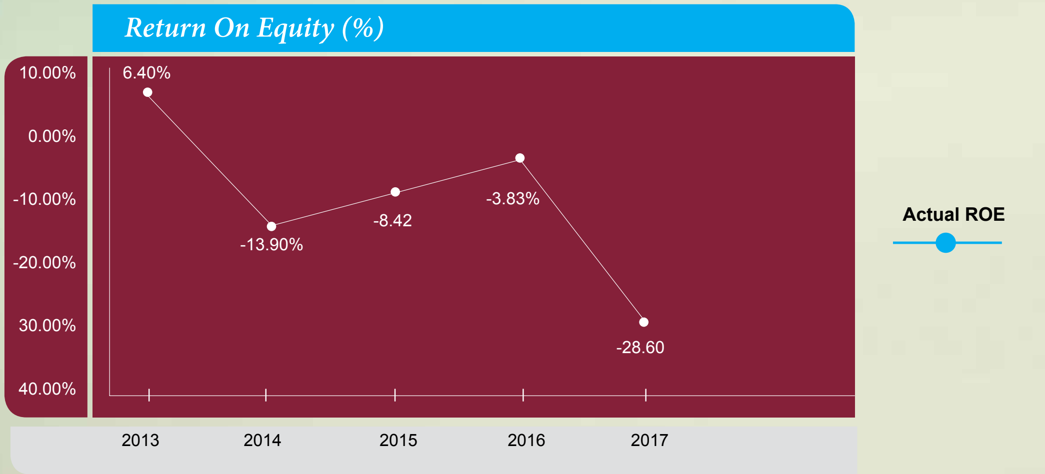
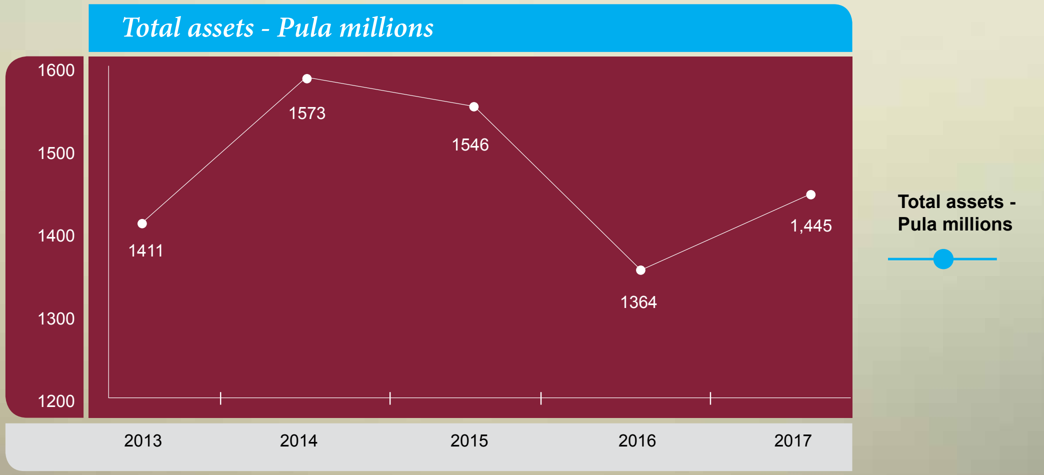
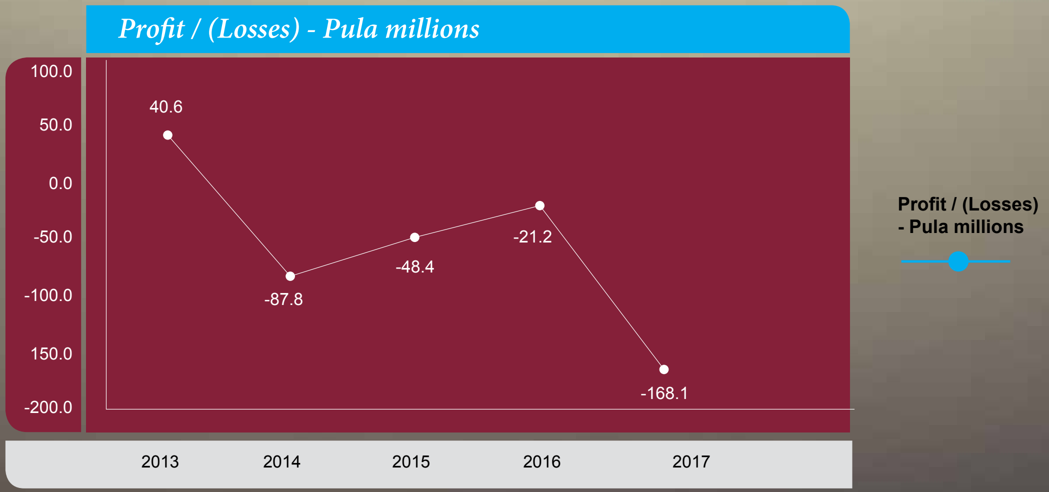

NATIONAL DEVELOPMENT BANK
Working together for a better future

5 year
STATEMENT
2013 - 2017







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Board of DIRECTORS

Mr G Molefe
Board Chairperson

Mr J. Makwinja
Deputy Board Chairperson

Mr C Moapare
Non Executive Member

Mr O Marata
Non Executive Member

Mr B Masilo
Non Executive Member

Ms N Mosalakatane
Non Executive Member

Mr N Nlanda
Non Executive Member

Prof. P Makepe
Non Executive Member

Mr S Makosha
Non Executive Member

Mr O. K Mokatse
Non Executive Member

Mrs LC Morapedi
Chief Executive Officer

Mr J Mwendapole
Acting Chief Operating Officer

Mrs N Monamati
Acting Legal Counsel / Board Secretary

National Development Bank

EXECUTIVE COMMITTEE

Mr H Marks
Head of Branding, Marketing and Commmunications

Ms S Gaolebogwe
Head of Client Services

Mr J Morobane
Head of Operations

Ms N Lionjanga
Head of Risk & Compliance

Mrs P Molomo
Head of Internal Audit

Mrs M Makgoro
Head of Human Resources

Ms C Phirinyane
Head of Strategy

Mrs H Mogobe
Acting Head of Information Technology

Mrs TT Sekga
Head of Finance

The effect of this intervention is increased impairments to P184.7 Million from

P60 MILLION

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

1.0 Background

Like many other economies around the globe, the Botswana economy has since 2008 been in a state of recovery from the aftershocks of the financial crisis. During the year the economy performed substantially below potential, with marked challenges around productive sectors that the Bank operates in, such as mining, agriculture, hospitality, property and others.

The year ended 31 March 2017 marked the third year of implementing a turnaround strategy to focus on enhancing collections and monitoring structures to improve the quality of the loan book and reduce non-performing loans (NPLs), which negatively affected the profitability of the bank since 2013/14 financial year.

It is evident that despite increased efforts on collections and monitoring the bank experienced an increase in impairments in the past three years for a variety of reasons including mainly the following;

- The risky ventures and sectors such as start-ups and agriculture which are core to the Bank's developmental mandate.
- Declining performance in key sectors of the economy such as mining and property as evidenced by layoffs, increased unemployment and depressed property market.

Given these economic conditions, coupled with experience gained over the past three years the Bank came to the conclusion that there is need to recognise increased impairments which affected its profitability over the years.

In view of the myriad challenges mentioned above, which led to difficulties in collecting and recovering from NPLs despite intensified and improved monitoring, collection and recoveries efforts, the Bank then prudently provided for a higher impairment charge for the year ended 31 March 2017. The effect of this intervention is increased impairments to P184.7 Million from P60 million in the previous year, leading to a total loss of P168 million.

Robust structures are in place to ensure effective collection and recoverability on all loans.

2.0 Developments In The World Economy

Global growth was somewhat positive in 2016 at 3.1% despite uncertainties in advanced economies after the UK's decision to leave the European Union and weaker than expected growth in the United States. In South Africa, the economy continued to face challenges as credit rating agencies Mood and Fitch downgraded the country's Sovereign Debt. Domestic consumer inflation dropped to 6.1%, closer to the 3- 6% target range.

Locally, GDP grew by 4.3 % in 2016, largely due to growth in the non-mining sectors excluding the agriculture which declined by 1.0%. The mining sector contracted by 3.7% owing to the provisional liquidation of the BCL mine. However, diamond trade improved significantly from -15.6% in the previous year to 0.3%. The negative growth in the agricultural sector had an adverse impact on the bank's performance as the sector constitutes the largest proportion of the bank's business.

Inflation was stable within the Bank of Botswana target range of 3–6 % resting at 3.5% as at March 2017. The stable inflation and positive economic outlook in the medium term prompted the central bank to maintain the bank rate at 5.5% following a 50 basis points reduction from 6.0% in August 2016.

