,875)
Dividends received:	5,266	6,598
Listed shares – fair value through profit or loss	5,266	6,598
Fee and commission income:	415,680	330,119
Net fee income on loans and advances	259,047	166,291
Net fee income from trust and fiduciary activities	19,257	15,575
Cash transaction fees	121,070	123,795
Other fee income	16,306	24,458
Other non-interest income:	205,464	187,509
Rental and other income	49,219	40,581
Profit on disposal of property and equipment	30	58
Forex trading income and currency revaluation**	156,215	147,046
Re-measurement of investment properties	–	(176)
	<b>692,094</b>	<b>551,700</b>

\* Net losses on derivative financial instruments of BWP19.1 million arose from the USD: Japanese Yen swap. In 2012, net losses included BWP14.7 million arising from the USD: Japanese Yen derivative swap, and net gains of BWP2.1 million arising from the derivative conversion option included in the IFC convertible loan (note 19).

\*\* Foreign exchange income include a foreign exchange income of BWP5.9 million (2012: BWP7.2 million) arising from the Japanese Yen exposure with NDB, disclosed in note 19. Net losses on derivative instruments include an offsetting fair value gain arising from an equal but opposite nominal Japanese Yen derivative asset.

<b>BWP'000s</b>		<b>2013</b>	2012
<b>4.</b>	<b>OPERATING EXPENDITURE</b>		
	Administrative expenses	488,407	348,169
	Property lease rentals	43,948	29,553
	Staff costs (note 4.1)	435,237	377,605
	Auditor's remuneration	8,063	8,938
	Impairment of investment in associate (note 13)	1,082	–
	Depreciation (note 15)	74,166	53,973
	Amortisation of software (note 17)	40,010	30,232
	Directors' remuneration (note 4.2)	25,545	20,189
		<b>1,116,458</b>	<b>868,659</b>
<b>4.1</b>	<b>Staff costs</b>		
	Salaries	238,582	219,070
	Employer contributions to post-retirement funds	29,968	24,532
	Other staff costs	166,687	134,003
		<b>435,237</b>	<b>377,605</b>
	Other staff costs comprise incentive pay, medical aid contributions, staff training and other staff-related expenses.		
<b>4.2</b>	<b>Directors' remuneration</b>		
	<b>Executive directors</b>		
	Salary, performance-related remuneration and other benefits	20,048	16,407
	<b>Non-executive directors</b>		
	Fees as director of holding company	3,501	2,904
	Fees as director of subsidiaries	1,996	878
		<b>5,497</b>	<b>3,782</b>
		<b>25,545</b>	<b>20,189</b>
	Details of other transactions and balances with related parties have been disclosed under note 25.		
<b>5.</b>	<b>TAX</b>		
	<b>Current tax expense</b>		
	Current year	123,373	78,206
	Under provision in prior years	–	2,227
	Withholding tax	2,566	7,025
		<b>125,939</b>	<b>87,458</b>
	<b>Deferred tax</b>		
	Accruals	2,629	(4,595)
	Impairment losses	(30,321)	(8,631)
	Property and equipment	8,573	820
	Gains and investments	10,034	6,573
	Tax losses	(37,221)	(4,517)
		<b>(46,306)</b>	<b>(10,350)</b>
	<b>Total tax expense per income statement</b>	<b>79,633</b>	<b>77,108</b>



BWP'000s	2013	2012
<b>5. TAX continued</b>		
Reconciliation of effective tax charge:		
<b>Profit before tax*</b>	<b>253,989</b>	<b>212,273</b>
Income tax using corporate tax rates*	78,249	73,323
Non-deductible expenses	5,094	20,867
Effect of share of loss of associates	779	1,201
Tax exempt revenues	(2,227)	(27,867)
Tax incentives	(628)	(8,537)
Tax on dividends received	2,471	6,965
Under provision in prior years	–	2,227
Tax and fair value losses of prior years (claimed)/not claimed	(4,105)	8,929
<b>Current tax expense per income statement</b>	<b>79,633</b>	<b>77,108</b>
<b>Effective tax rate</b>	<b>31%</b>	<b>36%</b>

\* Profit before tax is net of inter-group dividends. Income tax using corporate tax rates is calculated prior to this elimination by applying the corporate tax rates of the respective subsidiaries.

#### 5.1 Income tax effects relating to components of other comprehensive income

BWP'000s	2013			2012		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Exchange differences on translating foreign operations	116,422	–	116,422	6,127	–	6,127
Net loss on hedge of net investment in foreign operations	(16,343)	–	(16,343)	–	–	–
Revaluation of property net of deferred tax	1,424	(178)	1,246	51,705	(8,945)	42,760
Share of reserves in associate companies	551	–	551	456	–	456
Movement in available-for-sale reserves	(3,578)	–	(3,578)	2,410	–	2,410
<b>Other comprehensive income</b>	<b>98,476</b>	<b>(178)</b>	<b>98,298</b>	<b>60,698</b>	<b>(8,945)</b>	<b>51,753</b>

BWP'000s	2013	2012
<b>6. EARNINGS PER SHARE</b>		
<b>Basic earnings per share</b>		
Profit attributable to ordinary shareholders (BWP'000)	198,454	132,774
Weighted average number of ordinary shares in issue (BWP'000)	249,344	184,194
<b>Basic earnings per share (thebe)</b>	<b>79.6</b>	<b>72.1</b>
<b>Number of shares ('000)</b>		
Shares in issue at beginning of the year	232,805	149,472
Ordinary shares issued during the year	24,081	83,333
<b>Total Company</b>	<b>256,886</b>	<b>232,805</b>
<b>Total Group</b>	<b>256,886</b>	<b>232,805</b>
<b>Weighted average number of ordinary shares</b>	<b>249,344</b>	<b>184,194</b>
<b>Diluted earnings per share</b>		
Profit attributable to ordinary shareholders (BWP'000)	198,454	132,774
Interest expense on convertible debt (net of tax) (BWP'000)	4,369	13,063
Fair value gain on conversion option (net of tax) (BWP'000)	–	(1,780)
<b>Profit used to determine diluted earnings per share (BWP'000)</b>	<b>202,823</b>	<b>144,057</b>
Weighted average number of ordinary shares in issue ('000) for diluted earnings per share	249,344	184,194
– Bonus element on conversion of convertible debt	7,542	32,467
<b>Weighted average number of ordinary shares in issue ('000) for diluted earnings per share</b>	<b>256,886</b>	<b>216,661</b>
<b>Diluted earnings per share (thebe)</b>	<b>79.0</b>	<b>66.5</b>
<b>7. CASH AND SHORT-TERM FUNDS</b>		
Cash on hand	274,136	273,689
Balances with central banks	28,045	174,380
Balances with other banks	1,295,481	866,826
Cash and cash equivalents	1,597,662	1,314,895
Statutory reserve balances	706,621	544,374
	<b>2,304,283</b>	<b>1,859,269</b>
Statutory reserve balances are restricted minimum statutory balances not available for the banking operation's daily operations. These balances do not accrue interest.		
<b>8. FINANCIAL ASSETS HELD FOR TRADING</b>		
Government bonds	71,892	73,580
Corporate bonds	35,803	30,206
Treasury bills and other open market instruments	1,152,354	919,078
	<b>1,260,049</b>	<b>1,022,864</b>
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.		

BWP'000s	2013	2012
<b>9. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE</b>		
Listed equities	4,337	9,928
Listed debentures	33,887	27,201
Unlisted equities and debentures	223,328	152,569
	<b>261,552</b>	<b>189,698</b>

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 a BWP121 million (2012: BWP80 million) investment in a 10% convertible loan to ADC Enterprises Limited. The balance comprises of a number of unlisted equity investments housed in an investment company in the Group (refer to the overview of valuation assumptions included in the financial risk management section of the financial statements).

BWP'000s	2013	2012
<b>10. LOANS AND ADVANCES</b>		
Mortgage lending	349,044	268,054
Instalment finance	670,372	561,501
Corporate lending	5,381,767	4,611,729
Commercial and property finance	53,716	54,066
Consumer lending	4,711,160	3,964,885
	11,166,059	9,460,235
Less impairments (note 10.1)	(611,360)	(316,193)
<b>Net loans and advances</b>	<b>10,554,699</b>	<b>9,144,042</b>
<b>10.1 Analysis of impairments</b>		
Specific impairments	516,887	237,701
Portfolio impairments	94,473	78,492
	<b>611,360</b>	<b>316,193</b>

#### 10.2 Impairment of loans and advances – movement analysis

BWP'000s	Total impair- ments	Mortgage lending	Instal- ment finance	Corporate lending	Commercial and property finance	Consumer lending
<b>2013</b>						
Opening balance	316,193	1,183	16,278	242,760	1,424	54,548
Exchange adjustment	39,914	73	1,261	34,115	(0)	4,465
Bad debts written off	(80,994)	–	(1,634)	(77,023)	–	(2,337)
Net new impairments created (note 2)	336,247	595	9,541	280,035	(1,398)	47,474
Impairments created	336,247	595	9,541	280,035	(1,398)	47,474
<b>Closing balance</b>	<b>611,360</b>	<b>1,851</b>	<b>25,446</b>	<b>479,887</b>	<b>26</b>	<b>104,150</b>
<b>2012</b>						
Opening balance	217,560	1,234	12,814	180,417	1,424	21,671
Exchange adjustment	5,813	24	(2,712)	4,837	–	3,664
Bad debts written off	(49,598)	–	(2,211)	(40,618)	–	(6,769)
Net new impairments created (note 2)	142,418	(75)	8,387	98,124	–	35,982
Impairments created	142,418	(75)	8,387	98,124	–	35,982
<b>Closing balance</b>	<b>316,193</b>	<b>1,183</b>	<b>16,278</b>	<b>242,760</b>	<b>1,424</b>	<b>54,548</b>

<b>BWP'000s</b>	<b>2013</b>	<b>2012</b>
<b>11. PREPAYMENTS AND OTHER RECEIVABLES</b>		
Accounts receivable and prepayments	232,972	153,420
Security deposits	2,813	4,691
Other amounts due	25,866	35,931
	<b>261,651</b>	<b>194,042</b>
<b>12. INVESTMENT SECURITIES</b>		
Available-for-sale		
Listed equities	2,525	–
Unlisted equities	15,927	8,647
	<b>18,452</b>	<b>8,647</b>
Held-to-maturity		
Promissory notes	49,523	45,853
	<b>67,975</b>	<b>54,500</b>
<p>The investments in unlisted equities are accounted for at fair value. Refer to the fair value note under financial risk management for details.</p> <p>The promissory notes are partial security for the loan from BIFM (note 19). The promissory notes earn a fixed interest of 10.25% per annum, and are redeemable on 31 March 2015.</p> <p>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.</p>		
<b>13. INVESTMENT IN ASSOCIATES</b>		
Carrying value at the beginning of the year	11,201	17,539
Exchange rate adjustment	3,410	244
Share of losses	(4,004)	(5,630)
Tax	(1,605)	(1,408)
Share of other comprehensive income	551	456
Impairment (note 4)	(1,082)	–
Additions*	4,849	–
	<b>13,320</b>	<b>11,201</b>

\* Refer to note 29 for an overview of additions.

**13. INVESTMENT IN ASSOCIATES continued****13.1 Investment in associates**

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

BWP'000s	Country of incorporation	Share of assets	Share of liabilities	Carrying amount	Share of profit/(loss)	Impairment during the year	% interest held	Reporting date
<b>2013</b>								
Lion of Tanzania Insurance Company Limited*	Tanzania	34,469	28,018	6,110	522	–	42	31 December
PG Industries (Botswana) Limited	Botswana	20,123	20,403	–	(5,430)	1,082	37	31 March
Credit Insurance Zimbabwe Limited	Zimbabwe	9,437	2,239	7,210	904	–	24	31 December
		<b>64,029</b>	<b>50,660</b>	<b>13,320</b>	<b>(4,004)</b>	<b>1,082</b>		
<b>2012</b>								
Lion of Tanzania Insurance Company Limited*	Tanzania	26,224	21,194	4,450	42	–	38	31 December
PG Industries (Botswana) Limited	Botswana	21,915	18,950	1,663	(6,108)	–	37	31 March
Credit Insurance Zimbabwe Limited	Zimbabwe	9,814	4,627	5,088	436	–	24	31 December
		<b>57,953</b>	<b>44,771</b>	<b>11,201</b>	<b>(5,630)</b>	<b>–</b>		

\* 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 2012.

**Associate #1****Name of the associate: Lion of Tanzania Insurance Company Limited**

Nature of the entity's relationship with the associate: ABC Holdings Limited is an investor in Lion of Tanzania (LOT), through its subsidiary Tanzania Development Finance Company Limited. LOT is an insurance company, which underwrites general insurance business in Tanzania. The investment is not strategic to ABC Holdings Limited or any of its subsidiaries.

