



NATIONAL DEVELOPMENT BANK

Annual financial statements for the year ended
31 March 2016

NATIONAL DEVELOPMENT BANK

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

Contents	Page
Directors' approval of the Financial Statements	2
Independent Auditors' Report	3
Statement of Financial Position	4
Statement of Comprehensive Income	5
Statement of Changes In Equity	6
Statement of Cashflows	7
Significant Accounting Policies	8
Notes to the Financial Statements	20

**National Development Bank
Directors' approval of the Financial Statements
for the year ended 31 March 2016**

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 2016, 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 Directors responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as supplementary schedules included in these financial statements.

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

The external Auditor is responsible for reporting 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 4 - 44 were approved by the Board of Directors on 26 September 2016 and are signed on their behalf by:



Mr Godfrey Moléfe
Chairman, Board



Mr Cosmas Moapare
Chairman, Risk and Audit Committee



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

Report on the Financial Statements

We have audited the accompanying financial statements of National Development Bank (the "Bank"), which comprise the statement of financial position at 31 March 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 44.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of, the financial position of National Development Bank as of 31 March 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Individual practicing member: Rudi Binedell
Membership number: 20040091

Gaborone
24 November 2016



NATIONAL DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION
As at 31 March 2016

	Notes	2,016.00 P'000	2015 P'000
ASSETS			
Cash and balances with banks	1	17,211	9,862
Placements with financial institutions	2	1,280	1,212
Investments in associate	3	1,086	1,250
Other assets	4	25,532	40,865
Loans and advances to customers	5	1,198,473	1,374,593
Intangible assets	7	17,993	20,748
Property, plant and equipment	7	102,453	97,238
Total assets		<u>1,364,028</u>	<u>1,545,768</u>
EQUITY AND LIABILITIES			
Equity			
Un-recallable capital	8	77,689	77,689
Reserves	9	45,637	45,637
Retained earnings		430,395	451,613
Total equity		<u>553,721</u>	<u>574,939</u>
Liabilities			
Bank overdraft and callable borrowings	10	99,113	350,007
Borrowings	11	677,188	572,571
Accruals	12	7,468	14,732
Other liabilities	12	26,538	33,519
Total liabilities		<u>810,307</u>	<u>970,829</u>
Total liabilities and equity		<u>1,364,028</u>	<u>1,545,768</u>

NATIONAL DEVELOPMENT BANK

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2016

	Notes	2016 P'000	2015 P'000
Interest income	13	222,136	228,857
Interest expense	14	(72,981)	(70,836)
Net interest income		149,155	158,021
Fee and commission income	15	2,934	8,162
Total income from banking activities		152,089	166,183
Non-interest income	16	3,817	1,367
Fair value loss on investment property	6	-	(2,889)
Revaluation loss on property plant and equipment	7	(2,854)	-
Operating income		153,052	164,661
Impairment on loans to customers	17	(59,878)	(83,306)
Personnel expenses	18	(76,787)	(75,949)
Depreciation and amortisation	19	(5,410)	(4,788)
Other expenses	19	(32,031)	(48,910)
Operating loss for the year		(21,054)	(48,292)
Share of loss of associate	3	(164)	(117)
Total loss for the year		(21,218)	(48,409)
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Revaluation loss on property plant and equipment	9	-	(8,569)
Other comprehensive income for the period		-	(8,569)
Total comprehensive loss for the period		(21,218)	(56,978)

NATIONAL DEVELOPMENT BANK

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2016

	Un- recallable capital 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 2014 restated	77,689	44,524	9,682	500,022	631,917
Loss for the year	-	-	-	(48,409)	(48,409)
Revaluation loss arising on property, plant and equipment	-	(8,569)	-	-	(8,569)
Balance as at 31 March 2015	77,689	35,955	9,682	451,613	574,939
Loss for the year	-	-	-	(21,218)	(21,218)
Balance as at 31 March 2016	77,689	35,955	9,682	430,395	553,721

NATIONAL DEVELOPMENT BANK

STATEMENT OF CASHFLOWS

For the year ended 31 March 2016

	Notes	2016 P'000	2015 P'000
Cash flow from operating activities			
Operating loss for the period:		(21,054)	(48,292)
<i>Adjustments for:</i>			
Depreciation and amortisation	19	5,410	4,788
Unrealised exchange (gain)/loss	16	(751)	1,317
Net impairment loss on loans and advances	17	59,878	83,306
Interest expense	14	72,981	70,836
Revaluation/Fair value loss on properties		2,854	2,889
Net cash inflow before changes in operating assets and liabilities		<u>119,318</u>	<u>114,844</u>
(Increase)/Decrease in placements with financial institutions		(68)	60,051
Decrease/(Increase) in advances to customers		116,243	(152,904)
Decrease/(Increase) in other assets		15,333	(7,648)
(Decrease)/Increase in provisions and other liabilities		(14,245)	14,001
Cash out flow from operating activities		<u>117,262</u>	<u>(86,500)</u>
Net cash generated from operating activities		<u>236,580</u>	<u>28,344</u>
Cash flows from investing activities			
Acquisition of property and equipment	7(b)	(10,724)	(16,879)
Acquisition of investment properties	6	-	(5,819)
Acquisition of intangible assets	7(a)	-	(2,688)
Net cash used in investing activities		<u>(10,724)</u>	<u>(25,386)</u>
Cash flows from financing activities			
Interest paid	14	(72,981)	(70,836)
Proceeds from borrowings		-	100,000
Repayment of borrowings		(91,268)	(97,427)
Net cash used in financing activities		<u>(164,249)</u>	<u>(68,263)</u>
Net Increase/(decrease) in cash and bank balances		61,607	(65,306)
Cash and bank balances at beginning of year		(143,509)	(78,203)
Cash and bank balances at end of year		<u>(81,902)</u>	<u>(143,509)</u>
Cash and cash equivalents comprises of:			
Cash	1	6	6
Current and call accounts	1	17,205	9,856
Bank overdraft	10	(99,113)	(153,371)
		<u>(81,902)</u>	<u>(143,509)</u>

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 March 2016

1. Reporting entity

National Development Bank (the "Bank") is a development financial institution domiciled in Botswana. The address of the Bank's registered office is National Development Bank, P.O. Box 225, Gaborone. The Bank is primarily involved in providing development finance to key sectors of the economy with key focus on the Agriculture sector.

