Development Bank of Namibia

Good business is good for development

Annual Report 2012

Index

Profile

Development Bank of Namibia: Good business is good for development.

The power of business to promote development is underestimated. In the common perception, development is biased towards social development: education, health and social infrastructure. A closer look at business and free enterprise shows that it is a remarkably powerful tool for promoting national development and growth.

The obvious strength of business is that it provides jobs and incomes. Jobs and incomes provide employed individuals with the ability to sustain themselves and their families, and also the means to improve circumstances, through education, health and housing.

But there is more to it. In Namibia, most enterprise is located in major centres such as Swakopmund, Windhoek, Walvis Bay and the Oshakati Ondangwa complex. Smaller centres have a shortage of employment opportunities. This translates into high levels of poverty in these centres, and a high level of migration to centres where jobs are available. The further impact is that when a business does open in a smaller centre, it has difficulty finding skilled staff, and runs a higher risk of failure.

The Development Bank of Namibia 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, enable industries, communities and individuals to grow and prosper.

The Bank provides finance to larger private and public sector enterprises, SMEs and even emerging micro enterprises. Microfinance loans are provided through partner organisations such as 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 robust system of governance to ensure that the organisation is well managed. It takes an active interest in the progress of its loans and 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 considering an application, 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 turns away 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.

By ensuring that it only finances 'good business', DBN ensures that it creates jobs across the regions, that Namibians take ownership of the wealth, that the jobs will be available for years to come, and that the loans that it makes are 'good for development'.

Board of Directors

Standing in the front:	David Nuyoma (CEO)
Back row from left to right:	Asnake Getachew
	Elize Angula (Chairperson)
	Albertus Basson
	Muetulamba Shingenge-Haipinge
	John Walenga
	Emma Haiyambo
Unavailable:	Justus Hausiku

Chairperson of the Board's Message

Elize Angula

One of the things we cherish most at the Development Bank of Namibia (DBN) are our core values. These principles have helped us stay the course over the past eight years and make the DBN what it is today.

One core value, *Namibia First*, states that our decisions and actions are guided by what will be best for Namibia. Every policy, every project, every step we take, is scrutinised to determine if it is in the best interest of the country.

In line with this practice, the governance framework was crafted to ensure accountability to Namibia's citizens and the Bank's efforts are geared to attain optimal development impact.

Everything the Development Bank does is in line with the endeavour to advance the economy and raise the standard of living in the country.

With a loan book of N$ 1.5 billion at the end of December 2012 and having contributed to the creation and retention of 41,175 jobs since its inception, the Bank has worked steadily to progress enterprise development, job creation and an improvement in the quality of life.

DBN was also created to serve as a catalyst in the economy. Its job is to support those projects able to transform the content and character of the economy.

The current focus on key strategic sectors and effort geared to supporting projects reflective of Namibia's character, are some of the activities undertaken to ensure that the Bank continues to provide financing that effects change.

In 2012, the DBN published its first Development Impact Report. The impact of projects funded by the Bank and the investments it makes are far-reaching, with the impact of a single project often felt across a number of regions and over an extended period.

One of the first projects financed by the Bank, for bulk infrastructure development in an emerging town, Ongwediva, has radically altered the make-up of the town and the socio-economic activity that takes place in the area. The town has become an economic and cultural hub and is set to sustain its growth trend.

At the Development Bank of Namibia, we constantly remind ourselves that we have to consider the impact, both on communities and individuals, of the projects we finance. This is why we continually reflect on what we do and, importantly, on how we do it.

The structural changes introduced during the course of 2012 are indicative of our endeavour to remain responsive to client needs and to meaningfully impact lives affected by the projects DBN finances.

One of the effects of this change is the finalisation of our equity investment framework, which provides us with a basis for investments that serve the dual purpose of launching key industries and growing the Bank's asset base.

With the launch of the Values Campaign just before Namibia's independence celebrations, we stopped and reminded ourselves of why we do what we do. The answer is simple. We love Namibia.

Corporate Governance Report

Governance report

The Development Bank of Namibia Limited (the DBN) is committed to the highest standards of corporate governance, including those promoted in the King Report on Governance for South Africa, 2009 (King III).

The DBN has established processes that fulfill the King III requirements bearing in mind that DBN is a State-Owned Enterprise (SOE) with a single shareholder. Particulars regarding DBN's compliance to King III are set out in the Annual Report and where there has not been compliance, explanations have been provided. Sustainability, a key requirement of King III is included in the company's strategy.

The DBN is governed by the Development Bank of Namibia Act[1] and has as its sole shareholder the Government of the Republic of Namibia with the shareholder representative being the Minister of Finance. It is a public entity incorporated under the Companies with a share capital.

A Governance Agreement containing the shareholder's expectations in the form of predetermined objectives and key performance indicators thus ensuring alignment between the Board of Directors and the shareholder representative is formalised and will be signed once the SOE guidelines are published.

Statement of compliance

The Board is of the opinion that it is substantially compliant in all material respects with the principles of the King III Report, the Namibian Companies Act, 2004 and the Development Bank of Namibia Limited Act, 2002, for the 2012 year under review.

Furthermore, where there have been deviations from the King III Report, an explanation has been provided.

[1] *Act 8 of 2002*

Executive Management

Back row from left to right:

Elriana Burger, Manager: Human Capital
Martin Inkumbi, Head: Lending
Roberta Brusa, Company Secretary
Katja Klein, Head: Business Development

Front row from left to right:

Renier van Rooyen, Chief Financial Officer
David Nuyoma, Chief Executive Officer
Vivian Groenewald, Head: Credit Risk
John Jacobs, Head: Risk and Compliance

CEO's Report

David Nuyoma

Sustainable development

During the year under review, the DBN reaffirmed its enduring commitment to sustainability in its undertaking to only support initiatives that are financially viable, economically feasible, socially equitable and environmentally responsible, as only such initiatives are likely to have lasting development impact.

The Bank financed projects in all 13 regions of the country; an expression of its conscious effort to advance growth with equity. The projects financed are in three focal areas: infrastructure; private sector, particularly manufacturing and processing of natural resources, fishing, mining and the tourism sectors; and in the SME sector. The DBN approved loans valued at N$ 519.1 million in 2012, bringing the total approvals to N$ 2.9 billion since its inception.

DBN scored significant reputational gains through its Good Business Awards, which has been hailed as 'a most prestigious event by clients and the market alike. The award also serves to underscore the premium the Bank places on excellence and the endeavour to have clients do the same, as only 'good businesses' are sustainable businesses.

Kaizen

The Japanese term 'Kaizen' refers to a philosophy of 'continuous improvement' or 'change for the better'. Change is unavoidable. It is the ability of the organisation to embrace it and to adapt to the new environment that will define it. As a young, fast-growing organisation, DBN adopted the Kaizen principle and established a commendable learning culture that works towards continuous betterment.

DBN started the year without a fully staffed structure to implement its newly formulated strategy. This called for a dynamic process to facilitate implementation of its strategic plan, which involved introduction of new governance committees, updating of committee charters for all existing and new committees as well as populating the new executive team and supporting structures, the most notable being the Risk Management, Workout and Recoveries, Business Development and Loans Administration Units.

As performance management supports the DBN's commitment to recruit, develop, and competitively compensate a professional workforce and to better prepare to meet the organisation's future needs, the Bank's performance management policy was enhanced to guide and measure the effectiveness of the new structures.

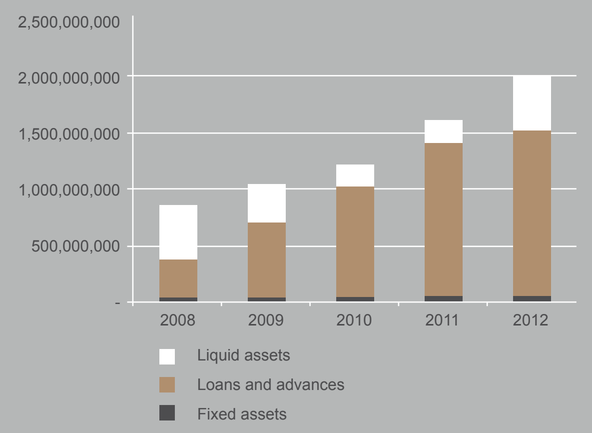
The Bank also launched a Core Values Campaign as the cornerstone of its internal communications strategy for the year. Various 'value weeks' highlighted the importance of, and ways in which DBN's foremost ambassadors, its employees, could 'live' abstract notions like *Namibia first* or *Integrity*. These 'values weeks' were highly successful and noticeably improved relations at all levels in the Bank.

CEO's Report

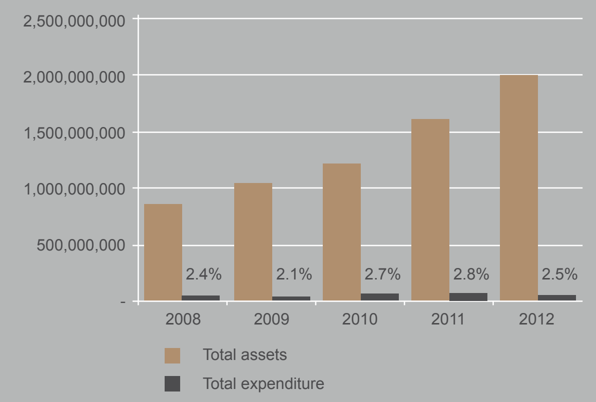
Financial performance

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

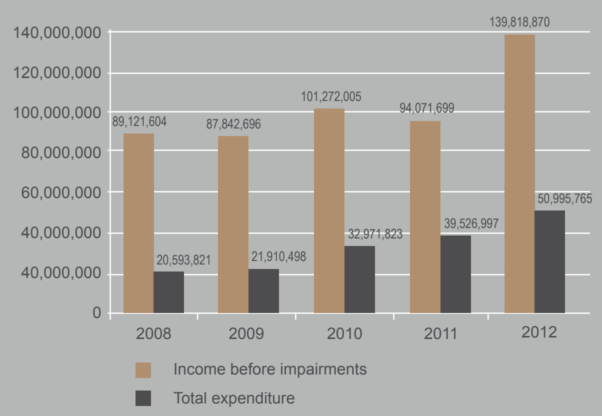
This year saw the Bank's asset base reach N$ 2 billion following further capitalisation by government. This milestone is a reflection of the shareholder's consistent support and confidence in the Bank's growth and leaves DBN one of the largest banks in the country in terms of share capital; though this positive position had not yet been leveraged.



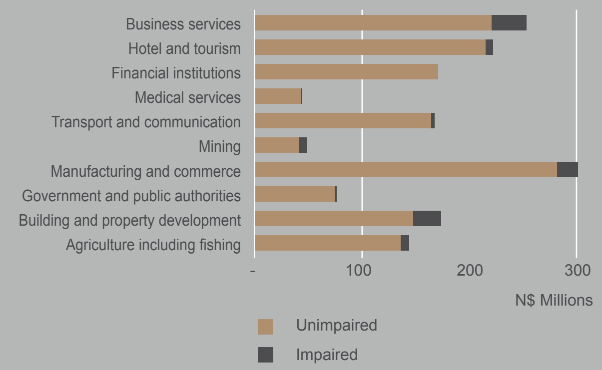
The Bank remains profitable even though the maximisation of profits is not a major strategic driver. Operational costs are prudently managed in order to maintain proper cost ratios compared to the assets under management and the revenue generated by these assets. The cost to average assets ratio at 2.5 per cent is well within budget and compares favourably with peers' benchmark limits.



Revenue vs Expenditure



Delays in repayment of loans and the introduction of the Bank's new impairment model under the new Credit and Equity Investment Policy resulted in additional provisions being raised. With the Workout and Recoveries Unit now fully staffed, control and loan performance monitoring were strengthened, and we have already seen some successes in the recovery of bad debts. There is also a dedicated focus on the Contract Based Finance Facilities to ensure cessions of contract income are honoured by the different employers, especially government departments. Although total impairments are in excess of the targets set, the positive progress on recoveries so far is expected to reduce provisions drastically in the months to follow. As was the case in the previous financial year, the sectors that experienced difficulty and struggled to perform well were again construction, manufacturing and business services.