Principal place of business and country of incorporation	Tanzania
Reporting date	31 December
Proportion of ownership	38%
Total no of equity shares	1,500,000
Shares held by ABCH	570,000
Local currency (LCY)	TZS
Par value (LCY)	1,000

Financial information for the associate:	2012 in LCY'000	2012 in BWP'000	2011 in LCY'000	2011 in BWP'000
Total assets	16,403,737	90,709	14,071,865	69,010
Total liabilities	(13,333,383)	(73,731)	(11,372,800)	(55,773)
<b>Equity</b>	<b>3,070,354</b>	<b>16,978</b>	<b>2,699,065</b>	<b>13,237</b>
Proportion of the Group's equity ownership	38%	38%	38%	38%
<b>Carrying amount of the investment</b>	<b>1,104,860</b>	<b>6,110</b>	<b>907,404</b>	<b>4,450</b>

**13. INVESTMENT IN ASSOCIATES continued****13.1 Investment in associates continued**

	2012 in LCY'000	2012 in BWP'000	2011 in LCY'000	2011 in BWP'000
<b>Revenue</b>	<b>14,799,315</b>	<b>77,436</b>	<b>11,445,500</b>	<b>54,870</b>
Profit or loss from continuing operations	168,486	882	122,750	588
Other comprehensive income	202,803	1,061	114,426	549
<b>Total comprehensive income</b>	<b>371,289</b>	<b>1,943</b>	<b>237,176</b>	<b>1,137</b>
Risks associated with the Group's interest in the associate	None		None	
The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the Group	None		None	

**Associate #2****Name of the associate: PG Industries (Botswana) Limited**

Nature of the entity's relationship with the associate ABC Holdings Limited is an investor in PG Industries Botswana Limited (PGIB), through its subsidiary Bohemian Holdings Botswana Limited. PGIB manufactures timber and wood products and it is also a supplier of general building materials in Botswana. The investment is not strategic to ABC Holdings Limited or any of its subsidiaries.

Principal place of business and country of incorporation	Botswana
Reporting date	31 March
Proportion of ownership	42%
Total no of equity shares	618,429,831
Shares held by ABCH	260,239,565
Local currency (LCY)	BWP
Par value (LCY)	1

<b>Financial information for the associate:</b>	2013 in LCY'000	2013 in BWP'000	2012 in LCY'000	2012 in BWP'000
<b>Current assets</b>	<b>31,879</b>	<b>31,879</b>	<b>44,154</b>	<b>44,154</b>
Non-current assets	15,941	15,941	15,544	15,544
Current liabilities	(34,969)	(34,969)	(51,621)	(51,621)
Non-current liabilities	(13,517)	(13,517)	(2,701)	(2,701)
<b>Equity</b>	<b>(666)</b>	<b>(666)</b>	<b>5,376</b>	<b>5,376</b>
Proportion of the Group's equity ownership	42%	42%	38%	38%
<b>Carrying amount of the investment</b>	<b>–</b>	<b>–</b>	<b>1,663</b>	<b>1,663</b>

	2013 in LCY'000	2013 in BWP'000	2012 in LCY'000	2012 in BWP'000
<b>Revenue</b>	<b>72,148</b>	<b>72,148</b>	<b>101,959</b>	<b>101,959</b>
Profit or loss from continuing operations	(21,603)	(21,603)	(20,544)	(20,544)
Other comprehensive income	(16,694)	(16,694)	8,650	8,650
<b>Total comprehensive income</b>	<b>(38,297)</b>	<b>(38,297)</b>	<b>(11,894)</b>	<b>(11,894)</b>
Risks associated with the Group's interest in the associate	Bohemian Holdings Limited, a subsidiary of ABCH has given a guarantee to PG Botswana Industries Limited's suppliers of BWP2,611,000.		None	
The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the Group	None		None	

**13. INVESTMENT IN ASSOCIATES continued****13.1 Investment in associates continued**

Associate #3

**Name of the associate:****Credit Insurance Zimbabwe Limited**

Nature of the entity's relationship with the associate

ABC Holdings Limited is an investor in Credit Insurance Zimbabwe Limited (Credsurre), through its subsidiary BancABC Zimbabwe. Credsurre is an insurance company, which underwrites general insurance business in Zimbabwe. The investment is not strategic to ABC Holdings Limited or any of its subsidiaries.

Principal place of business and country of incorporation

Zimbabwe

Reporting date

31 December

Proportion of ownership

24%

Total no of equity shares

45,000

Shares held by ABCH

10,823

Local currency (LCY)

USD

Par value (LCY)

0.0479

<b>Financial information for the associate:</b>	<b>2013 in LCY '000</b>	<b>2013 in BWP'000</b>	<b>2012 in LCY '000</b>	<b>2012 in BWP'000</b>
<b>Current assets</b>	<b>1,957</b>	<b>17,172</b>	<b>2,898</b>	<b>22,527</b>
Non-current assets	2,514	22,065	2,195	17,060
Current liabilities	(1,061)	(9,308)	(2,102)	(16,338)
Non-current liabilities	–	–	–	–
<b>Equity</b>	<b>3,410</b>	<b>29,929</b>	<b>2,991</b>	<b>23,249</b>
Proportion of the Group's equity ownership	24%	24%	24%	24%
<b>Carrying amount of the investment</b>	<b>820</b>	<b>7,210</b>	<b>719</b>	<b>5,088</b>

	<b>2013 in LCY '000</b>	<b>2013 in BWP'000</b>	<b>2012 in LCY '000</b>	<b>2012 in BWP'000</b>
<b>Revenue</b>	<b>5,035</b>	<b>42,579</b>	<b>5,313</b>	<b>40,386</b>
Profit or loss from continuing operations	169	1,433	459	3,492
<b>Total comprehensive income</b>	<b>169</b>	<b>1,433</b>	<b>459</b>	<b>3,492</b>
Risks associated with the Group's interest in the associate	None		None	
The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the Group	None		None	

**BWP'000s****2013**

2012

**14. INVESTMENT PROPERTY**

Balance at the beginning of the year

–

2,021

Disposal

–

(2,021)

**Balance at end of the year**

–

–

**Rental income recognised in the income statement**

–

–

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



## 15. PROPERTY AND EQUIPMENT

BWP'000s	Land and buildings	Motor vehicles	Computer and office equipment	Furniture and fittings	Total
Cost or valuation at 31 December 2012	471,636	26,422	187,429	113,399	798,886
Exchange adjustment	49,126	2,789	18,925	6,629	77,469
Additions	38,528	3,710	30,167	33,030	105,435
Revaluation surplus (gross of deferred tax)*	763	–	–	–	763
Disposals	–	(997)	–	(1,972)	(2,969)
<b>Cost or valuation at 31 December 2013</b>	<b>560,053</b>	<b>31,924</b>	<b>236,521</b>	<b>151,086</b>	<b>979,584</b>
Accumulated depreciation at 31 December 2012	(29,930)	(9,308)	(73,826)	(26,984)	(140,048)
Exchange adjustment	(2,042)	(759)	(6,900)	(1,847)	(11,548)
Disposals	–	616	–	1,733	2,349
Released on revaluation	661	–	–	–	661
Charge for the year	(21,773)	(4,476)	(35,326)	(12,591)	(74,166)
Accumulated depreciation at 31 December 2013	(53,084)	(13,927)	(116,052)	(39,689)	(222,752)
<b>Carrying amount at 31 December 2013</b>	<b>506,969</b>	<b>17,997</b>	<b>120,469</b>	<b>111,397</b>	<b>756,832</b>
Cost or valuation at 31 December 2011	370,403	21,754	137,309	80,202	609,668
Exchange adjustment	2,659	399	4,297	866	8,221
Additions	46,872	7,712	49,688	33,838	138,110
Revaluation surplus (gross of deferred tax)*	51,705	–	–	–	51,705
Reclassifications	–	–	–	–	–
Disposals	(3)	(3,443)	(3,865)	(1,507)	(8,818)
<b>Cost or valuation at 31 December 2012</b>	<b>471,636</b>	<b>26,422</b>	<b>187,429</b>	<b>113,399</b>	<b>798,886</b>
Accumulated depreciation at 31 December 2011	(16,209)	(8,615)	(51,124)	(18,840)	(94,788)
Exchange adjustment	1,927	86	(373)	(54)	1,586
Disposals	4	2,194	3,714	1,215	7,127
Reclassifications	–	–	–	–	–
Charge for the year	(15,652)	(2,973)	(26,043)	(9,305)	(53,973)
Accumulated depreciation at 31 December 2012	(29,930)	(9,308)	(73,826)	(26,984)	(140,048)
<b>Carrying amount at 31 December 2012</b>	<b>441,706</b>	<b>17,114</b>	<b>113,603</b>	<b>86,415</b>	<b>658,838</b>

\* Land and buildings are revalued by independent professional valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, based on open market value every three years. In the current year, certain land and buildings in Botswana were revalued at BWP29.2 million (2012: BWP350 million). The carrying cost of this land and buildings had the revaluation not been done would have been BWP25 million (2012: BWP298 million).

BWP'000s	2013	2012
Carrying amount of revalued land and buildings had it not been revalued, including exchange differences	345,217	307,603
As at 31 December 2013, land and buildings with a carrying amount of BWP29.2 million (2012: BWP28.4 million) were subject to a registered debenture that forms security for loans from other financial institutions (see note 27).		

BWP'000s	2013	2012
<b>16. DEFERRED TAX</b>		
Balance at the beginning of the year	51,070	53,106
Exchange adjustment	(5,677)	(3,441)
Income statement charge (note 5)	46,306	10,350
Deferred tax on amounts charged to equity	(178)	(8,945)
	<b>91,521</b>	<b>51,070</b>
Disclosed as follows:		
Deferred tax asset	112,664	68,740
Deferred tax liability	(21,143)	(17,670)
	<b>91,521</b>	<b>51,070</b>
Tax effects of temporary differences:		
Accruals	21,057	6
Impairment losses	32,542	23,046
Property and equipment	(36,716)	(25,661)
Unrealised gains on investment	(15,204)	(8,265)
Unearned income	12,352	13,348
Revaluation surplus	(17,418)	(10,073)
Tax losses	94,908	58,669
	<b>91,521</b>	<b>51,070</b>
The deferred tax asset relates mainly to tax losses in ABC Holdings Limited (BWP26 million), BancABC Tanzania (BWP32 million), BancABC Zimbabwe (BWP17 million) and Tanzania Development Finance Corporation Limited (BWP30 million). Tax losses for ABC Holdings Limited will be utilised by charging management fees or interest on finance provided to subsidiaries. For BancABC Tanzania and TDFL, new revenue streams and disposal of investments at a profit will be applied to utilise the tax loss.		
<b>17. INTANGIBLE ASSETS</b>		
Goodwill	32,544	32,544
Software	97,458	106,601
	<b>130,002</b>	<b>139,145</b>
<b>Goodwill</b>		
Cost	67,342	67,342
Impairments losses	(34,798)	(34,798)
<b>Carrying amount at the end of the year</b>	<b>32,544</b>	<b>32,544</b>
<b>Software</b>		
<b>Cost</b>		
Balance at the beginning of the year (software)	171,899	137,366
Exchange rate adjustment	16,206	(4)
Additions	21,738	34,537
	<b>209,843</b>	<b>171,899</b>
<b>Amortisation</b>		
Balance at the beginning of the year	(65,298)	(39,548)
Exchange rate adjustment	(7,077)	4,482
Amortisation charge (note 4)	(40,010)	(30,232)
	<b>(112,385)</b>	<b>(65,298)</b>
<b>Carrying amount at the end of the year</b>	<b>97,458</b>	<b>106,601</b>

**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 cash flows, considering local market conditions and management's judgement of future trends.

The most significant goodwill arises from the Zimbabwe operations with a balance of BWP21.9 million (2012: BWP21.9 million). The key assumptions used in the impairment test of the Zimbabwe operations are as follows:

- Projected compounded free cash flows growth of 27% per annum for five years (2012: 19% per annum for five years)
- Terminal value based on 5% long-term cash flow growth rate (2012: 5%)
- Weighted average cost of capital of 11.7% (2012: 12.47%)

The recoverable amount of this subsidiary was based on its value in use, determined by discounting the future cash flows to be generated from the continuing investment in the subsidiary. 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.

<b>BWP'000s</b>	<b>2013</b>	<b>2012</b>
<b>18. DEPOSITS</b>		
Deposits from banks	1,421,781	1,067,685
Deposits from other customers	10,787,306	9,607,426
	<b>12,209,087</b>	<b>10,675,111</b>
<b>Payable on demand</b>		
Corporate customers	2,212,761	1,759,714
Public sector	335,931	388,013
Retail customers	1,003,330	788,869
Other financial institutions	266,168	447,136
Banks	378,750	101,864
	<b>4,196,940</b>	<b>3,485,596</b>
<b>Term deposits</b>		
Corporate customers	2,279,063	2,536,265
Public sector	2,810,636	2,547,487
Retail customers	489,768	209,703
Other financial institutions	1,389,649	930,239
Banks	1,043,031	965,821
	<b>8,012,147</b>	<b>7,189,515</b>
	<b>12,209,087</b>	<b>10,675,111</b>
<b>Geographical analysis</b>		
Botswana	4,553,945	4,139,104
Mozambique	2,321,478	1,396,721
Tanzania	1,298,507	1,147,955
Zambia	1,154,637	792,792
Zimbabwe	2,880,520	3,198,539
	<b>12,209,087</b>	<b>10,675,111</b>

BWP'000s	2013	2012
<b>19. BORROWED FUNDS</b>		
Convertible bond	–	97,950
Other borrowed funds	1,759,320	1,114,781
	<b>1,759,320</b>	<b>1,212,731</b>
<b>(a) Convertible bond</b>		
Balance at the beginning of the year	97,950	84,619
Interest expense	5,140	15,368
Interest paid	(2,400)	(5,414)
Capital repayment	(27,174)	–
Conversion into equity	(73,516)	–
Exchange rate movement	–	3,377
	<b>–</b>	<b>97,950</b>

During 2011, the Group issued a US Dollar denominated convertible loan to International Finance Corporation (IFC) for US\$13.5 million. The loan attracted interest of 6 months LIBOR + 3.75% per annum, payable semi-annually and it was convertible at IFC's option as follows:

- BWP3.15 per share at any time during the period from 13 May 2011 to 12 May 2012;
- BWP3.24 per share at any time during the period from 13 May 2012 to 12 May 2013; or
- if at any time during the conversion period, the Group raised 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 were originally as follows:

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

On 22 August 2012, the Group modified the loan into a Botswana Pula denominated loan. The present value of the new cash flows discounted at the previous effective interest rate were not materially different from those of the old loan and therefore the loan was not de-recognised but the effective interest rate was adjusted for this difference in cash flows. The equity component of the loan, derived as the difference between the fair value of the combined instrument and the fair value of the loan, was transferred to equity – see note 21.2. The revised loan attracted interest at the 91-day Bank of Botswana Certificate yield rate + 4.10% per annum, payable quarterly with the premium re-setting quarterly. It was convertible at IFC's option at BWP3.24 per share at any time up to 12 May 2013.

