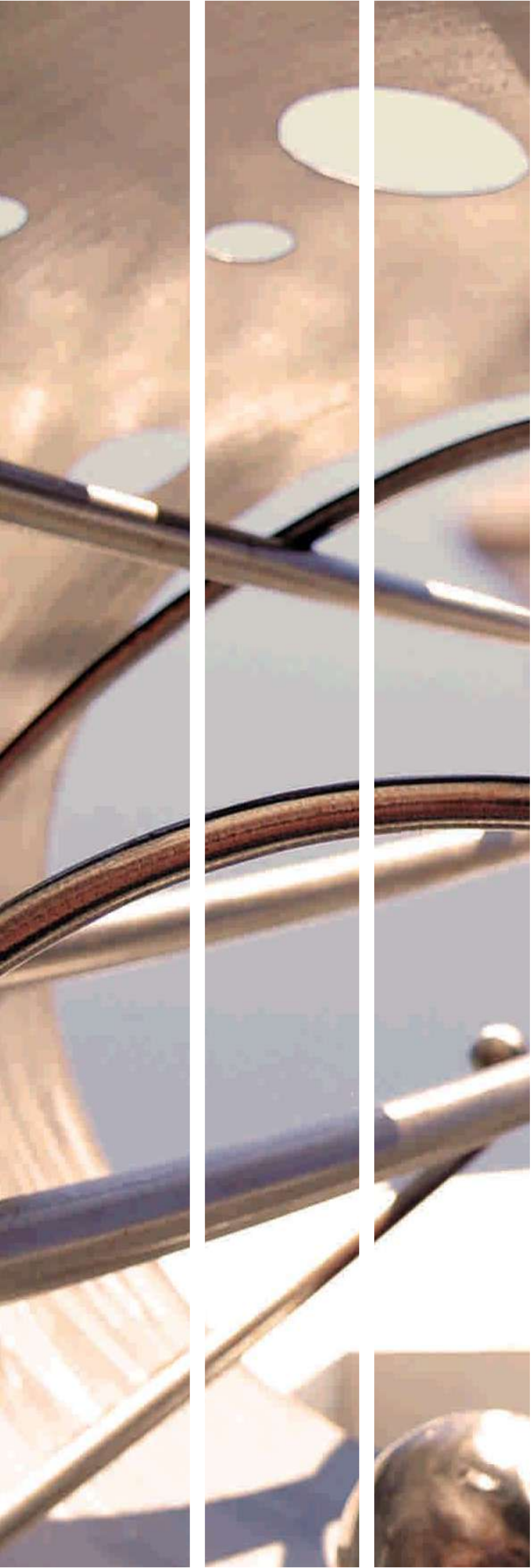
Annual Report 2008

Development Bank of Namibia



Profile

The Development Bank of Namibia (DBN) avails financial resources to productive sectors of the economy to propel the country's industrial progress. The Bank was established through an Act of Parliament in 2002 and launched in 2004.

Initially capitalised by the Government of Namibia, the Bank is open to equity participation by recognised development and financial institutions.

NATURE OF FINANCE

DBN PROVIDES FINANCE FOR

- Private sector start-ups and expansions
- Infrastructure development
- Equity deals
- Bridging finance
- Enterprise development finance
- Black economic empowerment enterprises
- Franchise facilities
- Small and medium enterprises
- Micro finance providers

BUSINESS APPROACH

THE HALLMARKS OF DBN'S APPROACH ARE

- Business logic first
- Acceptance of innovation
- Risk mitigation
- Custom financing
- Financial principles
- Robust governance

BOARD & GOVERNANCE

The Bank is governed by a board of seven directors composed of business leaders from the private sector, including representatives of the financial sector.

Its policies and practices are exercised in a transparent manner. Activities are conducted with due consideration for the requirements of public accountability, while taking account of projects' sensitive aspects.

For more on the DBN, visit www.dbn.com.na

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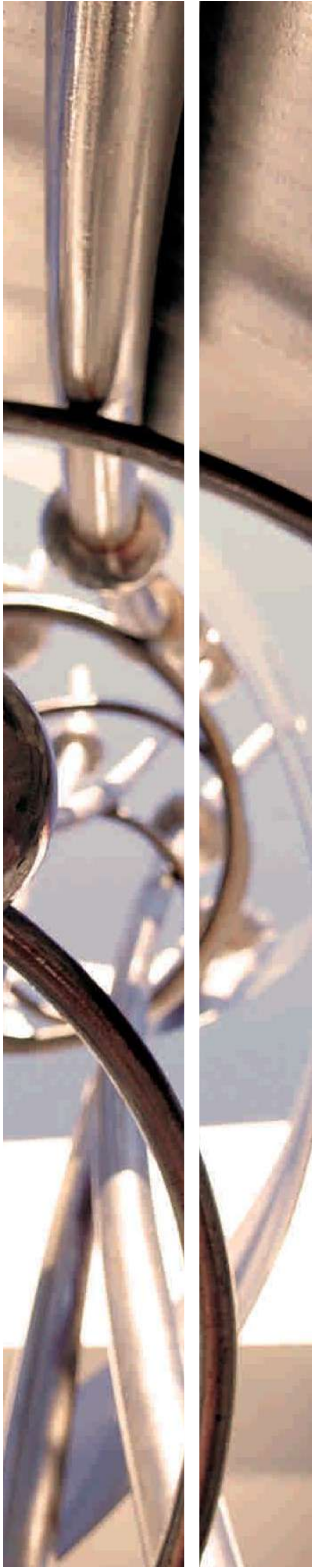


Chairman's Report

Sven Thieme

"I am delighted with the execution of the Bank's strategy in 2008 and progress made towards our undertaking to build a sustainable bank.

In terms of our implementation of the DBN's mandate, I am satisfied that the financial health of the institution is sound and in line with the overriding objective to achieve sustainable development."

Chairman's Report

The past year will be remembered as the one in which we have seen the most significant financial crisis since that of 1929. It was a year of turmoil, which started off with the food and oil crises, followed by the decline in demand for commodities, and ending with a severe financial crisis which almost precipitated the collapse of the entire global financial world.

The immediate impact of the financial crisis was mostly felt in the northern hemisphere and, while it struck here too, its impact has been less pronounced to date. In the longer term, it is difficult to make a quantified projection on the impact; however a difficult 18 months lie ahead.

Factors which are cited regionally include high inflation, high interest rates, and substantial unemployment as well the effect of the energy crisis in the region, though the latter may be eased with the impetus from the requirements of the FIFA World Cup.

In the same breath, it is important to note that some positive indicators may ease the situation as the inflation rate is falling and hence the interest rates. The fuel price has also softened. This holds out hope of relief for consumers' pockets.

One thing we know for sure, the world will never be the same again. The learning for all is that the future requires even more careful planning and assessment of risk to ward against a repeat of the calamity. For the Development Bank, it means that we have to continue to rigorously appraise projects' financial, managerial and technical soundness as well as their environmental and social impacts.

Improving small and medium enterprises (SMEs') access to finance remains a development priority for the DBN. We are developing innovative facilities that can contribute to this significant sector's growth. While the level of control in the local financial industry acted as a buffer to the financial crisis, there is a long-term need for greater innovation in extending financial access to SMEs, and acceptance and management of risk entailed in SME finance by the financial industry.

The emerging lesson from current events is that Namibia has to renew its focus on local value adding and manufacturing. Although the country has been served well by abundant commodities, diminishing cash outflows, particularly in the fields of diamonds and copper, are a cold reality.

Local sources of capital, as envisaged in Regulation 28, will provide funds for development of local industry, create opportunities for import substitution, generate local employment, reduce cash outflows and diversify opportunities for cash inflows.

For the DBN, the coming year will also, importantly, see the further marketing of products directed towards the most economically marginalised, in the form of the micro-finance facility, aimed at on-lenders with track records indicating a clear impact on the developmental indicators on which Namibia measures its progress, particularly redressing the highly skewed Laffer Curve.

I am delighted with the execution of the Bank's strategy in 2008 and progress made towards our undertaking to build a sustainable bank. In terms of our implementation of the DBN's mandate, I am satisfied that the financial health of the institution is sound and in line with the overriding objective to achieve sustainable development.

The N$ 1 billion balance sheet, which will foster our ability to realise projects with even greater developmental impact, is well within reach.

I am satisfied to note that the board has served the interest of the Bank with a high degree of competency. The board's function is to ensure that the Bank's strategy is executed, and that appropriate governance systems

Chairman's Report

are in place. The governance framework instituted is sound and the committees and sub-committees of the board are working properly. All affairs of the board are duly recorded and acted upon.

It is imperative for the Development Bank to adhere to robust governance standards. We are entrusted with public funds and have a vital mandate to fulfil. We therefore have to ensure that all systems and processes are in place, and that nothing jeopardises our endeavour to build a solid institution.

At the DBN's inception, we set ourselves the objective of being a world-class institution. Our early implementation of International Financial Reporting Standards (IFRS), ongoing investments in human capital, and adoption of industry best practices in all our operations are critical success factors in building a sustainable bank, and important manifestations of this vision.

This year we are further consolidating the key pillars of the Bank's operations and strategy. This includes a strengthened focus on the functions of the Asset and Liability Committee as a result of enhanced capabilities delivered by the new Management Information System, and sustaining the levels of staff satisfaction achieved in a recent employee survey.

The outcome of the survey bodes well for our ability to attract the right calibre of people, while the effort expended in the building of a performance culture reflects in the gains made by the Bank.

The commitment to the Development Bank's values of innovation, integrity, professionalism, sustainability and transparency saw the establishment of an institution sufficiently sound to endure the impact of the financial crisis.

Our ability to further improve our governance framework and assume a culture of long term, as opposed to short term thinking, will determine our ability to continue to advance economic growth in Namibia.

Sven Thieme

The German Development Bank, KfW, gave DBN a EUR 800,000 grant for capacity building. Consultants Eyvind Alnaes (left) and David Caffrey started work in Windhoek in September.

