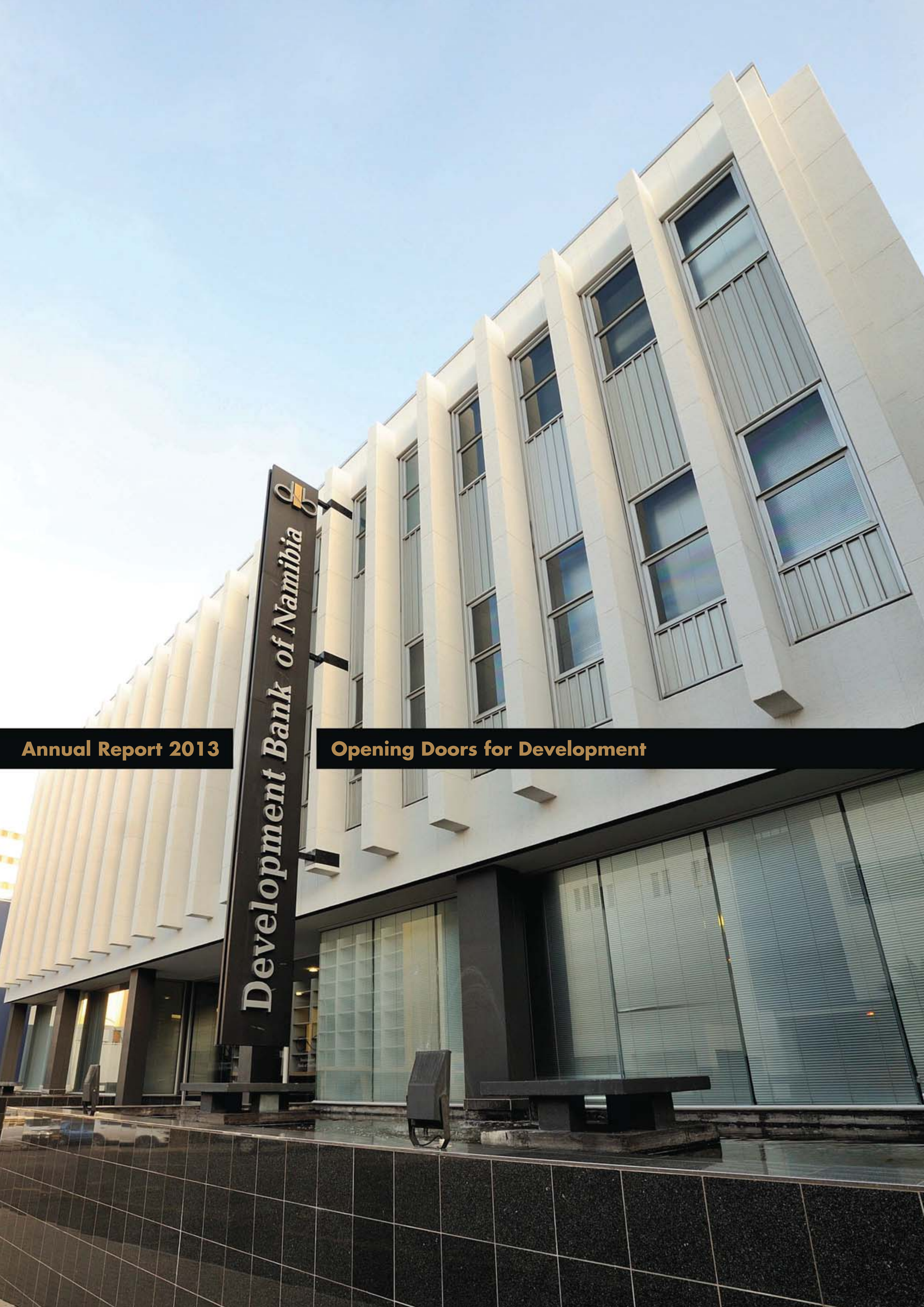
