Development Bank of Namibia

ANNUAL REPORT 2005

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Sven Thieme
Non-Executive

Chairperson of the Board
Member: Human Capital & Remuneration Committee

Chartered Accountant (Namibia) & (SA)

Executive Chairman of O & L Group of Companies

Directorships on numerous Private and Public Boards

Member of The President's Economic Advisory Council

David Nuyoma
Chief Executive Officer

MA, Industrial Development, University of East Anglia, Norwich, UK

Member of the Institute of Directors in Southern Africa

Commissioner of the National Planning Secretariat

Member of The President Economic Advisory Council

Brunhilde Barnard
Non-Executive

Chairperson: Audit, Risk & Compliance Committee
Member: Credit & Investment Committee

Chartered Accountant (Namibia) & (SA)
B.Sc., B.Com. (Hons), Post Grad Dip. (Accountancy), Post Grad Dip. (Adv Taxation)

Extensive experience in the financial advisory and services sector, with specific focus on State Owned Enterprises

Sara Elago
Non-Executive

Chairperson: Human Capital & Remuneration Committee
Member: Special Development Fund

Executive Director, SE Duty Free Trading (Pty) Ltd

Executive Director, Real Africa Investments

Full time farmer

Namibian Businesswoman of the Year, 1999

Asnake Getachew
Non-Executive

Chairperson: Credit & Investment Committee
Chairperson: Special Development Fund Committee
Member: Audit, Risk & Compliance Committee

MA, Development Economics, Harvard University; Development Planning, Institute of Social Studies, The Hague, Netherlands

Managing Director, Getty Enterprise (Pty) Limited

Extensive national and international experience in commodities and marketing

Member of The President's Economic Advisory Council

CHAIRPERSON's REVIEW

At the November 2005 Board and Management Strategic Review and Planning Session, we reaffirmed our commitment to ensuring that DBN's development endeavours are comprehensive, cumulative, sustainable and balanced, and that they encompass globalisation. The team also reiterated their commitment to giving life to the Bank's mandate, which is to improve welfare and quality of life through increased economic activity and improved infrastructure, in a meaningful way.

I believe that the successes attained in the past year are a result of the emphasis placed on focused action and dedication. The overarching issue for DBN is improving citizens' quality of life sustainably; to do things in a way that does not prejudice future opportunities. Decision-making processes and systems are geared towards addressing one key question, namely: 'What are our efforts worth to everyone in the country?'.

The extension of the Bank's first loans is undoubtedly the highlight of the year. I am particularly proud of the considered effort that went into determining these projects' developmental impacts in addition to establishing the business case of each. To this end, the seven projects approved to the tune of N$ 110 million are expected to create 770 new jobs and retain close to 2,200 existing ones. The projects are located in six of the country's thirteen regions; they represent four key economic sectors, and create new skills transfer opportunities as 25 per cent of the approvals went into creating new industries. Furthermore, 55 per cent of the projects approved have significant Black Economic Empowerment (BEE) ownership; while every N$ 1 invested by DBN is expected to generate N$ 8 in exports and save N$ 8 in imports. Importantly, 18,350 households, or six per cent of the population, will have access to improved infrastructure as a result of the projects supported by DBN. The Bank's premium on partnership is underscored by it having leveraged N$ 3.3 from other investors for every N$ 1 it committed.

All loans extended so far were announced publicly. We have decided to do so because we work with public money, which is entrusted to us to disburse for collective good. Moreover, enshrined in our core values is a commitment to transparency. Thus the decision to publicly announce DBN's ventures is an illustration of how seriously we regard this undertaking and how much we cherish the partnerships established with clients.

While DBN's progressive establishment legislation makes provision for other shareholders to be introduced through investments, the Namibian Government is still the only shareholder. In 2005 the Bank received a major boost to its capitalisation through the transfer of a legacy institution, the Development Fund of Namibia's (DFN), assets to DBN. The Bank also received N$ 20.0 million

First loans to value-added activity. DBN Board member, Asnake Gatachew (left), Namibia Stone Processing CEO, Oscar Shigwana (centre), and NSP Board Chairperson, Hon. Helmut Angula (right), celebrate the extension of the DBN's first loans.

Elated: DBN Portfolio Manager, Gottlieb Hinda (centre), is flanked by organisers and presenters of the SADC-DFRC Investment Appraisal and Risk Analysis course. Gottlieb obtained the highest score in the regional training course.

In 2005 DBN had received a total of 94 loan applications with total project costs of N$ 2.6 billion, of which N$ 1.7 billion was funding required from the Bank. Through its extensive partnership arrangements that resulted in dedicated co-financing agreements, the Bank was able to generate N$ 3.3 for every N$ 1 it invested in projects, thus expanding the resources availed to it considerably. The distribution of these applications is shown in the graph on the left.

from the Bank of Namibia as part of the Central Bank's contribution to helping DBN start on a firm footing, as well as a further commitment through the National Budget. We are immensely appreciative of this generous support.

A single hand cannot cover the sky. Proverbs on partnership are plentiful in Africa. Our resolve to foster economic growth through collective endeavour is rooted in this practice. The pioneering partnership with Bank Windhoek, which aims at making affordable financing available to Small and Medium Enterprises (SMEs), is particularly important to us and introduces a new form of collaboration geared towards optimising efficiency. The association between Bank Windhoek and DBN holds a number of benefits for businesses, key among which is the mentorship programme which helps new entrepreneurs to navigate the challenging course of commerce. The partnership also offers DBN use of Bank Windhoek's extensive branch network, which means it does not need to develop physical infrastructure from scratch. Any money available to DBN therefore becomes available for enterprise growth.

