National Development Bank 2012

Annual Financial Statements for the year ended 31 March 2012

National Development Bank
Annual Financial Statements
For the year ended 31 March 2012

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Directors' approval of the Financial Statements

The Bank's Board of Directors is responsible for the preparation and fair presentation of the financial statements, comprising the statements of financial position, comprehensive income, changes in equity and cash flows for the year ended 31 March 2012, and the notes to the financial statements, and a summary of significant accounting policies in accordance with International Financial Reporting Standards and in the manner required by the National Development Bank Act No. 74:05 of Botswana.

The Board of Directors' responsibility includes:

- Designing, implementing and maintaining internal control systems relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances.

The Board of Directors responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as supplementary schedules included in these financial statements.

The Board of Directors has made an assessment of the Bank's ability to continue as a going concern and has no reason to believe that the business will not be a going concern in the year ahead.

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 Annual Financial statements were approved by the Board of Directors on 27 September 2012 and are signed on their behalf by:

Mr. L.V. Seitei	**Mr. J. Makwinja**
Chairman, Board	**Chairman, Audit Committee**

Report of the independent auditors to the Minister of Finance and Development Planning pursuant to Section 19 of the National Development Bank Act (Chapter 74:05)

Report on the Financial Statements

We have audited the accompanying financial statements of National Development Bank, set out on pages 4 to 53, which comprise the statement of financial position at 31 March 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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 in compliance with the National Development Bank Act (CAP74:05), and for such internal control as management determines 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 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of National Development Bank as of 31 March 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the National Development Bank Act (CAP74:05).

Certified Auditors
Practicing member: Rudi Binedell (20040091)

5 October 2012
Gaborone

National Development Bank

STATEMENT OF FINANCIAL POSITION
as at 31 March 2012

	Notes	2012 P'000	2011 P'000 (Restated)	2010 P'000 (Restated)
ASSETS				
Cash and cash equivalents	*1*	27,995	60,238	35,843
Loans to financial Institutions	*2*	12,654	12,460	52,198
Other assets	*4*	22,718	23,480	15,406
Loans and advances to customers	*5*	1,038,633	921,247	889,883
Investment in associate	*3*	1,600	1,727	2,283
Investment properties	*6*	16,750	15,000	13,440
Property, plant and equipment	*7*	42,307	43,158	44,490
Total assets		**1,162,657**	**1,077,310**	**1,053,643**
EQUITY AND LIABILITIES				
EQUITY				
Un-recallable capital	*8*	77,689	77,689	77,689
Reserves	*9*	35,659	35,659	37,094
Retained earnings		573,181	542,859	506,362
Dividend reserve		10,107	12,165	14,458
Total equity		**696,636**	**668,372**	**635,603**
LIABILITIES				
Bank overdraft	*10*	51,903	54,934	13,596
Borrowings	*11*	389,873	335,990	392,363
Provisions	*12*	6,933	7,656	7,981
Other liabilities	*12*	17,312	10,358	4,100
Total liabilities		**466,021**	**408,938**	**418,040**
Total liabilities and equity		**1,162,657**	**1,077,310**	**1,053,643**

National Development Bank

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2012

	Notes	2012 P'000	2011 P'000 (Restated)
Interest income	*13*	172,246	164,217
Interest expense	*14*	(34,738)	(33,387)
Net interest income		**137,508**	**130,830**
Fee and commission income	*16*	13,687	11,197
Net trading income		**151,195**	**142,027**
Other income	*15*	5,443	6,279
Operating income		**156,638**	**148,306**
Impairment loss on financial assets	*19*	(48,479)	(35,473)
Impairment of investments	*6*	-	(760)
Personnel expenses	*17*	(31,257)	(30,428)
Depreciation and amortisation	*18.1*	(2,561)	(3,365)
Other expenses	*18.2*	(33,785)	(29,617)
Operating profit		**40,556**	**48,662**
Share of loss of associates	*3*	(127)	-
Comprehensive income for the period		**40,429**	**48,662**
Other comprehensive income:			
Net loss arising from revaluation		-	(1,435)
Other comprehensive income for the period		**-**	**(1,435)**
Total comprehensive income for the period		**40,429**	**47,227**

National Development Bank

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2012

	Un-recallable capital P'000	Fixed property revaluation reserve P'000	Dividend reserve P'000	General risk-reserve P'000	Retained income P'000	Total P'000
Balance as at 31 March 2010 (as previously stated)	77,689	27,412	14,458	9,682	505,607	634,848
Effect of staff loans fair value adjustment (note 25)	-	-	-	-	755	755
Balance as at 31 March 2010 (restated)	**77,689**	**27,412**	**14,458**	**9,682**	**506,362**	**635,603**
Total comprehensive income for the period	-	-	-	-	48,662	48,662
Other comprehensive income						-
Net loss on revaluation of properties	-	(1,435)	-	-	-	(1,435)
Dividend declared and paid	-	-	(14,458)	-	-	(14,458)
Proposed dividend	-	-	12,165	-	(12,165)	-
Balance as at 31 March 2011 (restated)	**77,689**	**25,977**	**12,165**	**9,682**	**542,859**	**668,372**
Total comprehensive income for the period	-	-	-	-	40,429	40,429
Dividend declared	-	-	(12,165)	-	-	(12,165)
Proposed dividends			10,107		(10,107)	
Balance as at 31 March 2012	**77,689**	**25,977**	**10,107**	**9,682**	**573,181**	**696,636**

National Development Bank

STATEMENT OF CASHFLOWS
for the year ended 31 March 2012

	Notes	2012 P'000	2011 P'000
Cash flow from operating activities			
Operating profit for the period:		**40,556**	**48,662**
Adjustments for:			
Depreciation and amortisation	*18*	2,561	3,365
Gain/loss on disposal of property plant and equipment	*15*	(73)	(42)
Unrealised exchange (gains)/losses	*18*	(101)	5
Net impairment loss on loans and advances	*19*	48,479	35,473
Impairment of other investments		-	760
Interest expense	*14*	34,738	33,387
Fair value gain on investment properties	*16*	(1,750)	(1,468)
Net cash inflow before changes in operating assets and liabilities		**124,410**	**120,142**
(Increase)/ decrease in market placements		(66)	39,738
Increase in advances to customers		(165,865)	(71,641)
Decrease/ (increase) in other assets		822	(3,270)
(Decrease)/ increase in provisions and other liabilities		(6,021)	5,933
Cash out flow from operating activities		**(171,130)**	**(29,240)**
Net cash (used in)/ generated from operating activities		**(46,720)**	**90,902**
Cash flows from investing activities			
Acquisition of investment properties		-	(92)
Acquisition of other investments		-	(104)
Acquisition of property and equipment		(1,793)	(3,473)
Proceeds from sale of property and equipment		156	42
Net cash used in investing activities		**(1,637)**	**(3,627)**
Cash flows from financing activities			
Interest paid on financing activities	*15*	(34,738)	(33,387)

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STATEMENT OF CASHFLOWS (CONTINUED) *for the year ended 31 March 2012*	*Notes*	2012 P'000	2011 P'000
(Repayment)/raised debt securities		53,884	(56,373)
Dividends paid	*8.1*	-	(14,458)
Net cash from financing activities		**19,146**	**(104,218)**
Net decrease in cash and cash equivalents		(29,212)	(16,943)
Cash and cash equivalents at beginning of year		5,304	22,247
Cash and cash equivalents at end of year		**(23,908)**	**5,304**
Cash and cash equivalents comprises of:			
Cash	*1*	5	5
Current and call accounts	*1*	27,990	60,233
Bank overdraft	*10*	(51,903)	(54,934)
		(23,908)	**5,304**

1. Reporting entity

National Development Bank ("the Bank") is a bank domiciled in Botswana. The address of the Bank's registered office is National Development Bank, P.O. Box 225, Gaborone. The Bank is primarily involved in corporate and retail lending activities.