Reporting under International Financial Reporting Standards (IFRS) continues to pose a challenge for Development Finance Institutions. A substantial number of changes in standards and interpretations will take place over the next few years which will affect many different areas of reporting financial information, including how particular elements are recognised and measured, specifically financial instruments and the impairment thereof. In the case of equity investments, DBN's investment in Ohorongo Cement had to be adjusted downwards substantially even though the economic benefits to accrue to Namibia were considered to be almost double the financial benefits of embarking on the project. The Bank considers this investment to be long-term in nature with a positive outlook, but accounting standards requires the investment to be reported at fair value which, for a start-up operation, is generally very difficult to assess. DBN, however, deems this downward adjustment as a temporal change in value and not as a permanent impairment - typically something associated with a start-up being in the 'J-curve' stage of initial years of operation with a positive reversal anticipated in the near future.

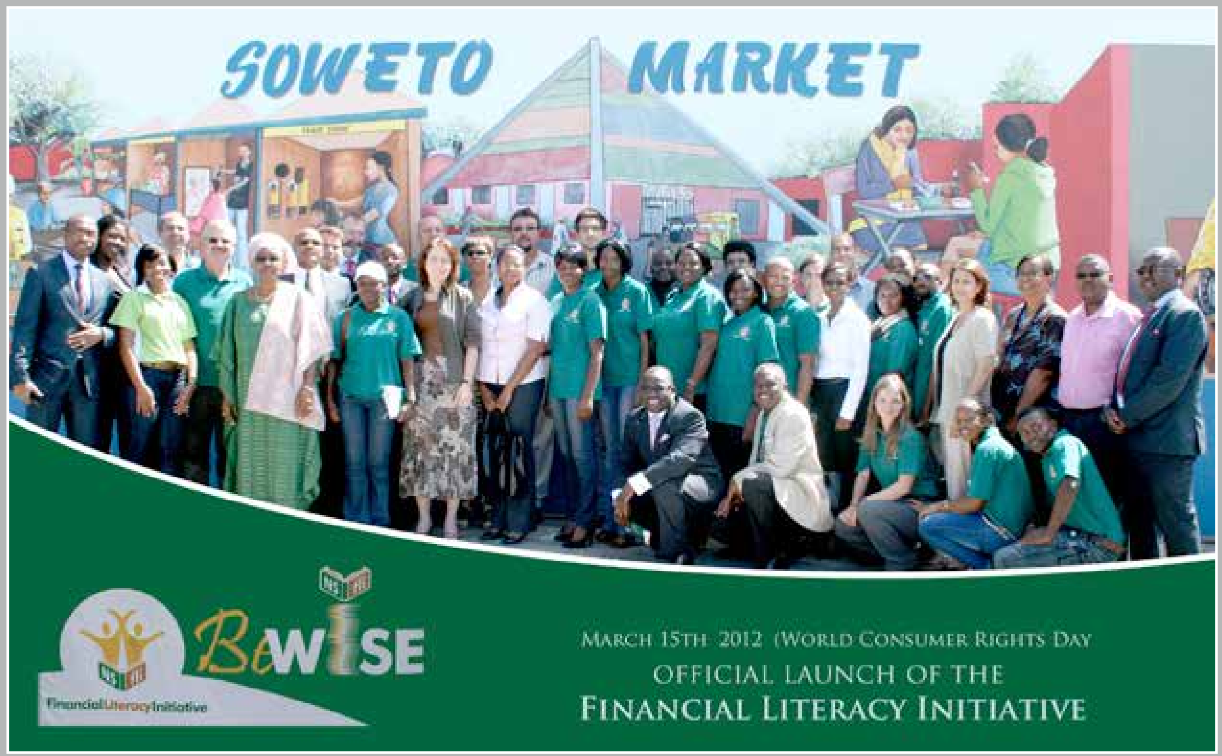
Future outlook

The theme for the Bank's 2013 strategic plan is 'Consolidating DBN's Sustainability'. The theme underscores the establishment and transformation phases the Bank has worked through, towards building a sound, relevant development institution. Efforts for the coming year will be focused on reflecting on the gains made and lessons learnt, on taking stock of DBN's role in the country, and tying up loose ends on the operational front in particular.

The theme is especially relevant in the face of the leadership change the Bank is going through and the learnings this holds for succession and succession planning at DBN.

The ongoing global economic crisis did not have a significant direct impact on DBN's investments nor did it dampen its appetite for investment. The DBN took a long term view and continued to invest in projects with long term impact. In so doing, it remains true to its core value of sustainability.

Milestones Attained



Financial Literacy Initiative

The DBN is a Platform Partner of the Financial Literacy Initiative (FLI), launched on 15 March 2012. The FLI aims to improve financial literacy in Namibia with a coordinated national platform for education on financial matters and consumer protection. Its vision is to improve quality of life and narrow the economic divide by helping citizens become financially capable, assertive and protected.

The initiative was launched against a backdrop of increasing levels of indebtedness, challenges faced by small entrepreneurs when accessing credit, and the generally low levels of financial knowledge in Namibia.

The Financial Literacy Initiative is a national platform of more than 30 partners from the Namibian public, representatives of the private sector and civil society.

Fond farewell

The DBN bid goodbye to its first CEO, David Nuyoma, at the end of 2012. Nuyoma left to head the Government Institutions Pension Fund. Speaking on Nuyoma's contribution, Board Chairperson, Elize Angula said the DBN's growth can be ascribed to his visionary leadership, his love for Namibia and dedication to his work. Director, Asnake Getachew, said Nuyoma's human relationships are based on positivity. "He has an exceptional ability to listen attentively and speaks briefly only when he has a positive contribution to make. His humility is expressed at all levels of engament and earned him a deserved respect. These personal virtues made him an accomplished leader manifested in the achievements of DBN both in the quality of the staff component and its contribution to national objectives."

DBN Good Business Award

Launched in 2012, the DBN Good Business Award recognises enterprises' efforts to create lasting jobs and income, adopt good governance practices, and make a positive contribution to Namibia's economic landscape. With the award, the Development Bank expresses its gratitude to the men and women who venture into business, who take risks and who work really hard to create wealth in the country. The winners run model businesses that help build and transform the economy; one job at a time, one new shareholder at a time. They empower individuals and communities. Combined, their efforts contribute to the empowerment of a nation: one able to feed its people, school its children, and instil dignity in individuals. Entrants were rated based on key developmental issues, such as the number of jobs created or retained, managerial capacity, business records, adherence to good governance practice and Previously Disadvantaged Namibian ownership.

Milestones Attained

What we cherish most

In March 2012, the launch of the Values Campaign under the theme, 'Loving Namibia: Living DBN's Values', coincided with DBN's Independence Day celebrations as this is "why we are here," said CEO, David Nuyoma. "We love Namibia and are applying our respective skills to improve the quality of life in our country."

The campaign considered how employees embody and put the Bank's core values into action in their daily conduct and addressed aspects related to how each brings value to the Bank, to its clients, to each individual in the Bank, and to the country.

DBN's core values are: Namibia First, Integrity, Transparency, Professionalism, Sustainability and Innovation.

Reaching out

The DBN, as part of its regular regional visits, scheduled meetings in the Kunene region in 2012. The Bank goes around the length and breadth of the country as part of its drive to understand the challenges in different areas and to see how, together with stakeholders and entrepreneurs, it can contribute to development. Kunene is classified as one of Namibia's least developed regions. The Town Councils identified tourism, mining and agro-processing based on livestock farming as sectors with potentially high regional development impact.

Development Impact Report

The development impact of projects funded and investments made by the Bank can be far-reaching. If a project demonstrates strong financial, economic and social returns, both institutions with social and commercial objectives may be encouraged to replicate characteristics of that project or investment.

The development impact of a single project can often be felt across a number of regions and over an extended period.

The DBN tracks job creation in the assessment of its development impact, as jobs create livelihoods for people, which has a direct impact on development. With the projects approved for financing in 2012 set to provide 7,689 new, existing and temporary jobs, the Bank continues its efforts to advance the quality of life in the country.

In an effort to contribute to decentralised development, the DBN sets out to finance projects in all regions of the country. In the past year, the Erongo Region had the largest share of total loans approved at 35.4 per cent, followed by the Khomas Region at 14.0 per cent, while projects impacting more than one region, followed at 7.6 per cent of total loans.

From an industry perspective, the tertiary industry, at 68.8 per cent, had the largest share of approvals. The projects financed were in the business services sector, which points towards greater accessibility to products and services offered by the sector.

Development Impact report indicators:

Period:	Loans approved (N$ Mil)	New jobs	Temp jobs	Jobs retained	Total jobs	Effective BEE (N$ mil)	Effective women (N$ mil)
Since inception:	2939.75	12358	13969	14848	41175	1444.3	227.8
2012	519.1	1984	2988	2717	7689	352.4	86.5
2011	616.7	2119	2921	3012	8052	344.9	90.9
2010	365.2	1770	1852	1385	5007	250.8	50.4
2009	427.5	983	2894	1674	5551	144.7	-
2008	467.8	2499	1281	3235	7015	210.1	-

Development Impact Report

Developmental Impacts: January - December 2012

Regional Spread	N$	Percent of total
Caprivi	21.9	4.2
Erongo	183.7	35.4
Hardap	15.6	3.0
Karas	12.1	2.3
Kavango	20.5	3.9
Khomas	72.6	14.0
Kunene	20.4	3.9
More than one Namibia Region	39.7	7.6
National	3.5	0.7
Ohangwena	10.6	2.0
Omaheke	13.8	2.7
Omusati	9.4	1.8
Oshana	49.7	9.6
Oshikoto	11.8	2.3
Otjozondjupa	33.9	6.5
Total	**519.1**	**100.0**

Employment	Number	Percent of total
New	1984	25.8
Retained	2717	35.3
Temporary	2988	38.9
Total Jobs	**7689**	**100.0**

Tenders supported	N$
Bridging finance approvals	218.2
Value of tenders supported	971.5
Bridging finance leverage ratio	4.5

Developmental Impacts: January - December 2012

Summary	Number
Total Facilities	341
Total Entities	**249**

Approvals by facility	N$	Percent of total
Public Sector	0.0	0.0
Private Sector	283.3	54.6
SME	235.8	45.4
Total	**519.1**	**100.0**

Approvals by Industry	N$	Percent of total
Primary	1.5	0.3
Secondary	160.5	30.9
Tertiary	357.1	68.8
Total	**519.1**	**100.0**

Approvals by sectoral	N$	Percent of total
Agriculture	7.6	1.5
Business Services	182.4	35.1
Construction	136.5	26.3
Education	3.0	0.6
Financial Intermediation	13.8	2.7
Health	24.8	4.8
Hotels & Restaurants	13.5	2.6
Manufacturing	25.5	4.9
Tourism	1.6	0.3
Transport & communication	34.8	6.7
Wholesale, retail trade, repairs	75.5	14.5
Total	**519.1**	**100**

The DBN approved loans valued at N$ 519.1 million in 2012, bringing the total approvals to N$ 2.9 billion since its inception.

While no approvals were made in the public sector during the course of the year, the private sector approvals make up 54.6 per cent of total approvals vis-a-vis the SME sector's 45.4 per cent. With private sector this points to a sizeable investment in the SME sector, which many consider the engine of economic growth and an important job creator.

The loans approved helped realise implementation of tenders valued at N$ 971.5 million. Most tenders financed were for road construction, which contributes to the upkeep of the country's extensive road network and transport infrastructure.

The number of facilities with Previously Disadvantaged Namibian shares remains significant in DBN approvals, with 97.9 per cent of all approvals having PDN shareholding.

The number of facilities with effective female shareholding constituted 21.8 per cent of total approvals. These approvals are indicative of the effort to have business ownership that mirrors the country's constitution.

Previously disadvantaged Namibians (PDN) (2012)

No of facilities with PDN shares	334.0
PDN facilities as % of total facilities	97.9
Approvals to facilities with PDN (N$)	359.5
Effective PDN (N$)	352.4
Effective PDN as % of approvals	69.3
No of facilities with female PDN shares	101.0
Approvals to facilities with female PDN (N$)	113.2
Effective female PDN (N$)	73.5
Effective female PDN as % of approvals	21.8

Selected Projects Financed

M and D Construction and Electrical

M and D Construction and Electrical is owned by Ferdinand Docky Olavi and Mathew Blommy Bee Hungamo who have long dreamed about being involved in the construction and electrical business.

