ANNUAL REPORT 2006

Development Bank of Namibia

CONTENTS

PROFILE

Development through enterprise

A profile of the Development Bank of Namibia

The Development Bank of Namibia (DBN) was launched on 29 April 2004, in terms of the Development Bank Act, Act No. 8 of 2002, to contribute to Namibia's development by sourcing and administering funds from institutional and commercial sources for financing public and private sector enterprise which serve the interest of Namibia's developmental goals.

The Development Bank operates in four broad spheres

Emerging, small and medium enterprises are financed from funds made available for this express purpose by the Special Development Fund.

Each larger private sector project is assessed on its own merits and risk, and finance packages are negotiated on an individual basis according to the project's contribution to development.

DBN offers a facility for enterprise development earmarked for emerging entrepeneurs to start or expand their businesses.

DBN also facilitates financing of public private sector partnerships. DBN provides finance for infrastructure either by the public or private sector or in combination as public private sector partnerships. In line with its philosophy on partnership, DBN involves other parties in project syndication arrangements.

Requirements for DBN financing

The first requirement for DBN financing is that projects be commercially feasible and / or clearly sustainable, and managed and governed.

DBN gives priority to those projects that contribute materially to Namibia's development goals. These goals include:

- Employment and income generation
- Development of infrastructure
- Initiatives that increase the competitiveness of Namibia's markets
- Initiatives that foster decentralisation
- Initiatives that diversify the economy
- Initiatives that foster participation on the part of previously disadvantaged Namibians.

Hallmarks of DBN's success

In its short history, DBN has earned the confidence of investors and borrowers alike. The three, key hallmarks of its success are:

DBN has robust governance mechanisms in place, accompanied by enterprise-wide risk mitigation.

DBN is willing to understand the constraints faced by applicants and give due consideration to innovation and risk.

DBN becomes actively involved in oversight of the projects and makes recommendations on risk mitigation.

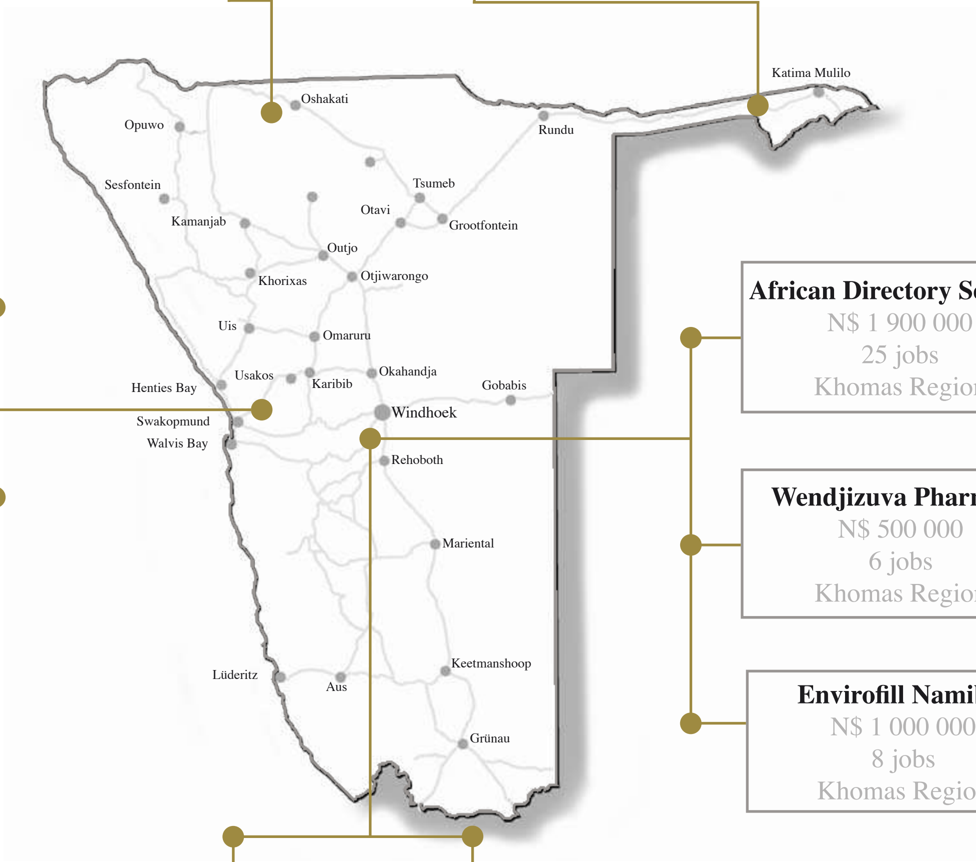
FACILITIES APPROVED & DEVELOPMENT IMPACT ANALYSIS

National Housing Enterprise
N$ 30 000 000
169 jobs
Oshana Region

Zambezi River Lodge
N$ 10 000 000
55 jobs
Caprivi Region

JOM Construction
N$ 500 000
15 jobs
Erongo Region

JCS Fishing
N$ 5 500 000
36 jobs
Erongo Region



African Directory Services
N$ 1 900 000
25 jobs
Khomas Region

Wendjizuva Pharmacy
N$ 500 000
6 jobs
Khomas Region

Envirofill Namibia
N$ 1 000 000
8 jobs
Khomas Region

Edu-Loan
N$ 4 750 000
21 jobs
All 13 Regions

PowerCom
N$ 30 500 000
106 jobs
All 13 Regions

SME SUCCESSES

Region	Caprivi	Erongo	Hardap	Khomas	Kunene	Ohangwena	Omusati	Oshana	Oshikoto	Otjozondjupa	Total
Amount N$	522 000	1 741 000	250 000	21 515 426	3 873 000	1 251 517	400 000	1 913 400	2 086 622	370 000	33 922 965
Job creation	10	23	3	168	56	31	27	25	19	7	369

DIRECTORS

(fltr) Asnake Getachew, Estelle Tjipuka, Sven Thieme (Chairperson), Sara Elago, David Nuyoma (Chief Executive Officer), Elize Angula, Jennifer Comalie.

"Stringent application of the requirements of corporate governance, enterprise-wide risk management, adoption of IFRS and a high degree of insight into projects had created a sense of confidence in the Bank."

THE CORE GOALS OF DEVELOPMENT are long term employment and income generation, diversification, decentralisation and a far higher degree of economic participation on the part of formerly disadvantaged Namibians.

Although Namibia's Gini Coefficient, indicating disparity in income, is in decline, development priorities remain unchanged. In order for Namibia to prosper in the long term, financial resources must be channelled into sustainable private and public sector ventures and initiatives.

The key requirements of development and the Development Bank of Namibia (DBN) are enhancement of infrastructure to support large scale investments, with immediate emphasis on power supply, development in the key sectors of mining, tourism and agriculture, and immediate release of funds to establish and strengthen sustainable small and medium enterprises.