Accounting for investment in associate

Economic entity financial statements are prepared on the basis of integrating the results of the bank and its associate using the equity method. In the past, the economic entity financial statements prepared by the bank had accounted for the investments in its associate at fair value as opposed to equity basis. Fair value had been determined on the basis of net asset value of the associate and as such the carrying value as recorded in the prior years reflected the value that would have been recorded had the equity method been followed.

Consequently, the Directors believe that the effect of this error is immaterial for all periods presented and in accordance with IAS 1- Presentation of financial statements, paragraph 31, and the change has been accounted for prospectively.

2. Basis of preparation

These financial statements comprise the results of the Bank and its associate accounted for using the equity basis.

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB") and the National Development Bank Act of Botswana. Except as described below, the accounting policies are applied with the prior year.

Approval of financial statements

These financial statements have been approved for issue by the Board of Directors on 27 September 2012.

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis except for the following:

- Investment properties are measured at fair value, and
- Financial instruments at fair value through profit or loss are measured at fair value.

New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretation that are effective for the first time for the financial year beginning on or after 1 April 2011 that would be expected to have a material impact on the Bank.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2011 and not early adopted

Amendments to IFRS 1, 'First time adoption' on hyperinflation and fixed dates (effective date 1 July 2011): The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2011 and not early adopted (continued)

The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The amendments are not expected to impact the Bank.

Amendment to IFRS 1, 'First time adoption' on government loans (effective date 1 January 2013): This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. The amendment is not expected to impact the Bank.

Amendment to IFRS 7, 'Financial Instruments: Disclosures' on Transfer of financial assets (effective date 1 July 2011): The amendments are intended to address concerns raised during the financial crisis by the G20, among others, that financial statements did not allow users to understand the ongoing risks the entity faced due to derecognised receivables and other financial assets. The amendment is not expected to have a significant impact on the Bank.

Amendment to IFRS 7, 'Financial Instruments: Disclosures' Asset and Liability offsetting (effective date 1 January 2013): The IASB has published an amendment to IFRS 7, 'Financial instruments: Disclosures', reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The amendment is not expected to impact the Bank.

Amendment to IAS 12,'Income taxes' on deferred tax' (effective date 1 January 2012): Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. The amendment is not expected to impact the Bank.

Amendments to IAS 1, 'Presentation of Financial Statements', on presentation of items of OCI (effective date 1 July 2012): The IASB has issued an amendment to IAS 1, 'Presentation of financial statements'. The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements. The amendment does not address which items should be presented in OCI and the option to present items of OCI either before tax or net of tax has been retained. The amendment is not expected to impact the Bank.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2011 and not early adopted (continued)

IAS 19, "Employee benefits" (effective date 1 January 2013): The IASB has issued an amendment to IAS 19, 'Employee benefits', which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The revision to the standard is not expected to impact the Bank.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of the financial assets and liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Bank is yet to assess IFRS9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

IFRS 10 'Consolidated financial statements' (effective date: 1 January 2013): This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The standard is not expected to impact the Bank.

IFRS 11 'Joint arrangements' (effective date: 1 January 2013): This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The standard is not expected to have a material effect on the Bank.

IFRS 12 'Disclosures of interests in other entities' (effective date 1 January 2013): This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The bank intends to adopt IFRS 12 no later than the accounting period beginning 1 January 2013. The standard is not expected to have a material impact on the Bank.

IFRS 13 – Fair value measurement (effective date: 1 January 2013): This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Bank is to assess the full impact of the standard and intends to adopt IFRS 13 no later than the accounting periods beginning on or after 1 January 2013.

Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2011 and not early adopted (continued)

IAS 27 (revised 2011) – Separate financial statements: This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The standard is not expected to impact the Bank.

IAS 28 (revised 2011) – Associates and joint ventures (effective date: 1 January 2013): This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Bank is to assess the full impact of the standard and intends to adopt IAS 28 (revised 2011) no later than the accounting periods beginning on or after 1 January 2013.

Amendments to IAS 32 – Financial Instruments: Presentation (effective date: 1 January 2014): The IASB has issued amendments to the application guidance in IAS 32, 'Financial instruments: Presentation', that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP. The Bank is to assess the full impact of the standard and intends to adopt IAS 32 amendments no later than the accounting periods beginning on or after 1 January 2014.

(c) Significant judgments and estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The 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 of making the judgments' about carrying values and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are discussed in note 28.

3. Significant accounting policies

The accounting policies set out below, have been consistently followed in all material respects and comply with International Financial Reporting Standards.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

Basis of consolidation (continued)

In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

At the reporting date, the Bank had a single wholly owned dormant subsidiary company, Development House (Pty) Ltd. The subsidiary had remained dormant in the financial period. The directors have not presented group accounts as the effect of consolidation of subsidiary results was considered immaterial on the Banks financial statements. Further details for consolidation of subsidiary are provided on note 3.

(ii) Investments in associates

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Under this method, the Bank's share of post-acquisition accumulated profits or losses of associated companies, which are generally determined from their latest audited financial statements, is included in the carrying value of the investments, and the annual profit attributable to the group is recognised in the statement of comprehensive income.

The Bank's share of post-acquisition movement in reserves is recognised in other reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The carrying amount of such interests is reduced to recognise any potential impairment, other than a temporary decline, in the value of individual investments.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses unless the Bank has incurred obligations, issued guarantees or made payments on behalf of the associate.

Investments in associates are assessed for impairment when indicators of impairment are identified. Such impairment indicators include, but are not limited to, for example:

- Sustained deterioration in financial results of operations and / or financial position of an associate;
- Changes in the operating environment of an associate, including regulatory and economic changes, market entry by new competitors, etc and
- Inability of an associate to obtain finance required to sustain or expand operations.

Where impairment indicators are identified, the recoverable value of the associate is measured at the lower of realisable value through fair value less costs to sell, and value in use. Value in use is the present value of future cash flows expected to be derived from the associate.

Where the recoverable value of an associate is below the carrying amount, the carrying amount is reduced to the recoverable value through an impairment loss charged to the statement of comprehensive income.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

Basis of consolidation (continued)

Once an impairment loss has been recognised, the company assesses at each year-end date whether there is an indication that the impairment loss previously recognised no longer exists or has decreased. If this is the case, the recoverable value of the associate is remeasured and the impairment loss reversed or partially reversed as may be the case.

The Banks shareholdings in active associates comprise:

Investments in Propcorp (Pty) Ltd	33.33%

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Botswana Pula, which is the Bank's functional and presentation currency. Except as indicated the financial information presented in Pula has been rounded to the nearest thousand.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(c) Interest income and expenses

Interest income and expense on all instruments measured are on amortised cost and are recognised in the statement of comprehensive income on the accruals basis, applying the effective interest method.

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 expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments 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 bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs and all other premiums and discounts.

When 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 effective rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense is recognised as part of operating cash flows in the statement of cash flows.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

(d) Fee and commission income

Unless included in the effective interest rate calculation, the Bank recognises fee and commission income on an accruals basis when the service is rendered.

Loan origination fees are recognised as income in the period of receipt, including related direct costs.

Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and services fees are recognised based on the applicable service contract, usually on a time proportionate basis.

(e) Other income: rental income

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

(f) Financial assets and liabilities

Financial assets

The Bank's major financial assets are balances with other banks, market placements, advances from the Bank's funds and accounts receivable.

The Bank classifies its financial assets as loans and receivables, held to maturity, available for sale instruments or held at fair value through profit and loss. Management determines the classification of its financial assets at initial recognition.

The Bank initially recognises loans and advances, deposits/market placements; securities issued and subordinated liabilities on the date that they are originated. All other financial assets are recognised on the trade date of the Bank becoming party to the contractual provisions of the instruments.