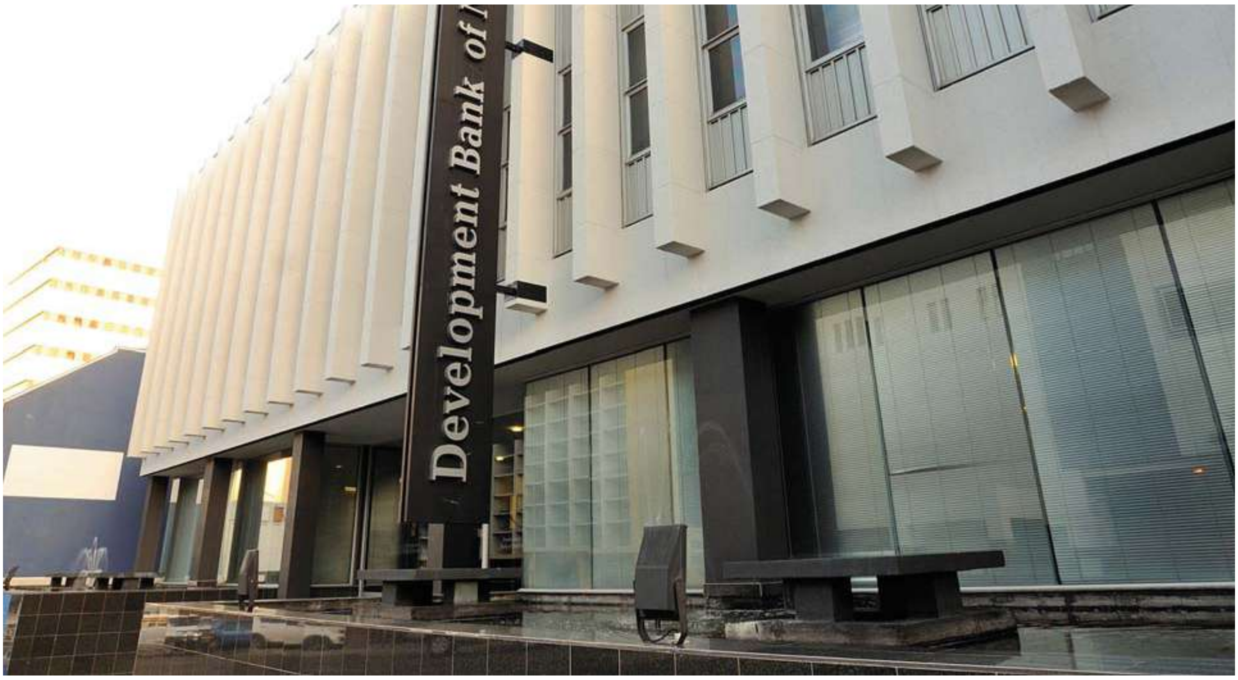