Namibian workers transforming DBN's head office. The Bank's staff moved in in May.

Director, Asnake Getachew (left), presenting CEO, David Nuyoma, with a certificate for five years' dedicated service.

Board of Directors

FROM LEFT TO RIGHT
Estelle Tjipuka
Sara Elago
David Nuyoma, Chief Executive Officer
Asnake Getachew
Elize Angula
Sven Thieme, Chairperson
Jennifer Comalie

Corporate Governance Report

DBN strictly adheres to the requirements of the legislation by which it is governed. It adheres to the Accounting Principles as set forth in the International Financial Reporting Standards (IFRS) and voluntarily subscribes to the Banking Institutions' Act in terms of its credit control framework.

Governance structures within DBN
Board of Directors
The DBN Board is constituted according to the provisions of the DBN Act and consists of seven directors, all of whom are currently appointed by the Minister of Finance, representing the Government of the Republic of Namibia as the sole shareholder in the Bank. In the event, however, of other stakeholders taking equity in the Bank, as provided for by the Act, the Minister will appoint directors proportionate to its shareholding.

DBN's governance structure is modelled on the principles put forth in the King Commission Reports 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 the Board Rules. The following Board committees are in place and are functioning effectively:

- Audit, Risk and Compliance;
- Credit and Investment;
- Human Capital and Remuneration; and
- Special Development Fund.

The board also believes that adhering to good governance practice involves more than compliance. The directors recognise the value of consistently employing the principles of good faith, care and skill and diligence in all their duties and believe 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 operation 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 2008, 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. Development Bank 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.

PriceWaterhouseCoopers (PWC) was appointed to execute the internal audit function and to assist the CEO and the AU in the effective discharge of their responsibilities by performing independent appraisal activities of the Bank's management controls.

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 key function of the CI committee is the extension of credit and exercising investment decisions in order to maximise returns on available investment options.

Human Capital and Remuneration Committee (HC)
The HC 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 and businessman, 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, where the risk may be high in relation to the expected return. 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.

Milestones attained in 2008

Gottlieb Hinda became DBN's first Namibian Chief Operations Officer in July.

Chairman, Sven Thieme (left); President Hifikepunye Pohamba; and CEO, David Nuyoma, admire an artist's work at the DBN building launch in October. President Pohamba launched the Bank's Micro-finance facility at the same occassion.

From left to right at the signing of the SME Line of Credit Agreement in July, are Leonard Haynes, FNB Namibia CEO; David Nuyoma, DBN CEO; and James Hill, Bank Windhoek MD. DBN's Head: Credit and Risk Management, Lindsay Crawford, looks on.

In May, DBN entered into a Memorandum of Understanding with the Japan Bank for International Cooporation. Pictured at the ceremony in Yokohama are DBN CEO, David Nuyoma (left) and JBIC Governor, Koji Tanami. The Memorandum of Understanding was signed during the fourth Tokyo International Conference on African Development (TICAD IV).

Unam artist, Kleopas Nghikefelwa, was one of the young artists who developed work for DBN's head office.

CEO's Report

David Nuyoma

"On the whole, the financial results reflect a healthy position.

These results were, importantly, realised at a time when financial institutions all over the world saw a shocking shrinkage in value."

CEO's Report

The results for 2008 are in keeping with the positive trend since the Bank's formation. The balance sheet shows a 30.9 per cent increase: from N$ 651 million in 2007 to N$ 852 million for the period under review. This growth is vital to the DBN as it allows us to absorb greater risk and assume a bigger role in projects with development potential.

The fact that the Bank is liquid, with few significant liabilities, is of particular importance. I ascribe this healthy state to our shareholder's sustained commitment and also to the increase in retained income, which now stands at N$ 184 million.

The Bank recorded a respectable net profit of N$ 49.9 million in the past year despite the N$ 7.3 million effect of fair valuing fully secured loans to Bank Windhoek and First National Bank of Namibia for onlending to SMEs at discounted interest rates.

The decision to make financing available at rates equal to the Central Bank Rate is in line with DBN's resolve to improve SMEs' access to finance and so foster growth and prosperity in the sector. The agreements were concluded on 24 July, and came into effect in August. By 31 December, 44 entrepreneurs were supported through facilities totalling N$ 30.5 million that led to creation of 446 jobs.

The total fair value provision of N$ 12,673,076 on the loans advanced to the commercial banks (see note 9 of AFS) will be unwound as credits through the income statement over the period of the agreements as follows:

2009: N$ 2,783,100
2010: N$ 2,783,100
2011: N$ 2,783,100
2012: N$ 2,293,546
2013: N$ 1,295,906
2014: N$ 734,325
Total: N$ 12,673,076

The net profit was, further, attained without additional injections like the N$ 10 million grant from the central bank in 2007, to support DBN during its establishment phase.

DBN's performance, without the effect of these extraordinary items, would correspond to the table below*:

The profit realised in 2008, was achieved from income generated by the Development Bank directly and is confirmation that we are standing on our own feet.

The returns on average share capital and total average equity show healthy ratios of 11.8 and 15.00 per cent respectively. The cost to income ratio of 23.1 per cent is well within budget and compares favourably with peers' benchmark limits.

On the whole, the financial results reflect a healthy position. These results were, importantly, realised at a time when financial institutions all over the world saw a shocking shrinkage in value.

The sharp 98.0 per cent increase in loan book growth - from N$ 176 million in 2007 to N$ 348.4 million in 2008 is a further positive development. We expect another notable increase in the book's growth in 2009 as loans valued at N$ 467.76 million were approved in 2008 compared to approvals of N$ 311 million in 2007.

This growth is a function of our commitment to DBN's mandate. The projects on the book are diverse in terms of sectoral and geographic

** Performance in 2008*	**2005**	**2006**	**2007**	**2008**
	N$	**N$**	**N$**	**N$**
Interest Income	18,452,270	35,859,572	57,046,091	81,168,733
Non-interest income less grants	1,008,708	4,098,441	6,069,780	6,069,479
Income before impairment of advances	19,460,978	39,958,013	63,115,871	87,238,212
Less: Specific impairments	-	(6,292)	1,672,820	(9,395,778)
Operating expenditure	(12,170,833)	(13,257,607)	(15,789,831)	(20,593,821)
Profit before grants & off-market impairments	7,290,145	26,694,114	48,998,860	57,248,613

spread and show that the growth is not limited to the bottom line, but a reflection of the endeavour to make a positive contribution to overall economic performance.

In terms of reach, we now have projects in all 13 regions of the country; an expression of the conscious effort to advance growth with equity. The projects financed are in three focal areas: infrastructure, private sector - particularly manufacturing, fishing, mining and tourism sectors - and SME development.

It is worth noting that small and emerging entrepreneurs (SMEs) secured tenders valued at N$ 283.86 million as a result of the financing extended through the bridging finance facility. Since the introduction of the facility in 2005, N$ 67.33 million was advanced and contracts worth N$ 360.96 million executed.

Market access is a common and considerable challenge for emerging entrepreneurs. The bridging finance facility is structured to assist with implementation of contracts with secured markets.

It has helped upcoming entrepreneurs build up their asset base more swiftly than would have been the case in the absence of all the elements needed for success.

DBN's support to SMEs is underscored by the extension of a N$ 100 million line of credit to two local commercial banks, Bank Windhoek and First National Bank of Namibia, for financing of term loans and mentorship support. The partnership has its roots in the successful pilot programme started with Bank Windhoek in August 2005.

The pilot programme made it apparent that 'going it alone' would have been costly, a duplication of effort and resources, and inconsistent with global best practice on finance for the SME sector. By joining forces the banks were able to leverage human, technical and management information system (MIS) infrastructure.

It also allows DBN to gain physical presence across the country without the additional cost involved in establishing and maintaining a network of offices or branches; a cost that would be apparent in the pricing of loans.

The partnerships were the outcome of an invitation to all commercial banks in the country to participate in a venture that fosters growth and prosperity in the SME sector. Financing extended to SMEs through this facility is provided at the central bank rate, the lowest interest rate available, and is an expression of DBN's serious commitment to enterprise development. This benefit can be passed on to end-users because of the concessionary rates at which DBN made the loans available to the intermediaries.

The Bank's growth further means that it is taking on more risks. This is reflected in the impairment of advances which stands at 4.74 per cent of the loan book, excluding the loans to commercial banks. Twenty five per cent of this impairment is from loans inherited from the Development Fund of Namibia.

The global benchmark for development finance institutions in this respect is eight per cent.

These first impairments are a natural progression for the DBN as development banks undertake financing activities with a higher risk profile than commercial banks. It has been anticipated in the business plan at establishment that non-performing loans would have to be expected. However, the Bank's commitment to managing the loan book prudently and proactively through sound assessment of applications remains a prime consideration.

The DBN is the youngest in the SADC's (Southern African Development Community) network of development finance institutions (DFIs). In 2008, it was of one of only three DFIs in the region selected for rating by an international rating agency. This selection is symbolic of a new reality and reversal of the trend of underperforming development banks. The quality and regularity of financial reporting and the quality of our loan book makes the DBN representative of the new DFI.

Organisationally, 2008 saw a substantial increase in the Bank's staff complement - from 17 in 2007, to 25 in 2008. This increase is in line with the business plan and in response to actual needs. It is also within acceptable cost parameters.

In line with best practice, during the period under review, DBN commissioned an employee engagement survey to gauge satisfaction within the workplace. The survey examined employees' perception of the Bank's image, leadership, empowerment and career development.

The survey results concluded that in the context of regional benchmarks, 'DBN's employee engagement levels are well above average, which is a sign of a healthy work environment'.

The commencement of the consulting services realised through grant assistance by the German Development Bank (KfW) in September, provides us with an opportunity to further enhance capacity and attain our aspiration of world class performance standards.

In 2008, we further solidified our presence in the market by moving to our own building in the heart of the city. The building, which adds significant character and elegance to Windhoek's skyline, was officially inaugurated by President Hifikepunye Pohamba in October.

