ANNUAL REPORT 2010

Development
Bank of Namibia

CONTENTS

PROFILE

The Development Bank of Namibia (DBN or the Bank) provides finance for enterprises that create jobs and infrastructure. Jobs create income. Infrastructure, be it physical infrastructure such as roads, power and water, or social infrastructure such as medical facilities to enable industries, communities and individuals to grow and prosper.

The Bank provides finance to larger private and public sector enterprises, small and medium enterprises ("SMEs") and emerging micro enterprises. Microfinance loans are provided through micro-finance intermediaries.

As a custodian of funds from the government, and other lenders who have an interest in developing Namibia, the Bank holds itself accountable for the funds, and has a very robust system of governance to ensure that the organisation is well managed. It takes an active interest in the progress of its loans, and may assist if projects run into difficulties. The DBN has a track record of successes matched by very few organisations of a similar nature.

In order to ensure that its loans are used successfully the Bank carefully examines each application. It ensures that the business plan is viable, that the persons involved in the project have the skills needed to make the project a success, and that there is collateral or guarantees to cover for losses if the project or enterprise is not a success.

The key development factors that the Bank considers when making a loan are whether or not the loan will create jobs or infrastructure. Other factors which the DBN considers include Namibian ownership and spread of jobs across the regions where there aren't many employment opportunities.

The Bank does not finance certain types of projects, such as speculative investments, businesses that will have a negative social impact and projects that will have a damaging effect on the environment.

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
- Factoring
- Leasing

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.

BOARD OF DIRECTORS

Standing from left to right: Jennifer Comalie, Asnake Getachew, Emma Haiyambo, David Nuyoma (Chief Executive Officer).

Sitting from left to right: John Walenga, Elize Angula (Chairperson), Muetulamba Shingenge-Haipinge.

CHAIRPERSON OF THE BOARD'S MESSAGE

Internationally, 2010 was marked by emergence from the global recession. Namibia was fortunate not to be critically affected by the recession, but the economic impact affected the country's trading partners.

The Development Bank was, similarly, spared and managed to record particularly good results in spite of the predominantly negative economic climate. Companies worked to trade themselves out of negative growth and this increase in business activity spurred the growth of the DBN's loan book.

In light of this, the strategic focus for the year remained focusing on ventures that contribute to long-term, sustainable economic growth. With respect to DBN's own sustainability, emphasis was placed on resource mobilisation, in recognition of the need for the Bank to maintain healthy cash flows and reserves in the face of increasing demand for financing.

The Development Bank achieved its targets for 2010, and continues to support the overall development objectives put forward in Vision 2030. Opportunities for business growth and socio-economic development show clear alignment with the ideal for Namibia to be an industrialised nation by 2030, developed by its people.

The Bank set itself a target of reaching a N$ 1 billion loan book in 2010. At N$ 923 million, it came very close to attaining this goal. Non-interest income is growing steadily, with the bulk of the income derived from the loan book.

This feature underscores the fact that the Bank's lending function is performing optimally.

While the results of the past year are testimony to DBN's financial health, the Bank needs to further boost its balance sheet through investments that contribute to its sustainability and through resource mobilisation.

The investment in local cement factory, Ohorongo Cement, is an important step towards the DBN attaining financial sustainability through its investment in industries with a significant impact on development in the country.

As part of its resource mobilisation efforts, a number of institutions, such as the Development Bank of Southern Africa (DBSA), conducted a due diligence of the DBN in 2010. Pronouncements on the Bank's health, by DBSA and other potential investors, are encouraging.

Adhering to the highest governance standards remains a priority for the Bank. The DBN responded to the requirement for State-Owned Enterprises to operate within the framework of a Shareholder's Compact, by developing its own Compact through a consultative workshop, instead of having it drafted by external parties. This aspect furthers understanding of the Compact and encourages ownership.

Strategically, the organisational structure mapped out for the Bank in 2010 brings key elements into alignment. The Bank's growing staff complement's focus will be on extending finance and, importantly, on providing the support Namibian enterprises need to grow.

Our efforts, during 2010, to assist a key project, Ongwediva MediPark, overcome fundamental challenges, pointed to the gains to be made in the fields of mentorship and enterprise development. By introducing a Business Support and Development Department, the DBN is responding to its founding Act, which states this directive.

The opening of the first office outside of Windhoek, in Ongwediva, is a milestone and in line with the intent to better serve our clients. Business generated by the northern office is encouraging and sets the tone for consideration of other regional offices.

The Development Bank of Namibia is growing steadily and working hard to achieve its goal of providing leadership in development finance. The Bank's participation in Ohorongo Cement alongside regional pioneers such as DBSA and South Africa's Industrial Development Corporation, shows that the DBN is ready to take its place among the leaders in development finance in the region.

I expect 2011 to be a year of challenges. Our model of financing has proven its effect. The challenge that faces us is to evolve and strengthen engagement with our clients and spheres of operation, with the ultimate aim of making a very meaningful contribution to Namibia's economy and the issues that it faces.

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 Development Bank of Namibia Act No. 8 of 2002 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 in the King III 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

The Board also believes that adhering to good governance practices 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 No. 8 of 2002 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, Risk and Compliance 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 2010, the AU was constituted of the following non-executive directors: Chartered Accountant, Jennifer Comalie, Development Economist, Asnake Getachew, Business Executive, John Walenga and Financial Economist, Emma Haiyambo. The Committee Chairperson was Jennifer Comalie. 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 Asnake Getachew and constituted of non-executive directors Jennifer Comalie, Muetulamba Shingenge-Haipinge and Emma Haiyambo, and CEO David Nuyoma. The key function of the CI 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 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 Muetulamba Shingenge-Haipinge. The other members are John Walenga, lawyer Elize Angula, and CEO David Nuyoma.

2010 MILESTONES

Caprivi Interconnector launch

The DBN is a co-financier in the Caprivi Link interconnector, launched in November 2010. The interconnector creates an alternative route for power imports and exports among SADC member states, particularly Botswana, Namibia, Zambia and Zimbabwe.

Northern office opens

On 1 September 2010, the DBN began operating from its office in Ongwediva. This is the first office outside Windhoek, and has been established to cater for the growing demand in the region.

At its inception in 2004, the DBN decided to operate from its head office in Windhoek to maximise the use of limited resources. The Bank serviced clients in other centres electronically and through regular visits to the regions.

Establishing branches of its own at the outset would have been a costly exercise, and this cost would have ultimately been transferred to clients through the pricing of loans. Because of the decision to join forces with partner banks, SMEs could get loans at subsidised rates.

Simulation training shows need for skills development

The DBN facilitated the first round of business simulation training, provided by IMLT for SME clients, in November 2010.

The business simulation training gives clients valuable insight into management of businesses, and the impact that decisions have on the profitability of their enterprises.