Financial instruments at fair value through profit and loss

Financial instruments are classified in this category if they are held for trading, or if they are designated by management under the fair value option. Instruments are classified as held for trading if they are:

-acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- 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 or;
- a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial instruments may be designated at fair valued through profit or loss (designated under the fair value option) on inception. Financial instruments cannot be taken into or out of this category after inception. Financial instruments designated at fair value are recognised initially at fair value and transaction costs are taken directly to the statement of comprehensive income. Gains and losses arising from changes in fair value are included directly in the statement of comprehensive income. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

Financial assets and liabilities (continued)

Financial instruments at fair value through profit and loss (continued)

Regular way purchases and sales of financial instruments held for trading under fair value option are recognised on trade date, being the date on which the Bank irrevocably commits to purchase or sell the asset.

Loans and receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Bank provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

Loans and advances extended to members of staff at rates below the ruling market rates are originally recorded at amortised cost, determined based on the effective interest yield method. Under this method, the fair value of the capital value granted is measured as the present value of anticipated future cash flows discounted at an applicable market interest rate. The difference between the capital amount advanced and amortised cost is recognised as an expense when the loan is granted and unwinds to income over the period of the loan based on the effective interest rate yield curve.

Held-to-maturity investments

Non-derivative investment securities with fixed or determinable payments, where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any provision for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Available for sale instruments

Non-derivative investment securities intended to be held indefinitely, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available for sale.

The Bank initially recognises unquoted investment securities at cost. All other available-for-sale investments are carried at fair value. It subsequently re-measures available-for-sale financial assets at fair value based on prevailing market prices.

Unrealised gains and losses arising from changes in the fair value of instruments classified as available-for-sale are recognised in the statement of comprehensive income. When these instruments are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investments.

The entity did not have any financial instruments that were designated as either fair value through profit and loss or as available for sale for the financial periods.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

Financial assets and liabilities (continued)

De-recognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset.

Financial liabilities

Significant financial liabilities include long term interest bearing borrowings, balances owed on funds administered by the bank, interest subsidy payable and other accounts payable.

Financial liabilities are classified according to the substance of the contractual arrangement entered into. The Bank's major liabilities are long term borrowings and accounts payable.

The Bank classifies its financial liabilities as 'financial liabilities at amortised cost'.

The Bank initially recognises financial liabilities when the Bank has a legal or constructive obligation as a result of the Bank becoming party to the contractual provisions of the liability.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities

The Bank de-recognises financial liabilities when, the Bank's obligations are discharged, cancelled or they expire.

Determining fair value

Where the classification of a financial instruments requires it to be stated at fair value, this is determined by reference to the quoted bid price in an active market wherever possible. Where no such active market exists for the particular asset, the Bank uses appropriate valuation techniques to arrive at the fair value, including the use of prices obtained in recent arms' length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

The fair values of all financial instruments are substantially identical to the carrying amounts reflected in the statement of financial position.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

Financial assets and liabilities (continued)

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.

Income and expenses are presented on net basis only when permitted by the accounting standards, or for gains or losses arising from a group of similar transactions such as the Bank's foreign currency assets and liabilities.

(g) Impairment of financial instruments

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a portfolio of financial assets carried at amortised cost is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the statement of financial position date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. Objective evidence that a financial asset or a portfolio is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio;
    - national or local economic conditions that correlate with defaults on the assets in the portfolio.

For loans and advances, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the statement of comprehensive income.

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 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 risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

Financial assets and liabilities (continued)

Impairment of financial instruments (continued)

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 based on 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.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is irrecoverable, 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. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of comprehensive income.

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, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

In the case of equity instruments 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 impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the statement of comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt securities are recognised in the statement of comprehensive income.

Reversals of impairment of equity shares are not recognised in the statement of comprehensive income, increases in the fair value of equity shares after impairment are recognised directly in equity.

(h) Impairment of non financial assets

The carrying values of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists and where the carrying values exceeds recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in the prior years. A reversal of impairment loss is recognised as income immediately unless the relevant asset is carried at a re-valued amount in which case the reversal of the impairment is treated as an increase in the revaluation reserve.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

(i) Cash and bank balances

For purposes of the cash flow statement, cash and cash equivalents comprise notes and coins on hand and balance with less than 90 days maturity from the date of acquisition, including cash and cash balances with other banks.

Cash and cash equivalents are carried at amortised cost on the statement of financial position.

(j) Property, Plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost or valuation less related accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Land and buildings are fair valued, at the discretion of the Board of Directors, by independent firms of professional valuators using the open market value method. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Depreciation is calculated on the difference between cost or fair value and residual value of the asset and is charged to the statement of comprehensive income over the lives of the assets, using the straight line method.

The estimated useful lives are as follows:

Buildings	50 years
Motor vehicles	3 years
Office equipment and furniture	2 - 5 years

Depreciation is not provided on land

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of comprehensive income. When re-valued assets are sold, the appropriate portion of the revaluation reserve is transferred to retained earnings on disposal.

Repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits of the existing asset will flow to the Bank.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Property, plant and equipment (continued)

Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is three years.

(k) Investment properties

Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value through profit or loss. Gains or losses arising from changes in the fair value of investment property are included in net income for the period in which they arise.

An external, independent valuation expert, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio at least annually. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Gains or losses arising from changes in the fair value of investment property are included in net income for the period in which they arise. Rental income from investment property is accounted for as described in the accounting policy for revenue recognition.

(l) Lease arrangements

(i) Operating lease- Where the bank is a lessor

Assets leased to customers under agreements, which do not transfer substantially all the risks and rewards of ownership, are classified as operating leases.

The leased assets are included within property, plant and equipment on the Bank's statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

(ii) Operating lease- Where the bank is a lessee

The total payments made under operating leases are charged to the statement of comprehensive income 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.

(m) Liabilities and provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, 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.

No provision is recognised when the possibility of the liability crystallising is uncertain, if it depends on a future contingent event or if the obligation cannot be measured with sufficient reliability. In such cases, a contingent liability is disclosed.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank 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 Bank recognises any impairment loss on the assets associated with that contract.

Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists. An obligation exists when the Bank has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

(n) Borrowings and issued debt securities

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Bank having a recent obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable, or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities, other than trading liabilities and financial liabilities designated at fair value, are carried at amortised cost using the effective interest rate method.

Borrowings, consisting of floating rate notes and medium-term notes, are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate yield method.

If the Bank purchases its own debt, it is removed from the statement of financial position, and the difference between the carrying amount of a liability and the consideration paid is included in other income.

(o) Employee benefits

(i) Pension contributions

The Bank operates a defined contribution pension fund for its entire permanent citizen staff. This fund is registered under the Pension and Provident Funds Act (Chapter 27:03). The Bank contributes to the fund 16% of the pension able earnings of the members, and the employees contribute an additional 4% of their pensionable earnings. The Bank's contributions are charged to the statement of comprehensive income in the year in which they accrue. Other than the regular contributions made in terms of the Rules of the Fund, the Bank does not have any further liability to the fund.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2012

Employee benefits (continued)

(ii) Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iii) Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank 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.

Employees on contract receive terminal gratuities in accordance with their contracts of employment. An accrual is made for the estimated liability towards such employees up to the statement of financial position date. All other employees are members of the Bank's pension scheme and do not qualify for such terminal gratuities.

Short term employee benefits, such as paid absences are accounted for on an accrual basis over the period which employees have provided services in the year.

(p) Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other in making financial or operating decisions. A number of transactions are entered into with related parties in the normal course of business. These transactions are carried out under normal commercial terms and conditions at market rates, as summarised in the note 27 to the financial statements.

(q) Dividends

Dividends proposed at the reporting date are shown as a component of capital and funding.

(r) Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities. Collateral received in the form of securities is not recorded on the statement of financial position.