The business operates from Rundu and provides construction, electrical and air condition installation services.

M & D Construction was awarded a tender to fence infrastructures on two farms of 2500 hectares as part of a Ministry of Lands and Resettlement programme in the Kavango region.

The dynamic owners expect the business to become a construction outfit of note in the region and, ultimately, the country.

Tungeni Africa Investments

Tungeni Africa Investments was awarded a lease agreement by Namibia Wildlife Resorts to upgrade the infrastructure at the Von Bach Dam. Today, the resort boasts excellent accommodation facilities and an award winning restaurant, set in spectacular surroundings.

Kakumba Island Lodge

Kakumba Island Lodge is situated on Kakumba Island, which lies right next to Impalila Island on the Chobe River at the tip of Namibia, right on the Caprivi strip where four countries meet: Zambia, Zimbabwe, Botswana and Namibia.

The accommodation facilities have a traditional flair and the lodge offers a great variety of activities, including game drives, boat cruises, fishing and trips to Victoria Falls.

Ndhafa Healthcare Services

Ndahafa Healthcare Services is owned by two registered nurses, Ndahafa Nantanga and Nashiwaya Eunike Ndapunikwa, who have long dreamed about rolling out primary health care services to those in need. The business that currently operates from the Khomas Medical Centre, wanted to expand and approached DBN for funding to set up in Otjomuise where no similar facility exists.

At present the company's service offering is limited to nursing related services. The new facility sets out to provide all medical and health related services and the nurses will be supported by two in-house medical practitioners. Services are set to include gynaecology, paediatrics, dermatology, minor surgery as well as adult medicine.

It is further envisaged that the centre rents out space to two independent medical practitioners, a laboratory and a pharmacy.

Selected Projects Financed

Urban Legend

While the local apparel manufacturing industry is in its infancy, the success of franchises retailing youth apparel has shown that there is a demand for well-branded and highly targeted outlets that can cater to the needs of Namibia's youth.

Knowing this, the Development Bank of Namibia paid close attention to an application for finance from local youth entrepreneurs Hosea Angula and Vaino Ashipala and their business plan for a youth-magnet outlet, 'Urban Legend'.

The idea for the shop has its roots in repeated requests to bring back trending clothing brands, for friends and associates, while on business trips to South Africa.

The business received a loan from the Development Bank for stock and working capital, and the partners used their own financial resources to visit and secure agreements with suppliers in South Africa and other parts of the world.

Kings Building Supplies

Kings Building Supplies distributes building material in Rundu and surrounding towns. It started operations in 2010. Because of its significant expansion, the company was approached by a South African supplier in 2012 to act as distributor of its products in the Namibian market. DBN's financing went towards the introduction of additional product lines and increased stock levels.

Tomao Trading

Tomao Trading was granted a N$ 250,000 facility to start up a business supplying frozen fish to SMEs and the public in Katima Mulilo. The promoter has since started selling beef as well. The business is centrally located, at the bustling Craft Centre, in the growing , strategically located town.

Armstrong Construction

Armstrong Construction spotted a gap for bricks and concrete products in Northern Namibia and Southern Angola, and has become a major force in building supplies the northern regions.

When young Rundu entrepreneurs, Docky Olavi and Mathew Hungamo looked around for business ideas, they realised they were located at the centre of a major regional business hub. Rundu is a main gateway to the Kavango and Caprivi regions, as well as neighbouring countries Angola, Zambia, Botswana and Zimbabwe. They also recognised that Rundu is one of the fastest growing towns in the country, and that infrastructural developments are occurring all the time.

Although there was a large amount of building taking place, bricks had to be sourced from Tsumeb and, in addition to the time for transport, the orders took a long time to arrive. The entrepreneurs decided to fill the gap and began producing bricks to supply the Kavango and Caprivi, as well as the Southern Angolan market.

Annual Financial Statements

For the year ended 31 December 2012

Index

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 intergrity of the financial statements and related information. The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) 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 auditors have audited the financial statements and their report appears on page 24 to 25.

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 occured 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 26 to 88 were approved by the board of directors and are signed on their behalf by:

Elize Angula   Martin Inkumbi

Independent Auditor's Report

To the members of the Development Bank of Namibia limited

We have audited the annual financial statements of the Development Bank of Namibia, which comprises of the statement of financial position at 31 December 2012, 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 26 to 88.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Development Bank of Namibia Limited as at 31 December 2012, and 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 Robert Grant
Partner, Windhoek
(date)

De Merindal Office Park
30 Schanzen Road
Windhoek
Namibia

Directors' Report

The directors are pleased to present their report on the activities of the Bank for the year ended 31 December 2012.

Results

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

Dividends

No dividends have been declared in the financial year under review (2011: Nil). Dividends declared in previous years were retained for re-deployment towards special enterprise development endeavours as described in note 20 to the financial statements.

Share Capital

The authorised share capital of the bank increased from 1500 (one thousand five hundred) to 2,000 (two thousand) ordinary par value shares of N$ 100,000 each during the 2012 financial year. Issued share capital has increased to N$ 157.5 million with share premium increasing with N$ 361 million (2011: N$ 343 million) by the issue of 75 ordinary shares for N$ 100,000 each at a premium of N$ 4,819,200. The Goverment of the Republic of Namibia is currently the sole shareholder of the Bank.

Interest of directors

At no time during the financial year were any contracts of significance entered into relative to the Banks business in which a director had an interest.

Board Members and Secretary

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

E Angula (Chairperson)
A Getachew
M Shingenge-Haipinge
J Walenga (resigned February 2012)
E Haiyambo
AJ Basson (appointed 19 April 2012)
J Hausiku (appointed August 2012)
D Nuyoma (Chief Executive Officer) - resigned 31 December 2012
M Inkumbi (Acting Chief Executive Officer) - appointed 1 January 2013
R Brusa (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	2012	2011	
Interest income	4	132,118,431	88,977,243	
Interest expense		(98,703)	(110,070)	
Net interest income		132,019,728	88,867,173	
Fee and commission income	5	7,799,142	5,204,526	
Revenue		139,818,870	94,071,699	
Other income	6	91,390,055	1,676,410	*
Fair value adjustments on off market loans	7	(9,921,295)	-	
Net impairment of loans and advances	13	(77,765,273)	(20,920,315)	*
Operating expenses	8	(50,995,765)	(39,526,997)	
Profit before tax		92,526,592	35,300,797	
Tax expense	9	-	-	
Profit for the year		92,526,592	35,300,797	
Other comprehensive income, net of income tax		(60,363,446)	3,833,807	
Net change in fair value on available-for-sale financial assets	17	(61,558,963)	(439,076)	
Revaluation gain on property	15	1,195,517	4,272,883	
Total comprehensive income		32,163,146	39,134,604	

* *Refer to note 29*

Statement of Financial Position

As at 31 December

N$	Note	2012	2011
Assets			
Cash and cash equivalents	10	407,517,836	194,474,587
Trade and other receivables	11	106,812,221	1,227,058
Staff home ownership scheme loans	14	10,844,149	5,445,3956
Equity investments	17	70,754,924	117,313,887
Loans and advances	12	1,388,867,665	1,236,724,731
Property and equipment	15	44,024,421	44,338,918
Investment property	16	-	-
Intangible assets	18	1,462,747	3,031,108
Total assets		2,030,283,963	1,602,555,685
Liabilities			
Trade and other liabilities	19	19,507,774	2,014,907
Bank overdraft	10	10,003,453	-
Dividends retained for redeployment	20	16,402,238	17,273,425
Equity			
Share capital and share premium	21	1,633,465,938	1,264,525,938
Retained earnings		401,538,760	309,012,168
Reserves	22	(50,634,200)	9,729,246
Total equity		1,984,370,497	1,583,267,352
Total liabilities and equity		2,030,283,963	1,602,555,684

Cash Flow Statement

For the year ended 31 December

N$		2012	2011
CASH FLOWS UTILISED IN OPERATING ACTIVITIES		(158,341,279)	(329,263,390)
Interest received		119,726,908	92,089,903
Cash paid to suppliers and employees		(33,011,643)	(32,431,623)
Cash generated by operations	A	86,715,265	59,658,280
Loan disbursements		(368,345,413)	(486,333,716)
Loan principal repayments		138,288,869	113,361,009
Acquisition of shares in equity investment		(15,000,000)	(15,948,963)
CASH FLOWS UTILISED BY INVESTING ACTIVITIES		(6,687,740)	(10,076,546)
Acquisition of property and equipment		(942,463)	(2,692,628)
Proceeds from disposal of property and equipment		6,539	-
Acquisition of intangible assets		(353,063)	(1,938,522)
Increase in staff home ownerhip scheme loans		(5,398,753)	(5,445,396)
CASH FLOWS FROM FINANCING ACTIVITIES		368,068,813	348,557,887
Proceeds from issue of shares		368,940,000	350,000,000
Disbursements for enterprise development activities		(871,188)	(1,442,113)
Net increase in cash and cash equivalents		203,039,794	9,217,953
Cash and cash equivalents at the beginning of the year	10	194,474,587	185,256,634
CASH AND CASH EQUIVALENTS at the end of the year	10	397,514,381	194,474,587

N$	2012	2011
A. CASH GENERATED BY OPERATIONS		
Profit for the year	92,526,592	35,300,797
Adjusted for :		
- Unwinding of discounted present value on off -market loans	(972,960)	-
- Present value adjustments of off-market loans	9,921,295	-
- Depreciation and amortisation	4,369,458	4,461,270
- Net impairment on loans and advances	77,765,273	20,920,315
- Fair value gain on investment property	-	(1,500,000)
- Other income (Government grant)	(8,800,000)	-
- Loss / (gain) on disposal of asset	(2,096)	-
	174,807,562	59,182,382
Changes in working capital	(88,092,297)	475,898
(Increase) / decrease in trade and other receivables	(105,585,164)	3,931,346
Increase/ (decrease) in trade and other payables	17,492,867	(3,455,448)
	86,715,265	59,658,280*

* *Refer to reclassification note 29*

Statement of Changes in Equity

For the year ended 31 December

N$	Share capital and share premium					
	Share capital	Share premium	Fair value reserve	Property revaluation reserve	Retained earnings	Total
Balance at 1 January 2012	150,000,000	1,114,525,938	(439,076)	10,168,322	309,012,168	1,583,267,352
Total comprehensive income for the year	-		(61,558,963)	1,195,517	92,526,592	32,163,146
Profit for the year	-				92,526,592	92,526,592
Other comprehensive income, net of income tax	-		(61,558,963)	1,195,517		(60,363,446)
Transactions with owner, recognised directly in equity	7,500,000	361,440,000	-	-	-	368,940,000
New shares issued	7,500,000	361,440,000	-	-	-	368,940,000
Balance at 31 December 2012	157,500,000	1,475,965,938	(61,998,039)	11,363,839	401,538,760	1,984,370,498
Note	*21*	*21*	*22.2*	*22.1*		

N$	Share capital and share premium					
	Share capital	Share premium	Fair value reserve	Capital revaluation reserve	Retained earnings	Total
Balance at 1 January 2011	143,000,000	771,525,938	-	5,895,439	273,711,371	1,194,132,748
Total comprehensive income for the year	-	-	(439,076)	4,272,883	35,300,797	39,134,604
Profit for the year	-	-	-	-	35,300,797	35,300,797
Other comprehensive income, net of income tax	-	-	(439,076)	4,272,883	-	3,833,807
Transactions with owner, recognised directly in equity	7,000,000	343,000,000	-	-	-	350,000,000
New shares issued	7,000,000	343,000,000	-	-	-	350,000,000
Balance at 31 December 2011	150,000,000	1,114,525,938	(439,076)	10,168,322	309,012,168	1,583,267,352
Note	*21*	*21*	*22.2*	*22.1*		

Notes to the Annual Financial Statements

For The Year Ended 31 December 2012

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"), as issued by the International Accounting Standards Board ("IASB").

2.2 Basis of measurement

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

- Owner-occupied property is measured at re-valued amounts;
- Available for sale equity investments are measured at fair value; and
- Investment property is measured at fair value.