The current membership of the Board, with the exception of the CEO, was appointed by the Minister of Finance three years ago in line with the DBN Act. I have been enormously privileged to work with and learn from these handpicked professionals in this time. Watching the Bank grow from an idea into a dynamic development finance institution has been truly rewarding.

DBN's governance structure is modelled on the principles put forward in the King Report on Corporate Governance. The Audit, Risk and Compliance; Credit and Investment; Human Capital and Remuneration; and Special Development Committees are in place and functioning. But adhering to good governance practice involves more than compliance. We recognise the value of consistently employing the principles of good faith, care, skill and diligence in our duties as a Board. We believe that our efforts will be sustainable only if we, unfailingly, do what is in the best interest of the Bank. Members' training in corporate governance and Board effectiveness offered by the SADC Development Finance Resource Center (SADC-DFRC) and the Institute of Directors in Southern Africa (IOD) has been particularly beneficial in helping us see relationships in their true colours.

At the end of 2005 DBN's staff complement stood at 19, which includes staff reassigned from the DFN and appointment of the Head: Credit and Risk Management who has close to 40 years banking experience. The latter's appointment is part of the strategy to draw on retired professionals' experience and to continue to draw DBN's human capital from diverse social groups.

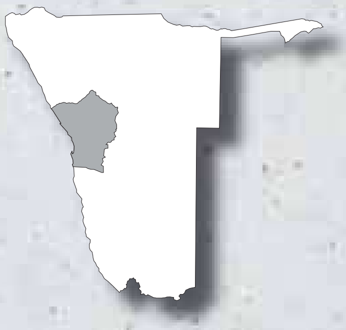
Developing DBN's human capital remains a priority. The partnership established with the German Development Bank, KfW, and Bankakademie International, through which long term training is available to the DBN, is particularly important to us. DBN staff also continues to benefit from training offered through the SADC-DFRC and local institutions.

It is deeply satisfying to have been part of the DBN's sustained growth since its inception in 2002. The progress made is significant and sets the stage for valuable involvement by the Bank in the economy. We appreciate the enormity of the task bestowed on us and continue to hone our skill to be able to attend to this assignment to the best of our ability. We continue to raise the bar and seek opportunities that will see the DBN play a determining role in Namibia's overall advancement. And we remain dedicated to the *raison d'être* of the DBN: to contribute to economic growth and social development and promote the welfare of Namibians in a sustainable way.

Sven Thieme
Chairperson of the Board

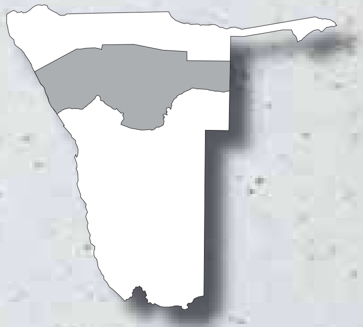
AQUA UTILITIES CORPORATION

The N$ 2.74 million loan extended to Aqua Utilities Corporation went towards building a sea-water purification plant for a fishing company; and is set to improve cost efficiency, with potential positive spin-offs for the industry as a whole.



CENORED

"There can be no meaningful socio-economic development without electricity", says Mburumba Appolus, Chief Executive Officer of the Central North Electricity Distribution Company (CENORED). DBN approved a N$ 15 million loan to CENORED in August 2005 to operationalise the company. The loan comprises financing for capital items and working capital, to ensure the Regional Electricity Distributor starts on a firm footing.



Front (left to right): Lindsay Crawford, Head: Credit & Risk Management; David Nuyoma, Chief Executive Officer; Gottlieb Hinda, Portfolio Manager.

Back (left to right): Joy Sasman, Manager: Marketing & Development Services; Penny T. Akwenye, General Manager: Special Development Fund; Gabriel Mbapaha, Manager: Human Capital & Administration; Erastus Hoveka, Chief Financial Officer. (Insert) Tladi Ramushu, Advisor to the Chief Executive Officer/Chief Operations Officer .

CHIEF EXECUTIVE OFFICER's REPORT

2005 was a year of consolidation of the DBN's policies and systems. The extension of our first loans is proof of the soundness of the Bank's governance structures, and greatly smoothed actual delivery on our core function.

The majority of the financing requests were found lacking in regards of the six module framework applied in our appraisal. In most cases the issues of financial sustainability, realistic market identification, suitable management, and development impact, which is especially important to us, were insufficiently addressed. These are the four main areas that demonstrate projects' viability and also the areas where most projects came up short. We have to be convinced that the projects DBN supports are sustainable and will add value to the economy and we consistently scrutinise projects for evidence of such.

However, we have also observed another and encouraging trend: originallity of effort. One of our core values states the importance of DBN rendering support to innovative projects. We have consequently tailored our product offering to unlock new ways of creating wealth for Namibia. The Local Authority Financing Facility, for example, creates an opportunity for a great number of people to benefit directly and indirectly from development undertakings. The financing extended to the Ongwediva Town Council for development of 365 erven becomes even more significant if one considers that, on average, up to seven people stand to gain shelter through the provision of each of the erven.

The project further highlights DBN's contribution to decentralisation. The ability to attract professionals to centres outside the main towns, which is what the project does, is one of the key aspects that helps concretise decentralisation. We will continue to mould the facility to ensure its relevance and to realise the potential to effect positive change.

The value of the Public Enterprise Finance Facility is demonstrated through the loan extended to the Central North Electricity Distribution Company (CENORED). CENORED's 23,000-strong customer base is benefiting from the provision of an essential service.

The loans extended to Aqua Utilities Corporation (AUC) and Namibia Stone Processing (NSP), which respectively purifies sea water for use in a fish factory and processes locally sourced dimension stones, illustrate the value of DBN's Private Sector Financing Facility. AUC had harnessed a resource that is ordinarily regarded as a mode of transportation, fishing or leisure, in support of a key industry. This inventiveness means a lot to DBN and is an example of the transformation we would like to encourage through our efforts. It shows that the facility, if applied properly, really works for the country.