The President launched the Bank's micro-finance facility at the same occasion. The facility is an outcome of DBN's effort to broaden its reach, particularly in support of pro-poor initiatives. It provides a framework for lending to intermediary institutions that provide micro-credit for enterprise and housing developments, education, and renewable energy projects.

The DBN attaches great value to its relationship with stakeholders. It conducted a corporate reputation survey early in 2008 in an effort to better respond to various groups' expectations of the Bank. The survey revealed that 'overall, stakeholders were very positive about the reputation of the DBN'. We continue to draw lessons from these findings to improve our service to the public.

It is the DBN's belief that development is a multi-dimensional phenomenon, which requires partnerships. The cooperation agreement entered into with the Japan Bank for International Cooperation (JBIC) in May, is testimony of DBN's resolve to contribute to development through collective endeavour, and of the generosity of institutions such as JBIC that are willing to assist newcomers in the development finance arena. This cooperation will go a long way in helping DBN realise projects that are economically, financially and technically sound and that promote economic growth.

DBN also contributed to finalisation of the landmark Financial Services Charter in November, an important advancement of collective resolve to contribute to Namibia's development through the effort of all its citizens. The Charter is the culmination of years of work by the entire financial services sector to correct the imbalances created by exclusionary practices.

The cornerstone of the DBN's operations is sustainable development. 'Sustainability' is a main concern in the appraisal of projects, in the consideration of projects' geographic and sectoral spreads and in the consideration of their development impacts.

The DBN's establishment phase is over. This is evident from the balance sheet and loan book growth attained in 2008.

The character and performance of our loan book will continue to drive and sustain our growth. It is also the measure against which our contribution towards the realisation of the national development plan, Vision 2030, is weighed.

We therefore put a premium on extending our loan book beyond its current reach. And we affirm our commitment to transparency in our conduct and our reporting as our stakeholders require nothing less - especially in the prevailing global context.

David Nuyoma

Management Team

FROM LEFT TO RIGHT
Joy Sasman, Manager: Corporate Communications
Renier van Rooyen, Chief Financial Officer
Gottlieb Hinda, Chief Operations Officer
Lindsay Crawford, Head: Credit and Risk Management
Elriana Burger, Manager: Human Capital
David Nuyoma, Chief Executive Officer

Development Impact

The 81 projects approved for financing by DBN in 2008 - to the tune of N$ 467.76 million - are expected to create 1,617 new jobs and retain 3,235 existing ones. 1,281 temporary jobs are being created.

The projects are located in all 13 regions of the country.

DBN's premium on partnership is underscored by it having leveraged N$ 2.3 from other investors for every N$ 1 it committed.

Portfolio Summary

The 81 projects approved for financing by DBN in 2008 - to the tune of N$ 467.76 million - are expected to create 1, 617 new jobs and retain 3,235 existing ones. 1,281 temporary jobs are being created.

The projects are located in all 13 regions of the country and represent the key economic sectors of construction, fishing, services, mining, transportation and tourism. 25 per cent of overall funding, including finance to public utilities, and 42 per cent of private sector funding, went towards fostering black economic empowerment. DBN's premium on partnership is underscored by it having leveraged N$ 2.3 from other investors for every N$ 1 it committed.

SME advances through the DBN, FNB Namibia, Bank Windhoek partnership

The partnership between DBN and Bank Windhoek to expand SME financing was launched on 23 August 2005. Under the pilot programme N$ 59,274,821 was extended to 74 SMEs creating 586 jobs up until December 2007. 2008 saw the addition of another partner to the endeavour, FNB Namibia.

Together the two commercial banks extended N$ 30,599,744 to 47 SMEs, creating 446 jobs since the inception of the partnership in August 2008.

Despite SMEs' substantial contribution to growth in emerging and established economies, the sector continues to struggle to access financing.

The partnership between DBN and the commercial banks confronts this trend by pooling resources to benefit more businesses than the banks would have been able to on their own. Leveraging Bank Windhoek and FNB Namibia's infrastructural base saves DBN from setting up its own, and avoids duplication and potential waste of resources on a national level.

Corporate Social Initiatives

DBN's primary goal is to contribute to economic growth and development in Namibia. Certain aspects of its activities are therefore inherently of a Corporate Social Investment (CSI) nature, and includes aspects such as employment creation, black economic participation and economic diversification. DBN's CSI activities thus seek to fill gaps and improve lives.

The DBN offered support to the following projects in the past year:

- National Emergency Disaster Management Fund
- DAPP Vocational Training
- Namibian Business Women's Summit
- Association of Agricultural Economics of Namibia
- Okakarara Trade Fair
- Windhoek SME Expo
- Christina Swart-Opperman Aids Trust
- Sam Nujoma Innovative Enterprise Awards
- 5th Congress of the Association of Regional Councils
- Rural Women's Conference
- NYC - Youth Expo

Gas Probe Namibia

Selected Projects Financed

Croxton Investments

Croxton Investments is a retailer of solar energy products. The business is one of only a few companies in Namibia authorised to distribute SUNTECH solar products, Zhenfa solar street/road lighting products and Haokang solar water heaters, in Southern Africa. DBN's facility will go towards helping the company execute orders and still retain some inventory to respond to clients' needs.

Gas Probe Namibia

Gas Probe Namibia secured a tender for the Water Reticulation Project at Khorixas, which involves the rehabilitation of the existing infrastructure at Klein Khorixas to allow the Town Council to supplement their water needs from their own water resources by 30 per cent, thereby reducing the water price significantly and to the benefit of residents.

Brukkaros Skins

The company acquired the Keetmanshoop tannery from the Government Institutions Pension Fund to process sheep hides and skins following the government introduction of taxes on the export of raw skins.

Sedge Investments

Sedge Investments secured a contract from the Lüderitz Town Council to build 56 low cost houses in the town. The bridging finance facility will be used to purchase building material.

Trustco Education

Trustco Education is a subsidiary of Trustco Group International, a company with dual primary listing on the Namibian Stock Exchange (NSX) and the JSE Limited's (JSE) newly founded Africa Board. Trustco Education has two operating subsidiaries, Trustco Finance and the Institute for Open Learning (IOL), which provide educational loans and distance courses respectively. DBN's support is going toward loans for teachers wanting to upgrade their qualifications.

Croxton Investments

Sedge Investments

Gas Probe Namibia

Construction started at Namibia Dairies Superfarm, financed in 2007

Selected Projects Financed

Proqual Diagnostic Imaging
Proqual Diagnostic Imaging established a radiology imaging practice in Windhoek, offering general x-rays, special examinations, CT Scans and ultra sound scan. The project was started by six female radiographers with extensive knowledge in the medical imaging industry.

Seaflower Whitefish Corporation
The funds will be used to construct a new wetfish processing facility at Seaflower Whitefish Corporation's existing property in Lüderitz to ensure continuation of exports to the European Union.

Ugab Terrace Lodge
DBN's loan will go towards expanding the facilities to accommodate 56 people. The lodge is situated near Namibia's landmark Etosha National Park.

TransNamib Holdings
TransNamib Holdings is Namibia's road and rail utility. The company required a bridging facility to commence with the repositioning of the company.