These financial statements comprise the results of the Bank and its associate accounted for using the equity basis. These financial statements are approved for issue by the Bank's board of directors on 26 September 2016.

2. Basis of Preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost convention except for the revaluation of certain assets being land and buildings and investment property 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 year, 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 26.

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

IAS 1 - Presentation of Financial Statements

This amendment has been adopted by the Bank for the first time in its financial reporting period ended 31 March 2016. The amendment clarifies guidance provided in IAS 1 on materiality and aggregation, the presentation of sub-totals, the structure of financial statements and the disclosure of accounting policies.

This amendment to the standard did not result in any material effect on the financial statements of the Bank.

IAS 19 - Employee Benefits

Defined Benefit Plans

This amendment has been adopted by the Bank for the first time for its financial reporting period ended 31 March 2016.

This amendment to IAS 19 applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

This amendment to the standard did not result in any material effect on the financial statements of the Bank.

IAS 24 - Related Party Disclosures

This amendment to IAS 24 has been adopted by the Bank for the first time for its financial reporting period ended 31 March 2016.

The standard is amended to include, as a related party, an entity that provides key management personnel services to the Bank.

Key management personnel are those persons that have authority and responsibility for planning, directing, and controlling the activities of subsidiaries, directly or indirectly, including any Directors of the Bank.

This amendment to the standard did not result in any material effect on the financial statements of the Bank.

IFRS 8 - Operational Segments

This amendment to IFRS 8 has been adopted by the Bank for the first time for its financial reporting period ended 31 March 2016.

The standard has been amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics.

The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.

This amendment to the standard did not result in any material effect on the financial statements of the Bank.

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES
for the year ended 31 March 2016

IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets

IAS 16 and 38 has been adopted by the Bank for the first time for its financial reporting period ending 31 March 2016. The standard has been applied prospectively and comparatives have not been restated.

Both standards are amended to clarify how the gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to the revalued amount. The split between gross carrying amount and accumulated depreciation is treated in one of the following ways:

- either the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses; or
- the accumulated depreciation is eliminated against the gross carrying amount

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

Standard	Contents	Applicable for financial years beginning on/after
IAS 19 (amendment)	Employee Benefits – Estimation of the discount rate	01-Jan-16
IAS 27 (amendment)	Separate financial statements	01-Jan-16
IAS 34 (amendment)	Interim financial reporting	01-Jan-16
IFRS 5 (amendment)	Non-current assets held for sale and discontinued operations	01-Jan-16
IFRS 7 (amendment)	Financial Instruments: Disclosures	01-Jan-16
IFRS 9	Financial Instruments	01-Jan-18
IFRS 10 & IAS 28 (amendment)	Consolidated financial statements & Investments in associates and joint ventures	01-Jan-16
IFRS 11 (amendment)	Joint Arrangements	01-Jan-16
IFRS 15	Revenue from contracts with customers	01-Jan-17

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 March 2016

IAS 19 - Employee Benefits

Estimation of Discount Rate

This amendment will be adopted by the Bank for the first time for its financial reporting period ending 31 March 2017.

The amendment to IAS 19 clarifies that the high-quality corporate bonds that an entity uses in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high-quality corporate bonds should be assessed at currency level).

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

IAS 27 - Separate financial statements

This amendment to IAS 27 will be adopted by the Bank for the first time for its financial reporting period ending 31 March 2017. 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.

The amendments to the standard are not expected to have a material impact on the financial statements of the Bank.

IAS 34 - Interim Financial Reporting

This amendment to IAS 34 will be adopted by the Bank for the first time for its financial reporting period ending 31 March 2017.

The amendment deals with the disclosure of information 'elsewhere in the interim financial report'. It states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report.

The IASB specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

This amendment to the standard is not expected to have a significant impact on the financial statements of the Bank.

IFRS 5 - Non-current assets held for sale and discontinued operations

This amendment to IFRS 5 will be adopted by the Bank for the first time for its financial reporting period ending 31 March 2017.

This is an amendment to the changes in methods of disposal – Assets (or disposal Banks) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5.

The amendment also clarifies that changing the disposal method does not change the date of classification.

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

IFRS 7 - Financial Instruments; Disclosures

The amendments to IFRS 7 will be adopted by the Bank for the first time for its financial reporting period ending 31 March 2017.

Applicability of the offsetting disclosures to condensed interim financial statements

The amendment clarifies that these IFRS 7 disclosures are not required in the condensed interim financial report. However, if the events or transactions are significant to an understanding of the changes in financial position and performance of the entity, these will need to be disclosed in conformance with IAS 34.

Servicing Contracts

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 March 2016

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in order to assess whether the disclosures are required.

These amendments to the standard are not expected to have a material effect on the financial statements of the Bank.

IFRS 9 - (2009 & 2010) Financial Instruments

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.

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

IFRS 10 - Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures

Sale of contribution of assets

This amendment will be adopted by the Bank for its financial period ending 31 March 2017. The amendment aims to eliminate the inconsistency between IFRS 10 and IAS 28. If non-monetary assets sold or contributed to an associate or joint venture constitute a 'business', then the full gain or loss will be recognised by the investor. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

IFRS 11 - Joint Arrangements

This amendment will be adopted by the Bank for its financial period ending 31 March 2017.

The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. This amendment is not expected to have a material effect on the financial statements of the Bank.

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.

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 March 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

Subsidiaries

Subsidiaries are all entities over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through power over the entity. In assessing investment relationships, management has applied its judgement in the assessment of whether the commercial and economic relationship is tantamount to de-facto control. Based on the fact patterns and Management's judgement, if such control exists, the relationship of control has been recognised in terms of IFRS 10 – Consolidated financial statements which builds on the existing principles of control set out in IAS 27 – Consolidated and separate financial statements subsidiaries are fully consolidated from the date on which control is transferred to the Bank and are de-consolidated from the date that control ceases.