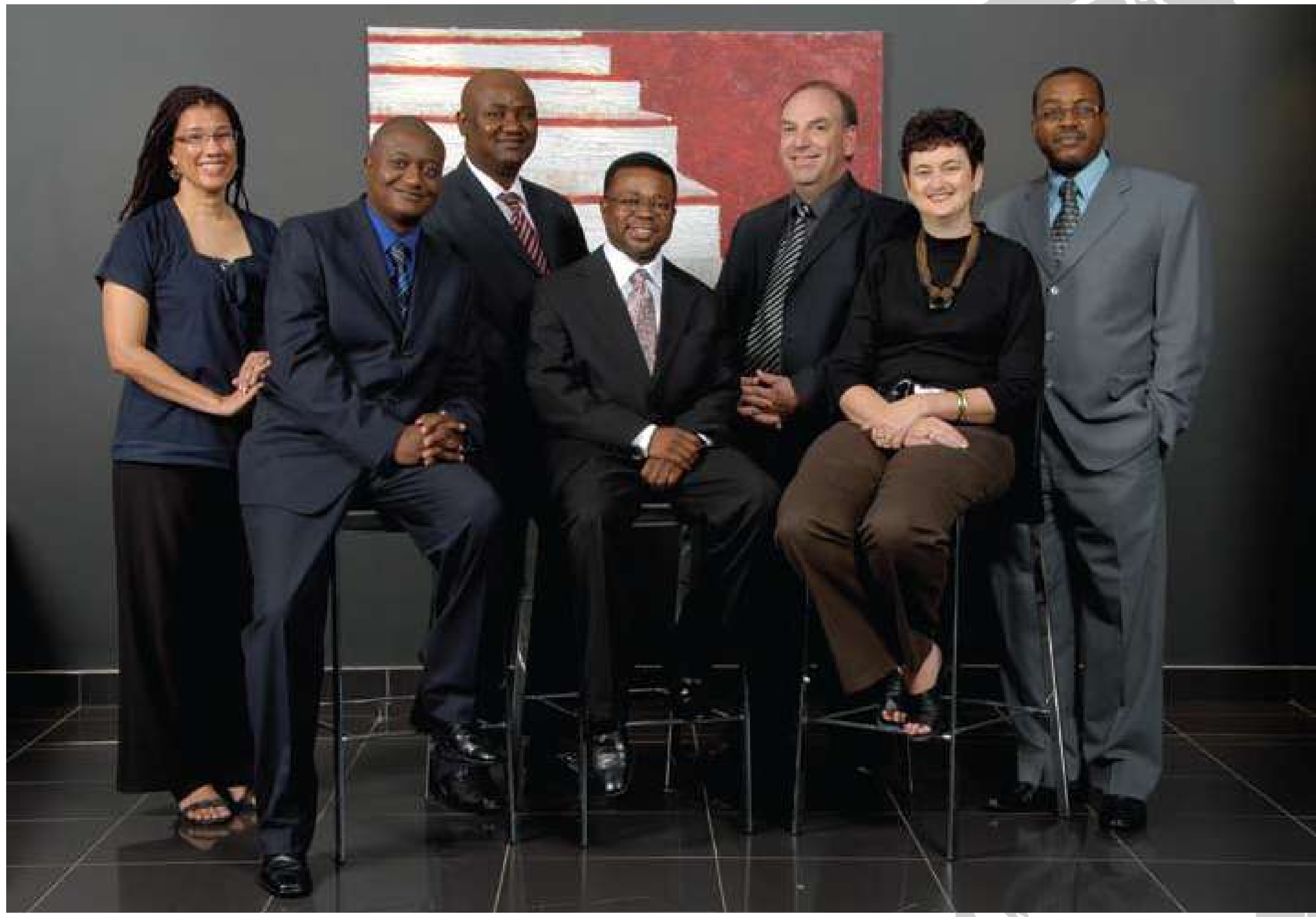
Using computer business modelling, the sessions allow managers to learn from the results of their decisions, without exposing participating businesses to the risks that day-to-day decisions entail. By offering simulation training for participants, sustainability of participating businesses is improved, also improving the level of financing risk entailed for DBN.

DBN awards staff for extraordinary service

The DBN recognises that its prosperity depends on the performance, creativity and inventiveness of its employees. The Bank therefore introduced an extraordinary award to promote an environment that encourages resourcefulness, productive behaviour and contribution from employees.

(Fltr) Colin Diergaardt, Vally Schaneck, Johan Diergaardt, Anneke Snyders and Zambwe Simasiku (not pictured), were awarded for extraordinary service in 2010.

EXECUTIVE MANAGEMENT



Standing from left to right: Joy Sasman, Manager: Corporate Communications; Gottlieb Hinda, Head: Business Support and Development; Renier van Rooyen, Chief Financial Officer; John Jacobs, Head: Risk Management.

Sitting from left to right: Michael Humavindu, Manager: Research; David Nuyoma, Chief Executive Officer; Elriana Burger, Manager: Human Capital.

CHIEF EXECUTIVE OFFICER'S REPORT

I am happy with the growth attained in the past year. The Bank's loans and equity investments grew from N$ 663 million in 2009 to N$ 986 million in 2010. This progress is significant and a reflection of the confidence expressed in the Bank locally.

As a development finance institution, our results are, however, not just measured in terms of financial attainment, but also in terms of development impact.

The impact of this growth is realised through aspects such as the fact that we contributed to the creation of more than 5,000 jobs in the course of 2010, that we managed to achieve a good spread and balance in terms of loan sizes and investments across sectors, and that all regions in Namibia have been impacted, in one way or the other, by the interventions of the DBN. In addition, 98 per cent of the facilities that have been financed, have Previously Disadvantaged Namibians involved. This is in line with the national aspiration of having an economy that is reflective of its society.

In her budget speech in the period under review, the Minister of Finance touched on the issue of how the government would like to see tenders used. In response to her call, the DBN approved bridging finance facilities to the value of N$ 134.33 million in 2010, enabling emerging entrepreneurs to participate in tenders worth N$ 676.24 million. This effort is part of the undertaking to grow the cake, to reinvest in the economy, and to help strengthen the asset base of those who would otherwise not have an opportunity to develop their enterprises.

With respect to financial indicators, the Bank's profit increased from N$ 37.6 million to N$ 76.3 million, representing a 103 per cent year-on-year increase. It is particularly pleasing that the Bank was able to achieve this result considering that there has been a decrease in prime interest rates of 150 basis points during the year, from 11.25 to 9.75 per cent.

This result is a combination of the Bank's business generation efforts, and also of its improved and enhanced risk management processes, through which we managed to reduce the impairment ratio on the gross loan book from 5.4 to 3.1 per cent. Not only did we exceed our own targets in this respect, but also obtained an impressive result compared to the continental development finance institutions benchmark of 15 per cent.

I would like to thank the board for their consistent guidance, the staff for their hard work and, above all, our clients, for honouring the partnerships we have entered into to develop our country. We believe that, as much as we are a bank, our relationship with our clients is underpinned by a mutual commitment to develop Namibia.

In terms of risk management and financial controls it is pleasing to note that a recent peer review exercise has shown that DBN, out of 21 institutions throughout the SADC region, was ranked number one, jointly with the Industrial Development Corporation of South Africa, on its compliance to key benchmark indicators that includes matters of governance, management, prudence, accounting and auditing, asset quality as well as operational matters.

This outcome shows that we are on the right track, but at the same time reminds us that, even with our increased asset base and loan book, we cannot afford to become complacent. We therefore look forward to 2011, and the years ahead, with renewed dedication and commitment to sustaining excellence.

2010 was a milestone year with respect to the Development Bank's operating environment. The work done with our shareholder to conclude a Compact helped us crystallise and consolidate matters related to mandate interpretation. The exercise also resulted in greater coherence and coordination between the Bank and its shareholder.

2010 was also the year in which the State Owned Enterprise (SOE) Governance Council started operating. Their engagement with SOEs such as the DBN helped to keep us focused on our mandate and, importantly, our adherence to good governance principles.

The year saw a remarkable rebound in the economy, with the impact of the 2008/9 global economic crisis significantly reduced. Key economic players such as diamond and copper producers, and also diamond cutters and sorters, are returning to the marketplace and have again taken up their rightful place in terms of their contribution to the economy. This positive performance of the economy is, to some extent, also reflected in the improvement in our loan book ratios and volumes.

The launch of the Trans-Caprivi Interconnector, in which DBN is a part financier, is a milestone for 2010. This enterprise, shared by Namibia, Botswana, Zambia and Zimbabwe, forms part of the objectives of the SADC power pool, and also contributes significantly to the ability of Namibia to sustain its electricity requirements.

We have also seen the birth and growth of 131 small and medium enterprises (SMEs) in the past year. This is testimony to the fact that the seeds we have sown are starting to germinate and also points to the fact that they will need nurturing to become mature entities.

86 per cent of the entities financed in 2010 are SME operators. In terms of value, 44 per cent of the Bank's loan book is made up of loans to the sector. This focus is a reflection of our belief that Namibia's small and medium enterprises have a significant role to play in growing the economy.

The Development Bank's Corporate Social Investment activities focus on enterprise development. Our continued support to the National Youth Expo and the Enterprise Development Programme held in schools in partnership with AfriSam, is geared to planting the seeds of entrepreneurship early. It is also geared towards recognising the efforts of upcoming entrepreneurs who excel, through our support to the Sam Nujoma Innovative Enterprises Awards, run by the Joint Consultative Council.

As part of the DBN's empowerment endeavour, we introduced business simulation training for our clients in partnership with IMLT in 2010 to help build entrepreneurs' business knowledge and skill.

I believe that the impact of this initiative, like that of our other activities, will be felt in the economy, in one way or another, for years to come.

DEVELOPMENT IMPACT REPORT

In 2010, the DBN approved 153 projects; 131 in the SME sector, 21 in the private sector and one in the public sector. The Bank approved facilities valued at N$ 365.16 million, with the bulk, 45 per cent, going towards approvals in the private sector. 44 per cent went towards approvals in the SME sector and 11 per cent towards approvals in the public sector.

Fifty per cent (N$ 181.61 million) of approvals were in the tertiary sector, 49 per cent in the secondary sector and one per cent in the primary sector. The Bank approved projects in all regions of the country, with the bulk, 30.1 per cent, in the Khomas region.

With respect to the sectoral spread, the bulk, 29 per cent, was in the manufacturing sector, followed by 22 per cent in the real estate and businesses services sector. 1,770 permanent and 1,852 temporary jobs are expected to be created through the projects approved, with 1,385 jobs expected to be retained.