Namibia Stone Processing's activity has had a profoundly positive impact on Omaruru, the town where it is based. NSP's effort makes a clear statement that a resource that has been exported in raw form for years, can be transformed locally.

The project's growth gave rise to a number of other projects, notably the development of a new shopping centre in the town. NSP brought with it a new optimism. Moreover, the project is important on a national level as it is the biggest dimension stone cutting and polishing factory in Africa, thus establishing Namibia as a serious contender in world class dimension stone processing. We recognise that innovation alone does not make a successful project and continue to highlight required management and marketing features in our ongoing engagement with clients.

DBN's SME-based activities commenced through our partnership with Bank Windhoek. Through this arrangement, DBN has made a commitment of N$ 30 million to the SME sector of which N$ 10 million was advanced to Bank Windhoek during the period under review. Despite SMEs' potentially substantial contribution to growth in emerging and established economies, the sector continues to struggle to access financing. The arrangement between DBN and Bank Windhoek confronts this trend by pooling the limited resources at our disposal to benefit more businesses than we would have been able to on our own. Leveraging Bank Windhoek's infrastructural base saves DBN from setting up its own, and avoids duplication and potential waste of resources on a national level. The relationship is also significant in that it is rooted in the belief that entrepreneurship is a process and not an event. It goes beyond the act of writing a cheque. The mentorship offered to businesses is an integral part of the partnership and based on the common understanding that any investment in SMEs' success essentially progresses Namibia's economic agenda. We are excited about the partnership's potential and hope that it will impact positively on the sector's growth.

Development is multi-faceted and DBN values its partnerships with local and international, and financial and non-financial institutions that have made the projects we've supported, a reality. We are thrilled that we could mobilise an additional N$ 3.3 from partners for every N$ 1 we invested and continue to see the task ahead in this spirit of collaboration.

DBN collected cash equity of N$ 45.75 million from the Government of the Republic of Namibia during 2005. The equity pay-in schedule by Government, currently the only shareholder in the Bank, is on track. The Development Fund of Namibia (DFN), a

SME support

The Bank's SME window, the Special Development Fund, commenced activity on 23 August 2005 with the signing of a partnership agreement with Bank Windhoek that makes affordable financing available to the SME sector.

Practical support for SMEs. DBN CEO (left) David Nuyoma and Bank Windhoek MD James Hill seal the Institutions' partnership deal with a handshake.

predecessor development finance institution, was dissolved on 14 July 2005. With its dissolution, the Bank received the cash assets of the DFN, an amount of N$ 140.8 million, as well as a receivables/loan portfolio valued under very conservative criteria at N$ 23.5 million. Also, the title to the DFN building, valued at N$ 6.8 million, was transferred to DBN.

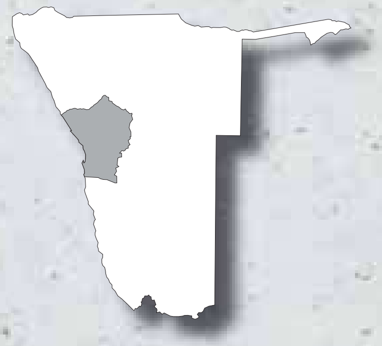
The Bank reported a profit of N$ 27.3 million for the current financial year. Income from lending activities amounted to N$ 2.0 million. Included in this figure was N$ 1.1 million of interest income earned on the inherited DFN portfolio. Income from investments was N$ 16.4 million. Investment Income was derived from investing surplus funds, all of which were invested in interest-bearing instruments in the local money market. Other Income amounted to N$ 21.0 million and includes a N$ 20.0 million grant from the Bank of Namibia. This unconditional grant is aimed at assisting DBN in its establishment. At year-end, the total capital/equity and reserves was N$ 382.0 million.

DBN enters the new year and it's next developmental stage with a bank of knowledge and a wealth of experience. We will continue to foster the relationships forged and perfect our systems and processes. And we will, importantly continue in our endeavour to enable sustainable progress.

David Nuyoma
Chief Executive Officer

NAMIBIA STONE PROCESSING (PTY) LTD

The N$ 8 million loan to Namibia Stone Processing facilitiated actual commencement of the biggest dimension stone processing facility in Africa.



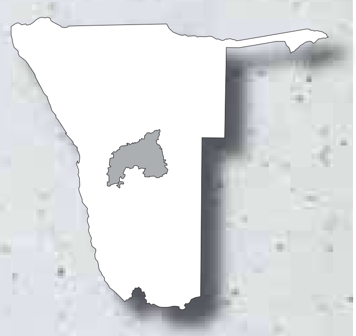
Projected development impact of projects supported by DBN

DBN approved loans with a combined total value of N$ 110.74 million in 2005. The loan amounts and the projects' projected development impacts are detailed below.