Despite being in a category with a 70 % global failure rate, DBN is able to respond to these challenges because of its strategy of gradual growth and capacity development. This strategy was determined during the early development phase of the Bank, as a result of fact finding visits to similar organisations that were obvious successes or under-performing. The positive result of this prudent approach can be seen in the high degree of confidence in the Bank, particularly on the part of regional and international partners.

Recognising its current financial capacity and personnel complement, DBN has adopted a catalytic role as a fund multiplier in association with key public and private sector entities in addition to its routine operational activities.

Projects' development impact is especially important to DBN. The Bank scrutinises all applications for evidence that they will add value to the economy. In 2006, DBN supported projects that are set to create and retain 441 permanent and create 105 temporary jobs.

CHAIRPERSON'S REVIEW

I am very pleased to announce that, by the close of the 2006 financial year, every N$ 1 released by the Development Bank was matched by N$ 3.8 from partners.

DBN approved facilities amounting to N$ 84.65 million in the past year. Combined, these projects are set to create and retain 441 permanent and provide 105 temporary jobs. Located in the Caprivi, Erongo, Khomas and Oshana regions, most of the projects have national reach.

DBN support for the development of bulk infrastructure will see 2,000 erven being created in an unserviced area of Oshakati. The development, which is part of the National Housing Enterprise's (NHE) strategy to fast-track communities' access to housing, kicked off on 1 November 2006.

Newcomer to Namibia's telecommunications sector, PowerCom, will build a nation-wide network providing coverage to 95 per cent of the populated areas of the country within a five year period. DBN was the first financial institution to provide financing to PowerCom.

Support to Edu-Loan Namibia, a registered lender that funds largely unsecured credit risk in agriculture and education, took the form of DBN purchasing debentures for on-lending.

Besides benefiting from access to financing, Edu-Loan clients also stand to benefit from the unique arrangement between DBN and the company through which Edu-Loan will pass the benefit of the Bank's interest rate on to clients. They will do this by contributing the money being saved towards a bursary fund for the two years of DBN's investment in the debentures.

2006 saw the first anniversary of the DBN Bank Windhoek partnership through which financing is extended to small and medium enterprises (SMEs). In 2006, facilities to the amount of N$ 33.92 million were extended to 38 companies, creating 369 jobs.

All the signs seem to suggest that, in future, the SME sector will be the key driver of employment and wealth creation. As a financial catalyst, and in line with the directives of its establishment Act, the DBN provides financing for the sector.

The partnership with Bank Windhoek was borne out of the need to accelerate support to SMEs whilst DBN is in the process of strengthening its own institutional structure. In many ways this collaboration is the hallmark of our philosophy on partnership as it represents a convergence of similar visions and missions and brings benefits to clients that neither could have offered individually.

The choice to release funds in partnership with Bank Windhoek was motivated by its wide branch network, its sound experience in the field of SME development, its acceptance of the rules of DBN's Special Development Fund and its mentorship programme which makes available mentorship to SMEs at a 98 per cent discount to borrowers.

The success of the mentorship programme is illustrated by the fact that, to date, only one of the 38 loan beneficiaries is in default, with one having difficulty meeting its obligations.

Governance crusader, (Rtd) Judge Mervyn King, who is the Chairperson of the King Comittee and Reports on Corporate Governance, visited Namibia on DBN's invitation in February to address business and government leaders. "The importance of governance in the 21st century is patent," he said.

In the field of SME development, the choice of making funds immediately available on an agency basis has yielded spectacular results, but the Bank has under-performed on large-scale funding operations. We recognise this shortfall, but are satisfied with progress as it is still in line with the commitment to balanced growth and basing projections and targets on a prudent percentage of capitalisation.

In the course of 2005, the DBN became one of the first companies in Namibia to adopt International Financial Reporting Standards. I am happy to announce that implementation, once again, went without a hitch.

In the fourth quarter the Bank took a further step towards identifying and managing its risks with senior management and operational personnel participating in a risk profiling exercise. The results can be seen in participants' greater confidence in dealing with risk in the normal course of business.

As an adjunct to this, DBN outsourced its internal audit function. The implications are that the Bank is confident of its structures, procedures and ability to provide public accounting of its activities.

Stringent application of the requirements of corporate governance, enterprise-wide risk management, adoption of IFRS and a high degree of insight into projects has created a sense of confidence in the Bank that had resulted in sound working relationships with a broad spectrum of local, regional and international entities that will serve the DBN, and the attainment of its objectives, well in the years to come.

In 2006 it became apparent that market segments targeted by the Bank generally lacked experience in raising capital and managing start-up entities. With this in mind, all levels of the Bank, particularly the Operations team, began to participate in nurturing projects and proactively seeking methods to mitigate risks in the period prior to funding.

The further wisdom of this approach lies in the fact that the Bank operates in a competitive environment and so must distinguish itself through excellent application of funds, pinned on the twin principles of a high standard of corporate governance and sound operational insights that translate into sustainable projects.

From a financial standpoint, DBN performed well. Earnings on investments and returns on projects were well within the acceptable range for financial institutions. The Bank greatly appreciates the support that it receives from its shareholder and, increasingly, partner institutions.

Bad debts, although expected as a part of the normal course of the Bank's activities, were minimal. Costs were also within the acceptable range. On the sound financial basis that the Bank has developed, the Board is confident of its ability to further develop capacity and step up its operations, in line with our five-year plan.

The Board began the year with Brunhilde Barnard's departure, and Elize Angula, Jennifer Comalie and Estelle Tjipuka's induction. In light of this, the Board performed its tasks in an excellent manner, with rapid assimilation of the new members and no disruption to its activities.

Directors and senior staff of Namibia's Development Finance Institutions (Agribank, DBN and NHE), participated in a workshop on Corporate Governance and Board Effectiveness in February. The workshop, organised by the Institute of Directors in Southern Africa (IOD) and the SADC-DFRC aimed at improving governance in the DFIs. Pictured with participants are SADC-DFRC CEO, Dr Rosalind Thomas, Prime Minister Nahas Angula and IOD Director, Tony Dixon.

CHAIRPERSON'S REVIEW

DBN's establishment is now complete, with strong governance and enterprise wide risk mitigation mechanisms in place.

On this secure basis, the Development Bank of Namibia can begin to evolve to the next level.

This includes participation in larger scale infrastructural development, equity participation, and proliferation of SME funding, particularly that which promotes the goal of economic participation on the part of previously disadvantaged Namibians. Initiatives targeting women and youth are also envisaged.

In order to achieve these goals, the Bank will focus on development of capacity in 2007. This will entail not only physical numbers, but also skills development.

On this basis, I am confident that 2007 and the following years will see DBN assume a leading position in Namibia's development, and become a leading entity in the financial sector.

Sven Thieme
Chairperson

MILESTONES

In 2005, DBN extended N$ 20 million to the Ongwediva Town Council to install bulk infrastructure in a new area, Extension 11, for development of 365 erven for housing, business and recreation. This was the Bank's first loan to a Local Authority. Work has since started on site as pictured.