Credit extension continued to grow at a slow pace despite the low interest rate environment. As at March 2017, year on year credit grew by 4.3%, lower than 5.1% registered in the previous year. In the twelve months to March 2017, the Pula appreciated against the Pound (19.4%), Euro (10.0%), US Dollar (3.8%) and the Yen (3.4%) but depreciated against the Rand (6.4%).

3.0 Financial Performance

The financial performance of the Bank during the period was adversely affected by the impact of the risks associated with the sectors financed by the bank and the declining performance in key sectors of the economy which generally affected customer's ability to repay.

The Bank's total assets increased by 6% from P1.36 billion in the previous year to P1.44 billion as at end of the year owing to an increase in the bank's liquid assets which closed the year at P394.4 million compared to P18.5 million in March 2016.

Loans and advances to customers were reduced by 24% from P1.2 billion in March 2016 to P911.1 million by March 2017 caused by a high impairment charge during the year. The bank recorded a loss of P168.1 million compared to P21.2 million in the previous year as result of a high impairment charge on loans and advances to customers at P184.7 million compared P59.9 million in the previous year. Interest income reduced by 16.2% from P222.1 million to P186.1 million.

4.0 Strategy focus

The bank is in the third year of implementing a turnaround strategy since 2014 with focus on reducing non-performing loans and driving the growth strategy to return to profitability in preparation for commercialisation and privatisation. There have been notable achievements in various tenets of the turnaround strategy which include;

- Increase in key stakeholder satisfaction rating from 65% to 69.3%
- Completion of the refurbishment of all branches
- Implementation of a 'back-to-market' campaign to drive the growth strategy.

Notwithstanding these achievements, the bank continues to face the challenge of high impairments which are the result of non-performing loans. Proactive management of impairments remains key in the light of relatively subdued and risk market conditions in which the Bank operates especially in financing start-ups and agricultural projects which remains the bank's core focus.

The Bank continues to prioritise its long term commitment of providing financial assistance to its customers in line with its mandate particularly in the SME and Agriculture which are some of Government's priority sectors and will continue to closely review its growth, strategies to strengthen the quality of its loan book while positively contributing to the development of the country.

5.0 Appreciation

I wish to extend my sincere gratitude to key NDB stakeholders, most importantly the shareholder and customers for their continued support and patronage to ensure that the bank achieves the desired financial stability during its recovery journey and prior to its privatisation. This acknowledgement cannot come without the recognition of the full commitment of management and staff who without any doubt have consistently worked hard and gave their best to take the bank through the major transformation it has embarked on.

In conclusion, I wish to acknowledge in high commitment and contributions from my fellow Board of Directors during the year and in particular bid farewell to Mr Stanley Makosha who retired recently having diligently served the Board for several years.

The impairment charge for the Bank rose sharply by 208.5% to

P184.7 MILLION

from the previous year reflecting the challenging economic and market conditions the Bank operates in.

Chief Executive Officer's Report

1. *Introduction*

The year under review was a particularly challenging one, characterised by depressed economic sectors such as mining, property, hospitality and agriculture. The impact of the negative economic downturn manifested itself in the form of financially distressed customers which resulted in increased impairments during the year, a trend that has been prevailing over the past three years. This is excercibated by the fact that the Bank's mandate dictates that the Bank supports key priority sectors which are also high risk such a start-ups and agricultural projects which are not attractive to other financiers.

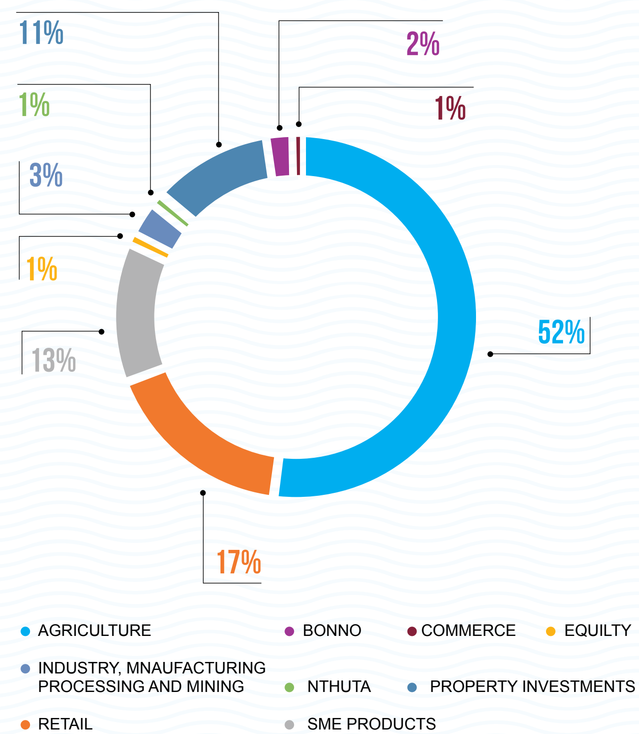
2. *Financial Performance*

Borrowing from past years of spending considerable time on putting structures towards implementing various impairment reduction initiatives with less recoveries than expected, the Bank decided to prudentially provide 100% on all loans from 2014 in arrears. The impairment charge for the Bank rose sharply by 208.5% to P184.7 Million from the previous year reflecting the challenging economic and market conditions the Bank operates in. Despite these challenges, the Bank's total assets increased by 6% from P1.36 Billion in the previous year to P1.44 Billion as at end of the year due to an increase in the Bank's liquid assets which closed the year at P394.4 Million compared to P18.5 Million in March 2016. During the period, the Bank reported a total loss of P168.1 Million compared to P21.2 Million in the previous year which is attributed to a high impairment charge on loans and advances to customers.

3. *Portfolio Performance*

The total value of approved loans during the period under review was P167.5 Million compared to P47 Million in the previous year, with the agricultural sector loans constituting 78.13% of total approvals for the period to finance mainly seasonal inputs for the 2016 cropping season. Agriculture continues to be the biggest contributor with 52% of total loans disbursed towards the sector, during the year followed by Bonno at 17% (Table 1).

Table 1. Analysis of gross loans and advances by sector



4. Enterprise Risk Management

Focus during the year was on ensuring that the risk culture is embedded in the Bank's processes and procedures to ensure that maximum benefits are derived from the investment made so far in setting up the risk and compliance function in 2013. The Bank has in place, structures to monitor different risk types. Although non performing loans remain a challenge, significant progress has been made in improving the Bank's liquidity and operational risks. The Bank also continues to ensure compliance to regulatory requirements with much emphasis this financial year on Anti Money Laundering and Combating Terrorist Financing.

5. Information Technology

The Bank during the year focused on creating operational efficiency through access to real time data to enable informed decision making in problem identification and resolution. Emphasis during the year was also on the development of business analytics for the exploration of historical data through statistical analysis, quantitative analysis, data mining, predictive modelling and techniques to drive business change to support sustained business practices. A collaboration and remote working platform has been put in place that contributes to better productivity, lesser business trips and improved operational efficiencies.

6. Human Resources

The Bank's human resources continue to be considered as the main catalyst towards achieving an optimal operational and financial performance. The Bank during the period, embarked on accelerating activities towards supporting the Turnaround Strategy, with emphasis on improved organisational performance. Various initiatives which were undertaken during the period to support this focus include; conducting prioritised training and recruitment, targeted as a cost containment measure as well as enhancing performance management through coaching and mentoring.

7. Looking Forward

NDB's priorities continue to be aligned with Government policy on economic development and diversification. The Bank has mobilised the Commercialisation exercise during the year and is expected to broaden the Bank's products and services to improve its operational and financial performance before it is privatised. In addition, the Bank has put in place several initiatives through the revised turnaround strategy to improve the quality of the loans and its profitability.