98 per cent of the projects approved have black economic empowerment participation, with facilities valued at N$ 317.18 million. The DBN approved N$ 134.33 million through its bridging finance facility for the implementation of tenders valued at N$ 676.24 million.

At the end of 2010, the DBN's gross loan book stood at N$ 923 million. This amount represents the value of the loans disbursed to clients.

Not all loans approved are disbursed, as clients do not always take up approved facilities, for a number of reasons.

Development impact report indicators

Summary	N$	%
Total facilities	**168**	
Private Sector	21	13%
Public Sector	1	1%
SME	146	87%
Total entities	**153**	
Private Sector	21	14%
Public Sector	1	1%
SME	131	86%

Regional spread	N$	%
Caprivi	3.52	1.0%
Erongo	39.43	10.8%
Hardap	2.91	0.8%
Karas	17.58	4.8%
Kavango	16.25	4.5%
Khomas	109.82	30.1%
Kunene	0.84	0.2%
More than one Namibian region	15.80	4.3%
All Namibian regions	43.98	12.0%
Ohangwena	13.76	3.8%
Omaheke	11.08	3.0%
Omusati	33.73	9.2%
Oshana	23.54	6.4%
Oshikoto	11.75	3.2%
Otjozondjupa	18.19	5.0%
SADC-Angola	3.00	0.8%
Total	**365.16**	**100%**

Approvals	N$	%
Private Sector	163.12	45%
Public Sector	40.00	11%
SME	162.03	44%
Total	**365.16**	**100%**

Approvals per Industry	N$	%
Primary	4.60	1%
Secondary	178.95	49%
Tertiary	181.61	50%
Totals	**365.16**	**100%**

Sectoral spread	N$	%
Construction	72.02	20%
Education	7.90	2%
Fishing & Fish processing on board	4.60	1%
Hotels & Restaurant	2.65	1%
Manufacturing	107.10	29%
Real Estate & Business Services	79.23	22%
Tourism	37.22	10%
Transport & Communication	40.54	11%
Wholesale, retail trade & repairs	13.90	4%
Total	**365.16**	**100%**

Indicative employment impact		
New	1770	35%
Retained	1385	28%
Temporary	1852	37%
Total Jobs	**5007**	

Black economic empowerment	
No of facilites with BEE share	163
BEE facilities as % of total facilities	98%
Approvals to facilities with BEE	317.18
Effective BEE (N$)	250.80
Effective BEE as % approvals	77%
No of facilites with female BEE share	45
female BEE facilities as % of total facilities	27%
Approvals to facilities with female BEE	93.54
Effective female BEE (N$)	50.48
Effective female BEE as % approvals	16%

Total tenders supported	
Bridging finance approvals	134.33
Value of tenders supported	676.24
Bridging Finance leverage ratio	**5.0**

CORPORATE SOCIAL INVESTMENT

The Development Bank's primary goal is to contribute to sustainable economic growth and development in Namibia. The Bank's Corporate Social Investment initiatives are aligned to this goal and support enterprise development in the country.

In the past year, the Bank offered support to the following projects:

AfriSam Entrepreneurship Programme

Through the programme, in which DBN partners with AfriSam, Grade 11 learners are equipped with business skills that will give them choices beyond Grade 12. The Bank contributed N$ 66,000 towards implementation of the programme in the Caprivi Region in 2010.

DECOSA

DECOSA introduced entrepreneurship education in schools and trained over 1,000 teachers in the subject.

The DBN contributed N$ 10,000 towards an entrepreneurship day organised to enable students to practice what they learnt. N$ 5,000 of the amount was allocated to assist with publication of a manual to assist learners and will be used by all schools in Namibia.

Eenhana Town Council

The DBN contributed N$ 10,000 towards the hosting of the Trade and Business Expo in this growing town.

Kavango Block Brick

Local company, Kavango Block Brick, designed a brick, whose uniqueness lie in the shape and interlocking configuration of each block, making it 25 per cent cheaper than conventional bricks.

The N$ 10,000 support from DBN went towards Kavango Block Brick hosting the Basic Requirement for Housing Conference, hosted to provide information on the regulatory function of the National Home Builders Registration Council (NHBRC) in South Africa, which ensures quality standards and protects housing consumers.

Namibia Chamber of Commerce and Industry (NCCI)

The NCCI represents, promotes and serves the interests of its members, and plays a significant role in Namibia's economic transformation and growth.

The DBN sponsored N$ 10,000 towards Chamber's SME conference.

National Youth Expo

The DBN's N$ 20,000 sponsorship for the overall winner of the National Youth Council is part of its undertaking to promote enterprise development at different levels in society.

Okakarara Trade Fair

This annual event aims at improving the economic base in Okakarara with particular emphasis on SME growth. The DBN contributed N$ 10,000 towards the event.

Sam Nujoma Innovative Enterprise Development Award (SNIEDA)

The Award is an initiative of the Joint Consultative Council and aims at strengthening the capacity of agencies and institutions that provide services to SMEs. The DBN contributed N$ 20,000 towards the event.

SMEs Compete

SMEs Compete is a consultancy firm that helps Namibian SMEs grow their businesses and create wealth and employment. The firm improves entrepreneurial, management, marketing and information technology skills of SMEs in Namibia. SMEs Compete's service provision guiding principle is on finding and then working with stakeholders in expanding the country's economic base and increasing national competitiveness.

The Bank sponsored N$ 50,000 towards the firm's Business Angel Fund.

Turning Point

The organisation works with rehabilitated prisoners on income generation activities. DBN's support of N$ 50,000 went towards specific projects to advance the overall goals of the programme.

SELECTED PROJECTS FINANCED

Agate Park

The Lüderitz Town Council provided a tender to Agate Park to build 613 houses in Lüderitz for low, middle and high income groups.

DBN provided a loan of N$ 2.5 million for materials for the project.

AJ Swartz Builders

AJ Swartz Builders secured a tender from the Ministry of Health and Social Services to upgrade and renovate the Mariental Hospital and will create jobs for close to 50 people.

A N$ 1,500,000 loan was provided for working capital.

Clarke's Aishe-Mumwe Investments

The travel agency was appointed by a South African-based travel agency, Starlight Cruises, to be the agent for the Namibian market.

A N$ 705,900 loan was granted for the new entity to commence business.

Dorros Investments 22 (Pty) Ltd

TransNamib Holdings awarded a tender to Dorros Investment to set up a concrete railway sleeper factory in Tsumeb.

The DBN provided a N$ 10 million loan for working capital and property acquisition for the project.

Get 2 Africa Safaris

The company, which focuses on cultural tourism, offers tours to groups from Spain in particular. The N$ 1,546,427 loan was used to purchase trucks for guided tours and for working capital.

Lüderitz Abalone Farming

Lüderitz Abalone Framing farms with abalone, using a land-based farming technique. A loan of N$ 12 million was extended to expand and develop the farm facilities to produce ca. 80 tonnes of land-based abalone per year and ranch wild abalone; and also to produce 35 tonnes of clams per month.

The funds will be utilised to expand the infrastructure on the existing farm, to build a new cannery, to acquire a new boat and vehicles as well as for running costs.

Organic Oil of Africa

The company secured a tender from LeR International, a Pharmaceutical Company in South Africa, for the supply of manketti and marula oil used in the cosmetics industry. Organic Oil of Africa operates in the Khomas and Kavango regions.

A N$ 300,000 loan was extended for working capital and to purchase additional machinery to implement the contract.

San Karros

The company entered into a public-private partnership agreement with the Namibia Wildlife Resorts to refurbish, upgrade and manage the Daan Viljoen Resort, 25 km west of Windhoek.

Once upgrading of the facility is complete, the company will focus on providing services to the general tourism and meeting industry in the first phase and on medical and health tourism in the second phase. The DBN extended a N$ 30 million loan to the project.

Shoremillkol

Shoremillkol is one of 22 companies granted rights to exploit rock lobster for a period of 15 years. The company was contracted by the Ministry of Fisheries and Marine Resources for the exploitation of rock lobster within the Namibian Defined Fishing Zone.

Shoremillkol is based in Lüderitz in the Karas Region and employs 10 workers. The DBN granted N$ 700,000 for working capital.

W.E. Gearbox and Diff Repairs

W.E Gearbox and Diff Repairs does gearbox and diff repairs in the Khomas region. The business bought an existing company, Reflex Field Services, which provides mechanical, diesel and civil engineering services such as hydro tech engineering, city truck and car repair, mechanical and civil components of agricultural infrastructure services. The company has a running contract with the City of Windhoek and government ministries are some of their most important customers.

The DBN extended N$ 2.2 million to buy the company and for working capital.