Seaflower Whitefish Corporation

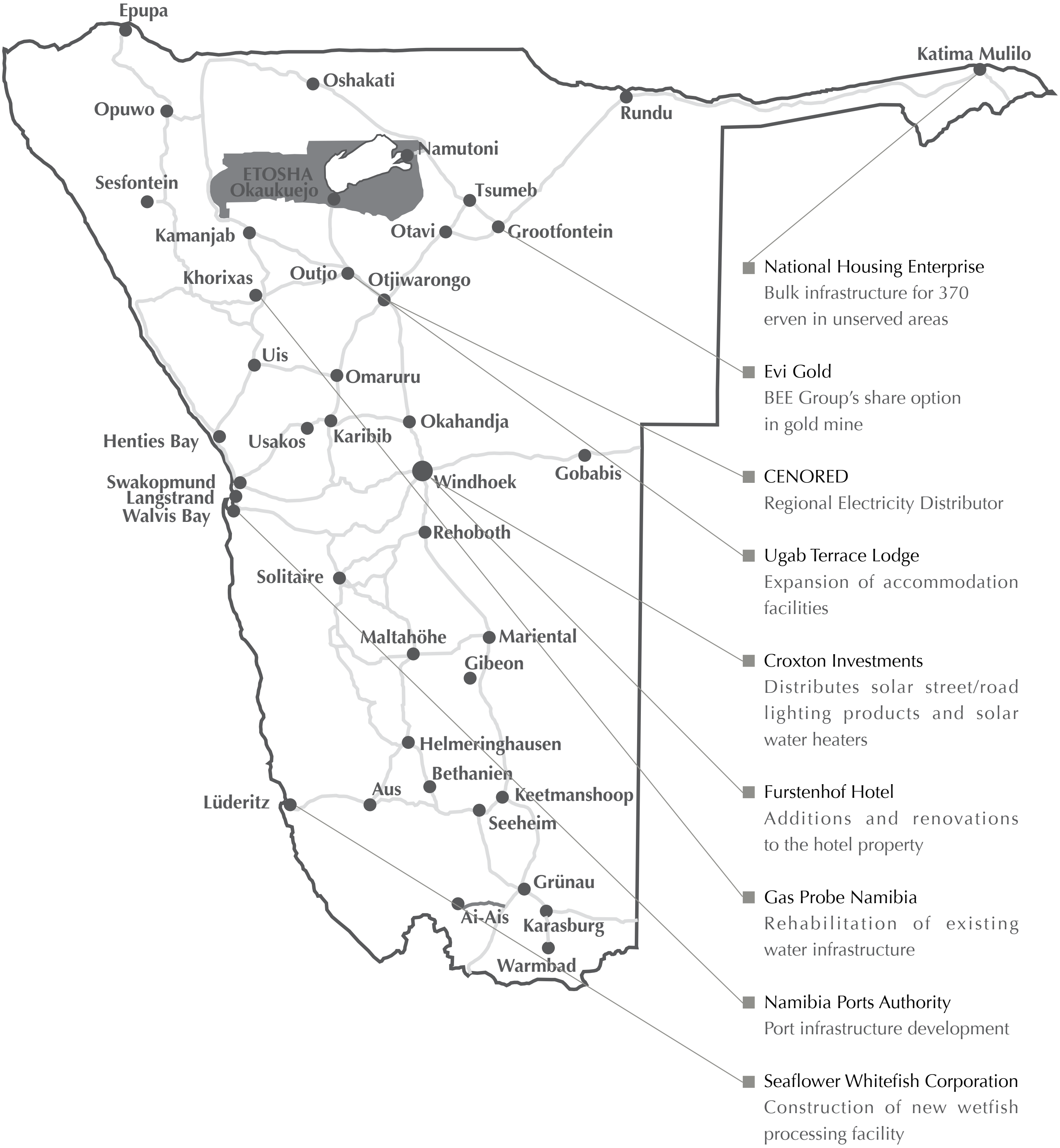
Ugab Terrace Lodge

Proqual Diagnostic Imaging

TransNamib Holdings

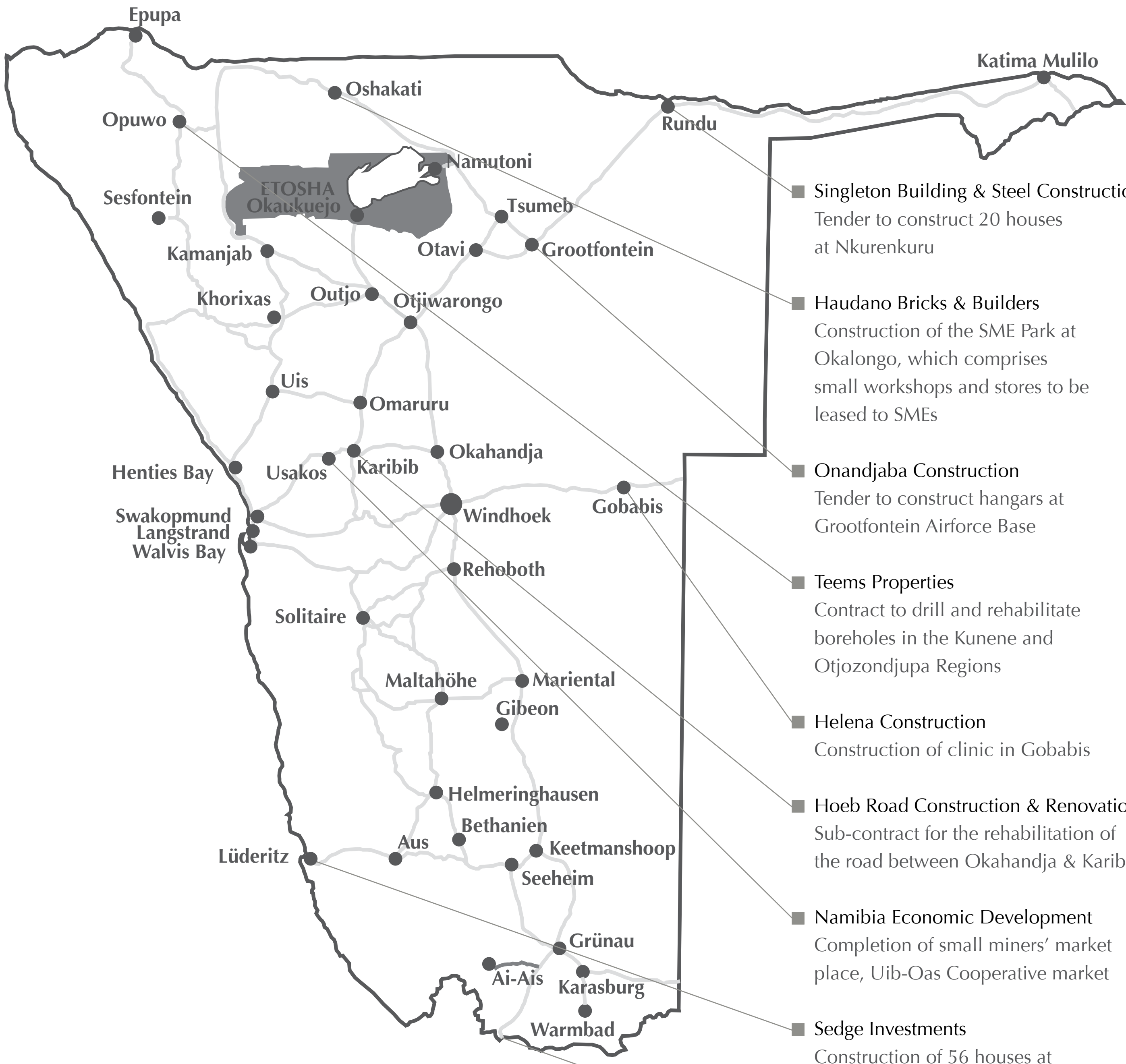
Development Impact
Selected Projects Financed in 2008

Selected infrastructure and key economic sector projects



Development Impact
Selected Projects Financed in 2008

Selected bridging finance provided for the execution of contracts



Singleton Building & Steel Construction
Tender to construct 20 houses at Nkurenkuru

Haudano Bricks & Builders
Construction of the SME Park at Okalongo, which comprises small workshops and stores to be leased to SMEs

Onandjaba Construction
Tender to construct hangars at Grootfontein Airforce Base

Teems Properties
Contract to drill and rehabilitate boreholes in the Kunene and Otjozondjupa Regions

Helena Construction
Construction of clinic in Gobabis

Hoeb Road Construction & Renovation
Sub-contract for the rehabilitation of the road between Okahandja & Karibib

Namibia Economic Development
Completion of small miners' market place, Uib-Oas Cooperative market

Sedge Investments
Construction of 56 houses at Benguela in Lüderitz

Cap's Construction
Construction of primary school and farm buildings at Tandjieskoppe Green Scheme project

Annual Financial Statements

31 December 2008

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 23.

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 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 56 were approved by the board of directors and are signed on their behalf by:

Sven Thieme
Chairman
20 April 2009

David Nuyoma
Chief Executive Officer
20 April 2009

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 2008, 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 56.

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 control relevant to the preparation and fair presentation of the financial statements that are free form 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 control 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 2008, 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 Namibia Act, No. 8 of 2002, and the Namibian Companies Act.

Deloitte & Touche

Deloitte & Touché
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Per VJ Mungunda
Partner
Windhoek
20 April 2009

REPORT OF THE DIRECTORS
31 December 2008

The directors have pleasure in presenting their report on the activities of the Bank for the year ended 31 December 2008.

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, (2007: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$ 134 million in the prior year to N$ 137,5 million in the current year by the issue of additional 35 ordinary shares for N$100 000 each at a premium of N$ 4, 185,714 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, Chairman
- D Nuyoma, Chief Executive Officer
- E Angula
- J Comalie
- S Elago
- A Getachew
- E Tjipuka

- J Sasman, Secretary

Business address	**Postal address**
Development Bank Building	P O Box 235
12 Daniel Munamava Street	Windhoek
Windhoek	NAMIBIA
NAMIBIA	

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 2008

	Notes	2008 N$	Restated 2007 N$
Interest income	2	83,052,125	57,046,091
Non-interest income	3	6,069,479	16,069,780
Total income before impairment of advances		89,121,604	73,115,871
Impairment of advances	10	(18,554,572)	(1,814,922)
- Normal loans		(9,395,778)	1,672,820
- Off-market loans to financial institutions		(9,158,794)	(3,487,742)
Total income after impairment of advances		70,567,032	71,300,949
Operating expenditure	4	(20,593,821)	(15,789,831)
Profit before taxation		49,973,211	55,511,118
Taxation	5	-	-
Profit for the year		49,973,211	55,511,118
Attributable to ordinary shareholders		49,973,211	55,511,118

BALANCE SHEET
at 31 December 2008

	Notes	2008 N$	Restated 2007 N$
ASSETS			
NON-CURRENT ASSETS		298,692,100	175,170,323
Property and equipment	6	24,277,601	11,633,614
Intangible assets	7	225,205	262,004
Investment property	8	7,550,000	7,010,480
Loans and advances	9	266,639,294	156,264,225
CURRENT ASSETS		554,189,306	476,526,952
Short-term portion of loans and advances	9	81,842,880	19,780,245
Accounts receivable	12	10,187,629	10,717,178
Cash and cash equivalents	11	462,158,797	446,029,529
TOTAL ASSETS		852,881,406	651,697,275
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES		848,879,669	648,906,458
Share capital	13	137,500,000	134,000,000
Share premium	13	527,025,938	380,525,938
Retained income		184,353,731	134,380,520
CURRENT LIABILITIES			
Accounts payable	14	4,001,737	2,790,817
TOTAL EQUITY AND LIABILITIES		852,881,406	651,697,275

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 December 2008

	Share capital N$	Share premium N$	Retained income N$	Total N$
Balance at 31 December 2006 as previously stated	132,500,000	317,575,938	81,924,066	532,000,004
Fair value adjustment on off-market loans (note 21)	-	-	(3,054,664)	(3,054,664)
Balance at 31 December 2006 as restated	132,500,000	317,575,938	78,869,402	528,945,340
New shares issued	1,500,000	62,950,000	-	64,450,000
Profit for the year	-	-	55,511,118	55,511,118
Balance at 31 December 2007	134,000,000	380,525,938	134,380,520	648,906,458
New shares issued	3,500,000	146,500,000	-	150,000,000
Profit for the year	-	-	49,973,211	49,973,211
Balance at 31 December 2008	137,500,000	527,025,938	184,353,731	848,879,669