At the reporting date, the Bank had a single wholly owned dormant subsidiary company, Development House (Pty) Ltd. The subsidiary had remained dormant in the financial period. The Directors have not presented group accounts as the effect of consolidation of subsidiary results was considered immaterial on the Bank's financial statements.

Associates

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Under this method, the Bank's share of post-acquisition accumulated profits or losses of associated companies, which are generally determined from their latest audited financial statements, is included in the carrying value of the investments, and the annual profit attributable to the Bank is recognised in the statement of comprehensive income. The Bank's share of post-acquisition movement in reserves is recognised in other reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The carrying amount of such interests is reduced to recognise any potential impairment, other than a temporary decline, in the value of individual investments.

The Bank's investment in associates includes goodwill (net of accumulated impairment loss) identified on acquisition. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses unless the Bank has incurred obligations, issued guarantees or made payments on behalf of the associate.

The Bank accounts for investments in associates at cost which includes transaction costs, less accumulated impairment losses. The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. Where impairment indicators are identified, the recoverable value of the associate is measured at the higher of realisable value through sale less costs to sell, and value in use. Value in use is the present value of future cash flows expected to be derived from the associate. Where the recoverable value of an associate is below the carrying amount, the carrying amount is reduced to the recoverable value through an impairment loss charged to the statement of comprehensive income. Once an impairment loss has been recognised, the Bank assesses at each year-end date whether there is an indication that the impairment loss previously recognised no longer exists or has decreased. If this is the case, the recoverable value of the associate is re-measured and the impairment loss reversed or partially reversed as may be the case.

The Bank's shareholding in its associate is as disclosed in note 3.

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 Bank's 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 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'net foreign exchange gains'.

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 March 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Land and buildings comprise mainly offices. Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. 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.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the statement of comprehensive income.

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 and, for qualifying assets, borrowing costs 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.

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.

Investment Property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Bank, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Bank uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the financial position date on an appropriate valuation basis, which may include internal valuation models, valuations by independent professional valuers and comparison to recent market transactions and values. Where valuations from these sources indicate a range of reasonable fair values estimates, considered judgement is applied to determine the most reliable estimate of fair value. These valuations form the basis for the carrying amounts in the financial statements. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 March 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be reliably determined, Management considers the following factors, among others:

- The provisions of the construction contract.
- The stage of completion.
- Whether the project/property is standard (typical for the market) or non-standard.
- The level of reliability of cash inflows after completion.
- The development risk specific to the property.
- Past experience with similar constructions.
- Status of construction permits.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in profit and loss for the period in which it arises. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Where the Bank disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in profit and loss for the period in which it arises within net gain from fair value adjustment on investment property.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in the profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and increases directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to statement of comprehensive income.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 March 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Software

Acquired computer software licences 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.

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 March 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the statement of comprehensive income for the period in which they are incurred.

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 and at fair value through profit and loss categories. 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. 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.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

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. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest rate.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other (losses)/gains – net' in the period in which they arise. The fair values of quoted investments are based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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.

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Bank has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Employee benefits

(i) Pension contributions

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

(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 the 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.

NATIONAL DEVELOPMENT BANK

SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 March 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2016

	2016 P'000	2015 P'000
1 Cash and balances with banks		
Cash	6	6
Current and call accounts	17,205	9,856
	<u>17,211</u>	<u>9,862</u>
2 Placements with financial institutions		
African Alliance (Pty) Ltd	-	107
Africa 53 Provident Fund (Pty) Ltd	-	340
Stanlib Investment Management Services (Pty) Ltd	1,280	765
	<u>1,280</u>	<u>1,212</u>
Maturity profile		
On demand to one month	<u>1,280</u>	<u>1,212</u>

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% (2015:33.3%) 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:

	2016 P'000	2015 P'000
Balance at the beginning of the year	1,250	1,367
Share of loss for the period	(164)	(117)
Balance at the end of the year	<u>1,086</u>	<u>1,250</u>

The audited results of Propcorp (Proprietary) Limited for the year ended December 2015 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 audited December 2015 results were considered appropriate for equity accounting of the results for the financial year.

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

3 Investment in associate (continued)

Summarised financial information for Associate

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

Summarised Statement of Financial position
As at 31 December 2015

	2015 P'000	2014 P'000
Assets		
Property, plant and equipment (non current)	3,342	3,675
Cash and cash equivalents	26	322
Other current assets	423	301
Total assets	<u>3,791</u>	<u>4,298</u>
Liabilities		
Financial Liabilities (excluding trade payables)	(46)	(42)
Other current liabilities	(293)	(323)
Other non current liabilities	(195)	(184)
Total liabilities	<u>(534)</u>	<u>(549)</u>
Net Assets	<u>3,257</u>	<u>3,749</u>

Summarised statement of comprehensive income
For the year ended 31 December 2015

	2015 P'000	2014 P'000
Revenue	189	327
Depreciation and amortisation	(333)	(333)
Other operating expenses	(349)	(347)
Interest income	1	1
Loss from continuing operations	<u>(492)</u>	<u>(352)</u>
Other comprehensive income	-	-
Total comprehensive income	<u>(492)</u>	<u>(352)</u>

Reconciliation of summarised financial information
For the year ended 31 March 2016

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

Summarised financial information

	2015 P'000	2014 P'000
Opening net assets 1 January 2015	3,749	4,101
Loss for the period	(492)	(352)
Closing net assets	<u>3,257</u>	<u>3,749</u>
Interest in associates 33.33%	1,086	1,250
Carrying Value	<u>1,086</u>	<u>1,250</u>

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

4 Other assets	2016 P'000	2015 P'000
Interest subsidy receivable from Botswana Government	5	35
Rent debtors	1,105	987
Foot and Mouth Disease Fund receivables	1,381	1,327
Staff loans - IAS 19 Staff benefit asset	20,550	35,829
Other receivables and prepayments	3,360	3,611
	<u>26,401</u>	<u>41,789</u>
Impairment provisions raised on rent debtors	(869)	(924)
Balance at the end of the year	<u>25,532</u>	<u>40,865</u>

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 (2015: 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.