Wilco Recycling

Wilco Recycling started a recycling business in 2009 as a sole proprietor. The owner has since built relationships with two South African-based vendors: SA Culle (bottles) and Collect-a-Can (tins).

Wilco Recycling collects, crushes, compacts and bales of bottles and cans. The 1 tonne bales are transported by truck to the vendors in South Africa. Wilco Recycling operates in the Omafo Village, Ondangwa and Rehoboth and provides 30 jobs.

The DBN extended a N$ 500,000 loan to buy a loader truck and pick up vehicle.

AJ Swartz Builders

Get 2 Africa Safaris

Agate Park

Dorros Investments

Clarke's Aishe-Mumwe Investment

Organic Oil of Africa

Shoremillkol

W.E. Gearbox and Diff Repairs

Lüderitz Abalone Farming

Wilco Recycling

San Karros

ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2010

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DIRECTORS' RESPONSIBILITY STATEMENT

The Directors of the Development Bank of Namibia ("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 and in a manner required by the Development Bank of Namibia Act No. 8 of 2002 and the Namibian Companies Act. The Bank's independent external auditors have audited the financial statements and their report appears on page 27.

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 28 to 64 were approved by the board of directors and are signed on their behalf by:

Elize Angula
Chairperson
11 April 2011

David Nuyoma
Chief Executive Officer
11 April 2011

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 the statement of financial position as at 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 28 to 64.

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 from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 2010, 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.

KPMG
Registered Accountants and Auditors
Chartered Accountants (Namibia)

Per Ally Angula
Partner, Windhoek
11 April 2011

30 Schanzen Road
Klein Windhoek
Windhoek
Namibia

DIRECTORS' REPORT

The directors have pleasure in presenting their report on the activities of the Bank for the year ended 31 December 2010.

Background and Operations

The Bank was constituted in terms of the Development Bank of Namibia Act, 2002 (Act No. 8 of 2002). The objective of the Bank is to contribute to the economic growth and social development of Namibia and the welfare of the Namibian people through the provision of development funding.

Results

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

Dividends

A dividend of N$ 3,763,394 was declared in the financial year under review (2009: N$ 4,997,321). Dividends declared in previous years were retained in a special reserve earmarked for re-deployment towards special enterprise development endeavours as described in note 20.1 to the financial statements.

Share Capital

The authorised share capital of the bank remains unchanged at N$ 150 million. The issued share capital remained unchanged at N$ 141 million in the current year, whilst it was increased from N$ 137.5 million to N$ 141 million in the prior year by the issue of additional 35 ordinary shares for N$ 100,000 each at a premium of N$ 4,185,714.29 each. The Government of the Republic of Namibia is currently the sole shareholder of the Bank.

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:

E Angula (Chairperson)
J Comalie
A Getachew
M Shingenge-Haipinge
J Walenga
Emma Haiyambo (appointed May 2010)
D Nuyoma (Chief Executive Officer)

J Sasman (Secretary)

Business address:

Development Bank Building
12 Daniel Munamava Street
Windhoek
Namibia

Postal address:

P O Box 235
Windhoek
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.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

N$	Note	2010	2009
Interest income	4	84,884,520	82,744,770
Interest expense		(106,144)	(70,549)
Net interest income		84,778,376	82,674,221
Fee and commission income	5	3,239,325	2,694,472
Other operating income	6	8,663,584	1,169,285
Operating income		96,681,285	86,537,978
Reversal of impairment / (impairment) of advances	12	8,034,497	(28,298,261)
Operating expenses	7	(32,971,823)	(21,910,498)
Profit before income tax		71,743,959	36,329,219
Income tax expense	8	-	-
Profit for the year		71, 743,959	36,329,219
Other comprehensive income, net of income tax			
Revaluation gain on property	14	4,590,720	1,304,719
Total profit and comprehensive income attributable to the equity holder of the bank		76,334,679	37,633,938

STATEMENT OF FINANCIAL POSITION

As at 31 December

N$	Note	2010	2009
Assets			
Cash and cash equivalents	9	185,256,634	333,423,210
Loans and advances	11	884,672,339	663,176,652
Trade and other receivables	16	5,158,404	5,822,189
Investment property	13	9,000,000	7,600,000
Property and equipment	14	28,890,696	25,041,258
Equity investments	10	101,804,000	-
Intangible assets	15	3,536,567	2,929,086
Total assets		1,218,318,640	1,037,992,395
Liabilities			
Trade and other payables	17	5,470,354	1,478,788
Deferred income	18	100,000,000	-
Total liabilities		105,470,354	1,478,788
Equity			
Share capital and share premium	19	814,525,938	814,525,938
Retained earnings		273,711,371	205,730,806
Special reserve	20.1	18,715,538	14,952,144
Property revaluation reserve	20.2	5,895,439	1,304,719
Total equity attributable to the equity holder of the Bank		1,112,848,286	1,036,513,607
Total liabilities and equity		1,218,318,640	1,037,992,395

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

N$

2010	Share capital and premium	Special reserve	Revaluation reserve	Retained earnings	Total
Balance at 1 January 2010	814,525,938	14,952,144	1,304,719	205,730,806	1,036,513,607
Total comprehensive income for the year			4,590,720	71,743,959	76,334,679
Profit or loss	-	-	-	71,743,959	71,743,959
Other comprehensive income, net of income tax	-	-	4,590,720	-	4,590,720
Transactions with owner, recorded directly in equity					
Dividend declared but redeployed	-	3,763,394	-	(3,763,394)	-
Balance at 31 December 2010	814,525,938	18,715,538	5,895,439	273,711,371	1,112,848,286

2009	Share capital and premium	Special reserve	Revaluation reserve	Retained earnings	Total
Balance at 1 January 2009	664,525,938	9,954,823	-	174,398,908	848,879,669
Total comprehensive income for the year	-	-	1,304,719	36,329,219	37,633,938
Profit or loss	-	-	-	36,329,219	36,329,219
Other comprehensive income, net of income tax	-	-	1,304,719	-	1,304,719
Transactions with owner, recorded directly in equity					
Dividend declared but redeployed	-	4,997,321	-	(4,997,321)	-
New shares issued	150,000,000	-	-	-	150,000,000
Balance at 31 December 2009	814,525,938	14,952,144	1,304,719	205,730,806	1,036,513,607

STATEMENT OF CASH FLOWS
For the year ended 31 December

N$	Note	2010	2009
Cash flows from operating activities		63,980,370	68,006,008
Interest received from loans and advances		63,302,793	45,147,641
Cash paid to suppliers and employees		(20,904,149)	(14,738,761)
Cash generated by operations	A	42,398,644	30,408,880
Interest received from investments		21,581,726	37,597,129
Cash flow from investing activities		(312,146,946)	(346,741,595)
Acquisition of property and equipment		(536,567)	(234,121)
Acquisition of intangible assets		(2,095,188)	(3,514,734)
Acquisition of shares in equity investment		(96,054,000)	-
Loan disbursements		(279,932,302)	(403,635,816)
Loan principal repayments		66,471,111	60,643,076
Cash flow from financing activities		100,000,000	150,000,000
Proceeds from issue of shares		-	150,000,000
Government grant funding received		100,000,000	-
Net decrease in cash and cash equivalents		(148,166,576)	(128,735,587)
Cash and cash equivalents at the beginning of the year	9	333,423,210	462,158,797
Cash and cash equivalents at the end of the year	9	185,256,634	333,423,210
A. Cash generated by operations			
Profit for the year		71,743,959	36,329,219
Adjustments for:			
Depreciation and amortisation		2,765,557	1,586,037
Interest received on investments		(21,581,726)	(37,597,129)
Fair value gain on investment property		(1,400,000)	(50,000)
Acquisition of equity investments		(5,750,000)	-
Net (reversal of impairments)/ impairment loss on loans and advances		(8,034,497)	28,298,261
		37,743,293	28,566,389
Changes in working capital		4,655,351	1,842,491
Decrease in trade and other receivables		663,785	4,365,440
Increase/(decrease) in trade and other payables		3,991,566	(2,522,949)
Cash generated by operations		42,398,644	30,408,880

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. Reporting Entity

Development Bank of Namibia ("the Bank") is a limited company incorporated in Namibia. The nature of the Bank's operations, its owners and addresses of its registered office and principal place of business are disclosed in the report of the directors.

2. Basis of Preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

2.2 Basis of measurement

The financial statements are prepared on the historical cost basis except for the following:

- Available-for-sale equity investments are measured at fair value (refer to note 10).
- Investment properties are measured at fair value (refer to note 13).
- Property is measured at re-valued amounts (refer to note 14).

2.3 Functional and presentation currency

These financial statements are presented in Namibian Dollar, which is the Bank's functional currency. All financial information presented in Namibian Dollar has been rounded to the nearest Dollar.