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 December 2008

	Notes	2008 N$	Retated 2007 N$
CASH FLOWS FROM OPERATING ACTIVITIES		(120,458,113)	(39,901,016)
Interest received from loans and advances		26,217,580	12,559,439
Grant - Bank of Namibia		-	10,000,000
Non- interest income received		5,529,959	6,069,780
Loan disbursements		(212,107,149)	(134,149,483)
Loan principal repayments		24,695,403	38,359,594
Cash paid to suppliers and employees		(18,378,717)	(15,570,766)
Cash generated by operations	A	(174,042,924)	(82,731,436)
Interest received from investments		53,584,811	42,830,419
CASH FLOW FROM INVESTING ACTIVITIES		(13,412,619)	(10,227,364)
Acquisition of property and equipment		(13,347,188)	(10,121,527)
Acquisition of intangible assets		(113,505)	(105,837)
Proceeds from sale of property and equipment		48,074	-
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		150,000,000	64,450,000
Net increase in cash and cash equivalents		16,129,268	14,321,620
Cash and cash equivalents at the beginning of the period		446,029,529	431,707,909
CASH AND CASH EQUIVALENTS at the end of the period		462,158,797	446,029,529
A. CASH GENERATED BY OPERATIONS			
Income		49,973,211	55,511,118
Adjusted for:			
Interest received from investments		(53,783,564)	(42,830,419)
Fair value gain on investment property		(539,520)	-
Depreciation expense		806,861	334,266
Bad debts written off		197,323	-
		(3,345,689)	13,014,965
Changes in working capital		(170,697,235)	(95,746,401)
Increase/(Decrease) in accounts receivable		529 549	(4,689,965)
Increase in loans and advances		(172,437,704)	(90,782,546)
Increase/(Decrease) in accounts payable		1,210,920	(273,890)
Cash generated by operations		(174,042,924)	(82,731,436)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 December 2008

GENERAL INFORMATION

Development Bank of Namibia (the Bank) is a limited company incorporated in Namibia. The addresses of its registered office and principal place of business are disclosed in the report of the directors. The principal activities of the Bank are described in the introduction to the annual report.

SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

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 principal accounting policies set out below.

ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current period:

In the current year, the Bank has applied the following amendments and interpretations which have become effective.

- IFRIC 12: Service Concession Arrangements: Effective for annual periods beginning on or after 1 January 2008
- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Effective for annual periods beginning on or after 1 January 2008

The application of these Interpretations had no material effect on how the results and financial position of the current or prior accounting periods have been prepared and presented and has not led to any changes in DBN's accounting policies.

Standards and Interpretations in issue not yet adopted:

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

- IAS 1 - Presentation of Financial Statements: Effective for annual periods beginning on or after 1 January 2009
- IAS 23 - Borrowing Costs: Effective for annual periods beginning on or after 1 January 2009
- IAS 27 - Consolidated and Separate Financial Statements: Effective for annual periods beginning on or after 1 July 2009
- IAS 28 - Investments in Associates: Effective for annual periods beginning on or after 1 July 2009
- IAS 31 - Interest in Joint Ventures: Effective for annual periods beginning on or after 1 January 2009
- IAS 39 - Financial Instruments Recognition and Measured: Effective for accounting periods beginning on or after 1 July 2009
- IFRS 2 - Share Based Payments: Effective for annual periods beginning on or after 1 January 2009
- IFRS 3 - Business Combinations: Effective for annual periods beginning on or after 1 July 2009
- IFRS 8 - Operating Segments: Effective for annual periods beginning on or after 1 January 2009
- IFRIC 13 - Customer Loyalty Programmes: Effective for annual periods beginning on or after 1 July 2008

- IFRIC 15 - Agreements for the Construction of Real Estate: Effective for annual periods beginning on or after 1 January 2009

- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation: Effective for annual periods beginning on or after 1 October 2008

- IFRIC 17 - Distribution of Non-cash Assets to Owners: Effective for annual periods beginning on or after 1 July 2009

- IFRIC 18 - Transfer of Assets from customers: Transfers received on or after 1 July 2009

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

Revenue Recogniction

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. The Bank suspends the accrual of contractual interest on non-recoverable advances. Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances. Dividends received on these instruments are included in interest income.

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.

Dividend income
Dividend income from investments is recognised when the right to receive payment has been established.

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, using the effective interest rate method, less any impairment.

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.

Interest from investments is accounted for on the accruals basis.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date. All balances from date of acquisition included in cash and cash equivalents have an maturity date less than four months.

Offsetting of financial instruments

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

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, less any impairment. 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.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. Contingent liabilities are not recognised in the balance sheet, but disclosed in note 18.

Commitments

Items are classified as commitments where the group has committed itself to future transactions. Commitments are not recognised in the balance sheet, but disclosed in note 19.

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 estimate useful lives, residual values and depreciation method are reviewed at each balance sheet date, with effect of any changes in estimate being accounted for on a prospective basis.

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.

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.

Retirement fund

It is the policy of the Bank to provide retirement benefits for employees. Contributions to the retirement 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.

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 and estimates 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.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next financial years are discussed below:

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.

Useful lives and residual values
The estimated useful lives and residual values for assets are reviewed regularly taking cognisance of the forecasted commercial and economic realities and through benchmarking of accounting treatments and the specific industries where the assets are used.

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.

Comparitive figures
Where necessary, comparative figures are restated to be consistant with the disclosure in the current year.

		2008 N$	Restated 2007 N$
2. INTEREST INCOME			
Investments		53,783,564	42,830,419
Loans and advances		26,217,580	12,559,439
Unwinding of fair value adjustment		3,050,981	1,656,233
		83,052,125	57,046,091
3. NON-INTEREST INCOME			
Grant received - Bank of Namibia*		-	10,000,000
Transactional fee income		2,314,428	1,095,740
Rent received		170,780	528,273
Profit on sale of assets		1,430	-
Revaluation of Investment Property		539,520	-
Sundry income		3,043,321	4,445,767
		6,069,479	16,069,780
* Unconditional grant to aid the Bank with establishment.			
4. OPERATING EXPENDITURE			
Auditors' remuneration	- audit fees	186,430	141,747
	- other services	44,060	46,598
Bad debts written off		197,323	-
Directors' fees	- for services as directors	416,037	502,126
	- for management services	1,331,231	1,244,141
Depreciation and amortisation		806,861	334,266
Professional services		1,197,745	708,375
Salaries and related personnel costs		10,123,944	7,717,317
Bank interest paid		21,143	2,857
Operating leases	- buildings	484,557	1,120,572
	- equipment	430,383	333,647
	- motor vehicle	35,641	42,596
Other expenditure		5,318,466	3,595,589
Total operating expenditure		20,593,821	15,789,831
Number of employees		**25**	**17**

	2008 N$	2007 N$
4. OPERATING EXPENDITURE (continued)		
4.1 DIRECTORS EMOLUMENTS		
Emoluments paid to directors of the company for the year ended 31 December 2008 are set out below:		
4.1.1 Chief Executive Officer - D Nuyoma		
Fees as director	-	-
Pensionable salary	829,494	775,227
Bonus	307,207	287,110
Company contributions to pension and medical aid schemes	194,530	181,804
	1,331,231	1,244,141
4.1.2 Non-executive directors		
S Thieme (Chairman)	65,051	80,808
A Getachew	77,626	93,422
S Elago	43,599	58,336
E Angula	68,352	70,208
J Comalie	95,425	106,142
E Tjipuka	65,984	93,210
	416,037	502,126

4. OPERATING EXPENDITURE (continued)

4.1 DIRECTORS EMOLUMENTS (continued)

4.1.3 Record of attendance

	Board	AU	CI	HC	SDF
No. of meetings	**7**	**4**	**7**	**3**	**2**
Sven Thieme	(Chair) 6			2	
David Nuyoma	7	4	7	3	2
Elize Angula	5	3		3	
Jennifer Comalie	7	4	(Chair) 7		2
Sara Elago	6			(Chair) 1	
Asnake Getachew	7	4	7		(Chair) 2
Estelle Tjipuka	5	(Chair) 4	6		

Board committees and membership

AU: Audit, Risk and Compliance Committee
Estelle Tjipuka, Chairperson; David Nuyoma, Executive Director; Elize Angula; Jennifer Comalie; Asnake Getachew

CI: Credit & Investment Committee
Jennifer Comalie, Chairperson; David Nuyoma, Executive Director; Asnake Getachew; Estelle Tjipuka

HC: Human Capital & Remuneration Committee
Sara Elago, Chairperson; David Nuyoma, Executive Director; Elize Angula; Sven Thieme

SDF: Special Development Fund Committee
Asnake Getachew, Chairperson; David Nuyoma, Executive Director; Jennifer Comalie

	2008 N$	**2007 N$**
Schedule of Director's Fees		
Chairperson's quarterly fee	8,507	7,950
Chairperson's sitting fee	3,119	2,915
Director's quarterly fee	5,671	5,300
Director's sitting fee	2,268	2,120
Subcommittee sitting fee	2,268	2,120
Strategic meetings (session rate)	10,000	10,000

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).

	Freehold land & Buildings N$	Furniture & Equipment N$	Total N$
6. PROPERTY AND EQUIPMENT			
Cost or valuation			
Balance at 1 January 2007	1,159,350	1,137,778	2,297,128
Additions	10,009,562	111,964	10,121,526
Disposals	-	-	-
Balance at 31 December 2007	11,168,912	1,249,742	12,418,654
Additions	10,526,368	2,820,820	13,347,188
Disposals	-	(236,356)	(236,356)
Balance at 31 December 2008	21,695,280	3,834,206	25,529,486
Accumulated depreciation and impairment			
Balance at 1 January 2007	-	(559,056)	(559,056)
Depreciation expense	-	(225,984)	(225,984)
Balance at 31 December 2007		(785,040)	(785,040)
Eliminated on disposals of assets	-	189,712	189,712
Depreciation expense	-	(656,557)	(656,557)
Balance at 31 December 2008	-	(1,251,885)	(1,251,885)
Carrying amount			
As at 31 December 2007	11,168,912	464,702	11,633,614
As at 31 December 2008	21,695,280	2,582,320	24,277,601

Freehold Land and Buildings represents land and buildings situated on Erf number 5444 Windhoek which was renovated as the new head quarters of the bank and inaugurated during October 2008. The carrying amount represents the original valuation of the property plus actual costs of renovations to date. No depreciation has been provided for.