PROJECT	INVESTMENT AMOUNT	NEW JOBS	JOBS BEING RETAINED	SECTOR STIMULATION	REGION
Aqua Utilities Corporation	N$ 2.74 million	2 technicians	Indirectly benefiting 1,000 jobs in the fishing sector	Supports operational efficiency in a key productive economic sector of the country, the fishing industry, through provision of a cost-effective water solution.	Erongo
Central Northern Electricity Distribution Company (CENORED)	N$ 15 million	40	60	The establishment of Regional Electricity Distribution companies is part of the national undertaking to rationalise the electricity supply industry to ensure efficient delivery of electricity to consumers.	Otjozondjupa
Namibia Poultry Industries	N$ 20 million	650	-	Establishment of an infant industry of national proportion.	Khomas
Namibia Stone Processing	N$ 8 million	32 local technicians and artisans to be employed	-	The industry currently generates about N$63 million in exports, which will increase to at least N$90 million through local processing.	Erongo
Nampost Holdings	N$ 15 million	20	-	Access to electronic banking by low income groups across the country. Nampost Savings Bank's 250,000 clients will switch over to this affordable banking method.	All 13 regions
Ongopolo Mining & Processing	N$ 30 million	-	892	Retention of copper mining activities in Namibia.	Oshikoto
Ongwediva Town Council	N$ 20 million	150 during construction, 15 permanent	-	Housing development to increase Ongwediva's potential as premier investment location.	Oshana

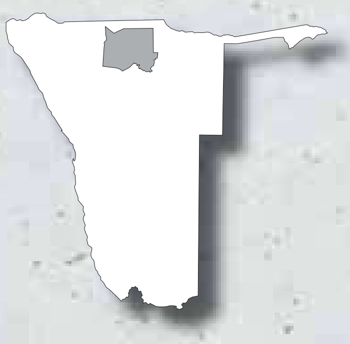
NAMIBIA POST LIMITED

The N$ 15 million loan to Namibia Post Limited was used to acquire a 50 per cent shareholding in SmartSwitch Namibia (Pty) Ltd, a joint venture with a South African company, Net 1 Applied Technologies South Africa Ltd (APLITEC), to establish a smart card switching payment system in Namibia. The partnership brings modern banking services to low income and rural segments of the country's population, in line with DBN's endeavour to support pro-poor initiatives.



ONGOPOLO

The DBN approved a N$ 30 million loan for Ongopolo Mining and Processing. Ongopolo is the only copper mining and processing company in Namibia. Its existence enables the country to exploit its copper resources with corresponding positive socio-economic impacts.



FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors of the Bank are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The financial statements have been prepared in accordance with International Financial Reporting Standards. The Development Bank of Namibia Limited's independent external auditors have audited the financial statements and their report appears on page 17.

The Directors of the Bank are also responsible for the systems of internal control. These are designed to provide reasonable but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

The annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the Directors to indicate that the Bank will not remain a going concern for the foreseeable future.

DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements set out on pages 19 to 35 were approved by the Board of Directors and are signed on their behalf by:

Sven Thieme
Chairperson

27 March 2006

David Nuyoma
Chief Executive Officer

27 March 2006

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF DEVELOPMENT BANK OF NAMIBIA LIMITED

We have audited the accompanying balance sheet of the Development Bank of Namibia Limited as at 31 December 2005 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Bank's Directors. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Development Bank of Namibia Limited as at 31 December 2005 and of the results of its operations and of its cash flows for the year then ended, in accordance with International Financial Reporting Standards, and in the manner required by the Development Bank of Namibia Act No 8 of 2002 and the Companies Act.

Deloitte & Touche

Deloitte & Touche
Registered Accountants and Auditors
Chartered Accountants (Namibia)

27 March 2006

REPORT OF THE AUDIT, RISK & COMPLIANCE COMMITTEE

The Audit, Risk and Compliance Committee (AU) of the Board, for the year under review, comprised of Asnake Getachew, a non-executive director, David Nuyoma, Chief Executive Officer and Brunhilde Barnard, a non-executive director, serving as Chairperson.

The AU is primarily tasked with oversight over the risk management; financial control, accounting systems and reporting; internal audit and internal control; compliance with policies, laws and regulations which have an impact on the DBN; external audit process; and ethics of the Bank on behalf of the Board of Directors.

DBN's developmental stage dictated the subject matter considered at the meetings held during 2005, which, included:

- the Charter of the Management Committee on Risk: this Committee seeks to identify and address risks facing the Bank and the environment in which it operates, not in isolation, but on a comprehensive organisation wide basis;
- the management team's approach towards inculcating a legal and statutory compliance mindset at the Bank;
- the review and recommendation of the adoption of a zero tolerance stance pertaining to corruption and fraud, irrespective of the value involved, in the relevant policy to the Board; and
- consideration of the importance of DBN's efforts having to be pro-people, pro-poor, sustainable, and having a cumulative effect in the increasingly global setting prevailing today, in it's review of the operational budgets presented to it.

The Committee further reviewed the audited annual financial statements of the Bank to ensure these present a balanced and understandable assessment of the financial position and performance of the Bank; reviewed the adequacy, reliability and accuracy of financial information provided by management and other users of such information, reviewed the accounting and auditing concerns identified by external auditors; reviewed the external auditors' findings and reports submitted to management; and reviewed the independence and objectivity of the external auditors. Additionally, it reviewed the remuneration and terms of engagement of the external auditors.

The diligence applied during the audit process, which saw DBN being audited in terms of the newly instituted International Financial Reporting Standards (IFRS), will further raise the bar insofar as the Bank's overall adherence to performance standards is concerned.

The value DBN attaches to adhering to performance standards promoted in the King Report on Corporate Governance had seen it benefit specifically from the open dialogue that exists among Committee members and among the AU and management. In its deliberations, the AU sought to uphold DBN's core values of integrity, professionalism, sustainability and transparency.

The Committee is of the opinion that internal controls within the Bank have operated effectively during the year under review, and where internal controls did not, or could not, operate effectively, compensating controls have ensured that, in all significant respects, the Bank's assets have been safeguarded, proper accounting records have been maintained, and resources have been utilised efficiently. This opinion is based on the information and explanations provided by management, and discussions with the independent external auditors on the result of their audit.

The annual financial statements comply, in all material respects, with IFRS. The Board Audit, Risk and Compliance Committee concurs that the adoption of the going concern premise in framing the annual financial statements is appropriate. The Committee has therefore recommended the adoption of the annual financial statements by the Board of Directors, which were subsequently approved by the Board.