Annual Report 2013

Opening Doors for Development

Index

Profile



The Development Bank of Namibia recognises the power of enterprise, which creates wealth and generates cash flows through profits or public sector revenues, to promote development in a sustainable and long-term manner.

The strength of private sector enterprise is that it creates jobs and incomes. These provide employed individuals with the ability to sustain themselves and their families, and also the means to improve their circumstances, through education, health and housing.

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.

By applying commercial approaches to financing, the Bank nurtures developmentally beneficial enterprises and infrastructure, and increases its financial capacity to finance additional projects.

The Bank provides finance to larger private and public sector enterprises, and SMEs in line with the goals of NDP 4. An apex microfinance facility is available for micro-finance intermediaries which satisfy the values and goals of the Bank.

The Bank seeks to spread finance in key sectors, with lower levels of economic activity, to promote ownership to formerly disadvantaged segments of Namibia's population, particularly women and young entrepreneurs.

As a custodian of government funds, together with other lenders who have an interest in development of Namibia, the Bank holds itself accountable for the funds, and has a robust system of governance to ensure that it is well managed and governed. It takes an active interest in the growth of its loans and has a track record of successes.

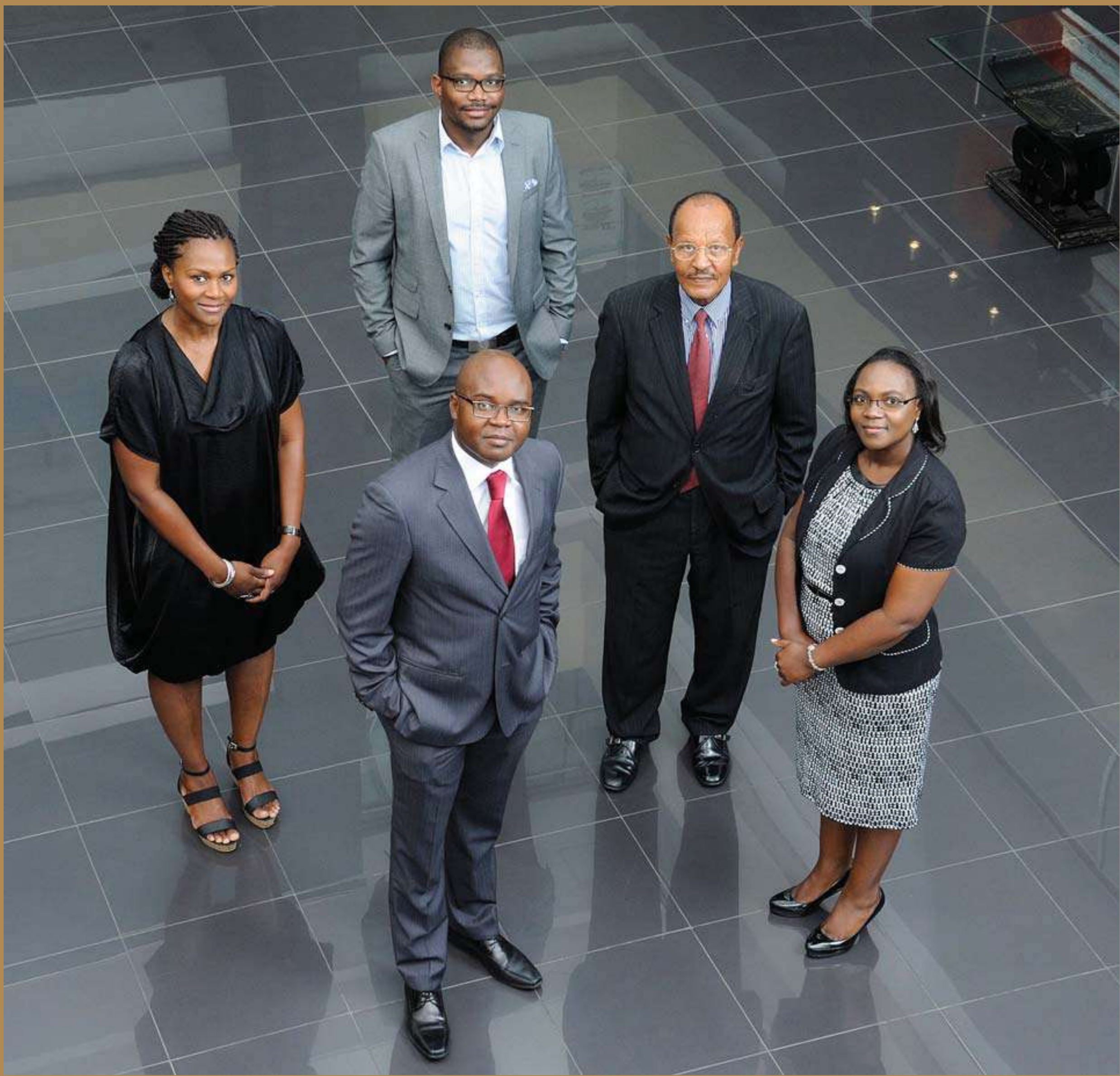
In order to ensure that it finances viable enterprise, the Bank carefully examines each application. It ensures that the business plan has the hallmarks of viability; that the persons involved in the enterprise have the necessary skills needed, and that collateral or guarantees are sufficient for the Bank's policy of capital preservation.