During the period, the bank carried out a review of the useful lives of furniture and equipment. The review has not led to any change in estimations of the useful lives of any class of assets.

No assets of the bank are encumbered.

	2008 N$	2007 N$
7. INTANGIBLE ASSETS		
Computer software		
Cost		
Opening balance	377,763	271,926
Additions	113,505	105,837
Closing balance	491,268	377,763
Accumulated depreciation and impairment		
Opening balance	(115,759)	(7,478)
Depreciation expense	(150,304)	(108,281)
Closing balance	(266,063)	(115,759)
Carrying amount at end of the period	225,205	262,004
8. INVESTMENT PROPERTY		
Fair value at beginning of the year	7,010,480	7,010,480
Revaluation	539,520	-
Fair value at end of year	7,550,000	7,010,480
Investment property known as DFN Centre 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")	170,780	528,273
Operating expenses that generated rental income	(167,523)	(211,259)
(included in the income statement)	3,257	317,014

The property is in the process of being renovated by the new tenants and was not occupied during the year. The property was valued by an external, qualified valuator, Mr Benjamin Joseph (Sworn Appraiser) on a replacement value basis on 29 January 2009. There are no restrictions on realisation of the investment property. There are no material contractual obligations on the property.

	2008 N$	Restated 2007 N$
9. LOANS AND ADVANCES		
9.1 Category analysis		
Instalment sales	69,507,278	9,781,004
Preference share advances	26,561,251	25,455,639
Term loans	172,925,422	90,743,578
Loans to financial institutions	106,479,762	60,659,414
Notional value of advances	375,473,713	186,639,635
Contractual interest suspended	(1,647,964)	(205,350)
Gross advances	373,825,749	186,434,285
Impairment of advances (Note 10)	(25,343,575)	(10,389,815)
- Provided for non-performing loans	(9,421,818)	(575,870)
- Discounting of off market loans -financial institutions	(12,673,076)	(5,397,676)
- Discounting of off market DFN loans	(3,248,681)	(4,416,269)
Net advances	348,482,174	176,044,470
Short-term portion	(81,842,880)	(19,780,245)
	266,639,294	156,264,225
9.2 Sectoral analysis		
Agriculture including fishing	37,771,591	10,544,128
Building and property development	42,815,758	5,672,622
Government and public authorities	82,177,574	46,487,246
Individuals	899,906	82,177
Manufacturing and commerce	30,411,881	17,055,940
Mining	17,342,448	15,452,577
Transport and communication	4,033,836	3,277,174
Medical services	24,586,037	12,368,329
Financial Institutions	106,479,762	60,659,414
Hotel and tourism	28,954,920	15,040,028
Notional value of advances	375,473,713	186,639,635
Contractual interest suspended	(1,647,964)	(205,350)
Gross advances	373,825,749	186,434,285
Impairment of advances (Note 10)	(25,343,575)	(10,389,815)
- Provided for non-performing loans	(9,421,818)	(575,871)
- Discounting of off market loans -financial institutions	(12,673,076)	(5,397,675)
- Discounting of off market DFN loans	(3,248,681)	(4,416,269)
Net advances	348,482,174	176,044,470
Short-term portion	(81,842,880)	(19,780,245)
	266,639,294	156,264,225
9.3 Maturity structure		
Repayable on demand	-	-
One year or less but not repayable on demand	56,083,195	5,051,514
Five years or less but over one year	137,177,562	74,064,225
Over five years	155,221,417	96,928,731
Net advances	348,482,174	176,044,470
Short-term portion	(81,842,880)	(19,780,245)
	266,639,294	156,264,225
9.4 Geographical analysis		
Namibia - net advances	348,482,174	176,044,470
Short-term portion	(81,842,880)	(19,780,245)
	266,639,294	156,264,225

	N$ Within 1 Year	N$ More than 1 Year	N$ Total
9. LOANS AND ADVANCES (continued)			
2008			
Analysis of instalment sales			
Instalment payments receivable	17,192,237	78,569,243	95,761,480
Less: Unearned finance charges	(6,496,056)	(19,758,146)	(26,254,202)
Total	10,696,181	58,811,097	69,507,278
2007			
Analysis of instalment sales			
Instalment payments receivable	707,966	12,186,034	12,894,000
Less: Unearned finance charges	(177,647)	(2,935,349)	(3,112,996)
Total	530,319	9,250,685	9,781,004

The Bank has not sold or pledged any advances to third parties.

2008

	Total Impairment N$	Specific Impairment N$	Portfolio Impairment N$	Income Statement N$
10. IMPAIRMENT OF ADVANCES				
Opening balance restated	10,389,815	10,389,815	-	-
Amounts written off on DFN loans	(549,830)	(549,830)	-	-
Unwinding of discounted present value loans	(3,050,982)	(3,050,982)		(3,050,982)
- Off-market DFN loans	(1,167,590)	(1,167,590)	-	(1,167,590)
- Off-market loans to financial institutions	(1,883,392)	(1,883,392)	-	(1,883,392)
New impairments created	18,554,572	18,554,572		18,554,572
- Normal loans	9,421,818	9,421,818	-	9,421,818
- Off-market loans to financial institutions	9,158,794	9,158,794	-	9,158,794
- Provisions released	(26,040)	(26,040)	-	(26,040)
Closing balance	25,343,575	25,343,575	-	18,554,572

2007

	Total Impairment N$	Specific Impairment N$	Portfolio Impairment N$	Income Statement N$
Opening balance restated	14,717,553	14,717,553	-	-
Amounts written off on DFN loans	(4,486,427)	(4,486,427)	-	-
Unwinding of discounted present value loans	(1,656,233)	(1,656,233)		(1,656,233)
- Off-market DFN loans	(511,502)	(511,502)	-	(511,502)
- Off-market loans to financial institutions	(1,144,731)	(1,144,731)		(1,144,731)
New impairments created	1,814,922	1,814,922	-	1,814,922
- Normal loans	-	-	-	-
- Off-market loans to financial institutions	3,487,742	3,487,742	-	3,487,742
- Provisions released	(1,672,820)	(1,672,820)	-	(1,672,820)
Closing balance restated	10,389,815	10,389,815	-	1,814,922

	Credit Exposure N$	Security Held N$	Contractual Interest Suspended N$	Specific Impairments N$
10. IMPAIRMENT OF ADVANCES (continued)				
Non-Performing Loans by Sector				
2008				
Building and property development	8,063 956	2,614,351	1,092,087	3,905,480
Manufacturing and commerce	6,072,215	-	555,877	5,516,338
Total non-performing loans	14,136,171	2,614,351	1,647,964	9,421,818
2007				
Manufacturing and commerce	877,825	207,000	182,340	511,150
Other	82,177	-	23,010	64,720
Total non-performing loans	960,002	207,000	205,350	575,870
Non Performing Loans by Category				
2008				
Instalment sales	4,115,675	2,614,351	612,956	862,330
Term loans	10,020,496	-	1,035 008	8,559,488
Total non-performing loans	14,136,171	2,614,351	1,647,964	9,421,818
2007				
Instalment sales	-	-	-	-
Term Loans	960,002	207,000	205,350	575,870
Total non-performing loans	960,002	207,000	205,350	575,870

	2008 N$	Restated 2007 N$
11. BANK BALANCES AND CASH		
Cash and cash equivalents	462,158,797	446,029,529

The Bank's entire investment portfolio consists of short-term fixed deposits, ranging between 3 and 4 months in duration and are thus classified as cash and cash equivalents.

	2008 N$	Restated 2007 N$
12. ACCOUNTS RECEIVABLE		
Prepaid expenses	127,065	104,712
Other receivables	531,647	376,361
Deposits	800	68,650
Accrued interest	9,528,117	10,167,455
	10,187,629	10,717,178

Accounts receivable are carried at amortised costs. The directors consider that the carrying amounts approximate the fair value.

	2008 N$	2007 N$
13. SHARE CAPITAL		
Authorised		
1 500 Ordinary shares of N$100 000 each	150,000,000	150,000,000
Issued		
Share capital: 1 375 (2007: 1 340) Ordinary shares of N$100 000 each	137,500,000	134,000,000
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	105,750,000
Share premium: 15 Ordinary shares of N$4 196 666.67 each	62,950,000	62,950,000
Share premium: 35 Ordinary shares of N$4 185 714.29 each	146,500,000	-
	527,025,938	380,525,938

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.

All shares are fully paid up.

	2008 N$	2007 N$
14. ACCOUNTS PAYABLE		
Trade payables	1,032,619	731,663
Receiver of revenue	94,214	1,984
Salary related payables	2,874,904	2,057,170
	4,001,737	2,790,817

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 and are carried at amortised cost.

	2008 N$	2007 N$
15. LEASE COMMITMENTS		
Operating lease commitments:		
Vehicles	36,340	45,612
Office equipment and leased lines	1,021,316	501,304
Buildings (expired on 31 May 2008)	-	376,318
	1,057,656	923,234
To be incurred as follows:		
Up to 1 year	388,929	856,999
2 - 5 years	668,727	66,235
	1,057,656	923,234

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 Financial risk management objectives

- The risk management and investment management committees monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. Both the risk and investment management committees report to the asset and liability committee on a monthly basis.

- The Bank is governed by policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non- derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Bank does not enter into or trade financial instruments, including derivative financial instru-ments, for speculative purposes.

- The asset and liability committee reports quarterly to the audit committee, a board represented body that monitors risks and policies implemented to mitigate risk exposures.