On behalf of the Board Audit, Risk and Compliance Committee

Brunhilde Barnard
Chairperson

REPORT OF THE DIRECTORS
31 DECEMBER 2005

The Directors have pleasure in presenting their report on the activities of the Bank for the year ended 31 December 2005.

BACKGROUND AND OPERATIONS

The Bank was constituted in terms of Act 8 of 2002. The Government of Namibia is currently the sole shareholder.

The objective of the Bank is to contribute to the economic growth and social development of Namibia and the welfare of the Namibian people.

RESULTS

The results of the Bank are fully set out in the attached annual financial statements.

DIVIDENDS

No dividends were declared or paid in respect of the financial year under review (2004: Nil).

SHARE CAPITAL

The authorised share capital of the Bank remains unchanged at N$ 150 million whilst the issued share capital was increased from N$ 125 million in the prior year to N$ 130 million in the current year by the issue of an additional 50 ordinary shares for N$ 100 000 each at a premium of N$ 4 236 518.76 each. The Government of the Republic of Namibia is currently the sole shareholder.

BOARD MEMBERS AND SECRETARY

The members of the Board of the Development Bank of Namibia Limited during the year and at the date of this report were as follows:

S Thieme	(Chairperson)
D Nuyoma	(Chief Executive Officer)
B Barnard	
S Elago	
A Getachew	
Secretary – J Sasman	

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SUBSEQUENT EVENTS

The Directors are not aware of any fact or circumstance, which occurred between the date of the financial statements and the date of this report, which may require adjustment to the annual financial statements.

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

Item	Notes	2005 N$	2004 N$
Interest income	2	18 452 270	11 471 788
Other income	3	21 008 708	207 316
Total income before impairment of advances		39 460 978	11 679 104
Impairment of advances	9	-	-
Total income after impairment of advances		39 460 978	11 679 104
Operating expenditure		(12 170 833)	(7 664 272)
Profit before taxation	4	27 290 145	4 014 832
Taxation	5	-	-
Profit for the year		27 290 145	4 014 832
Profit attributable to ordinary shareholder		27 290 145	4 014 832

BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2005

ASSETS	Notes	2005 N$	2004 N$
NON-CURRENT ASSETS		30 378 165	618 474
Plant and equipment	6	657 661	618 474
Investment property	7	6 801 691	-
Loans and advances	8	22 918 813	-
CURRENT ASSETS		353 586 568	137 802 893
Investments	10, 15.3	302 899 103	137 460 746
Accounts receivable	11	249 800	248 950
Short-term portion of loans and advances	8, 15.3	37 315 224	-
Bank balances and cash		13 122 441	93 197
TOTAL ASSETS		383 964 733	138 421 367

EQUITY AND LIABILITIES	Notes	2005 N$	2004 N$
CAPITAL AND RESERVES		382 055 890	137 939 807
Share capital	12	130 000 000	125 000 000
Share premium	12	211 825 938	-
Retained income		40 229 952	12 939 807
CURRENT LIABILITIES			
Accounts payable	13	1 908 843	481 560
TOTAL EQUITY AND LIABILITIES		383 964 733	138 421 367

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital N$	Share premium N$	Retained income N$	Total N$
Balance at 31 December 2003	125 000 000	-	8 924 975	133 924 975
Profit for the year	-	-	4 014 832	4 014 832
Balance at 31 December 2004	125 000 000	-	12 939 807	137 939 807
New share issue	5 000 000	211 825 938	-	216 825 938
Profit for the year	-	-	27 290 145	27 290 145
Balance at 31 December 2005	130 000 000	211 825 938	40 229 952	382 055 890

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

ITEM	Note	2005	2004
		N$	N$
CASH FLOWS FROM OPERATING ACTIVITIES		28 928 037	4 229 451
Grant – Bank of Namibia		20 000 000	-
Cash paid to suppliers		(9 524 233)	(7 242 337)
Cash generated/(utilised) by operations	A	10 475 767	(7 242 337)
Interest received		18 452 270	11 471 788
CASH FLOW FROM INVESTING ACTIVITIES		(202 814 270)	(7 178 398)
Acquisition of property, plant and equipment		(250 646)	(571 023)
Increase in loans advanced		(37 125 267)	-
Increase in investments		(165 438 357)	(6 607 375)
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		186 915 477	-
Net increase in cash and cash equivalents		13 029 244	(2 948 947)
Cash and cash equivalents at the beginning of the year		93 197	3 042 144
CASH AND CASH EQUIVALENTS at the end of the year		13 122 441	93 197

A. CASH GENERATED BY OPERATIONS

Income for the year	27 290 145	4 014 832
Adjusted for:		
Assets donation	-	(180 340)
Interest received	(18 452 270)	(11 471 788)
Depreciation	211 459	162 349
	9 049 334	(7 474 947)
Changes in working capital	1 426 433	232 610
Accounts receivable	(850)	(248 950)
Accounts payable	1 427 283	481 560
Cash generated/(utilised) from operations	10 475 767	(7 242 337)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared on the historical cost basis except for financial assets and liabilities where the fair value and amortised cost basis of accounting is adopted. The financial statements incorporate the following principal accounting policies which have been consistently applied in all material respects and comply in all material respects with International Financial Reporting Standards.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised standards and interpretations has resulted in changes to the Bank's accounting policies which did not have any significant impact on the amounts reported.

The Bank has adopted IFRS for the first time, but no additional disclosure is required as a result of the transition from Namibian Statements of Generally Accepted Accounting Practice to International Financial Reporting Standards as the change did not affect the Bank's reported financial position, financial performance and cash flow.