The key development factors that the Bank considers when assessing an application, are whether or not the loan will create jobs or infrastructure. Other key factors which the DBN considers include Namibian ownership, and spread of jobs across the regions where employment opportunities are limited.

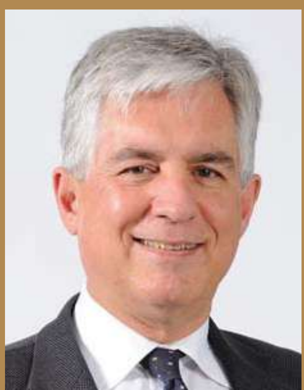
The Bank does not provide finance for speculative investments, businesses that will have a negative social impact and projects that will have a damaging effect on the environment.

DBN ensures that it provides finance across the regions, that Namibians take ownership of wealth, and that the employment opportunities it creates will be in place for years to come,

Board of Directors



FLTR: Elize Angula (Chairperson), Justus Hausiku (back), Martin Inkumbi (Chief Executive Officer), Asnake Getachew, Emma Haiyambo.



Albertus Basson

Muetulamba Shingenge-Haipinge

Chairperson of the Board's Message

The Bank is positioning itself to impact economic projects of national importance.

Introduction

The Development Bank of Namibia's mandate is to deliver development finance in various fields: by providing finance for employment, spread of ownership to previously disadvantaged Namibians, by stimulating enterprise across the regions and by fostering innovation.

Against this backdrop I am happy to report that, during the year 2013, the Board of DBN continued to exercise its oversight function and gave policy directives to ensure that good governance prevails and management comply with the approved prudent measures to utilise the Bank' resources, in line with its mandate. This resulted in the positive financial performance during the year under review.

Risk and Compliance

The Financial Services Industry is changing rapidly, and the nature of risk-taking is increasing in complexity and magnitude. Therefore, DBN has geared itself to tackle such challenges. Because of this more complex business environment, Directors and management adopted an Enterprise-Wide Risk Management Framework in 2013.

The framework helps to manage the risk proactively by identifying risks timeously, measuring it accurately, understanding its implications now and in the future, and ensuring that appropriate risk management, control, and reporting systems are in place before such risks materialise. The Bank's overall strategy is to ensure that risks arising from its operations are identified and managed in order to remain solvent and sustainable. To date, it gives me comfort to state that DBN continues to play an exemplary role on good governance in the country.

Economic Developments

The Bank is an integral component of the national financial system, thus the external environment has a bearing on its activities. During 2013, the Namibian economy is estimated to have recorded a growth rate of 4.4 per cent, despite one of the most severe droughts experienced in recent times and a sluggish regional and global economic performance.

This growth was driven by the secondary and tertiary industries which recorded significant growth, offsetting the contraction in the primary industries. Secondary industries grew, mainly driven by a booming construction sector on the back of improved activity in the mining and public sectors.

DBN's lending during 2013 was predominantly to the tertiary and secondary sectors.

The manufacturing, hotels and restaurants, which is linked to tourism, and the construction sectors, respectively, are priority areas for DBN, and also recorded positive growth during the year under review.

Namibia's average consumer price inflation rate decreased from 6.7 per cent in 2012 to 5.6 per cent in 2013, mainly due to a decline in food and transport inflation. This put more money in consumers' pockets and increased consumers spending power, which consumption spending will drive further growth and investments in the economy.