The redemption dates for the principal amount are as follows:

15 March 2013 – BWP27,173,913	15 September 2013 – BWP27,173,913
15 March 2014 – BWP27,173,913	15 September 2014 – BWP23,672,120

On 25 April 2013, IFC converted the remaining balance of the loan into equity at an exercise price of BWP3.24 per share. 24,080,230 shares were issued by the Company under this conversion (see note 22).

BWP'000s	2013	2012
<b>19. BORROWED FUNDS continued</b>		
<b>(b) Other borrowed funds</b>		
National Development Bank of Botswana Limited	67,175	94,785
BIFM Capital Investment Fund One (Pty) Limited	256,352	256,067
Afrexim Bank	821,765	314,029
Africa Agriculture and Trade Investment Fund S.A.	216,843	-
Norsad Finance Limited	131,738	-
Standard Chartered Bank Botswana Limited	-	116,814
Other	265,447	333,086
	<b>1,759,320</b>	<b>1,114,781</b>
Fair value		
National Development Bank of Botswana Limited	67,526	97,499
BIFM Capital Investment Fund One (Pty) Limited	308,204	318,137
Afrexim Bank	822,511	319,175
Africa Agriculture and Trade Investment Fund S.A.	244,919	-
Norsad Finance Limited	150,331	-
Standard Chartered Bank Botswana Limited	-	116,814
Other	265,449	333,086
	<b>1,858,940</b>	<b>1,184,711</b>

**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) Limited**

The loan from BIFM Capital Investment Fund One (Pty) Limited 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**

The loans from Afrexim Bank Limited consist of US\$60 million advanced to ABC Holdings Limited (ABCH) and US\$33 million advanced to ABC Zimbabwe Limited. The US\$60 million short-term credit facility was advanced to ABCH in July 2013. The loan attracts interest at 3 months LIBOR + 5% and it is repayable on 10 January 2014, but with a provision to extend it for a further, mutually agreeable period.

The US\$60 million advanced to ABCH was designated as a hedge in the net investment by the Group in BancABC Zimbabwe.

The US\$33 million trade finance facility was availed to ABC Zimbabwe by Afrexim Bank Limited for three years from December 2013. It attracts interest at LIBOR + 4.5% and it is repayable on the earlier of when the underlying customers funded repay their respective loans or in December 2016.

**19. BORROWED FUNDS continued****(b) Other borrowed funds continued****Africa Agriculture and Trade Investment Fund S.A. (AATIF)**

The loan from AATIF is denominated in US Dollars and attracts interest at three months LIBOR + 6.25%. Interest is payable quarterly on 31 March, 30 June, 30 September and 31 December. The loan matures on 21 December 2018 when the full principal amount is due for repayment in one instalment.

**Norsad Finance Limited**

The loans from Norsad Finance Limited were advanced to ABC Holdings Limited (ABCH) as well as BancABC Zambia and BancABC Zimbabwe. The US\$10 million loan advanced to ABCH is a subordinated loan denominated and attracts interest at 6 months LIBOR + 7.5%. Interest is payable semi-annually on 30 June and 31 December. The loan matures on 9 October 2020 when the full principal amount is due for repayment in one instalment. The loans advanced to BancABC Zambia and BancABC Zimbabwe are also denominated in US dollars and attract interest of between 7% and 12% per annum and they mature between 2014 and 2015.

**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	2013	2012
<b>Maturity analysis</b>		
On demand to one month	535,289	2,324
One to three months	21,025	41,089
Three months to one year	78,762	713,524
Over one year	1,124,244	455,794
	<b>1,759,320</b>	<b>1,212,731</b>
<b>20. CREDITORS AND ACCRUALS</b>		
Accrued expenses	228,733	160,283
Other amounts due	67,150	143,082
	<b>295,883</b>	<b>303,365</b>

**21. DERIVATIVE FINANCIAL INSTRUMENTS**

	2013		2012	
BWP'000s	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swaps	–	8,808	8,914	–
Forward foreign exchange contracts – held for trading	27,636	2,078	24,855	2,790
Equity derivative	–	26,754	–	19,831
	<b>27,636</b>	<b>37,640</b>	<b>33,769</b>	<b>22,621</b>

**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 the Group's exposure to credit or price risks.

**21. DERIVATIVE FINANCIAL INSTRUMENTS continued****21.1 Cross-currency interest rate swaps continued**

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
<b>At 31 December 2013</b>		
Cross-currency interest rate swaps		
Fair value through profit and loss	67,175	8,808
<b>Total recognised derivatives</b>		<b>8,808</b>
Comprising:		
Derivative financial liabilities		8,808
<b>At 31 December 2012</b>		
Cross-currency interest rate swaps		
Fair value through profit and loss	94,785	8,914
<b>Total recognised derivatives</b>		<b>8,914</b>
Comprising:		
Derivative financial assets		8,914
	<b>2013</b>	2012
<b>21.2 Convertible bond option</b>		
Balance at the beginning of the year	–	46,852
Fair value gains	–	(2,743)
Transfer to reserves	–	(44,109)
	<b>–</b>	<b>–</b>

The convertible bond option is in relation to the IFC convertible loan issued by the Group on 13 May 2011. Following the modification of the instrument on 22 August 2012 from a US Dollar denominated instrument into a Botswana Pula denominated instrument, the conversion option on that date was transferred to equity. See also note 19.

**21.3 Forward foreign exchange contracts**

The notional amounts of outstanding forward foreign exchange contracts at 31 December 2013 were BWP982 million (2012: BWP1,055 million).

These resulted in derivative financial assets of BWP27.6 million (2012: BWP24.9 million) and derivative financial liabilities of BWP2.1 million (2012: BWP2.8 million).

**21.4 Equity derivative**

This comprises of an equity derivative on an unlisted energy company of BWP26.8 million (2012: BWP19.8 million). Gains and losses on fair value movements are shared equally between the Group and a third party.



BWP'000s	2013	2012
<b>22. STATED CAPITAL</b>		
<b>22.1 Issued and fully paid</b>		
256,885,694 (2012: 232,805,464) shares	12,844	11,640
Share premium	768,181	651,761
Total Company	781,025	663,401
<b>Total Group</b>	<b>781,025</b>	<b>663,401</b>

	Share capital	Share premium	Total
At 1 January 2012	7,474	309,118	316,592
Issue of shares	4,166	342,643	346,809
At 31 December 2012	11,640	651,761	663,401
Issue of shares	1,204	116,420	117,624
<b>At 31 December 2013</b>	<b>12,844</b>	<b>768,181</b>	<b>781,025</b>

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 both 31 December 2013 and 2012, there were no treasury shares held within the Group.

	2013	2012
<b>22.2 Reconciliation of the number of shares in issue</b>		
Shares at the beginning of the year	232,805,464	149,472,131
Shares issued*	24,080,230	83,333,333
<b>At the end of the year</b>	<b>256,885,694</b>	<b>232,805,464</b>

\* During the year, the International Finance Corporation (IFC) converted the outstanding convertible loan balance as at 25 April 2013 into equity. The exercise price was BWP3.24 per share.

\* In 2012, the Company undertook a rights issue in terms of which one ordinary share was issued for every 1.7937 issued ordinary shares held by existing shareholders. Each rights offer share was offered at BWP4.28 or USD0.60. Proceeds from the rights issue total BWP364.3 million against which rights issue expenses of BWP174 million were offset, of these BWP10.9 million relates to the under-writing commission paid to ADC Financial Services and Corporate Development, a related party.

<b>22.3 Convertible bond – equity component</b>		
Balance at the beginning of the year	44,109	–
Transfer from derivative liabilities (note 21.2)	–	44,109
Conversion into equity	(44,109)	–
<b>Balance at the end of the year</b>	<b>–</b>	<b>44,109</b>

BWP'000s	2013	2012
<b>23. FUNDS UNDER MANAGEMENT</b>		
Funds under management	<b>613,028</b>	<b>426,839</b>

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

#### 24. EMPLOYEE BENEFITS

The Group 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.

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 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. Loans to associates as at 31 December 2013 amounted to BWP5.9 million (2012: BWP8.6 million) which represents 0.4% (2012: 0.7%) of shareholders' funds, and 0.05% (2012: 0.09%) of gross loans.

ABC Consulting and Management Services Limited has entered into management services agreements with Group companies. 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.

Details of inter-company management fees incurred during the year have been disclosed in note 4 of the separate company financial statements.

##### Shareholders

During 2011, 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 SPE which, with the funds of other investors, was invested in a foreign bank. ADC is a significant shareholder of the Group. The investment balance as at 31 December 2012 was BWP121 million (2012: BWP80 million) and has been classified as financial assets designated at fair value.

##### Directors and officers

Emoluments to directors have been disclosed in note 4.2. The list of directors of ABC 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 2012 is BWP45.4 million (2012: BWP68.9 million) which represents 3% (2012: 6%) of shareholders' funds.

**25. RELATED PARTY TRANSACTIONS continued**

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

BWP'000s	2013		2012	
	Balance	Interest	Balance	Interest
<b>Loans and advances to entities related through shareholding:</b>				
PG Industries (Botswana) Limited	6,082	944	8,626	1,381
	<b>6,082</b>	<b>944</b>	<b>8,626</b>	<b>1,381</b>
<b>Loans and advances to entities related to directors:</b>				
Loans and advances to entities related to N Kudenga	6,028	1,897	7,281	1,346
Loans and advances to entities related to H Buttery	5,327	1,922	34,953	3,003
Loans and advances to entities related to D T Munatsi	20,658	722	15,541	1,765
Loans and advances to entities related to F M Dzanya	1,265	307	1,050	226
	<b>33,278</b>	<b>4,848</b>	<b>58,825</b>	<b>6,340</b>
<b>Loans and advances to directors:</b>				
D T Munatsi	2,478	177	1,055	148
F Dzanya	3,222	263	2,955	428
B Moyo	651	53	594	238
	<b>6,351</b>	<b>493</b>	<b>4,604</b>	<b>814</b>
<b>Loans and advances to key management:</b>				
H Matemera	2,304	176	2,357	25
B Mudavanhu	3,447	246	3,094	217
	<b>5,751</b>	<b>422</b>	<b>5,451</b>	<b>242</b>
<b>Loans and advances to entities under common control:</b>				
Brainworks Investments Limited	18,558	2,603	14,132	1,943
	<b>18,558</b>	<b>2,603</b>	<b>14,132</b>	<b>1,943</b>
<b>Deposits held by entities related to directors and key management:</b>				
D Khama – Doreen Khama Attorneys Trust Account	11,654	281	10,039	224
Kudenga & Company Chartered Accountants	23	–	403	–
Deposits from entities related to F Dzanya	1	–	75	–
Deposits from entities related to D T Munatsi	64	–	1,643	–
	<b>11,742</b>	<b>281</b>	<b>12,160</b>	<b>224</b>
<b>Deposits held by directors and key management:</b>				
N Kudenga	290	5	303	1
F Dzanya	18	2	56	2
B Moyo	86	–	70	–
H Matemera	214	–	110	2
D Khama	1,287	26	750	36
D T Munatsi	142	11	1,218	48
B Mudavanhu	6	–	–	–
	<b>2,043</b>	<b>44</b>	<b>2,507</b>	<b>89</b>
<b>Remuneration to key management personnel:</b>				
Short-term employment benefits	26,984		22,517	
Post-employment benefits	1,812		1,284	
	<b>28,796</b>		<b>23,801</b>	

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.

<b>BWP'000s</b>	<b>Closing Dec 13</b>	<b>Average Dec 13</b>	Closing Dec 12	Average Dec 12
<b>26. EXCHANGE RATES</b>				
United States Dollar	0.114	0.118	0.129	0.132
Tanzanian Shilling	180.839	191.116	203.911	208.592
Zambian Kwacha	0.629	0.640	668.338	680.801
Mozambican Metical	3.428	3.560	3.827	3.754
South African Rand	1.203	1.154	1.090	1.076

<b>BWP'000s</b>	<b>2013</b>	2012
<b>27. COLLATERAL</b>		
<b>27.1 Liabilities for which collateral is pledged</b>		
Deposits from banks	267,870	440,493
Deposits from customers	114,866	343,077
Borrowed funds	274,106	458,388
	<b>656,842</b>	<b>1,241,958</b>
Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
Cash and short-term funds	–	50,124
Bankers' acceptances	167,784	733,446
Financial assets held for trading	312,942	439,479
Property and equipment	29,200	–
Investment securities	49,523	45,853
	<b>559,449</b>	<b>1,268,902</b>
These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.		
<b>27.2 Collateral accepted as security for assets</b>		
Deposits from customers	316,624	85,779
Mortgage bonds, inventory, plant and equipment, shares, letters of undertaking	4,229,032	2,629,442
	<b>4,545,656</b>	<b>2,715,221</b>
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.		