At the date of authorisation of these financial statements, the following Standards and Interpretations were issued or revised but not yet effective:

- IFRS 4 - Insurance Contracts (amendments issued August 2005)
- IFRS 7 - Financial Instruments: Disclosures
- IFRIC 4 - Determining whether an arrangement contains a lease
- IFRIC 5 - Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
- IFRIC 6 - Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.
- IFRIC 7 - Applying the restatement Approach under IAS29 – Financial Reporting in Hyper Inflationary Economies
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 - Reassessment of Embedded Derivatives
- IAS 1 - Presentation of Financial Statements (amendments issued August 2005)
- IAS 19 - Employee Benefits (amendments issued February 2005)
- IAS 39 - Financial Instruments: Recognition and Measurements (amendments issued April 2005)
- IAS 39 - Financial Instruments: Recognition and Measurements (amendments issued June 2005)

The Directors anticipate that adoption of these standards and interpretations will have no material impact on the financial statements in future periods.

Interest income

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

Financial instruments

Initial recognition and measurement
Financial instruments are initially recognised when the Bank becomes party to the contractual terms of the instuments and are measured at cost, which include transaction costs. Subsequent to initial recognition, these instruments are measured at either fair value or amortized cost depending on the classification.

De-recognition
Financial instruments (or a portion thereof) are de-recognised when the Bank realises the rights to the benefits specified in the contract, the rights expire, or the Bank surrenders or otherwise loses control of the cotractural rights that comprise the financial asset. On de-recognition, the difference between the carrying amount of the financial asset and

proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the income statement.
Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expires. On de-recognition, the difference between the carrying amount of the financial liability, including related unamortized costs, and the amount paid for it are included in the income statement.

Investments
Unlisted investments are shown at fair value, unless their fair value cannot be reliably determined, in which case they are shown at cost less accumulated impairment losses.

Investments that meet the criteria for classification as held-to-maturity financial assets are carried at amortised cost.

Cash and cash equivalents
Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date.

Loans and receivables
Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.
The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial liabilities and equity
Financial liabilities and equity instruments issued by the Bank are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Trade payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Leasing

The Bank as lessor
Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease or another basis if more representative of the time pattern of the user's benefit.

The Bank as lessee
Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease or another basis if more representative of the time pattern of the user's benefit.

Contingent rentals are recognised in profit or loss as they accrue.

Property, plant and equipment
All property and equipment are stated at cost and are depreciated on the straight-line basis at rates considered appropriate to their estimated useful lives.

Office furniture and equipment	5 years (20%)
Computer equipment	3 years (33.3%)
Motor vehicles	4 years (25%)

The carrying amounts of the assets are reviewed at each balance sheet date to determine whether there is any indication of impairment, in which case their recoverable amounts are estimated.

The recoverable amount is the higher of its net realisable value and its value in use. Net realisable value is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value-in-use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rates that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Investment property
Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Investments

Investments are classified as held to maturity and are initially measured at fair value and subsequently at amortised cost basis. Realised capital appreciation and depreciation as well as unrealised capital appreciation and depreciation are recognised in the income statement.

Investments are adjusted to take account of discounts earned or premiums paid, over their remaining life, so that book value at maturity equals the redemption value.

Other investments are initially stated at fair value and subsequently measured at fair value where applicable.

Interest from investments is accounted for on the accruals basis.

Pension fund

It is the policy of the Bank to provide retirement benefits for employees. Contributions to the pension fund are charged against income in the year in which they become payable.

Impairment of assets

The carrying amount of the assets of the Bank is reviewed at each balance sheet date to determine whether there is any indication of impairment, in which case their recoverable amounts are estimated.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. A previously expensed impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

2. INTEREST INCOME

	2005 N$	2004 N$
Investments	16 437 929	11 471 788
Loans and advances	1 718 740	-
Unwinding of fair value adjustment	295 601	-
	18 452 270	11 471 788

The fair value adjustment of N$295 601 (2004: Nil) arose from the unwinding of the fair value adjustment on off-market loans.

3. NON-INTEREST INCOME (OTHER)

	2005 N$	2004 N$
Grant received – Bank of Namibia (*)	20 000 000	-
Transactional fee income	89 590	-
Rent received	232 032	-
Sundry income	687 086	207 316
	21 008 708	207 316

* Unconditional grant to aid the Bank with establishment.

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after taking the following items into account:

		2005 N$	2004 N$
Auditors' remuneration	- audit fees	51 750	21 275
	- other services	12 650	7 475
Directors' fees	- for services as directors	238 904	226 424
	- for management services	1 137 670	967 029
Depreciation		211 459	162 349
Professional services		802 036	673 015
Remuneration other than to employees:			
Managerial services	- fees	1 547 912	288 750
	- expenses	284 341	41 221
Salaries and related personnel costs		3 913 095	3 198 349
Interest paid		10 535	159
Operating leases	- buildings	894 453	713 000
	- equipment	131 641	76 786
	- motor vehicle	30 715	41 702
Number of employees		19	13

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

4.1 DIRECTORS EMOLUMENTS

	2005 N$	2004 N$
Emoluments paid to directors of the company for the year ended 31 December 2005 are set out below:		
4.1.1 Chief Executive Officer - D Nuyoma		
Fees as director	-	-
Pensionable salary	716 609	682 908
Bonus	257 960	139 518
Company contributions to pension/medical	163 101	144 603
	1 137 670	967 029
4.1.2 Non-executive directors (*) (**)		
S Thieme (Chairperson)	58 150	62 171
A Getachew	64 200	71 275
S Elago	47 554	39 278
B Barnard	69 000	34 700
B Zaaruka	-	19 000
	238 904	226 424

* Amounts include Value Added Tax where applicable.