MANAGEMENT

(fltr) Lindsay Crawford (Head: Credit & Risk Management), Martin Inkumbi (Portfolio Manager), David Nuyoma (Chief Executive Officer), Joy Sasman (Manager: Marketing & Development Services), Johann Bester (Chief Operations Officer, seconded by the IDC), Erastus Hoveka (Chief Financial Officer), Gabriel Mbapaha (Manager: Human Capital & Administration).
(Inset) Gottlieb Hinda (Portfolio Manager, on secondment to the IDC).

"When we started out, we resolved as a Bank to benchmark ourselves against best practice. This has been the basis for us and is also the only way to move forward. If there is no benchmark, how will you know you are growing sustainably?"

SINCE THE INCEPTION OF THE DBN, directors and management have embarked upon a process of putting all the key elements in place in terms of policies, procedures and rules. The financial year ended 31 December 2006 was a milestone year for the DBN with all of the key elements finalised and functional.

On this basis, we can now proceed to expand operations and take our place among peers in the financial industry as well as making significant impact on the national development goals envisaged in Vision 2030.

The year yielded significant growth on the Bank's balance sheet. At the end of 2005, total assets stood at N$ 384 million. By the end of 2006, it stood at N$ 535 million; an increase of 39.3 per cent.

DBN approved facilities amounting to N$ 84.65 million in the past year, and SME facilities to the value of N$ 33.92 million were approved through the partnership with Bank Windhoek. It is also pleasing to see that net income had grown by 53 per cent from N$ 27.3 million in 2005 to N$ 41.7 million in 2006.

The transfer of loans from the Development Fund of Namibia (DFN) had mixed results. A number of DFN loans have responded well to resuscitation, and the recoveries derived from this loan book represented 5.35 per cent of the Bank's total

MILESTONES

Directors Jennifer Comalie and Estelle Tjipuka, and CEO David Nuyoma, during the annual strategic planning session attended by directors, management and key operational staff. "We've established a strong bank. Now it's time to perform," said Board Chairperson, Sven Thieme, at the occasion.

revenue in 2006. We are pleased that we could breathe life into these assets and derive an income from the undertaking. This income is especially welcome as it helps boost our growing loan book.

Developmentally, DBN takes pride in its contribution towards national development goals. Previous results are supplemented by 441 permanent jobs created or retained, and 105 temporary jobs created through projects financed in 2006.

Projects of particular note include finance for the development of 2,000 serviced erven in Oshakati, the acquisition of debentures in Edu-Loan and finance to PowerCom, parent of Namibia's second mobile services provider.

The development of erven in Oshakati is expected to have a major impact on standards of living in one of Namibia's most densely populated yet underdeveloped areas. Not only will it be the basis for a higher standard of housing, but it is also expected to act as a catalyst for further commercial housing development.

Additionally, by developing better housing, it is expected to provide a spur for migration of skills to Oshakati, furthering the goal of decentralisation. The project also has a profound impact at individual, family and community level in terms of the kind of person that will grow from this kind of environment.

The project's sustainability is a result of participation of key players, with important benefits for these entities. The town council will have an additional income source through an expanded revenue base, financial institutions will participate through mortgage financing for the houses, while the NHE fulfils its mandate as a catalyst for this development. DBN's supplementary role in the project, mobilising financial resources, is particularly pleasing, and an excellent example of how the Bank works in the interests of all parties involved in development.

I believe that we will see a vibrant town emerge as a result of these synergies and look forward to replicating this model in other parts of the country.

The acquisition of debentures in Edu-Loan has been designed to reduce the cost of educational loans, particularly to public sector employees, improving skills in the sector, with probable structural transfer of skills to the private sector. This facility will have 230 beneficiaries and also be the basis for a bursary fund of about N$ 400 000.

The loan to PowerCom was made with the intention of securing entry into the market of a second mobile services provider, enhancing the competitiveness of the telecommunications sector and driving down the cost of telecommunication to individuals, which is currently a major item in business and household budgets.

In the field of SME development, the DBN Act directs that the Bank leverages resources for enterprise development, while cooperation in the form of Public Private Partnerships is encouraged at a national level. Our arrangement with Bank

Johann Bester was seconded to DBN as Chief Operations Officer by the IDC as part of an exchange programme between the two Development Finance Institutions. "DBN is clearly on the right track and because it's a new institution it has a desire to grow. My focus will be to try and ensure that the Bank makes efficient decisions based on sound business principles," Bester said of his priorities during his tenure at DBN.

Windhoek, to allocate and manage financing for SMEs, is rooted in the spirit of these aspirations.

The partnership produced phenomenal results in 2006 with N$ 33.92 million approved to 38 SMEs and 369 jobs created over and above those attributable to the Bank's other activities.

The banks projected disbursement of N$ 10 million per year at the start of the association in 2005, but are disbursing well in excess of this amount due to the high demand for finance and the high quality of projects being promoted.

This growth will bring value for DBN in the future, but most importantly, the immediate benefit to the country can be measured in terms of job creation. The SME loan book will continue to impact positively on many spheres of Namibia's development.

During the course of 2006, the Development Bank of Namibia forged valuable regional and international partnerships with a number of key organisations. In addition to their multiplier effect of N$ 3.8 for every N$ 1 invested by the Bank in 2006, these partnerships are a basis for further development of the Bank's activities and development of the Namibian economy, particularly with regard to infrastructure and business development.

When the Bank commenced operations, we resolved to benchmark ourselves against the best and to adopt best practice.

This has been the basis for the Bank and is also the only way to move forward as benchmarking is a useful determinant of growth. Besides acting as indicators of advancement, our partners have contributed significantly to our progress, especially in our capacity building efforts.

The Industrial Development Corporation (IDC) in South Africa and DBN started an exchange programme in 2006 through which the IDC seconded our current Chief Operations Officer. Johann Bester is not only here to perform his job function, but importantly, to leave behind a legacy of cumulative best practice, on which basis the IDC has grown to become the most successful development finance institution in South Africa. DBN has, by the same token, seconded Portfolio Manager, Gottlieb Hinda, to the IDC to gain experience in an environment with a critical mass of projects.

Our arrangements with other partners are equally important. DBN benefits extensively from capacity building programmes and information exchange through its membership of the SADC Development Finance Institutions Network.

DBN's election as chairperson of the regional body in November 2006 will help forge an even closer relationship with partners in the SADC (Southern African Development Community).

As our human capital remains the core asset of the Bank, one of our priorities remains development of excellent human capital.

The growth attained in terms of personnel is not only reflected in terms of numbers, but in terms of

MILESTONES

DBN set out to employ some of the best human capital available at its establishment. The Bank's General Manager: Special Development Fund, Penny Akwenye, was appointed Millennium Challenge Account Namibia National Coordinator in April. Akwenye, who was seconded by DBN to the initiative, coordinated development of the programme proposal that will be used as the basis for funding extended to Namibia.

the experience gained, which is reflected in the results recorded in the past year.