BWP'000s	2013	2012
<b>28. ORDINARY DIVIDENDS</b>		
Dividend of 8 thebe per share paid on 3 May 2013 to shareholders on the register on 12 April 2013	18,624	–
Dividend of 14 thebe per share paid on 13 September 2013 to shareholders on the register on 30 August 2013	35,964	–
Dividend of 10.5 thebe per share paid on 4 May 2012 to shareholders on the register on 13 April 2012	–	15,695
Dividend of 8 thebe per share paid on 21 September 2012 to shareholders on the register on 7 September 2012	–	18,624
	<b>54,588</b>	<b>34,319</b>
<p>The Board of Directors proposed a gross final dividend in respect of the year ended 31 December 2013 of 4.5 thebe per ordinary share. This will bring the full year dividend to 18.5 thebe per share. There are no tax consequences to the Company for declaring or paying out a dividend.</p> <p>However, for some investors resident in Botswana, a withholding tax of 7.5% applies. For investors not resident in Botswana, there are no tax consequence of this dividend.</p>		
<b>29. ACQUISITIONS AND DISPOSAL OF ASSOCIATE COMPANIES</b>		
<p>During 2013, the Group acquired additional shares in PG Industries (Botswana) for BWP4.8 million. This increased the Group's shareholding in this entity from 38% to just over 42%.</p>		
<b>30. EVENTS AFTER THE REPORTING DATE</b>		
<p>There were no significant events after the reporting date.</p>		



**7.0%** (2013 est)  
GDP GROWTH



Mozambique is spending

**US\$50 billion**

in infrastructure to access  
its coal reserves

Mozambique  
exported its first  
batch of coal in 2011



Mozambique hopes to become  
the **world's largest coal exporter**

Largest contributing sector  
to GDP is **agriculture and  
fisheries** with **29%**



Exports: **Aluminium, coal, bulk electricity, lumber, cotton, prawns, cashews, sugar and citrus**

Mozambique has more than  
**30 trillion**  
cubic feet of natural gas

SMEs accounted for **66%**  
of total employment

Mozambique's Government  
focal sector is **Agriculture**

## COMPANY SEPARATE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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## Company income statement

FOR THE YEAR ENDED 31 DECEMBER

BWP'000s	Notes	2013	2012
Interest and similar income		94,064	108,271
Interest expense and similar charges		(118,708)	(103,405)
<b>Net interest (expense)/income</b>	1	<b>(24,644)</b>	<b>4,866</b>
Non-interest income	2	111,016	129,131
Other impairments	3	–	(42,035)
<b>Total income</b>		<b>86,372</b>	<b>91,962</b>
Operating expenditure	4	(80,459)	(83,899)
<b>Profit before tax</b>		<b>5,913</b>	<b>8,063</b>
Tax	5	5,389	(3,962)
<b>Profit for the year</b>		<b>11,302</b>	<b>4,101</b>

## Company statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER

BWP'000s	2013	2012
Profit for the year	11,302	4,101
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</b>		
Net loss on hedge of net investment in foreign operations	(16,343)	–
<b>Total comprehensive (deficit)/income for the year</b>	<b>(5,041)</b>	<b>4,101</b>

## Company statement of financial position

AS AT 31 DECEMBER

BWP'000s	Notes	2013	2012
<b>ASSETS</b>			
Cash and short-term funds	6	11,632	7,777
Financial assets designated at fair value	17	120,562	80,062
Derivative financial assets	16	–	8,914
Loans and advances	7	27,439	23,053
Inter-company balances	8	104,479	155,640
Investment securities	9	49,523	45,853
Prepayments and other receivables	10	3,111	3,021
Property and equipment	11	120	161
Intangible assets	14	–	54
Deferred tax assets	12	25,879	18,019
Loans to subsidiary companies	13	606,594	447,668
Investment in subsidiaries	15	1,467,262	900,172
<b>TOTAL ASSETS</b>		<b>2,416,601</b>	<b>1,690,394</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Liabilities</b>			
Derivative financial liabilities	16	8,808	–
Creditors and accruals	18	6,765	5,794
Inter-company balances	8	556,304	347,986
Borrowed funds	19	1,158,591	664,367
<b>Total liabilities</b>		<b>1,730,468</b>	<b>1,018,147</b>
<b>Equity</b>			
Stated capital	20	781,025	663,401
Convertible bond	20	–	44,109
Foreign currency translation reserve		(16,343)	–
Distributable reserves		(78,549)	(35,263)
<b>Equity attributable to ordinary shareholders</b>		<b>686,133</b>	<b>672,247</b>
<b>EQUITY AND LIABILITIES</b>		<b>2,416,601</b>	<b>1,690,394</b>

## Company statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER

BWP'000s	Stated capital	Convertible bond	Translation reserve	Distributable reserves	Total equity
<b>Balance as at 1 January 2012</b>	<b>316,592</b>	–	–	<b>(5,045)</b>	<b>311,547</b>
<b>Comprehensive income:</b>					
Profit for the year	–	–	–	4,101	<b>4,101</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4,101</b>	<b>4,101</b>
<b>Transactions with owners:</b>					
Net proceeds from shares issued	346,809	–	–	–	<b>346,809</b>
Convertible bond – equity component	–	44,109	–	–	<b>44,109</b>
Dividends paid during the year	–	–	–	(34,319)	<b>(34,319)</b>
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<b>346,809</b>	<b>44,109</b>	<b>–</b>	<b>(34,319)</b>	<b>356,599</b>
<b>Balance as at 31 December 2012</b>	<b>663,401</b>	<b>44,109</b>	<b>–</b>	<b>(35,263)</b>	<b>672,247</b>
<b>Comprehensive income:</b>					
Profit for the year	–	–	–	11,302	<b>11,302</b>
Net loss on hedge of net investment in foreign operations	–	–	(16,343)	–	<b>(16,343)</b>
<b>TOTAL COMPREHENSIVE (DEFICIT)/INCOME</b>	<b>–</b>	<b>–</b>	<b>(16,343)</b>	<b>11,302</b>	<b>(5,041)</b>
<b>Transactions with owners:</b>					
Convertible bond – conversion into equity	117,624	(44,109)	–	–	<b>73,515</b>
Dividends paid during the year	–	–	–	(54,588)	<b>(54,588)</b>
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<b>117,624</b>	<b>(44,109)</b>	<b>–</b>	<b>(54,588)</b>	<b>18,927</b>
<b>Balance as at 31 December 2013</b>	<b>781,025</b>	<b>–</b>	<b>(16,343)</b>	<b>(78,549)</b>	<b>686,133</b>

## Company cash flow statement

FOR THE YEAR ENDED 31 DECEMBER

BWP'000s	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>149,545</b>	<b>14,835</b>
Cash generated from operating activities	(42,081)	(53,615)
<b>Net profit before tax</b>	<b>5,913</b>	<b>8,063</b>
<b>Adjusted for:</b>		
Other impairments	–	42,035
Depreciation and amortisation	119	263
Dividends receivable	(67,198)	(115,851)
Net losses on derivative financial instruments	19,085	11,875
Tax paid	(2,471)	(6,964)
	(44,552)	(60,579)
<b>Net increase in operating funds</b>	<b>194,097</b>	<b>75,414</b>
(Increase)/decrease in operating assets	(7,657)	216,491
Increase/(decrease) in operating liabilities	201,754	(141,077)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(658,842)</b>	<b>(373,816)</b>
Purchase of property and equipment	(24)	–
Investment in subsidiaries	(567,090)	(219,546)
Dividends received	67,198	115,851
Changes in loans to subsidiaries	(158,926)	(270,121)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>513,152</b>	<b>361,656</b>
Increase in borrowed funds	567,740	49,166
Proceeds from issue of shares	–	364,253
Share issue expenses	–	(17,444)
Proceeds from issue of treasury shares	–	–
Dividend paid	(54,588)	(34,319)
<b>Increase in cash and cash equivalents</b>	<b>3,855</b>	<b>2,675</b>
Cash and cash equivalents at the beginning of the year	7,777	5,102
<b>Cash and cash equivalents at the end of the year</b>	<b>11,632</b>	<b>7,777</b>

# Notes to the Company financial statements

FOR THE YEAR ENDED 31 DECEMBER

## ACCOUNTING POLICIES

The accounting policies of the Company and the Group are set out on pages 49 to 61.

BWP'000s	2013	2012
<b>1. NET INTEREST INCOME</b>		
<b>Interest and similar income</b>		
Cash and short-term funds	12	171
Investment securities at amortised cost	3,670	3,680
Loans and advances at amortised cost	23,818	75,431
Inter-company	66,564	28,989
	<b>94,064</b>	<b>108,271</b>
<b>Interest expense</b>		
Borrowed funds	74,193	81,801
Inter-company	44,515	21,604
	<b>118,708</b>	<b>103,405</b>
<b>Net interest (expense)/income</b>	<b>(24,644)</b>	<b>4,866</b>
<b>2. NON-INTEREST INCOME</b>		
Net gains/(losses) from trading activities:	10,050	(11,875)
– Designated at fair value	29,135	–
– Net losses on derivative financial instruments*	(19,085)	(11,875)
Dividends received:	67,198	115,851
– Subsidiary companies	67,198	115,851
Fee and commission income:	1,717	15,126
– Net fee and commission income – external	955	10,608
– Net fee and commission income – inter-company	762	4,518
Other non-interest income:	32,051	10,029
– Foreign exchange income and currency revaluation**	32,051	10,029
	<b>111,016</b>	<b>129,131</b>
<p>* Net losses on derivative financial instruments of BWP19.1 million arose from the USD: Japanese Yen swap. In 2012, net losses included BWP14.7 million arising from the USD: Japanese Yen derivative swap, and net gains of BWP2.1 million arising from the derivative conversion option included in the IFC convertible loan (note 19).</p> <p>** Foreign exchange income includes a foreign exchange income of BWP5.9 million (2012: BWP7.2 million) arising from the Japanese Yen exposure with NDB, disclosed in note 19. Net losses on derivative instruments include an offsetting fair value gain arising from an equal but opposite nominal Japanese Yen derivative asset.</p>		
<b>3. OTHER IMPAIRMENTS</b>		
<b>Impairment of investment in subsidiaries</b>		
EDFUND S.A.*	–	42,035
	<b>–</b>	<b>42,035</b>
<p>* Dividends received in 2012 (note 2) included BWP40.7 million arising from the clearance of loans to EDFUND S.A. and ABC Consulting, which subsequently gave rise to the impairment recorded in the same period.</p>		

BWP'000s		2013	2012
<b>4.</b>	<b>OPERATING EXPENDITURE</b>		
	Inter-company management fees	49,995	58,079
	Administrative expenses	9,241	6,698
	Staff costs	14,103	12,186
	Auditors' remuneration	1,089	1,762
	Depreciation (note 11)	65	102
	Amortisation of software (note 14)	54	161
	Directors' remuneration*	5,912	4,911
		<b>80,459</b>	<b>83,899</b>
	* Directors' remuneration was as follows:		
	– Paid by the company	5,912	4,911
	– Paid by subsidiaries	17,637	14,400
		<b>23,549</b>	<b>19,311</b>
<b>5.</b>	<b>TAX</b>		
	Profit before tax	5,913	8,063
	Income tax using standard corporate tax rate	887	1,210
	Tax exempt revenues	(10,080)	(17,378)
	Non-deductible expenses	344	8,027
	Tax on dividends received	2,471	6,965
	Tax and fair value losses of prior years not claimed	989	5,138
	<b>Tax (income)/expense per income statement</b>	<b>(5,389)</b>	<b>3,962</b>
	Effective tax rate	(91%)	49%
<b>5.1</b>	<b>Current tax expense</b>		
	<b>Deferred tax</b>		
	Tax and fair value losses of prior years not claimed	989	5,138
	Origination and reversal of temporary differences	(8,849)	(8,140)
		(7,860)	(3,002)
	<b>Current tax</b>		
	Tax on dividends received	2,471	6,964
	<b>Total tax (income)/expense per income statement</b>	<b>(5,389)</b>	<b>3,962</b>
<b>6.</b>	<b>CASH AND SHORT-TERM FUNDS</b>		
	Balances with banks	<b>11,632</b>	7,777
	Balances with banks include bank accounts with group companies that total BWP1.2 million (2012: BWP877 thousand).		
	These accounts are maintained to make dividend and other payments.		
<b>7.</b>	<b>LOANS AND ADVANCES</b>		
	Corporate lending*	18,778	16,092
	Other*	8,661	6,961
		27,439	23,053
	Less: Allowance for impairments	–	–
	<b>Net loans and advances</b>	<b>27,439</b>	<b>23,053</b>

\* 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 as the loans are short-term in nature.