16.2 Market risk

The asset and liability committee reports quarterly to the audit committee, a board represented body that monitors risks and policies implemented to mitigate risk exposures.

Market risk represents the potential loss due to fluctuations in interest, foreign currency rates and equity, bond and commodity prices.

16.3 Money market transactions

The risk in this category is perceived to be low due to the following factors:

- the primary objective of the money market is to invest temporary cash holdings in such a way as to limit any possible investment losses and to ensure the timely availability of funds;

- funds are only invested with approved financial and public sector institutions according to re-determined limits approved annually by the board of directors; and

- dealing in money market derivative instruments is not allowed unless prior approval is obtained from the board or from executive management for subsequent reporting to the board.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	2008 N$	Restated 2007 N$
16.4 Maximum exposure to credit risk		
Cash and short term funds	471,686,914	456,196,984
Advances		
- Instalment sales	69,507,278	9,781,004
- Term loans	172,925,422	90,743,578
- Preference shares	26,561,251	25,455,639
- Loans to financial institutions	106,479,762	60,659,414
Accounts receivable	659,512	549,723
Guarantees	27,226,679	8,753,935
Irrevocable commitments	157,661,678	102,603,195
	1,032,708,496	754,743,472

16.5 Interest rate risk management

Changes in money market interest rates are monitored on a daily basis. Systems have also been developed to monitor the spread between the cost of borrowing and the return on the loan book. The investment and treasury policy is currently under review to reduce the pressure on the interest rate spread.

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 re-pricing that may be undertaken, which is monitored daily.

16.5 Interest rate risk management (continued)

2008 Term to Repricing

ASSETS	**Carrying amount**	**Demand**	**1-12 months**	**2-5 years**	**Over 5 years**	**Non-interest earning/ bearing**
Cash & cash equivalents	462,158,797	2,089,355	460,069,442	-	-	-
Advances	348,482,174	282,542,081	-	55,283,726	10,656,367	-
Accounts receivable	10,187,629	-	9,528,117	-	-	659,512
Property & equipment	24,277,601	-	-	-	-	24,277,601
Intangible assets	225,205	-	-	-	-	225,205
Investment property	7,550,000	-	-	-	-	7,550,000
Total assets	852,881,406	284,631,436	469,597,559	55,283,726	10,656,367	32,712,318
Liabilities and shareholders' equity						
Creditors and accruals	(4,001,737)	-	-	-	-	(4,001,737)
Shareholders' equity	(848,879,669)	-	-	-	-	(848,879,669)
Total liabilities and shareholders' equity	(852,881,406)	-	-	-	-	(852,881,406)
Net interest sensitivity gap	-	284,631,436	469,597,559	55,283,726	10,656,367	(820,169,088)

2007 Term to Repricing

ASSETS	**Carrying amount**	**Demand**	**1-12 months**	**2-5 years**	**Over 5 years**	**Non-interest earning/ bearing**
Cash & cash equivalents	446,029,529	10,585,792	435,443,737	-	-	-
Advances	176,044,470	-	63,756,112	71,860,907	40,427,451	-
Accounts receivable	10,717,178	-	10,167,455	-	-	549,723
Property & equipment	11,633,614	-	-	-	-	11,633,614
Intangible assets	262,004	-	-	-	-	262,004
Investment property	7,010,480	-	-	-	-	7,010,480
Total assets	651,697,275	10,585,792	509,367,304	71,860,907	40,427,451	19,455,821
Liabilities and shareholders' equity						
Creditors and accruals	(2,790,817)	-	-	-	-	(2,790,817)
Shareholders' equity	(648,906,458)	-	-	-	-	(648,906,458)
Total liabilities and shareholders' equity	(651,697,275)	-	-	-	-	(651,697,275)
Net interest sensitivity gap	-	10,585,792	509,367,304	71,860,907	40,427,451	(632,241,454)

16.6 Currency risk
The Bank does not incur currency risk as it does not have significant transactions in foreign currencies.

16.7 Capital risk management
The Bank's objective in managing its capital is to safeguard the Bank's ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank's development finance activities. The Bank monitors and manages its capital adequacy within the applicable policy guidelines, a resource mobilization strategy and in line with the capital adequacy framework approved by the Board.

The Bank has adopted a self-imposed capital adequacy framework that differentiates between the risks assumed on different asset classes and provides for market and operational risk, whilst at the same time adheres voluntarily to the overarching regulatory capital requirement applicable to local financial institutions.

Capital comprises of share capital and retained earnings with no debt equity as at the end of the period.

16.8 Sensitivity analysis for interest rates
The interest rate sensitivity analyses have been determined based on the exposure to interest rates at the balance sheet date. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the bank's profit for the year ended 31 December 2008 would decrease/increase by N$ 2,088,790 (2007: decrease/increase by N$ 1,926,002). This is mainly attributable to the bank's exposure to interest rates on its variable rate investments and loan advances.

The bank's sensitivity to interest rates has not changed during the current period.

16.9 Credit risk management
Credit risk comprises the potential loss on financing due to counter party default. All applications are thoroughly investigated covering financial, technical, marketing and management risks, which are reported on as part of the submission for approval to the relevant delegated authorities. In assessing project finance, detailed feasibility studies are undertaken.

As a development finance institution, the Bank has a different risk profile compared to a commercial bank. In the course of its development finance activities the Bank may incur bad debts, which are controlled through a stringent bad debt policy and contained within acceptable limits. At year-end the Bank did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

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

16.10 Credit Control
Credit risk is managed by means of a governance structure with clearly defined mandates and delegated authorities. The Board of Directors has delegated responsibility for the management of credit risk to its Credit Investment Committee. An authorisation structure has been established for the approval and renewal of credit

16.10 Credit Control (continued)

facilities within the limits of the delegated authority. Tiered authorisation limits are allocated to divisional executives, the CEO and the Credit Investment Committee. Credit authorisations falling outside of the mandates of the CEO and Credit Investment Committee require approval by the Board.

The Credit and Risk business unit, which also reports to the Audit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, determining collateral requirements, credit assessment, measurement, quantification and reporting;
- Limiting concentrations of exposure to counterparties and sectors;
- Reviewing compliance of business units with approved exposure limits, including those for selected sectors. Reporting regularly to the ALCO and Audit Committee of the Board on the credit quality of the loan book, and making recommendations on appropriate corrective action where deemed prudent; and
- Undertaking pre-signature risk analyses and post-signature asset monitoring (asset management) and portfolio analyses.

At a transactional level, all credit decisions, irrespective of nominal size, are based on a comprehensive and documented appraisal process. In evaluating and monitoring credit risk, the Bank employs a directive issued by the Bank of Namibia under the Banking Institutions Act, being the Determination on Asset Classification, Provisioning and Suspension of Interest (BID-2) as well as internally developed methodologies, specifically calibrated to allow differentiation between different client categories (e.g. local authorities, parastatals, utilities etc.) to ensure a thorough risk assessment of each client.

Loans and advances are classified and grouped into categories which reflects the performance and substance of the asset and are used to determine specific impairments. The risk categories are:

- **A: Pass or Acceptable:**
  These are loans that are performing in accordance with contractual terms, and is expected to continuing doing so.
- **B: Special Mention:**
  Loans in this category are currently protected, but exhibit potential weaknesses which if not corrected, may weaken the asset.
- **C: Substandard:**
  Loans, or other assets, in this category are not adequately protected by the current sound worth and paying capacity of the obligor.
- **D: Doubtful:**
  Loans, or other assets, in this category have all the weaknesses inherent in a sub-standard asset plus the added characteristic that the asset is not well secured.
- **E: Loss:**
  Loans, or other assets, which are considered uncollectible or of such little value that their continuance as a bankable asset is not warranted shall be classified as Loss.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

16.10 Credit Control (continued)	**Total**	**Instalment sales**	**Preference shares**	**Term loans**	**Loans to financial institutions**
2008					
CATEGORY					
A	351,462,105	61,245,152	26,561,251	157,175,940	106,479,762
B	12,387,086	8,262,126	-	4,124,960	-
C	5,552,309	-	-	5,552,309	-
D	3,411,297	-	-	3,411,297	-
E	2,660,916	-	-	2,660,916	-
	375,473,713	69,507,278	26,561,251	172,925,422	106,479,762
2007					
CATEGORY					
A	178,128,289	9,781,004	25,455,639	82,232,232	60,659,414
B	7,551,344	-	-	7,551,344	-
C	-	-	-	-	-
D	127,012	-	-	127,012	-
E	832,990	-	-	832,990	-
	186,639,635	9,781,004	25,455,639	90,743,578	60,659,414

At the client or transactional level, these assessments serve as one of the Bank's primary mechanisms through which client credit quality is monitored. At the portfolio level, results of the semi-annual review program are aggregated on the basis of consistent criteria, viz. default probabilities, industry and geographical sector, and the portfolio assessed to measure and monitor changes in its credit quality and diversification.

Age analysis of the loan book		**Past due but not impaired**					
2008	**Neither past due nor impaired**	**31-60 days**	**61-90 days**	**91-120 days**	**More than 120 days**	**Impaired**	**Gross Advances**
Instalment sales	65,022,639	133,550	121,054	94,432	26,113	3,502,719	68,900,507
Preference share advances	26,561,251	-	-	-	-		26,561,251
Term loans	160,256,821	636,949	1,135,775	245,687	623,509	8,985,488	171,884,229
Loans to financial institutions	106,479,762	-	-	-	-		106,479,762
	358,320,473	770,499	1,256,829	340,119	649,622	12,488,207	373,825,749

** Due to certain system constraints, an age analysis of the loan book was not available for 2007.*

16.10 Credit Control (continued)

Credit decisions are subject to both single obligor limits and the appraised debt service capacity of the borrowers. As part of the credit risk decision process, the Bank also requires collateral in the form of eligible assets or third-party guarantees when deemed prudent.

All lending decisions are further subject to an independent risk review performed by the Credit and Risk Unit. This review aims to ensure that all significant risks have been identified and, where deemed prudent, appropriately mitigated.