In 2006, 90 per cent of staff participated in training ranging from the technicalities of project appraisal to wellness programmes, including HIV and Aids and safety related issues, for the Bank.

During the course of the year, approximately N$ 7 000 was spent on training per employee. The skills of the Bank's human capital are not only expected to benefit DBN but also to reach into and influence the success of each and every project in which the Bank adopts a role.

DBN's participation in the drafting of the Namibian Financial Services Charter is part of its drive to give back to society. Our participation as key sponsor in the Youth Expo is, similarly, an illustration of this philosophy and of our commitment to support young entrepreneurs. In this regard, DBN sponsored training in accounting literacy for the Expo's category winners as well as the prize for the overall winner.

The gains made since our establishment, and during the past year in particular, are notable. However, we remain mindful of the challenges facing us, which include levels of skill at enterprise level.

Entrepreneurial and management skills limitations have a direct bearing on the quality of projects in which we ultimately participate. Companies often limit their prospects by not paying sufficient attention to elements such as costing, accounting and marketing.

Our appraisal processes are therefore geared towards identifying potential limitations early and advancing appropriate risk mitigating measures as a means of addressing the challenge.

The Government of the Republic of Namibia is currently the sole shareholder in DBN. Government support is, however, limited to seed capital only, and our establishment legislation makes provision for other shareholders to take up equity in the Bank. We therefore need to progress our resource mobilisation drive, relating to both human and financial resources, as finance naturally follows skill.

We have started laying the foundation for opening doors to external resources, through a mixture of borrowing and equity, from 2007 onwards. We are keenly aware of the imperative to keep the Bank adequately capitalised and therefore continue to institute mechanisms to manage resources optimally. The introduction of information technology tools, like the management information system tailored for DBN, bring further efficiency to the system and form part of this effort.

Acceptance of the Bank and its ability to administer funds and / or operate as a peer in the financial industry is driven by the robust governance system of the Bank, underscoring the prudent yet demanding mechanisms put in place during the development phase.

In this regard, implementation of International Financial Reporting Standards and outsourcing of the internal audit function played a key role in earning the confidence of our partners.

DBN has fostered a relationship based on openness with the media. As part of this undertaking, all loans extended by the Bank are announced publicly as an illustration of how seriously DBN regards its commitment to transparency.

CHIEF EXECUTIVE OFFICER'S REPORT

During the course of 2006, DBN took significant steps to communicate its activities across various target markets, not only with a view to recruiting investment and funding, but also with the aim of developing understanding of its role and activities among its partners, stakeholders and the broader public. This is in keeping with the requirement for public accountability.

We have built significant momentum in the past two years and are working to sustain this growth by adequately resourcing the Bank from a monetary perspective and, importantly, by adhering to rules put in place at inception.

In this regard, a risk management framework and a robust governance system has been put in place through the various management and board committees, and the additional benefit of a supportive shareholder.

In order for DBN to remain relevant and to ensure its sustainability, the Bank must adhere to its governance framework and remain innovative in its approach. Development finance is not a textbook discipline, but one that requires resourcefulness. Thinking out of the box within the context of the framework established over the past two years will serve us well in future.

David Nuyoma
Chief Executive Officer

DBN CEO, David Nuyoma, and German Technical Cooperation (GTZ) Country Representative, Christiane Kalle, during the signing of the MOU between the parties in April, to promote SME success. Given the high global failure rate, DBN's objective is to develop sustainable SMEs through external support and management advisory services delivered by both Namibian and international partner agencies.

Wendjizuva Pharmacy

Wendjizuva Pharmacy is 100% owned by a young Namibian woman and has been in operation since June 2004. Expansion has, however, been hampered by a lack of capital to buy more stock. DBN issued a one year payment guarantee to the pharmacy's creditors to enable it to purchase stock through a revolving credit facility secured by the payment guarantee. The facility will help retain five jobs. The venture is a further step towards opening up the retail pharmaceutical industry to Black Economic Empowerment participants.

PowerCom

DBN extended a six month guarantee facility of N$ 30.5 million to enable PowerCom's bankers to provide Letters of Credit for the shipment of equipment. Apart from creating 106 direct jobs, the mobile industry generates substantial economic benefits in terms of its contribution to GDP, generation of employment and government revenues through payment of various taxes, and increased competition in the telecommunications sector. PowerCom's 15-year licence requires it to build a nation-wide network providing coverage to 95% of the populated areas of the country within a five year period.

NEW PROJECTS

JCS Seafood Marketing

JCS Seafood Marketing buys and sells Namibian fish and fish products locally and in the international market. In August 2006, JCS entered into an agreement with a processing facility, through which the factory allows the company to catch up to 1,500 metric tonnes of their hake quota and process the catch at the factory in Walvis Bay at a processing fee. DBN's facility is being used to acquire and refurbish a fishing vessel for this purpose.

African Directory Services

DBN extended a N$ 1.9 million bridging loan through its Special Development Fund to A.D.S. to help it meet its obligations related to the production of the Botswana Telecommunication Corporation's 2006 telephone directory. A.D.S. is a documentation production and communications enterprise offering a diversity of materials to the business community. The company also publishes the annual economic review, Business Namibia.

JOM Construction and Renovation

JOM Construction builds and renovates residential, commercial and government properties. The company provides 15 jobs. JOM Construction has been in existence for two years and is owned by three previously disadvantaged Namibians. DBN extended a N$ 500 000 loan to JOM Construction to buy equipment and for working capital to service a government contract.

Edu-Loan

DBN purchased 475 debentures worth N$ 4.75 million in Edu-Loan to extend loans to close to 230 Namibians. Besides benefitting from access to financing, Edu-Loan clients also stand to benefit from a unique arrangement between DBN and Edu-Loan through which the latter will pass the benefit of DBN's interest rate on to clients. They will do this by contributing the money being saved, plus an additional contribution from Edu-Loan's own sources, towards a bursary fund. Edu-Loan Namibia is a NAMFISA registered lender that engages in lending activities that are socially responsible and contributes to the economic empowerment of Namibians. It funds largely unsecured credit risk through personal loans for agriculture and education in particular.

NEW PROJECTS

National Housing Enterprise

DBN approved a N$ 30 million facility to the National Housing Enterprise (NHE) to install bulk infrastructure for a new housing development in Oshakati, which is expected to create 2,000 serviced erven. NHE will also construct houses on these erven for low to middle income groups. The project aims to address the housing backlog for these income groups in the Oshakati area. It is aligned to DBN's mandate to support initiatives that uplift the living standards of lower income groups. Installation of bulk infrastructure in a currently un-serviced part of Oshakati will, furthermore, contribute to increasing availability of improved and safe services like clean water, sanitation and regulated electricity supply.

Zambezi River Lodge

DBN approved a N$ 10 million facility to the United Africa Group to upgrade the Zambezi River Lodge. The lodge is stratigically located between the Etosha National Park and the Victoria Falls. The project will provide 55 jobs.

