2017 -18 | Annual Report

NATIONAL DEVELOPMENT BANK
Working together for a better future

OUR VISION

- To be our customers FIRST and LAST Bank.

OUR MISSION

- To provide sustainable value creating financial services and partnerships that support economic development of Botswana.

OUR VALUES

- Teamwork, Excellence, Accountability and Customer Orientation

Board of Directors

Mr. G. Molefe
BOARD CHAIRPERSON
Non Executive Member

Mr J. Makwinja
DEPUTY BOARD CHAIRPERSON
Non Executive Member

Mr C. Moapare
NON-EXECUTIVE MEMBER
Chairperson- Risk and Audit Committee

Mr B. Masilo
NON-EXECUTIVE MEMBER
Chairperson- Tender Committee

Mr O.G.B Marata
NON-EXECUTIVE MEMBER
Chairperson- HR Committtee

Mr N. Nlanda
NON-EXECUTIVE MEMBER
Chairperson- Credit Committee

Mr O.K Mokatse
NON-EXECUTIVE MEMBER

Mrs N. Mosalakatane
NON-EXECUTIVE MEMBER

Prof P. Makepe
NON-EXECUTIVE MEMBER

Executive Management

Mrs L.C. Morapedi
CHIEF EXECUTIVE OFFICER

Mr J. Mwendapole
CHIEF OPERATING OFFICER

Mrs N. Monamati
LEGAL COUNSEL/ BOARD SECRETARY

Mr H Marks
HEAD OF BRANDING, MARKETING AND COMMUNICATIONS

Ms S. Gaolebogwe
HEAD OF CLIENT SERVICES

Mr J. Morobane
HEAD OF OPERATIONS

Ms N. Lionjanga
HEAD OF RISK AND COMPLIANCE

Mrs P. Molomo
HEAD OF INTERNAL AUDIT

Mrs M. Makgoro
HEAD OF HUMAN RESOURCES

Mrs H. Mogobe
ACTING HEAD OF INFORMATION TECHNOLOGY

Mrs B. Watlhaga
ACTING HEAD OF FINANCE

Mrs C. Phrinyane
HEAD OF STRATEGY

Chairman's Statement

Mr. Godfrey B Molefe

On behalf of the Board of Directors, I have the pleasure of presenting, the National Development Bank Annual Report for the year-ended 31st March 2018.

OPERATING ENVIRONMENT

The economy experienced a positive growth of 4.4% iThe economy experienced a positive growth of 4.4% in 2018 up from 2.4% in 2017, boosted largely by the recovery in mining and broad-based expansion of non-mining activities. The growth in mineral production was driven mainly by favourable global trading conditions and the commencement of operations at the Damtshaa Mine in January 2018. The non-mining expansion was driven largely by continuing accommodative fiscal and monetary policies, as well as recovery in downstream diamor industries. Though subdued, agricultural growth wa sustained in 2018, buoyed by good weather condition Manufacturing also picked up slightly, benefiting from stable water and electricity supply.

Whilst growth prospects for the medium term continued to be favourable, with real GDP growth projected at 3.8% in 2019 and 4.1% in 2020, the downside risks associated with weak global demand for diamond exports remain elevated in light of the threat to global growth from escalating trade tensions. Other notable risks include persistent drought affecting livestock and agricultural production and lower Southern African Customs Union revenues if South Africa's economic conditions remain unfavourable. These risks therefore underscore the need to accelerate structural reforms to promote economic diversification, higher productivity, adoption of innovative methods of production especially in the agricultural space and thus reduce vulnerability to external shocks.

Despite liquidity challenges facing the Bank, NDB continues to play a critical role in economic development and diversification mainly through supporting Government Agenda on Food sustenance, employment creation and establishment of a robust SMME sector.

It also important that the Bank should actively mobilise its commercialization process in order to be more sustainable with greater impact before it is privatized.

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CORPORATE STRATEGY

In 2018 Bank embarked on implementing turnaround interventions under the Maduo Strategy to focus on improving its financial and operational performance. The year was characterised by improved efficiency in the operating environment with improvements noted under the following key focus areas of the turnaround strategy;

- Reduction in Non-Performing Loans
- Cetralisation of key functions (e.g. Assessment, Monitoring and Collections, which were previously decentralized at the Branches to improve efficiencies
- Improvement of the Credit Risk Policy to include more emphasis on ongoing credit risk management
- Improvement in the contamination rate of newly disbursed loans
- Enhanced and documentation of provisioning methodology.

It is also important to note progress made under commercialisation with the Financial Model already submitted to the Ministry of Finance and Economic Development for approval. It is critical that the Bank pursues Shareholder support to ensure that its commercialisation is implemented, thus allowing it to run an efficient business model with less Shareholder support going forward prior to privatization.

BANK'S PERFORMANCE HIGHLIGHTS

The Bank had another challenging year characterised by a shrinking asset base mainly due to declining loans and advances; these attributed to liquidity challenges to grow the loan book and bulk write offs to improve the quality of the loan book. During the year, Bank's total assets reduced by 26%, with total assets of P 1.070 million compared to P1.455 million in the previous year.

Notwithstanding the pressures on the regional and domestic economy, as well as risks associated with Bank's business environment characterised by droughts, unpredictable weather conditions, depressed property markets, amongst others, the Bank reported a loss of P152.2 million compared to prior year loss of P168.1 million. The loss was attributable mainly to a high impairment charge on the loans and advances as well as a reduced revenue from loans.

CORPORATE GOVERNANCE

The Bank has a dedicated board providing oversight role on the Bank's operations and strategic intentions. It is my pleasure to report that the Bank has continued to exhibit high levels of transparency and accountability in its operations.

A shareholder compact was developed and shared with the Ministry to provide guidance and alignment on performance expectations between the Shareholder and the Bank. The compact is expected to be finalized in 2019.

APPRECIATION

This year we bid farewell to our Deputy Board Chairman, Mr J Makwinja who immensely contributed to the success of this Bank over many years.

On behalf of the Board of Directors, I thank Management and Staff for their contribution in yet another challenging year and in particular in believing that the fortunes of the Bank can be turned around.

I implore the team to continue working hard so that together we can help drive Botswana's development agenda which is enshrined in our vision and mandate. More importantly, I wish to thank our shareholders for the opportunity to serve as well as for providing guidance and support when necessary.

Godfrey B Molefe
BOARD CHAIRMAN

Chief Executive Officer's Report

Mrs. Lorato C. Morapedi

The effect of this intervention is increased impairments to

P184.7 Million

from in the previous year, leading to a total loss of P168.1 million.

INTRODUCTION

In keeping with its mandate NDB continues to fund projects, including viable agricultural projects, high risk sectors like start-ups and SMMEs, which other financial institutions would ordinarily not finance. This contributes towards the broader economic development of the country and promotion of financial inclusion and is being achieved despite liquidity challenges. While there was lack of profitability during the period under review, implementation of the Turnaround Strategy positive outcomes in the operational environment which gives impetus towards recovery.

FINANCIAL PERFORMANCE

During the year the Bank's total assets reduced by 26%, to P1.07 Million compared to P1.46 Million in the previous year due to the prudent application of the provisioning methodology. The decline in assets is a consequence of reduced loans and advances. Impairments for loss on financial assets reduced from P185 Million to P118.8 Million, as a result of continued efforts to improve the quality of the loan book.

The Bank closed off the year with its liquid assets at P91 Million, representing a 77% reduction from the prior year as the Bank aimed to meet its maturing obligations as well as a continued focus on core lending business.
While there were improvements in operational efficiencies, the Bank continued to experience the effects of challenging economic and market conditions which to a great extent contributed to the high impairment charge on the loans and advances. These coupled with reduced revenue from loans resulted with the Bank reporting a reduced loss of P152.2 Million compared to prior year loss of P168.1 Million.

OPERATIONS REPORT

- **Products and Services**

The Bank is currently exploring alternative income streams to diversify its income base to reduce over reliance on interest income in collaboration with relevant stakeholders with implementation of same expected in 2019/20. To this end, during this period the Bank sought and was granted permission to revise its pricing on services to customers by Bank of Botswana.

- **Portfolio Performance**

During the financial year, the Bank approved a total of 448 loans amounting to P243.1 Million with the Agricultural sector constituting 55.2% which further reflects the Bank's commitment towards food security. Further investments were made towards Property at 18.4%, with Retail & Commerce at 10.8% while the rest was made up of other product offerings within our portfolio. These identified priority steps are driving economic diversification and employment creation. The Net Loan Book declined by 7% from P911 Million in March 2017 to

P849 Million in March 2018 mainly due to bulk write-offs. Table 1 below shows analysis of gross loans and advances by sector.

- **Enterprise Risk Management**

The Bank's risk management framework is premised on a well-established governance process, using the 'three lines of defence' with the Board and Executive Management providing an active risk oversight role.
The Bank continued to be in complaint with regulatory requirements primarily the Anti Money Laundering (AML) and terrorist financing in collaboration with Financial Institution Authority (FIA).

The Bank further continued to ensure compliance to laws regulations and all contracts is observed. The risk management function continually ensures that appropriate risk mitigation steps are taken to obviate any such identified risk.

- **Service Delivery**

The Bank continues to place emphasis on Service Excellence as it delivers its products and services to customers. This includes partnerships with key stakeholders to provide both technical support and relationship management. During the year under review the Bank received a customer satisfaction level of 72% which was an improvement from 67% from the previous year. Process Optimisation and Customer engagement will continue to be at the epicentre of our operations going forward, as we pursue our broader development funding mandate.

- **Human Resources**

Focus during the period was on implementing initiatives geared towards enhancing organisational performance in keeping with the principles of a high-performance organisation. In this respect, there was emphasis on capacitation of staff including, soft skills, and key business application systems being SAP and Oracle. The Bank also undertook extensive engagements with staff on issues pertaining to developments within the Bank within the established communication and consultative structures including the Union. Furthermore, the Bank will continue to seek ways to optimise staff performance and accordingly mitigate staff costs.

LOOKING FORWARD

The Bank continues to implement strategies intended to turnaround the organisation into a more sustainable Development Finance Institution which continues to support the economic growth of Botswana. Focus continues to be on growing the industry sectors that drive food security, employment creation and economic diversification.

CONCLUSION

Despite the numerous challenges in the operating environment that affects the performance of the Bank, there were notable positive outcomes in 2018 with operational achievements and reduced anticipated operational loss within the Turnaround Plan.

During the year, the Bank received consistently strong support from its valued clients and business partners; my deepest gratitude goes out to all of them. I also wish to thank the entire NDB Team; Management & Staff, for their dedication, commitment, and enthusiasm, which continues to manifest in the Bank's improved performance despite the challenging economic and operational conditions. The success of the Bank to date would not have been possible without the able leadership of the Board of Directors, the wise counsel and support of the Shareholder and regulators; my gratitude and warm appreciation also goes to them.

We therefore look forward to reporting further improved performance in years to come and beyond.

Lorato C. Morapedi
Chief Executive Officer

Corporate Governance Report

THE BOARD

The Board is the principal governing body of the Bank and is appointed by the Minister of Finance and Development Panning. According to the National Development Act Cap 74:05, the Board shall consist of no less than four (4) Members or such membership as the Minister may from time to time determine. All non-executive Members are drawn from a wide range of expertise areas to ensure the Board is balanced and hence remains relevant and effective for the Bank's operational wellbeing. The positions of Chairman of the Board and Chief Executive Officer are separately held with a clear division of duties in line with the King III Code.

The role of the Board of Directors is to ensure the Bank's prosperity by collectively directing the Bank's affairs, whilst meeting the appropriate interests of its shareholder and stakeholders. In addition to business and financial issues, the Board also deals with challenges and issues relating to Corporate Governance, corporate social responsibility and corporate ethics.

The Board abides by its Board Charter, through which they commit to abide by the principles of good governance and good ethical behaviour. Further, the Board periodically conducts a self-assessment to allow the Board Members to reflect and introspect with a view to improving the services they provide to the Board.

Independence of Board Members, all Members of the Board are independent and perform no management duties.

COMPOSITION OF BOARD OF DIRECTORS DURING THE REPORTING PERIOD

Mr. G. Molefe – Board Chairperson
Mr. J. Makwinja – Deputy Board Chairperson

Mr. C. Moapare
Mr. O. G. B. Marata
Mr. B. Masilo
Ms. N. Mosalakatane
Prof. P. Makepe
Mr. M. Nlanda

STATEMENT OF COMPLIANCE

NDB is committed to a high level of Corporate Governance practice in compliance with the King III Code. The Bank's operating, financial and behavioural guidelines are founded on corporate values which are Teamwork, Excellence, Accountability and Customer Orientation. Our values conform to the pillars of the King III Code of Ethics. The Bank's compliance is further verified by the internal auditors as well as the ISO900:2008 Quality Auditors.