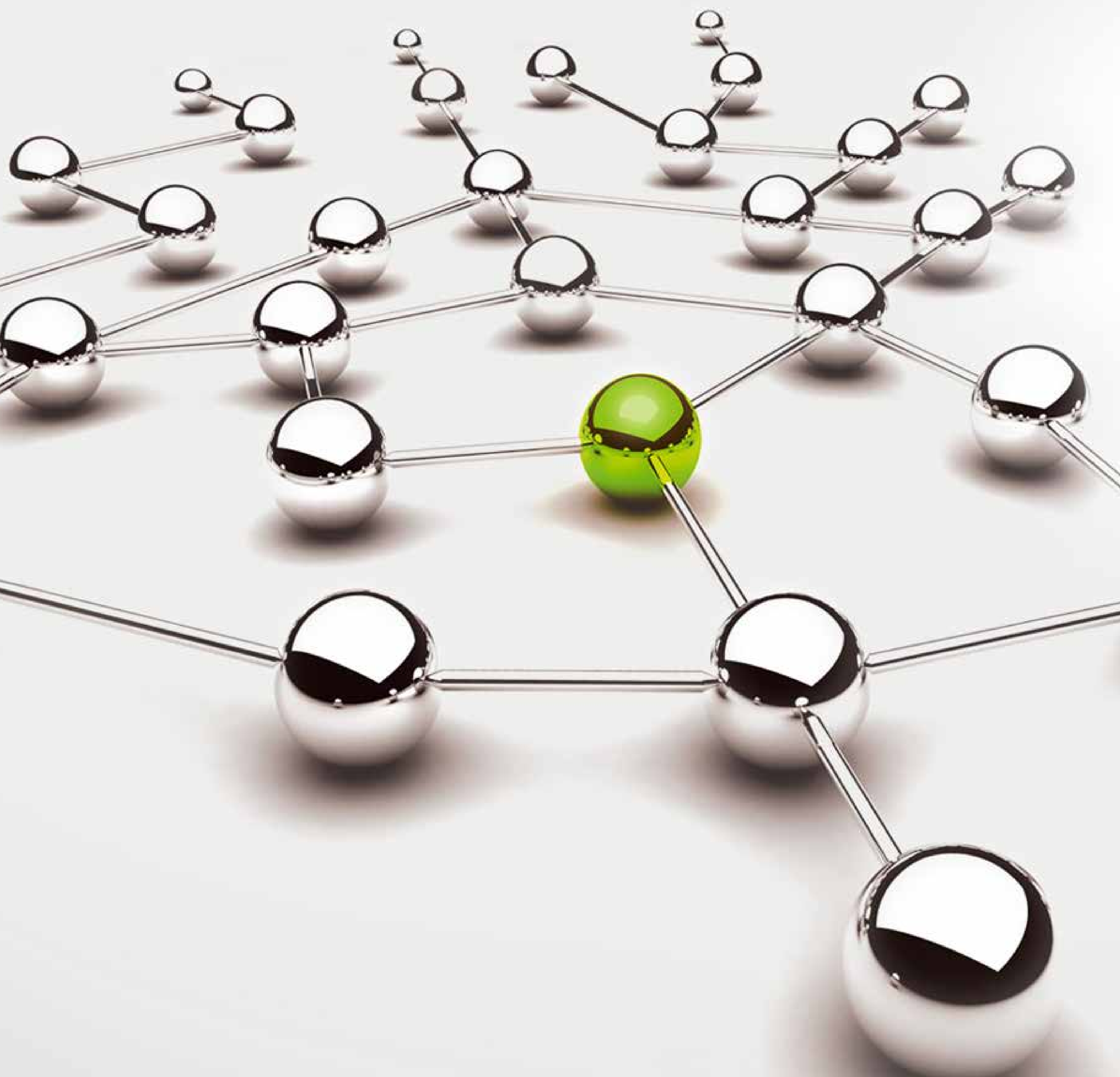
NDB remains committed to increasing economic development and contributing to the growth of key sectors of the economy such as agriculture and small scale business as evidenced by the creation of employment opportunities and economic contribution of the business entities funded by the Bank.

8. Acknowledgements

On behalf of the shareholder, NDB Board of Directors, Management and the entire staff, I would like to take this opportunity to extend my deepest appreciation to our loyal customers for choosing us as their partners in development. Furthermore, I would like to recognise with much appreciation guidance and support from the Board of Directors during the year.

I wish to also acknowledge the unwavering diligence and hard work from Management and Staff during the challenging year. In conclusion, I wish to extend special appreciation to the Ministry of Economic and Development for enabling us to effectively execute our mandate through their support.

Mrs LC Morapedi
Chief Executive Officer



NATIONAL DEVELOPMENT BANK
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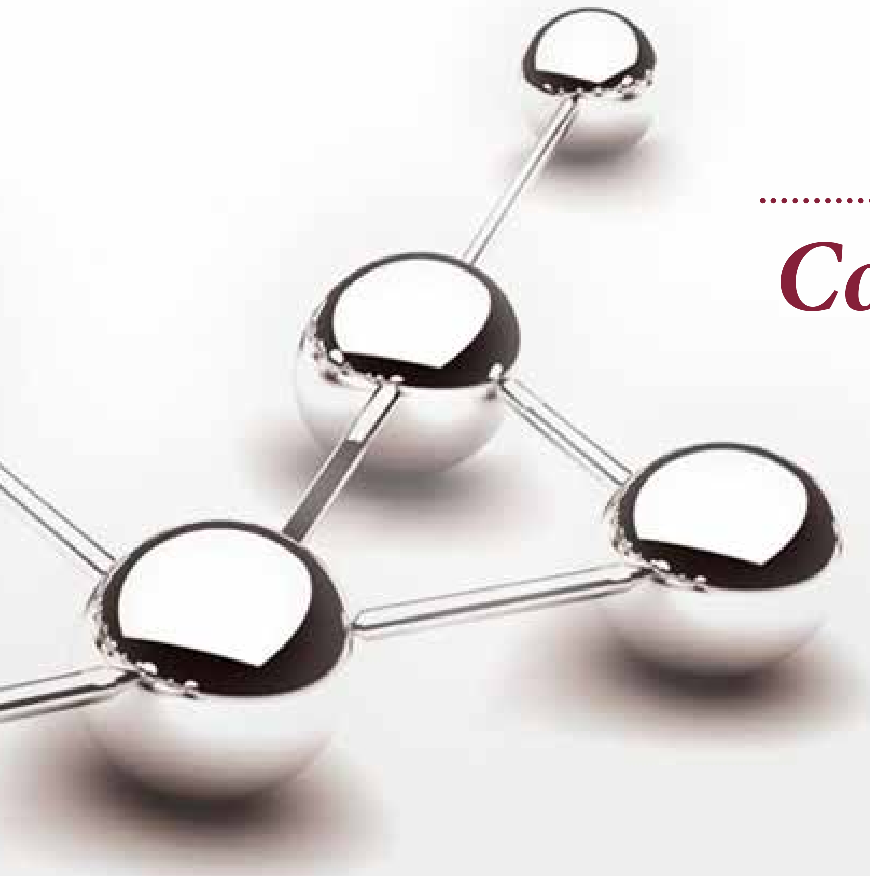


Corporate Governance REPORT

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.

1. Mr. G. Molefe –Board Chairperson
2. Mr. J. Makwinja – Deputy Board Chairperson
3. Mr. C. Moapare
4. Mr. S. Makosha
5. Mr. B. Masilo
6. Mr. O. G. B. Marata
7. Prof. P. Makepe
8. Mr. M. Nlanda
9. Ms. N. Mosalakatane
10. Mr O. K. Mokatse

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 matter 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 assist the Board in establishing and monitoring implementation of the Bank's transformation agenda.

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
Mr. Makwinja

HR Committee

Mr. Marata – Chairperson
Mr. Makwinja
Prof. Makepe
Ms. Mosalakatane

Risk And Audit Committee

Mr. Moapare – Chairperson
Mr. Makwinja
Mr. Makosha
Mr. Nlanda

Transformation Committee

Mr Makwinja – Chairperson
Mr. Masilo
Mr. Moapare
Mr. Marata
Mr. Makosha

Credit Committee

Mr. Nlanda – Chairperson
Mr. Marata
Mr. Moapare
Mr. Masilo
Prof. Makepe

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

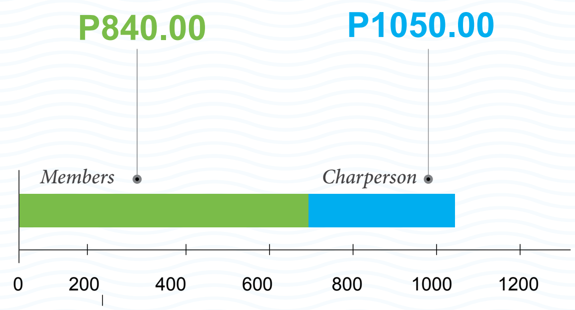
The Bank has a Fraud Policy which guides the different ways for fraud mitigation. Included as part of the policy is a whistle blowing mechanism code named "NDB MOLOMATSEBE" which enables anonymous reporting of all forms of fraud or suspected fraud and irregularities. The management of the fraud line 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.

Board Fees

The Board are entitled to fixed allowances per meeting that are determined by the Minister of Finance and Economic Development planning form time to time. The current fees set out by the Minister are:



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. Mr. S. Makosha's term came to an end on 29 February 2017 after diligently serving the Board for six years.

The Board welcomed Mr Olefile Kingdom Mokatse to the Bank, his 3 year term commences from 1st March 2017.