Enviro-Fill Namibia

The City of Windhoek entered into a Joint Development Agreement with Enviro-Fill Namibia to extend the lifespan of the Kupferberg land fill site. DBN provided a three year, N$ 1 million, bridging finance facility to Enviro-Fill Namibia to fulfil its contractual obligations to the City. Enviro-Fill is a joint venture between South Africans and Namibians with Previously Disadvantaged Namibians owning 48% of the shares in the company and also driving its operations. The health of the environment is a key concern at present and for future generations of Namibians. Enviro-Fill's initiatives reduce the effect of pollution and environmental damage.

ANNUAL FINANCIAL STATEMENTS

DEVELOPMENT BANK OF NAMIBIA LIMITED
(Registration number: 2003/189)

ANNUAL FINANCIAL STATEMENTS
31 December 2006

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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 Bank's independent external auditors have audited the financial statements and their report appears on page 21.

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 misstatements 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 year 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 24 to 48 were approved by the board of directors and are signed on their behalf by:

Chairman

2 April 2007

Chief Executive Officer

2 April 2007

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF THE DEVELOPMENT BANK OF NAMIBIA LIMITED

Report on the financial statements

We have audited the annual financial statements of the Development Bank of Namibia Limited, which comprise of the directors' report, the balance sheet as at 31 December 2006, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 24 to 48.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements 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 Namibian Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design the 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 principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall financial statements presentation.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company at 31 December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Development Bank of Namibian Act No. 8 of 2002 and the Namibian Companies Act.

Deloitte & Touche

Deloitte & Touché
Per Junius Mungunda
Partner: Audit

27 April 2007

CORPORATE GOVERNANCE REPORT

The DBN was established through an Act of Parliament (Act No. 8 of 2002) in October 2002. It operates on the basis of the DBN Act as well as the Companies Act (1973) as a public company; and the State Owned Enterprise Governance Act (2006).

DBN strictly adheres to the requirements of the various legislations. It also adheres to the Accounting Principles as set forth in International Financial Reporting Standards (IFRS) and follows the Banking Institutions' Act in terms of its credit control framework.

Governance structures within DBN

Board of Directors

The DBN Board, which is constituted according to the provisions of the DBN Act, consists of seven directors, all of whom are currently appointed by the Minister of Finance, the Government of the Republic of Namibia being the current sole shareholder in the Bank. In the event, however, of other stakeholders taking equity in the Bank as per the Act, the Minister will appoint directors proportionate to government's shareholding.

DBN's governance structure is modelled on the principles put forward in the King II Report on Corporate Governance. By adhering to the code, the directors recognise the need for conducting the affairs of the Bank with integrity and in accordance with generally accepted corporate practices.

The cornerstone of the Bank's governance framework is its Board Rules. The Audit, Risk and Compliance; the Credit and Investment; Human Capital and Remuneration; and Special Development Fund Committees are in place and functioning.

The Board, however, believes that adhering to good governance practice involves more than compliance. Directors recognise the value of consistently employing the principles of good faith, care, skill and diligence in all their duties and that DBN's efforts will be sustainable only if they, unfailingly, do what is in the best interest of the Bank.

The directors are responsible for the annual financial statements, which are prepared in accordance with and comply with IFRS, the Development Bank of Namibia Act and the Namibian Companies Act. The accounting policies used are consistently applied, appropriate and supported by reasonable and prudent judgements and estimates.

For the Board to discharge its responsibilities to ensure the accuracy and integrity of the financial statements, management has developed and continues to maintain adequate accounting records and effective systems of internal control. The Board has ultimate responsibility for the systems of internal control and reviews their operations primarily through the Audit Committee and various other risk monitoring committees.

During the year under review, internal controls within the Bank have operated effectively 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.

Audit, Risk and Compliance Committee (AU)

In 2006, the AU was constituted of the following non-executive directors: Chartered Accountant, Jennifer Comalie, Development Economist, Asnake Getachew and Attorney Elize Angula. The Committee Chairperson, Estelle Tjipuka, is a Certified Fraud Examiner with extensive knowledge in internal and forensic auditing. DBN CEO, David Nuyoma, also serves on the Committee.

The AU is primarily tasked with oversight of the following:

• risk management;
• financial control, accounting systems and financial 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.

In addition, the Committee assists the Board in providing strategic direction on the Bank's asset and liability management activities within the defined risk appetite, in order to strengthen DBN's financial position in pursuance of its development mandate.

An internal audit function was established during the year, with PriceWaterhouseCoopers (PWC) appointed to assist the CEO and the AU in the effective discharge of their responsibilities by performing an independent appraisal activity of the Bank's management controls.

In October, 2006, DBN management and senior staff participated in a business risk identification and rating workshop facilitated by PWC. The methodology utilised was that of the COSO cube framework (Council of Sponsoring Organisations of the Treadway Commissions), which is utilised worldwide.

Credit and Investment Committee (CI)

The Committee is chaired by Jennifer Comalie and constituted of non-executive directors Asnake Getachew and Estelle Tjipuka, and CEO David Nuyoma. The CI's key functions are credit extension and exercising investment decisions in order to maximise returns on available investment options.

Human Capital and Remuneration Committee (HC)

The Committee determines and develops the Bank's remuneration strategy and related Conditions of Service competitive enough to attract, retain and motivate human capital of the quality required by the Bank. The HC is chaired by businesswoman Sara Elago. The other members are Board chairperson Sven Thieme, Elize Angula, and David Nuyoma.

Special Development Fund Committee (SDF)

The SDF is established and administered by the DBN in terms of the Bank's establishment legislation. It supports selected key sustainable projects and programmes determined to have developmental importance. The Committee is responsible for supervising the Fund's activities. It is chaired by Asnake Getachew. Jennifer Comalie and David Nuyoma are the other members.

REPORT OF THE DIRECTORS
31 DECEMBER 2006

The directors have pleasure in presenting their report on the activities of the Bank for the year ended 31 December 2006.

BACKGROUND AND OPERATIONS

The Bank was constituted in terms of the Development Bank of Namibia Act, 2002 (Act No. 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 (2005: Nil).

SHARE CAPITAL

The authorised share capital of the bank remains unchanged at N$ 150 million whilst the issued share capital was increased from the N$ 130 million in the prior year to N$ 132.5 million in the current year by the issue of additional 25 ordinary shares for N$ 100 000 each at a premium of N$ 4 230 000.00 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:

Sven Thieme	(Chairman, Re-appointed: 12 May 2006)
David Nuyoma	(Chief Executive Officer)
Brunhilde Barnard	(Term expired: April 2006)
Sara Elago	(Re-appointed: 12 May 2006)
Asnake Getachew	(Re-appointed: 12 May 2006)
Elize Angula	(New appointment: 12 May 2006)
Jennifer Comalie	(New appointment: 12 May 2006)
Estelle Tjipuka	(New appointment: 12 May 2006)
Joy Sasman	Secretary

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.