BWP'000s		2013	2012
<b>7. LOANS AND ADVANCES continued</b>			
<b>7.1 Maturity analysis</b>			
On demand to one month		27,439	23,053
One month to three months		–	–
Three months to one year		–	–
Greater than one year		–	–
		<b>27,439</b>	<b>23,053</b>

**7.2 Impairment of loans and advances – movement analysis**

There were no impairment losses on loans and advances in the current year (2012: nil).

The loans all have floating interest rates which range from 7% to 15% (2012: 7% to 15%). BWP6.3 million (2012: BWP4.6 million) of the loans are denominated in Botswana Pula and BWP21.1 million (2012: BWP18.4 million) are denominated in United States Dollars.

BWP'000s		2013	Fair value	2012	Fair value
<b>8. INTER-COMPANY BALANCES</b>					
<b>8.1 Balances due from:</b>					
ABCH Management Support Services (Pty) Limited and other non-banking subsidiaries*		22,273	22,273	79,305	79,305
Tanzania Development Finance Company Limited		82,206	82,206	–	–
BancABC Zimbabwe, Second Nominees and Capital Partners		–	–	76,335	76,335
		<b>104,479</b>	<b>104,479</b>	<b>155,640</b>	<b>155,640</b>
<b>8.2 Balances due to:</b>					
BancABC Botswana Limited		342,108	342,108	254,522	254,522
BancABC Mozambique SA		54,591	54,591	43,543	43,543
BancABC Tanzania Limited		33,713	33,713	31,507	31,507
BancABC Zambia Limited		36,203	36,203	13,584	13,584
BancABC Zimbabwe, Second Nominees and Capital Partners		82,518	82,518	–	–
EDFUND S.A.		5,338	5,338	4,728	4,728
Tanzania Development Finance Company Limited		–	–	102	102
Bohemian Holdings Limited		1,833	1,833	–	–
		<b>556,304</b>	<b>556,304</b>	<b>347,986</b>	<b>347,986</b>

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

The balances are denominated in Botswana Pula: -BWP141.3 million (2012: -BWP3.1 million); United States Dollars: -BWP320.4 million (2012: -BWP152.5 million) and South African Rands: -BWP9.9 million (2012: BWP36.8 million).

\* The amount includes an interest-free loan of BWP22.2 million (2012: BWP25.7 million) pertaining to ABCH Management Support Services (Pty) Limited, (ABC South Africa). The loan has no fixed terms of repayment. In addition, the amount includes a balance of BWP78 thousand (2012: BWP20.5 million) due from Kendra Limited (a Group Company in Zambia). ABC Holdings Limited has committed to allow ABCH Management Support Services (Pty) Limited to charge sufficient management fees for it to fully utilise a deferred tax asset of BWP2.2 million recognised as at 31 December 2013.



BWP'000s	2013	2012
<b>9. INVESTMENT SECURITIES</b>		
Held-to-maturity – Promissory notes	<b>49,523</b>	<b>45,853</b>
The promissory notes are partial security for the loan from BIFM (note 19). The promissory notes earn a fixed interest of 10.25% per annum, 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.		
<b>10. PREPAYMENTS AND OTHER RECEIVABLES</b>		
Accounts receivable and prepayments	2,565	69
Security deposit	370	1,728
Other amounts due	176	1,224
	<b>3,111</b>	<b>3,021</b>
All prepayments and other receivables are classified as current.		

BWP'000s	Computer and office equipment	Furniture and fittings	Total
<b>11. PROPERTY AND EQUIPMENT</b>			
Cost at 31 December 2012	358	267	625
Additions	24	–	24
Cost at 31 December 2013	382	267	649
Accumulated depreciation at 31 December 2012	(348)	(116)	(464)
Charge for the year	(12.43)	(53.01)	(65)
Accumulated depreciation at December 2013	(360)	(169)	(529)
<b>Carrying amount at December 2013</b>	<b>22</b>	<b>98</b>	<b>120</b>
Cost at 31 December 2011	358	267	625
Cost at 31 December 2012	358	267	625
Accumulated depreciation at December 2011	(300)	(62)	(362)
Charge for the year	(48)	(54)	(102)
Accumulated depreciation at December 2012	(348)	(116)	(464)
<b>Carrying amount at December 2012</b>	<b>10</b>	<b>151</b>	<b>161</b>

BWP'000s	2013	2012
<b>12. DEFERRED TAX</b>		
Balance at the beginning of the year	(18,019)	(15,017)
Income statement charge (note 5)	(7,860)	(3,002)
Balance at the end of the year	<b>(25,879)</b>	<b>(18,019)</b>
<b>Tax effect of temporary differences:</b>		
– Property and equipment	10	(6)
– Unrealised gain on investments	6,977	–
– Tax losses	(32,866)	(18,013)
	<b>(25,879)</b>	<b>(18,019)</b>

<b>BWP'000s</b>	<b>2013</b>	<b>2012</b>
<b>13. LOANS TO SUBSIDIARY COMPANIES</b>		
BancABC Botswana Limited	122,231	111,841
BancABC Zambia Limited	413,264	82,840
BancABC Mozambique SA	71,099	62,891
BancABC Tanzania Limited	–	53,945
BancABC Zimbabwe Limited	–	136,151
	<b>606,594</b>	<b>447,668</b>
<p>The loans are provided to subsidiaries as Tier II capital. Interest ranges from 10% to 12.5% and is payable half yearly. BWP140 million (2012: BWP55 million) of these loans mature between 2017 and 2021 and BWP466 million (2012: BWP393 million) of the balance represents loans with no fixed repayment date.</p> <p>The loans are denominated in Botswana Pula: BWP32 million (2012: BWP32 million), United States Dollars: BWP575 million (2012: BWP362 million) and Tanzania Shillings nil (2012: BWP54 million).</p>		
<b>14. INTANGIBLE ASSETS</b>		
<b>Cost</b>		
Balance at the beginning and end of the year	<b>619</b>	<b>619</b>
<b>Amortisation</b>		
Balance at the beginning of the year	(565)	(404)
Amortisation charge (note 4)	(54)	(161)
	<b>(619)</b>	<b>(565)</b>
<b>Carrying amount at the end of the year</b>	<b>–</b>	<b>54</b>

## 15. INVESTMENT IN SUBSIDIARIES

Nature of business		Ownership of ordinary shares		Carrying value	
		2013 %	2012 %	2013 BWP'000s	2012 BWP'000s
<b>Botswana</b>					
BancABC Botswana Limited	Registered bank	100	100	240,650	240,650
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
<b>Mozambique</b>					
BancABC Mozambique SA	Registered bank	100	100	87,558	87,558
<b>South Africa</b>					
ABCH Management Support Services (Pty) Limited	Management services	100	100	–	–
<b>Tanzania</b>					
BancABC Tanzania Limited	Registered bank	97*	94*	271,909	128,396
Tanzania Development Finance Company Limited	Financial services	68	68	15,949	15,949
<b>Zambia</b>					
BancABC Zambia Limited	Registered bank	100	100	370,451	149,592
<b>Zimbabwe</b>					
BancABC Zimbabwe Limited	Registered merchant bank,	100*	100*	474,726	272,008
FMB Holdings Limited	Stockbroking and asset	100	100		
Therlinern Holdings Limited	management	100	100		
<b>Luxembourg</b>					
EDFUND S.A. **	Management services	100	100	–	–
				<b>1,467,262</b>	<b>900,172</b>

\* Effective shareholding.

\*\* In 2012, the investment in EDFUND S.A. was impaired by BWP42 million as the carrying amount exceeded the net asset value following the receipt of a dividend by ABC Holdings Limited (see note 3).

## 16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swaps	–	8,808	8,914	–
	<b>–</b>	<b>8,808</b>	<b>8,914</b>	<b>–</b>

**Cross-currency interest rate swaps**

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

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

**16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES continued****Cross-currency interest rate swaps continued**

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
<b>At 31 December 2013</b>		
Cross-currency interest rate swaps:		
Designated at fair value through profit and loss	67,175	(8,808)
<b>Total recognised derivatives</b>		<b>(8,808)</b>
<b>At 31 December 2012</b>		
Cross-currency interest rate swaps:		
Designated at fair value through profit and loss	94,785	8,914
<b>Total recognised derivatives</b>		<b>8,914</b>

BWP'000s	2013	2012
<b>16.1 Convertible bond option</b>		
Balance at the beginning of the year	–	46,852
Fair value gains	–	(2,743)
Transfer to reserves	–	(44,109)
	–	–

For details of the convertible bond option, please refer to note 19 in the Company financial statements and 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 2013 and 2012 were nil.

**16.3 Net investment hedges**

The Group uses a mixture of forward foreign exchange contracts and foreign currency denominated debt to hedge the foreign currency translation risk on its net investment in foreign subsidiaries. As at 31 December 2013, US Dollar denominated debt which is included in borrowed funds (see note 19) with a fair value of BWP532 million (2012: nil) was used to hedge the net investment in the Group's subsidiaries in Zimbabwe which have the US Dollar as the functional currency. There were no derivatives designated as net investment hedges in both 2013 and 2012.

BWP'000s	2013	2012
<b>17. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE</b>		
Unlisted debentures	<b>120,562</b>	<b>80,062</b>
The unlisted debentures comprise of an investment in a five-year 10% convertible loan to ADC Enterprises Limited with effect from October 2011, convertible on maturity or liquidating on the occurrence 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, being Union Bank of Nigeria. The balance is denominated in United States Dollars and it is carried at fair value.		
<b>18. CREDITORS AND ACCRUALS</b>		
Accrued expenses	5,056	4,245
Other amounts due	1,709	1,549
	<b>6,765</b>	<b>5,794</b>

Creditors and accruals are due and payable within 12 months.

BWP'000s	2013	Fair value	2012	Fair value
<b>19. BORROWED FUNDS</b>				
Convertible bond	–	–	97,950	106,489
Other borrowed funds	1,158,591	1,258,210	566,417	636,347
	<b>1,158,591</b>	<b>1,258,210</b>	<b>664,367</b>	<b>742,836</b>
<b>(a) Convertible bond</b>				
Balance at the beginning of the year	97,950		84,619	
Interest expense	5,140		15,368	
Interest paid	(2,400)		(5,414)	
Capital repayment	(27,174)		–	
Conversion into equity	(73,516)		–	
Exchange rate movement	–		3,377	
	<b>–</b>		<b>97,950</b>	

During 2011, the Group issued a US Dollar denominated convertible loan to International Finance Corporation (IFC) for US\$13.5 million. The loan attracted interest of 6 months LIBOR + 3.75% per annum, payable semi-annually and it was convertible at IFC's option as follows:

- BWP3.15 per share at any time during the period from 13 May 2011 to 12 May 2012;
- BWP3.24 per share at any time during the period from 13 May 2012 to 12 May 2013; or
- if at any time during the conversion period, the Group raised 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 were originally as follows:

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

On 22 August 2012, the Group modified the loan into a Botswana Pula denominated loan. The present value of the new cash flows discounted at the previous effective interest rate were not materially different from those of the old loan and therefore the loan was not de-recognised but the effective interest rate was adjusted for this difference in cash flows. The equity component of the loan, derived as the difference between the fair value of the combined instrument and the fair value of the loan, was transferred to equity – see note 16. The revised loan attracted interest at the 91-day Bank of Botswana Certificate yield rate + 4.10% per annum, payable quarterly with the premium re-setting quarterly. It was convertible at IFC's option at BWP3.24 per share at any time up to 12 May 2013.

The redemption dates for the principal amount are as follows:

15 March 2013 – BWP27,173,913      15 September 2013 – BWP27,173,913  
 15 March 2014 – BWP27,173,913      15 September 2014 – BWP23,672,120

On 25 April 2013, IFC converted the remaining balance of the loan into equity at an exercise price of BWP3.24 per share. 24,080,230 shares were issued by the Company under this conversion (see note 20).

BWP'000s	2013	Fair value	2012	Fair value
<b>19. BORROWED FUNDS continued</b>				
<b>(b) Other borrowed funds</b>				
National Development Bank of Botswana Limited	67,175	67,526	94,785	97,499
BIFM Capital Investment Fund One (Pty) Limited	256,352	308,204	256,067	318,137
Afrexim Bank Limited	531,293	532,039	215,565	220,711
Africa Agriculture and Trade Investment Fund S.A.	216,843	244,919	–	–
Norsad Finance Limited	86,928	105,522	–	–
	<b>1,158,591</b>	<b>1,258,210</b>	<b>566,417</b>	<b>636,347</b>

**National Development Bank of Botswana Limited (NDB)**

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

**BIFM Capital Investment Fund One (Pty) Limited**

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

The redemption dates are as follows:

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

**Afrexim Bank Limited**

This is a US\$60 million short-term credit facility advanced to the Company in July 2013. The loan attracts interest at 3 months LIBOR + 5% and it is repayable on 10 January 2014, but with a provision to extend it for a further, mutually agreeable period. The full loan amount has been designated as a hedge on the net investment by the Group in BancABC Zimbabwe (see note 16).

**Africa Agriculture and Trade Investment Fund S.A. (AATIF)**

The loan from AATIF is denominated in US Dollars and attracts interest at 3 months LIBOR + 6.25%. Interest is payable quarterly on 31 March, 30 June, 30 September and 31 December. The loan matures on 21 December 2018 when the full principal amount is due for repayment in one instalment.

**Norsad Finance Limited**

This is a subordinated loan denominated in US Dollars and attracts interest at 6 months LIBOR + 7.5%. Interest is payable semi-annually on 30 June and 31 December.

The loan matures on 9 October 2020 when the full principal amount is due for repayment in one instalment.