NATIONAL DEVELOPMENT BANK
#No.1
Solution for your studies
Let us finance your studies for your brighter future
*FROM PRE-SCHOOL UP TO TERTIARY.
NTHUTA LOAN
Follow us
Nthuta loan is a great way to help you pay for your school fees and education related costs such as school uniforms, accommodation expenses and stationery costs, whether it's a local or international institution. Take advantage of our low interest rates and reasonable repayment periods today.
Get your loan from P10 000.00 up to P100 000.00
Available to all salaried employees and pensioners
A great way of banking
Terms & conditions apply
www.ndb.bw
Thuto ke thebe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National Development Bank

Annual Financial *Statements*

For The Year Ended 31 March 2017

Contents

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 2017, 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 29 - 91 were approved by the Board of Directors on 13 July 2017 and are signed on their behalf by:

Mr Godfrey Molefe
Chairman, Board

Mr Cosmas Moapare
Chairman, Risk and Audit Committee

INDEPENDENT AUDITOR'S REPORT
TO THE MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT PURSUANT 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 National Development Bank (the "Bank") as at 31 March 2017, 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 29 to *91* comprise of:

- the statement of financial position as at 31 March 2017;
- 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.

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).

Our audit approach

Overview

Overall materiality

- P3,900,000 *which represents 5% of* the 3 year average profit/(loss) before tax.

Key Audit Matters

- Provision for impairment of loans

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	P3,900,000
How we determined it	5% of the 3 year average profit/(loss) before tax
Rationale for the materiality benchmark applied	We chose profit/(loss) before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by users, and is a generally accepted benchmark. We chose a 3 year average profit/(loss) before tax due to the volatility in profit/(loss) experienced by the Bank. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented entities.

pwc

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 *The level of economic uncertainty in the country and the prolonged drought experienced by Botswana has resulted in the Bank being exposed to higher credit risk on its loans and advances to customers. This has resulted in changes to the bank's key assumptions used in assessing impairment.* *The assessment of impairment of loans requires significant judgement by management and may have a significant impact on the financial statements. Given the subjectivity and reliance on estimates and judgements 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.* *Management considers loans for impairment on an individual basis (specific provision) as well as a portfolio basis (portfolio provision).* *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 and the prolonged drought 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.*	*Our procedures included the following:* *For loans and advances where impairment was individually calculated,* • *we tested controls over the timely identification of potentially impaired loans.* • *for a sample of loans and advances, we checked the security values against the underlying security documents.* *To assess the reasonableness of change in key assumptions against prior year,* • *we tested recovery of collateral through sales and compared against prior year rates; and* • *we tested the estimated recovery period and compared it against prior year recovery period.* *We also tested the mathematical accuracy of the specific impairment provision.* *For loans and advances where impairment was calculated on a portfolio basis, we performed testing on the model used to calculate the unidentified impairment. This testing included a combination of recalculation of the impairment provision using an independent model, testing the extraction of data used in the models including the analysis of loans into groupings displaying the same delinquency characteristics, and testing and applying sensitivities to the underlying critical assumptions.*

For portfolios of loans and advances, which exclude those loans reviewed for impairment on an individual basis, management calculated the impairment 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 percentage 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. *The disclosure associated with impairment of loans and advances is set out in the Annual Financial Statements in the following notes:* • *Note 26 –Loans portfolio impairment losses (page 38)* • *Note 17 – Impairment on loans to customers (page 34)* • *Note 30 – Credit risk (page 41)*	*Based on the results of our audit procedures, the Bank's estimate of the required impairment of loans and advances fell within a reasonable range of outcomes.*

Other information

The directors are responsible for the other information. The other information comprises the Directors' approval of financial statements, which we obtained prior to the date of this auditor's report, and other sections of the Bank's 2017 Annual Report, which are expected to be made available to us after that date. 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 and will 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the 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 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 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 for 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 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 Bank'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 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 and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 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 adverse 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

16 August 2017
Gaborone

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Notes	2017 P'000	2016 P'000
Assets			
Cash and balances with banks	1	177,442	17,211
Placements with financial institutions	2	216,924	1,280
Other assets	4	22,193	25,532
Loans and advances to customers	5	911,076	1,198,473
Investment in associate	3	971	1,086
Intangible assets	6	16,012	17,993
Property, plant and equipment	7	100,140	102,453
Total assets		**1,444,758**	**1,364,028**
EQUITY AND LIABILITIES			
Equity			
Un-recallable capital	8	177,689	77,689
Fair value gain on loan from shareholder		96,083	-
Reserves	9	43,884	45,637
Retained earnings		269,788	430,395
Total equity		**587,444**	**553,721**
Liabilities			
Bank overdraft	10	152	99,113
Borrowings	11	826,571	677,188
Employee obligations	12	7,150	7,468
Other liabilities	12	23,441	26,538
Total liabilities		**857,314**	**810,307**
Total liabilities and equity		**1,444,758**	**1,364,028**

National Development Bank

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2017

	Notes	2017 P'000	2016 P'000
Interest income	13	186,052	222,136
Interest expense	14	(73,259)	(72,981)
Net interest income		**112,793**	**149,155**
Fee and commission income	15	2,443	2,934
Total income from banking activities		**115,236**	**152,089**
Non-interest income (net)	16	3,196	3,817
Revaluation loss on property plant and equipment	7	(5,177)	(2,854)
Operating income		**113,255**	**153,052**
Impairment on loans to customers	17	(184,722)	(59,878)
Personnel expenses	18	(62,146)	(76,787)
Depreciation and amortisation	19	(5,218)	(5,410)
Other expenses	19	(29,204)	(32,031)
Operating loss for the year		**(168,035)**	**(21,054)**
Share of loss of associate	3	(115)	(164)
Loss for the year before income tax		**(168,150)**	**(21,218)**
Income tax expense	20	-	-
Loss for the year		**(168,150)**	**(21,218)**
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Revaluation loss on property plant and equipment	7	(1,753)	-
Other comprehensive income for the period		(1,753)	-
Total comprehensive loss for the period		**(169,903)**	**(21,218)**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2017

	Notes	Un-recallable capital P'000	Fair value gain on loan from shareholder P'000	Fixed property revaluation reserve P'000	General risks reserve P'000	Retained earnings P'000	Total P'000
Balance as at 31 March 2015		**77,689**	**-**	**35,955**	**9,682**	**451,613**	**574,939**
Loss for the year		-	-	-	-	(21,218)	(21,218)
Other comprehensive loss for the year		-	-	-	-	-	-
Total comprehensive loss for the year		-	-	-	-	(21,218)	(21,218)
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**

STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

	Notes	2017 P'000	2016 P'000
Cash flow from operating activities			
Operating loss for the period:		(168,035)	(21,054)
Adjustments for:			
Depreciation and amortisation	19	5,218	5,410
Unrealised exchange loss/(gain)	16	127	(751)
Net impairment loss on loans and advances	17	184,722	59,878
Interest expense	14	73,259	72,981
Revaluation/Fair value loss on properties	7	5,177	2,854
Net cash inflow before changes in operating assets and liabilities		**100,468**	**119,318**
Decrease in advances to customers		102,675	116,242
Decrease in other assets		3,339	15,333
Decrease in provisions and other liabilities		(3,415)	(14,245)
Cash out flow from operating activities		**102,599**	**117,330**
Net cash (used in)/generated from operating activities		**203,067**	**236,64**
Cash flows from investing activities			
Increase in placements with financial institutions		(215,644)	(68)
Acquisition of property and equipment	7	(7,253)	(10,724)
Acquisition of intangible assets	6	(601)	-
Net cash used in investing activities		**(223,498)**	**(10,792)**
Cash flows from financing activities			
Interest paid		(64,836)	(72,981)
Proceeds from borrowings		300,000	-
Proceeds from capital contribution		100,000	-
Repayment of borrowings		(55,541)	(91,268)
Net cash generated from/(used in) financing activities		**279,623**	**(164,249)**
Net Increase/(decrease) in cash and bank balances		259,192	61,607
Cash and bank balances at beginning of year		(81,902)	(143,509)
Cash and bank balances at end of year		**177,290**	**(81,902)**
Cash and cash equivalents comprises of:			
Cash	1	6	6
Current and call accounts	1	177,436	17,205
Bank overdraft	10	(152)	(99,113)
		177,290	**(81,902)**

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 and small to medium scale business.

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 on 13 July 2017.

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 27.

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	01/01/2016	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	01/01/2016	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
Amendment to IAS 12 – Income taxes	Annual periods beginning on or after 01-Jan-17
Recognition of deferred tax assets for unrealised losses	
Amendment to IAS 7 – Cash flow statements	Annual periods beginning on or after 01-Jan-17
Statement of cash flows on disclosure initiative	
IFRS 15 – Revenue from contracts with customers.	Annual periods beginning on or after 1 January 2018
IFRS 9 – Financial Instruments (2009 &2010)	Annual periods beginning on or after 1 January 2018
· Financial liabilities	
· Derecognition of financial instruments	
· Financial assets	
· General hedge accounting	
IFRS 16 – Leases	Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied.
Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28,'Investments in associates and joint ventures' on sale or contribution of assets	Effective date postponed (initially 1 January 2016)

"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 2017 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 separate disclosure and interest income to be recognised on the net carrying amount rather than the gross carrying amount.