Business address
2nd Floor
Trustco House North
142 Robert Mugabe Avenue
Windhoek
NAMIBIA

Postal address
P O Box 235
Windhoek
NAMIBIA

	Notes	2006 N$	2005 N$
Interest income	2	35 859 572	18 452 270
Non-interest income	3	19 098 441	21 008 708
Total income before impairment of advances		54 958 013	39 460 978
Impairment of advances	10	(6 292)	-
Total income after impairment of advances		54 951 721	39 460 978
Operating expenditure		(13 257 607)	(12 170 833)
Profit before taxation	4	41 694 114	27 290 145
Taxation	5	-	-
Profit for the year		41 694 114	27 290 145
Attributable to ordinary shareholders of the company		41 694 114	27 290 145

BALANCE SHEET
AT 31 DECEMBER 2006

	Notes	2006 N$	2005 N$
ASSETS			
NON-CURRENT ASSETS		51 397 448	30 378 165
Property, plant and equipment	6	1 738 072	657 661
Intangible assets	7	264 448	-
Investment property	8	7 010 480	6 801 691
Loans and advances	9	42 384 448	22 918 813
CURRENT ASSETS		483 667 263	353 586 568
Investments	11, 16.3	462 070 944	302 899 103
Accounts receivable	12	185 106	249 800
Short-term portion of loans and advances	9, 16.3	20 963 679	37 315 224
Bank balances and cash		447 534	13 122 441
TOTAL ASSETS		535 064 711	383 964 733
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES		532 000 004	382 055 890
Share capital	13	132 500 000	130 000 000
Share premium	13	317 575 938	211 825 938
Retained income		81 924 066	40 229 952
CURRENT LIABILITIES			
Accounts payable	14	3 064 707	1 908 843
TOTAL EQUITY AND LIABILITIES		535 064 711	383 964 733

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital	Share premium	Retained income	Total
	N$	N$	N$	N$
Balance at 31 December 2004	125 000 000	-	12 939 807	137 939 807
New shares issued	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
New shares issued	2 500 000	105 750 000	-	108 250 000
Profit for the year	-	-	41 694 114	41 694 114
Balance at 31 December 2006	132 500 000	317 575 938	81 924 066	532 000 004

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006	2005
		N$	N$
CASH FLOWS FROM OPERATING ACTIVITIES		42 931 421	28 928 037
Interest received from loans and advances		4 955 713	1 718 740
Grant – Bank of Namibia		15 000 000	20 000 000
Cash paid to suppliers and employees		(7 411 536)	(9 228 632)
Cash generated by operations	A	12 544 177	12 490 108
Interest received from investments		30 387 244	16 437 929
CASH FLOW FROM INVESTING ACTIVITIES		(163 856 328)	(202 814 270)
Acquisition of property, plant and equipment		(1 457 129)	(250 646)
Acquisition of intangible assets		(271 926)	-
Proceeds from sale of property, plant and equipment		158 658	-
Loan disbursements		(36 421 350)	(37 125 267)
Loan principal repayments		33 307 260	-
Increase in investments		(159 171 841)	(165 438 357)
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		108 250 000	186 915 477
Net (decrease)/ increase in cash and cash equivalents		(12 674 907)	13 029 244
Cash and cash equivalents at the beginning of the year		13 122 441	93 197
CASH AND CASH EQUIVALENTS at the end of the year		447 534	13 122 441

A. CASH GENERATED BY OPERATIONS

	2006	2005
Income for the year	41 694 114	27 290 145
Adjusted for:		
Loss on disposal of assets	13 675	-
Investment property revaluation	(208 789)	-
Interest received from investments	(30 387 244)	(16 437 929)
Depreciation expense	211 864	211 459
	11 323 620	11 063 675
Changes in working capital	1 220 557	1 426 433
Decrease/(increase) accounts receivable	64 693	(850)
Increase in accounts payable	1 155 864	1 427 283
Cash generated by operations	12 544 177	12 490 108

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 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 2006. 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.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

New International Financial Reporting Standards

- IFRS 7 - Financial Instruments: Disclosures
  Effective for annual periods beginning on or after 1 January 2007
- IFRS 8 - Operating segments
  Effective for annual periods beginning on or after 1 January 2009

Revised International Accounting Standards

- IAS 1 - Presentation of Financial Statements Added disclosures about an entity's capital.
  Effective for annual periods beginning on or after 1 January 2007.

IFRIC Interpretations

- "IFRIC 7 - Applying the Restatement Approach Under IAS 29, Financial Reporting in Hyperinflationary Economies
  Effective for annual periods beginning on or after 1 March 2006."
- "IFRIC 8 - Scope of IFRS 2
  Effective for annual periods beginning on or after 1 May 2006."
- "IFRIC 9 - Reassessment of Embedded Derivatives.
  Effective for annual periods beginning on or after 1 June 2006."
- "IFRIC 10 - Interim Financial Reporting and Impairment.
  Effective for annual periods beginning on or after 1 November 2006."
- "IFRIC 12 - Service Concession Arrangements.
  Effective for annual periods beginning on or after 1 January 2008."

The directors anticipate that adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition

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.

Fees and commission
Fees and commissions are generally recognised on an accrual basis when the service has been provided.

Rental income
Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease.

Grants
Grants received from donors are recorded as income when the grant has been received. Where applicable, costs relating to these grants are charged to expenses.

Financial instruments

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. On acquisition the software is capitalised at purchase price. The useful life has been set at three years and the asset is depreciated on a straight line basis with zero residual value.

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.

Properties in possession

Unsold properties in possession are stated at the lower of the net outstanding amount at date of purchase and net realisable value.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the rate of exchange prevailing at the date of the transaction. At balance sheet date, monetary assets and liabilities denominated in foreign currency are reported using the closing exchange rate.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, unrealised foreign exchange differences on unsettled foreign monetary assets and liabilities, are recognised in the income statement.

Non-current asset held for sale

Non-current assets held for sale are recognised at the lower of carrying value and fair value less costs to sell. Impairment losses or profits on initial classification as held for sale are included in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Bank performs liability adequacy tests on financial guarantee contract liabilities to ensure that the carrying amount of the liabilities is sufficient in view of the future cash flows when performing the liability adequacy test.

The Bank discounts all expected contractual cash flows and compares this amount to the carrying value of the liability; where a shortfall is identified, an additional provision is made.