The Board of Directors are committed to continuous improvement through good governance, embracing ethical standards and sustainability reporting. The Corporate Governance structure for the Bank comprises the Board, its Sub-committees and Management Committees.

BOARD COMMITTEES

The Board has a number of constituent Committees that deal with specific subject matters and make recommendations to the Main Board. They are designed to interrogate issues in more detail than a Board would normally do to ensure alignment of policy, process and practice. Below are the current Committees and a brief description of their mandate.

1. Risk and Audit Committee

The Risk and Audit Committee oversees issues relating to the development and management of financial and accounting information as well as developing and managing a desired risk framework for the Bank. In particular, the Committee is responsible for monitoring the process according to which the financial information is developed, the efficiency of internal controls and risk management systems, the regulatory auditing of annual financial statements as carried out by the external auditors, and the independence of such external auditors.

2. Human Resources Committee

The main role of the Committee is to advise the Board on Human Resource related policies. It also monitors and ensures that the Human Resources related policies and strategies are effectively implemented. It periodically reviews reports from Management on significant changes to the organisational structure and make recommendations to the Board.

3. Transformation Committee

The Committee's primary purpose is to ensure that strategy rollout issues that require approval by the Board are thoroughly debated by the Committee before the Board takes a position on them. The Committee also acts as a reference point by Management for quicker turnaround in decisions during the strategy rollout period. Furthermore, the Committee reviews and ensures proper alignment of the Bank's business to its strategy.

4. Credit Committee

The Committee's primary purpose is to consider and decide on all loan applications which are above the Management Credit Committee authorisation limits/ threshold. The Committee is also charged with ensuring the continued update and relevance of the Bank's Credit Risk Policy and periodically makes recommendations to the Board as necessary. It also decides on the Sector Allocations and monitors Management compliance with the approved sector allocations at all times. The Committee further considers the appeals against decisions taken by Management.

5. Tender Committee

Tender Committee is mandated to lend support and guidance on the Bank's tendering and procurement processes. The key objective of the Committee is to ensure that the procurement process is conducted in a balanced, transparent, objective and fair manner.

6. Board Committee Composition

TENDER COMMITTEE

- **Mr. Masilo – Chairperson**

- Prof. Makepe
- Ms. Mosalakatane
- Mr. Nlanda

HR COMMITTEE

- **Mr. Marata – Chairperson**

- Mr. Makwinja
- Prof. Makepe
- Ms. Mosalakatane

RISK AND AUDIT COMMITTEE

- Mr. Moapare – Chairperson

- Mr. Makwinja
- Mr. Mokatse
- Mr. Nlanda

TRANSFORMATION COMMITTEE

- **Mr Makwinja – Chairperson**

- Mr. Masilo
- Mr. Moapare
- Mr. Marata
- Mr. Mokatse

CREDIT COMMITTEE

- **Mr. Nlanda – Chairperson**

- Mr. Marata
- Mr. Moapare
- Mr. Nlanda
- Mr. Masilo
- Mr. Mokatse

MANAGEMENT COMMITTEES

1. Management Executive Committee

The main function of the Committee is to drive the Bank's performance as a whole pursuant to set standards and to ensure the implementation of the Bank's identified Strategy. The Management Executive Committee chaired by the CEO and the Board. All the Management sub-committees report to this Committee.

2. Management Credit Committee

Management Credit Committee is mandated to assess and decide on all loan applications which are above the Head of Operations' authorisation limit. Furthermore, it reports to the Board Credit Committee on the various loans and business of the Bank. The Management Committee is charged with ensuring the continued update and relevance of the Bank's Credit Risk Policy and periodically makes recommendations for the amendment of the Policy to the Board Credit Committee as necessary.

3. Asset and Liability Management Committee (ALCO)

The Asset and Liability Committee is responsible for management of the Bank's balance sheet, by ensuring that returns are maximized and risks managed prudently. At the core of this function, is ensuring that the business is adequately funded and able to meet its commitments as and when they become due. The committee also sets tolerable levels of risk (risk appetite) on the allowable amount of interest rate, foreign exchange and concentration risk that the Bank can be exposed to. ALCO is also responsible for monitoring of the Bank's capital adequacy, to ensure adherence to Central Bank requirements, as well as internally to ascertain that exposure to credit, market and operational risks are optimized.

4. Management Review

National Development Bank is certified for ISO 9001:2008. One of the requirements of this Standard is to have a management review process, the main objective of which is to review organisational performance. The emphasis of this review is on the operations of the Bank as a whole, to ensure that all departments adhere to the agreed service standards.

FRAUD PREVENTION/MITIGATION

The Bank has a Fraud Policy which guides the different ways for fraud mitigation. Included as part of the policy is a whistle blowing mechanism code named "NDB MOLOMATSEBE" which enables anonymous reporting of all forms of fraud or suspected fraud and irregularities. The management of the fraud line had been outsourced to external parties to ensure transparency, objectivity and independence. The Bank continues to ensure that the fraud tip off line is communicated to all staff and the public to promote integrity and precision of reporting.

DIRECTORS DECLARATION OF INTEREST

The Board of Directors declare their interests at every meeting throughout the year. No conflicts were recorded for the period.

BOARD FEES

The Board are entitled to fixed allowances per meeting that are determined by the Minister of Finance and Development planning form time to time.

The current fees set out by the Minister are:

Chairperson	**P2 250.00**
Members	**P1 800.00**

HIGHLIGHTS OF THE YEAR UNDER REVIEW

Board Introspection

The Board in accordance with principles of good governance held a Board introspection workshop to evaluate its effectiveness and come up with initiatives to better improve the functionality of the Board. The introspection resulted in an Action Plan which Management provides updates on periodically.

End of Term for Board Members

During the year, the Board bid farewell to one colleague who contributed immensely to the development of the Bank, being the Deputy Chairman Mr. Joseph Makwinja. Mr. Makwinja's term came to an end on 28 February 2018 after diligently serving the Board.

Realignment of Board Committees

The Board approved the realignment of the Board Committees to enhance the Boards oversight role. The Board introduced a Finance and Audit Committee and a Risk Committee, to replace the Finance and Audit Committee. The new Committees will effect in the 2018/19 Financial year.

National Development Bank

Annual Financial Statements
For The Year Ended 31 March 2017

Contents

Directors’ Approval of the Financial Statements
for the year ended 31 March 2018

The Board of Directors of National Development Bank (the “Bank”) is responsible for the preparation and fair presentation of the financial statements, comprising the statements of financial position as at 31 March 2018, statement of comprehensive income, changes in equity and cash flows for the year then ended, 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 and
- Making accounting estimates that are reasonable in the circumstances.

The Board of Director’s 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 Bank will not be a going concern in the year ahead.

The External Auditor is responsible for providing reasonable assurance on whether the annual financial statements give a true and fair view of the Bank’s financial performance, cashflows and financial position in accordance with International Financial Reporting Standards.

Approval of the Annual Financial Statements:
The Annual Financial Statements presented on pages 9 - 48 were approved by the Board of Directors on September 2018 and are signed on their behalf by:

Mr Godfrey Molefe
Chairman, Board

Mr Mendel Ngoni Mlanda
Chairman of Finance and Audit Committe

Independent Auditor's Report

To the board of directors of National Development Bank of Botswana

Our Opinion
In our opinion, the special purpose financial statements of Foot and Mouth Disease Relief Fund (the "Fund") for the year ended 31 March 2018 are prepare, in all material aspects, in accordance with the basis of accounting described in note 2 to the special purpose financial statements.

What we have audited
Foot and Mouth Disease Relief Fund's purpose financial statements set out on pages 4 to 6 comprise:
- the statement of receipts and payments for the year ended 31 March 2018; and
- the notes to the financial statement. Which includes a summary of significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the special purpose financial statements section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Independence
We are Independent of the fund in accordance with the Botswana Institute of Chartered Accountants' Code of Ethics (the "BICA" Code) and other independence requirements applicable to performing audits of special purpose financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements and the BICA code. The BICA code is consistent with the International Ethics Standards Boards for Accountants' Code of Ethics for Professional Accountants (Parts A and B).

Emphasis of Matter - Basis of Accounting
We draw attention to note 2 to the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements are prepared with the Fund's own accounting policies to satisfy the financial information needs of the Fund's members. As a result, the special purpose financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information
The Directors are responsible for the other information. The other information comprises the information included in the Foot and Mouth Diseases Relief Fund's special purpose financial statements for the year ended 31 March 2018. Other information does not include the special purpose financial statements and our auditor's report thereon.

Our opinion on the special purpose financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the special purpose financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the special purpose financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Country Senior Partner B D Phirie
Partners: R Binedell, A S Edinsinghe, L Mabesan, S K Wejisena

Independent Auditor's Report

To the Minister of Finance and Economic Development (Pursuit to section 19 of the National Development Bank Act (Chapter (74:05))

Report on the audit of the financial statements

Our Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the National Development Bank (the "Bank") as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS").

What we have audited

National Development Bank's financial statements set out on pages 9 to 46 comprise:

- the statement of financial position as at 31 March 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

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Independence

We are independent of the Bank in accordance with the Botswana Institute of Chartered Accountants' Code of Ethics (the "BICA Code") and the ethical requirements that are relevant to our audit of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements and the BICA Code. The BICA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B).

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Partners: R Binedell, A S Edinsinghe, L Mabesan, S K Wejisena

Independent Auditor's Report

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of loans and advances to customers The level of economic uncertainty in the country resulted in the Bank being exposed to a higher risk of default on loans and advances to customers. As such, due to the increased credit risk associated with loans and advances to customers, management has changed the key assumptions used in their impairment assessment to take into account the uncertainty in the economic climate. The provision for impairment of loans and advances to customers represents management's best estimate of the measurable decrease in the estimated future cash flows due to losses incurred within the loan portfolios at year-end. Management considers loans and advances to customers for impairment on an individual basis (specific provision) as well as a portfolio basis (portfolio provision). The total impairment provision recognized at 31 March 2018 amounts to P 281 440 000 of which P 93 279 000 relates to a portfolio provision and P 188 161 000 relates to the specific provision. (Refer to Note 17 in this regard)	We obtained management's provision calculation and performed the following procedures for individual (specific) loan and advances provisions: • Tested mathematical accuracy of the specific impairment provision and found no exceptions. • To ensure completeness of the balances considered for specific impairment we reconstructed the loan book, categorizing loans into groupings displaying the same delinquency characteristics. We did not identify any inconsistencies. • To ensure the accuracy of recoverable values we compared on a sample basis the security values against the underlying security documents. We did not identify any exceptions. • We assessed the reasonableness of changes in key assumptions applied in determining the specific loan provision by comparing the assumptions with that of the prior year by performing the following: • Comparing the recovery of collateral through sales against recorded recovery rates; and • Comparing the estimated recovery period against the prior year recovery observation.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
In identifying loans and advances to customers to be considered for individual impairment, management considerations include for example the number of instalments overdue since the last full loan instalment settlement received from a customer, breaches of debt covenants and the bearing which the subdued local economy has on the creditworthiness of its customers. In assessing the quantum of impairment to be provided, the Bank takes into consideration expected cash collection over the next 24 months since the loan first became more than 90 days overdue, thereafter, the expected realization from securities held as collateral and the time estimated to realize the value of such securities The disclosure associated with impairment of loans and advances to customers is set out in the Annual Financial Statements in the following notes: • Note 25(a) -Judgments and accounting estimates –Loans portfolio impairment losses (page 39) • Note 17- Impairment on loans and advances to customers (page 34) Note 30 - Credit risk (page 43) Given the subjectivity and reliance on estimates and judgments inherent in the determination of the provision for impairment by management, we determined this to be a matter of most significance to our current year audit.	No inconsistencies have been identified. We obtained the model used to calculate the portfolio impairment provision and carried out the following procedures: • Tested the mathematical accuracy of the model and found no exceptions; • To ensure completeness of the balances considered for specific impairment we reconstructed the loan book, categorizing loans into groupings displaying the same delinquency characteristics. We did not identify any inconsistencies. • Independently calculated probabilities of default and recovery rates and did not identify any significant variances. • Tested and applied sensitivities to the underlying critical assumptions

Independent Auditor's Report

Other information

The directors are responsible for the other information. The other information comprises the information included in the National Development Bank Annual Financial Statements for the year ended 31 March, 2018. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered misstatements if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and performing audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue on a going concern. If we conclude that a material exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless the law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverts consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers

Individual practicing member: Lalithkumar Mahesan
Membership number: 20030046

25 July 2019
Gaborone

STATEMENT OF FINANCIAL POSITION
As at 31 March 2018

	Notes	2018 P'000	2017 P'000
ASSETS			
Cash and balances with banks	1	89,582	177,442
Placements with financial institutions	2	1,372	216,924
Other assets	3	14,674	22,193
Loans and advances to customers	4	849,312	911,076
Investment in associate	5	847	971
Intangible assets	6	13,281	16,012
Property, plant and equipment	7	100,700	100,140
Total assets		**1,069,768**	**1,444,758**
EQUITY AND LIABILITIES			
Equity			
Un-recallable capital	8	177,689	177,689
Fair value gain on loan from shareholder		81,383	96,083
Reserves	9	42,450	43,884
Retained earnings		132,311	269,788
Total equity		**433,833**	**587,444**
Liabilities			
Bank overdraft	10	24,259	152
Borrowings	11	570,073	826,571
Employee obligations	12	7,614	7,150
Other liabilities	12	33,988	23,441
Total liabilities		635,934	857,314
Total liabilities and equity		**1,069,768**	**1,444,758**

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2018

	Notes	2018 P'000	2017 P'000
Interest income	13	108,807	186,052
Interest expense	14	(57,010)	(73,259)
Net interest income		**51,797**	**112,793**
Fee and commission income	15	3,686	2,443
Total income from banking activities		**55,483**	**115,236**
Non-interest income (net)	16	11,600	3,196
Revaluation loss on property plant and equipment	7	(1,263)	(5,177)
Operating income		**65,820**	**113,255**
Impairment on loans and advances to customers	17	(118,775)	(184,722)
Personnel expenses	18	(59,674)	(62,146)
Depreciation and amortisation	19	(3,814)	(5,218)
Other expenses	19	(35,609)	(29,204)
Operating loss for the year		**(152,052)**	**(168,035)**
Share of loss of associate	3	(124)	(115)
Loss for the year before income tax		**(152,176)**	**(168,150)**
Income tax expense	20	-	-
Loss for the year		**(152,176)**	**(168,150)**
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Revaluation loss on property plant and equipment	7	(1,434)	(1,753)
Other comprehensive income for the period		**(1,434)**	**(1,753)**
Total comprehensive loss for the period		**(153,610)**	**(169,903)**

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2018

	Notes	Unrecallable capital	Fair value gain on loan from shareholder	Fixed property revaluation reserve	General risks reserve	Retained earnings	Total
		P'000	P'000	P'000	P'000	P'000	P'000
Balance as at 31 March 2016		**77,689**	**-**	**35,955**	**9,682**	**430,395**	**553,721**
Loss for the year		-	-	-	-	(168,150)	(168,150)
Other comprehensive loss for the year		-	-	(1,753)	-	-	(1,753)
Total comprehensive loss for the year		**-**	**-**	**(1,753)**	**-**	**(168,150)**	**169,903)**
Transactions with owners in their capacity as owners:							
Contribution of capital	8	100,000	-	-	-	-	100,000
Fair value gain for the year	11	-	103,626	-	-	-	103,626
Transfer		-	(7,543)	-	-	7,543	-
Balance as at 31 March 2017		**177,689**	**96,083**	**34,202**	**9,682**	**269,788**	**587,444**
Loss for the year		**-**	**-**	**-**	-	**(152,176)**	**(152,176)**
Other comprehensive loss for the year		**-**	**-**	**(1,434)**	-	**-**	**(1,434)**
Total comprehensive loss for the year		**-**	**-**	**(1,434)**	-	**(152,176)**	**(153,610)**
Transactions with owners in their capacity as owners:							
Transfer		**-**	**(14,700)**	**-**	**-**	**14,700**	**-**
Balance as at 31 March 2018		**177,689**	**81,383**	**32,768**	**9,682**	**132,311**	**433,833**

STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

	Notes	2018 P'000	2017 P'000
Cash flow from operating activities			
Operating loss for the period:		(152,052)	(168,035)
Adjustments for:			
Depreciation and amortisation	19	3,814	5,218
Unrealised exchange loss/(gain)	16	-	127
Net impairment loss on loans and advances	17	118,775	184,722
Interest expense	14	57,010	73,259
Revaluation/Fair value loss on properties	7	1,263	5,177
Net cash inflow before changes in operating assets and liabilities		**28,810**	**100,468**
Decrease in advances to customers		(57,011)	102,675
Decrease in other assets		7,519	3,339
Decrease in provisions and other liabilities		11,011	(3,415)
Cash out flow from operating activities		**(38,481)**	**102,599**
Net cash (used in)/generated from operating activities		**(9,671)**	**203,067**
Cash flows from investing activities			
Decrease in placements with financial institutions		215,552	(215,644)
Acquisition of property and equipment	7	(4,319)	(7,253)
Acquisition of intangible assets	6	(21)	(601)
Net cash used in investing activities		**211,212**	**(223,498)**
Cash flows from financing activities			
Interest paid		(57,010)	(64,836)
Proceeds from borrowings		**-**	300,000
Proceeds from capital contribution		**-**	100,000
Repayment of borrowings		(256,498)	(55,541)
Net cash generated from/(used in) financing activities		**(313,508)**	**279,623**
Net Increase/(decrease) in cash and bank balances		(111,967)	259,192
Cash and bank balances at beginning of year		177,290	(81,902)
Cash and bank balances at end of year		**65,323**	**177,290**
Cash and cash equivalents comprises of:			
Cash	1	6	6
Current and call accounts	1	89,576	177,436
Bank overdraft	10	(24,259)	(152)
		65,323	**177,290**

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 March 2018

1. Reporting entity

National Development Bank (the "Bank") is a development financial institution 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 providing development finance to key sectors of the economy with key focus on the Agriculture sector.

These financial statements comprise the results of the Bank and its associate accounted for using the equity basis. These financial statements are approved for issue by the Bank's Board of Directors.

2. Basis of Preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). They are prepared under the historical cost convention except for the revaluation of certain assets being land and buildings which are carried at fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in the current and previous financial years, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 25.

These financial statements comprise the results of the Bank and its associate using equity accounting.

(a) Standards, amendments,improvements to published standards and interpretations adopted by the Bank for the first time

IFRS	Effective date	Executive summary
Amendments to IAS 1,'Presentation of financial statements' disclosure initiative	01-Jan-16	In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. No material impact on bank's financial statements.
Amendments to IAS 27, 'Separate financial statements' on equity accounting	01-Jan-16	In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. No impact on bank as it continues to account for associates at cost in separate financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Bank earlier

IFRS	Effective Date
IFRS 15 – Revenue from contracts with customers.	Annual periods beginning on or after 1 January 2018
IFRS 9 – Financial Instruments (2009 &2010) · Financial liabilities · Derecognition of financial instruments · Financial assets · General hedge accounting	Annual periods beginning on or after 1 January 2018
IFRS 16 – Leases	Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied.

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 March 2018

IFRS 9 will be adopted by the Bank for the first time for its financial reporting period ending 31 March 2019.
The standard forms parts of the IASB's project to replace IAS 39. It will be applied retrospectively, subject to transitional provisions.

IFRS 9 addresses the classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The standard also includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, without change, except for financial liabilities that are designated at fair value through profit or loss

Impairment
IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on forward-looking information, replacing the existing incurred loss model which only recognised impairment if there was objective evidence that a loss was already incurred. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

The introduction of the revised impairment model is expected to have a material financial impact and impairment charges will tend to be more volatile. Impairment will also be recognised earlier and the amounts recognised as impairment losses will be higher.

Key concepts and management judgement
The impairment requirements are complex and require management judgments, estimates and assumptions. Key concepts and management judgments will continue to be refined during the 2018 parallel run and as any further authoritative guidance is issued, and include:

Determining a significant increase in credit risk since initial recognition
IFRS 9 requires the recognition of 12 month expected credit losses (the expected credit losses from default events that are expected within 12 months of reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition or which are credit impaired. National Development Bank expects to estimate when a significant increase in credit risk has occurred based mainly on qualitative assessments. Qualitative drivers of a significant increase in credit risk are expected to include exposures determined to be higher risk (by credit risk) and subject to closer credit risk monitoring, with a backstop factor of more than 30 days past due. For significant portfolios, an additional quantitative driver based on changes in weighted average cumulative lifetime probabilities of default may be used in conjunction with the qualitative factors.

Definition of default and credit impaired assets
The definition of default for the purpose of determining expected credit losses is expected to be aligned to the Regulatory Capital CRR Article 178 definition of default, which considers indicators that the debtor is unlikely to pay, includes exposures in forbearance and is no later than when the exposure is more than 90 days past due. When exposures are identified as credit impaired or purchased or originated as such, IFRS 9 requires a separate disclosure and interest income to be recognised on the net carrying amount rather than the gross carrying amount.

The Bank has embarked on a project to implement the requirements of IFRS 9. This standard is to be fully implemented for the financial year ending 31 March 2019. It requires opening retained earnings to be adjusted as at 01 April 2018 and it is expected to have a significant impact on the timing and recognition of credit losses on financial assets based on additional governance processes around forward-looking micro economic information.

To cushion the potential shocks to capital, a three year transition period shall be allowed for new provisions. The transition adjustments amount shall be calculated just once and would be amortised on a straight line over a three year period.
As such the impact of this standard is currently being assessed.

IFRS 15 - Revenue from contracts with customers
This amendment will be adopted by the Bank for its financial period ending 31 March 2019.
This standard aims to be a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to a customer.

This amendment is not expected to have a material effect on the financial statements of the Bank.

IAS 12 – Income taxes
This amendment was adopted by the Bank for its financial period ended 31 March 2018. The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

SIGNIFICANT ACCOUNTING POLICIES
For the year ended 31 March 2018

IAS 7 – Cash flow statements
This amendment was adopted by the Bank for its financial period ended 31 March 2018.
In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities. The amendment is not expected to have a material effect on the financial statements of the Bank.

IFRS 16 – Leases
This amendment will be adopted by the Bank for its financial period ending 31 March 2020.
This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

On adoption to IFRS 16 those leases will be brought onto the balance sheet and result in the recognition of a right of use asset and lease liability.

Foreign Currency Translation
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.

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. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within other income.

Property, Plant and Equipment
Land and buildings comprise of both freehold and leasehold, commercial and residential land and buildings. Land and buildings are shown at fair value less subsequent depreciation for buildings, based on valuations carried out. Management assesses fair value every year and independent external valuations are carried out at least once in 3 years. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Buildings capitalised under finance leases comprise offices which were designed and developed specifically for the Bank's use and are leased by the Bank under long-term lease agreements. These buildings are accounted for at cost (being the present value of the minimum committed lease payments at inception of the respective lease contracts) less accumulated depreciation and accumulated impairment adjustments.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Properties in the course of construction for supply of services, or for administrative purposes, or for purposes not yet determined, are carried at cost less any recognised impairment loss. Cost includes professional fees capitalised in terms of the Bank's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

SIGNIFICANT ACCOUNTING POLICIES
For the year ended 31 March 2018

All other property and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the costs of the item can be measured reliably.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold buildings	50 years
Leasehold buildings	remaining period of lease
Motor vehicles	3 to 5 years
Office furniture and equipment	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases in the carrying amount arising on revaluation of land and buildings are charged to other comprehensive income and debited against other reserves directly in equity. Decrease in excess of prior revaluation gain are recognised as an expense of profit and loss.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Intangible Assets

Software
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their useful lives (five to ten years) on a straight-line basis.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

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

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

SIGNIFICANT ACCOUNTING POLICIES
For the year ended 31 March 2018

Rental income is recognised on a straight line basis over the term of the relevant lease, and is included in revenue in the statement of comprehensive income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Bank as lessee
Assets held under finance leases are initially recognised as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the statement of comprehensive income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Bank's general policy on borrowing costs.

Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the 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 method.

Borrowings from the shareholder at offmarket rates are recognised at fair value. Any day 1 gain or loss is recognised as equity.

Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Financial Assets
Classification
The Bank's financial assets are classified under the loans and receivables category. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and includes placements with financial institutions. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Bank's loans and receivables comprise 'trade and other receivables' other than prepayments, 'amounts due from related parties' and 'cash and cash equivalents' in the statement of financial position.

Recognition and measurement
Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Bank commits to purchase or sell the asset. Investments are initially recognised at fair value. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method. Loans and receivables are subsequently carried at amortised cost using the effective interest rate.

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a Bank of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. Impairment testing of trade receivables is described in note 25.

SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 March 2018

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 and also recognises a collateralised borrowing for the proceeds received.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Financial Liabilities

Classification

The Bank only has financial liabilities that are classified as 'financial liabilities at amortised cost'.