The Bank is currently assessing the impact of this standard.

IFRS 15 - Revenue from contracts with customers

This amendment will be adopted by the Bank for its financial period ending 31 March 2018.
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 will be adopted by the Bank for its financial period ending 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.

The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.

IAS 7 – Cash flow statements

This amendment will be adopted by the Bank for its financial period ending 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.

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.
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 26.

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 indicate 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.

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 25 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'.

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 the 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.

	2017 P'000	2016 P'000
1. *Cash and balances with banks*		
Cash	6	6
Current and call accounts	177,436	17,205
	177,442	**17,211**
2. *Placements with financial institutions*		
Stanlib Investment Management Services (Pty) Ltd	1,326	1,280
Standard Chartered Bank Botswana Ltd	125,000	-
Bank Gaborone Ltd	70,598	-
BancABC Botswana Ltd	20,000	-
	216,924	**1,280**
Maturity profile		
Four to six months	**216,924**	**1,280**

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

The cash balances and balances with banks and short term investments are placed with local financial institutions. These institutions are not credit rated. The balances held with these institutions are considered recoverable.

3. *Investment in associate*

Propcorp (Proprietary) Limited is a property investment company incorporated in Botswana and the Bank holds 33.3% (2016: 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:

	2017 P'000	2016 P'000
Balance at the beginning of the year	1,086	1,250
Share of loss for the period	(115)	(164)
Balance at the end of the year	**971**	**1,086**

3. Investment in associate (continued)

The results of Propcorp (Proprietary) Limited for the year ended December 2016 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 2016 results were considered appropriate for equity accounting of the results for the financial year.

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 2016

	2017 P'000	2016 P'000
Assets		
Property, plant and equipment (non current)	3,009	3,342
Cash and cash equivalents	121	26
Other current assets	302	423
Total assets	**3,432**	**3,791**
Liabilities		
Financial Liabilities (excluding trade payables)	(51)	(46)
Other current liabilities	(267)	(293)
Other non current liabilities	(201)	(195)
Total liabilities	**(519)**	**(534)**
Net Assets	**2,913**	**3,257**

3. *Investment in associate (continued)*

Summarised statement of comprehensive income

For the year ended 31 December 2016

	2017 P'000	2016 P'000
Revenue	288	189
Depreciation and amortisation	(333)	(333)
Other operating expenses	(299)	(349)
Interest income	-	1
Loss from continuing operations	(344)	(492)
Other comprehensive income	-	-
Total comprehensive income	**(344)**	**(492)**

Reconciliation of summarised financial information

For the year ended 31 March 2017

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 2016	3,257	3,749
Loss for the period	(344)	(492)
Closing net assets	**2,913**	**3,257**
Interest in associates 33.33%	971	1,086
Carrying Value	**971**	**1,086**

3. Investment in associate (continued)

4. Other assets

	2017 P'000	2016 P'000
Interest subsidy receivable from Botswana Government	666	5
Rent debtors	1,046	1,105
Foot and Mouth Disease Fund receivables (Note 23)	1,128	1,381
Staff loans fair valuation adjustment	13,918	20,550
Other receivables and prepayments	6,391	3,360
	23,149	26,401
Impairment provisions raised on rent debtors	(956)	(869)
Balance at the end of the year	**22,193**	**25,532**

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 (2016: 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.

The current and non-current split of other assets are:

No more than twelve months after the reporting period	13,109	11,614
More than twelve months after the reporting period	9,084	13,918
	22,193	**25,532**

5. Loans and advances to customers gross amount

	2017 P'000	2016 P'000
Customers	1,386,375	1,514,299
Staff	102,529	107,085
	1,488,904	**1,621,384**
Impairment provision portfolio (Note 17)	(58,011)	(74,027)
Impairment provision specific (Note 17)	(519,817)	(348,884)
Carrying amount	**911,076**	**1,198,473**

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

The current and non-current split of loans and advances are:	2017 P'000	2016 P'000
No more than twelve months after the reporting period	464,174	51,948
More than twelve months after the reporting period	1,024,730	1,569,436
	1,488,904	**1,621,384**

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.

	2017 P'000	2016 P'000
Off balance sheet:		
Loan disbursement commitments	**17,192**	**10,791**

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	**2017**	**2016**
	P'000	**P'000**
Cost		
Balance at the beginning of the year	**23,499**	**23,499**
Additions	601	-
Balance at the end of the year	**24,100**	**23,499**
Amortisation		
Balance at the beginning of the year	**(5,506)**	**(2,751)**
Current year charge	(2,582)	(2,755)
Balance at the end of the year	**(8,088)**	**(5,506)**
Net book value	**16,012**	**17,993**

7. Property, plant and equipment
Year ended 31 March 2017

	Freehold Commercial land and buildings	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
P'000							
Cost/Valuation							
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 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**

7. *Property, plant and equipment*
Year ended 31 March 2017 (continued)

	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
Cost/Valuation							
Balance at 01 April 2015	**48,454**	**31,425**	**10,568**	**1,168**	**400**	**19,809**	**111,824**
Additions	1,146	7,062	-	-	-	2,516	10,724
Revaluation loss	-	(2,854)	-	-	-	-	(2,854)
Balance at 31 March 2016	**49,600**	**35,633**	**10,568**	**1,168**	**400**	**22,325**	**119,694**
Accumulated Depreciation							
Balance at 01 April 2015	**-**	**-**	**-**	**-**	**266**	**14,320**	**14,586**
Charge for the year	363	-	-	-	134	2,158	2,655
Balance at 31 March 2016	**363**	**-**	**-**	**-**	**400**	**16,478**	**17,241**
Net book value							
31 March 2015	**48,454**	**31,425**	**10,568**	**1,168**	**134**	**5,488**	**97,238**
Net book value							
31 March 2016	**49,237**	**35,633**	**10,568**	**1,168**	**-**	**5,847**	**102,453**

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 2017	**Level 3**	**Total**
	P'000	**P'000**
Property, Plant and Equipment		
. Land and Buildings	95,998	95,998
	95,998	**95,998**

Recurring fair value measurements 31 March 2016	**Level 3**	**Total**
	P'000	**P'000**
Property, Plant and Equipment		
. Land and Buildings	96,606	96,606
	96,606	**96,606**

Management made an internal assessment of the fair value of property plant and equipment as at 31 March 2017 as per the requirements of IFRS 13. The assessment considered movements in the market and the investment on refurbishment of branches. Had these assets been carried at cost, the carrying amount would have been P41,197,000 (2016: P43,300,000)

7. *Property, plant and equipment (continued)*

Recurring fair value movement	2017	2016
	P'000	P'000
Balance at the beginning of the year	**96,606**	**91,615**
Additions	6,799	8,208
Revaluation loss recognised in profit and loss	(5,177)	-
Revaluation loss recognised in other comprehensive income	(1,753)	(2,854)
Accumulated depreciation	(477)	(363)
Balance at the end of the year	**95,998**	**96,606**
Carrying value as at 01 April 2016	**95,998**	**96,969**
Less: Revaluation reserve	(34,202)	(35,955)
Cost	**61,796**	**61,014**
Less: Accumulated depreciation	(20,599)	(17,714)
Carrying value as at 31 March 2017	**41,197**	**43,300**

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 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 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.
Total	**95,998**				

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 2016	P'000				
Gaborone					
Head Office building	49,237	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	28,939	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	4,014	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	2,680	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.
Total	**96,606**				

8. Un-recallable capital

	2017 P'000	2016 P'000
Opening balance 1 April 2016	77,689	77,689
Funds received from the Government of the Republic of Botswana	100,000	-
Balance at 31 March 2017	**177,689**	**77,689**

This consists of non-repayable funds invested by the Government of Botswana. During the financial year the Bank received capital injection amounting P100 million from the Government of Botswana.

9. Reserves

	2017 P'000	2016 P'000
Fixed property revaluation reserve arising on revaluation of land and buildings	34,202	35,955
General risk reserve	9,682	9,682
	43,884	**45,637**

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.

10. Bank overdraft

	2017 P'000	2016 P'000
Standard Chartered Bank Botswana Ltd	152	99,113
	152	**99,113**

The Bank has a total facility with Standard Chartered Bank Botswana Ltd of P30 million (2016: P100 million) on the overdraft account. The facility attracts interest at a rate of prime plus 2% per annum (2016: prime plus 2% per annum). Standard Bank facilities are secured over loans and advances amounting to P150 million.