Critical judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

(a) Performing loans
The Bank assesses its credit portfolios for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

(b) Non performing loans
Loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this period that the customer is unlikely to repay its obligations in full.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Key sources of estimation uncertainty

There are no key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that could have a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

2. INTEREST INCOME

	2006	2005
	N$	N$
Investments	30 387 244	16 437 929
Loans and advances	4 955 713	1 718 740
Unwinding of fair value adjustment	516 615	295 601
	35 859 572	18 452 270

3. NON-INTEREST INCOME

	2006	2005
Grant received – Bank of Namibia (*)	15 000 000	20 000 000
Transactional fee income	361 875	89 590
Rent received	585 097	232 032
Revaluation of investment property	208 789	-
Sundry income	2 942 680	687 086
	19 098 441	21 008 708

* 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:

		2006 N$	2005 N$
Auditors' remuneration	- audit fees	91 441	51 750
	- other services	35 708	12 650
Directors' fees	- for services as directors	342 010	238 904
	- for management services	1 173 718	1 137 670
Depreciation and amortisation		211 864	211 459
Loss on disposals of assets		13 675	-
Professional services		1 187 678	802 036
Remuneration other than to employees:			
Managerial services	- fees	275 625	1 547 912
	- expenses	235 985	284 341
Salaries and related personnel costs		6 299 241	3 913 095
Interest paid		896	10 535
Operating leases	- buildings	1 019 091	894 453
	- equipment	127 314	131 641
	- motor vehicle	42 712	30 715
Other expenditure		2 200 649	2 903 672
Total operating expenditure		13 257 607	12 170 833
Number of employees		20	19

4. PROFIT BEFORE TAXATION (continued)

4.1 DIRECTORS EMOLUMENTS

Emoluments paid to directors of the company for the year ended 31 December 2006 are set out below:

4.1.1 Chief Executive Officer - D Nuyoma

	2006 N$	2005 N$
Fees as director	-	-
Pensionable salary	733 452	716 609
Bonus	270 858	257 960
Company contributions to pension and medical aid schemes	169 408	163 101
	1 173 718	1 137 670

4.1.2 Non-executive directors

	2006 N$	2005 N$
S Thieme (Chairman)	47 900	58 150
A Getachew	72 800	64 200
B Barnard	13 110	69 000
S Elago	52 800	47 554
E Angula	44 000	-
J Comalie	59 000	-
E Tjipuka	52 400	-
	342 010	238 904

4.1.3 Record of attendance

	Board	AU	CI	HC	SDF
No. of meetings	**6**	**5**	**5**	**4**	**5**
Sven Thieme	(Chair) 4			1	
David Nuyoma	6	5	5	4	5
Brunhilde Barnard ***	1	1	1		
Sara Elago *****	6			(Chair) 3	1
Asnake Getachew	5	5	5		(Chair) 5
Elize Angula **	3	3		3	
Jennifer Comalie ** ****	5	3	(Chair) 4		4
Estelle Tjipuka **	5	(Chair) 3	4		

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

** Appointed as directors on 12 May 2006
*** Term ended in April 2006
**** Appointed to AU on 26 June 2006
***** SDF Committee Member until 1 June 2006

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 Act, 2002 (Act No. 8 of 2002).

6. PROPERTY, PLANT AND EQUIPMENT

	Work in Progress	Furniture & Equipment	Motor Vehicles	Total
	N$	N$	N$	N$
Cost or valuation				
Balance at 1 January 2005	-	780 823	-	780 823
Additions	-	97 646	153 000	250 646
Disposals	-	-	-	-
Balance at 1 January 2006	-	878 469	153 000	1 031 469
Additions	1 159 350	297 779	-	1 457 129
Disposals	-	(38 470)	(153 000)	(191 470)
Balance at 31 December 2006	1 159 350	1 137 778	-	2 297 128
Accumulated depreciation and impairment				
Balance at 1 January 2005	-	(162 349)	-	(162 349)
Eliminated on disposals of assets	-	-	-	-
Depreciation expense	-	(195 521)	(15 938)	(211 459)
Balance at 1 January 2006	-	(357 870)	(15 938)	(373 808)
Eliminated on disposals of assets		3 200	15 938	19 138
Depreciation expense	-	(204 386)	-	(204 386)
Balance at 31 December 2006	-	(559 056)	-	(559 056)
Carrying amount				
As at 31 December 2005	-	520 599	137 062	657 661
As at 31 December 2006	1 159 350	578 722	-	1 738 072

7. INTANGIBLE ASSETS

	Software Licences	Total
Cost	N$	N$
Balance at 1 January 2006	-	-
Additions	271 926	271 926
Balance at 31 December 2006	271 926	271 926
Accumulated depreciation and impairment		
Balance at 1 January 2006	-	-
Depreciation expense	(7 478)	(7 478)
Balance at 31 December 2006	(7 478)	(7 478)
Carrying amount		
As at 31 December 2005	-	-
As at 31 December 2006	264 448	264 448

8. INVESTMENT PROPERTY

	2006 N$	2005 N$
Market value at beginning of the year	6 801 691	-
Additions	-	6 801 691
Net gain from fair value adjustments	208 789	-
Balance at end of year	7 010 480	6 801 691

Investment property consists of office buildings only.

Erf number 7640, Windhoek with the floor space of 763 square meters (Sectional title)

Rental income received on investment property (included in note 3 "Non-interest income")	585 097	232 032
Operating expenses that generated rental income (included in the income statement)	(183 367)	(52 143)
	401 730	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, Mr Benjamin Joseph (Sworn Appraiser) on a replacement value basis on 19 January 2007.

There are no restrictions on realisation of the investment property. There are no material contractual obligations on the property.

		2006	2005
9.	**LOANS AND ADVANCES**	N$	N$
9.1	**Category analysis**		
	Instalment sales	411 588	486 471
	Term loans	75 631 194	75 905 369
	Notional value of advances	76 042 782	76 391 840
	Contractual interest suspended	(1 031 766)	(157 026)
	Gross advances	75 011 016	76 234 814
	Impairment of advances (Note 10)	(11 662 889)	(16 000 777)
	Net advances	63 348 127	60 234 037
	Short-term portion	(20 963 679)	(37 315 224)
		42 384 448	22 918 813
9.2	**Sectoral analysis**		
	Building and property development	3 732 286	4 026 461
	Individuals	95 574	152 227
	Manufacturing and commerce	72 214 922	41 697 911
	Mining	-	30 046 538
	Other	-	468 703
	Notional value of advances	76 042 782	76 391 840
	Contractual interest suspended	(1 031 766)	(157 026)
	Gross advances	75 011 016	76 234 814
	Impairment of advances (Note 10)	(11 662 889)	(16 000 777)
	Net advances	63 348 127	60 234 037
	Short-term portion	(20 963 679)	(37 315 224)
		42 384 448	22 918 813
9.3	**Maturity structure**		
	Repayable on demand	-	129 723
	One year or less but not repayable on demand	4 554 775	37 185 501
	Five years or less but over one year	20 883 665	20 625 786
	Over five years	37 909 687	2 293 027
	Net advances	63 348 127	60 234 037
	Short-term portion	(20 963 679)	(37 315 224)
		42 384 448	22 918 813

9. LOANS AND ADVANCES (continued)

9.4 Geographical analysis

	2006 N$	2005 N$
Namibia – net advances	63 348 127	60 234 037
Short-term portion	(20 963 679)	(37 315 224)
	42 384 448	22 918 813

10. IMPAIRMENT OF ADVANCES

2006

	Total Impairment N$	Specific Impairment N$	Portfolio Impairment N$	Income Statement N$
Opening balance	16 000 777	16 000 777	-	-
Amounts written off	(3 827 565)	(3 827 565)	-	-
Unwinding of discounted present value on non-performing and off-market loans	(516 615)	(516 615)	-	-
New provisions created	6 292	6 292	-	6 292
Provisions created	64 000	64 000	-	64 000
Provisions released	(57 708)	(57 708)	-	(57 708)
Recoveries of bad debts	-	-	-	-
Closing balance	11 662 889	11 662 889	-	6 292

The fair value adjustment of N$ 516 615 (2005: N$ 295 601) arose from the unwinding of the fair value adjustment on off-market loans.