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, and only when, the Bank's obligations are discharged, cancelled or expired.

Offsetting financial instruments

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

Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the customers or a group of customers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

SIGNIFICANT ACCOUNTING POLICIES
For the year ended 31 March 2018

Provisions
Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Bank will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the receivable can be measured reliably. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to the present value where the effect is material.

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 16% of the pensionable earnings of the members to the fund, 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.

(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.

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 course of business, as summarised in note 24 to the financial statements.

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.

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'.

SIGNIFICANT ACCOUNTING POLICIES
For the year ended 31 March 2018

Revenue Recognition
Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Bank's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Bank recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Bank's activities as described below.

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

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. 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, other management advisory and services fees are recognised based on the applicable service contract, usually on a time proportionate basis.

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

Other income: rental income
Rental income from properties 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.

Income tax
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax. Deferred tax is not recognised for the following temporary differences: those arising on the initial recognition of goodwill; differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits or losses; and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes To The Financial Statements
for the year ended 31 March 2018

		2018	2017
		P'000	P'000
1	Cash and balances with banks		
	Cash	6	6
	Current and call accounts	89,576	177,436
		89,582	177,442
2	**Placements with financial institutions**		
	Stanlib Investment Management Services (Pty) Ltd	1,372	1,326
	Standard Chartered Bank Botswana Ltd	-	125,000
	Bank Gaborone Ltd	-	70,598
	BancABC Botswana Ltd	-	20,000
		1,372	216,924
	Maturity profile		
	Four to six months	1,372	216,924

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

3 Investment in associate

Propcorp (Proprietary) Limited is a property investment company incorporated in Botswana and the Bank holds 33.3% (2017: 33.3%) voting rights in this company. The Bank has significant influence through its power to participate in the financial and operating policies of Propcorp (Proprietary) Limited. The reconciliation of investments held at the reporting dates are as follows:

	2018	2017
	P'000	P'000
Balance at the beginning of the year	971	1,086
Share of loss for the period	(124)	(115)
Balance at the end of the year	847	971

The results of Propcorp (Proprietary) Limited for the year ended December 2017 were used for accounting purposes. 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 December 2017 results were considered appropriate for equity accounting of the results for the financial year.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

3 Investment in associate (continued)

Summarised financial information of the Associate

Set out below are the summarised financial statements for Propcorp (Proprietary) Limited

Summarised Statement of Financial position
As at 31 December 2017

	2017 P'000	2016 P'000
Assets		
Property, plant and equipment (non current)	2,742	3,009
Cash and cash equivalents	28	121
Other current assets	197	302
Total assets	**2,967**	**3,432**
Liabilities		
Financial Liabilities (excluding trade payables)	(56)	(51)
Other current liabilities	(168)	(267)
Other non current liabilities	(202)	(201)
Total liabilities	**(426)**	**(519)**
Net Assets	**2,541**	**2,913**

Summarised statement of comprehensive income
For the year ended 31 December 2017

	2017 P'000	2016 P'000
Revenue	463	288
Depreciation and amortisation	(333)	(333)
Other operating expenses	(502)	(299)
Loss from continuing operations	**(372)**	**(344)**
Other comprehensive income	-	-
Total comprehensive income	**(372)**	**(344)**

Reconciliation of summarised financial information
For the year ended 31 March 2018

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate

Summarised financial information

	2017 P'000	2016 P'000
Opening net assets 1January 2017	2,913	3,257
Loss for the period	(372)	(344)
Closing net assets	**2,541**	**2,913**
Interest in associates 33.33%	847	971
Carrying Value	**847**	**971**

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

		2018 P'000	2017 P'000
4	**Other assets**		
	Interest subsidy receivable from Botswana Government	-	666
	Rent debtors	1,398	1,046
	Foot and Mouth Disease Fund receivables (Note 21)	1,029	1,128
	Staff loans fair valuation adjustment	11,308	13,918
	Other receivables and prepayments	1,998	6,391
		15,733	23,149
	Impairment provisions raised on rent debtors	(1,059)	(956)
	Balance at the end of the year	**14,674**	**22,193**

Other receivables and prepayments include an investment in a wholly owned subsidiary; Development House (Pty) Ltd carried at cost. The total investment in the company is P5,000 (2017: P5,000). 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 and consequently the cost of this investment has been included in other assets.

Staff loan fair value adjustments reflects the deemed benefit to staff arising as a result of staff being given loans at below market interest rates. This is amortised to the income statement as staff cost over the behavioural life of the corresponsing staff loan category.

	2018	2017
The current and non-current split of other assets are:		
No more than twelve months after the reporting period	10,604	13,109
More than twelve months after the reporting period	4,070	9,084
	14,674	**22,193**

		2018 P'000	2017 P'000
5	**Loans and advances to customers gross amount**		
	Customers	1,027,981	1,386,375
	Staff	102,771	102,529
		1,130,752	**1,488,904**
	Impairment provision portfolio (Note 17.2)	(93,279)	(58,011)
	Impairment provision specific (Note 17.1)	(188,161)	(519,817)
	Carrying amount	**849,312**	**911,076**

Part of this loan portfolio has been pledged as security against borrowings as detailed in note 10 and 11.

	2018 P'000	2017 P'000
The current and non-current split of loans and advances are:		
No more than twelve months after the reporting period	390,448	464,174
More than twelve months after the reporting period	740,304	1,024,730
	1,130,752	**1,488,904**

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.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

		2018 P'000	2017 P'000
5	**Loans and advances to customers (continued)**		
	Off balance sheet:		
	Loan disbursement commitment	**6,152**	**17,192**

Loan disbursement commitments comprise of committed advances of 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 Bank's internal credit policies. The Bank may withdraw from its obligations for the undrawn portion of the advances approved.

The commitments will be funded from both internally generated and externally borrowed funds.

6 Intangible assets

Computer Software

	2018 P'000	2017 P'000
Cost		
Balance at the beginning of the year	**24,100**	**23,499**
Additions	21	601
Balance at the end of the year	**24,121**	**24,100**
Amortisation		
Balance at the beginning of the year	**(8,088)**	**(5,506)**
Current year charge	(2,752)	(2,582)
Balance at the end of the year	**(10,840)**	**(8,088)**
Net book value	**13,281**	**16,012**

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

7 Property, plant and equipment

Year ended 31 March 2018

	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	2018 Total
Cost/Valuation	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Balance at 01 April 2017	**48,901**	**36,201**	**10,568**	**1,168**	**400**	**22,779**	**120,017**
Additions	252	3,015	-	-	-	1,052	4,319
Revaluation loss through profit and loss	-	(1,263)					(1,263)
Revaluation gain/ (loss) through reserves	9,685	(10,929)	(706)	516			(1,434)
Balance at 31 March 2018	**58,838**	**27,024**	**9,862**	**1,684**	**400**	**23,831**	**121,639**
Accumulated Depreciation							
Balance at 01 April 2017	840	-	-	-	400	18,637	19,877
Charge for the year	515	-	-	-	-	547	1,062
Balance at 31 March 2018	**1,355**	**-**	**-**	**-**	**400**	**19,184**	**20,939**
Net book value							
31 March 2017	**48,061**	**36,201**	**10,568**	**1,168**	**-**	**4,142**	**100,140**
Net book value							
31 March 2018	**57,483**	**27,024**	**9,862**	**1,684**	**-**	**4,647**	**100,700**

Notes To The Financial Statements (Continued)
for the year ended 31 March 2018

7 Property, plant and equipment
Year ended 31 March 2017

Cost/Valuation	Freehold Commercial land and buildings P'000	Leasehold Commercial land and buildings P'000	Freehold Residential land and buildings P'000	Leasehold Residential land and buildings P'000	Motor vehicles P'000	Office furniture and equipment P'000	2017 Total P'000
Balance at 01 April 2016	**49,600**	**35,633**	**10,568**	**1,168**	**400**	**22,325**	**119,694**
Additions	3,400	3,399	-	-	-	454	7,253
Revaluation loss through profit and loss	(2,346)	(2,831)					(5,177)
Revaluation gain/ (loss) through reserves	(1,753)						(1,753)
Balance at 31 March 2017	**48,901**	**36,201**	**10,568**	**1,168**	**400**	**22,779**	**120,017**
Accumulated Depreciation							
Balance at 01 April 2016	363	-	-	-	400	16,478	17,241
Charge for the year	477	-	-	-	-	2,159	2,636
Balance at 31 March 2017	**840**	**-**	**-**	**-**	**400**	**18,637**	**19,877**
Net book value							
31 March 2016	**49,237**	**35,633**	**10,568**	**1,168**	**-**	**5,847**	**102,453**
Net book value							
31 March 2017	**48,061**	**36,201**	**10,568**	**1,168**	**-**	**4,142**	**100,140**

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

7 Property, plant and equipment (continued)

The following table analyses the non-financial assets carried at fair value by valuation method. The different levels have been defined as follows:

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

	Fair value measurements listing	
Recurring fair value measurements 31 March 2018	**Level 3**	**Total**
	P'000	**P'000**
Property, Plant and Equipment		
• Land and Buildings	96,053	96,053
	96,053	**96,053**

Recurring fair value measurements 31 March 2017	**Level 3**	**Total**
	P'000	**P'000**
Property, Plant and Equipment		
• Land and Buildings	95,998	95,998
	95,998	**95,998**

Management engaged Kwena Property Services (PTY) Ltd to carry out an assessment of the fair value of property plant and equipment as at 31 March 2018 as per the requirements of IFRS 13. Kwena Property Services (PTY) Ltd appointed a Valuer who is qualified for the valuation work in accordance with the RICS Appraisal and Valuation Manual and the Real Estate Institute of Botswana standards. The assessment considered movements in the market. Had these assets been carried at cost, the carrying amount would have been P44,310,000 (2017: P41,197,000)

Recurring fair value movement	**2018**	**2017**
	P'000	**P'000**
Balance at the beginning of the year	**95,998**	**96,606**
Additions	3,267	6,799
Revaluation loss recognised in profit and loss	(1,263)	(5,177)
Revaluation gain/(loss) recognised in other comprehensive income	(1,434)	(1,753)
Depreciation for the year	(515)	(477)
Balance at the end of the year	**96,053**	**95,998**
Carrying value as at 31 March	**96,053**	**95,998**
Less: Revaluation reserve	(32,753)	(34,202)
Cost	63,300	61,796
Less: Accumulated depreciation	(18,990)	(20,599)
Carrying value as at 31 March (cost basis)	**44,310**	**41,197**

Notes To The Financial Statements (Continued)
for the year ended 31 March 2018

7 Property, plant and equipment (continued)
Information about fair valuation measurements using unobservable inputs (level 3)

Description	Fair value	Valuation technique	Unobservable input	Range per P/Sqm	Relationship of unobservable input to fair value
31 March 2018	**P'000**				
Gaborone					
Head Office building	57,483	Income approach	Rent/sqm and cap rate	Rent 100-125 and Cap rate 9.5%	The higher the rent, the higher the fair value. The lower the cap rate the higher the fair value
Francistown					
Commercial Property	18,783	Depreciated replacement Value	Estimated cost to build a similar building	15,000 for building and 1,350 for land remaining life of 40 years.	The higher the cost the higher the fair value
Maun					
Commercial Property	2,734	Income approach	Rent/sqm and cap rate	Rent 60 and cap rate 11%	The higher the rent, the higher the fair value . The lower the cap rate, the higher the fair value.
Palapye					
Commercial Property	5,507	Income approach	Rent/sqm and cap rate	Rent 60 and cap rate 11%	The higher the rent, the higher the fair value . The lower the cap rate, the higher the fair value.
	96,053				

7(b) Property, plant and equipment (continued)

Description	Fair value	Valuation technique	Unobservable input	Range per P/Sqm	Relationship of unobservable input to fair value
31 March 2017	**P'000**				
Gaborone					
Head Office building	48,061	Income approach	Rent/sqm and cap rate	Rent 100-125 and Cap rate 9.5%	The higher the rent, the higher the fair value. The lower the cap rate the higher the fair value
Residential Properties	11,736	Sales comparison	Price/sqm	2,500-4,000	
Francistown					
Commercial Property	27,930	Depreciated replacement Value	Estimated cost to build a similar building	15,000 for building and 1,350 for land remaining life of 40 years.	The higher the cost the higher the fair value
Maun					
Commercial Property	3,495	Income approach	Rent/sqm and cap rate	Rent 60 and cap rate 11%	The higher the rent, the higher the fair value . The lower the cap rate, the higher the fair value.
Palapye					
Commercial Property	4,776	Income approach	Rent/sqm and cap rate	Rent 60 and cap rate 11%	The higher the rent, the higher the fair value . The lower the cap rate, the higher the fair value.
	95,998				

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

		2018	2017
		P'000	**P'000**
8	**Un-recallable capital**		
	Opening balance 1 April 2017	177,689	77,689
	Funds received from the Government of the Republic of Botswana	-	100,000
	Balance at 31 March 2018	**177,689**	**177,689**

This consists of non-repayable funds invested by the Government of Botswana. The Bank did not receive capital injection during the financial year.