5 Loans and advances to customers	2016 P'000	2015 P'000
Gross amount		
Customers	1,514,299	1,638,685
Staff	107,085	103,826
	<u>1,621,384</u>	<u>1,742,511</u>
Impairment provision portfolio (Note 17)	(74,027)	(95,652)
Impairment provision specific (Note 17)	(348,884)	(272,266)
Carrying amount	<u>1,198,473</u>	<u>1,374,593</u>

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

The current and non-current split of loans and advances are:	2016 P'000	2015 P'000
Current	46,602	393,612
Non-current	1,151,871	980,981
	<u>1,198,473</u>	<u>1,374,593</u>

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.

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

5 Loans and advances to customers (continued)

	2016	2015
Off balance sheet:	P'000	P'000
Loan disbursement commitments	<u>10,791</u>	<u>76,837</u>

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 Investment property

	Commercial Land and Buildings 2016 P'000	Commercial Land and Buildings 2015 P'000
Balance at the beginning of the year	-	25,000
Additions	-	5,819
Decrease in fair value	-	(2,889)
Reclassification due to change in use (note 7)	-	(27,930)
Balance at the end of the year	<u>-</u>	<u>-</u>

7(a) Intangible assets

Computer Software	2016	2015
	P'000	P'000
Cost		
Balance at the beginning of the year	23,499	20,811
Additions	-	2,688
Balance at the end of the year	<u>23,499</u>	<u>23,499</u>
Amortisation		
Balance at the beginning of the year	(2,751)	(320)
Current year charge	(2,755)	(2,431)
Balance at the end of the year	<u>(5,506)</u>	<u>(2,751)</u>
Net value	<u>17,993</u>	<u>20,748</u>

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

7 (b) Property, plant and equipment

Year ended 31 March 2016	Cost/Valuation						2016 Total P'000
	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	
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

Management made an internal assessment of the fair value of property plant and equipment as at 31 March 2016 as per the requirements of IAS 16 paragraph 31-42 and paragraph 77. The assessment considered movements in the market and the investment on refurbishment of branches.

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

7 (b) Property, plant and equipment

Year ended 31 March 2015

Cost/Valuation	Freehold Commercial land and buildings P'000	Leasehold Commercial land and buildings P'000	Freehold Residential land and buildings P'000	Leasehold Residential land and buildings P'000	Motor vehicles P'000	Office furniture and equipment P'000	2015 Total P'000
Balance at 01 April 2014	46,939	3,078	9,730	1,099	400	16,193	77,439
Additions	9,147	4,116	-	-	-	3,616	16,879
Revaluation loss/(gain)	(7,632)	(3,699)	838	69	-	-	(10,424)
Reclassification from investment property	-	27,930	-	-	-	-	27,930
Balance at 31 March 2015	48,454	31,425	10,568	1,168	400	19,809	111,824

Accumulated Depreciation

Balance at 01 April 2014	1,063	35	38	5	133	12,810	14,084
Charge for the year	714	-	-	-	133	1,510	2,357
Reversal of accumulated depreciation	(1,777)	(35)	(38)	(5)	-	-	(1,855)
Balance at 31 March 2015	(0)	-	-	-	266	14,320	14,586

Net book value
31 March 2014

45,876	3,043	9,692	1,094	267	3,384	63,355
--------	-------	-------	-------	-----	-------	--------

Net book value
31 March 2015

48,454	31,425	10,568	1,168	134	5,488	97,238
--------	--------	--------	-------	-----	-------	--------

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

7 (b) 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		
	Level 2 P'000	Level 3 P'000	Total P'000
Recurring fair value measurements 31 March 2016			
Property, Plant and Equipment	-	96,969	96,969
Land and Buildings	-	96,969	96,969
Recurring fair value measurements 31 March 2015			
Property, Plant and Equipment	-	91,615	91,615
Land and Buildings	-	91,615	91,615

Management made an internal assessment of the fair value of property plant and equipment as at 31 March 2016 as per the requirements of IAS 16 paragraph 31-42 and paragraph 77. 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 P59,046,000 (2014:P53,921,000)

	2016 P'000	2015 P'000
Recurring fair value movement		
Balance at the beginning of the year	91,615	60,846
Reclassification from Investment properties	-	27,930
Additions	8,208	13,263
Revaluation loss	(2,854)	(10,424)
Balance at the end of the year	96,969	91,615
Carrying value as at 01 April 2015	96,969	91,615
Less: Revaluation reserve	(35,955)	(35,955)
Cost	61,014	55,660
Less: Accumulated depreciation	(17,714)	(13,915)
Carrying value as at 31 March 2016	43,300	41,745

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

7 (b) 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 2016					
P'000					
Gaborone Head Office building (Note A)	49,600	Investment basis	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	Investment basis	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	2,679	Investment basis	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.
	<u>96,968</u>				

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

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 2015	P'000				
Gaborone					
Head Office building (Note A)	48,454	Investment basis	Rent/sqm and cap rate	Rent 100-125 and Cap rate 9.5%	The higher the rent, the higher the fair value. The lower the cap rate the higher the fair value
Residential Properties	11,736	Sales comparison	Price/sqm	2,500-4,000	
Francistown					
Commercial Property	27,930	Depreciated replacement Value	Estimated cost to build a similar building	15,000 for building and 1,350 for land remaining life of 40 years.	The higher the cost the higher the fair value
Maun					
Commercial Property	3,495	Investment basis	Rent/sqm and cap rate	Rent 75 and cap rate 11%	The higher the rent, the higher the fair value . The lower the cap rate, the higher the fair value.
	<u>91,615</u>				

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

	2016 P'000	2015 P'000
8 Un-recallable capital		
Received from the Government of the Republic of Botswana		
General funds	<u>77,689</u>	<u>77,689</u>
This consists of non-repayable funds invested by the Government of Botswana.		
9 Reserves	2016 P'000	2015 P'000
Fixed property revaluation reserve arising on revaluation of land and buildings	35,955	35,955
General risk reserve	<u>9,682</u>	<u>9,682</u>
	<u>45,637</u>	<u>45,637</u>

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.