2.4 Critical judgements and estimates

2.4.1 Use of judgements and estimates

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2.4.2 Critical judgements and estimates in applying accounting policies

Information about critical judgements in applying accounting policies, that have the most significant effect on the amounts recognised in the financial statements, is included in the following notes:

Note 10 – Equity investments
Note 11 – Loans and advances
Note 12 – Impairment of loans and advances
Note 13 – Investment property
Note 14 – Property and equipment

Note 26 contains information about assumptions and estimation of uncertainty that have significant risk of resulting in a material adjustment within the next financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
(continued)

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Interest

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.

Interest income presented in the statement of comprehensive income includes interest on financial assets measured at amortised cost calculated on an effective interest basis.

3.2 Fees and Commission

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

3.3 Rental income

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

3.4 Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income from other financial instruments at fair value through profit or loss or other operating income based on the underlying classification of the equity investment.

3.5 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus when there is a legal or constructive obligation to make such payments as a result of past performance.

It is the policy of the Bank to provide retirement benefits for employees through a defined contribution plan being a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when due in respect of service rendered before the end of the reporting period.

3.6 Financial assets and financial liabilities

3.6.1 Recognition

Financial instruments are initially recognised when the Bank becomes party to the contractual terms of the instruments and are initially measured at fair value, excluding transaction costs.

3.6.2 De-recognition

Financial assets (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 profit or loss.

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 profit or loss.

3.6.3 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of the quoted market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a prices, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent the market expectations and measure of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and bid or asking price adjustment is applied only to the net open position as appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

3. Significant Accounting Policies (continued)

3.6 Financial assets and financial liabilities (continued)

3.6.4 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

3.7 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, callable on demand and highly liquid financial assets with original maturities of less than four months which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are measured at amortised cost in the statement of financial position.

3.8 Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

3.9 Equity instruments

The Bank classifies its investments in equity instruments as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in the statement of comprehensive income.

Unquoted equity instruments whose fair values cannot be reliably measured are held at cost. If the market for an equity financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length transaction motivated by normal business considerations.

The Bank uses valuation techniques in measuring equity instruments, including price of recent investment, if available; discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates or option pricing models.

The Bank ensures that these valuation techniques:

- Make maximum use of market inputs and rely as little as possible on entity-specific inputs.
- Incorporate all factors that market participants would consider in setting a price.
- Are consistent with accepted economic methodologies for pricing financial instruments.

When an investment is derecognised, the gain and loss accumulated in equity is reclassified to profit or loss.

3.10 Trade payables

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

3.11 Grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

Government grants related to non-depreciable assets that also require the fulfilment of certain obligations are recognised in profit or loss over the periods that bear the cost of meeting those obligations.

3.12 Leasing

The Bank classifies leases as operating leases where the lessor effectively retains the risk and benefits of ownership, whilst the leases of property and equipment are classified as finance leases where the Bank assumes substantially all the benefits and risks of ownership of the leased assets.

3.12.1 The Bank as lessor

Lease payments received from 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.

3.12.2 The Bank as lessee

Lease payments 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 lease payments are recognised in profit or loss as they occur.

3.13 Property and equipment

3.13.1 Recognition and measurement

Property and equipment is initially recognised at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequently property is stated at revalued amounts less accumulated depreciation and impairment losses. Equipment is stated at cost less accumulated depreciation and accumulated losses.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

3. Significant Accounting Policies (continued)

3.13 Property and equipment (continued)

3.13.1 Recognition and measurement (continued)

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.13.2 Subsequent costs

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the items will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognised in profit or loss as incurred.

3.13.3 Depreciation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful life of each part of an item of property and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Property	25 years (4%)
Furniture and equipment	5 years (20%)
Computer equipment	3 years (33.3%)
Motor vehicles	4 years (25%)

Property is revalued to its market value. Valuations are from market-based evidence by appraisals undertaken by professional valuers. Revaluations are performed annually such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of the property is credited to the capital revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such property is charged as an expense to the extent that it exceeds the balance, if any, held in the capital revaluation reserve relating to a previous revaluation of that asset. On subsequent sale or retirement of revalued property, the attributable surplus remaining in the capital revaluation reserve is transferred directly to retained earnings.

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

3.14 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost excludes expenditure that is directly attributable to the acquisition of the investments property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.15 Intangible assets

3.15.1 Computer software

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation 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 with a zero residual value.

3.16 Impairment of non-financial assets

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

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. A previously recognised 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.

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 reflect 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.

3. Significant Accounting Policies (continued)

3.17 Impairment losses on loans and advances

3.17.1 Performing loans

The Bank assesses its credit portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, 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.

3.17.2 Non-performing loans

Loans are individually impaired if amounts are due and unpaid for three or more payments, or if there is evidence before this period that the customer is unlikely to repay its obligations. 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.

3.18 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.

3.19 Properties in possession

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

3.20 Foreign currency

Foreign currency transactions are recorded at the rate of exchange prevailing at the date of the transaction. At reporting 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 and unrealised foreign exchange differences on unsettled foreign monetary assets and liabilities are recognised in profit or loss.

3.21 Financial guarantees

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.

Financial guarantee liabilities are recognised initially at fair value and subsequently 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.

3.22 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 Bank. Contingent liabilities are not recognised in the statement of financial position, but disclosed in the notes to the financial statements.

3.23 Commitments

Items are classified as commitments where the Bank has committed itself to future transactions. Commitments are not recognised in the statement of financial position, but are disclosed in the notes to the financial statements.

3.24 Comparative figures

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

3.25 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements.

At the date of authorisation of the financial statements of the Bank for the year ended 31 December 2010, the following Standards and Interpretations were in issue but not yet effective:

Standard/Interpretation		Date issued by APB
IAS 24 (revised)	*Related Party Disclosures*	January 2010
IAS 32 (AC 125) amendment	*IAS 32 (AC 125) Financial Instruments: Presentation: Classification of Rights Issues*	January 2010
11 individual amendments to 6 standards	*Improvements to International Financial Reporting Standards 2010*	August 2010
IFRS 1 (AC 138) amendment	*Limited exemption from Comparative IFRS 7 Disclosures for First-time Adopters*	March 2010
IFRS 1 amendment	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	(1)
IFRS 7 (AC 144) amendment	*Disclosures – Transfers of Financial Assets*	December 2010
IFRS 9 (2010) (AC 146)	*Financial Instruments*	December 2010
IFRIC 14 (AC 447) amendment	*Prepayments of a Minimum Funding Requirement*	January 2010
IFRIC 19 (AC 452)	*Extinguishing Financial Liabilities with Equity Instruments*	January 2010

(1) These amendments have not yet been approved by the Accounting Practices Board

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
(continued)

4. Interest income

N$	2010	2009
Cash and cash equivalents	21,581,726	37,597,129
Loans and advances to banks	6,053,345	5,893,798
Loans and advances to customers	57,249,449	39,253,843
	84,884,520	82,744,770

5. Fee and commission income

N$	2010	2009
Guarantee fees	1,085,546	861,010
Front-end fees	1,953,793	1,470,786
Other fees received	199,986	362,676
	3,239,325	2,694,472

6. Other operating income

N$	2010	2009
Gain on revaluation of investment property	1,400,000	50,000
Rent received	705,012	640,920
Loans and advances previously written off recovered	6,558,572	478,365
	8,663,584	1,169,285

7. Operating expenses

N$		2010	2009
Auditors' remuneration	- audit fees	297,609	247,196
	- other services	50,400	47,192
Directors' fees	- for services as directors	712,789	629,397
	- for management services	1,604,294	1,146,907
Depreciation and amortisation		2,765,557	1,586,037
Bank interest paid		14,542	6,013
Professional services		1,296,305	830,264
Salaries and personnel costs		16,385,701	10,367,047
Operating leases	- buildings	22,582	-
	- equipment	566,233	459,843
	- motor vehicle	40,061	26,959
Other expenditure		9,215,750	6,563,643
Total operating expenditure		32,971,823	21,910,498
Number of employees		33	25

7. Operating expenses (continued)

7.1 Directors emoluments

N$	2010	2009
7.1.1 Chief Executive Officer - D Nuyoma		
Pensionable salary	991,227	928,995
Bonus	370,222	-
Company contributions to pension and medical aid schemes	242,845	217,912
Fees as director	-	-
	1,604,294	1,146,907

N$	2010	2009
7.1.2 Non-executive directors		
E Angula (Chairperson)	153,254	97,570
J Comalie	140,611	137,947
S Elago *	-	25,406
A Getachew	141,978	143,029
E Haiymabo **	64,067	-
S Thieme (Chairman) *	-	46,819
E Tjipuka *	-	38,109
M Shingenge-Haipinge	144,711	87,407
J Walenga	68,168	53,109
	712,789	629,396