2005

	Total Impairment N$	Specific Impairment N$	Portfolio Impairment N$	Income Statement N$
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	-	-

10. IMPAIRMENT OF ADVANCES (continued)

Non-Performing loans by sector	Credit Risk	Security Held	Contractual Interest Suspended	Specific Impairments
	N$	N$	N$	N$
Manufacturing and commerce	15 121 834	7 420 000	1 017 503	6 670 397
Other	95 574	-	14 264	64 720
2006 Total non-performing loans	15 217 408	7 420 000	1 031 767	6 735 117
2005 Total non-performing loans	14 504 516	3 782 445	157 026	10 556 390

Non-Performing loans by Category

Instalments Sale	36 845	-	2 756	12 420
Term Loans	15 180 563	7 420 000	1 029 010	6 722 697
2006 Total non-performing loans	15 217 408	7 420 000	1 031 766	6 735 117
2005 Total non-performing loans	14 504 516	3 782 445	157 026	10 556 390

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

	2006	2005
11. INVESTMENTS	N$	N$
Held to maturity investments carried at amortised cost		
Fixed and call deposits	452 911 321	301 967 814
Treasury bills	9 159 623	931 289
	462 070 944	302 899 103
Directors’ valuation	462 070 944	302 899 103

12. ACCOUNTS RECEIVABLE

Prepaid expenses	95 419	77 200
Other receivables	13 337	-
Deposits	76 350	172 600
	185 106	249 800

13. SHARE CAPITAL

	2006	2005
	N$	N$
Authorised		
1 500 Ordinary shares of N$ 100 000 each	150 000 000	150 000 000
Issued		
Share capital: 1 325 Ordinary shares of N$ 100 000 each	132 500 000	130 000 000
Share premium: 50 Ordinary shares of N$ 4 236 518.76 each	211 825 938	211 825 938
Share premium: 25 Ordinary shares of N$ 4 230 000.00 each	105 750 000	-
	317 575 938	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.

14. ACCOUNTS PAYABLE

Trade payables	1 164 348	102 604
Salary related payables	1 900 359	1 806 239
	3 064 707	1 908 843

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.

15. LEASE COMMITMENTS

Operating lease commitments

Vehicles	199 044	184 497
Office equipment and leased lines	129 643	243 236
Buildings	1 270 448	1 160 053
	1 599 135	1 587 786
To be incurred as follows:		
Up to 1 year	1 385 025	1 290 567
2 - 5 years	214 110	297 219
	1 599 135	1 587 786

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 Interest rate risk 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.

2006			Term to Repricing			
ASSETS	Carrying amount	Demand	1-12 months	2-5 years	Over 5 years	Non-interest earning/bearing
Banking operations						
Cash and bank balances	447 534	447 534	-	-	-	-
Investments	462 070 944	13 249 585	448 821 359	-	-	-
Advances	63 348 127	-	4 554 775	20 883 665	37 909 687	-
Accounts receivable	185 106	-	-	-	-	185 106
Property and equipment	1 738 072	-	-	-	-	1 738 072
Intangible assets	264 448	-	-	-	-	264 448
Investment property	7 010 480	-	-	-	-	7 010 480
Total assets	535 064 711	13 697 119	453 376 134	20 883 665	37 909 687	9 198 106
Liabilities and shareholders' equity						
Creditors and accruals	3 064 707	-	-	-	-	3 064 707
Shareholders' equity	532 000 004	-	-	-	-	532 000 004
Total liabilities and shareholders' equity	535 064 711	-	-	-	-	535 064 711
Net interest sensitivity gap	-	13 697 119	453 376 134	20 883 665	37 909 687	(525 866 605)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

16.1 Interest rate risk management (continued)

2005		Term to Repricing				
ASSETS	Carrying amount	Demand	1-12 months	2-5 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)

16.2 Credit risk management

The enterprise 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.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

16.3 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

2006		Term to Maturity			
ASSETS	Carrying amount	Demand	1-12 months	2-5 years	Over 5 years
Banking operations					
Cash and bank balances	447 534	447 534	-	-	-
Investments	462 070 944	13 249 585	448 821 359	-	-
Advances	63 348 127	-	4 554 775	20 883 665	37 909 687
Accounts receivable	185 106	95 419	89 687	-	-
Property and equipment	1 738 072	-	-	578 722	1 159 350
Intangible assets	264 448	-	-	264 448	-
Investment property	7 010 480	-	-	-	7 010 480
Total assets	535 064 711	13 792 538	453 465 821	21 726 835	46 079 517
Liabilities and shareholders' equity					
Creditors and accruals	3 064 707	1 164 348	1 900 359	-	-
Shareholders' equity	532 000 004	-	-	-	532 000 004
Total liabilities and shareholders' equity	535 064 711	1 164 348	1 900 359	-	532 000 004
Net liquidity gap	-	12 628 190	451 565 462	21 726 835	(485 920 487)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

16.3 Liquidity risk management (continued)

2005		Term to Maturity			
ASSETS	Carrying amount	Demand	1-12 months	2-5 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)

16.4 Currency risk

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

16.5 Fair value

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

17. 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 has to be done in the year ending December 2006; however the Development Bank of Namibia Retirement Fund year end is 28 February 2007. All employees contribute to the Fund. Total Bank contributions for the year amounted to N$ 857 871 (2005: N$ 713 495).

	2006	2005
	N$	N$
18. LOAN COMMITMENTS		
Commitments in respect of loan agreements concluded		
but not fully disbursed:	37 812 875	3 858 785
Commitments in respect of loans approved		
but not yet signed by borrower:	16 000 000	70 000 000
18.1 Contingent liabilities		
Guarantees issued	35 800 000	-
19. CAPITAL COMMITMENTS		
Capital expenditure authorised -		
but not contracted for	126 870	671 645
and contracted for	13 290 000	-
	13 416 870	671 645

20. 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.

20.1 Compensation to key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2006	2005
	N$	N$
Short-term benefits	3 400 335	3 034 249
Post employment benefits	801 399	493 947
	4 201 734	3 528 196

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.

20.2 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$ 130 million in the prior year to N$ 132.5 million in the current year by the issue of an additional 25 ordinary shares of N$ 100 000 each at a premium of N$ 4 230 000 per share.

Development Bank of Namibia
PO Box 235
Windhoek, Namibia
tel. +264-61-290 8000
fax. +264-61-290 8049
e-mail: info@dbn.com.na
www.dbn.com.na