2.3 Functional and presentation currency

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

2.4 Critical judgements and estimates

2.4.1 Use of judgements, estimates and assumptions

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 assumptions and estimates in applying accounting policies

The areas where assumptions and estimates have been used in applying accounting policies, that have had the most significant effect on the amounts recognised in the financial statements, are the following:

- Loans and advances
- Impairment of loans and advances
- Equity investments

Note 12, 13 and 28.2.1 contains information about assumptions and estimation of uncertainty that have significant risk of resulting in a material adjustment within the next financial year.

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 income and expense

Interest income is recognised if, and only, when it is probable that the economic benefit will flow to the Bank.

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective interest rate over the period to maturity. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial asset or liability (or where appropriate a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate the bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

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

3.2 Fees and commission income

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

Other fee income, including guarantee fees, front-end fees and other administrative fees are recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight line basis over the commitment period.

3.3 Other income

Net other income comprises of gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, foreign exchange differences, and rental income.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

3.4 Dividend income

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 interest income.

Dividends received on instruments with characteristics of debt, such as redeemable preference shares, are included in interest income.

3.5 Employee benefits

3.5.1 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 plans when there is a legal or constructive obligation to make such payments as a result of past performance and the obligation can be estimated reliably.

3.5.2 Post-retirement employee benefits

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 the Bank 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 Property and equipment

3.6.1 Recognition and measurement

Property and equipment is initially recognised at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. 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 accumulated impairment losses. Equipment is subsequently stated at cost less accumulated depreciation and accumulated impairment losses. Changes in the fair value are recognised directly to equity through the property revaluation reserve (refer to note 3.6.4).

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.

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 within other income in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6 Property and equipment (continued)

3.6.1 Recognition and measurement (continued)

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. 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 costs for subsequent accounting.

3.6.2 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.

3.6.3 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:

Buildings	25 years	(4%)
Furniture and equipment	3-5 years	(20% - 33.3%)
Motor vehicles	5 years	(20%)

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.

3.6.4 Revaluation

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 property 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 property revaluation reserve relating to a previous revaluation of that asset. On subsequent sale or retirement of revalued property, the attributable surplus remaining in the property revaluation reserve is transferred directly to retained earnings.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Intangible assets

3.7.1 Computer software

Intangible assets acquired separately are recognised at cost less accumulated amortisation and accumulated impairment losses. On acquisition the software is capitalised at purchase price. The useful life has been set at three years for current and comparative periods with a zero residual value. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation is charged on a straight-line basis over the estimated useful lives. The estimated useful life, residual value 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.

3.8 Grants

Government grants are recognised when reasonable assurance exists that all conditions attached to the grant have been complied with; and that the grant will be received or becomes receivable.

Hence, monetary government grants are initially treated as deferred income and recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses related cost for which the grants are intended to compensate.

3.9 Leases

3.9.1 The Bank as lessee

The Bank classifies leases of plant and equipment as operating leases where the lessor effectively retains the risk and benefits of ownership.

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 Bank's benefit. Contingent lease payments are recognised in profit or loss as they occur. The minimum rentals due after year-end are presented under commitments.

3.10 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 includes expenditure that is directly attributable to the acquisition of the investment property.

Reclassification of investment property

When the use of property changes from owner-occupied to investment property, the property is measured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Financial assets and financial liabilities

3.11.1 Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. All other financial assets and financial liabilities are initially recognised on the trade date at which the bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial instruments issued at lower than market rates, more commonly known as off-market financial instruments, are recognised at the present value of the contractual future cash flows discounted at a market related rate at initial recognition and the adjustments are directly recognised in profit and loss. With financial assets the difference between the discounted and undiscounted recoverable amount is released to interest income in accordance with IAS 18.

3.11.2 Classification

Financial assets

At inception a financial asset is classified as measured at amortised cost or fair value.

A financial asset qualifies for amortised cost measurement only if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Bank makes an assessment of a business model at a portfolio level as this reflects best the way the business is managed and information is provided to management. In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the bank considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

The Bank presents in other comprehensive income the changes in the fair value of certain investments in equity instruments designated as available for sale or those not held for trading.

Financial assets are not reclassified subsequent to their initial recognition, except when the Bank changes its business model for managing financial assets.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Financial assets and financial liabilities *(continued)*

3.11.2 Classification *(continued)*

Financial liabilities

The Bank measures financial liabilities subsequently at amortised cost or fair value through profit or loss.

The Bank has designated financial liabilities at fair value through profit or loss when liabilities contain embedded derivatives that significantly modify the cash flows that would otherwise be required under the contract.

Financial guarantees and commitments to provide a loan at a below-market interest rate are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

3.11.3 Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the bank is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. In addition, any cumulative gain or loss that had been recognised in other comprehensive income was also recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Financial assets and financial liabilities *(continued)*

3.11.3 Derecognition *(continued)*

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank securitises various consumer and commercial financial assets, which generally results in the sale of these assets to special-purpose entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are primarily recognised as investment securities and carried at amortised cost or fair value. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recognised in other revenue.

3.11.4 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

3.11.5 Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.11.6 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 arms 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, then 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Financial assets and financial liabilities *(continued)*

3.11.6 Fair value measurement *(continued)*

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures 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 observable 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.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

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 a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the bank entity and the counterparty where 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)

3.11 Financial assets and financial liabilities (continued)

3.11.7 Impairment of financial assets

A financial asset is impaired if it's carrying amount is greater than it's estimated recoverable amount.

At each reporting date the Bank assesses whether there is objective evidence that a financial assets or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses incurred, when objective evidence of an impairment as a result of one or more events that occured after initial recognition of the asset ("loss events") and that loss event/s has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a bank of assets such as adverse changes in the payment status of borrowers or issuers in the bank, or economic conditions that correlate with defaults in the Bank.

- Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment loss on loans and advances, including staff home loans (trade receivables) exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Loans and advances carried at amortised cost assessed on an individual basis are classified according to risk categories as defined in note 26.3 and impaired according to the determined classification.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset a collective assessment for impairment is performed. Assets that are individually assessed for impairment, whether significant or not, and for which an impairment loss is or continues to be recognised are not included in the collective assessment for impairment.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of all estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occuring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal or release is recognised in profit or loss for the year.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Financial assets and financial liabilities *(continued)*

3.11.7 Impairment of financial assets *(continued)*

- Assets carried at amortised cost *(continued)*
When a loan is determined to be uncollectible, it is written off against the related allowance acount. Conditions precedent for writing off loans includes the following:

- past due loans greater than 360 days ;
- loans classified as "Loss" under the Classification policy are written off within 90 days after said classification;
- where judgement has been obtained and encumbered assets either executable or sold;
- customer is listed on Information Trust Corporation;
- impairments or allowances have been raised on the total outstanding carrying amount after taking the security or collateral value into consideration.

(i) Past due advances
Advances are considered past due in the following circumstances:

- Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.
- Loans and advances with a specific expiry date (i.e terms Loans etc) are treated as overdue where the principal or interest is overdue and remains unpaid at reporting date.
- Loans payable on demand are treated as overdue where a demand for repayment has been served on the borrower but the repayment has not been made in accordance with the instruction. In these instances the full amount outstanding is considered overdue even if part of it is not yet due.

The past due analysis is only performed for advances with specific expiry dates or instalment repayment dates or demand loans that have been demanded.

(ii) Renegotiated financial assets
Financial assets are deemed renegotiated financial assets when the terms of the financial assets that would otherwise be past due or impaired have been renegotiated or restructured in an effort to reduce the risk of the borrower defaulting and the Bank ultimately incurring a loss. Restructuring is done by granting a concession to the borrower, such as restructuring the repayment terms or interest rate to improve the borrowers cash flow position, and obtaining further or better security, subsequently reducing the risk of default . Where advances have been reclassified as neither past due nor impaired, the adherence to the new terms are closely monitored (refer to note 26.3). These assets form part of the collective assessment for impairment.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Financial assets and financial liabilities *(continued)*

3.11.7 Impairment of financial assets *(continued)*

- Available for sale financial assets
The Bank considers at each reporting date whether there is objective evidence whether a financial asset or group of financial assets is impaired. In the case of equity investments classified as available-for-sale the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determing whether an impairment exits.

In the case of equity instruments classified as available-for-sale a significant or prolonged decline in the fair value of the security below it's cost is considered an impairment, if and only if, the cost of the investment is considered unrecoverable.

If the cost of the investment has been determined as unrecoverable, any cumulative loss previously recognised in other comprehensive income is reclassified from equity to comprehensive income as a reclassification adjustment. The amount of cumulative loss reclassified from equity to comprehensive income is the difference between the acquisition cost and the current fair value, less any impairment loss on that available-for-sale equity instrument previously recognised in comprehensive income.

Refer to note 15 for the accounting treatment of the available for sale equity investments during the period under review.

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

3.11.9 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.

Overdraft facilities are classified as part of cash and cash equivalents as they are of a temporary nature and currently not used as part of financing or leveraging.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.11.10 Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial assets and financial liabilities *(continued)*

3.11.11 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.

Where neither the fair value nor cost of unquoted equity instruments can be reliably measured the Bank discloses such facts.

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.

3.12 Impairment of non-financial assets

The carrying amount of the non-financial 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 net of depreciation and amortisation had no impairment loss been recognised.

The recoverable amount of an asset 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.

3.13 Liabilities and provisions

Liabilities and 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. Refer to notes 19 and 20.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Liabilities and provisions *(continued)*

A provision for onerous contracts is recognised when the expected benefits to be derived by the bank from a contract are lower than the unavoidable cost of meeting its obligations under contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contrct. Before a provision is established, the bank recognises any impairment loss on the assets associated with that contract.

3.14 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. The financial guarantee liabilities are subsequently carried at the higher of the amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within trade and other liabilities.

3.15 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 notes to the financial statements.

3.16 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.

3.17 Reclassification to prior year presentation

During the financial year some reclassifications were made to the statement of comprehensive income for consistency. Refer to 29 for the effect of the reclassifications on prior period signed Annual Financial Statements. The reclassifications did not have any effect on the statement of financial position.

3.18 New standards and interpretations not yet adopted

A number of new standards, amendmends to standards and interpretations are not yet effective for the period ended 31 December 2012, 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 2012, the following Standards and Interpretations, applicable to the Bank, were in issue but not yet effective are as follow:

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.18 New standards and interpretations not yet adopted *(continued)*

Standard/ Interpretation		Issued	Effective Date	Impact
* IAS 1 amendments	*Presentation of Items of Other Comprehensive Income*	June 11	Annual periods beginning on or after 1 July 2012	The amendment requires an entity to group the items of the other comprehenive income on the basis of whether the amounts will subsequently be reclassified to profit or loss or not. The amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement.
IAS 28	*Investments in Associates and Joint ventures*	May 12	Annual periods beginning on or after 1 January 2013	The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. The amendment is not expected to have an impact on the Bank's financial statements.
** IAS 32 amendment	*IAS 32 Financial Instruments: Presentation: Offsetting of financial assets and financial liabilities*	Dec 11	Annual periods beginning on or after 1 January 2014	The amendment aims to provide clarification on the application of offsetting rules. The Bank is in the process of assessing the impact of the amended statement on the financial statements.
* IFRS 7 amendment	*Disclosures — Offsetting Financial Assets and Financial Liabilities*	Dec 11	Annual periods beginning on or after 1 January 2013	The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The Bank is in the process of assessing the impact that refers to IFRS 7 would have on the financial statements. Until the process is completed the Bank is unable to determine the significance of the impact.
*** IFRS 9 (2010)	*Financial instruments*	Oct 11	Applies on a modified retrospective basis to annual periods beginning on or after 1 January 2015	The standard incorporates new and revised requirements for classifying and measuring of financial assets and liabilities. The Bank is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed the Bank is unable to determine the significance of the impact.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.18 New standards and interpretations not yet adopted *(continued)*

Standard/ Interpretation		Issued	Effective Date	Impact
IFRS 10	*Consolidated Financial Statements*	May 11	Annual periods beginning on or after 1 January 2013	The standard establishes a new control model for determining which entities should be consolidated. It also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. The amendment is not expected to have an impact on the Bank due to the Bank's Equity Investment Strategy.
IFRS 11	*Joint Arrangements*	May 11	Annual periods beginning on or after 1 January 2013	Replaces IAS 31 Interests in Joint Ventures. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. The Bank is in the process of assessing the impact , if any, on it's financial statements.
IFRS 12	*Disclosure of Interest in Other Entities*	May 11	Annual periods beginning on or after 1 January 2013	Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The Bank is not able to assess the impact of the amendment at this stage due to the above assessment.
* IFRS 13	*Fair Value Measurement*	May 11	Annual periods beginning on or after 1 January 2013	The standard was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that exit under different International Financial Reporting Standards. It provides a fair value hierarchy which gives higher priority to unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobservable inputs. The Bank is in the process of assessing the significance of the impact of IFRS 13 at this stage.