11. *Borrowings*

	2017 P'000	2016 P'000
Secured bank loans:		
Standard Chartered Bank Botswana Ltd term loan	60,049	-
Listed Bonds:		
National Development Bank 001 Bond	167,974	168,008
Development loans:		
African Development Bank Loan (ADB)	-	23,587
Other unsecured loans:		
Government of the Republic of Botswana (DPCF)	9,458	11,521
Government loan from the Republic of Botswana (DPCF)	205,084	-
BancABC Botswana Ltd term loan	6,096	29,102
BancABC Botswana Ltd term loan	38,379	55,244
Motor Vehicle Accident Fund Loan	100,567	100,650
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	98,827	148,939
Total borrowings	**826,571**	**677,188**

11. Borrowings (continued)

The current/non-current split of the Borrowings is as follows:	2017 P'000	2016 P'000
No more than twelve months after the reporting period	274,337	257,960
More than twelve months after the reporting period	552,234	419,228
	826,571	**677,188**
Borrowings movement		
Balance at the beginning of the year	**677,188**	**572,571**
Borrowings during the year	300,000	-
Fair value gain on borrowings treated as equity	(103,626)	-
Capitalisation of overdraft	70,000	55,000
Capitalisation of overdraft	(70,000)	(55,000)
Reclassification to/from callable borrowings	-	196,636
Interest charged for the year	73,259	72,981
Interest paid for the year	(64,836)	(72,981)
Capital repayment	(55,541)	(91,268)
Unrealised exchange loss/(gain)	127	(751)
Balance at the end of the year	**826,571**	**677,188**

The borrowings have the following arrangements in place:

11.1 Standard Chartered Bank loan of P70 million is repayable over 3 years in monthly instalments. The loan has an interest rate of prime plus 2%. Standard Chartered Bank facilities are secured by a deed of cession over loans and advances amounting to P150 million.

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 (2016: 11.25% per annum), payable bi-annually in February and August. The bond has a redemption date of 01 August 2017. The bond is listed on the Botswana Stock Exchange and is subscribed by corporate investors. The bond is unsecured.

11. Long term borrowings (continued)

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. The 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. The facility is unsecured.

11.5 BancABC Botswana Ltd P100 million loan is payable over four years in quarterly instalments. It is unsecured and matures on 26 May 2017. The loan attracts an interest rate of prime plus 2% per annum (2016: prime plus 2% per annum). The facility is 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 (2016: 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 (2016: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 a fixed interest rate of 9.15% per annum. The loan matures on 25 March 2021.

(c) Bifm Ltd loan facility of P30 million bears fixed interest rate of 9.31% per annum. The loan matures on 25 March 2022.

(d) Bifm loan facility of P80 million bears fixed interest rate of 9.45% per annum. The loan matures on 25 March 2023.

11. Long term borrowings (continued)

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 2.5% 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% (2016: prime less 2% per annum) and is payable monthly and matures on 06 December 2018. This loan is secured by a deed of cession over loans and advances to the value of P375 million.

12. Employee obligations and other liabilities

	2017 P'000	2016 P'000
Employee obligations	7,150	7,468
Other liabilities	23,441	26,538
Total Employee obligations and other liabilities	**30,591**	**34,006**
Other liabilities		
Trade creditors	3,892	7,624
Agricultural credit guarantee scheme liabilities	6,165	4,709
NDB Privatisation funds	11,671	11,471
Audit fees accruals	677	1,653
Other administrative liabilities	1,036	1,081
	23,441	**26,538**

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 arise.

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) subsidises 85% of 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.

Employee obligations

	Gratuity P'000	Leave P'000	Total P'000
Balance as at 1 April 2015	**11,332**	**3,400**	**14,732**
Increase during the year	5,626	1,555	7,181
Utilisation/payments made during the year	(12,287)	(2,158)	(14,445)
Balance as at 31 March 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**

The current and non-current split of Employee obligations and other liabilities:

No more than twelve months after the reporting period	30,591	34,006
More than twelve months after the reporting period	-	-
	30,591	**34,006**

	2017 P'000	2016 P'000
13. Interest income		
Loans and advances	174,470	213,378
Government interest subsidy	5,369	7,033
Deposit interest income	6,213	1,725
	186,052	**222,136**
14. Interest expense		
National Development Bank Bond	18,528	18,597
African Development Bank long term loan	405	953
Loan from Government of the Republic of Botswana	9,869	1,392
Standard Chartered Bank Botswana Ltd term loan	3,404	-
BancABC Botswana Ltd overdraft facility	-	243
BancABC Botswana Ltd loan	1,722	4,219
BIFM loans	12,535	12,644
Stanlib loan	-	2,697
BancABC Botswana Ltd loan	4,506	3,994
Barclays Bank of Botswana loan	9,999	12,422
Motor Vehicle Accident Fund	4,685	5,199
Interest on overdraft	4,407	7,814
Other interest expenses	3,199	2,807
	73,259	**72,981**
15. Fee and commission income		
Foot and Mouth Disease Fund (Note 23)	712	878
Loan administration fees	1,731	2,056
	2,443	**2,934**
16. Non interest income (net)		
Commercial properties rental income	2,826	2,362
Foreign currency (loss)/gain	(127)	751
Debt recoveries	355	530
Other	142	174
	3,196	**3,817**

	2017 P'000	2016 P'000
17. Impairment on loans to customers		
Specific	200,738	81,503
Non specific	(16,016)	(21,625)
	184,722	**59,878**
17.1 **Movement in specific allowance for impairment**		
Balance at the beginning of the year	348,884	272,266
Charge for the year	200,738	81,503
Write off during the year	(29,805)	(4,885)
Balance at the end of the year	**519,817**	**348,884**
17.2 **Movement in portfolio allowance for impairment**		
Balance at beginning of the year	74,027	95,652
Release for the year	(16,016)	(21,625)
Balance at end of the year	58,011	74,027
Total allowance for impairment at end of the year	**577,828**	**422,911**

		2017	2016
		P'000	P'000
18.	***Personnel expenses***		
	Pension contributions	3,621	3,865
	Salaries and wages	54,250	59,029
	Other staff costs	4,275	13,893
		62,146	**76,787**
	Number of employees	**171**	**206**
19	***Other expenses***		
19.1	**Depreciation and amortisation**		
	Amortisation (note 6)	2,582	2,755
	Depreciation (note 7)	2,636	2,655
		5,218	**5,410**
19.2	**Other expenses**		
	Administration expenses	22,840	24,159
	Consultancy and other expenses relating to commercialisation	3,331	4,218
	Audit fees - prior year over provision	(22)	467
	current year	797	937
	Board of Directors fees and expenses	330	337
	Operating leases - motor vehicles	1,304	1,309
	Professional and management consultants' fees	624	604
		29,204	**32,031**

20. *Taxation*

Under the provisions of the revised Income Tax (Amendment Act, 2015 (No.14 of 2015), National Development Bank is taxable effective Financial year 2016/2017. The Bank has assessed losses amounting to P152 million. 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.

20. *Taxation (continued)*

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:

	2017 P'000	2016 P'000
Loss from continuing operations before income tax expense	(168,150)	(21,218)
Tax calculated at a tax rate of 22% (2016:Nil)	(36,993)	-
Deferred tax not recognised	36,997	-
Expenses not deductible for tax purpose	(4)	-
	-	-

21. *Capital commitments*

	2017 P'000	2016 P'000
Capital expenditure authorised by the Board of Directors and contracted for:	-	5,862

22. *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 2017 amounted to P58 million (2016: P65 million). The details of transactions carried out by the Bank is as follows:

	2017 P'000	2016 P'000
Management fee income	712	878
Management fee income receivable	1,128	1,381

23. 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:

	2017	2016
Motor vehicles - Executive Management	**P'000**	**P'000**
Due within one year	184	328
Due thereafter	478	671
	662	**999**
Motor vehicles - Business use		
Due within one year	1,018	886
Due thereafter	-	750
	1,018	**1,636**
Office rental		
Due within one year	396	396
Due thereafter	2,680	3,082
	3,076	**3,478**

24. 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. Whilst the Bank is not a regulated commercial bank and is not subject to the externally imposed capital requirements. However, the Bank uses the guidelines set by the Central Bank to manage its capital.