** Term expired on 9 July 2009.*
*** Appointed May 2010.*

N$	2010	2009
7.1.3 Schedule of Director's Fees		
Chairperson's quarterly fee	10,251	9,528
Chairperson's sitting fee	3,759	3,493
Director's quarterly fee	6,834	6,352
Director's sitting fee	2,734	2,540
Subcommittee sitting fee	2,734	2,540
Strategic meeting	10,000	10,000

7. Operating expenses (continued)

7.1 Directors emoluments (continued)

7.1.4 Board committees and membership

AU: Audit, Risk and Compliance Committee

Jennifer Comalie, Chairperson; David Nuyoma, CEO; Asnake Getachew; John Walenga; * Emma Haiyambo (appointed May 2010)

CI: Credit and Investment Committee

Asnake Getachew, Chairperson; David Nuyoma, CEO; Muetulamba Shingenge-Haipinge; Emma Haiyambo; Jennifer Comalie

HC: Human Capital and Remuneration Committee

Muetulamba Shingenge-Haipinge, Chairperson; David Nuyoma, CEO; Elize Angula

7.1.5 Record of attendance

	Board	AU	CI	HC	Annual General Meeting	Annual Strategic Planning Session	Training Session	Performance Management Session
No. of meetings	**8**	**4**	**9**	**4**	**1**	**1**	**4**	**1**
Elize Angula	(Chair) 8	-	-	4	1	1	4	1
David Nuyoma	8	4	9	4	1	1	-	-
Emma Haiyambo*	4	2	1	-	1	1	-	-
Jennifer Comalie	8	(Chair) 4	8	-	1	1	4	1
Asnake Getachew	8	3	(Chair) 9	-	1	1	4	1
John Walenga	4	2	1	-	1	1	1	-
Muetulamba Shingenge-Haipinge	8	-	9	(Chair) 4	1	1	4	1

*Emma Haiyambo (appointed May 2010)

8. Taxation

No provision for taxation has been made in the annual financial statements, as the bank is exempt from taxation in terms of section 16(1)(e)(i) of the Income Tax Act (Act No. 24 of 1981) as amended as well as section 4 of the Development Bank of Namibia Act, 2002 (Act No. 8 of 2002).

N$	2010	2009
9. Cash and cash equivalents		
Cash and short term fixed deposits with local banks	185,256,634	333,423,210
The carrying amount approximates the fair value of cash and cash equivalents.		
10. Equity investments		
10.1 Equity investments at fair value through profit or loss		
Balance at 1 January 2010	-	-
Acquisitions	101,804,000	-
Nest Investments Lüderitz (Pty) Ltd	5,750,000	-
During the year the Bank acquired a 23.25% interest in the shares of Nest Investments Lüderitz (Pty) Ltd (as a repayment on a loan) at market value. The directors are of the opinion that this represents the fair value at year-end.		
Ohorongo Cement (Pty) Ltd	96,054,000	-
During the year the Bank acquired a 10% interest in the shares of Ohorongo Cement (Pty) Ltd at cost. The directors are of the opinion that this represents the fair value at year-end.		
Balance at 31 December 2010	101,804,000	-

Equity investments represent strategic investments by the Bank and are primarily long-term in nature.

Equity investments at fair value through profit and loss consist of direct equity in ordinary shares.

If the market for a financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length exchange motivated by normal business considerations.

The Bank uses valuation techniques that include price of recent investments, if available, discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rate, long-term evaluation and option pricing models.

11. Loans and advances

N$	2010	2009
11.1 Category analysis		
Instalment sales	73,065,364	64,878,100
Preference share advances	64,724,020	52,161,251
Term loans	625,647,707	464,352,830
Loans and advances to banks acting as intermediaries	160,000,019	139,999,968
Notional value of advances	923,437,110	721,392,149
Contractual interest suspended	(3,735,984)	(4,573,662)
Gross advances net of interest suspended	919,701,126	716,818,487
Impairment of advances (Note 12)	(35,028,787)	(53,641,835)
- Provided for non-performing loans	(17,710,691)	(33,718,720)
- Discounting of loans taken over from Development Fund of Namibia	(2,484,652)	(2,936,518)
- Discounting of loans to banks acting as intermediaries	(14,833,444)	(16,986,597)
Net advances	884,672,339	663,176,652
11.2 Sectoral analysis		
Agriculture including fishing	138,272,330	108,336,359
Building and property development	98,230,509	78,544,049
Government and public authorities	62,132,857	75,489,474
Manufacturing and commerce	47,121,334	34,236,947
Mining	27,087,862	23,267,430
Transport and communication	203,422,796	187,097,401
Medical services	29,835,287	24,324,310
Financial Institutions	160,000,019	139,999,968
Hotel and tourism	51,142,764	33,080,818
Business services	106,191,352	17,015,393
Notional value of advances	923,437,110	721,392,149
Contractual interest suspended	(3,735,984)	(4,573,662)
Gross advances net of interest suspended	919,701,126	716,818,487
Impairment of advances (Note 12)	(35,028,787)	(53,641,835)
- Provided for non-performing loans	(17,710,691)	(33,718,720)
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- Discounting of loans to banks acting as intermediaries	(14,833,444)	(16,986,597)
Net advances	884,672,339	663,176,652

N$	2010	2009
11.3 Maturity structure		
Repayable on demand	21,117,710	-
One year or less but not repayable on demand	105,974,926	49,533,253
Five years or less but over one year	287,145,094	219,828,459
Over five years	470,434,609	393,814,940
Net advances	884,672,339	663,176,652
11.4 Geographical analysis		
Namibia – net advances	884,672,339	663,176,652
11.5 Receivable analysis		
Short-term portion	126,946,616	61,494,672
Long-term portion	757,725,723	601,681,980
Net advances	884,672,339	663,176,652

11.6 Instalment sales

Included in loans and advances are instalment sale agreements which are stated at amounts net of finance charges.

2010	Within 1 Year	More than 1 Year	Total
Analysis of instalment sales			
Instalment payments receivable	27,149,013	66,400,480	93,549,493
Less: Unearned finance charges	(6,542,006)	(15,116,038)	(21,658,044)
Arrear amounts	1,173,915	-	1,173,915
Total	21,780,922	51,284,442	73,065,364

2009			
Analysis of instalment sales			
Instalment payments receivable	14,067,067	66,289,100	80,356,167
Less: Unearned finance charges	(6,430,358)	(12,082,160)	(18,512,518)
Arrear amounts	3,034,451	-	3,034,451
Total	10,671,160	54,206,940	64,878,100

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

12. Impairment of advances

N$	2010 Total Impairment	Specific Impairment	Portfolio Impairment	Profit or Loss
Opening balance	53,641,835	53,641,835	-	-
Amounts written off against impairment provision	(10,578,551)	(10,578,551)	-	-
Unwinding of discounted present value loans	(5,490,607)	(5,490,607)		(5,490,607)
- Off-market Development Fund loans	(451,867)	(451,867)	-	(451,867)
- Off-market loans to banks	(5,038,740)	(5,038,740)	-	(5,038,740)
New impairments created	19,808,453	10,555,402	9,253,051	19,808,453
- Non-performing loans	16,922,867	7,669,816	9,253,051	16,922,867
- Off-market loans to banks	2,885,586	2,885,586	-	2,885,586
Provisions released	(22,352,343)	(22,352,343)	-	(22,352,343)
Closing balance	35,028,787	25,775,736	9,253,051	(8,034,497)

	2009 Total Impairment	Specific Impairment	Portfolio Impairment	Profit or Loss
Opening balance	25,343,575	25,343,575	-	-
Unwinding of discounted present value loans	(4,403,855)	(4,403,855)	-	(4,403,855)
- Off-market Development Fund loans	(312,162)	(312,162)	-	(312,162)
- Off-market loans to banks	(4,091,693)	(4,091,693)	-	(4,091,693)
New impairments created	32,702,115	32,702,115		32,702,115
- Non-performing loans	24,296,901	24,296,901	-	24,296,901
- Off-market loans to banks	8,405,214	8,405,214	-	8,405,214
Provisions released	-	-	-	-
Closing balance	53,641,835	53,641,835	-	28,298,260

N$ Non-performing loans by sector	Credit Risk	Security	Contractual Interest Suspended	Impairment provision
2010				
Agriculture and forestry	4,316,315	3,350,000	488,619	56,740
Business services	5,063,622	1,561,000	309,376	1,413,397
Construction	19,434,328	7,780,000	1,844,137	5,635,528
Hotels and tourism	3,877,104	3,500,000	331,629	-
Manufacturing and commerce	16,457,170	12,200,192	715,573	8,088,375
Transport and communication	506,728	-	-	253,364
Wholesale and retail trade, repairs	4,573,223	-	46,650	2,263,287
Total non-performing loans	54,228,490	28,391,192	3,735,984	17,710,691