	2016 P'000	2015 P'000
10 Bank overdraft and callable borrowings		
Bank overdraft		
Standard Chartered Bank Botswana Ltd	99,113	99,083
BancABC Botswana Ltd	<u>-</u>	<u>54,288</u>
	99,113	153,371
Callable borrowings		
Callable loan facility	<u>-</u>	<u>196,636</u>
	<u>99,113</u>	<u>350,007</u>

10.1 The Bank has a total facility with Standard Chartered Bank Botswana Ltd of P100m on the overdraft account. The facility attracts interest at a rate of prime plus 2% per annum (2015: Prime less 2% per annum). The facility is secured over loans and advances to the amounting to P150 million.

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

	2016 P'000	2015 P'000
11 Borrowings		
Secured bank loans:		
Standard Chartered Bank Botswana Ltd term loan (P28m facility)	-	106
Listed Bonds:		
National Development Bank 001 Bond	168,008	167,974
Development loans:		
African Development Bank Loan (ADB)	23,587	40,246
Other unsecured loans:		
Government of the Republic of Botswana (DPCF)	11,521	13,352
BancABC Botswana Ltd term loan (P100m facility)	29,102	49,944
BancABC Botswana Ltd term loan (P55m facility)	55,244	-
Motor Vehicle Accident Fund Loan (P100m facility)	100,650	100,693
Stanlib Investment Management Services Ltd (Stanlib)	-	60,118
Botswana Insurance Fund Management Ltd (Bifm P15M)	15,008	15,009
Botswana Insurance Fund Management Ltd (Bifm P15M)	15,015	15,015
Botswana Insurance Fund Management Ltd (Bifm P30M)	30,031	30,031
Botswana Insurance Fund Management Ltd (Bifm P80M)	80,083	80,083
Barclays Bank of Botswana Ltd	148,939	-
Total borrowings	<u>677,188</u>	<u>572,571</u>
The current/non-current split of the Borrowings is as follows:		
Current	257,960	60,118
Non current	419,228	512,453
	<u>677,188</u>	<u>572,571</u>
Borrowings movement		
	2016 P'000	2015 P'000
Balance at the beginning of the year	572,571	523,997
Borrowings during the year	-	100,000
Capitalisation of overdraft	55,000	-
Reclassification to/from callable borrowings	196,636	-
Interest charged for the year	64,924	60,490
Repayments during the year	(211,943)	(111,916)
Balance at the end of the year	<u>677,188</u>	<u>572,571</u>

The borrowings have the following arrangements in place:

- 11.1 The Stanlib Investment Management Services Ltd loan of P60 million matured on the 19 December 2015. It had a term of 1 year and a floating rate of interest of 400 basis points above the prevailing 91 day Bank of Botswana Certificate (2015: 91 day BoBC +4% per annum). Interest was payable quarterly.
- 11.2 The 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 (2015: 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.

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

11 Long term borrowings (continued)

- 11.3 The African Development Bank loan, denominated in Japanese Yen, is repayable over 10 years in bi-annual instalments. The loan has an interest rate of 2.775% (2015: 2.775%) per annum on the Japanese Yen balance equivalent. The loan is unsecured and matures on 01 August 2017.
- 11.4 The 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.
- 11.5 The BancABC Botswana Ltd P100 million loan is payable over four years in quarterly instalments. It is unsecured and matures on 26 August 2017. The loan attracts an interest rate of prime plus 2% per annum (2015 Prime less 2% per annum). The facility is unsecured.
- 11.6 The Bank has a renegotiated Term Loan facility with BancABC Botswana Ltd of P55m 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 (2015: Prime plus 2% per annum), it is unsecured and matures on 31 March 2019.
- 11.7 The Bifm Ltd facility is made up of unsecured loan notes totalling 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 (2015: prime less 1.85% per annum) and is payable semi-annually. The loan matures on 25 March 2021.
- (b) Bifm Ltd loan facility of P15 million bears fixed interest payable on the government long dated bond plus 2% per annum, being 9.15% per annum (2015: Government long dated bond plus 2% per annum). The loan matures on 25 March 2021.
- (c) Bifm Ltd loan facility of P30 million bears fixed interest payable on the government long dated bond plus 2% per annum, being 9.31% per annum (2015: Government long dated bond plus 2% per annum). The loan matures on 25 March 2022.
- (d) Bifm loan facility of P80 million bears fixed interest payable on the government long dated bond plus 2% per annum, being 9.45% per annum (2015: government long dated bond plus 2% per annum). The loan matures on 25 March 2023.
- 11.8 The Motor Vehicle Accident Fund facility of P100 million has a term of 5 years at a quarterly floating rate of interest of Prime less 2% per annum. The loan principal is payable on maturity in November 2019. Interest is payable quarterly.
- 11.9 The Barclays Bank Botswana Ltd loan facility of P250 million bears floating interest of prime plus 0.5% (2015: 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.

	2016 P'000	2015 P'000	
12 Accruals and other liabilities			
Accruals	7,468	14,732	
Other liabilities	26,538	33,519	
Total accruals and other liabilities	34,006	48,251	
Other liabilities			
Trade creditors	7,624	12,913	
Agricultural credit guarantee scheme liabilities	4,709	6,770	
NDB Privatisation funds	11,471	11,265	
Audit fees accruals	1,653	1,585	
Other administrative liabilities	1,081	986	
	26,538	33,519	
Accruals			
	Gratuity P'000	Leave P'000	Total P'000
Balance as at 1 April 2014	6,538	2,557	9,095
Increase in accruals	5,626	2,198	7,824
Utilisation/payments made during the year	(832)	(1,355)	(2,187)
Balance as at 31 March 2015	11,332	3,400	14,732
Increase in accruals	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