* The first implementation date is 31 December 2013
** The first implementation date is 31 December 2014
*** The first implementation date is 31 December 2015

Notes to the Annual Financial Statements

For The Year Ended 31 December 2012 *(continued)*

N$	2012	2011
4. INTEREST INCOME		
Cash and cash equivalents	13,581,912	9,326,746
Loans and advances to banks	5,771,142	5,783,573
Loans and advances to staff	577,414	102,477
Unwinding of present value on off-market loans	972,960	-
Loans and advances to customers	106,480,541	68,396,676
Dividend income on preference shares in loan book	4,734,462	5,367,771
	132,118,431	88,977,243
5. FEE AND COMMISSION INCOME		
Guarantee fees	2,920,033	1,585,748
Front-end fees	4,838,989	3,473,694
Other fees received	40,120	145,082
	7,799,142	5,204,525
6. OTHER INCOME		
Fair value movement on investment property	-	1,500,000
Rent received	-	176,410
Subsidy - Government Grant (also refer to note 11)	82,590,055	
Grant received	8,800,000	-
	91,390,055	1,676,410

The governments of Namibia and Germany entered into a bi-lateral agreement in 2008 under which the German government undertook to make funding available to Namibia in the form of grants and loans.Both governments appointed agents to act on their behalf in the form of Kreditanstalt für Wiederaufbau ("KfW") to represent Germany and the National Planning Commission ("NPC") for Namibia.

The grant received relates to a grant equivalent of Euro 800,000.00 provided to the mico-finance lender, FIDES Bank Namibia Ltd , by the NPC and the KfW, to which the Bank was nominated as the eventual beneficiary of the grant by way of a "Channeling Agreement" with the NPC.

A separate on-channeling agreement has been entered into with FIDES Bank Namibia Ltd for the Namibian Dollar equivalent of Euro 800,000.00 in the form of a facility administered by the Bank. The facility bears a fixed interest rate of 5% per annum for a period of ten years, including a five year grace period. The grant was recognised with the corresponding loan, included under loans and advances, at spot rate on transaction date.

At reporting date no unfufilled conditions or other contigencies attached to the grant existed.

N$	2012	2011
7. FAIR VALUE ADJUSTMENTS ON OFF-MARKET LOANS		
Loans and advances	6,298,681	-
Staff home loans	3,622,614	-
	9,921,295	-

The adjustments are made to the notional value of loans and advances, including staff home loans, which have been granted at rates lower than the Bank's average investment yield (defined as Off-Market loans), at initial recognition. It represents difference between the present value of future cash flows discounted at a market related rate or yield and the notional value.

8. OPERATING EXPENSES

	2012	2011
Auditors' remuneration		
- audit fees	703,563	450,158
- other services	37,872	67,006
Directors' fees		
- for services as directors	801,765	781,732
- for management services	1,626,548	1,304,414
Depreciation and amortisation	4,369,458	4,461,270
Gain on disposal of equipment	(2,096)	-
Professional services	5,291,717	3,253,461
Salaries and personnel costs	26,457,372	18,633,899
Operating leases:		
- buildings	85,118	79,036
- equipment	464,894	541,634
- motor vehicle	75,556	68,833
Other expenditure	11,083,998	9,885,554
Total operating expenditure	50,995,765	39,526,997
Number of employees	49	47

Notes to the Annual Financial Statements

For The Year Ended 31 December 2012 *(continued)*

N$	2012	2011
8. OPERATING EXPENSES *(continued)*		
8.1 Directors emoluments		
8.1.1 Chief Executive Officer - D Nuyoma		
Pensionable salary	1,351,231	1,046,462
Company contributions to pension and medical aid schemes	275,316	257,952
	1,626,547	1,304,414
8.1.2 Non-executive directors		
E Angula (*Chairlady*)	200,397	160,901
J Comalie (*resigned May 2011*)	-	40,062
A Getachew	191,357	162,512
E Haiyambo	141,888	152,708
M Shingenge-Haipinge	135,905	131,399
J Walenga (*resigned February 2012*)	-	134,150
A Basson (*appointed April 2012*)	132,218	-
J Hausiku (*appointed August 2012*)	-	-
	801,765	781,732
8.1.3 Schedule of Director's Fees		
Chairperson's quarterly fee	19,162	19,162
Chairperson's sitting fee (*per board meeting*)	10,580	10,580
Director's quarterly fee	15,653	15,653
Director's sitting fee (*per board meeting*)	5,983	5,983
Subcommittee sitting fee (*per hour*)	1,496	1,496

8. OPERATING EXPENSES *(continued)*

8.1 Directors emoluments *(continued)*

8.1.4 Board committess and membership

(i) Audit, Risk and Compliance :

*Albertus Basson *Chairperson, non-executive independent director*
*David Nuyoma (CEO) ***
Asnake Getachew
Emma Haiymambo

(ii) Credit and Investment :

Asnake Getachew, Chairperson, non-executive independent director
Muetulamba Shingenge-Haipinge
*David Nuyoma (CEO) ***
Emma Haiyambo
Albertus Basson

- Credit and Investment Sub-Committee:

Asnake Getachew
Albertus Basson

(iii) Human Capital and Remuneration :

Muetulamba Shingenge-Haipinge, Chairperson, non-executive independent director
*John Walenga ****
*David Nuyoma (CEO) ***
Elize Angula

* *A Basson was appointed Chairman of the Audit, Risk and Compliance Committee on 19 April 2012.*
** *Resignation date 31 December 2012*
*** *John Walenga resigned on 6 February 2012.*

8.1.5 Record of attendance

Board meetings
Ordinary

	Ordinary				AGM
	28.03.2012	**31.07.2012**	**04.10.2012**	**04.12.2012**	**04.10.2012**
Elize Angula (Chairperson)	√	√	√	√	√
David Nuyoma (CEO)	√	√	√	√	√
Emma Haiyambo	√	√	√	√	√
Asnake Getachew	√	√	√	√	√
Muetulamba Shigenge-Haipenge	√	√	√	√	-
Albertus Basson	n/a	√	√	√	√

8. OPERATING EXPENSES *(continued)*

8.1.5 Record of attendance *(continued)*

Board meetings
Ordinary

	Extraordinary			Strategic		Presentation	Sub-Committee of the Board
	04.06.2012	21.09.2012	28.09.2012	19.10.2012	20.10.2012	06.09.2012	08.06.2012
Elize Angula (Chairperson)	√	√	√	√	-	√	√
David Nuyoma (CEO)	√	√	√	√	√	√	√
Emma Haiyambo	√	√	-	√	√	√	-
Asnake Getachew	√	√	√	√	√	√	√
Muetulamba Shigenge-Haipenge	√	√	√	-	√	-	-
Albertus Basson	√	√	√	√	√	√	√

An the Extraordinary Board meeting on 4 June 2012, it was resolved that a temporary Board Subcommittee be formed for a single meeting for a specific purpose. The Board appointed Ms E Angula, Mr A Getachew and Mr A Basson to this sub-committee.

Credit and Investment Committee	20.01.2012	02.03.2012	30.03.2012	22.05.2012	17.08.2012	07.09.2012	19.11.2012	29.11.2012
Asnake Getachew (Chairperson)	√	√	√	-	√	√	√	√
David Nuyoma (CEO)	√	√	√	√	√	√	√	√
Muetulamba Shigenge-Haipenge	√	√	√	√	-	√	√	-
Albertus Basson	n/a	n/a	n/a	√	√	√	√	√
Emma Haiyambo	-	√	-	√	√	-	√	-
John Walenga	-	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Audit, Risk and Compliance Committee	22.03.2012	24.07.2012	26.09.2012	28.11.2012
Albertus Basson (Chairperson)	n/a	√	√	√
David Nuyoma (CEO)	√	√	√	√
Emma Haiyambo	√	√	-	-
Asnake Getachew	√	√	√	√

Human Capital and Remuneration Committee	23.03.2012	21.09.2012	23.11.2012
Muetulamba Shigenge-Haipenge (Chairperson)	√	√	√
Elize Angula	√	√	√
David Nuyoma (CEO)	√	√	√

√ indicates attendance
- indicates absence with apology

9. 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$	2012	2011
10. CASH AND CASH EQUIVALENTS		
Bank balances and call deposits	4,846,082	45,877,552
Short term fixed deposits with local banks	402,671,754	148,597,035
	407,517,836	194,474,587
Bank overdraft	(10,003,453)	-
	397,514,383	194,474,587
The carrying amount approximates the fair value of cash and cash equivalents.		
11. TRADE AND OTHER RECEIVABLES		
Prepaid expenses	2,827,322	28,024
Other receivables	41,836	561,788
Government grant	100,000,000	
Receivables: Trust Accounts	47,774	-
Deposits	2,300	2,300
Accrued interest on short term fixed deposits with local banks	3,892,989	634,946
	106,812,221	1,227,058

The grant relates to a subsidy receivable from the Ministry of Finance in support of Special Development Fund (“SDF”) activities managed by the Bank. The Fund was estabilshed in terms of the Development Bank of Namibia Act, 2002, No. 8 of 2002, section 8, the purpose of which is to promote and support development projects and schemes, including small-scale projects, private ventures or other activities as determined by the fund rules on behalf of the Ministry of Finance.

The subsidy relates to the Medium Term Expenditure Framework (“MTEF”) period 01 April 2012 to March 2013. The full grant was initially treated as deferred income and recognised as “other income” in the statement of comprehensive income on a systematic basis over the period in which the Bank incurred the related costs and expenses for which the grant is intended to compensate, being from 01 April 2012 till 31 December 2012.

All the conditions attached to the grant have been complied with.

The directors are of the opinion that the carrying value of trade and other receivables represents the fair value at year-end.

N$	2012	2011

12. LOANS AND ADVANCES

12.1 Category analysis

N$	2012	2011
Instalment sales	146,060,056	94,825,058
Preference share advances	59,467,039	70,594,973
Guarantees honored by Bank	506,145	2,751,100
Term loans	1,137,747,905	969,597,473
Loans and advances to banks acting as intermediaries	160,001,011	160,000,019
Notional value of advances	1,503,782,156	1,297,768,623
Impairment of loans and advances (Note 13)	(114,914,491)	(61,043,892)
- Loans and advances, including guarantees honoured	(108,810,717)	(49,410,848)
- Unwinding of present value on non-performing loans taken over from Development Fund of Namibia	(1,689,595)	(1,980,054)
- Unwinding of discounted present value of loans to banking intermediaries	(4,414,178)	(9,652,990)
Net advances	1,388,867,665	1,236,724,731

12. LOANS AND ADVANCES *(continued)*

12.2 Sectoral analysis

N$	2012	2011
Agriculture including fishing	138,207,067	139,958,982
Building and property development	148,481,373	101,265,888
Government and public authorities	75,036,706	92,796,668
Manufacturing and commerce	282,296,061	185,823,341
Mining	42,000,674	40,148,623
Transport and communication	164,895,964	135,636,719
Medical services	43,773,311	14,890,496
Financial institutions	171,559,898	160,687,825
Hotel and tourism	216,070,761	192,973,318
Business services	221,460,340	233,586,763
Notional value of advances	1,503,782,155	1,297,768,623
Impairment of loans and advances (Note 13)	(114,914,490)	(61,043,892)
- Loans and advances, including guarantees honoured	(108,810,717)	(49,410,848)
- Unwinding of present value on non-performing loans taken over from Development Fund of Namibia	(1,689,595)	(1,980,054)
- Unwinding of discounted present value of loans to banking intermediaries	(4,414,178)	(9,652,990)
Net advances	1,388,867,665	1,236,724,731

12.3 Maturity structure per contractual maturity date

N$	2012	2011
Repayable on demand	20,364,120	17,759,273
One year or less but not repayable on demand	183,300,039	83,995,114
Five years or less but over one year	442,180,019	473,254,989
Over five years	743,023,487	661,715,355
Net advances	1,388,867,665	1,236,724,731

12.4 Geographical analysis

N$	2012	2011
Namibia – net advances	1,388,867,665	1,236,724,731

The carrying amount approximates the fair value of loans and advances.