	2013	2012
<b>19.1 Maturity analysis</b>		
On demand to one month	531,294	–
One month to three months	7,537	33,650
Three months to one year	21,020	265,319
Greater than one year	598,740	365,398
	<b>1,158,591</b>	<b>664,367</b>

BWP'000s	2013	2012
<b>20. STATED CAPITAL</b>		
<b>20.1 Issued and fully paid</b>		
256,885,694 (2012: 232,805,464) shares	12,844	11,640
Share premium	768,181	651,761
<b>Total Company</b>	<b>781,025</b>	<b>663,401</b>

	Share capital	Share premium	Total
At 1 January 2012	7,474	309,118	316,592
Issue of shares	4,166	342,643	346,809
At 31 December 2012	11,640	651,761	663,401
Issue of shares	1,204	116,420	117,624
At 31 December 2013	<b>12,844</b>	<b>768,181</b>	<b>781,025</b>

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.

	2013	2012
<b>20.2 Reconciliation of the number of shares in issue</b>		
Shares at the beginning of the year	232,805,464	149,472,131
Shares issued*	24,080,230	83,333,333
<b>At the end of the year</b>	<b>256,885,694</b>	<b>232,805,464</b>
<p>* During the year, the International Finance Corporation (IFC) converted the outstanding convertible loan balance as at 25 April 2013 into equity. The exercise price was BWP3.24 per share.</p> <p>In 2012, the Company undertook a rights issue in terms of which one ordinary share was issued for every 1.7937 issued ordinary shares held by existing shareholders. Each rights offer share was offered at BWP4.28 or US\$0.60.</p> <p>Proceeds from the rights issue total BWP364.3 million against which rights issue expenses of BWP17.4 million were offset. Of these, BWP10.9 million relates to the underwriting commission paid to ADC Financial Services and Corporate Development, a related party.</p>		
<b>20.3 Convertible bond – equity component</b>		
Balance at the beginning of the year	44,109	–
Transfer from derivative liabilities (note 16)	–	44,109
Conversion into equity	(44,109)	–
Balance at the end of the year	<b>–</b>	<b>44,109</b>



**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, risk and opportunity facing the organisation.

**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. Loans to/from subsidiary companies have been disclosed in notes 8 and 13 and interest on these in note 1. Dividends received from subsidiaries have been disclosed in note 2 as well as commissions earned from subsidiaries. Impairment of subsidiaries is disclosed in note 3. Bank balances with subsidiaries are 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. Details of inter-company management fees incurred during the year have been disclosed in note 4.

Details 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. Bank balances with Group companies are set out in note 6.

**Shareholders**

During 2011, 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, was invested in a foreign bank. ADC is a significant shareholder of the Group. The investment balance as at 31 December 2013 was BWP121 million (2012: BWP80 million) and has been classified as financial assets designated at fair value.

**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:

BPW'000s	2013		2012	
	Balance	Interest	Balance	Interest
<b>Loans and advances to directors</b>				
D T Munatsi	2,478	177	1,055	148
F Dzanya	3,222	263	2,955	428
B Moyo	651	53	594	238
	<b>6,351</b>	<b>493</b>	<b>4,604</b>	<b>814</b>
<b>Loans and advances to key management:</b>				
H Matemara	2,311	176	2,357	25
	<b>2,311</b>	<b>176</b>	<b>2,357</b>	<b>25</b>
<b>Loans and advances to entities under common control:</b>				
Brainworks Investments Limited	18,558	2,603	14,132	1,943
	<b>18,558</b>	<b>2,603</b>	<b>14,132</b>	<b>1,943</b>

There were no specific impairments on balances with related parties.

**21. RELATED PARTY TRANSACTIONS continued**

Remuneration to key management personnel:

BPW'000s	2013		2012	
	Balance	Interest	Balance	Interest
<b>(i) Paid by ABC Holdings Limited</b>				
Short-term employment benefits	2,432		2,242	
	<b>2,432</b>		<b>2,242</b>	
<b>(ii) Paid by subsidiaries</b>				
Short-term employment benefits	24,552		20,275	
Post-employment benefits	1,812		1,284	
	<b>26,364</b>		<b>21,559</b>	
<b>Total</b>	<b>28,796</b>		<b>23,801</b>	

BWP'000s	2013	2012
<b>22. OFF-BALANCE SHEET ITEMS</b>		
<b>22.1 Contingent liabilities</b>		
The Company has agreed to provide ABCH Management Support Services (Pty) Limited, Tanzania Development Finance Company Limited and ABC Stockbrokers (Pvt) Limited, all group companies, with required operational and financial support.		
<b>22.2 Capital commitments</b>		
Approved and contracted for the next year	–	–
<b>23. COLLATERAL</b>		
<b>23.1 Liabilities for which collateral is pledged</b>		
Borrowed funds	256,352	256,067
	<b>256,352</b>	<b>256,067</b>
Assets pledged to secure these liabilities are carried at amortised cost and are included under the following:		
Investment securities	49,523	45,853
	<b>49,523</b>	<b>45,853</b>
<b>23.2 Collateral accepted as security for assets</b>		
Mortgage, bonds, inventory and debtors	–	–
	<b>–</b>	<b>–</b>
The Company is obliged to return equivalent securities. The Company is not permitted to sell or re-pledge collateral in the absence of default.		
These transactions are conducted under terms that are usual and customary to standard lending and borrowing activities.		

	2013	2012
<b>24. ORDINARY DIVIDENDS</b>		
Dividend of 8 thebe per share paid on 3 May 2013 to shareholders on the register on 12 April 2013	18,624	–
Dividend of 14 thebe per share paid on 13 September 2013 to shareholders on the register on 30 August 2013	35,964	–
Dividend of 10.5 thebe per share paid on 4 May 2012 to shareholders on the register on 13 April 2012	–	15,695
Dividend of 8 thebe per share paid on 21 September 2012 to shareholders on the register on 7 September 2012	–	18,624
	<b>54,588</b>	<b>34,319</b>

The Board of Directors proposed a gross final dividend in respect of the year ended 31 December 2013 of 4.5 thebe per ordinary share. This will bring the full year dividend to 18.5 thebe per share. There are no tax consequences to the Company for declaring or paying out a dividend. However, for some investors resident in Botswana, a withholding tax of 7.5% applies. For investors not resident in Botswana, there are no tax consequence of this dividend.

The Company is aware that it has paid out dividends in excess of available distributable reserves. However, the Company is in control of dividends receivable from its subsidiaries and the negative distributable reserves is temporary and can be resolved within the control of the Company. In addition, the Company meets the solvency test as per s63 of the Botswana Companies Act.

## Financial risk management

The credit risk management Policies of the Company and Group are set out on pages 62 to 99 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:

<b>BWP'000s</b>	<b>2013</b>	<b>2012</b>
Placements with banks	11,632	7,777
Derivative financial assets	–	8,914
Financial assets designated at fair value	120,562	80,062
Loans and advances to customers at amortised cost	27,439	23,053
– Corporate lending	18,778	16,092
– Other loans and advances	8,661	6,961
Investment securities	49,523	45,853
– Promissory notes	49,523	45,853
Loans to subsidiaries	606,594	447,668
Inter-company balances	104,479	155,640
	<b>920,229</b>	<b>768,967</b>

**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:**

<b>BWP'000s</b>	<b>2013</b>	<b>2012</b>
Neither past due nor impaired	27,439	23,053
Individually impaired	–	–
Gross loans and advances	27,439	23,053
Less: Allowance for impairment	–	–
<b>Net loans and advances</b>	<b>27,439</b>	<b>23,053</b>
<b>(a) Distribution of loans and advances neither past due nor impaired</b>		
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:		
<b>INTERNAL GRADE: PERFORMING</b>		
Corporate lending	18,778	16,092
Other loans and advances	8,661	6,961
	<b>27,439</b>	<b>23,053</b>

**(b) Loans and advances individually impaired**

The individually impaired loans and advances before taking into consideration the cash flows from collateral held is nil (2012: nil).

**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:

<b>BWP'000s</b>	<b>2013</b>						<b>Total</b>
	<b>Botswana</b>	<b>Mozambique</b>	<b>Tanzania</b>	<b>Zambia</b>	<b>Zimbabwe</b>	<b>Other</b>	
Placements with banks	33	–	–	–	1,184	10,415	11,632
Financial assets designated at fair value	–	–	–	–	–	120,562	120,562
Loans and advances	3,222	–	–	–	21,088	3,129	27,439
Investment securities	49,523	–	–	–	–	–	49,523
Loans to subsidiary companies	122,231	71,099	–	413,264	–	–	606,594
Inter-company balances	–	–	82,206	78	–	22,195	104,479
	<b>175,009</b>	<b>71,099</b>	<b>82,206</b>	<b>413,342</b>	<b>22,272</b>	<b>156,301</b>	<b>920,229</b>

<b>BWP'000s</b>	<b>2012</b>						<b>Total</b>
	<b>Botswana</b>	<b>Mozambique</b>	<b>Tanzania</b>	<b>Zambia</b>	<b>Zimbabwe</b>	<b>Other</b>	
Placements with banks	211	–	–	–	666	6,900	7,777
Financial assets designated at fair value	–	–	–	–	–	80,062	80,062
Derivative financial assets	–	–	–	–	–	8,914	8,914
Loans and advances	2,955	–	–	–	18,449	1,649	23,053
Investment securities	45,853	–	–	–	–	–	45,853
Loans to subsidiary companies	111,841	62,891	53,945	82,840	136,151	–	447,668
Inter-company balances	33,062	–	–	20,539	76,336	25,703	155,640
	<b>193,922</b>	<b>62,891</b>	<b>53,945</b>	<b>103,379</b>	<b>231,602</b>	<b>123,228</b>	<b>768,967</b>

**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 as of 31 December of the counterparties:

	<b>2013</b>				
	<b>Agriculture</b>	<b>Construction</b>	<b>Wholesale, retail and trade</b>	<b>Public sector</b>	<b>Manufacturing</b>
<b>BWP'000s</b>					
Placements with banks	–	–	–	–	–
Financial assets designated at fair value	–	–	–	–	–
Loans and advances	–	–	–	–	–
Investment securities	–	–	–	–	–
Loans to subsidiary companies	–	–	–	–	–
Inter-company balances	–	–	–	–	–
	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

	<b>2012</b>				
	<b>Agriculture</b>	<b>Construction</b>	<b>Wholesale, retail and trade</b>	<b>Public sector</b>	<b>Manufacturing</b>
<b>BWP'000s</b>					
Placements with banks	–	–	–	–	–
Financial assets designated at fair value	–	–	–	–	–
Derivative financial assets	–	–	–	–	–
Loans and advances	–	–	1,766	–	–
Investment securities	–	–	–	–	–
Loans to subsidiary companies	–	–	–	–	–
Inter-company balances	–	–	–	–	–
	<b>–</b>	<b>–</b>	<b>1,766</b>	<b>–</b>	<b>–</b>



2013						
Mining and energy	Financial services	Transport	Individuals	Tourism	Other	Total
–	11,632	–	–	–	–	11,632
–	120,562	–	–	–	–	120,562
–	18,778	–	8,661	–	–	27,439
–	49,523	–	–	–	–	49,523
–	606,594	–	–	–	–	606,594
–	104,479	–	–	–	–	104,479
–	<b>911,568</b>	–	<b>8,661</b>	–	–	<b>920,229</b>

2012						
Mining and energy	Financial services	Transport	Individuals	Tourism	Other	Total
–	7,777	–	–	–	–	7,777
–	80,062	–	–	–	–	80,062
–	8,914	–	–	–	–	8,914
–	14,326	–	6,961	–	–	23,053
–	45,853	–	–	–	–	45,853
–	447,668	–	–	–	–	447,668
–	155,640	–	–	–	–	155,640
–	<b>760,240</b>	–	<b>6,961</b>	–	–	<b>768,967</b>

**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 the 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:**

BWP'000s	2013			
	EUR	USD	BWP	ZAR
Cash and short-term funds	–	11,599	33	–
Financial assets designated at fair value	–	120,562	–	–
Loans and advances	–	21,088	6,351	–
Investment securities	–	–	49,523	–
Prepayments and other receivables	8	2,662	388	53
Derivative financial assets*	–	–	–	–
Inter-company balances	–	82,284	–	22,195
Property and equipment	–	–	120	–
Intangible assets	–	–	–	–
Deferred tax assets	–	–	25,879	–
Investment in subsidiaries	–	474,726	246,669	–
Loans to subsidiaries	–	574,855	31,739	–
<b>Total assets</b>	<b>8</b>	<b>1,287,776</b>	<b>360,702</b>	<b>22,248</b>
Derivative financial liabilities*	–	76,459	(476)	–
Creditors and accruals	193	4,128	303	2,141
Borrowed funds	–	835,065	256,351	–
Inter-company balances	–	402,660	141,315	12,329
<b>Total liabilities</b>	<b>193</b>	<b>1,318,312</b>	<b>397,493</b>	<b>14,470</b>
<b>Net on-balance sheet position</b>	<b>(185)</b>	<b>(30,536)</b>	<b>(36,791)</b>	<b>7,778</b>

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

Currency	31 December 2013			
	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
EUR (7% movement)	(13)	13	(11)	11
USD (10% movement)	(3,054)	3,054	(2,596)	2,596
ZAR (3% movement)	233	(233)	198	(198)
TZS (12% movement)	34,543	(34,543)	29,362	(29,362)
ZMW (10% movement)	37,045	(37,045)	31,488	(31,488)
MZN (10% movement)	8,756	(8,756)	7,442	(7,442)
JPY (3% movement)	–	–	–	–