		2018	2017
		P'000	**P'000**
9	**Reserves**		
	Fixed property revaluation reserve arising on revaluation of land and buildings	32,753	34,202
	General risk reserve	9,682	9,682
		42,435	**43,884**

The revaluation reserve comprises of the accumulated revaluation surpluses arising on the revaluation of own-use property. The general risk reserve comprises funds set aside by the Bank in accordance with the National Development Bank Act. The funds are reserved to meet the operational funding requirements as they may arise.

		2018	2017
		P'000	**P'000**
10	**Bank overdraft**		
	Standard Chartered Bank Botswana Ltd	24,259	152
		24,259	**152**

The Bank has a total facility with Standard Chartered Bank Botswana Ltd of P30 million (2017: P30 million) on the overdraft account. The facility attracts interest at a rate of prime plus 2% per annum (2017: prime plus 2% per annum). This facility is secured with loans and advances amounting to P150 million.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

		2018	2017
		P'000	P'000
11	**Borrowings**		
	Secured bank loans:		
	Standard Chartered Bank Botswana Ltd term loan	35,295	60,049
	Listed Bonds:		
	National Development Bank 001 Bond	-	167,974
	Other unsecured loans:		
	Government of the Republic of Botswana (DPCF)	7,140	9,458
	Government loan from the Republic of Botswana (DPCF)	222,785	205,084
	BancABC Botswana Ltd term loan	-	6,096
	BancABC Botswana Ltd term loan	20,080	38,379
	Motor Vehicle Accident Fund Loan	100,504	100,567
	Botswana Insurance Fund Management Ltd	15,008	15,008
	Botswana Insurance Fund Management Ltd	15,015	15,015
	Botswana Insurance Fund Management Ltd	30,031	30,031
	Botswana Insurance Fund Management Ltd	80,083	80,083
	Barclays Bank of Botswana Ltd	44,133	98,827
	Total borrowings	**570,073**	**826,571**
	The current/non-current split of the Borrowings is as follows:		
	No more than twelve months after the reporting period	128,410	274,337
	More than twelve months after the reporting period	441,663	552,234
		570,073	**826,571**

Borrowings movement

	2018	2017
	P'000	P'000
Balance at the beginning of the year	**826,571**	**677,188**
Borrowings during the year	-	300,000
Fair value gain on borrowings treated as equity	-	(103,626)
Capitalisation of overdraft	-	70,000
Capitalisation of overdraft	-	(70,000)
Interest charged for the year	57,010	73,259
Interest paid for the year	(57,010)	(64,836)
Capital repayment	(256,498)	(55,541)
Unrealised exchange loss/(gain)	-	127
Balance at the end of the year	**570,073**	**826,571**

Notes To The Financial Statements (Continued)
for the year ended 31 March 2018

11 Long term borrowings (continued)

The borrowings have the following arrangements in place:

11.1 Standard Chartered Bank loan of P70 million is repayable over 3 years in quarterly instalments. The loan has an interest rate of prime plus 2%. Standard Bank facilities are secured with loans and advances amounting to P150 million. The loan matures on 31 August 2019.

11.2 National Development Bank 001 Bond is part of a P180 million note programme of which BWP 100 million was issued on 29 August 2007 and P65 million in December 2008. The bond attracts a fixed interest rate of 11.25% per annum (2017: 11.25% per annum), payable bi-annually in February and August. The bond was redeemed on date of 01 August 2017.

11.3 The P20 million borrowing from the Government of Botswana, through the Debt Participation Capital Fund, is repayable over a period of 25 years, in equal half yearly instalments. The loan agreement provided for an initial two year grace period during which interest was capitalised. The loan bears interest at 12.1% per annum. The loan matures on 21 April 2020.This facility is unsecured.

11.4 The P300 million borrowing from the Government of Botswana, through the Debt Participation Capital Fund, is repayable over a period of 10 years, in equal half yearly instalments. The loan has a two year grace period during which interest will be capitalised. The loan bears interest at 1% per annum. The loan matures on 9th November 2026. This facility is unsecured.

11.5 BancABC Botswana Ltd P100 million loan was payable over four years in quarterly instalments. It matured on 26 August 2017. The loan attracted an interest rate of prime plus 2% per annum (2017: prime plus 2% per annum). This facility was unsecured.

11.6 The Bank has a renegotiated term loan facility with BancABC Botswana Ltd of P55 million payable over three years in quarterly instalments. This facility was previously an overdraft of the same amount. It attracts interest at a rate of prime plus 2% per annum (2017: prime plus 2% per annum), it is unsecured and matures on 31 March 2019.

11.7 Bifm Ltd facility is made up of unsecured loan notes totaling P140 million. It consists of 3 fixed and 1 floating rate notes of varying maturities and pricing as follows;

(a) Bifm Ltd loan facility of P15 million bears an interest rate of prime less 1.85% per annum (2017:prime less 1.85% per annum) and is payable semi-annually. The loan matures on 25 March 2021.

(b) Bifm Ltd loan facility of P15 million bears fixed interest payable on the government long dated bond plus 2% per annum, being 9.15% per annum (2017: Government long dated bond plus 2% per annum).The loan matures on 25 March 2021.

(c) Bifm Ltd loan facility of P30 million bears fixed interest payable on the government long dated bond plus 2% per annum, being 9.31% per annum (2017: Government long dated bond plus 2% per annum).The loan matures on 25 March 2022.

(d) Bifm loan facility of P80 million bears fixed interest payable on the government long dated bond plus 2% per annum, being 9.45% per annum (2017: government long dated bond plus 2% per annum. The loan matures on 25 March 2023.

11.8 Motor Vehicle Accident Fund facility of P100 million has a term of 5 years at a quarterly floating rate of interest of Prime less 2% per annum. The loan principal is payable on maturity in 14 November 2019. Interest is payable quarterly.

11.9 Barclays Bank Botswana Ltd loan facility of P250 million bears floating interest of prime plus 0.5% (2017:prime plus 0.5% per annum) and is payable monthly and matures on 06 December 2018. This loan was secured by a deed of cession over loans and advances to the value of P375 million. The session was revised to P108 million in January 2018.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

		2018 P'000	2017 P'000
12	**Employee obligations and other liabilities**		
	Employee obligations	7,614	7,150
	Other liabilities	33,988	23,441
	Total Employee obligations and other liabilities	**41,602**	**30,591**
	Other liabilities		
	Trade creditors	**3,563**	**3,892**
	Customer liabilities	**5,575**	**-**
	Agricultural credit guarantee scheme liabilities	11,188	6,165
	NDB Privatisation funds	11,774	11,671
	Audit fees accruals	857	677
	Other administrative liabilities	1,031	1,036
		33,988	**23,441**

Customer liabilities are credit balance remaining in customer accounts after all related debts have been settled. These credits are refundable to customers.

The Agricultural credit guarantee scheme is an insurance scheme for arable farming loans with Botswana Governement. Under this scheme the Bank and the customers contribute equally to the premiums payable to Botswana Government annually. The government through the agricultural credit gurantee scheme (ACGS) subsidies 85% the repayments of these loans in cases of severe droughts where the customers are unable to repay their loans thus reducing the credit risk on these loans.

NDB privatisation funds represents dividends payable to the government. The payment of this dividend has been deferred till such time the NDB's commercialisation project is complete. The Bank is entitled to use these monies for its commercialisation project, should the need arises.

Employee obligations	**Gratuity** **P'000**	**Leave** **P'000**	**Total** **P'000**
Balance as at 1 April 2016	**4,671**	**2,797**	**7,468**
Increase during the year	5,059	1,335	6,394
Utilisation/payments made during the year	(4,668)	(2,044)	(6,712)
Balance as at 31 March 2017	**5,062**	**2,088**	**7,150**
Increase during the year	4,753	1,730	6,483
Utilisation/payments made during the year	(4,475)	(1,544)	(6,019)
Balance as at 31 March 2018	**5,340**	**2,274**	**7,614**

The current and non-current split of Employee obligations and other liabilities:		
No more than twelve months after the reporting period	41,602	30,591
More than twelve months after the reporting period	-	-
	41,602	**30,591**

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

		2018	2017
		P'000	P'000
13	**Interest income**		
	Loans and advances	95,720	174,470
	Government interest subsidy	5,784	5,369
	Deposit interest income	7,303	6,213
		108,807	**186,052**
14	**Interest expense**		
	National Development Bank Bond	6,307	18,528
	African Development Bank long term loan	-	405
	Loan from Government of the Republic of Botswana	18,605	9,869
	Standard Chartered Bank Botswana Ltd term loan	4,226	3,404
	BancABC Botswana Ltd loan	88	1,722
	BIFM loans	12,497	12,535
	BancABC Botswana Ltd loan	3,073	4,506
	Barclays Bank of Botswana loan	5,418	9,999
	Motor Vehicle Accident Fund	4,311	4,685
	Interest on overdraft	141	4,407
	Other interest expenses	2,344	3,199
		57,010	**73,259**
15	**Fee and commission income**		
	Foot and Mouth Disease Fund (Note 21)	592	712
	Loan administration fees	3,094	1,731
		3,686	**2,443**
16	**Non interest income (net)**		
	Commercial properties rental income	2,788	2,826
	Foreign currency loss	-	(127)
	Debt recoveries	8,675	355
	Other	137	142
		11,600	**3,196**

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

17	**Impairment on loans and advances to customers**		
	Specific	83,507	200,738
	Non specific	35,268	(16,016)
		118,775	**184,722**
17.1	**Movement in specific allowance for impairment**		
	Balance at the beginning of the year	519,817	348,884
	Charge for the year	83,507	200,738
	Write off during the year	(415,163)	(29,805)
	Balance at the end of the year	**188,161**	**519,817**
17.2	**Movement in portfolio allowance for impairment**		
	Balance at beginning of the year	58,011	74,027
	Charge for the year	35,268	(16,016)
	Balance at end of the year	**93,279**	**58,011**
	Total allowance for impairment at end of the year	**281,440**	**577,828**
18	**Personnel expenses**		
	Pension contributions	3,746	3,621
	Salaries and wages	52,063	54,250
	Other staff costs	3,865	4,275
		59,674	**62,146**
	Number of employees	168	171
19	**Other expenses**		
19.1	**Depreciation and amortisation**		
	Amortisation (note 6)	2,752	2,582
	Depreciation (note 7)	1,062	2,636
		3,814	**5,218**
19.2	**Other expenses**		
	Administration expenses	29,798	22,840
	Consultancy and other expenses relating to commercialisation	2,450	3,331
	Audit fees - prior year over provision	73	(22)
	current year	857	797
	Board of Directors fees and expenses	544	330
	Operating leases - motor vehicles	1,253	1,304
	Professional and management consultants' fees	634	624
		35,609	**29,204**

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

20 Taxation

Under the provisions of the revised Income Tax (Amendment Act, 2015 (No.14 of 2015), National Development Bank became taxable effective Financial year 2016/2017. The Bank did not recognise any deferred tax asset in respect of these losses during the period under review as it is not certain whether adequate taxable profits will be generated before the expiry of these income tax losses in 5 years time.

	2018 P'000	2017 P'000
Assessed tax losses brought forward	151,894	-
Current year loss	154,736	151,894
Assessed tax losses carried forward	**306,630**	**151,894**

Assessed tax losses for 2017 expire on the 30 June 2022.