N$

13. IMPAIRMENT OF LOANS AND ADVANCES

2012	Total Impairment	Specific Impairment	Portfolio Impairment	Profit or Loss
Opening balance	61,043,892	29,349,867	31,694,025	-
Reclassification	-	31,694,025	(31,694,025)	-
Amounts written off against impairment allowance	(25,405,163)	(25,405,163)	-	-
Unwinding of discounted present value loans	(5,529,271)	(5,529,271)	-	(5,529,271)
- Off-market Development Fund loans	(290,459)	(290,459)	-	(290,459)
- Below market rate loans to banks	(5,238,812)	(5,238,812)	-	(5,238,812)
New impairments created	93,630,325	89,922,171	3,708,154	94,134,312
- Non-performing loans: provisions	76,246,487	72,538,333	3,708,154	76,246,487
- Non-performing loans: interest in suspense	7,699,439	7,699,439	-	8,203,426
- On loans written off during the period	9,684,399	9,684,399	-	9,684,399
Recoveries of bad debts previously written off	-	-	-	(2,014,475)
Allowances released	(8,825,292)	(8,825,292)	-	(8,825,292)
Closing balance	114,914,491	111,206,337	3,708,154	77,765,274

2011	Total Impairment	Specific Impairment	Portfolio Impairment	Profit or Loss
Opening balance	35,028,787	25,775,736	9,253,051	-
Amounts written off against impairment allowance	(434,727)	(434,727)	-	-
Unwinding of discounted present value loans	(5,755,036)	(5,755,036)	-	(5,755,036)
- Off-market Development Fund loans	(504,598)	(504,598)	-	(504,598)
- Below market rate loans to banks	(5,250,438)	(5,250,438)	-	(5,250,438)
New impairments created	37,121,151	9,763,894	27,357,257	32,978,112
- Non-performing loans - provisions	32,529,012	5,171,755	27,357,257	32,908,127
- Non-performing loans - interest in suspense	4,522,154	4,522,154	-	-
- Below market rate loans to banks	69,985	69,985	-	69,985
Recoveries of bad debts previously written off	-	-	-	(1,386,477)
Allowance released	(4,916,283)	-	(4,916,283)	(4,916,283)
Closing balance	61,043,892	29,349,867	31,694,025	20,920,316 *

* *Refer to Note 29*

N$

13. IMPAIRMENT OF LOANS AND ADVANCES *(continued)*

Non-performing loans by sector 31 December 2012	Credit Risk	Security	Contractual Interest Suspended	Impairment allowance
Agriculture and forestry	4,120,644	1,675,000	-	1,222,822
Business services	43,383,074	9,164,941	1,617,233	20,742,642
Construction	56,105,998	11,069,675	1,976,620	23,637,326
Hotels and tourism	22,202,063	11,050,369	600,232	5,560,280
Manufacturing and commerce	28,840,997	7,956,772	4,237,411	14,491,063
Transport and communication	11,102,376	5,524,403	125,860	2,679,722
Wholesale and retail trade, repairs	23,604,920	3,260,272	671,904	9,424,414
Fishing and fish processing	6,560,365	3,407,332	189,730	3,923,347
Mining and quarrying	11,666,339	1,309,104	377,277	6,845,297
Electricity	2,968,726	-	27,216	850,165
Total non-performing loans	210,555,502	54,417,868	9,823,483	89,377,078

Non-performing loans by sector 31 December 2011	Credit Risk	Security	Contractual Interest Suspended	Impairment allowance
Agriculture and forestry	955,842	-	15,359	653,459
Business services	10,907,617	1,483,400	639,812	7,594,261
Construction	33,652,987	4,073,216	881,700	14,984,379
Hotels and tourism	-	-	-	-
Manufacturing and commerce	20,271,400	6,303,000	1,816,416	10,224,778
Transport and communication	117,369	-	6,705	110,663
Wholesale and retail trade, repairs	6,830,108	300,000	200,900	2,796,812
Fishing and fish processing	1,424,131	-	41,036	691,547
Mining and quarrying	4,872,777	-	250,669	1,613,091
Electricity	2,161,976	240,000	65,358	1,245,794
Total non-performing loans	81,194,207	12,399,616	3,917,955	39,914,784

Notes to the Annual Financial Statements

For The Year Ended 31 December 2012 *(continued)*

N$

13. IMPAIRMENT OF LOANS AND ADVANCES *(continued)*

Non-performing loans by category 31 December 2012	Credit Risk	Security	Contractual Interest Suspended	Impairment allowance
Guarantees	26,085,491	2,872,000	-	3,478,884
Instalment sales	30,313,887	9,249,674	659,965	12,340,136
Term loans	154,156,123	42,296,194	9,163,517	73,558,058
Total non-performing loans	210,555,501	54,417,868	9,823,482	89,377,078

Non-performing loans by category 31 December 2011	Credit Risk	Security	Contractual Interest Suspended	Impairment allowance
Guarantees	4,702,780	-	51,615	3,423,018
Instalment sales	6,784,177	-	351,956	1,473,001
Term loans	69,707,250	12,399,616	3,514,384	35,018,765
Total non-performing loans	81,194,207	12,399,616	3,917,955	39,914,784

N$	2012	2011
14. STAFF HOME OWNERSHIP SCHEME LOANS		
Staff home ownership scheme loans	10,844,149	5,445,396

Loans are deemed as off-market loans as they represent loans granted to staff members at lower than market related rates. The present value adjustment at initial recognition regarding off -market staff home loans granted for the current reporting period amounted to N$ 3,622,614.

The Bank operates a home ownership scheme. In terms of this scheme, mortgage bonds are provided to the Bank employees at reduced interest rates.

All loans are secured by fixed property. Loans are provided to a maximum of four (4) times the pensionable salary, including all costs.

N$

15. PROPERTY AND EQUIPMENT

	Land	Buildings	Vehicles	Furniture and equipment	Total
Cost or revalued amount					
Balance at 1 January 2011	8,918,000	18,672,720	-	4,603,677	32,194,397
Additions	-	959,492	-	1,733,136	2,692,628
Revaluation gain	726,000	3,546,883	-	-	4,272,883
Reclassification from investment property	5,273,973	5,226,027	-	-	10,500,000
Balance at 1 January 2012	14,917,973	28,405,122	-	6,336,813	49,659,908
Additions	-	36,727	47,592	858,144	942,463
Disposals	-	-	-	(9,650)	(9,650)
Revaluation gain	686,000	509,517	-	-	1,195,517
Balance at 31 December 2012	15,603,973	28,951,366	47,592	7,185,307	51,788,238
Accumulated depreciation and impairment					
Balance at 1 January 2011	-	(590,720)	-	(2,712,981)	(3,303,701)
Depreciation expense	-	(732,375)	-	(1,284,915)	(2,017,290)
Balance at 1 January 2012	-	(1,323,095)	-	(3,997,896)	(5,320,991)
Eliminated on disposals of assets	-	-	-	5,207	5,207
Depreciation expense	-	(1,232,243)	(7,139)	(1,208,652)	(2,448,034)
Balance at 31 December 2012	-	(2,555,338)	(7,139)	(5,201,341)	(7,763,817)
Carrying amount					
As at 31 December 2011	14,917,973	27,082,028	-	2,338,916	44,338,917
As at 31 December 2012	15,603,973	26,396,028	40,453	1,983,968	44,024,421
Carrying amount if carried under the cost model					
As at 31 December 2012	11,982,000	15,807,277	-	-	-

The property represents land and buildings situated on Erf number 5444 Windhoek and Erf number 7640 (sectional title) respectively and were valued by an external, qualified valuator, Mr Benjamin Joseph (Sworn Appraiser) on a income caplitalisation basis on 31 December 2012. During the period, the Bank carried out a review of the useful lives and residual values 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.

N$	2012	2011
16. INVESTMENT PROPERTY		
Fair value at beginning of the year	-	9,000,000
Change in fair value	-	1,500,000
Reclassification to property and equipment	-	(10,500,000)
	-	-
Investment property known as DFN Centre consists of office buildings only. Erf No. 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”)	-	176,410
Operating expenses that generated rental income	-	(290,593)

17. EQUITY INVESTMENTS

17.1 Available for sale equity investments - unlisted

	Norsad Finance Ltd	Nest Investments Lüderitz (Pty) Ltd	Ohorongo Cement (Pty) Ltd	Total
Cost or fair valued amount	3.68% *Shareholding*	23.25% *Shareholding*	10.08% *Shareholding*	
Balance at 1 January 2011	-	5,310,924	112,002,963	117,313,887
Acquisitions	-	-	-	-
Recapitalisation issue	-		15,000,000	15,000,000
Disposals	-	-	-	-
Net change in fair value	-	-	(61,558,963)	(61,558,963)
Balance at 31 December 2012	-	5,310,924	65,444,000	70,754,924
Director’s valuation of unlisted equity investments	-	5,310,924	65,444,000 *	-

* Refer to the CEO’s report on page 11 for the Bank’s considerations regarding the investment.

For the methodologies used to determine the fair value of the investments in securities, refer to Note 28.2.1.

There has been no change in the % shareholding during the period on the investments, except in the case of Norsad Finance Limited.

17. EQUITY INVESTMENTS *(continued)*

17.1 Available for sale equity investments - unlisted *(continued)*

The Zambia-based Norsad Fund was dissolved on 07 April 2011 with Norsad Finance Limited (“Norsad”) being formed and registered in Botswana in December 2011. Year-end is 31 March.

On March 2012 the Board of Directors of the Bank resolved to accept the 4.55% founding shareholding into Norsad, after the Government of the Republic of Namibia nominated the Bank to be a founding shareholder. The other founding shareholders are from 10 SADC Development Fund Institutions (“DFI’s”) and 4 Nordic DFI’s as designated by their respective Governments. The share certificates were issued in December 2012.

During the year an option to subscribe to preference shares was made, however, the Bank opted not to subscribe to these preference shares at the time, thereby reducing the shareholding to 3.68% as at reporting date.

At 31 December 2012 neither the cost nor the fair value of the 3.68% shareholding could be determined as the first set of audited annual financial statements of Norsad was not yet available.

N$	2012	2011
18. INTANGIBLE ASSETS		
Software		
Cost		
Opening balance	8,039,712	6,101,190
Additions	353,063	1,938,522
Closing balance	8,392,775	8,039,712
Accumulated amortisation and impairment		
Opening balance	(5,008,603)	(2,564,623)
Amortisation for the year	(1,921,425)	(2,443,980)
Closing balance	(6,930,028)	(5,008,603)
Carrying amount	1,462,747	3,031,109

N$	2012	2011

19. TRADE AND OTHER LIABILITIES

Trade payables	1,247,575	1,612,806
Receiver of Revenue	(170,258)	(15,942)
Deferred guarantee fee income	117,000	-
Deferred subsidy - Government Grant	17,409,945	
Salary related payables	903,513	418,043
	19,507,774	2,014,907

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. The fair value of the financial guarantees are valued at N$ 312,219 (2011: N$ 104,725) at reporting date.

N$	2012	2011

20. DIVIDENDS RETAINED FOR REDEPLOYMENT

Balance at beginning of year	17,273,425	18,715,538
Disbursements	(871,187)	(1,442,113)
Indigenous Peoples Business Forum	-	(222,001)
Ondenga Consultancy	(36,000)	(36,000)
IMLT	-	(146,919)
SME Competitiveness	(835,187)	(835,188)
Grant funding to Northern UNAM Campus	-	(125,000)
Steps Programme	-	(77,005)
Balance at end of of year	16,402,238	17,273,425

Dividends declared in 2008 to 2010 were retained by the Bank for redeployment towards special enterprise development endeavors as resolved by the shareholder. The liability recognised is settled through disbursements to approved enterprise development projects.