16.11 Liquidity risk management

Liquidity risk is defined as the risk of failure to meet all financial obligations on a timely basis, when due, and in the currency due without incurring above normal costs. In the case of the DBN, this risk specifically arises from the inability to honour obligations with respect to commitments to borrowers, lenders and investors, and operational expenditure.

In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity risk management objective is to maintain a level of liquid assets sufficient to meet the Bank's cash requirements for a period of at least 12 months. To this effect, the Bank's policy requires the maintenance of prudential liquidity levels based on 12-month projected net cash requirements.

Liquidity is held primarily in the form of money market instruments such as call deposits and fixed short-term deposits. Investments are guided by instrument, tenor and duration limits aimed at ensuring sufficient liquidity, consistent with the Bank's liquidity requirements from time to time.

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents as described above, the Bank has at its disposal a variety of funding sources should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development finance institutions.

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report, which is reviewed and analysed by the ALCO on a monthly basis.

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.

16.11 Liquidity risk management (continued)

2008 Discounted			**Term to Maturity**		
ASSETS	**Carrying amount**	**Demand**	**1-12 months**	**2-5 years**	**Over 5 years**
Cash and cash equivalents	462,158,797	2,089,355	460,069,442	-	-
Advances	348,482,174	-	56,083,195	137,177,562	155,221,417
Accounts receivable	10,187,629	127,065	10,060,564	-	-
Property and equipment	24,277,601	-	-	2,582,320	21,695,281
Intangible assets	225,205	-	-	225,205	-
Investment property	7,550,000	-	-	-	7,550,000
Total assets	852,881,406	2,216,420	526,213,201	139,985,087	184,466,698
Liabilities and shareholders' equity					
Creditors and accruals	(4,001,737)	-	(4,001,737)	-	-
Shareholders' equity	(848,879,669)	-	-	-	(848,879,669)
Total liabilities & shareholders' equity	(852,881,406)	-	(4,001,737)	-	(848,879,669)
Net liquidity gap	-	2,216,420	522,211,464	139,985,087	(664,412,971)

2007 Discounted			**Term to Maturity**		
ASSETS					
Cash and cash equivalents	446,029,529	2,005,523	444,024,006	-	-
Advances	176,044,470	-	5,051,514	74,064,225	96,928,731
Accounts receivable	10,717,178	104,712	10,612,466	-	-
Property and equipment	11,633,614	-	-	464,702	11,168,912
Intangible assets	262,004	-	-	262,004	-
Investment property	7,010,480	-	-	-	7,010,480
Total assets	651,697,275	2,110,235	459,687,986	74,790,931	115,108,123
Liabilities and shareholders' equity					
Creditors and accruals	(2,790,817)	(733,647)	(2,057,170)	-	-
Shareholders' equity	(648,906,458)	-	-	-	(648,906,458)
Total liabilities and shareholders' equity	(651,697,275)	(733,647)	(2,057,170)	-	(648,906,458)
Net liquidity gap	-	1,376,588	457,630,816	74,790,931	(533,798,335)

16.11 Liquidity risk management
(continued)

2008 Undiscounted			**Term to Maturity**		
ASSETS	**Carrying amount**	**Demand**	**1-12 months**	**2-5 years**	**Over 5 years**
Cash and cash equivalents	462,158,797	2,089,355	460,069,442	-	-
Advances	373,825,749	-	60,161,879	147,153,883	166,509,987
Accounts receivable	10,187,629	127,065	10,060,564	-	-
Property and equipment	24,277,601	-	-	2,582,320	21,695,281
Intangible assets	225,205	-	-	225,205	-
Investment property	7,550,000	-	-	-	7,550,000
Total assets	878,224,981	2,216,420	530,291,885	149,961,408	195,755,268
Liabilities and shareholders' equity					
Creditors and accruals	(4,001,737)	-	(4,001,737)	-	-
Shareholders' equity	(848,879,669)	-	-	-	(848,879,669)
Total liabilities and shareholders' equity	(852,881,406)	-	(4,001,737)	-	(848,879,669)
Net liquidity gap	25,343,575	2,216,420	526,290,148	149,961,408	(653,124,401)

2007 Undiscounted			**Term to Maturity**		
ASSETS					
Cash and cash equivalents	446,029,529	2,005,523	444,024,006	-	-
Advances	186,434,285	-	5,349,645	78,435,357	102,649,283
Accounts receivable	10,717,178	104,712	10,612,466	-	-
Property and equipment	11,633,614	-	-	464,702	11,168,912
Intangible assets	262,004	-	-	262,004	-
Investment property	7,010,480	-	-	-	7,010,480
Total assets	662,087,090	2,110,235	459,986,117	79,162,063	120,828,675
Liabilities and shareholders' equity					
Creditors and accruals	(2,790,817)	(733,647)	(2,057,170)	-	-
Shareholders' equity	(648,906,458)	-	-	-	(648,906,458)
Total liabilities and shareholders' equity	(651,697,275)	(733,647)	(2,057,170)	-	(648,906,458)
Net liquidity gap	10,389,815	1,376,588	457,928,927	79,162,063	(528,077,783)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

16.12 Fair value

The carrying and actual amounts of the following financial instruments, net of impairment losses, approximate the fair values:

- Loans and advances - subject to agreed terms with counterparties;
- Cash and negotiable securities - earn interest at market related rates;
- Other receivables - subject to terms as set with counter parties; and
- Other payables - subject to terms as set with counter parties.

Listed and unlisted investments are stated at 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. The Fund is exempted from actuarial valuations. All employees contribute to the Fund. Total Bank contributions for the year amounted to N$ 1,210,753 (2007: N$ 898,982).

	2008 N$	2007 N$
18. LOAN COMMITMENTS		
Commitments in respect of loan agreements concluded but not fully disbursed:	157,661,678	102,603,195
Commitments in respect of loans approved but not yet signed by borrower:	50,770,575	100,000,000
18.1 CONTINGENT LIABILITIES		
Guarantees issued	27,226,679	8,753,935
19. CAPITAL COMMITMENTS		
Capital expenditure authorised:		
- not contracted for	2,740,716	4,910,433
- contracted for	-	9,647,168
	2,740,716	14,557,601

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 key executives is determined by the Board of Directors, having regard to the performance of individuals and market trends. During the period under review, some key executive positions were temporarily vacant.

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

	2008 N$	2007 N$
Compensation	3,898,583	2,898,755
Short-term benefits	987,753	818,080
	4,886,336	3,716,835

20.2 Determination of directors' remuneration

The remuneration of directors is determined by the Shareholder.

20.3 Shareholder

The Government of the Republic of Namibia holds 100% of the issued share capital of the Bank. Equity contribution from the Government of the Republic of Namibia was increased from the $ 134 million in the prior year to N$ 137.5 million in the current year by the issue of an additional 35 ordinary shares of N$ 100,000 each at a premium of N$ 4,185,714 per share.

20.4 Related-party transactions

In order to avoid conflicts of interests and with a view to ensuring transparency at all times, a register of directors' and manager's interests in other business entities containing the nature of such interests, as well as the nature and the extent of the beneficial shares held in the business entity, is submitted and circulated at each meeting of the board of directors for reviewing and updating where necessary.

Where a director has an interest in any matter before the board for consideration, the director concerned recuses himself / herself from the meeting and thus have no influence on the decision on the particular matter. In addition, all applications for finance in which directors have an interest, irrespective of the amount involved, are submitted to the board for consideration after being reviewed by a committee of non-interested directors.

All directors and officers of the bank have confirmed that they had no interest in any contract of significance with the Bank which could have resulted in a conflict of interest during the year.

	2007 Restated	2007 As previously stated	Reclassification
21. RESTATEMENT OF PRIOR YEAR AMOUNTS			
Funding to financial institutions for purposes of on-lending to SMEs has been reclassified from investments to loans and advances. These loans are priced below the Central Bank rate on condition that the maximum on-lending rate shall not exceed the Central Bank interest rate. The associated risks of these loans are carried by the financial institutions.			
The effect of the reclassification is shown below:			
Income Statement			
Interest income	57,046,091	55,901,360	1,144,731
Impairment of advances	(1,814,922)	1,672,820	(3,487,742)
Net effect of reclassification			(2,343,011)
Balance Sheet			
Loans and advances: long-term portion	156,264,225	101,002,486	55,261,739
Investments	-	514,850,875	(514,850,875)
Accounts receivable	10,717,178	549,723	10,167,455
Bank balances and cash	446,029,529	2,005,523	444,024,006
Retained income	(134,380,520)	(139,778,195)	5,397,675
Net effect of reclassification			-
Cash Flow Statement			
Interest received from loans and advances	12,559,439	10,373,019	2,186,420
Interest received from investments	42,830,419	45,016,839	(2,186,420)
Net effect of reclassification			-

	2008			2007		
22. AVERAGE BALANCE SHEET AND EFFECTIVE INTEREST RATE	**Average Balance**	**Average Rate %**	**Interest Income**	**Average Balance**	**Average Rate %**	**Interest Inome**
ASSETS						
Property & equipment	17,955,608		-	6,685,843		-
Intangible assets	243,604		-	263,226		-
Investment property	7,280,240		-	7,010,480		-
Loans and advances	262,263,322	10.0%	29,268,561	132,180,530	9.5%	14,215,672
Accounts receivable	10,452,404		-	8,372,195		-
Bank balances & cash	454,094,163	11.8%	53,783,564	451,352,950	9.3%	42,830,419
TOTAL ASSETS	752,289,341	10.6%	83,052,125	605,865,224	9.1%	57,046,091
EQUITY AND LIABILITIES						
Share capital	135,750,000		-	133,250,000		-
Share premium	453,775,938		-	349,050,938		-
Retained income	159,367,126		-	111,853,238		-
Accounts payable	3,396,277		-	11,711,048		-
TOTAL EQUITY AND LIABILITIES	752,289,341	-	-	605,865,224	-	-

NOTES

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