Numerical reconciliation of income tax expense to prima facie tax payable

The tax on the operating loss differs from the theoretical amount that would arise using the basic tax rate as follows:

	2018 P'000	2017 P'000
Loss from continuing operations before income tax expense	(152,176)	(168,150)
Tax calculated at a tax rate of 22% (2017:22%)	(33,479)	(36,993)
Deferred tax asset not recognised	33,491	36,997
Expenses not deductible for tax purpose	(12)	(4)
Total	**-**	**-**

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

21 Funds administered by the Bank

The Bank administers funds on behalf of the Government of Botswana for the Foot and Mouth Disease relief fund (the "Fund"). The Fund maintains a separate set of financial statements. The total assets of this Fund as at 31 March 2018 amounted to P56 million (2017: P58million). The details of transactions carried out by the Bank is as follows:

	2018	2017
	P'000	**P'000**
Management fee income	592	712
Management fee income receivable	1,029	1,128

22 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:

	2018	2017
Motor vehicles - Executive Management	**P'000**	**P'000**
Due within one year	200	184
Due thereafter	278	478
	478	662
Motor vehicles - Business use		
Due within one year	**1,092**	1,018
Due thereafter	**-**	-
	1,092	1,018
Office rental		
Due within one year	**396**	396
Due thereafter	**2,279**	2,680
	2,675	3,076

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

23 Capital Management

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%. The ratio calculation involves the application of designated risk weightings based on an estimate of credit, market and other risks associated with broad categories of transactions and counterparties. The Bank is not a regulated commercial bank and therefore is not subject to the externally imposed capital requirements. However, the Bank uses the guidelines set by the Central Bank to manage its capital.

During the current financial year the Bank adjusted for assets pledged as secutiy in arriving at the capital adequacy ratio as at 31 March 2018.

	2018	2017
	P'000	P'000
Core Capital	177,689	177,689
General reserves	9,682	9,682
Retained earnings	132,311	269,788
Assets pledged as security	(103,687)	-
Tier I capital	**215,995**	**457,159**
Unencumbered general provisions	14,016	14,420
Tier 2 capital	**14,016**	**14,420**
Total Capital	230,011	471,579
Less: Investments in associates	(847)	(971)
Total unimpaired capital	229,164	470,608
Risk weighted assets:		
On balance sheet assets	1,118,177	1,128,019
Off balance sheet assets	3,076	25,584
Total risk weighted assets	**1,121,253**	1,153,603
Capital adequacy ratio	20%	41%
Regulatory capital adequacy ratio	15%	15%

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

24 Related Parties

The Bank has related party relationships with the Government of Botswana, its Directors, key Management personnel, its subsidiary, Development House (Proprietary) Limited and its associate, Propcorp (Proprietary) Limited. Transactions with related parties are carried out in the ordinary course of business.

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

	2018 P'000	2017 P'000
Directors and key Management personnel compensation:		
Board of Directors sitting allowances	544	330
Executive Management remuneration	7,777	7,315
Total	**8,321**	**7,645**
Transactions with Government of Botswana:		
DPCF Botswana Government debt balance:		
Loan balance outstanding	311,307	310,625
Equity received	-	100,000
Interest expense on loan	18,605	9,869
Subsidies received and receivable:		
Interest subsidies received during the year	5,784	5,369
Interest subsidy receivable at the year end	-	666
Transactions with Propcorp (Pty) Ltd		
Operating cost reimbursement	167	108

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

25 Judgements and accounting estimates

(a) Loans portfolio impairment losses (continued)

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and are based on historical experiences. The Bank regularly review its loan portfolio and makes judgements in determining whether an impairment loss should be recognised in respect of observable data that may impact on future estimated cash flow. 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.

In identifying loans and advances to be considered for individual impairment, management considerations include for example the number of instalments overdue since the last full loan instalment settlement received from a customer, breaches of debt covenants and the bearing which the subdued local economy has on the creditworthiness of its customers. In assessing the quantum of impairment to be provided, the Bank takes into consideration expected cash collection over the next 24 months since the loan first became more than 90 days overdue, thereafter, the expected realisation from securities held as collateral and the time estimated to realise the value of such securities.

For portfolios of loans and advances, which exclude those loans reviewed for impairment on an individual basis, impairment is calculated on a modelled basis. The key assumptions and judgements made by the management of the Bank underlie the calculation of modelled impairment. Key assumptions and judgements include the calculation of the average loss rate once a loan is identified as default and the time estimated for a loan to manifest itself from a performing loan to a default loan.For assessing portfolio provision, the probability of default and loss given default (recovery rates on classified loans and advances) inputs into the Bank's impairment model are calculated based on a 12 months outcome period for back testing purposes. The projected future cash flows of the loans which reflect objective evidence of default are calculated on a monthly basis according to the recovery curve. Recovery curves are calculated by observing movements in actual balances over a period of time. Roll Rates are defined as the probability that an account has missed 1, 2 or 3 months loan repayments going down into default or a default event occurring. Recovery rate experience is the average percentage of the balance outstanding that a classified account is expected to be recovered over a specified amount of time.

A sensitivity analysis of the key variables' impact on the provision for impairment is disclosed below.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

25 Judgements and accounting estimates (continued)

(a) Loans portfolio impairment losses (continued)

During the year under review, the level of economic uncertainty in the country resulted in the Bank being exposed to higher credit risk on its loans and advances to customers. This had a significant negative effect on the Bank's ability to collect on its loan portfolio. This was evidenced by the lower recovery rates experienced by the Bank during the year. As a result, the Bank recognised full impairment provision against all loans that had been in arrears for more than 36 months. This is in line with the Bank's historical estimates of expected recovery period. The loans were provided for in full as the Bank found no objective evidence to justify increasing the recovery period. The key changes made include;

(a) Increase in recovery period for immovable and movable assets by 12 months - The Bank has over the last 12 months managed to sell some of its securities that failed to sell in the past which contributed to the longer recovery period. The improved internal recovery process assisted the Bank to penetrate market though the market is still depressed. Consequently, these recovery periods have increased by 12 months.

(b) Overall cash collection rates have gone down due to the reduced loan portfolio as compared to previous years. The loan book value reduced by 32% during the year under review, as a result of a number of factors which include (but are not limited to) loan write offs and natural attrition. The decline in the loan book therefore adversely affected the overall cash collection rates

(c) Recovery rate from sale of assets has slightly improved from 39% to 45%, due to the fact that most of the security assets that were put forward for sale, actually fetched better sale prices as compared to the previous year. However, due to the subdued economy, as a result of lower commodity prices, increased unemployment and the prolonged drought experienced by the sub-Saharan Africa region, as well as taking the nature of assets (agricultural equipment's, conditions of immovable properties and projects) into account, the Bank's success rate remained relatively low.

As a result of this change, all loans and advances that have been in arrears for more than 36 months since before 01 April 2015 have been provided in full. For all loans in arrears for less than 36 months since 01 April 2015, impairment (if any) is recognised based on expected cash recoveries and expected recoveries from securities after giving due consideration for expected time taken for such recoveries.

"The provision for impairment of loans and advances to customers represents management's best estimate of the measurable decrease in the estimated future cash flows due to losses incurred within the loan portfolios at year-end.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

A comparison of key inputs between last year and the current year is given below:

	2018 P'000	2017 P'000
Recovery period for immovable securities (months)	27	15
Recovery period for movable securities (months)	22	3
Additional recovery time to accommodate cash collections (months)	12	12
12 months Cash recovery rates (in addition to recoveries from securities)	11.8%	27.2%
24 months Cash recovery rates (in addition to recoveries from securities)	8.7%	16.3%
Residual value for movable assets	40%	40%
Maximum useful life of moveable securities (days)	2,920	2,920
Recovery rates based on past sales (from recoveries reports)	45%	39%

Had the impairment assumption relating to recovery rate and period remained unchanged, the year end impairment provision would have been lower by P37.76 million.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

25 Judgements and accounting estimates (continued)

(a) Loans portfolio impairment losses (continued)

The effect of change to the assumptions for the impairment provisions is as follows:

	Current	+3 Months on recovery	-3 Months on recovery	+10% value on residual value	-10% value on residual value	+5% recovery rate from sales	-5% recovery rate from sales
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Identified	188,161	190,395	181,724	182,403	190,185	174,880	197,532

	Current	Impact on changes in Loss Given Default		Impact on changes in Probability of default	
		(+) 5%	(-) 5%	(+) 10%	(-) 10%
	P'000	P'000	P'000	P'000	P'000
Unidentified	93,279	97,943	88,615	102,607	83,951

(b) Revaluation of property, plant and equipment

The fair value of property plant and equipment is determined using various valuation techniques, using assumptions based on market conditions existing at the reporting date. Key valuation parameters such as capitalisation rate, growth in market rentals, discount rate and comparable market rent are used to arrive at fair value. Details of the basis of valuation and key variables are given in note 7.

(c) Income taxes

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

The Income Tax Act was amended during February 2016 to bring all parastatal entities and other state-owned enterprises, which had previously been exempted from income tax, to be within the ambit of the Act. The revised Act allows the Minister of Finance and Economic Development to exempt specific parastatal entities and state-owned enterprises from income tax. The Honourable Minister identified those entities which are to be exempted from income tax in the Income Tax (Bodies Corporate Exempt From Tax) Regulation, 2016 of 1 July 2016.

The Botswana Unified Revenue Services (BURS) has not issued any guidelines as to any transitional arrangements which would apply in the first tax period for the newly taxable entities.

Accordingly, the Bank has estimated the income tax liability for the first year of implementation based on management's best interpretation of the Income Tax Act as it may apply to the Bank. This has required the Bank to make a number of judgments in the calculation of its current and deferred tax charges and balances. The most significant of these judgments are:

Notes To The Financial Statements (Continued)
for the year ended 31 March 2018

- The income tax liability has been calculated based on the income for the full year financial year (although a possible interpretation of the income tax Act may indicate that this should be portion of the financial year)

- Capital allowances on property, plant and equipment existing at the beginning of the financial year have been calculated using the accounting book value of such property and equipment as at 31 March 2016 as proxy for cost in accordance with the Income Tax Act.

- The full cost of computer software has been claimed for income tax purposes.

- The Bank claims specific provisions for bad debts against credit losses relating to the financial year in arriving at the taxable income for the year.

These judgments maybe challenged by BURS during future financial periods, as and when income tax assessments are submitted, etc. Any changes in the recorded value of current and deferred income tax as a result of different views taken by BURS will be accounted for in the financial statements for the year when such changes occur.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

26 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 returns that are different from those of segments operating in other economic environments.

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

27 Bank guarantees and pledges

The Bank did not have any pledges in place during the financial year.

28 Post balance sheet events

There were no material post balance sheet events noted.

29 Going concern

National Development Bank management wishes to draw attention to the fact that the Bank incurred a net loss of P152 Million for the year ended 31 March 2018 and the Bank has had accumulated loss of P478 Million over the past 5 financial years and that has negatively impacted the Bank's liquidity position.

The annual financial statements have been prepared on a going concern basis. This basis presumes that support from the Shareholder in the form of funds will be available to finance shortfall in cash flow projections and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the Bank to continue as a going concern is dependent on the Shareholder support. As guided by continual correspondence with the Bank, the Shareholder is committed to support the Bank's operations for now and in the foreseeable future because they believe the Bank's mandate is still valid.

Notes To The Financial Statements (Continued)
for the year ended 31 March 2018

30 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

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 Risk and 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 Risk and 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 Risk and 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 customers, 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, as well as 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 its credit risk.

Customer accounts (loans and advances to customers) consists of large number of customers. Ongoing credit evaluation is performed on the financial condition of the customer accounts. As part of credit risk management, loans are also renegotiated or restructred as required.

The Bank does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Bank define counterparties as having similar characteristics if they are related entities.

Loans and advances to customers
The Bank's loans and advances to customers contribute 63% of total assets at P1.445 billion as at 31 March 2017 (2016: 88%).

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

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

To the extent possible, this Credit Risk Policy addresses risk adjusted pricing and risk adjusted capital allocation methodologies. The Credit Risk Policy sets upper limits for credit concentration as follows; agriculture 60%, property 40%, commerce 15%, retail 10% and industrial 5%. Credit concentration levels by sector are constantly monitored at the Assets and Liabilities Committee (ALCO), and remedial strategies to dilute the concentrations considered. 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 on loans that are in arrears in excess of three months, comprised 38% or P430 million (2017 : 47% or P701 million) of the loan book. A specific provision of P212 million per note 5 (2017: P520 million) was raised as at 31 March 2018 based on a comparison of carrying amounts against the present value of expected cash flows.

There are no independent ratings or internal grading system for customers. The Board credit committee is mandated to assess and decide on all loan applications which are above management limit of P5 million. The committee assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The compliance with credit limits by customers is regularly monitored by the credit risk division.

Significant concentrations of credit risk are within the agricultural industry sector as the Bank provides 37% of its loans to this sector. Other loans mainly in property, industrial, retail and commerce industrial sectors comprise about 63% of the loan portfolio.The maximum exposure to credit risk are the loans given to farmers as future productivity and incomes cannot be readily determined. However, the government through the agricultural credit gurantee scheme (ACGS) subsidies the repayments of these loans in cases of severe droughts where the customers are unable to repay their loans thus reducing the credit risk on these loans. Other loans are generally highly collaterised to ensure recoveries of loans in the event of default. The security/collateral value is more than the value of the loan on application. Due to the economy not performing in the past few years the Bank has not been able to recover part or all of the collateral provided and a decision was made to provide for the loans where payment or recoveries are highly improbable and to tighten credit checks during the issuance of new credit loans. The Bank 's credit risk assessment has been revamped and it now has more stringent policies which include discounting of property values as well as risk adjusted pricing.