(s) Repossessed properties

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Other assets'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

	2012 P'000	2011 P'000 (Restated)
1 CASH AND BALANCES WITH BANKS		
Cash	5	5
Current and call accounts	27,990	60,233
	27,995	**60,238**

2 LOANS TO FINANCIAL INSTITUTIONS

	2012 P'000	2011 P'000 (Restated)
African Alliance (Pty) Ltd	93	88
Africa 53 provident fund (Pty) Ltd	293	-
Stanbic Investment Services (Pty) Ltd	2,768	956
Bank Gaborone (Pty) Ltd	9,500	11,416
	12,654	**12,460**
Maturity profile		
On demand to three months	12,654	12,460

Placements and other investments due from other banks are part of the Bank's money market activities and comprise short term lending and placements with banks and other financial institutions.

The cash balances and balances with banks and short term investments are placed with local financial institutions. These institutions are not credit rated. However they are all subsidiaries of major South African and Namibian financial institutions. The balances held with these institutions are considered recoverable.

3 INVESTMENTS

3.1 INVESTMENT IN ASSOCIATE	2012 P'000	2011 P'000
Investment in Propcorp (Proprietary) Limited (representing 33.33% of the issued shares)	1,600	1,727

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

Investment in associates (continued)

The directors considered that the fair value of the unlisted investment approximate to cost.

Propcorp (Proprietary) Limited is a property investment company and the Bank holds 33.3% voting rights on this company. Propcorp (Proprietary) Limited is considered an associate of the bank by virtue of its shareholding and agreement held. The Bank has significant influence through its power to participate in the financial and operating policies of Procorp (Proprietary) Limited. The reconciliation of investments held at the reporting dates are as follows:

	P'000	P'000
Balance at the beginning of the year	**1,727**	**2,383**
Share of associates loss for the period	(127)	
Increase in shareholding	-	104
Impairment of investments	-	(760)
Balance at the end of the year	**1,600**	**1,727**

The audited results of Propcrop (Proprietary) Limited for the year ended December 2011 were used for consolidation under the equity method. No significant transactions were identified for inclusion between the date of the financial statements of Propcorp (Proprietary) Limited and the Bank's reporting date. The use of the audited December 2011 results was considered appropriate for consolidation of the associate's results for the period.

Bank's share of results of principal associates

The Bank's share of results of principal associates, all of which are unlisted, and its aggregated assets and liabilities, are as follows:

Name	Percentage held %	Country of incorporation	Assets P'000	Liabilities P'000	Revenues P'000	Loss P'000
Propcorp (Proprietary) Limited	33.33	Botswana	5,066	268	284	382

3.2 Group accounts and consolidation of subsidiary- Development House (Proprietary) Limited

Development House (Proprietary) Limited is a wholly owned subsidiary of the Bank. The total investment in the company is P 5000. The company has remained a dormant entity with no transactions being conducted in the current financial year. Consolidated accounts were not prepared as the investment value is considered not to have a material effect on the financial statements of the Bank at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

		2012	2011
4	**OTHER ASSETS**	**P'000**	**P'000 (Restated)**
	Interest subsidy receivable from Botswana Government	44	85
	Rent debtors	909	1,012
	FMD receivables	3,926	10,527
	IAS 19 Staff benefit asset (note 25)	16,867	11,853
	Other receivables and prepayments	1,542	727
		23,288	24,204
	Impairment provisions raised on rent debtors	(570)	(724)
	Balance at the end of the year	**22,718**	**23,480**

5 LOANS AND ADVANCES

	2012	2011
Gross amount		
Customers	1,127,876	964,504
Staff (Note 25)	44,317	46,804
	1,172,193	1,011,308
Impairment provision portfolio (Note 20)	(17,062)	(6,218)
Impairment provision specific (Note 20)	(116,498)	(83,843)
Less: Allowance for impairment	(133,560)	(90,061)
Carrying amount	**1,038,633**	**921,247**

The current and non-current split of loans and advances are:

	2012	2011
Current	56,215	76,077
Non-current	982,418	845,170
	1,038,633	**921,247**

Loans and advances have been advanced from the bank to its customers and staff for terms ranging from 1 to 25 years at varying interest rates.

Advances to ex-employees are re priced to market rates when they leave the Bank. These balances formed a small portion of total advances as at 31 March 2012.

The Bank's business activities are concentrated in loans and advances and are carried out primarily within the geographical region of Botswana.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

Off balance sheet:	2012 P'000	2011 P'000 (Restated)
Loan disbursements commitments	96,000	51,208
Guarantees	1,040	9,467
	97,040	**60,675**

Loan disbursements commitments comprise of committed advances funds to customers at year end, but not yet disbursed at that date. Such commitments are normally made for a fixed period and are subject to certain conditions stipulated by the banks internal credit policies. The bank may withdraw from its obligations for the undrawn portion of the advances approved.

The loan book will be funded from both internally and externally generated funds.

6 INVESTMENT PROPERTIES

	Commercial Land and Buildings 2012 P'000	Commercial Land and Buildings 2011 P'000
Balance at the beginning of the year	15,000	13,440
Additions	-	92
Increase in fair value	1,750	1,468
Balance at the end of the year	**16,750**	**15,000**

The fair value of the Bank's investment properties at 31 March 2011 was determined by an independent valuer, Willy Kathurima Associates on instructions of the Board of Directors. The independent valuers have not been changed from the prior year. The valuations were arrived by reference to open market values as defined in the International Assets Valuations Standards of the Royal Institute of Chartered Surveyors (RICS). Details of the investments properties are available at the registered office of the bank.

Property rentals earned by the bank from the investment property, all of which are leased out under operating leases, amounted to P 938 602 (2011: P873 005)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

7 Property, plant and equipment

	Freehold Commercial land and buildings	Leasehold Commercial land and buildings	Freehold Residential land and buildings	Leasehold Residential land and buildings	Motor vehicles	Office furniture and equipment	2012 Total	2011 Total
COST/ VALUATION	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Balance at 01 April	30,022	2,578	6,099	1,005	60	11,932	51,696	51,279
Additions	101	-	-	-	-	1,692	1,793	3,473
Revaluations								(3,023)
Disposals	-	-	-	-	(60)	(59)	(119)	(33)
Balance at 31 March 2012	**30,123**	**2,578**	**6,099**	**1,005**	**-**	**13,565**	**53,370**	**51,696**
DEPRECIATION								
Balance at 01 April	4	20	6	-	36	8,472	8,538	6,791
Charge for the year	312	15	32	5	-	2,197	2,561	3,365
Revaluation								(1,588)
Disposals	-	-	-	-	(36)	-	(36)	(30)
Balance at 31 March	**316**	**35**	**38**	**5**	**-**	**10,669**	**11,063**	**8,538**
CARRYING AMOUNTS								
31-Mar-2012	**29,807**	**2,543**	**6,061**	**1,000**	**-**	**2,896**	**42,307**	
31-Mar-2011	**30,018**	**2,558**	**6,093**	**1,005**	**24**	**3,460**	**43,158**	

An independent valuation of the Banks Land and Buildings was performed by valuers- Willy Kathurima Associate to determine the fair value as at March 2011. The valuation, which conforms to International Valuation Standards, was determined by reference to recent market transactions on an arm's length terms. Management considers the markets to be stable and revalues their property, plant and equipment every three years. The revaluation surplus was credited to other comprehensive income and is shown under shareholders' equity. (Refer note 9). If Land and Buildings were stated at historic cost, the total carrying value would be P13.601m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

8 UN-RECALLABLE CAPITAL

	2012 P'000	2011 P'000
Un recallable capital	77,689	77,689

Un recallable capital represents the portion of funds invested by the Government of Botswana, with the Bank.

9 RESERVES

	2012 P'000	2011 P'000
Fixed property revaluation reserve arising on revaluation of land and buildings	25,976	25,976
General risk reserve	9,682	9,682
	35,659	**35,659**

The revaluation reserve comprises of the accumulated revaluation surpluses arising on the revaluation of property that has been retained by the Bank.