On the currency front, the Namibia Dollar / Rand weakened, on average by 18.3 percent, against the major currencies in 2013, affecting the national trade accounts. The Namibia Dollar's depreciation does have an impact on the cost of machinery and equipment, which are mainly imported, but it also improves Namibian exporters' revenue in local currency terms. These developments will have an impact on business activities and indirectly impact the Bank's financial performance in the medium term.

DBN performance in 2013

At DBN, in line with the performance of the national economy, we have experienced positive growth of our loan book. The encouraging performance will give impetus to the Bank's future operations, as indicated in the Bank's Strategic Business Plan for 2014 to 2018.

The Bank is positioning itself to impact economic projects of national importance. Moving forward, the Bank will continue to place particular emphasis on three strategic sectors identified by NDP 4: manufacturing, tourism and transport and logistics. This special focus and the expected outputs will be closely managed in accordance with the business plan.

In the final analysis, the smooth transition from David Nuyoma's tenure as CEO at the end of 2012, to that of the Bank's new CEO, Martin Inkumbi, which began in 2013, has proven that the Bank can sustain and improve its values, governance and operational efficiency.

I am pleased to announce that 2013 was a success. I believe that 2013 laid the foundation for the years to come, and an even more impactful role in development of Namibia.

CEO's Message

The Bank grew robustly during 2013, with loan approvals exceeding N$ 840 million, in comparison to N$ 519 million achieved in the prior year while total assets grew 17% to N$ 2.37 billion.

Introduction

The financial period under review has been my first serving in the capacity of Chief Executive Officer of the Development Bank of Namibia, and I feel privileged indeed. The positive results achieved during this year are a reflection of the hard work and dedication on the part of the Bank's staff.

The activities of the Bank, as a national development finance institution, should not be measured in monetary value only, but also in the development of the enterprises for which it provides finance, as well as the positive impact it makes on the livelihood of the broader Namibian population. Taken from this approach, I am very pleased to announce that the Bank's lending activities had an impact on 7,871 jobs during the period under review.

Development Impact

The Bank's purpose is to contribute to the economic growth and social development in Namibia, by providing finance in support of key development activities.

Two hundred and twenty five enterprises received funding from the DBN during this financial period. The overwhelming majority were private enterprises. While some regions with a higher level of economic activities have benefited more from DBN funding, the Bank's approvals were spread to all regions in the country.

In 2013, the majority of approvals were made in the tertiary sector (64.7 per cent) followed by the secondary sector (35.1 per cent).

The key sectors of transport and manufacturing received 33.8% and 13.1% respectively, while the tourism sector received 7.2% of the loan approvals during the period.

The Bank's strategic business plan for the coming five years recognises the stimulus required in key economic sectors, as noted by the Chairperson of the Board, Ms Elize Angula, so the balance between secondary and tertiary sectors can be expected to change in favour of the secondary sector.

Operational efficiency

The Bank is in the process of realigning its objectives, and a significant amount of effort was dedicated by the Board and the Executive Committee into refining the elements of the Bank's strategy for the coming five years.

The teamwork is evident in the higher number of approvals. The Bank has attained this growth without sacrificing the integrity of its processes.

The excellent results of 2013 are a culmination of a cycle of planning and effort on the part of the Board, management and the dedicated staff of the Bank. However, it is also due to the hard work and leadership of my predecessor Mr David Nuyoma. I give my thanks to him on behalf of the Bank.

Financial Performance

The Bank's net interest income grew by 25% to N$ 165.3 million for the period, in line with the 24% growth in the Bank's loan book.

Net profit before tax is up 13% to N$ 104 million in comparison to the previous financial period.

The growth of 2013 should be seen as an indicator of confidence in the economy of the country on the part of entrepreneurs. As the Bank adopts the approach that enterprise is key to sustainable long-term development, this can be seen as a heartening sign for national prosperity.