24. Capital management (continued)

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

	2017 P'000	2016 P'000
Core Capital	177,689	77,689
General reserves	9,682	9,682
Retained earnings	269,788	430,395
Tier I capital	**457,159**	**517,766**
50% fixed asset revaluation reserve	-	17,978
Unencumbered general provisions	14,420	17,560
Tier 2 capital	**14,420**	**35,538**
Total Capital	**471,579**	**553,304**
Less: Investments in associates	(971)	(1,086)
Total unimpaired capital	**470,608**	**552,218**
Risk weighted assets:		
On balance sheet assets	1,128,019	1,376,497
Off balance sheet assets	25,584	28,353
Total risk weighted assets	**1,153,603**	**1,404,850**
Capital adequacy ratio	41%	39%
Regulatory capital adequacy ratio	15%	15%

25. 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:

	2017 P'000	2016 P'000
Directors and key Management personnel compensation:		
Board of Directors sitting allowances	330	337
Executive Management remuneration	7,315	8,454
Total	**7,645**	**8,791**
Transactions with Government of Botswana:		
DPCF Botswana Government debt balance:		
Loan balance outstanding	310,625	11,521
Equity received	100,000	-
Interest expense on loan	9,869	1,392
Subsidies received and receivable:		
Interest subsidies received during the year	5,369	7,033
Interest subsidy receivable at the year end	666	5
Transactions with Propcorp (Pty) Ltd		
Operating cost reimbursement	**108**	**35**

26. *Judgements and accounting estimates*

a) Loans portfolio impairment losses

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 reviews 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 difference between loss estimates and actual loss experience.

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.

During the year under review, the level of economic uncertainty in the country and the prolonged drought experienced by Botswana has 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, specifically loans that were disbursed prior to 2014 and were in arrears. This was evident 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 were 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 in full as the Bank found no objective evidence to justify increasing the recovery period in light of the experience over the last 12 months in trying to recover against loans in arrears either via ongoing collection efforts or through sale of collateral held.

26. Judgements and accounting estimates (continued)

The key changes made include;

(i) Reduction in recovery period for immovable and movable assets by 12 months - The Bank has over the last 12 months improved its internal recovery process and has significantly reduced the time needed to commence recovery through sale procedure. Consequently, these recovery periods have been reduced by 12 months.

(ii) Overal cash collection rates have improved due to increased focus.

(iii) Recovery rate from sale of assets has declined significantly. In the past the Bank's recovery period was longer and the frequency of sale of assets was lower, with better success rate. Over the last 12-18 months, due to streamlining of internal processess the Bank has put forward more securities for sale. However, due to the subdued economy due to lower commodity prices, increased unemployment and the prolonged drought experienced by sub saharan africa, and due to the nature of assets (agricultural equipments and projects), the Bank's success rate has dropped significantly. This is reflected in the reduced recovery rate.

As a result of this change, all loans and advances that have been in arrears for more than 36 months since before 01 April 2014 have been provided in full. For all loans in arrears for less than 36 months since 01 April 2014, 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.

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

	2017	2016
Recovery period for immovable securities (months)	15	27
Recovery period for movable securities (months)	3	15
Additional recovery time to accommodate cash collections (months)	12	12
12 months Cash recovery rates (in addition to recoveries from securities)	27.2%	17.4%
24 months Cash recovery rates (in addition to recoveries from securities)	16.3%	17.7%
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)	39%	70%

Had the impairment assumption relating to recovery rate and period remained unchanged, the year end impairment provision would have been lower by P 23.98 mn.

26. *Judgements and accounting estimates (continued)*

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

	Current P'000	+3 Months on recovery P'000	-3 Months on recovery P'000	+10% value on residual value P'000	-10% value on residual value P'000	+5% recovery rate from sales P'000	-5% recovery rate from sales P'000
Identified	519,817	523,896	515,636	515,160	524,774	517,109	527,514

	Current	Impact on changes in Loss 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	58,011	60,912	55,111	63,812	52,210

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.

26. Judgements and accounting estimates (continued)

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 Bank was not identified as an exempt entity in this regulation and is thus subject to income tax for the first time in the current year.

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 current year 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:

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

26. Judgements and accounting estimates (continued)

These judgments may be 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.

27. 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.

28. Bank guarantees and pledges

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

29. Post balance sheet events

There were no material post balance sheet events noted.

30. Financial Intruments 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

30. *Financial Intruments and risk management(continued)*

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.

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

30. *Financial Intruments 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 limits for credit concentration as follows; agriculture 60%, property 40%, commerce 15%, retail 15% 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 47% or P701 million (2016 : 45% or P733 million) of the loan book. A specific provision of P520 million per note 5 (2016: P349 million) was raised as at 31 March 2017 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 52% of its loans to this sector. Other loans mainly in property, industrial, retail and commerce industrial sectors comprise about 48% 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 not probable and to tighten credit checks during the issuance of new credit loans. The Bank ‘s credit risk assessment has been revamped and now more stringent policies which include discounting of property values and risk adjusted pricing are now being implmented.

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.

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 beleive 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 and minimum risk with one single financial institution.

The Bank's quantitative credit risk assessments and classification of assets and liabilities are disclosed in notes 30.4 to 30.11 of these financial statements.

Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to meet its financial obligations as they fall due.

30 *Financial instruments and risk management (continued)*

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 Bank has a line of credit in the form of a Note program initially established for BWP 180 million, of which the Bank has currently utilised BWP 168 million (2016: P168 million). The liquidity gap analysis as at 31 March 2017 is detailed in note 30.1

Market Risk

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

Interest Rate Risk

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

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

The interest rate repricing analysis as at 31 March 2017 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.

While the Bank does not actively participate in the foreign exchange market, it has exposures to the Japanese Yen (JPY). The Bank occasionally purchases foreign currency primarily for payment of suppliers who invoice in foreign currencies.The Bank had a long-term JPY denominated liability from African Development Bank (ADB) against which it had created a similar and offsetting asset by lending to BancABC Botswana Limited, formerly, African Banking Corporation (ABC). The loan matured on the 01 February 2017.

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

The Bank had no foreign currency exposure as at 31 March 2017 as per note 30.2

30 Financial instruments and risk management (continued)

Conclusion

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

30.1 Liquidity risk

Maturities of assets and liabilities

31 March 2017	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	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	**(61,975)**	**(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**	

30 *Financial instruments and risk management (continued)*

Maturities of assets and liabilities

31 March 2016	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	17,211	-	-	-	-	17,211
Placements with financial institutions	1,280	-	-	-	-	1,280
Other assets	-	2,491	23,041	-	-	25,532
Advances to customers	1,778	1,711	27,909	135,321	1,811,998	1,978,717
Total assets	**20,269**	**4,202**	**50,950**	**135,321**	**1,811,998**	**2,022,740**
Liabilities						
Bank overdraft and borrowings	(105,735)	(22,858)	(129,367)	(583,323)	(127,913)	(969,196)
Other liabilities	(34,006)					(34,006)
Loan commitments	(10,791)					(10,791)
Total liabilities	**(150,532)**	**(22,858)**	**(129,367)**	**(583,323)**	**(127,913)**	**(1,013,993)**
Net liquidity gap	**(130,263)**	**(18,656)**	**(78,417)**	**(448,002)**	**1,684,085**	**1,008,747**
Cumulative liquidity gap	**(130,263)**	**(148,919)**	**(227,336)**	**(675,338)**	**1,008,747**	

30.2 *Foreign currency exposure*

	Japanese Yen P'000	Botswana Pula P'000	Total P'000
Assets			
Cash and balances with banks	-	177,442	177,442
Placements with financial institutions	-	216,924	216,924
Other assets	-	22,193	22,193
Loans and advances to customers	-	911,076	911,076
Other non financial assets	-	117,123	117,123
Total Assets	**-**	**1,444,758**	**1,444,758**
Liabilities and equity			
Borrowings	-	(826,571)	(826,571)
Other liabilities	-	(30,591)	(30,591)
Equity	-	(587,444)	(587,444)
Bank overdraft and callable borrowings	-	(152)	(152)
Total liabilities	**-**	**(1,444,758)**	**(1,444,758)**
Net exposure	**-**	**-**	**-**

30 *Financial instruments and risk management (continued)*

31 March 2016	Japanese Yen P'000	Botswana Pula P'000	Total P'000
Assets			
Cash and balances with banks	-	17,211	17,211
Placements with financial institutions	-	1,280	1,280
Other assets	-	25,532	25,532
Loans and advances to customers	26,683	1,171,790	1,198,473
Other non financial assets	-	121,532	121,532
Total Assets	**26,683**	**1,337,345**	**1,364,028**
Liabilities and equity			
Borrowings	(23,587)	(653,601)	(677,188)
Other liabilities	-	(34,006)	(34,006)
Equity	-	(553,721)	(553,721)
Bank overdraft and callable borrowings	-	(99,113)	(99,113)
Total liabilities	**(23,587)**	**(1,340,441)**	**(1,364,028)**
Net exposure	**3,096**	**(3,096)**	**(0)**

30.3 *Interest rate risk*

		2017 P'000	2016 P'000
Fixed rate instruments			
Assets	Advances to customers	487,635	558,069
Liabilities	Borrowings	(507,645)	(203,116)
Total		**(20,010)**	**354,953**
Variable rate instruments			
Assets	Advances to customers	1,001,269	1,063,315
	Call accounts	177,442	17,211
	Term deposits	216,924	1,280
Liabilities	Bank overdraft and callable borrowings	(152)	(99,113)
	Borrowings	(318,926)	(209,835)
Total		**1,076,557**	**772,858**

Variable Rate Instruments

A change in interest rate of 100 basis points in the annualised percentage rate would cause a change in interest income of P1,092,056 (2016: P1,220,256).