** Amounts include fees for the strategic seminar held.

4.1.3 Record of attendance

	Board	AU	CI	HC	SDF
No. of meetings	5	4	6	3	1
Sven Thieme	(Chairperson) 5			3	
David Nuyoma	5	4	6	3	1
Brunhilde Barnard	4	(Chairperson) 4	6		
Sara Elago	4		(Invitee) 1	(Chairperson) 3	1
Asnake Getachew	5	4	(Chairperson) 6		(Chairperson) 1

AU - Audit, Risk & Compliance Committee
CI - Credit & Investment Committee
HC - Human Capital & Remuneration Committee
SDF - Special Development Fund Committee

5. TAXATION

No provision for taxation has been made in the annual financial statements, as the bank is exempt from taxation in terms of section 4 of the Development Bank of Namibia Limited Act, Act No 8 of 2002.

6. PLANT AND EQUIPMENT

	Computer Equipment	Furniture & Equipment	Motor Vehicles	Total 2005
2005	N$	N$	N$	N$
Carrying amount – 1 January 2005	263 535	354 939	-	618 474
- At cost	337 715	443 108	-	780 823
- Accumulated depreciation	(74 180)	(88 169)	-	162 349
Additions	1 270	96 376	153 000	250 646
Depreciation	(102 974)	(92 547)	(15 938)	(211 459)
Carrying amount – 31 December 2005	161 831	358 768	137 062	657 661
- At cost	338 985	539 484	153 000	1 031 469
- Accumulated depreciation	(177 154)	(180 716)	(15 938)	(373 808)
2004	N$	N$	N$	N$
Carrying amount – 1 January 2004	29 460	-	-	29 460
- At cost	29 460	-	-	29 460
- Accumulated depreciation	-	-		-
Additions	308 255	443 108	-	751 363
Depreciation	(74 180)	(88 169)	-	(162 349)
Carrying amount – 31 December 2004	263 535	354 939	-	618 474
- At cost	337 715	443 108	-	780 823
- Accumulated depreciation	(74 180)	(88 169)	-	(162 349)

7. INVESTMENT PROPERTY

	2005	2004
	N$	N$
Market value at beginning of the year	-	-
Additions	6 801 691	-
Balance at end of year	6 801 691	-
Investment property consists of office buildings only.		
Erf no 7640, Windhoek with a floor space of 763 m^2 (sectional title)		
Rental income received on investment property (included in note 3 "Non-interest income")	232 032	-
Operating expenses that generated rental income (included in the income statement)	(52 143)	-
	179 889	-

The criteria used to distinguish between owner occupied and investment property was based on the physical space occupied by the company in relation to total available space. The property was valued by an external, qualified valuator on a replacement value basis on 24 July 2005.

There are no restrictions on realisation of the investment property.

There are no material contractual obligations on the property.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

8. LOANS AND ADVANCES	2005 N$	2004 N$
8.1 Category analysis		
Instalment sales	486 471	-
Term loans	75 905 369	-
Notional value of advances	76 391 840	-
Contractual interest suspended	(157 026)	-
Gross advances	76 234 814	-
Impairment of advances (Note 9)	(16 000 777)	-
Net advances	60 234 037	-
Short-term portion	(37 315 224)	-
	22 918 813	-
8.2 Sectoral analysis		
Building and property development	4 026 461	-
Individuals	152 227	-
Manufacturing and commerce	41 697 911	-
Mining	30 046 538	-
Other	468 703	-
Notional value of advances	76 391 840	-
Contractual interest suspended	(157 026)	-
Gross advances	76 234 814	-
Impairment of advances (Note 9)	(16 000 777)	-
Net advances	60 234 037	-
Short-term portion	(37 315 224)	-
	22 918 813	-
8.3 Maturity structure		
Repayable on demand	129 723	-
One year or less but not repayable on demand	37 185 501	-
Five years or less but over one year	20 625 786	-
Over five years	2 293 027	-
Net advances	60 234 037	-
Short-term portion	(37 315 224)	-
	22 918 813	-
8.4 Geographical analysis		
Namibia – net advances	60 234 037	-
Short-term portion	(37 315 224)	-
	22 918 813	-

9. IMPAIRMENT OF ADVANCES

2005

	Total Impairment	Specific Impairment	Portfolio Impairment	Income Statement
Opening balance	-	-	-	-
Acquisition of loans- Fair value adjustment	5 739 988	5 739 988		
Acquisition of loans- impairment	10 556 390	10 556 390		
Amounts written off	-	-	-	-
Unwinding of discounted present value on non-performing and off-market loans	(295 601)	(295 601)	-	-
New provisions created	-	-	-	-
Provisions created	-	-	-	-
Provisions released	-	-	-	-
Recoveries of bad debts	-	-	-	-
Closing balance	16 000 777	16 000 777	-	-

Non-Performing loans by sector	Credit Risk	Security Held	Contractual Interest Suspended	Specific Impairments
Manufacturing and commence	3 437 260	3 332 445	138 323	9 232 326
Other	468 703	450 000	18 703	1 324 064
2005 Total non-performing loans	3 905 963	3 782 445	157 026	10 556 390
2004 Total non-performing loans	-	-	-	-

Non-Performing loans by category				
Instalments Sale	13 689	-	644	20 544
Term Loans	3 892 274	3 782 445	156 382	10 535 846
2005 Total non-performing loans	3 905 963	3 782 445	157 026	10 556 390
2004 Total non-performing loans	-	-	-	-

The impaired portfolio represents advances inherited from the Development Fund of Namibia (DFN).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

10. INVESTMENTS

	2005 N$	2004 N$
Held to maturity investments		
Fixed and call deposits	301 967 814	137 460 746
Treasury bills	931 289	-
Directors' valuation	302 899 103	137 460 746

11. ACCOUNTS RECEIVABLE

Prepaid expenses	77 200	76 350
Deposits	172 600	172 600
	249 800	248 950

12. SHARE CAPITAL

Authorised		
1 500 Ordinary shares of N$100 000 each	150 000 000	150 000 000
Issued		
Share capital: 1 300 Ordinary shares of N$100 000 each	130 000 000	125 000 000
Share premium: 50 Ordinary shares of N$4 236 518.76 each	211 825 938	-

The company has one class of ordinary shares which carry no right to fixed income.