The General risk reserve comprises funds set aside by Bank in accordance with the National Development Bank Act. The funds are reserved to meet the operational funding requirements as they may arise.

9.1 Dividend reserve

	2012 P'000	2011 P'000
Balance at the beginning of the year	12,165	14,458
Dividends declared and payable	(12,165)	(14,458)
Proposed dividend	10,107	12,165
Balance at the end of the year	**10,107**	**12,165**

The reserve comprises of the proposed dividends and represents a percentage of the Bank's net income for the year. In the current year, 25% (2011: 25%) of the net income was proposed as dividends and is expected to be approved by the Board of Directors.

10 BANK OVERDRAFT

	2012 P'000	2011 P'000
Banc ABC	51,903	54,934

The Bank has a total facility with BancABC of P55m on the overdraft account. The total facility value has remained unchanged from the prior year. The facility attracts a monthly interest rate of 3% below prime rate, and is unsecured.

		2012 P'000	2011 P'000
11	**BORROWINGS**		
	Secured bank loans:		
	Standard Chartered Bank term loan (P23m facility)	3,134	6,829
	Standard Chartered Bank term loan (P100m facility)	75,390	-
		78,524	**6,829**
	Listed Bonds:		
	National Development Bank 001 Bond	168,094	167,910
	Development loans:		
	African Development Bank Loan (ADB)	106,690	112,320
	Other unsecured loans:		
	Government of the Republic of Botswana (PDSF)	17,723	18,867
	ABC term loan	18,809	30,031
	Accrued interest	33	33
	Total long term borrowings	**389,873**	**335,990**

The current/non-current split of the Borrowings is as follows:

	2012 P'000	2011 P'000
Current	51,895	63,670
Non current	337,978	272,320
	389,873	**335,990**

The external borrowings have the following arrangements in place:

11.1 The Standard Chartered Loan facility of P23m bears an interest at a fixed rate of 12.85% (2011: Prime less 12.85%) per annum and is payable quarterly. The loan matures on 8 November 2012. The facility is secured over receivable balances to the amount of P150m.

11.2 The Standard Chartered Loan facility of P100m bears an interest rate of Prime less 2.75% (2011: Prime less 2.75%) and is payable quarterly. The loan matures on 10 October 2014. The facility is secured over receivable balances to the amount of P150m.

11.3 The National Development Bank 001 Bond is part of a BWP 180 million note programme of which BWP 100 million was issued on 29 August 2007 and BWP 65 million in December 2008. The bond attracts a fixed interest rate of 11.25% (2011: 11.25%) per annum, payable bi-annually in February and August every year. The bond has a redemption date of 1 August 2017. The bond is listed on the Botswana Stock Exchange and is subscribed by corporate investors.

11.4 The African Development Bank Loan, denominated in Japanese Yen, is repayable over 10 years in bi-annual installments. The loan has an interest rate of 2.775% (2011: 2.775%) per annum on the Japanese Yen balance equivalent.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

Borrowings (continued)

11.5 The borrowing from the Government of Botswana is repayable over a period of 25 years, in equal half yearly installments. The loan agreement provided for an initial two year grace period during which interest was capitalised. The loan bears interest at rates varying between 6% and 12.1% (2011: 6%- 12.1%). The loan matures on 21 April 2020. The facility is unsecured.

11.6 The African Banking Corporation loan is payable over four years in quarterly installments and matures on 26 August 2013. The loan attracts an interest rate of Prime less 3% (2011: Prime less 3%). The facility is unsecured.

	2012 P'000	2011 P'000
12 PROVISIONS AND OTHER LIABILITIES		
Provisions	6,933	7,656
Other liabilities	17,312	10,358
Total provisions and other liabilities	**24,245**	**18,014**
Other creditors		
Trade creditors	3,930	2,275
Dividends payable to Government of Botswana	11,286	946
Withholding tax on dividends	1,825	-
Other administrative liabilities	271	7,137
Total other creditors	**17,312**	**10,358**

Provisions

	Gratuity P'000	Leave P'000	Bonus P'000	ACGS P'000	Total P'000
Balance as at 1 April 2010	**3,110**	**1,718**	**1,155**	**1,998**	**7,981**
Increase in provisions	890	671	1,001	2,210	4,772
Utilisations/ payments made during the year	(1,548)	(672)	(879)	(1,998)	(5,097)
Balance as at 1 April 2011	**2,452**	**1,717**	**1,277**	**2,210**	**7,656**
Increase in provisions	651	627	720	2,200	4,198
Utilisations/ payments made during the year	(1,311)	(675)	(725)	(2,210)	(4,921)
Balances as at 31 March 2012	**1,792**	**1,669**	**1,272**	**2,200**	**6,933**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

		2012 P'000	2011 P'000 (Restated)
13	**INTEREST INCOME**		
	Loans and advances	159,252	150,121
	Government interest subsidy	3,119	2,942
	Advances to Metsef and Banc ABC	4,468	4,941
	Deposit Interest Income	5,407	6,213
		172,246	**164,217**
14	**INTEREST EXPENSE**		
	National Development Bank 001 Bond	18,604	18,598
	National Development Bank BPOMAS fixed rate note	-	2,475
	African Development Bank long term loan	3,518	3,703
	Loans from Government of the Republic of Botswana	2,077	2,204
	Standard Chartered term loans	6,577	1,364
	Banc ABC overdraft facility	3,962	5,043
		34,738	**33,387**
15	**OTHER INCOME**		
	Commercial investment properties rental income	939	873
	Other property rental income	2,057	2,179
	Profit on disposal of property, plant and equipment	73	42
	Foreign currency (losses)/ gains	(101)	5
	Debt recoveries	369	1,133
	Net gain on fair value of investment properties	1,750	1,468
	Other miscellaneous	356	579
		5,443	**6,279**
16	**FEE AND COMMISSION INCOME**		
	Foot and Mouth Disease Fund	3,417	3,846
	Loan administration fees	10,270	7,351
		13,687	**11,197**

National Development Bank

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

		2012 P'000	2011 P'000 (Restated)
17	**STAFF EXPENSES**		
	Pension contributions	2,908	2,683
	Staff costs	28,349	27,745
		31,257	**30,428**
	Number of employees	141	147
18	**OTHER EXPENSES**		
18.1	**Depreciation**	**2,561**	**3,365**
18.2	**Other expenses**		
	Administration expenses	22,358	20,323
	Staff loan fair value adjustment	5,014	4,804
	Auditors' remuneration	776	589
	Board of Directors fees and expenses	233	183
	Operating leases - motor vehicles	1,846	2,001
	Professional and management consultants' fees	3,557	1,717
		33,785	**29,617**
19	**LOAN LOSS IMPAIRMENT**		
	Specific	37,635	39,207
	Non specific	10,844	(3,734)
	Charge per income statement	**48,479**	**35,473**
20	**Provisions for impairment**		
20.1	**Movement in specific allowance for impairment**		
	Balance at the beginning of the year	83,843	59,239
	Charge for the year	37,635	39,207
	Write off during the year	(4,980)	(14,603)
	Balance at the end of the year	116,498	83,843

Provisions for impairment (continued)

	2012 P'000	2011 P'000 (Restated)
20.2 Movement in portfolio allowance for impairment		
Balance at beginning of the year	6,218	9,952
Charge for the year	10,844	(3,734)
Balance at end of the year	17,062	6,218
Total allowance for impairment at end of the year	**133,560**	**90,061**

21 TAXATION

Under the provisions of the Income Tax Act (Chapter 52:01), National Development Bank is exempt from income taxation.