Collateral

The Bank obtains collateral in the form of deeds of undertaking or certificates of indebtedness which can be called upon if the counterparty is in default under the agreed terms. Collateral includes agricultural land and developments, residential land and developments, agricultural equipment and livestock. Currently, there is no formal process to carry out periodic valuations of securities held. However, regular visits are carried out to inspect projects and ensure securities held are in existence and where relevant in good condition.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

Impaired loans and advances

Individual loans which are known to be uncollectible are written off by reducing the carrying amount directly. If the probability of them not being collected is highly probable a high or full provision may be made to such loans. The other loans are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these loans the estimated impairment losses are recognised in a separate provision for impairment. The Bank considers that there is evidence of impairment if any of the following indicators are present:

- Significant financial difficulties of the customer
- Probability that the customer will enter bankruptcy or financial reorganisation, and
- Default or delinquency in payments (more than 90 days overdue).
- Loans and advances for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash. A loan is written off when bank has exhausted all its recovery efforts and believe there is no further value to be derived. Impairment losses are recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are recognised as other income.

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 makes short term placements with reputable financial institutions to reduce its credit risk. Deposits and placements are placed with different banks for diversification, this minimises the risk associated with placements with one financial institution.

The Bank's quantitative credit risk assessments and classification of assets and liabilities are disclosed in notes 30.4 to 30.9 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, the Bank has in place a Liquidity Risk Management 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 Bank monitors on a day to day basis. The Bank has through ALCO established a liquidity funding crisis plan to augment the Liquidity Risk Management Policy.

The liquidity gap analysis as at 31 March 2018 is detailed in note 30.2

Market Risk

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

Notes To The Financial Statements (Continued)
for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

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 on a daily basis.

The interest rate repricing analysis as at 31 March 2018 is detailed in note 30.3

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.

The Bank does not actively participate in the foreign exchange market.

The Bank had no foreign currency exposure as at 31 March 2018.

Conclusion

Risk Management initiatives can never be exhaustive. To the extent we consider salient, the annual financial statement has reported on major risks and processes undertaken to abate financial loss.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

30.1 Liquidity risk

Maturities of assets and liabilities

31 March 2018	**0-1 month** P'000	**1-2 months** P'000	**3-12 months** P'000	**1-5 years** P'000	**Over 5 years** P'000	**Total** P'000
Assets						
Cash and balances with Banks	89,582	-	-	-	-	89,582
Placements with financial institutions	-	-	1,372	-	-	1,372
Other assets	-	2,427	12,247	-	-	14,674
Advances to customers	80,780	32,522	277,146	207,729	823,498	1,421,675
Total assets	**170,362**	**34,949**	**290,765**	**207,729**	**823,498**	**1,527,303**
Liabilities						
Bank overdraft and borrowings	(8,847)	(21,061)	(93,299)	(471,950)	(139,636)	(734,793)
Other liabilities	(41,602)	-	-	-	-	(41,602)
Loan commitments	(6,152)					(6,152)
Total liabilities	**(56,601)**	**(21,061)**	**(93,299)**	**(471,950)**	**(139,636)**	**(782,547)**
Net liquidity gap	**113,761**	**13,888**	**197,466**	**(264,221)**	**683,862**	**744,756**
Cumulative liquidity gap	**113,761**	**127,649**	**325,115**	**60,894**	**744,756**	
As at 31 March 2017						
Assets						
Cash and balances with Banks	42,383	115,000	20,059	-	-	177,442
Placements with financial institutions	-	-	216,924	-	-	216,924
Other assets	-	2,840	19,353	-	-	22,193
Advances to customers	250,184	3,577	310,928	389,463	866,072	1,820,224
Total assets	**292,567**	**121,417**	**567,264**	**389,463**	**866,072**	**2,236,783**
Liabilities						
Bank overdraft and borrowings	(14,192)	(21,947)	(267,817)	(499,971)	(199,479)	(1,003,407)
Other liabilities	(30,591)	-	-	-	-	(30,591)
Loan commitments	(17,192)					**(17,192)**
Total liabilities	**(61,976)**	**(21,947)**	**(267,817)**	**(499,971)**	**(199,479)**	**(1,051,190)**
Net liquidity gap	**230,591**	**99,470**	**299,447**	**(110,508)**	**666,593**	**1,185,593**
Cumulative liquidity gap	**230,591**	**330,061**	**629,508**	**519,001**	**1,185,593**	

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30.2 Interest rate risk

		2018 P'000	2017 P'000
Fixed rate instruments			
Assets	Advances to customers	185,978	487,635
Liabilities	Borrowings	(355,053)	(507,645)
Total		**(169,075)**	**(20,010)**
Variable rate instruments			
Assets	**Advances to customers**	944,774	1,001,269
	Call accounts	89,582	177,442
	Term deposits	1,372	216,924
Liabilities	Bank overdraft and callable borrowings	(24,259)	(152)
	Borrowings	**(215,020)**	**(318,926)**
Total		**796,449**	**1,076,557**

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 P9,447,740 (2017: P10,920,560).

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

30.3 Credit risk exposure relating to statement of financial position assets

	2018	2017
Placements with banks and financial institutions:	**P'000**	**P'000**
Stanbic Bank of Botswana	7,121	2,464
Barclays Bank of Botswana	7,006	1,402
Standard Chartered Bank of Botswana	4,546	2,974
First National Bank of Botswana	77	4,225
African Banking Corporation of Botswana	-	1,011
Bank Gaborone	18,535	301
BancABC	1,453	40,000
Total placements with other banks	**38,738**	**52,377**
Term deposits:		
Stanbic Money Market Investments	1,372	1,326
BancABC	20,838	20,000
Bank Gaborone	30,000	120,657
Standard Chartered Bank	-	200,000
	52,210	**341,983**
Interest receivable	**7**	**7**
Other receivables	2,427	2,840
Advances from the Bank at amortised cost	1,130,752	1,488,904
Total assets with credit risk	**1,185,396**	**1,833,734**

30.4 Credit risk relating to off- balance sheet assets

	2018	2017
	P'000	**P'000**
Loan commitments	6,152	17,192
Total maximum off balance sheet exposure	**6,152**	**17,192**

The Bank obtains collateral at the time of granting advances to its customers. The total value of collateral held against loans and advances before discounting is P1,646,410,188 (2017: P1,912,340,000). Collateral held include, livestock, farming machinery, farm land, residential and commercial properties.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

30.5 Distributions of loans and advances by credit quality

	Neither past due nor impaired	Past due but not impaired	Individually impaired - Specific	Total	Impairment allowance	Total Carrying amount
	P'000	P'000	P'000	P'000	P'000	P'000
Balance as at March 2018						
Cash and balances with banks	89,582	-	-	89,582	-	89,582
Placements with financial institutions	1,372	-	-	1,372	-	1,372
Loans and advances to customers	700,280	39,409	391,063	1,130,752	281,440	849,312
	791,234	**39,409**	**391,063**	**1,221,706**	**281,440**	**940,266**
Balance as at March 2017						
Cash and balances with banks	177,442	-	-	177,442	-	177,442
Placements with financial institutions	216,924	-	-	216,924	-	216,924
Loans and advances to customers	646,573	170,162	672,169	1,488,904	577,828	911,076
	1,040,939	**170,162**	**672,169**	**1,883,270**	**577,828**	**1,305,442**

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

30.6 Distribution of loans and advances neither past due nor impaired

The credit quality of portfolio loans and advances that were neither past due nor impaired were as follows:

As at 31 March 2018	**Neither past due nor impaired**	**Security**
	P'000	**P'000**
Property	214,626	353,157
Industrial	13,391	25,676
Retail	13,762	20,579
Agriculture	252,320	476,312
Commerce	84,294	132,316
Other loans and advances	121,887	180,601
Total Loans to Customers	**700,280**	**1,188,641**

As at 31 March 2017	**Neither past due nor impaired**	**Security**
	P'000	**P'000**
Property	241,723	319,655
Industrial	17,252	31,093
Retail	9,384	12,534
Agriculture	243,657	453,484
Commerce	56,192	66,778
Other loans and advances	78,365	106,915
Total Loans to Customers	**646,573**	**990,458**

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

30.7 Loans and advances past due but not individually impaired

As at 31 March 2018	Past due but not impaired	Security
	P'000	**P'000**
Property	457	42,299
Industrial	4,903	8,348
Retail	6	-
Agriculture	33,946	77,522
Commerce	12	222
Other loans and advances	85	3,310
Total Loans to Customers	**39,409**	**131,701**

As at 31 March 2017	Past due but not impaired	Security
	P'000	**P'000**
Property	35,698	34,424
Industrial	2,713	4,855
Retail	2,236	2,730
Agriculture	40,790	69,959
Commerce	77,497	97,236
Other loans and advances	11,227	13,698
Total Loans to Customers	**170,162**	**222,902**

During the year, the Bank managed to recover on average 56% of the security value from sale of immovable properties held as collateral.

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

30.8 Loans and advances individually impaired

As at 31 March 2018	Opening balance	Amounts written off	Recoveries	Increase / (Decrease)	Closing balance	Fair value of collateral held	
						Moveable	Immovable
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Property	124,316	(44,747)	(1,111)	34,633	113,091	15,348	48,542
Industrial	23,319	(2,960)	(89)	1,464	21,734	6,411	13,407
Retail	13,396	(10,516)	(613)	724	2,991	10	1,477
Agriculture	438,746	(364,310)	(4,158)	70,480	140,759	109,495	59,611
Commerce	40,002	(20,661)	(2,347)	77,668	94,662	30	42,729
Other loans and advances	32,390	(25,368)	(357)	11,161	17,826	-	7,534
Total Loans to Customers	**672,169**	**(468,562)**	**(8,675)**	**196,131**	**391,063**	**131,294**	**173,298**
Property	88,031	(37,749)	-	(26,446)	23,836		
Industrial	5,851	(1,218)	-	15,792	20,425		
Retail	11,301	(9,584)	-	(1,117)	600		
Agriculture	357,461	(325,089)	-	44,300	76,672		
Commerce	32,977	(17,064)	-	28,352	44,264		
Other loans and advances	24,196	(24,459)	-	22,627	22,363		
Total impairment allowance	**519,817**	**(415,163)**	**-**	**83,507**	**188,161**		

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

30.8 Loans and advances individually impaired (continued)

As at 31 March 2017	Opening balance	Amounts written off	Recoveries	Increase / (Decrease)	Closing balance	Fair value of collateral held	
						Moveable	Immovable
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Property	130,319	(3,362)	-	(2,641)	124,316	1,246	40,367
Industrial	4,272	(814)	-	19,861	23,319	3,225	8,222
Retail	11,459	(34)	-	1,971	13,396	1,456	3,380
Agriculture	383,605	(22,477)	-	77,618	438,746	150,477	48,297
Commerce	43,739	(96)	(355)	(3,286)	40,002	2,207	10,050
Other loans and advances	29,301	(3,022)		6,111	32,390	-	5,783
Total Loans to Customers	**602,695**	**(29,805)**	**(355)**	**99,635**	**672,169**	**158,610**	**116,099**
Property	46,463	(3,362)	-	44,930	88,031		
Industrial	2,660	(814)	-	4,005	5,851		
Retail	6,032	(34)	-	5,304	11,301		
Agriculture	251,047	(22,477)	-	128,891	357,461		
Commerce	21,458	(96)	-	11,615	32,977		
Other loans and advances	21,224	(3,022)	-	5,993	24,196		
Total impairment allowance	**348,884**	**(29,805)**	**-**	**200,738**	**519,817**		

Notes To The Financial Statements (Continued)

for the year ended 31 March 2018

30 Financial instruments and risk management (continued)

30.9 Financial assets and liabilities

31 March 2018	**Note**	**Total amortised cost**	**Fair value**
		P'000	**P'000**
Cash and balances with banks	1	89,582	89,582
Placements with financial institutions	2	1,372	1,372
Loans and advances to customers	5	849,312	849,312
Other assets	4	14,674	14,674
		954,940	954,940

31 March 2017		**Total amortised cost**	**Fair value**
Cash and balances with banks	1	177,442	177,442
Placements with financial institutions	2	216,924	216,924
Loans and advances to customers	5	911,076	911,076
Other assets	4	22,193	22,193
		1,327,635	1,327,635