Authorised shares not yet issued, are under the control of the Board of Directors in consultation with the Minister of Finance.

13. ACCOUNTS PAYABLE

Trade payables	102 604	1 539
Salary related payables	1 806 239	480 021
	1 908 843	481 560

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade payables approximates their fair value.

14. LEASE COMMITMENTS

Operating lease commitments

Vehicles	184 497	145 596
Office equipment and leased lines	243 236	448 892
Buildings	1 160 053	980 620
	1 587 786	1 575 108

To be incurred as follows:

Up to 1 year	1 290 567	1 575 108
1 – 5 years	297 219	-
	1 587 786	1 575 108

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

15.1 Interest rate management

As part of the process of managing the Bank's interest rate risk, interest rate characteristics of new investments and the refinancing of existing investments are positioned according to expected movements in interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

Term to Repricing

ASSETS	Carrying amount	Demand	1-12 months	1-5 years	Over 5 years	Non-interest earning/ bearing
Banking operations						
Cash and bank balances	13 122 441	13 122 441	-	-	-	-
Investments	302 899 103	43 541 411	259 357 692	-	-	-
Advances	60 234 037	129 723	37 185 501	20 625 786	2 293 027	
Accounts receivable	249 800	-	-	-	-	249 800
Property and equipment	657 660	-	-	-	-	657 660
Investment property	6 801 691	-	-	-	-	6 801 691
Total assets	383 964 732	56 793 575	296 543 193	20 625 786	2 293 027	7 709 151
Liabilities and shareholders' equity						
Creditors and accruals	1 908 842	-	-	-	-	1 908 842
Shareholders' equity	382 055 890	-	-	-	-	382 055 890
Total liabilities and shareholders' equity	383 964 732	-	-	-	-	383 964 732
Net interest sensitivity gap	-	56 793 575	296 543 193	20 625 786	2 293 027	(376 255 581)

15.2 Credit risk management

The Bank only deposits cash surpluses with major banks and investment houses of high quality credit standing.

At year-end the Bank did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

15.3 Liquidity risk management

The Bank has minimised its liquidity risk by ensuring adequate facilities.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates.

The table below sets out the net liquidity gap based on the remaining period from year-end to contractual maturity. "Demand" denotes assets or liabilities with a contractual maturity of 32 days or less.

Term to Repricing

ASSETS	Carrying amount	Demand	1-12 months	1-5 years	Over 5 years
Banking operations					
Cash and bank balances	13 122 441	13 122 441	-	-	-
Investments	302 899 103	43 541 411	259 357 692	-	-
Advances	60 234 037	129 723	37 185 501	20 625 786	2 293 027
Accounts receivable	249 800	77 200	172 600	-	-
Property and equipment	657 660	-	-	657 660	-
Investment property	6 801 691	-	-	-	6 801 691
Total assets	383 964 732	56 870 775	296 715 793	21 283 446	9 094 718
Liabilities and shareholders' equity					
Creditors and accruals	1 908 842	102 604	1 806 238	-	-
Shareholders' equity	382 055 890	-	-	-	382 055 890
Total liabilities and shareholders' equity	383 964 732	102 604	1 806 238	-	382 055 890
Net liquidity gap	-	56 768 171	294 909 555	21 283 446	(372 961 172)

15.4 Currency risk

The Bank does not incur currency risk as it does not have significant purchases in foreign currencies.

15.5 Fair value

The Directors are of the opinion that the book value of financial instruments approximates fair value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

16. RETIREMENT FUND

Retirement benefits are provided for employees by a separate Fund, known as the Development Bank of Namibia Retirement Fund, to which the Bank contributes. The Fund is administered under the Namibian Pension Fund Act, No. 24 of 1956. An actuarial valuation is due to be performed every three years. The first actuarial valuation is to be done in the year ending December 2006. All employees contribute to the Fund. Total Bank contributions for the year amounted to N$ 713 495 (2004: N$ 480 006).

17. LOAN COMMITMENTS	2005 N$	2004 N$
Commitments in respect of loan agreements concluded but not fully disbursed:	3 858 785	-
Commitments in respect of loans approved but not yet signed by borrower:	70 000 000	-
18. CAPITAL COMMITMENTS		
Capital expenditure authorised but not contracted for:	671 645	7 511 323

19. RELATED PARTY INFORMATION

During the year the Bank, in its ordinary course of business, entered into various transactions. These transactions were undertaken on commercial terms and conditions.

19.1 Compensation to key management personnel

The remuneration of Directors and other members of key Management during the year was as follows;

	2005 N$	2004 N$
Short-term benefits	3 034 249	1 758 369
Post employment benefits	493 947	326 897
	3 528 196	2 085 266

The remuneration of Directors is determined by the Shareholder while that of key Executives is determined by the Human Capital and Remuneration Committee, having regard to the performance of individuals and market trends.

19.2 Shareholder

The Government of the Republic of Namibia holds 100% of the issued share capital of the Bank. Equity injection from the Government of the Republic of Namibia was increased from the N$ 125 million in the prior year to N$ 130 million in the current year by the issue of an additional 50 ordinary shares of N$ 100 000 each at a premium of N$ 4 236 518.76 per share.

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