22 CAPITAL COMMITMENTS

Capital expenditure authorised by the Board of Directors and contracted for amounted to:	400	414

23 FUNDS ADMINISTERED BY THE BANK

The Bank has administered funds on behalf of the Government of Botswana for the Foot and Mouth Disease relief fund. The fund maintains a separate set of financial statements. The total assets of this fund amounted to P96m (2011: P105m). The management fee earned for administration of the fund during the year financial year and balances receivable at the reporting date are as follows:

Management fee income	3,417	3,486
Management fee income receivable	3,926	10,527

24 LEASE COMMITMENTS

The bank has entered into a number of operating leases for the rental of motor vehicles and rental of premises.

The amount due as at end of the year in terms of these agreements were:

Motor vehicles - Executive management

Due within one year	292	556
Due between one and five years	853	1,266
	1,145	**1,822**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

Lease commitments (continued)

	2012 P'000	2011 P'000
Motor vehicles - Business use		
Due within one year	890	519
Due between one and five years	497	149
	1,387	**668**
Office rental		
Due within one year	776	469
Due between one and five years	113	490
	889	**959**

These commitments will be financed out of internally generated funds.

25 Restatement of comparative period

The bank provides loans to staff at an off market rate. In assessing the fair value of these loans at inception the bank has not previously used the prevailing commercial market rates.

The absence of assessing the fair value of off market loans represents an incorrect application of accounting standards and therefore constitutes to a prior period error in accordance with IAS 8- 'Accounting policies, changes in accounting estimates and errors'.

In applying the requirements of IAS 39 Financial Instruments, the bank has fair valued the loans at inception and the benefit is treated in accordance with IAS 19 Employee benefits.

Accordingly, this restatement has no impact on the 2011 reported profit. The effect on reported financial positions and retained earnings are detailed below:

Financial year 31 March 2010

	Other assets-prepaid expenses (Note 4) P'000	Staff loans (Note 5) P'000	Retained earnings P'000
Balance as previously stated	-	54,375	505,607
Interest rate differential		(6,294)	(6,294)
Recognition of prepaid expenses	7,049	-	7,049
Balances restated	**7,049**	**48,081**	**506,362**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

Restatement of comparative period (continued)

Financial year ended 31 March 2011

	Other assets-prepaid expense (Note 4) P'000	Staff loans (Note 5) P'000	Retained earnings P'000
Balance as previously stated	-	57,902	542,104
Effect of the prior period adjustment	7,049	(6,294)	755
Interest rate differential	-	(5,602)	-
Current period recognition of IAS 19 prepaid expenses- included in other expenses (Note 18)	5,602	-	-
Release in interest rate differential-included in other expenses (Note 18)	-	798	-
Amortisation of IAS 19 prepaid expense- included in staff costs (Note 19)	(798)	-	-
Balances restated	**11,853**	**46,804**	**542,859**

Capital management

26 Capital Ratio

Capital adequacy and the use of regulatory capital are monitored by Bank of Botswana on a monthly basis. The Central Bank has set the minimum requirement at 15% compared to the international standard of 8%.

The ratio calculation involves the application of designated risk weightings based on an estimate of credit, market and other risk associated with broad categories of transactions and counterparties.

The Bank maintains a strong a capital base and complied with all externally imposed capital requirements throughout the period.

There were no changes to the Bank's capital management during the year.

	2012 P'000	2011 P'000
Core capital		
Stated capital	77,689	77,689
General reserves	9,682	9,682
Retained earnings	542,849	505,607
Tier I capital	**630,230**	**592,978**
Current year unpublished profits	40,429	48,662
50% fixed asset revaluation reserve	12,988	12,988
Unencumbered general provisions	17,062	6,216
Tier 2 capital	**70,479**	**67,866**
Total capital c/f	**700,709**	**660,847**

Capital management (continued)	**2012 P'000**	**2011 P'000**
Total capital b/f	700,709	660,847
Less: Investments in unconsolidated subsidiaries	(1,600)	(1,727)
Total unimpaired capital	**699,109**	**659,120**
Risk weighted assets:		
On balance sheet assets	1,128,493	1,017,307
Off balance sheet assets	49,040	35,070
Total risk weighted assets	**1,177,533**	**1,052,377**
Capital adequacy ratio	59%	63%
Regulatory capital adequacy ratio	15%	15%

27 RELATED PARTIES

The Bank has related party relationships with the Government of Botswana, its directors, executive officers and key management personnel, and its associate Propcorp (Proprietary) Limited.

The following transactions and balances were undertaken by the Bank, with its related parties, during the period:

Directors and key management personnel compensation :

Board of Directors sitting allowances	161	174
Executive management remuneration	3,250	4,350
	3,411	**4,524**

Transactions with Government of Botswana:

PDSF Botswana Government debt balance:

Loan balance outstanding	17,722	18,867
Interest expense on loan	2,090	2,204

Subsidies received and receivable:

Interest subsidies received during the year	3,119	2,942
Interest subsidy receivable at the year end	44	85

The income from Government represents interest subsidies for agricultural loans disbursed under the Government ISPAAD loan programme.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2012

28 JUDGMENTS AND ACCOUNTING ESTIMATES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. The Bank regularly reviews its loan portfolio and makes judgments in determining whether an impairment loss should be recognised in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

29 SEGMENTAL ANALYSIS

A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

The Bank operates only in Botswana and within one business segment. Accordingly, no segmental information has been prepared.

30 BANK GUARANTEES AND PLEDGES

	2012 P'000	2011 P'000
NDB has the following bank pledges in place:		
African Banking Corporation of Botswana:		
Bank account held as security over the credit facility	8,083	9,511
Stanbic Bank of Botswana Limited:		
Bank account held as security over the credit facility	-	22,796
First National Bank of Botswana Limited:		
Scheme agreement resolution over Wesbank assets	-	2,000

31 Post balance sheet events

A dividend of 25% of the Banks retained income P10.107m was declared in September 2012. There were no other material post balances sheet events noted.

32 Financial instruments and risk management

Risk Management

National Development Bank (NDB) has various risk exposures emanating from the day to day conduct of financial intermediation. The key risks are:

- Credit / counterparty risk
- Liquidity risk
- Interest rate risk
- Foreign exchange risk
- Operational Risk

It is the Board of Directors' responsibility to ensure that there is an effective risk management framework in place and sufficient controls to mitigate the eventualities of unwarranted exposure. The Board of Directors have established the Audit Committee and Asset and Liability Committee (ALCO) to ensure that there is sufficient financial risk identification, measurement, monitoring and mitigation and reporting to shareholders. To this end the Audit Committee has approved policies, and set limits and controls for the various facets of risk management.

The Asset and Liability Management (ALM) framework has been put in place to ensure that the bank's profitability is sustainable and resilient. This requires the Asset and Liability Committee (ALCO) to take a long term approach, incorporating internal and external expectations and factors in its strategic decisions.
On a continuous basis, the Audit Committee reviews the risk management policies of the Bank to ensure that they are relevant to the current market situation and consistent with the Bank's strategic objectives.

Credit Risk

Credit risk is risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the bank's loans and advances to customer, investment securities and other market placements.

Credit risk is subject to a variety of external factors. These may include structural changes in the economy, deterioration in the performance of concerned sector, changes in anticipated financial performance by the counterparty. To assess the credit quality and viability of projects, the following factors are considered; Financial viability, Economic viability and Management Capability. The Bank requires security and contributions to mitigate as credit risk.

Loans and advances to customers

The bank's advances to customers contribute 89% of total assets at P1 162 662 as at 31 March 2012 (2011: 87%).

The Board of Directors has approved the credit policy that sets a framework for loan assessment, monitoring, collection and valuation.

To the extent possible, this credit risk policy addresses risk adjusted pricing and risk adjusted capital allocation methodologies. The Credit Risk policy sets limits for credit concentration. Credit concentration levels by sector are constantly monitored at the Assets and Liabilities Committee (ALCO), and remedial strategies to dilute the concentrations considered.