30 Financial instruments and risk management (continued)

30.4 Credit risk exposure relating to statement of financial position assets

	2017 P'000	2016 P'000
Placements with banks and financial institutions:		
Stanbic Bank of Botswana	2,464	501
Barclays Bank of Botswana	1,402	3,126
Standard Chartered Bank of Botswana	2,974	2,313
First National Bank of Botswana	4,225	9,790
African Banking Corporation of Botswana	1,011	812
Bank Gaborone	301	663
BancABC	40,000	-
Total placements with other banks	**52,377**	**17,205**
Term deposits:		
Stanbic Money Market Investments	1,326	1,280
BancABC	20,000	-
Bank Gaborone	120,657	-
Standard Chartered Bank	200,000	-
	341,983	**1,280**
Interest receivable	7	277
Other receivables	2,840	2,491
Advances from the Bank at amortised cost	1,488,904	1,621,384
Total assets with credit risk	**1,833,734**	**1,625,432**

30.5 Credit risk relating to off- balance sheet assets

	2017 P'000	2016 P'000
Loan commitments	17,192	10,791
Total maximum off balance sheet exposure	**17,192**	**10,791**

The Bank obtains collateral at the time of granting advances to its customers. The total value of collateral held against loans and advances is P1,912,340,000 (2016: P2,601,134,000). Collateral held include, livestock, farming machinery, farm land, residential and commercial properties.

30 Financial instruments and risk management (continued)

30.6 Distributions of loans and advances by credit quality

	Neither past due nor impaired P'000	Past due but not impaired P'000	Individually impaired - Specific P'000	Total P'000	Impairment allowance P'000	Total Carrying amount P'000
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**
Balance as at March 2016						
Cash and balances with banks	17,211	-	-	17,211	-	17,211
Placements with financial institutions	1,280	-	-	1,280	-	1,280
Loans and advances to customers	495,607	523,082	602,695	1,621,384	422,911	1,198,473
	514,098	**523,082**	**602,695**	**1,639,875**	**422,911**	**1,216,964**

30.7 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 2017

	Neither past due nor impaired P'000	Security 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**

30 Financial instruments and risk management (continued)

As at 31 March 2016	Neither past due nor impaired P'000	Security P'000
Property	171,578	182,108
Industrial	29,365	47,542
Retail	22,706	13,771
Agriculture	91,614	121,316
Commerce	96,115	83,332
Other loans and advances	84,229	88,184
Total Loans to Customers	**495,607**	**536,253**

30.8 Loans and advances past due but not individually impaired: age analysis

As at 31 March 2017	Past due but not impaired P'000	Security 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**

As at 31 March 2016	Past due but not impaired P'000	Security P'000
Property	141,600	156,359
Industrial	11,829	17,258
Retail	1,375	3,595
Agriculture	274,961	338,927
Commerce	58,202	74,900
Other loans and advances	35,115	34,252
Total Loans to Customers	**523,082**	**625,293**

During the year, the Bank managed to recover on average 39% of the security value from sale of immovable properties held as collateral.

30 Financial instruments and risk management (continued)

30.9 Loans and advances individually impaired

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)**	**99,634**	**672,169**	**158,611**	**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**		

30 Financial instruments and risk management (continued)

30.9 Loans and advances individually impaired (Continued)

As at 31 March 2016

	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	118,136	(868)	-	13,051	130,319	835	73,843
Industrial	14,827	(1,530)	-	(9,025)	4,272	1,251	2,048
Retail	17,599	-	-	(6,139)	11,459	1,609	5,616
Agriculture	405,607	(631)	-	(21,371)	383,605	157,363	91,354
Commerce	43,732	(252)	(475)	734	43,739	2,091	17,129
Other loans and advances	26,401	(1,603)		4,503	29,301		6,132
Total Loans to Customers	**626,302**	**(4,884)**	**(475)**	**(18,247)**	**602,695**	**163,149**	**196,123**
Property	35,365	(868)	-	11,966	46,463		
Industrial	4,281	(1,530)	-	(91)	2,660		
Retail	7,442	-	-	(1,411)	6,032		
Agriculture	191,739	(631)	-	59,940	251,047		
Commerce	15,222	(252)	-	6,487	21,458		
Other loans and advances	18,217	(1,603)	-	4,612	21,224		
Total impairment allowance	**272,266**	**(4,885)**	**-**	**81,503**	**348,884**		

30 Financial instruments and risk management (continued)

30.10 Financial assets and liabilities

31 March 2017	Note	Total amortised cost P'000	Fair value P'000
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**

31 March 2016		Total amortised cost	Fair value
Cash and balances with banks	1	17,211	17,211
Placements with financial institutions	2	1,280	1,280
Loans and advances to customers	5	1,198,473	1,198,473
Other assets	4	25,532	25,532
		1,242,496	**1,242,496**

Liabilities as at		Financial liabilities at amortised cost P'000	Fair value P'000
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**
Bank overdraft and callable borrowings	10	99,113	99,113
Borrowings	11	677,188	677,188
Accruals and other liabilities	13	34,006	34,006
		810,307	**810,307**

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:

30 Financial instruments and risk management (continued)

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.

Foot & Mouth

Disease Relief Fund

Special Purpose

Financial Statements

For the year ended 31 March 2017

Contents

STATEMENT OF RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the special purpose financial statements and related information. The external auditors are responsible for independently auditing and reporting on the 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 of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, 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 during the financial year ended 31 March 2017.

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 pages 97 to 99 and supplementary information on pages 100 to 101 were approved by the Directors on 13 July 2017 and signed on their behalf by:

Mr Godfrey Molefe
Chairman, Board

Mr Cosmas Moapare
Chairman, Board Risk and Audit committee

pwc

Independent auditor's report on Foot and Mouth Disease ("FMD") Fund's special purpose financial statements to the board of directors of the National Development Bank of Botswana

Our opinion

In our opinion, the special purpose financial statements of FMD Fund (the "Fund") for the year ended 31 March 2017 are prepared, in all material respects, in accordance with the basis of accounting described in note 2 to the special purpose financial statements.

What we have audited

FMD Fund's special purpose financial statements set out on pages 97 to 99 comprise:

- the statement receipts and payments for the year ended 31 March 2017;
- the notes to the special purpose 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 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 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 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 Board 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 in accordance 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 Directors' approval of special purpose financial statements, which we obtained prior to the date of this auditor's report. 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 a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

pwc

Responsibilities of the directors for the special purpose financial statements

The directors are responsible for the preparation of the 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 directors determine is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or 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 the 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 judgement and maintain professional scepticism 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 for 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 Company 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
Membership number: 20030046

16 August 2017
Gaborone

Statement of Receipts and Payments

For the year ended 31 March 2017

	Note	2017 P'000	2016 P'000
Receipts			
Interest income	1	43	98
Net interest receipt		**43**	**98**
Advances repayments		8,483	11,140
Total cash receipts		**8,483**	**11,140**
Payments			
Administration expenses	2	1,892	1,759
Refunds to customers		1,924	107
Total cash payments		**3,816**	**1,866**
Surplus		4,710	9,372
Cumulative surplus balance			
Brought forward		**30,123**	**20,751**
Cumulative Surplus Balance			
Carried forward	3	**34,833**	**30,123**
Represented by:			
Cash and Cash Equivalents	4	**34,833**	**30,123**

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.

	2017 P'000	2016 P'000
RECEIPTS		
1. Interest Income		
Interest earned from call account	43	98
	43	**98**
2. Overheads		
Staff costs	917	985
Administration expenses	10	18
NDB Management fees	965	756
	1,892	**1,759**
3. Cummulative Fund		
Balance brought forward	30,123	20,751
Surplus for the year	4,710	9,372
Balance carried forward	**34,833**	**30,123**
4. Cash and Bank Balances		
Placements with local financial institutions:		
Call and current accounts	34,833	30,123
	34,833	**30,123**

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:

	2017 P'000	2016 P'000
Opening balance of advances	64,617	75,650
Repayments received during the year	(8,483)	(11,140)
Refunds	1,924	107
Closing balance of advances	**58,058**	**64,617**

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:	2017 P'000	2016 P'000
Amounts due at the beginning of the year	**1,381**	**1,206**
Management fees charged	1,128	1,381
Payments made	(1,381)	(1,206)
Amounts due at the end of the year	**1,128**	**1,381**

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 95 - 96.

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


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Notes

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