Liabilities as at		**Financial liabilities at amortised cost**	**Fair value**
		P'000	**P'000**
31 March 2018			
Bank overdraft	10	24,259	24,259
Borrowings	11	570,073	651,456
Accruals and other liabilities	13	41,602	41,602
		635,934	**717,317**
31 March 2017			
Bank overdraft	10	152	152
Borrowings	11	826,571	987,753
Accruals and other liabilities	13	30,591	30,591
		857,314	**1,018,496**

Notes To The Financial Statements (Continued)

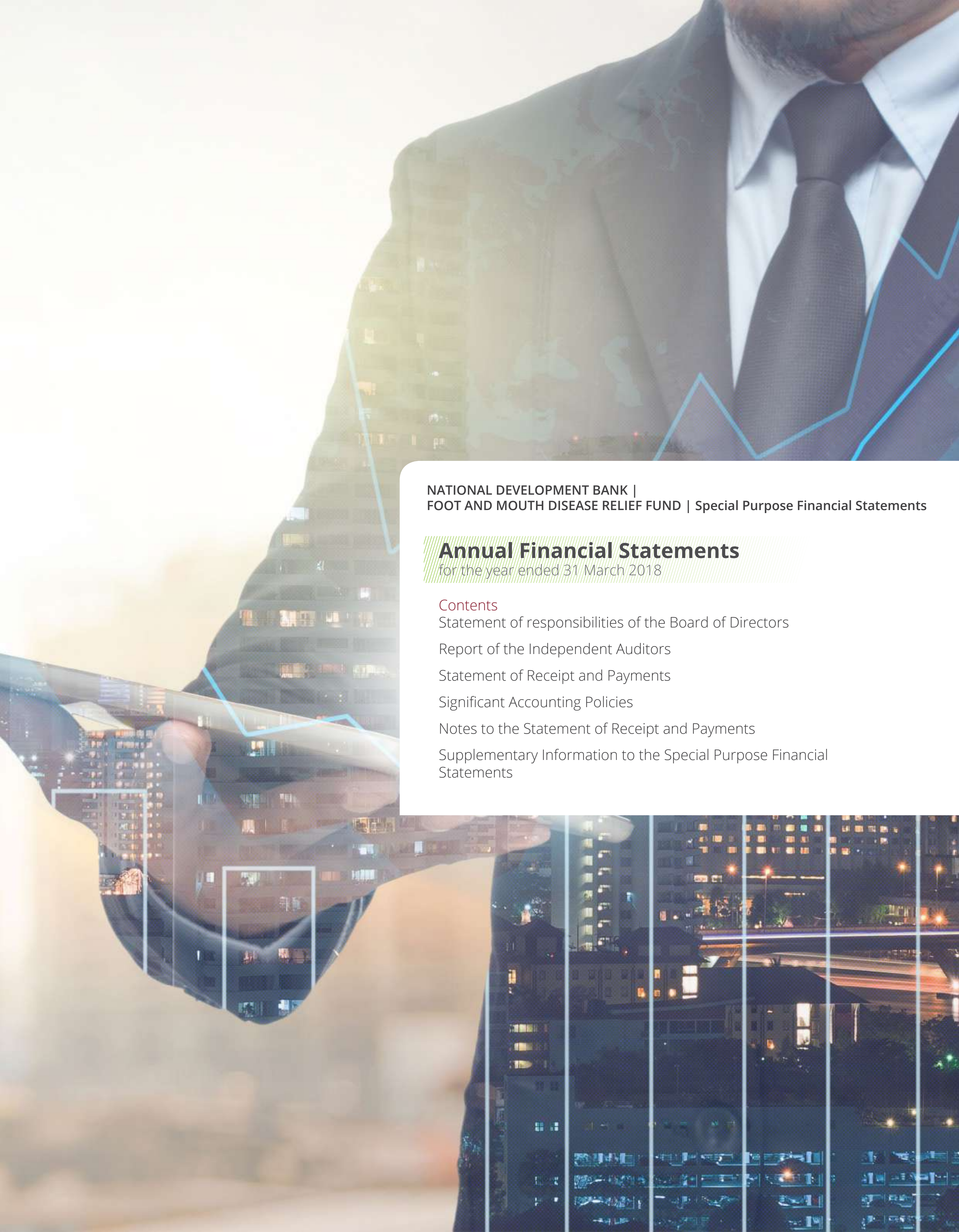
for the year ended 31 March 2018

Fair value estimation

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.

There were no financial assets or financial liabilities carried at fair value as at the reporting date.



NATIONAL DEVELOPMENT BANK |
FOOT AND MOUTH DISEASE RELIEF FUND | Special Purpose Financial Statements

Annual Financial Statements

for the year ended 31 March 2018

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NATIONAL DEVELOPMENT BANK | FOOT AND MOUTH DISEASE RELIEF FUND | Special Purpose Financial Statements

Statement Of Responsibilities Of Board Of Directors

for the year ended 31 March 2018

The Directors are responsible for the maintenance of adequate accounting records and the preparation and the integrity of the special purpose financial statements and related information. The external auditors are responsible for independently auditing and reporting on fair presentation of special purpose financial statements in conformity with International Standards on Auditing. The special purpose financial statements have been prepared in accordance with the cash receipts and disbursements basis as described in note 2.

The Directors are also responsible for the Fund's system internal financial control. These are designed to provide reasonable but not absolute, assurance as to the reliability of the financial statements, and adequately safeguard, verify and maintain accountability of assists, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred in the financial year ended 31 March 2018.

The special purpose financial statements have been prepared on the going concern basis, since the Directors have every reason to believe that the Fund has adequate resources in place to continue in operation for the foreseeable future.

The special purpose financial statements which appear on page 4 to 6 and supplementary information on pages 7 to 8 were approved by the Directors on 28 June 2019 and signed on their behalf by:

Mr Godfrey Molefe
Chairman, Board

Mr Mendel Ngoni Mlanda
Chairman of Finance and Audit Committe

Independent Auditor's Report

To the board of directors of National Development Bank of Botswana

Our Opinion
In our opinion, the special purpose financial statements of Foot and Mouth Disease Relief Fund (the "Fund") for the year ended 31 March 2018 are prepare, in all material aspects, in accordance with the basis of accounting described in note 2 to the special purpose financial statements.

What we have audited
Foot and Mouth Disease Relief Fund's purpose financial statements set out on pages 4 to 6 comprise:

- the statement of receipts and payments for the year ended 31 March 2018; and
- the notes to the financial statement. Which includes a summary of significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the special purpose financial statements section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Independence
We are Independent of the fund in accordance with the Botswana Institute of Chartered Accountants' Code of Ethics (the "BICA" Code) and other independence requirements applicable to performing audits of special purpose financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements and the BICA code. The BICA code is consistent with the International Ethics Standards Boards for Accountants' Code of Ethics for Professional Accountants (Parts A and B).

Emphasis of Matter - Basis of Accounting
We draw attention to note 2 to the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements are prepared with the Fund's own accounting policies to satisfy the financial information needs of the Fund's members. As a result, the special purpose financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information
The Directors are responsible for the other information. The other information comprises the information included in the Foot and Mouth Diseases Relief Fund's special purpose financial statements for the year ended 31 March 2018. Other information does not include the special purpose financial statements and our auditor's report thereon.

Our opinion on the special purpose financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the special purpose financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the special purpose financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Country Senior Partner B D Phirie
Partners: R Binedell, A S Edinsinghe, L Mabesan, S K Wejisena

Independent Auditor's Report

Responsibilities for the directors for the special purpose financial statements

The directors are responsible for the preparation of special purpose financial statements in accordance with the basis of accounting described in note 2 to the special purpose financial statements for determining that the basis of preparation is acceptable in the circumstances and for such internal control as the director determine is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud and error.

In preparing the special purpose financial statements, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of special purpose financial statements.

Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We Also:

- Identify and assess the risks of material misstatement of the special purpose financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

Individual practicing member: Lalithkumar Mahesan
Registration number: 20030046

Gaborone
03 September 2019

Statement of Receipts and Payments

for the year ended 31 March 2018

	Note	2018 P'000	2019 P'000
RECEIPTS			
Interest income	**1**	9	43
Net interest receipt		**9**	**43**
Advances repayments		2,532	8,483
Total cash receipts		**2,532**	**8,483**
PAYMENTS			
Administration expenses	**2**	1,628	1,892
Refunds to customers		281	1,924
Total cash payments		**1,909**	**3,816**
SURPLUS		632	4,710
CUMULATIVE SURPLUS BALANCE BROUGHT FORWARD		34,833	30,123
CUMULATIVE SURPLUS BALANCE CARRIED FORWARD	**3**	**35,465**	**34,833**
Represented by:			
CASH AND CASH EQUIVALENTS	**4**	**35,465**	**34,833**

Significant Accounting Policies
for the year ended 31 March 2018

1 General information

The Fund is established to provide financial assistance to the farmers operating in the Foot and Mouth Disease affected areas in the Republic of Botswana. The Foot and Mouth Relief Fund's (the "Fund") operating and financial policies are governed through the Agency Agreement dated 1 August 2008 renewable.

2 Basis of preparation

These special purpose financial statements have been prepared in accordance with the accounting policies adopted by the Fund as described below.

2.1 Property, plant and equipment

All property, plant and equipment are expensed at the time of acquisition.

2.2 Fund operating expenses

Expenses are charged to income statement on cash basis (when paid from the cash and bank accounts).

2.3 Revenue recognition

Grants and other income are accounted for on a cash basis (when receipted to the cash and bank account).

2.4 Advances to customers

Advances to customers are recorded on a disbursement and receipt basis. Advances are repayable in accordance with the Agency Agreement held with the Government of Botswana. These advances are interest free and are secured over cattle pledged by the farmers.

2.5 Cash and bank balances

Cash and bank balances represent cash book balances.

Notes to the Statement of Receipts and Payments

for the year ended 31 March 2018

		2018 P'000	2019 P'000
1	**INTEREST INCOME**		
	Interest earned from call account	9	43
		9	**98**
2	**OVERHEADS**		
	Staff costs	916	917
	Administration expenses	**-**	10
	NDB Management fees	712	965
		1,628	**1,892**
3	**CUMMULATIVE FUND**		
	Balance brought forward	34,833	30,123
	Surplus for the year	632	4,710
	Balance carried forward	**35,465**	**34,833**
4	**CASH AND BANK BALANCES**		
	Placements with local financial institutions:		
	Call and current accounts	35,465	34,833
		35,465	**34,833**

Notes to the Statement of Receipts and Payments

for the year ended 31 March 2018

5 ADVANCES TO CUSTOMERS

The historic customer advances made is the financial assistance provided to the farmers in the Government of Botswana declared Foot and Mouth Disease affected regions. These disbursements are in accordance with the Agency Agreement held with the Bank dated 01 August 2011 (renewed 1 February 2012) which stipulates that no repayment is required until such time when these regions are classified as Foot and Mouth Disease free by the Government of Botswana.

These regions remained Foot and Mouth affected areas in the current financial year. Consequently loans disbursed to these farmers are exempt in making repayments under Agency Agreement held.

A reconciliation of the advances made is as follows:

	2018	2017
	P'000	P'000
Opening balance of advances	58,058	64,617
Repayments received during the year	(2,532)	(8,483)
Refunds	281	1,924
Closing balance of advances	**55,807**	**58,058**

The loans disbursed under the Fund have no fixed repayment period and is not expected to occur until the Foot and Mouth Disease restrictions have been lifted.

The loans are interest free and are secured by cattle pledged by the farmers.

6 RELATED PARTY TRANSACTIONS

The Fund has a related party relationship with the Government of Botswana and the National Development Bank of Botswana. Management fees are charged by the Bank for the administration of the Fund in accordance with the Agency Agreement held with the Government of Botswana.

The reconciliation of management fees paid and payable by the Fund are as follows:

	2018	**2017**
	P'000	**P'000**
Amounts due at the beginning of the year	**1,128**	**1,381**
Management fees charged	-1,029	1,128
Payments made	(1,128)	(1,381)
Amounts due at the end of the year	**-1,029**	**1,128**

Notes to the Statement of Receipts and Payments

for the year ended 31 March 2018

7 GOVERNMENT INDEMNITY

In terms of the Agency Agreement between the Government of Botswana and National Development Bank of Botswana dated 01 August 2008 and renewed on 01 February 2012, the Bank is not responsible for any financial losses incurred as a result of bad and non performing loans advanced by the Fund.

The supplementary information does not form part of the financial statements covered by the audit opinion on page 2 to 3.

The special purpose financial statements and notes are expressed in Botswana Pula.

NATIONAL DEVELOPMENT BANK

Working together for a better future