N$	2012	2011

21. SHARE CAPITAL AND SHARE PREMIUM

Share capital		
Authorised		
2 000 Ordinary shares of N$100 000 each	200,000,000	150,000,000
Issued		
Share capital: 1 575 (2011: 1 500) Ordinary shares of N$100 000 each	157,500,000	150,000,000
Share premium		
Share premium: 50 Ordinary shares of N$ 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
Share premium: 20 Ordinary shares of N$ 4,900,000.00 each	98,000,000	98,000,000
Share premium: 70 Ordinary shares of N$ 4,900,000.00 each	343,000,000	343,000,000
Share premium: 75 Ordinary shares of N$ 4,900,000.00 each	361,440,000	-
	1,475,965,938	1,114,525,938
Total share capital and share premium	1,633,465,938	1,264,525,938

The Bank has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid up.

Each share is entitled pari passu to dividend payments or any other distribution.

N$	2012	2011

22. RESERVES

22.1 Capital revaluation reserve

Balance at beginning of year	10,168,322	5,895,439
Increase in reserve	1,195,517	4,272,883
Balance at end of of year	11,363,839	10,168,322

The revaluation reserve relates to the revaluation of property.

22.2 Fair value reserve

Balance at beginning of year	(439,076)	-
Decrease in reserve	(61,558,963)	(439,076)
Balance at end of of year	(61,998,039)	(439,076)

The fair value relates to the change in fair value of of the available for sale equity instruments.

Net closing balance	(50,634,200)	9,729,246

23. LOAN COMMITMENTS AND CONTINGENT LIABILITIES

Irrevocable commitments in respect of loans approved	87,497,389	81,365,729
Guarantees issued	62,246,642	35,763,379
Letters of credit	1,550,000	600,000
Performance and demand guarantees	60,696,642	35,163,379
	149,744,031	117,129,108

The fair value of the guarantees approximates the face value as disclosed.

24. CAPITAL COMMITMENTS

Capital expenditure authorised:		
- not yet contracted for	5,848,500	1,891,051

N$	2012	2011

25. LEASE COMMITMENTS

Operating lease commitments:		
Buildings	282,000	174,000
Vehicles	510,593	264,175
Office equipment and leased lines	1,067,162	2,744,026
	1,859,755	3,182,201
To be incurred as follows:		
Up to 1 year	1,063,559	1,386,528
2 – 5 years	796,196	1,795,673
	1,859,755	3,182,201

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

26. 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 a defined contribution fund and is administered under the Namibian Pension Fund Act, No. 24 of 1956. The Fund is exempted from actuarial valuations and is classified as a defined contribution fund. All employees contribute to the Fund. Total Bank contributions for the period amounted to N$ 3,355,290 (2011: N$2,704,643).

27. 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.

27.1 Related party balances and transactions

27.1.1 Directors

The remuneration of directors is determined by the Shareholder. Refer to note 8.1 for directors' emoluments.

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.

27. RELATED PARTY INFORMATION *(continued)*

27.1 Related party balances and transactions *(continued)*

27.1.1 Directors *(continued)*

Where directors have an interest in any matter before the board for consideration, directors concerned recuse 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 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 period.

Prior reporting period declarations:
- Approved loan for Guinas Investments (Pty) Ltd of which Ms. Muetulamba Shingenge - Haipenge is a director. Loan value : N$ 7.5 million.

27.1.2 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 increased to N$ 157.5 million (2011: N$ 150 million) with share premium increasing with N$ 361 million (2011: N$ 350 million).

N$	2012	2011
Dividends declared	-	-
Government subsidy (refer to note 11)	100,000,000	-

27.1.3 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$	2012	2011
Compensation	5,655,628	5,802,465
Pension benefits	810,179	962,949
Other short-term benefits	252,363	300,531
	6,718,170	7,065,945

No other transactions have been entered into during the period under review.

27. RELATED PARTY INFORMATION *(continued)*

27.4 Related party balances and transactions *(continued)*

27.4.2 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.

The Bank deems transactions with other SOE’s, individually or collectively as significant for disclosure purposes.

	2012		2011	
	N$	N$	N$	N$
Related party	Outstanding Balance	Interest charged	Outstanding Balance	Interest charged
Instalment sales				
Namibian Ports Authority	11,546,312	1,992,197	21,867,940	3,074,382
Preference shares advance				
Seaflower Whitefish Corporation	30,672,225	5,072,225	25,600,000	1,487,360
Guarantees				
Central North Electricity Distribution	10,075,783	-	-	-
Central North Electricity Distribution	5,161,413	-	-	-
Term loans				
Air Namibia	-	-	-	1,938,004
Namibia Post Limited	-	-	-	39,423
Namibia Power Corporation Limited	55,080,065	2,783,739	58,382,283	3,031,040
Namibia Wildlife Resorts Limited	90,861,418	6,987,726	90,890,275	1,736,876
Namibian Ports Authority	-	204,136	2,350,215	451,348
Nampost Financial Brokers	102	1	-	-
National Housing Enterprise of Namibia	24,094,215	1,565,462	28,476,519	2,355,482
National Housing Enterprise of Namibia	304,003	13,691	902,703	26,178
Seaflower Whitefish Corporation	35,840,190	2,403,641	34,401,477	2,389,603
Telecom Namibia Limited	120,000,000	8,575,409	119,999,708	8,752,643
Transnamib Holdings Limited	-	-	17,502	391,426
	383,635,726	29,598,227	382,888,622	25,673,765

28. FINANCIAL RISK MANAGEMENT

28.1 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 and Compliance Management Committee was formerly constituted in August 2012 and assumed responsibility and accountability for the following core risk functions viz. 1. Internal Audit function 2. External Audit Function and 3. Compliance Function through monitoring and managing 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 and their performances are measured against the Risk Appetite of the Bank via the Targeted Balance Sheet and include market risk (including fair value interest rate risk and price risk), credit risk, investment risk, liquidity risk, operational risk and cash flow interest rate risk. The Risk and Compliance Management Committee ultimately reports to the Board Audit Risk and Compliance Committee but would together with the Investment Management Committees provide input 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 exposure.

28.2 Use of estimates and judgements

28.2.1 Fair value of financial instruments

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

If the market for a financial instruments 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.

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.2 Use of estimates and judgements *(continued)*

28.2.1 Fair value of financial instruments *(continued)*

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.

  The underlying definition of fair value being that an entity is a going concern without any intention or necessity to liquidate, curtail materially the scale of it's operations or to undertake a transaction on adverse terms. Fair value is not therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquiditation, or distress sale. However, fair value reflects the credit quality of the instrument.

Investment securities

The fair value of non-contolling equity investments is determined by using discounted cash flow (DCF) methodologies. However, alternative valuation methods are adopted in instances where reasonable reliance cannot be placed on the use of the income approach valuation method due to limiting factors.

The following principle methods and assumptions have been used to determine the fair value of the unlisted equity investments at reporting date:

Ohorongo Cement (Pty) Ltd :

The fair value was determined by using the cost approach where the net asset value, being the fair market value of all the assets less the current value of all the liabilities of the company , was applied and subsequently adjusted to reflect the Bank's non-controlling shareholding.

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.2 Use of estimates and judgements *(continued)*

28.2.1 Fair value of financial instruments *(continued)*

Nest Hotel (Pty) Ltd:
The equity investment shareholding was fair valued by applying net assets methods, being the forced sale value of it's property.

The methods described above 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.

Financial instruments recognised at fair on statement of financial position

N$

31 December 2012

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity investments	-	-	70,754,924	70,754,924
	-	-	70,754,924	70,754,924

31 December 2011

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity investments	-	-	117,313,887	117,313,887
	-	-	117,313,887	117,313,887

During the reporting period ending 31 December 2012 and 31 December 2011 period, there was no transfer into or out of Level 3 fair value measurements nor any fair value measurements exits for Level 1 or 2.

N$

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.2 Use of estimates and judgements *(continued)*

28.2.1 Fair value of financial instruments *(continued)*
Changes in level 3 fair value of financial instruments

Financial assets	
Fair value on 31 December 2011	112,002,963
Net change in fair value recognised in other comprehensive incomce	(61,558,963)
Fair value on 31 December 2012	65,444,000

Changes in the Bank's best estimate of the unobservable inputs could affect the reported fair values recognised on the statement of financial position and movements in fair values recognised in the statement of other comprehensive income. Changing these inputs to reasonably possible alternatives would change the fair values using more positive reasonable assumptions to N$ 72,652,843 and using more negative reasonable assumptions to N$ 68, 860,471.

For all other financial instruments not carried at fair value on the statement of financial position , the fair value is equal to or reasonably approximates its carrying value.

28.3 Credit risk

Credit risk comprises the potential loss due to counter party default. All loan 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 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 Head of Lending and the Head of Credit. 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.

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.3 Credit risk *(continued)*

Management of credit risk *(continued)*

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 ("ALCO") and Audit, Risk and Compliance Committee, 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.

Maximum exposure to credit risk

N$	2012	2011
Cash and short term funds	397,514,382	194,474,587
Advances		
- Instalment sales	146,060,056	94,825,058
- Term loans	1,137,747,905	969,597,473
- Preference Share advances	59,467,039	70,594,973
- Loans to banks	160,001,011	160,000,019
- Guarantees honored by Bank	506,145	2,751,100
Trade and other receivables	103,984,899	1,227,058
Staff home ownership scheme loans	10,844,149	5,445,396
Equity investments	70,754,924	117,313,887
	2,086,880,510	1,616,229,551
Amounts not recognised on the statement of financial position		
Guarantees	61,646,642	35,763,379
Irrevocable commitments to borrowers	87,497,389	81,365,729
	2,236,024,541	1,733,358,659

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.

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.3 Credit risk *(continued)*

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

A - Pass or Acceptable:	These are loans that are performing in accordance with contractual terms, and are expected to continue doing so.
B - Watch or 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 or All Interest Stopped:	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.

2012	Instalment sales	Preference shares	Term loans	Loans to banks	Guarantees	Total	Collateral held
Category							
A	104,831,691	26,346,540	871,606,333	160,001,011	506,145	1,163,291,721	588,086,204
B	10,914,478	30,791,368	114,314,579	-		156,020,425	102,721,143
C	9,761,812	2,329,131	20,988,031	-		33,078,975	9,870,589
D	10,688,916	-	63,874,986	-		74,563,902	25,085,679
E	9,863,158	-	66,963,975	-		76,827,133	16,589,599
	146,060,056	59,467,039	1,137,747,904	160,001,011	506,145	1,503,782,156	742,353,214

2011	Instalment sales	Preference shares	Term loans	Loans to banks	Guarantees	Total	Collateral held
Category							
A	67,612,090	70,594,973	731,891,121	160,000,019	325,704	1,030,423,907	230,372,612
B	20,975,511		167,999,102	-	93,839	189,068,452	110,338,912
C	4,818,545	-	12,519,132	-	18,400	17,356,077	1,883,016
D	496,879	-	27,348,209	-	9,007	27,854,095	5,765,200
E	922,033		29,839,908	-	2,304,151	33,066,092	4,751,400
	94,825,058	70,594,973	969,597,472	160,000,019	2,751,101	1,297,768,623	353,111,140

Impairment losses recognised for the year related to loans and advances.

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.3 Credit risk *(continued)*

The Bank requires collateral in order to secure its own sustainability. 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 banks acting as intermediaries. The industry approach to valuing securities for risk pricing adjustments is to value securities offered on the basis of the 'net present market value', which is defined as the net realisable proceeds from a present day sale of the security offered. The net present value of security is generally expressed as a percentage that could reasonably be expected to be recovered in a forced sale situation. For securities provided the Bank initially, depending on the various risk factors, adjusts the 'net present market value' to the expected recoverable value based on industry benchmarks adopted. Securities have not been revalued at year end.

Industry benchmarks used by the Bank in determinig expected recovery values for varying types of security are illustrated below:

Type of security	Risk Value of Security ("RSV")
Immovable assets	60% of net present market value
Movable assets	60% of net present market value
Ceded investments	
- shares/stocks/equity	60% of net present market value
- callable cash investments	90% of call value
Sinking funds (including zero coupon bonds)	90% pf net present value of investment
Third party collateral	
- ceded investment	As above for ceded investments
- guarantees	Risk assets guarantee & guarantor (e.g AAA sovereign guarantee has a 100% RVS)
Insurance -eg. Endowment policies	90% of redemption value
Debtors book	60% of net present value
Income stream other than debtors book	60% of net present value at discount rate of loan

The Bank determines the fair value only the following instances:

- on the date that the loan or advance is initiated; and /or
- when the loan or advance is being renegotiated ; or
- when a loan or advance has been transferred to the collections department of the Bank.