**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 2013.

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

<b>2013</b>					
<b>TZS</b>	<b>ZMW</b>	<b>MZN</b>	<b>JPY</b>	<b>Other</b>	<b>Total</b>
–	–	–	–	–	11,632
–	–	–	–	–	120,562
–	–	–	–	–	27,439
–	–	–	–	–	49,523
–	–	–	–	–	3,111
–	–	–	67,175	(67,175)	–
–	–	–	–	–	104,479
–	–	–	–	–	120
–	–	–	–	–	–
–	–	–	–	–	25,879
287,858	370,451	87,558	–	–	1,467,262
–	–	–	–	–	606,594
<b>287,858</b>	<b>370,451</b>	<b>87,558</b>	<b>67,175</b>	<b>(67,175)</b>	<b>2,416,601</b>
–	–	–	–	(67,175)	8,808
–	–	–	–	–	6,765
–	–	–	67,175	–	1,158,591
–	–	–	–	–	556,304
–	–	–	<b>67,175</b>	<b>(67,175)</b>	<b>1,730,468</b>
<b>287,858</b>	<b>370,451</b>	<b>87,558</b>	<b>–</b>	<b>–</b>	<b>686,133</b>

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

BWP'000s	2012			
	EUR	USD	BWP	ZAR
Cash and short-term funds	–	7,566	211	–
Financial assets designated at fair value	–	80,062	–	–
Loans and advances	–	18,449	4,604	–
Investment securities	–	–	45,853	–
Prepayments and other receivables	–	1,880	1,141	–
Derivative financial assets*	–	–	2,889	–
Inter-company balances	–	128,483	1,454	25,703
Property and equipment	–	–	161	–
Intangible assets	–	–	54	–
Deferred tax assets	–	–	18,019	–
Investment in subsidiaries	–	272,008	246,669	–
Loans to subsidiaries	–	362,009	31,714	–
<b>Total assets</b>	<b>–</b>	<b>870,457</b>	<b>352,769</b>	<b>25,703</b>
Derivative financial liabilities*	–	88,760	–	–
Creditors and accruals	–	3,064	673	2,057
Borrowed funds	–	215,565	354,017	–
Inter-company balances	(54)	281,015	4,556	62,469
<b>Total liabilities</b>	<b>(54)</b>	<b>588,404</b>	<b>359,246</b>	<b>64,526</b>
<b>Net on-balance sheet position</b>	<b>54</b>	<b>282,053</b>	<b>(6,477)</b>	<b>(38,823)</b>

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

Currency	31 December 2012			
	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
EUR (7% movement)	4	(4)	3	(3)
USD (10% movement)	28,205	(28,205)	23,975	(23,975)
ZAR (3% movement)	(1,165)	1,165	(990)	990
TZS (12% movement)	23,795	(23,795)	20,226	(20,226)
ZMW (10% movement)	14,959	(14,959)	12,715	(12,715)
MZN (10% movement)	8,756	(8,756)	7,443	(7,443)
JPY (3% movement)	–	–	–	–

2012

TZS	ZMW	MZN	JPY	Other	Total
–	–	–	–	–	7,777
–	–	–	–	–	80,062
–	–	–	–	–	23,053
–	–	–	–	–	45,853
–	–	–	–	–	3,021
–	–	–	94,785	(88,760)	8,914
–	–	–	–	–	155,640
–	–	–	–	–	161
–	–	–	–	–	54
–	–	–	–	–	18,019
144,345	149,591	87,559	–	–	900,172
53,945	–	–	–	–	447,668
<b>198,290</b>	<b>149,591</b>	<b>87,559</b>	<b>94,785</b>	<b>(88,760)</b>	<b>1,690,394</b>
–	–	–	–	(88,760)	–
–	–	–	–	–	5,794
–	–	–	94,785	–	664,367
–	–	–	–	–	347,986
–	–	–	<b>94,785</b>	<b>(88,760)</b>	<b>1,018,147</b>
<b>198,290</b>	<b>149,591</b>	<b>87,559</b>	<b>–</b>	<b>–</b>	<b>672,247</b>

## 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.

BWP'000s	2013					Total
	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Non- interest bearing	
Cash and short-term funds	11,632	–	–	–	–	11,632
Financial assets designated at fair value	–	–	–	–	120,562	120,562
Loans and advances	27,439	–	–	–	–	27,439
Investment securities	–	–	–	49,523	–	49,523
Prepayments and other receivables	–	–	–	–	3,111	3,111
Inter-company balances	82,284	–	–	–	22,195	104,479
Property and equipment	–	–	–	–	120	120
Deferred tax asset	–	–	–	–	25,879	25,879
Investment in subsidiaries	–	–	–	–	1,467,262	1,467,262
Loans to subsidiaries	–	–	–	606,594	–	606,594
<b>Total assets</b>	<b>121,355</b>	<b>–</b>	<b>–</b>	<b>656,117</b>	<b>1,639,129</b>	<b>2,416,601</b>
<b>Shareholders' equity and liabilities</b>						
Equity	–	–	–	–	686,133	686,133
Derivative financial liabilities	–	–	–	–	8,808	8,808
Creditors and accruals	–	–	–	–	6,765	6,765
Borrowed funds	531,294	7,537	21,020	598,740	–	1,158,591
Inter-company balances	402,706	140,597	–	–	13,001	556,304
<b>Total equity and liabilities</b>	<b>934,000</b>	<b>148,134</b>	<b>21,020</b>	<b>598,740</b>	<b>714,707</b>	<b>2,416,601</b>
<b>Interest re-pricing gap</b>	<b>(812,645)</b>	<b>(148,134)</b>	<b>(21,020)</b>	<b>57,377</b>	<b>924,422</b>	<b>–</b>

2012

<b>BWP'000s</b>	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Non- interest bearing	Total
Cash and short-term funds	7,777	–	–	–	–	7,777
Financial assets designated at fair value	–	–	–	–	80,062	80,062
Derivative financial assets	–	–	–	–	8,914	8,914
Loans and advances	23,053	–	–	–	–	23,053
Investment securities	–	–	–	45,853	–	45,853
Prepayments and other receivables	–	–	–	–	3,021	3,021
Inter-company balances	101,969	–	–	–	53,671	155,640
Property and equipment	–	–	–	–	161	161
Intangible assets	–	–	–	–	54	54
Deferred tax asset	–	–	–	–	18,019	18,019
Investment in subsidiaries	–	–	–	–	900,172	900,172
Loans to subsidiaries	–	–	–	447,668	–	447,668
<b>Total assets</b>	<b>132,799</b>	<b>–</b>	<b>–</b>	<b>493,521</b>	<b>1,064,074</b>	<b>1,690,394</b>
<b>Shareholders' equity and liabilities</b>						
Equity	–	–	–	–	672,247	672,247
Derivative financial liabilities	–	–	–	–	–	–
Creditors and accruals	–	–	–	–	5,794	5,794
Borrowed funds	–	33,650	265,319	365,398	–	664,367
Inter-company balances	261,740	86,246	–	–	–	347,986
<b>Total equity and liabilities</b>	<b>261,740</b>	<b>119,896</b>	<b>265,319</b>	<b>365,398</b>	<b>678,041</b>	<b>1,690,394</b>
<b>Interest re-pricing gap</b>	<b>(128,941)</b>	<b>(119,896)</b>	<b>(265,319)</b>	<b>128,123</b>	<b>386,033</b>	<b>–</b>

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

<b>BWP'000s</b>	<b>2013</b>	2012
Shift in yield curves of +50 basis points	(6,272)	(1,640)
Percentage of shareholders' equity (+50 basis points)	(0.9%)	(0.2%)
Shift in yield curves of -50 basis points	6,272	1,640
Percentage of shareholders' equity (-50 basis points)	0.9%	0.2%

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.

	2013				Total
	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	
<b>BWP'000s</b>					
Cash and short-term funds	11,632	–	–	–	11,632
Financial assets designated at fair value	–	–	–	120,562	120,562
Loans and advances	27,439	–	–	–	27,439
Investment securities	–	–	–	49,523	49,523
Prepayments and other receivables	–	–	3,111	–	3,111
Inter-company balances	22,158	–	82,321	–	104,479
Property and equipment	–	–	–	120	120
Deferred tax asset	–	–	–	25,879	25,879
Investment in subsidiaries	–	–	–	1,467,262	1,467,262
Loans to subsidiaries	–	–	–	606,594	606,594
<b>Total assets</b>	<b>61,229</b>	<b>–</b>	<b>85,432</b>	<b>2,269,940</b>	<b>2,416,601</b>
<b>Shareholders' equity and liabilities</b>					
Equity	–	–	–	686,133	686,133
Derivative financial liabilities	8,808	–	–	–	8,808
Creditors and accruals	6,765	–	–	–	6,765
Borrowed funds	531,294	7,537	21,020	598,740	1,158,591
Inter-company balances	415,707	140,597	–	–	556,304
<b>Total equity and liabilities</b>	<b>962,574</b>	<b>148,134</b>	<b>21,020</b>	<b>1,284,873</b>	<b>2,416,601</b>
<b>Net maturity gap</b>	<b>(901,345)</b>	<b>(148,134)</b>	<b>64,412</b>	<b>985,067</b>	<b>–</b>

	2012				Total
	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	
<b>BWP'000s</b>					
Cash and short-term funds	7,777	–	–	–	7,777
Financial assets designated at fair value	–	–	–	80,062	80,062
Derivative financial assets	–	–	–	8,914	8,914
Loans and advances	23,053	–	–	–	23,053
Investment securities	–	–	–	45,853	45,853
Prepayments and other receivables	–	–	3,021	–	3,021
Inter-company balances	155,640	–	–	–	155,640
Property and equipment	–	–	–	161	161
Intangible assets	–	–	–	54	54
Deferred tax asset	–	–	–	18,019	18,019
Investment in subsidiaries	–	–	–	900,172	900,172
Loans to subsidiaries	–	–	–	447,668	447,668
<b>Total assets</b>	<b>186,470</b>	<b>–</b>	<b>3,021</b>	<b>1,500,903</b>	<b>1,690,394</b>
<b>Shareholders' equity and liabilities</b>					
Equity	–	–	–	672,247	672,247
Creditors and accruals	5,794	–	–	–	5,794
Borrowed funds	–	33,650	265,319	365,398	664,367
Inter-company balances	261,740	86,246	–	–	347,986
<b>Total equity and liabilities</b>	<b>267,534</b>	<b>119,896</b>	<b>265,319</b>	<b>1,037,645</b>	<b>1,690,394</b>
<b>Net maturity gap</b>	<b>(81,064)</b>	<b>(119,896)</b>	<b>(262,298)</b>	<b>463,258</b>	<b>–</b>

**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:

	2013						
	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	Total
<b>BWP'000s</b>							
Creditors and accruals	6,765	–	–	–	6,765	–	6,765
Borrowed funds	532,818	18,436	67,774	692,033	1,311,061	(152,470)	1,158,591
Inter-company balances	415,999	142,962	–	–	558,961	(2,657)	556,304
<b>Total liabilities</b>	<b>955,582</b>	<b>161,398</b>	<b>67,774</b>	<b>692,033</b>	<b>1,876,787</b>	<b>(155,127)</b>	<b>1,721,660</b>

	2012						
	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total	Effect of discount/ financing rates	Total
<b>BWP'000s</b>							
Creditors and accruals	5,794	–	–	–	5,794	–	5,794
Borrowed funds	–	42,361	389,089	435,318	866,768	(202,401)	664,367
Inter-company balances	261,769	87,321	–	–	349,090	(1,104)	347,986
<b>Total liabilities</b>	<b>267,563</b>	<b>129,682</b>	<b>389,089</b>	<b>435,318</b>	<b>1,221,652</b>	<b>(203,505)</b>	<b>1,018,147</b>

The Company principally uses cash and short-term funds together with inter-company balances 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 balance sheet. 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:

	2013				
	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total
<b>BWP'000s</b>					
Derivative financial liabilities	–	–	–	–	–

	2012				
	Up to 1 month	1 – 3 months	3 – 12 months	Greater than 1 year	Total
<b>BWP'000s</b>					
Derivative financial liabilities	–	–	–	–	–

With the exception of swaps where ongoing cash flows are settled on a gross basis, all derivative financial liabilities are settled on a net basis.

**FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE**

Fair value measurements are disclosed by level. The fair value hierarchy is as follows:

- 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).