32 **Financial risk management (continued)**

Credit risk (continued)

Loans and advances to customers (continued)

A rigorous assessment of both specific and general portfolio is carried out every quarter. The methodology applied is in line with the requirements of IAS 39.

Non- performing loans, being capital and interest of loans that are in arrears in excess of six months, comprised 30% or P307 million (2011:31% or P311 million) of the loan book. A specific provision of P116.4 million (2011: P83.8 million) was raised at 31 March 2012 based on a comparison of carrying amounts against the present value of recoverable cash flows.

Investment securities and other money market placements

ALCO has approved placement and settlement limits with which the bank should make money market placements and settle foreign currency trades. The limits are adhered to at all times and compliance to the limits is monitored by ALCO on a monthly basis. The placement limits and settlement limits are reviewed annually by ALCO using the various counterparty Annual Reports, external credit ratings, and any ad hoc information deemed appropriate for credit limit sanctioning.

The bank's quantitative credit risk assessments and classification of assets and liabilities are disclosed in notes 32.4 to 32.11 of these financial statements.

Liquidity risk

Liquidity risk is the risk that the bank will not be able to meet its financial obligations as they fall due.
To mitigate against liquidity risk, ALCO has in place a Liquidity Risk Policy which has set limits on the minimum proportion of funds available to meet loan drawdown and funding of maturing borrowings.

Maturity Gap Analysis ensures that the bank plans liquidity requirements around the maturities. The matching and controlled mismatching of contractual maturities of assets and liabilities is a critical function which the Treasury division is responsible for on a day to day basis.

ALCO has established a liquidity funding crisis plan to augment the liquidity risk policy. The bank has a line of credit in the form of a Note program initially established for BWP 180 million, of which the bank has currently utilised BWP 168 million (2010: P168 million). The bank has other lines of credit with various financial institutions.

The liquidity gap analysis as at 31 March 2012 is detailed in note 32. 1

32 Financial risk management (continued)

Market risk

Market risk comprises of interest rate risk and foreign currency risk for the bank and is noted as follows:

Interest rate risk

Interest Rate Risk is the risk that changes in interest rates will affect the bank's income or the value of its financial instruments.

As with liquidity risk management, the Board has set limits on the level of mismatch on interest rate re-pricing that may be undertaken. The Re-pricing Gap Analysis ensures that the bank should not have an asset sensitive or liability sensitive position in any time bucket that is not consistent with the strategic view of ALCO. This is monitored by ALCO and Treasury on a daily basis.

NDB has fixed rate liabilities and seeks to lend on a fixed rate basis. The bank has a very small portion of loans and advances to customers at variable rates.

The interest rate repricing analysis as at 31 March 2012 is detailed in note 32.9

Foreign Currency Risk

Currency risk is the risk that changes in foreign exchange rates will affect the bank's income or the value of its financial instruments.

While the bank does not actively participate in the foreign exchange market, it has exposures to the Japanese Yen (JPY). The bank occasionally purchases foreign currency primarily for payment of suppliers which invoice in foreign currencies.

The bank has a long-term JPY denominated liability from African Development Bank (ADB) against which it has created a similar and offsetting asset by lending to BANC ABC, formerly, African Banking Corporation (ABC).

The bank has a Foreign Exchange Risk policy which has set the Net Open Positions per currency, and the Overall Net Open Position for the entire bank. These currency position limits are actively managed by Treasury division. All foreign exchange positions were within limit for the entire financial year.

The concentration of Currency risk as at 31 March 2012 is detailed in note 32.2

Operational risk:

Operational risk, inherent in all business activities, is the potential for financial and reputational loss arising from failures in internal controls, operational processes or the systems that support them. It can occur in all the bank's businesses and includes errors, omissions, natural disasters and deliberate acts such as fraud. The goal of operational risk management is to balance cost of control and risk within the constraints of the risk appetite of the bank and to be consistent with the prudent management required of a financial institution. It is recognised that operational risk can never be entirely eliminated. Accordingly, the bank continues to invest in risk mitigation such as contingency planning and incident management and insurance, where appropriate. Independent checks on operational risk issues are undertaken by internal audit. Operational risk is monitored by the Audit Committee.

Conclusion

Risk Management initiatives can never be exhaustive. To the extent we consider salient, this annual report has reported on major risks and processes undertaken to abate financial loss. The bank has representatives on the Basel II National Task Force. In addition the bank aims to implement a dedicated Risk and Compliance Management Division in the next financial year to consolidate the risk management operations.

32.1 Liquidity risk

Maturities of assets and liabilities	0-1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	Over 5 years P'000	Total P'000
Assets						
Balances with other banks	27,995	-	-	-	-	27,995
Other market placements	-	3,154	9,500	-	-	12,654
Other assets	409	895	4,187	17,227	-	22,718
Advances to customers	26,469	687	20,844	492,058	971,143	1,511,201
Total assets	**54,873**	**4,736**	**34,531**	**509,285**	**971,143**	**1,574,568**
Liabilities						
Long term borrowings	(4,830)	(14,023)	(61,004)	(242,639)	(206,159)	(528,655)
Other liabilities	-	(3,800)	(20,450)	-	-	(24,250)
Total liabilities	**(4,830)**	**(17,823)**	**(81,454)**	**(242,639)**	**(206,159)**	**(552,905)**
Net liquidity gap	**50,043**	**(13,087)**	**(46,923)**	**266,646**	**764,984**	**1,021,663**
As at 31 March 2011						
Total assets	95,998	9,525	68,537	400,750	502,500	1,077,310
Total liabilities and equity	(57,914)	(5,729)	(46,531)	(124,685)	(842,451)	1,077,310
Net liquidity gap	**38,084**	**3,726**	**22,006**	**276,065**	**(339,951)**	**-**

32.2 Foreign currency risk

Foreign currency exposure	Japanese Yen P'000	United states Dollars P'000	Botswana Pula P'000	Total P'000
Assets				
Balances with Banks	(602)	-	28,597	27,995
Other market placements	-	-	12,654	12,654
Other assets	-	-	22,718	22,718
Advances to customers	107,289	-	931,344	1,038,633
Investments in associates accounted for using equity method	-	-	1,600	1,600
Investment properties	-	-	16,750	16,750
Property plant and equipment	-	-	42,307	42,307
Total Assets	**106,687**	**-**	**1,055,970**	**1,162,657**
Liabilities and equity				
Long term borrowings	99,196	-	290,677	389,873
Other liabilities	-	-	24,245	24,245
Equity	-	-	696,636	696,636
Bank Overdraft	-	-	51,903	51,903
Total liabilities and equity	**99.196**	**-**	**1,063,461**	**1,162,657**
Net exposure	**7,491**	**-**	**(7,491)**	**-**
As at 31 March 2011				
Total Assets	119,617	4,983	952,710	1,077,310
Total liabilities and equity	112,313	-	964,817	1,077,310
Net exposure	**7,304**	**4,983**	**(12,287)**	**-**

At the date of the balance sheet, the spot mid rate for Yen balances was 11.30 Yen/Bwp (2011: 12.68 Yen/Bwp). A 10% increase in exchange rates results in a exchange loss of P60,266 (2011: P52,366). A decrease in exchange rate has an equal and opposite effect on the operating profit.

32.3 Interest rate risk

		2012	2011
Fixed rate instruments		**P'000**	**P'000**
Assets	Loans and advances	755,073	796,766
	Fixed deposits	9,500	20,537
Liabilities	Long term borrowings	(295,674)	(335,990)
Total		**468,899**	**481,313**
Variable rate instruments			
Assets	Loans and advances	283,560	124,481
	Call accounts	27,995	61,682
	Unit Trust investments	12,654	12,460
Liabilities	Overdraft	(51,903)	(54,934)
	Long term borrowings	(94,199)	-
Total		**178,107**	**143,689**

Variable Rate Instruments

A change in interest rate of 100 basis points in the annualised percentage rate would cause a change in interest income of P1,781,070 (2011: P1,436,890) As indicated above, the majority of the Bank's interest bearing assets and liabilities are on a fixed rate basis.