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 March 2016

	2016 P'000	2015 P'000
13 Interest income		
Loans and advances	213,378	222,163
Government interest subsidy	7,033	4,438
Deposit interest income	1,725	2,256
	<u>222,136</u>	<u>228,857</u>
14 Interest expense		
National Development Bank Bond	18,597	18,563
African Development Bank long term loan	953	1,636
Loan from Government of the Republic of Botswana	1,392	1,676
Standard Chartered Bank overdraft facility	7,814	6,826
BancABC Botswana Ltd overdraft facility	243	3,520
BancABC Botswana Ltd loan	4,219	-
BIFM loans	12,644	12,798
Stanlib loan	2,697	3,861
BancABC Botswana Ltd loan	3,994	3,893
Barclays Bank of Botswana loan	12,422	15,332
Motor Vehicle Accident Fund	5,199	1,791
Other interest expenses	2,807	940
	<u>72,981</u>	<u>70,836</u>
15 Fee and commission income		
Foot and Mouth Disease Fund	878	915
Loan administration fees	2,056	7,247
	<u>2,934</u>	<u>8,162</u>
16 Non interest income		
Commercial properties rental income	2,362	2,444
Foreign currency gain/(loss)	751	(1,317)
Debt recoveries	530	36
Other miscellaneous	174	204
	<u>3,817</u>	<u>1,367</u>
17 Impairment on loans to customers		
Specific	81,503	80,054
Non specific	(21,625)	3,252
	<u>59,878</u>	<u>83,306</u>
17.1 Movement in specific allowance for impairment		
Balance at the beginning of the year	272,266	215,773
Charge for the year	81,503	80,054
Write off during the year	(4,884)	(23,561)
Balance at the end of the year	<u>348,885</u>	<u>272,266</u>
17.2 Movement in portfolio allowance for impairment		
Balance at beginning of the year	95,652	92,400
Charge for the year	(21,625)	3,252
Balance at end of the year	<u>74,027</u>	<u>95,652</u>
Total allowance for impairment at end of the year	<u>422,912</u>	<u>367,918</u>

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2016

18 Personnel expenses	2016	2015
	P'000	P'000
Pension contributions	3,865	4,243
Salaries and wages	59,029	60,981
Other staff costs	13,893	10,725
	<u>76,787</u>	<u>75,949</u>
Number of employees	<u>206</u>	<u>196</u>
19 Other expenses		
19.1 Depreciation and amortisation		
Amortisation (note 7a)	2,755	2,431
Depreciation (note 7b)	2,655	2,357
	<u>5,410</u>	<u>4,788</u>
19.2 Other expenses		
Administration expenses	24,159	36,469
Consultancy and other expenses relating to commercialisation	4,218	4,675
Audit fees - prior year under provision	467	1,239
current year	937	1,070
Board of Directors fees and expenses	337	351
Operating leases - motor vehicles	1,309	1,257
Professional and management consultants' fees	604	3,849
	<u>32,031</u>	<u>48,910</u>

20 Taxation

For the year under review, under the provision of the Income Tax Act (Chapter 52:01), National Development Bank is exempt from income taxation. However, going forward this exemption has been withdrawn effective 1 July 2016. The Bank is currently in discussion with the Botswana Unified Revenue Service to understand the full implications of such withdrawal on the Bank's operations.

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2016

21 Commitments and Contingent liabilities

2016 P'000	2015 P'000
Capital expenditure authorised by the Board of Directors and contracted for:	
<u>5,862</u>	<u>16,586</u>

Authorised capital expenditure would be used for the Bank's ongoing refurbishment of offices in Francistown, Maun and Palapye.

21.2 Contingent liability

The Bank has issued guarantees in favor of third parties totalling to P8.083 million (2015: P8.083 million) through BancABC. This guarantee covers any losses that the Bank may incur in a liquidation of a customer in which the Bank was a secured creditor.

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 2016 amounted to P65 million (2015: P76 million). The details of transactions carried out by the Bank is as follows:

2016 P'000	2015 P'000
Management fee income	<u>915</u>
Management fee income receivable	<u>1,327</u>

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:

Motor vehicles - Executive Management

2016 P'000	2015 P'000
Due within one year	108
Due thereafter	161
<u>999</u>	<u>269</u>

Motor vehicles - Business use

Due within one year	886
Due thereafter	1,437
<u>1,636</u>	<u>2,323</u>

Office rental

Due within one year	396
Due thereafter	3,881
<u>3,478</u>	<u>4,277</u>

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

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.

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

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

For the purpose of this note, considering the headroom available, the comparative figure has been retained at original unrestated value as they represent the balance submitted to the regulator Bank of Botswana.

	2016 P'000	2015 P'000
Core Capital	77,689	77,689
General reserves	9,682	9,682
Retained earnings	430,395	451,613
Tier 1 capital	517,766	538,984
50% fixed asset revaluation reserve	17,978	17,978
Unencumbered general provisions	17,560	19,676
Tier 2 capital	35,538	37,654
Total Capital c/f	553,304	576,638
Less: Investments in associates	(1,086)	(1,250)
Total unimpaired capital	552,218	575,388
Risk weighted assets:		
On balance sheet assets	1,376,497	1,535,622
Off balance sheet assets	28,353	38,418
Total risk weighted assets	1,404,850	1,574,040
Capital adequacy ratio	39%	37%
Regulatory capital adequacy ratio	15%	15%

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

25 Related parties

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

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

	2016 P'000	2015 P'000
Directors and key management personnel compensation :		
Board of Directors sitting allowances	337	351
Executive Management remuneration	8,454	7,636
Total	<u>8,791</u>	<u>7,987</u>
Transactions with Government of Botswana:		
DPCF Botswana Government debt balance:		
Loan balance outstanding	11,521	13,352
Interest expense on loan	<u>1,392</u>	<u>1,676</u>
Subsidies received and receivable:		
Interest subsidies received during the year	<u>7,033</u>	<u>4,438</u>
Interest subsidy receivable at the year end	<u>5</u>	<u>35</u>
The income from Government represents interest subsidies for agricultural loans disbursed under the Government ISPAAD loan programme.		
Transactions with Propcorp (Pty) Ltd		
Operating cost reimbursement	<u>35</u>	<u>-</u>

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

26 Judgements and accounting estimates

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 and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. The Bank regularly reviews its loan portfolio and makes 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.