Non-performing loans by sector	Credit Risk	Security	Contractual Interest Suspended	Impairment provision
2009				
Building and property development	22,965,845	4,491,000	2,358,413	14,012,512
Manufacturing and commerce	13,983,432	-	2,215,249	11,768,183
Mining	2,931,345	4,800,000	-	-
Hotels and tourism	3,894,763	3,325,000	-	569,763
Total non-performing loans	43,775,385	12,616,000	4,573,662	26,350,458

Non-performing loans by category	Credit Risk	Security	Contractual Interest Suspended	Impairment provision
2010				
Instalment Sale	1,755,906	-	150,667	561,557
Term loans	52,472,584	28,391,192	3,585,317	17,149,134
Total non-performing loans	54,228,490	28,391,192	3,735,984	17,710,691

Non-performing loans by category	Credit Risk	Security	Contractual Interest Suspended	Impairment provision
2009				
Instalment sales	3,193,205	-	74,986	1,761,170
Term loans	40,582,180	12,616,000	4,498,676	24,589,288
Total non-performing loans	43,775,385	12,616,000	4,573,662	26,350,458

13. Investment property

N$	2010	2009
Fair value at the beginning of the year	7,600,000	7,550,000
Change in fair value	1,400,000	50,000
Fair value at end of the year	9,000,000	7,600,000
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 6 "other operating income")	705,012	640,920
Operating expenses that generated rental income	(211,603)	(316,386)
	493,409	324,534

The property was leased out and occupied during the year. The property was valued by an external, qualified valuator, Mr Benjamin Joseph (Sworn Appraiser) on a replacement value basis on 31 December 2010. There are no restrictions on realisation of the investment property. There are no material contractual obligations on the property.

14. Property and equipment

N$	Land	Buildings	Furniture and Equipment	Total
Cost or revalued amount				
Balance at 1 January 2009	8,232,000	13,463,281	3,834,206	25,529,487
Additions	-	-	232,904	232,904
Revaluation gain	-	1,304,719	-	1,304,719
Balance at 1 January 2010	8,232,000	14,768,000	4,067,110	27,067,110
Additions	-	-	536,567	536,567
Disposals	-	-	-	-
Revaluation gain	686,000	3,904,720	-	4,590,720
Balance at 31 December 2010	8,918,000	18,672,720	4,603,677	32,194,397
Accumulated depreciation and impairment				
Balance at 1 January 2009	-	-	(1,251,885)	(1,251,885)
Depreciation expense	-	-	(773,966)	(773,966)
Balance at 1 January 2010	-	-	(2,025,851)	(2,025,851)
Eliminated on disposals of assets	-	-	-	-
Depreciation expense	-	(590,720)	(687,130)	(1,277,850)
Balance at 31 December 2010	-	(590,720)	(2,712,981)	(3,303,701)
Carrying amount				
As at 31 December 2009	8,232,000	14,768,000	2,041,259	25,041,259
As at 31 December 2010	8,918,000	18,082,000	1,890,696	28,890,696
Carrying amount measured at cost				
As at 31 December 2009	8,232,000	12,595,470	2,041,259	22,868,729
As at 31 December 2010	8,232,000	11,727,657	1,890,696	21,850,353

The property represents land and buildings situated on Erf number 5444 Windhoek and were valued by an external, qualified valuator, Mr Benjamin Joseph (Sworn Appraiser) on a replacement value basis on 31 December 2010. 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 or carry any restrictions.

15. Intangible assets

N$	2010	2009
Software		
Cost		
Opening balance	4,006,002	491,268
Additions/ development	2,095,188	3,514,734
Closing balance	6,101,190	4,006,002
Accumulated amortisation and impairment		
Opening balance	(1,076,916)	(266,063)
Amortisation for the year	(1,487,707)	(810,851)
Closing balance	(2,564,623)	(1,076,916)
Carrying amount	3,536,567	2,929,086

16. Trade and other receivables

N$	2010	2009
Other receivables	1,306,521	210,346
Deposits	1,800	1,800
Accrued interest	3,850,083	5,610,043
	5,158,404	5,822,189

The carrying amount approximates their fair values.

17. Trade and other payables

N$	2010	2009
Trade payables	1,042,085	918,172
Receiver of Revenue	821	128,585
Salary related payables	4,427,448	432,031
	5,470,354	1,478,788

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.

18. Deferred income

N$	2010	2009
Government subsidy	100,000,000	-

The funds were received during the financial year from the shareholder, whilst the purpose and utilisation of the funds is still to be determined. The funds had not yet been utilised at year-end and thus recognised as deferred income until they are applied in future transactions and will be recognised through profit or loss as per the Bank's accounting policy.

19. Share capital and share premium

N$	2010	2009
Share capital		
Authorised		
1 500 Ordinary shares of N$100 000 each	150,000,000	150,000,000
Issued		
Share capital: 1 410 (2009: 1 410) Ordinary shares of N$100 000 each	141,000,000	141,000,000
Share premium		
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$4 196 667.67 each	62,950,000	62,950,000
Share premium: 35 Ordinary shares of N$4 185 714.29 each	146,500,000	146,500,000
Share premium: 35 Ordinary shares of N$4 185 714.29 each	146,500,000	146,500,000
	673,525,938	673,525,938
Total share capital and share premium	814,525,938	814,525,938

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 until the next annual general meeting. All issued shares are fully paid up.

20. Reserves

N$	2010	2009
20.1 Special reserve	18,715,538	14,952,144

The Bank introduced a dividend policy in 2006 and annual dividends were subsequently declared. However, the shareholder resolved that these dividends should be retained and re-deployed towards special enterprise development endeavours. An additional equity reserve was therefore created and transfers between retained earnings and this reserve took place as determined by the relevant AGM resolutions.

N$	2010	2009
20.2 Property revaluation reserve	5,895,439	1,304,719

The revaluation reserve relates to the revaluation of property.

21. Loan commitments

N$	2010	2009
Commitments in respect of loans approved but not yet signed by borrower:	138,670,229	288,478,269
Guarantees issued	45,489,089	26,380,864

All financial guarantees mature within 12 months from the reporting date.

N$	2010	2009

22. Capital commitments

Capital expenditure authorised:		
- not yet contracted for	2,550,346	4,882,100

23. Lease commitments

Operating lease commitments:		
Buildings	174,000	-
Vehicles	239,169	30,971
Office equipment and leased lines	2,100,795	1,184,739
	2,513,964	1,215,711
To be incurred as follows:		
Up to 1 year	896,146	555,974
2 – 5 years	1,617,819	659,737
	2,513,964	1,215,711

The Bank leases two motor vehicles under full maintenance lease agreements covering a six year period. These lease agreements are reviewed annually. Leased lines and office equipment leases typically run for a three year period with the option to renew.

24. 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$ 1,873,210 (2009: N$ 1,445,566).

25. Related party information

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

25.1 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:

N$	2010	2009
Compensation	5,381,397	4,380,387
Pension benefits	896,954	746,321
Short-term benefits	262,657	204,155
	6,541,008	5,330,863

25.2 Compensation to directors

The remuneration of directors is determined by the Shareholder. Refer to note 7.1 for directors' emoluments.

25.3 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 remained at N$ 141 million. The following transactions were entered into with the shareholder during the year:

N$	2010	2009
Grant received	100,000,000	-
Dividends declared	3,763,394	4,997,321

25.4 Related-party balances and transactions

25.4.1 Directors and key management personnel

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 directors have an interest in any matter before the board for consideration, directors concerned recues themselves 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, other than described below, 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. During the year under review, contracts were concluded with:

- Guinas Investments (Pty) Ltd of which Ms Muetulamba Shingenge-Haipinge is a director with a loan approved for N$ 7 million and total disbursements of N$ 4,734,310 as at 31 December 2010.

25.4.2 Related entities

Other State-owned enterprises ("SOE") in which the Government of the Republic of Namibia holds the majority of the issued share capital are deemed to be related parties under common control. Transactions undertaken with these SOEs were done on a developmental basis at arm's length and under commercial terms and conditions.