32.4 Credit risk exposure relating to statement of financial position assets	**2012**	**2011**
Placements with banks and financial institutions:	**P'000**	**P'000**
Stanbic bank of Botswana	4,117	37,794
Bank Gaborone	19,174	614
Barclays Bank of Botswana	2,447	1,519
Standard Chartered Bank of Botswana	1,618	4,008
First National Bank of Botswana	6,445	16,903
African Banking Corporation of Botswana	613	14
Total placements with other banks	**34,414**	**60,838**
Placements with other banks and financial institutions- Term deposits:		
African Banking Corporation of Botswana	-	10,802
Bank Gaborone	9,500	-
African Alliance Unit Trust Investments	93	88
Stanbic Money Market Investments	2,768	956
Africa 52 Provident fund	293	-
Investments in associates accounted for using equity method	1,600	1,727
Interest receivable	44	85
Prepayments and other receivables	6,377	12,266
Advances from the Bank at amortised cost	1,172,193	1,011,308
Total assets with credit risk	**1,192,868**	**1,037,232**
31.5 Credit risk relating to off- balance sheet assets		
Loan commitments	96,000	51,208
Loan guarantees	1,040	9,467
Total off balance sheet exposure	**97,040**	**60,675**

32.6 Distribution of loans and Advances by credit quality

	Carrying Amount 2012 P'000	Security Value 2012 P'000	Carrying Amount 2011 P'000	Security Value 2011 P'000
Neither past due nor impaired	379,221	432,312	507,333	591,011
Past due but not impaired	485,955	553,988	192,437	250,982
Individually impaired	307,017	430,248	311,538	450,709
Gross loans and advances	**1,172,193**		**1,011,308**	
Less: Allowance for impairment	(133,560)		(90,061)	
Net Loans and advances	**1,038,633**		**921,247**	

32.7 Rescheduled/ Renegotiated/Restructured Loans

Restructured activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, previously overdue customer account is reset to normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. Renegotiated loans that would otherwise be past due or impaired are analysed below:

	Carrying Amount 2012 P'000	Security Value 2012 P'000	Carrying Amount 2011 P'000	Security Value 2011 P'000
Age of loan arrears before renegotiation				
30-60 days	-	-	4,039	9,363
60-90 days	-	-	-	-
90 days+	-	-	-	-
	-	**-**	**4,039**	**9,363**

32.8 Distribution of loans and Advances neither past due nor impaired

The credit quality of portfolio loans and advances that were neither past due nor impairment, based on the Bank's internal rating system was as follows:

	2012 P'000	2011 P'000
Individuals	48,582	291,915
Companies	222,197	93,770
Other Financial Institutions	108,442	121,648
	379,221	**507,333**

32.9 Loans and Advances past due but not impaired: age analysis

As at 31 March 2012

(P'000)	0-1 Month	1-2 Months	2-3 Months	Over 3 Months	Total	Security Value
Individuals	2,096	57	809	178,916	181,878	206,420
Companies	681	-	-	303,396	304,077	347,568
	2,777	**57**	**809**	**483,129**	**485,955**	**553,988**

As at 31 March 2011

	0-1 Month	1-2 Months	2-3 Months	Over 3 Months	Total	Security Value
Individuals	101,583	8,198	1,981	7,640	119,402	93,517
Companies	52,476	186	858	19,515	73,035	157,465
	154,059	**8,384 -**	**2,839**	**27,155**	**192,437**	**250,982**

32.10 Loans and advances individually impaired

As at 31 March 2012

	Opening Balance P'000	Amounts written off P'000	Recoveries P'000	Amounts charged to profit P'000	Closing Balance P'000
Property	68,603	-	-	(8,204)	60,399
Industrial	8,108	(592)		1,895	9,411
Retail	21,798	(4,114)		4,318	22,002
Agriculture	150,936	(50)		21,390	172,276
Commerce	14,171	(224)	369	22,004	36,320
Other loans and advances	47,921			(41,312)	6,609
Total Loans to Customers	**311,537**	**(4,980)**	**369**	**91**	**307,017**
Total impairment allowance	**83,843**	**(4,980)**	**-**	**37,635**	**116,498**

Total security held as at 31 March 2012 was P 459 million (2011: P450.7 million). Interest recognised on these loans amounted to P44.4 million for the year ended 31 March 2012 (2011: P39.2 million).

32.10 Loans and advances individually impaired

As at 31 March 2011

	Opening balance	Amounts written off	Recoveries	Amounts charged to profit	Closing Balance
	P'000	P'000	P'000	P'000	P'000
Property	53,511	(1)		15,093	68,603
Industrial	6,889	(404)		1,623	8,108
Retail	19,114	(2,416)		5,100	21,798
Agriculture	53,170	(4,014)	384	101,396	150,936
Commerce	12,109	(7,765)	247	9,580	14,171
Other loans and advances	4,078	(3)	502	43,344	47,921
Total Loans to Customers	**148,871**	**(14,603)**	**1,133**	**176,136**	**311,537**
Total impairment allowance	**59,239**	**(14,603)**	**-**	**39,207**	**83,843**

National Development Bank

Notes to the financial statements

for the year ended 31 March 2012

32.11 Financial assets and liabilities

31 March 2012	P'000	Note	Available for sale	Fair value through profit and loss	Held to maturity	Loans and receivables	Cash and bank balances	Other	Total carrying value	Fair value
Cash and equivalents		1	-	-	-	-	27,995	-	27,995	27,995
Loans to financial institutions		2	-	-	12,654	-	-	-	12,654	12,654
Loans and advances		5	-	-	-	1,038,633	-	-	1,038,633	1,038,633
Investment properties		6	-	-	-	-	-	16,750	16,750	16,750
Property, plant and equipment		7	-	-	-	-	-	42,307	42,307	42,307
Other investments		8	-	-	1,600	-	-	-	1,600	1,600
Other assets		4	-	-	-	22,718	-	-	22,718	22,718
			-	**-**	**14,254**	**1,061,351**	**27,995**	**59,057**	**1,162,657**	**1,162,657**
Bank overdraft		10	-	-	-	-	51,903	-	51,903	51,903
Long term borrowings		11	-	-	-	389,873	-	-	389,873	389,873
Other provisions and liabilities		12,13	-	-	-	-	-	24,245	24,245	24,245
			-	**-**	-	**389,873**	**51,903**	**24,245**	**466,021**	**466,021**
31 March 2011										
Cash and cash equivalent		1	-	-	-	-	60,238	-	60,238	60,238
Loans to financial institutions		2	-	-	12,460	-	-	-	12,460	12,460
Loans and advances		5	-	-	-	921,247	-	-	921,247	921,247
Investments properties		6	-	-	-	-	-	15,000	15,000	15,000
Property, plant and equipment		7	-	-	-	-	-	43,158	43,158	43,158
Other investments		8	-	-	1,732	-	-	-	1,727	1,727
Other assets		4	-	-	-	23,480	-	-	23,480	23,480
			-	**-**	**14,192**	**944,727**	**60,238**	**58,158**	**1,077,310**	**1,077,310**
Bank overdrafts		10	-	-	-	-	54,934	-	54,934	54,934
Long term borrowings		11	-	-	-	335,990	-	-	335,990	335,990
Other provisions and liabilities		12,13	-	-	-	-	-	18,014	18,014	18,014
			-	**-**	-	**335,990**	**54,934**	**18,014**	**408,938**	**408,938**

32.11 Financial assets and liabilities (*continued*)

Valuation of financial instruments

The Bank's accounting policy on fair value measurements in discussed in accounting policy outlined on page17.

The bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the bank determines fair values using valuation techniques.

The bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Bank had not held any financial instruments which were fair valued in the current financial year.