**(A) ACCOUNTING CLASSIFICATIONS AND FAIR VALUES**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2013 BWP'000	Notes	Carrying amount		
		Held for trading	Designated at fair value	Derivative financial instruments
<b>Financial assets measured at fair value</b>				
Unlisted debentures	17	–	120,562	–
		–	<b>120,562</b>	–
<b>Financial assets not measured at fair value</b>				
Cash and short-term funds	6	–	–	–
Loans and advances	7	–	–	–
Inter-company balances	8	–	–	–
Promissory notes	9	–	–	–
Prepayments and other receivables	10	–	–	–
Loans to subsidiary companies	13	–	–	–
		–	–	–
<b>Financial liabilities measured at fair value</b>				
Cross-currency interest rate swaps	16	–	–	(8,808)
		–	–	<b>(8,808)</b>
<b>Financial liabilities not measured at fair value</b>				
Inter-company balances	8	–	–	–
Creditors and accruals	18	–	–	–
Borrowed funds	19	–	–	–
		–	–	–

Carrying amount					
	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total
	–	–	–	–	120,562
	–	–	–	–	<b>120,562</b>
	–	11,632	–	–	11,632
	–	27,439	–	–	27,439
	–	104,479	–	–	104,479
	49,523	–	–	–	49,523
	–	3,111	–	–	3,111
	–	606,594	–	–	606,594
	<b>49,523</b>	<b>753,255</b>	–	–	<b>802,778</b>
	–	–	–	–	(8,808)
	–	–	–	–	<b>(8,808)</b>
	–	–	–	(556,304)	(556,304)
	–	–	–	(6,765)	(6,765)
	–	–	–	(1,158,591)	(1,158,591)
	–	–	–	<b>(1,721,660)</b>	<b>(1,721,660)</b>

## FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE continued

## (A) ACCOUNTING CLASSIFICATIONS AND FAIR VALUES CONTINUED

		Carrying amount		
31 December 2012		Held for trading	Designated at fair value	Derivative financial instruments
BWP'000	Notes			
<b>Financial assets measured at fair value</b>				
Cross-currency interest rate swaps	16	–	–	8,914
Unlisted debentures	17	–	80,062	–
		–	<b>80,062</b>	<b>8,914</b>
<b>Financial assets not measured at fair value</b>				
Cash and short-term funds	6	–	–	–
Loans and advances	7	–	–	–
Inter-company balances	8	–	–	–
Promissory notes	9	–	–	–
Prepayments and other receivables	10	–	–	–
Loans to subsidiary companies	13	–	–	–
		–	–	–
<b>Financial liabilities measured at fair value</b>				
Cross-currency interest rate swaps	16	–	–	–
		–	–	–
<b>Financial liabilities not measured at fair value</b>				
Inter-company balances	8	–	–	–
Creditors and accruals	18	–	–	–
Borrowed funds	19	–	–	–
		–	–	–

## Carrying amount

	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total
	–	–	–	–	8,914
	–	–	–	–	80,062
	–	–	–	–	<b>88,976</b>
	–	7,777	–	–	7,777
	–	23,053	–	–	23,053
	–	155,640	–	–	155,640
45,853	–	–	–	–	45,853
–	3,021	–	–	–	3,021
–	447,668	–	–	–	447,668
<b>45,583</b>	<b>637,429</b>	–	–	–	<b>683,012</b>
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	347,986	347,986
–	–	–	–	(5,794)	(5,794)
–	–	–	–	664,367	664,367
–	–	–	–	<b>1,006,559</b>	<b>1,006,559</b>

**FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE** continued**(B) MEASUREMENT OF FAIR VALUES****(i) Valuation techniques and significant unobservable inputs**

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as significant unobservable inputs used.

## Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Cross-currency interest rate swaps	Market comparison technique: The fair values are based on market players' quotations in the secondary market. Similar instruments are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable	Not applicable
Unlisted debentures	Quoted prices as adjusted for intermediaries' retained earnings: The fair values are based on quoted prices of the underlying equity investment which is quoted on the Nigerian Stock Exchange as adjusted for the retained earnings of the investment vehicles excluding the fair value gains from the investment.	Not applicable	Not applicable

## Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Cash and short-term funds	Discounted cash flows	Not applicable
Loans and advances	Discounted cash flows	Not applicable
Promissory notes	Discounted cash flows	Not applicable
Inter-company balances	Discounted cash flows	Not applicable
Prepayments and other receivables	Discounted cash flows	Not applicable
Creditors and accruals	Discounted cash flows	Not applicable
Deposits	Discounted cash flows	Not applicable
Borrowed funds	Discounted cash flows	Not applicable

## (ii) Level 3 fair values

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

BWP'000s	31 December 2013			
	Debt or equity investments	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
<b>Assets</b>				
Opening balance	80,062	80,062	–	–
Gains/losses in income statement	40,500	40,500	–	–
Purchases	–	–	–	–
Settlements	–	–	–	–
Transfer out of level 3	(120,562)	(120,562)	–	–
<b>Closing balance</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

BWP'000s	31 December 2012			
	Debt or equity investments	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
<b>Liabilities</b>				
Opening balance	152,115	152,115	46,971	46,971
Gains/losses in income statement	12,152	12,152	(2,743)	(2,743)
Purchases	2,166	2,166	–	–
Settlements	(86,371)	(86,371)	(119)	(119)
Transfer to equity	–	–	(44,109)	(44,109)
<b>Closing balance</b>	<b>80,062</b>	<b>80,062</b>	<b>–</b>	<b>–</b>

## Transfers out of level 3

The Group invested in a Special Purpose Entity (SPE) (ADC Enterprises Limited) in September 2011 with a further BWP5 million being invested in 2012.

The funds were in turn invested in another syndicated SPE which, together with funds from other investors, was invested in a bank listed on the Nigerian Stock Exchange (NSE). The investment has been valued at its quoted price on the NSE as adjusted for the retained earnings in the SPEs excluding the fair value of the underlying investment. The investment was previously categorised as Level 3 due to a lack of audited financial statements for the SPEs.

The SPEs' audited financial statements for 2011 and 2012 were obtained during the current financial period and it was possible to fairly value the full investment using the valuation technique outlined above.



## Analysis of shareholders

AS AT 31 DECEMBER 2013

RANGE	Number of holders	% of total holders	Number of shares	% of total shares
0 – 50,000	3,445	96.44%	6,144,537	2.39%
50,001 – 100,000	53	1.48%	3,734,453	1.45%
100,001 – 500,000	42	1.18%	8,005,969	3.12%
500,001 – 1,000,000	10	0.28%	7,422,480	2.89%
1,000,001 – 10,000,000	16	0.45%	53,194,893	20.71%
Above 10,000,000	6	0.17%	178,383,362	69.44%
	<b>3,572</b>	<b>100.00%</b>	<b>256,885,694</b>	<b>100.00%</b>

### TOP 10 SHAREHOLDERS

	Shareholder*	Shares	% holding
1	African Development Corporation	120,415,485	46.88%
2	International Finance Corporation	39,722,385	15.46%
3	Shares held by and on behalf of DT Munatsi	17,657,718	6.87%
4	Old Mutual Life Assurance Company of Zimbabwe Limited	12,469,062	4.85%
5	Stanbic Nominees	11,058,917	4.30%
6	SCBN-SIMS	7,061,410	2.75%
7	Brainworks	6,724,008	2.62%
8	Shares held by and on behalf of B Moyo	6,065,207	2.36%
9	Nederlandse Financierings	3,582,623	1.39%
10	SCBN-Other	2,596,820	1.01%
	Other shareholders	29,532,059	11.51%
		<b>256,885,694</b>	<b>100.00%</b>

\* As per the share register on 31 December 2013

### GEOGRAPHICAL ANALYSIS OF SHAREHOLDERS

	Number of holders	% of total holders	Number of shares	% of total shares
Angola	1	0.03%	385	0.00%
Australia	8	0.22%	58,612	0.02%
Botswana	415	11.62%	26,420,138	10.28%
Canada	4	0.11%	11,102	0.00%
Great Britain	12	0.34%	5,324	0.00%
India	5	0.14%	318,448	0.12%
Ireland	1	0.03%	200	0.00%
Israel	1	0.03%	521	0.00%
Italy	1	0.03%	4,258	0.00%
Kenya	2	0.06%	3,918	0.00%
Malawi	1	0.03%	257	0.00%
Malaysia	1	0.03%	521	0.00%
Mauritius	8	0.22%	120,602,538	46.95%
Mozambique	23	0.64%	407,589	0.16%
Namibia	1	0.03%	300	0.00%
Netherlands	1	0.03%	3,582,623	1.39%
Norway	1	0.03%	321	0.00%
Portugal	1	0.03%	68,142	0.03%
South Africa	68	1.90%	9,717,345	3.78%
Switzerland	1	0.03%	19,000	0.01%
Tanzania	4	0.11%	64,705	0.03%
America	20	0.56%	47,007,813	18.30%
Warrant	896	25.08%	1,697,689	0.66%
Zambia	1	0.03%	257	0.00%
Zimbabwe	2,095	58.64%	46,893,688	18.27%
	<b>3,572</b>	<b>100.00%</b>	<b>256,885,694</b>	<b>100.00%</b>

## Notice of Annual General Meeting

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

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 Tuesday, 3 June 2014 at 09:30 for the purpose of transacting the following business and further if deemed fit, passing, with or without modification, 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 2013, including the Chairman’s statement, CEO’s statement, Directors’ report and Auditor’s report.
3. To approve the remuneration of the directors for the year ended 31 December 2013.
4. To note that directors, Mrs Khama and Mr Kudenga retire by rotation in terms of Clause 30.1 of the Company’s Constitution and to re-elect Mrs Khama and Mr Kudenga who, being eligible, offer themselves for re-election.
5. To ratify the appointment of Mr Mark Schneiders and Mr Dirk Harbecke as directors of the Company.
6. To ratify the appointment of KPMG as auditors for the ensuing year and to fix their remuneration.

### SPECIAL BUSINESS:

7. To amend the employee share purchase scheme rules.

### BIOGRAPHIES OF DIRECTORS STANDING FOR RE-ELECTION AND WHOSE APPOINTMENTS ARE TO BE RATIFIED AT THE ANNUAL GENERAL MEETING

#### Doreen Khama

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

#### Ngoni Kudenga

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

#### Mark Schneiders

Mark Schneiders formerly served as a nominee of ADC to the Company’s Board and resigned on 2 December 2013. He has been re-appointed as an independent director. He 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 the 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 Advanced Management Programme at Harvard Business School and banking management programmes at INSEAD (Cedep).

#### Dirk Harbecke

Mr Harbecke is the Chief Executive Officer of African Development Corporation. He has more than 16 years of experience as a manager, entrepreneur and consultant in the financial and ICT industries. He was the Project Leader with Boston Consulting Group from 2006 and 2008 and the founder and CEO of two companies in the financial services and research sectors. Mr Harbecke also has project and managerial experience in France, the UK, China, Abu Dhabi/Dubai, the US, North Africa and many countries in Sub-Saharan Africa.

**ORDINARY RESOLUTION 1:**

To approve the annual financial statements for the year ended 31 December 2013, including the Chairman's statement, CEO's statement, Directors' report and Auditor's report.

**ORDINARY RESOLUTION 2:**

To approve the remuneration of directors for the year ended 31 December 2013.

**ORDINARY RESOLUTION 3:**

To re-elect directors retiring by rotation in accordance with the provisions of Clause 30.1 of the Company's Constitution. In this regard, Mrs Khama and Mr Kudenga retire by rotation and being eligible, offer themselves for re-election.

**ORDINARY RESOLUTION 4:**

To ratify the appointment of Mr Mark Schneiders and Mr Dirk Harbecke as directors of the Company.

**ORDINARY RESOLUTION 5:**

To approve the remuneration of the auditors for the year ended 31 December 2013.

**ORDINARY RESOLUTION 6:**

To ratify the appointment of KPMG as the auditors for the Company for the ensuing year.

**ORDINARY RESOLUTION 7:**

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

**SPECIAL BUSINESS:**

**BACKGROUND**

Shareholders approved an employee share purchase scheme for the employees of the Company and its subsidiaries on 22 June 2001 which was subsequently amended by shareholders on 31 May 2005.

In terms of the rules of the scheme, employees who had been employed by the Company for at least six months would be able to participate in the purchase of shares offered by the Company at a discount of 15% on the trading price. The Company would set aside 15% of the issued share capital of the Company for the share purchases scheme. The Company makes these shares available for purchase every two years. Shares purchased pursuant to this scheme are restricted from being sold for a period of 12 months from the date of purchase.

**WAIVER**

If the Atlas Mara transaction becomes unconditional, Atlas Mara wishes to purchase the employee shares granted under this scheme. Shareholders are therefore required to waive the 12-month restriction on the sale of these shares.

**ORDINARY RESOLUTION 8:**

To waive the one-year restriction on the sale of shares purchased by employees in order to accommodate the Atlas Mara transaction.

**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 ordinary 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 Constitution 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) Limited, Plot 54358, Prime Plaza, First Floor, Acacia House, Cnr Khama Crescent & PG Matane Road, Gaborone, Botswana by not later than 09:30 on Monday 2 June 2014.

By order of the Board

**M Vogt**

*Secretary to the Board of Directors*



(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.

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 Tuesday, 3 June 2014 at 09:30.

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 Annual 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. Ordinary resolution 7			
8. Ordinary resolution 8			

Signed at \_\_\_\_\_ on \_\_\_\_\_ day of \_\_\_\_\_ 2014

Signature \_\_\_\_\_ assisted by (where applicable) \_\_\_\_\_

Each shareholder is entitled to appoint one or more proxies (who need not be a member/s of the Company) to attend, speak and vote in place of that shareholder at the Annual 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 Annual 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) Limited, Plot 54358, Prime Plaza, First Floor, Acacia House, Cnr Khama Crescent & PG Matane Road, Gaborone, Botswana, or PO Box 1882, Gaborone, Botswana, to be to be received not less than 24 hours before the Annual General Meeting to be held on Tuesday, 3 June 2014 at 09:30.
4. The completion and lodging of this form will not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such shareholder wish to do so.
5. The Chairman of the Annual 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 Annual 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 Annual General Meeting or adjourned Annual 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

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