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 month outcome period for back testing purposes.

Other key inputs in the impairment model include expected residual values on debt securities and the period it will take to realise such residual values.

The key inputs and assumptions in the impairment calculation have accordingly been set as follows:

	2016	2015
Recovery period for immoveable securities (months)	27	18
Recovery period for moveable securities (months)	15	6
Additional recovery time to accommodate cash collections (months)	12	12
12 months Cash recovery rates (in addition to recoveries from securities)	17.4%	16.8%
24 months Cash recovery rates (in addition to recoveries from securities)	17.7%	15.9%
Residual value of moveable securities at end of useful life (as a percentage of original value)	40%	40%
Maximum useful life of moveable securities (days)	2,920	2,920
Recovery rates based on residual values	70%	70%

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
Impairment	422,911	356,838	340,869	336,131	362,489	341,182	357,261

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.

NATIONAL DEVELOPMENT BANK

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016**

30 Financial Instruments and risk management

Risk Management

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

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

It is the Board of Directors' responsibility to ensure that there is an effective risk management framework in place and sufficient controls to mitigate the eventualities of unwarranted exposure. The Board of Directors have established the 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.

Loans and advances to customers

The bank's advances to customers contribute 88% of total assets at P1.364 billion as at 31 March 2016 (2015: 90%).

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

To the extent possible, this Credit Risk Policy addresses risk adjusted pricing and risk adjusted capital allocation methodologies. The Credit Risk Policy sets limits for credit concentration. Credit concentration levels by sector are constantly monitored at the Assets and Liabilities Committee (ALCO), and remedial strategies to dilute the concentrations considered. 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 45% or P733 million (2015: 36% or P626 million) of the loan book. A specific provision of P349 million (2015: P273 million) was raised as at 31 March 2016 based on a comparison of carrying amounts against the present value of expected cash flows.

Investment securities and other money market placements

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

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

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

30 Financial instruments and risk management (continued)

Liquidity Risk

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

To mitigate against liquidity risk, the Bank has in place a Liquidity Risk Management Policy which has set limits on the minimum proportion of funds available to meet loan drawdown and funding of maturing borrowings.

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

The Bank has through ALCO established a liquidity funding crisis plan to augment the Liquidity Risk Management Policy. The 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 (2015: P168 million).

The liquidity gap analysis as at 31 March 2016 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 2016 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 has a long-term JPY denominated liability from African Development Bank (ADB) against which it has created a similar and offsetting asset by lending to BancABC Botswana Limited, formerly, African Banking Corporation (ABC).

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

The concentration of Currency Risk as at 31 March 2016 is detailed in note 30.2

Operational Risk:

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

Conclusion

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

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

Financial Instruments and risk management (continued)

30.1 Liquidity risk

Maturities of assets and liabilities

	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
31 March 2016						
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)
Total liabilities	(139,741)	(22,858)	(129,367)	(583,323)	(127,913)	(1,003,202)
Net liquidity gap	(119,472)	(18,656)	(78,417)	(448,002)	1,684,085	1,019,538
As at 31 March 2015						
Total assets	550,492	13,744	249,232	533,747	852,373	2,199,588
Total liabilities	(194,441)	(80,328)	(122,132)	(596,017)	(172,172)	(1,165,090)
Net liquidity gap	356,051	(66,584)	127,100	(62,270)	680,201	1,034,497

30.2 Foreign currency exposure

	Japanese Yen P'000	United States Dollars P'000	Botswana Pula P'000	Total P'000
31 March 2016				
Assets				
Cash and balances with banks	-	-	17,211.00	17,211
Placements with financial institutions	-	-	1,280.00	1,280
Other assets	-	-	25,532.00	25,532
Loans and advances to customers	26,683	-	1,171,790.00	1,198,473
Other non financial assets	-	-	121,532.16	121,532
Total Assets	26,683	-	1,337,345.16	1,364,028
Liabilities and equity				
Borrowings	(23,587)	-	(653,601.00)	(677,188)
Other liabilities	-	-	(34,006.00)	(34,006)
Equity	-	-	(553,721.00)	(553,721)
Bank overdraft and callable borrowings	-	-	(99,113.00)	(99,113)
Total liabilities	(23,587)	-	(1,340,441.00)	(1,364,028)
Net exposure	3,096	-	(3,096)	0
As at 31 March 2015				
Total assets	44,964	-	1,500,804	1,545,768
Total liabilities	(40,246)	-	(1,505,522)	(1,545,768)
Net liquidity gap	4,718	-	(4,718)	-

At the date of the balance sheet, the spot mid rate for Yen balances was 10.30 Yen/BWP (2015: 11.55 Yen/BWP). A 10% increase in exchange rates results in an exchange loss of P309,600 (2015: P471,800). A decrease in exchange rate has an equal and opposite effect on the operating profit.

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

Financial Instruments and risk management (continued)

30.3 Interest rate risk		2016	2015
		P'000	P'000
Fixed rate instruments			
Assets	Advances to customers	558,069	606,917
Liabilities	Borrowings	(203,116)	(221,572)
Total		354,953	385,345
Variable rate instruments			
Assets	Advances to customers	1,063,315	1,135,593
	Call accounts	17,211	9,862
	Unit Trust investments	1,280	1,212
Liabilities	Bank overdraft and callable borrowings	(99,113)	(350,007)
	Borrowings	(209,835)	(290,944)
Total		772,858	505,716

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 P1,220,256 (2015: P1,245,217). As indicated above, the majority of the Bank's interest bearing assets and liabilities are on a variable rate basis.