At reporting date collateral held on all non-performing loans have been fair valued. The Bank is in the process of determing the fair values of collateral held on the remaining performing loans.

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.3 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 no impairment is recognised as the value of the security / collateral exceeds exposure.

N$ 2012	Total unimpaired loans	Past due but not impaired 31-60 days	61-90 days	91-120 days	More than 120 days	Total
Instalment sales	116,945,905	2,452,724	235,872	47,371	-	2,735,967
Preference shares	24,991,251	-	-	-	-	-
Term loans	975,068,525	11,682,914	1,907,957	532,247	3,753,218	17,876,336
Guarantees	73,359,043	275,917	111,182	20,909	155,441	563,449
	1,190,364,723	14,411,555	2,255,011	600,527	3,908,659	21,175,752

2011	Total unimpaired loans	Past due but not impaired 31-60 days	61-90 days	91-120 days	More than 120 days	Total
Instalment sales	74,456,981	1,572,055	259,998	178,088	662,767	2,672,908
Preference shares	50,658,181	378,080	-	-	-	378,080
Term loans	869,938,512	13,966,491	2,080,454	964,408	8,321,193	25,332,546
Guarantees	46,853,606	254,113	85,498	56,250	-	395,861
	1,041,907,280	16,170,739	2,425,950	1,198,746	8,983,960	28,779,395

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 Unit. This review aims to ensure that all significant risks have been identified and, where deemed prudent, appropriately mitigated.

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.3 Credit risk *(continued)*

Credit quality of past due but not impaired loans and advances

2012

Category	Instalment sales	Preference shares	Term loans	Guarantees	Total Past due but not impaired
A	1,545,646	-	6,020,591	140,711	7,706,948
B	1,190,321	-	11,855,745	422,738	13,468,803
	2,735,967	-	17,876,336	563,449	21,175,752

2011

Category	Instalment sales	Preference shares	Term loans	Guarantees	Total Past due but not impaired
A	966,258	378,080	7,598,384	328,644	9,271,366
B	1,163,236	-	11,877,205	54,222	13,094,663
C	-	-	5,413	-	5,413
D	-	-	5,268,435	12,995	5,281,430
E	543,413	-	583,110	-	1,126,523
	2,672,907	378,080	25,332,547	395,861	28,779,395

Credit quality of total unimpaired loans and advances

2012

Category	Instalment sales	Preference shares	Term loans	Guarantees	Total Unimpaired
A	104,757,093	24,991,251	866,619,652	25,280,740	1,021,648,736
B	10,914,478	-	101,847,336	25,482,525	138,244,340
C	71,927	-	800,921	8,214,559	9,087,407
D	1,202,407	-	982,699	5,325,817	7,510,923
E	-	-	4,817,916	9,055,402	13,873,317
	116,945,905	24,991,251	975,068,524	73,359,043	1,190,364,723

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.3 Credit risk *(continued)*

Credit quality of total unimpaired loans and advances

2011

Category	Instalment sales	Preference shares	Term loans	Guarantees	Total Unimpaired
A	65,166,065	37,658,180	708,559,793	39,474,850	850,858,888
B	8,747,502	13,000,000	153,606,168	7,378,756	182,732,426
C	-	-	-	-	-
D	-	-	7,189,444	-	7,189,444
E	543,413	-	583,109	-	1,126,523
	74,456,980	50,658,180	869,938,514	46,853,606	1,041,907,280

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 2012 amounts to N$ 220,796,636 (2011: N$ 172,255,623).

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.

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

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.4 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.

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.5 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 and equity prices.

Due to the non-derivative nature of the Bank's equity investments, a sensitivity analyses cannot be performed and therefore has not been disclosed.

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 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank's profit for the period ended 31 December 2012 and equity as at 31 December 2012 would decrease/increase by N$ 6,578,613 (2011: decrease/increase by N$ 8,084,240). 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.

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.5 Market risks *(continued)*

Interest rate sensitivity

N$

2012				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	4.5%	407,517,836	4,846,082	402,671,754	-	-	-
Loans and Advances	8.3%	1,388,867,665	1,369,888,540	1,811,862	17,167,263	-	-
DBN Housing scheme advances	6.5%	10,844,149	-	-	-	10,844,149	-
Trade and other receivables	-	106,812,221	-	-	-	-	106,812,221
Equity investments	-	70,754,924	-	-	-	-	70,754,924
Total assets	-	1,984,796,795	1,374,734,622	404,483,616	17,167,263	10,844,149	177,567,145
Liabilities and shareholders' equity							
Bank overdraft	-	(10,003,453)	(10,003,453)	-	-	-	-
Dividends retained for redeployment	-	(16,402,238)	-	-	-	-	(16,402,238)
Trade and other payables	-	(19,507,774)	-	-	-	-	(19,507,774)
	-	(45,913,465)	(10,003,453)	-	-	-	(35,910,012)
Net interest sensitivity gap		1,938,883,330	1,364,731,169	404,483,616	17,167,263	10,844,149	141,657,133

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.5 Market risks *(continued)*

Interest rate sensitivity

N$

2011				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 bank	4.9%	194,474,587	45,877,552	148,597,035	-	-	-
Loans and Advances	7.2%	1,236,724,731	17,759,273	83,995,114	473,254,989	661,715,355	-
DBN Housing scheme advances	6.0%	5,445,396	-	-	-	5,445,396	-
Trade and other receivables	-	1,227,058	-	-	-	-	1,227,058
Equity investments	-	117,313,887	-	-	-	-	117,313,887
Total assets		1,555,185,659	63,636,825	232,592,149	473,254,989	667,160,751	118,540,945
Liabilities and shareholders' equity							
Bank overdraft	-	-	-	-	-	-	-
Dividends retained for redeployment	-	(17,273,425)	-	-	-	-	(17,273,425)
Trade and other payables	-	(2,014,907)	-	-	-	-	(2,014,907)
		(19,288,333)	-	-	-	-	(19,288,332)
Net interest sensitivity gap		1,535,897,327	63,636,825	232,592,149	473,254,989	667,160,751	99,252,613

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.6 Operational risks

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, personnel, technology and infrastructure, and or external events other than credit, market and liquidity risks. The Bank's overall strategy is to ensure that risks arising from day-to-day operations are properly identified and appropriately managed and mitigated in order to protect the solvency of the Bank through its Risk Management Framework and Risk Appetite.

The objective of the Bank's operational risk management is to minimise the risk of loss, loss of opportunity, adverse consequences or reputational damage to an approved acceptable level through:

- Constantly improving the Bank's understanding of key drivers of operational risk,
- Improving data transparency and consistency in order to enable improved management insight and reporting through enhanced Management Information Systems ("MIS") functionality,
- Improving financial performance,
- Adherence to pertinent regulatory requirements through maintaining an updated Legal Matrix that is presented and reviewed monthly via the Asset and Liability Committee ("ALCO") as well as the Risk and Compliance Committee ("RCC").

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit who are to report on their risk performance (incidence of loss, near loss and action plans to manage risks etc.) to the Risk and Compliance Management Committee. 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 from Internal Audit reviews are discussed with management of the respective business units and the progress monthly tracked by the Risk and Compliance Management Committee and summarized progress reports submitted to the Audit, Risk and Compliane Committee and senior management of the Bank.

In terms of the revised approved Risk Management Framework, the operational risk of the Bank was set at a level of not more than 20% of the budgeted Net Income for the financial year ending 31 December 2012.

28. FINANCIAL RISK MANAGEMENT *(continued)*

28.7 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. At reporting date the Bank's capital adequacy ratio stood at 127% (2011: 112%).

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

Notes to the Annual Financial Statements

For The Year Ended 31 December 2012 *(continued)*

29. RECLASSIFICATION

Statement of comprehensive income 31 December 2011	Amount as previously reported	Amount as reclassified	Reclassific-ations	Reason
Interest income	88,977,243	88,977,243	-	
Interest expense	(110,070)	(110,070)	-	
Net interest income	88,867,173	88,867,173	-	
Fee and commission income	5,204,526	5,204,526	-	
Revenue	94,071,699	94,071,699		
Other income	3,062,887	1,676,410	(1,386,477)	(i)
Fair value adjustments to financial assets	-	-	-	
Operating income	97,134,586	95,748,109		
Net impairment of loans and advances	(22,306,792)	(20,920,315)	1,386,477	(i)
Operating expenses	(39,526,997)	(39,526,997)	-	
Profit before tax	35,300,797	35,300,797	-	*
Tax expense	-	-	-	
Profit for the year	35,300,797	35,300,797	-	
Other comprehensive income, net of income tax	3,833,807	3,833,807	-	
Net change in fair value on available-for-sale financial assets	(439,076)	(439,076)	-	
Revaluation gain on property	4,272,883	4,272,883	-	
Total comprehensive income attributable to the equity holder of the Bank	39,134,604	39,134,604	-	

(i) Bad debts recovered were reclassified from other income to net impairments to bring the comparative figures in line with current presentation. The presentation was updated to be in line with industry practice.

* *Reclassification had no impact on profit for the year*

29. RECLASSIFICATION *(continued)*

Cash flow statement for the year 31 December 2011	Amount as previously reported	Amount as reclassified	Reclassific-ations	Reason
CASH FLOWS FROM OPERATING ACTIVITIES	(329,263,388)	(329,263,389)	-	
Interest received	79,548,020	92,089,903	12,541,883	
Cash paid to suppliers and employees	(31,045,145)	(32,431,623)	(1,386,478)	(i)
Cash generated by operations	48,502,875	59,658,280	-	
Interest received on cash and cash equivalents **(B)**	12,541,883	-	(12,541,883)	(ii)
Loan disbursements	(487,720,193)	(486,333,716)	1,386,478	(i)
Loan principal repayments	113,361,009	113,361,009	-	
Acquisition of shares in equity investment	(15,948,963)	(15,948,963)	-	
CASH FLOW FROM INVESTING ACTIVITIES	(10,076,546)	(10,076,546)	-	
Acquisition of property and equipment	(2,692,628)	(2,692,628)	-	
Acquisition of intangible assets	(1,938,522)	(1,938,522)	-	
Increase in staff home ownerhip scheme loans	(5,445,396)	(5,445,396)	-	
CASH FLOW FROM FINANCING ACTIVITIES	348,557,887	348,557,887	-	
Proceeds from issue of shares	350,000,000	350,000,000	-	
Movement in dividends redeployed	(1,442,113)	(1,442,113)	-	
Net increase/ (decrease) in cash and cash equivalents	9,217,953	9,217,952	-	
Cash and cash equivalents at the beginning of the year	185,256,634	185,256,634	-	
CASH AND CASH EQUIVALENTS at the end of the year	194,474,587	194,474,586	-	

(i) Bad debts recovered were reclassified from other income to net impairments to bring the comparative figures in line with current presentation. The presentation was updated to be in line with industry practice.

(ii) Reclassification was done to bring the comparative figures in line with current presentation.

29. RECLASSIFICATION *(continued)*

Cash flow statement for the year 31 December 2011 *(continued)*	Amount as previously reported	Amount as reclassified	Reclassific-ations	Reason
A. CASH GENERATED BY OPERATIONS				
Profit for the year	35,300,797	35,300,797		
Adjusted for :				
- Interest from investments	(9,326,746)	-	9,326,746	
- Depreciation and amortisation	4,461,270	4,461,270	-	
- Net impairment on loans and advances	22,306,792	20,920,315	(1,386,477)	(i)
- Fair value gain on investment property	(1,500,000)	(1,500,000)		
	51,242,113	59,182,382		
Changes in working capital	(2,739,238)	475,899		
(Increase) / decrease in trade and other receivables	716,210	3,931,346	3,215,137	
Increase/ (decrease) in trade and other payables	(3,455,448)	(3,455,447)		
	48,502,875	59,658,280		
B. INTEREST RECEIVED FROM CASH AND CASH EQUIVALENTS				
Interest received during year	9,326,746			
Plus: Prior year accrued interest	3,850,083		6,111,609	
	13,176,829		3,215,137	
Less: Current year accrued interest	(634,946)			
	12,541,883		9,326,746	

(i) Bad debts recovered were reclassified from other income to net impairments to bring the comparative figures in line with current presentation.

www.dbn.com.na