25. Related party information (continued)

25.4 Related-party balances and transactions (continued)

25.4.2 Related entities (continued)

Related party	2010 N$ Outstanding balance	2010 N$ Interest income received	2009 N$ Outstanding balance	2009 N$ Interest income received
Air Namibia (Pty) Ltd	40,606,049	2,929,671	-	-
CENORED (Pty) Ltd	572,965	104,305	1,815,763	248,284
Namibia Post Limited	1,974,014	314,183	4,959,609	698,555
Namibia Power Corporation Limited	61,439,836	3,964,772	64,114,373	4,113,573
Namibian Ports Authority	4,453,680	673,195	6,334,374	871,640
Namibian Ports Authority	31,109,689	4,049,033	39,372,177	4,699,331
National Housing Enterprise of Namibia	29,924,472	2,311,398	29,936,817	242,515
National Housing Enterprise of Namibia	1,796,288	39,687	2,062,671	46,923
Seaflower Whitefish Corporation	34,099,009	2,712,200	31,608,412	1,386,866
Seaflower Whitefish Corporation	25,600,000	-	25,600,000	-
Telecom Namibia Limited	119,922,801	10,357,861	120,517,808	517,808
Transnamib Holdings Limited	7,264,258	1,248,220	14,558,944	1,435,616
	358,763,062	28,704,526	340,880,948	14,261,110

26. Financial risk management

26.1 Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Risk Management and Investment Management Committees monitor and manage 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 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 ("ALCO") on a monthly basis.

The Bank is governed by policies approved by the board of directors, which provide written principles on 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 instruments, for speculative purposes. The Asset and Liability Committee reports quarterly to the Audit, Risk and Compliance Committee, a board represented body that monitors risks and policies implemented to mitigate risk exposures.

26.3 Use of estimates and judgements

26.3.1 Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3.6.1.

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

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

26.3.2 Equity investments

The Bank's equity investments are categorised within level 3 of the fair value hierarchy and were valued at N$ 101,8 million at 31 December 2010. The methods may produce a fair value measurement that may not be indicative of ultimate realisable value. Furthermore, while management believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

26.4 Credit risk

Credit risk comprises the potential loss 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 is exposed to credit risk, which is minimised through mitigating credit risk management procedures in terms of which loans and advances are reviewed at regular time intervals to ensure that bad debts

26. Financial risk management (continued)

26.4 Credit risk (continued)

are contained within acceptable limits. At year-end the Bank did not consider there to be any significant 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.

Management of credit risk

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 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, Risk and Compliance Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, determining requirements, credit assessment, measurement and quantification of and reporting on collateral;
- 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 Asset and Liability Committee and Audit, Risk and Compliance 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.

	2010 N$	2009 N$
Cash and short term funds	185,256,634	333,423,210
Advances		
- Instalment sales	73,065,364	64,878,100
- Term loans	625,647,707	464,352,830
- Preference Share advances	64,724,020	44,792,989
- Loans to banks	160,000,019	139,999,968
Trade and other receivables	5,158,404	5,822,189
Guarantees	45,489,089	26,380,864
Irrevocable commitments	52,567,794	44,243,564
	1,211,909,031	1,123,893,714

Maximum exposure to credit risk at year-end:

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 reflect 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 are 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.

2010	Instalment sales	Preference shares	Term loans	Loans to banks	Total	*Collateral held*
Category						
A	57,902,591	51,532,626	533,809,052	160,000,019	803,244,289	*242,989,170*
B	13,406,867	13,191,394	39,366,071	-	65,964,331	*18,944,000*
C	900,277	-	9,731,801	-	10,632,079	*4,351,000*
D	855,629	-	26,883,614	-	27,739,243	*16,835,000*
E	-	-	15,857,169	-	15,857,169	*7,205,192*
	73,065,364	64,724,020	625,647,707	160,000,019	923,437,110	*290,324,362*

2009	Instalment sales	Preference shares	Term loans	Loans to banks	Total	*Collateral held*
Category						
A	48,323,421	52,161,251	400,656,453	139,999,968	641,141,093	*101,168,569*
B	13,361,474	-	23,114,198	-	36,475,672	*14,300,000*
C	-	-	15,540,070	-	15,540,070	*8,194,000*
D	3,193,205	-	18,985,926	-	22,179,131	*4,422,000*
E	-	-	6,056,183	-	6,056,183	-
	64,878,100	52,161,251	464,352,830	139,999,968	721,392,149	*128,084,569*

26. Financial risk management (continued)

26.4 Credit risk (continued)

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.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

	Past due but not impaired				
2010	31-60 days	61-90 days	91-120 days	More than 120 days	Total
Instalment sales	464,230	130,948	80,779	500,724	1,176,681
Term loans	12,175,527	3,317,485	2,286,063	13,625,379	31,404,454
	12,639,757	3,448,433	2,366,842	14,126,103	32,581,135

	Past due but not impaired				
2009	31-60 days	61-90 days	91-120 days	More than 120 days	Total
Instalment sales	115,824	155,030	156,646	2,058,601	2,486,101
Term loans	1,617,092	2,859,871	2,522,934	16,307,016	23,306,913
	1,732,916	3,014,901	2,679,580	18,365,617	25,793,014

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.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

The total outstanding balance of restructured loans at 31 December 2010 amounts to N$ 108,456,178.

Write-off policy

The Bank writes off a loan balance and any related allowances for impairment losses, when the credit department determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a loan-specific past due status.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, investment securities, session of contract income and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and thereafter on an annual basis. Collateral generally is not held over loans and advances to commercial banks acting as intermediaries.

Cash and cash equivalents

The risk in this category is assessed 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 pre-determined limits approved annually by the board of directors;
- dealing in derivative instruments is not allowed unless prior approval is obtained from the board or from executive management for subsequent reporting to the board.

26.5 Liquidity risk

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 Bank, 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 Bank had no significant financial liabilities at year-end hence a maturity analysis for financial liabilities has not been disclosed.

26. Financial risk management (continued)

26.6 Market risks

The ALCO reports quarterly to the Audit, Risk and Compliance 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.

Currency risk

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

Interest rate risk

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.

Sensitivity analysis for interest rates

The interest rate sensitivity analyses have been determined based on the exposure to interest rates at the reporting date. A 100 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 100 basis points higher/lower and all other variables were held constant, the Bank's profit for the year ended 31 December 2010 would decrease/increase by N$ 8,084,240 (2009: decrease/increase by N$ 4,210,935). This is mainly attributable to the Bank's exposure to interest rates on its variable rate investment portfolio and floating price structure of loans advanced.

The Bank's sensitivity to interest rates has not changed during the current period. Loans and advances are normally priced at variable rates linked to market rates such as prime lending rate or Johannesburg Interbank Agreed Rate (JIBAR) and are re-priced as and when these interest rates change. The term to re-pricing of the majority of interest earning assets are therefore either immediate on demand or on a short-term base.

N$

Interest rate sensitivity

2010			**Term to Repricing**				
Assets	Average effective interest rate	Carrying amount	Demand	1-12 months	2-5 years	Over 5 years	Non-interest earning/ bearing
Cash and cash equivalents	8.3%	185,256,634	42,954,154	142,302,480	-	-	-
Loans and advances	7.7%	884,672,339	840,130,052	7,264,258	37,278,030	-	-
Trade and other receivables	-	5,158,404	-	-	-	-	5,158,404
Equity investments	-	101,804,000	-	-	-	-	101,804,000
Total assets		1,176,891,378	883,084,206	149,566,738	37,278,030	-	106,962,404
Liabilities							
Trade and other payables	-	(5,470,354)	-	-	-	-	(5,470,354)
Net interest sensitivity gap		1,171,421,023	883,084,206	149,566,738	37,278,030	-	101,492,049

2009			**Term to Repricing**				
Assets	Average effective interest rate	Carrying amount	Demand	1-12 months	2-5 years	Over 5 years	Non-interest earning/ bearing
Cash and cash equivalents	9.5%	333,423,210	8,294,197	325,129,013	-	-	-
Loans and advances	8.3%	663,176,652	659,350,959	-	3,825,693	-	-
Trade and other receivables	-	5,822,189	-	-	-	-	5,822,189
Equity investments	-	-	-	-	-	-	-
Total assets		1,002,422,051	667,645,156	325,129,013	3,825,693	-	5,822,189
Liabilities							
Trade and other payables	-	(1,478,788)	-	-	-	-	(1,478,788)
Net interest sensitivity gap		1,000,943,263	667,645,156	325,129,013	3,825,693	-	4,343,401

26.7 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and control procedures that does not restrict initiative and creativity.

26. Financial risk management (continued)

26.7 Operational risks (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with the Bank's policies is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit, Risk and Compliance Committee and senior management of the Bank.

26.8 Capital 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 mobilisation 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.

27. Comparative figures

An amount of N$ 14,952,144 in respect of dividends declared and redeployed in prior years was transferred from retained earnings to a special reserve.

Development Bank of Namibia
PO Box 235, Windhoek, Namibia
Tel: +264 61 290 8000; Fax: +264 61 290 8049
info@dbn.com.na; www.dbn.com.na