30.4 Credit risk exposure relating to statement of financial position assets

Placements with banks and financial institutions:		2016	2015
		P'000	P'000
Stanbic Bank of Botswana		501	637
Bank Gaborone		-	201
Barclays Bank of Botswana		3,126	5,923
Standard Chartered Bank of Botswana		2,313	1,491
First National Bank of Botswana		9,790	1,373
African Banking Corporation of Botswana		812	227
Bank Gaborone		663	-
Total placements with other banks		17,205	9,852
Term deposits:			
African Alliance Unit Trust Investments		-	107
Stanbic Money Market Investments		1,280	765
Africa 53 Provident fund		-	340
		1,280	1,212
Interest receivable		277	463
Prepayments and other receivables		5,851	5,960
Advances from the Bank at amortised cost		1,621,384	1,742,511
Total assets with credit risk		1,628,792	1,750,146

30.5 Credit risk relating to off- balance sheet assets

	2016	2015
	P'000	P'000
Loan commitments	10,791	76,837
Total off balance sheet exposure	10,791	76,837

The Bank obtain collateral at the time of granting advances to its customers. The total value of collateral held against loans and advances is P2,170,963,143 (2015: P2,959,239,414). Collateral held include, livestock, farming machinery, farm land, residential and commercial properties.

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

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 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	392,461	733,316	1,621,384	422,911	1,198,473
	<u>514,098</u>	<u>392,461</u>	<u>733,316</u>	<u>1,639,875</u>	<u>422,911</u>	<u>1,216,964</u>
Balance as at March 2015						
Cash and balances with banks	9,862	-	-	9,862	-	9,862
Placements with financial institutions	60,051	-	-	60,051	-	60,051
Loans and advances to customers	1,021,244	94,965	626,302	1,742,511	367,918	1,374,593
	<u>1,091,157</u>	<u>94,965</u>	<u>626,302</u>	<u>1,812,424</u>	<u>367,918</u>	<u>1,444,506</u>

30.7 Rescheduled/ Renegotiated/Restructured Loans

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

Age of loan arrears before renegotiation	Carrying Amount 2016	Carrying Amount 2015
	P'000	P'000
30-60 days	343	845
60-90 days	52	316
90 days+	17,450	48,582
	<u>17,845</u>	<u>49,743</u>

30.8 Distribution of loans and advances neither past due nor impaired

The credit quality of portfolio loans and advances that were neither past due nor impaired subject to the Bank's internal rating system were as follows.

	2016 P'000	2015 P'000
Individuals	226,898	618,328
Companies	242,025	357,953
Other Financial Institutions	26,684	44,963
	<u>495,607</u>	<u>1,021,244</u>

30.9 Loans and Advances past due but not individually impaired: age analysis

As at 31 March 2016 (P'000)	1-3 Months P'000	Total P'000	Security P'000
	Individuals	216,850	216,850
Companies	175,611	175,611	341,461
	<u>392,461</u>	<u>392,461</u>	<u>853,467</u>

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

Financial instruments and risk management (continued)

Loans and Advances past due but not individually impaired: age analysis (continued)

As at 31 March 2015 (P'000)	1-3 Months P'000	Total P'000	Security P'000
Individuals	49,950	49,950	-
Companies	45,015	45,015	-
	<u>94,965</u>	<u>94,965</u>	<u>-</u>

30.10 Loans and advances individually impaired

As at 31 March 2016	Opening balance P'000	Amounts written off P'000	Recoveries P'000	Increase / (Decrease) P'000	Closing balance P'000
Property	118,136	(868)	-	23,609	140,877
Industrial	14,827	(1,530)	-	(8,959)	4,338
Retail	17,599	-	-	(5,725)	11,874
Agriculture	405,607	(631)	-	96,871	501,847
Commerce	43,732	(252)	(475)	1,266	44,271
Other loans and advances	26,401	(1,603)	-	5,311	30,109
Total Loans to Customers	<u>626,302</u>	<u>(4,884)</u>	<u>(475)</u>	<u>112,374</u>	<u>733,316</u>
Total Impairment allowance	<u>272,266</u>	<u>(4,884)</u>	<u>-</u>	<u>81,503</u>	<u>348,884</u>

Total security held as at 31 March 2016 was P861 million (2015: P794 million). Interest recognised on these loans amounted to P65.9 million for the year ended 31 March 2016 (2015: P61 million).

As at 31 March 2015	Opening balance P'000	Amounts written off P'000	Recoveries P'000	Increase / (Decrease) P'000	Closing balance P'000
Property	121,218	(4,225)	-	1,143	118,136
Industrial	12,296	(1,014)	-	3,544	14,827
Retail	38,598	(7,411)	-	(13,588)	17,599
Agriculture	363,986	(7,966)	-	49,587	405,607
Commerce	73,514	(2,917)	(36)	(26,829)	43,732
Other loans and advances	18,595	(28)	-	7,835	26,401
Total Loans to Customers	<u>628,207</u>	<u>(23,561)</u>	<u>(36)</u>	<u>21,691</u>	<u>626,302</u>
Total Impairment allowance	<u>215,773</u>	<u>(23,561)</u>	<u>-</u>	<u>80,054</u>	<u>272,266</u>

NATIONAL DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2016

30.11 Financial assets and liabilities

31 March 2016	Note	Total carrying value	Fair value
		P'000	P'000
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
Investment in associate	3	1,086	1,086
Other assets	4	25,532	25,532
		1,243,582	1,243,582
		Total carrying value	Fair value
		P'000	P'000
31 March 2015			
Cash and balances with banks	1	9,862	9,862
Placements with financial institutions	2	1,212	1,212
Loans and advances to customers	5	1,374,593	1,374,593
Investment in associate	3	1,250	1,250
Other assets	4	40,865	40,865
		1,427,782	1,427,782
		Financial liabilities at amortised cost	Fair value
		P'000	P'000
Liabilities as at			
31 March 2015			
Bank overdraft and callable borrowings	10	99,113	99,113
Borrowings	11	677,188	677,188
Accruals and other liabilities	12	34,006	34,006
		810,307	810,307
31 March 2014			
Bank overdraft and callable borrowings	10	350,007	350,007
Borrowings	11	572,571	572,571
Accruals and other liabilities	12	48,231	48,231
		970,809	970,809

Fair value estimation

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

- Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2:** Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