Operating expenses to net income stood at 36%, the same level as the previous year. This reflects a good level of operational efficiency and is well within in the budget.

The level of impairments for 2013 reduced during the period in comparison to the previous year and reflects the prudent credit management process of the Bank.

The Bank's total assets grew by 17% to N$ 2,376 billion, on the back of further capitalisation by the shareholder and profits made during the year. The Bank has, as at, the reporting date, not raised debt capital.

Loans and advances increased by 24% to N$1,727 billion during the period, while equity investments grew by 84% to N$ 130.4 million up from N$ 70.7 million due to a combination of both additional equity investments made and the upward fair value adjustment of the Bank's equity investment in Ohorongo Cement (Pty) Ltd.

Overall, the Bank's financial performance has exceeded budgeted performance targets and the Bank's balance sheet remains sound.

Future outlook

Financial sustainability and the expectations that the Bank should remain relevant, in terms of playing a niche role in Namibia's financial sector, remain important to DBN. The Bank aims to build and improve on the financial success of 2013, but more specifically, it aims to align its development interventions with the Fourth National Development Plan over the next four years.

The projected positive economic growth in Namibia supports our expectation for vibrant business activities and DBN will play a role in supporting entrepreneurship in Namibia.

The Bank's management recognises the need to continue improving the operational efficiency of the Bank, and will continue with capacity building and streamlining the Bank's credit process flow.

Executive Committee

Martin Inkumbi
Chief Executive Officer

Renier van Rooyen
Chief Financial Officer

John Mbango
Head: Lending

Vivien Groenewald
Head: Credit Risk

John Jacobs
Head: Risk & Compliance

Katja Klein
Head: Corporate Services

Elriana Burger
Manager: Human Capital

Roberta Brusa
Company Secretary

Certification and Compliance

Company Secretary Certificate

I hereby certify that, to the best of my knowledge and belief, the Development Bank of Namibia Limited has lodged with the Registrar of Companies, at Windhoek, Namibia, all returns required in terms of the Companies Act 28 of 2004, as amended, for the year ended 31 December 2013, and that all such returns are factual and current.

Roberta Brusa
Company Secretary
16 April 2014
Windhoek
Namibia

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, no. 28 of 2004, and the Development Bank of Namibia Act, no. 8 of 2002, for the year under review.

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

The Audit, Risk and Compliance Committee is of the opinion that the annual financial statements fairly present the financial position of the DBN as at 31 December 2013. The Audit Risk and Compliance Committee therefore recommended the adoption of the annual financial statements by the Board of Directors.

AJ Basson
Chairman
Audit, Risk and Compliance Committee

Governance Report

Introduction

The Development Bank of Namibia Ltd (DBN) is governed by the Development Bank of Namibia Act, 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 Act with a share capital.

A Shareholder's Compact, 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, has been formalised in 2013.

The Bank 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 with 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.

DBN mandate

The main object of the Bank is to contribute to the economic growth and social development of Namibia and for the sustainable promotion of the welfare of the Namibian people by:

- Mobilising financial and other resources from the private and public sectors nationally and internationally;
- Appraising, planning and monitoring the implementation of development schemes, export projects and other economic programmes of national importance;
- Facilitating the participation of the private sector and community organisations in development schemes, export projects and other economic programmes of national importance;
- Assisting in the development of money and capital markets.

Reporting and responsibility

Shareholder					
Board of Directors					
Audit, Risk and Compliance Committee		Human Capital and Remuneration Committee		Credit and Investment Committee	
Executive Management					
Credit and Investment Committee	Tender Committee	Risk and Compliance Committee	IT Management Committee	Assets and Liabilities Committee	Human Capital and Remuneration Committee Remuneration Committee

Board of Directors

The Board's main mandate is to ensure the sustainability and successful continuation of the business activities by providing strategic direction to the Bank's executive management. Non-executive Directors are appointed to the Board by the Shareholder in terms of Section 10 of the Development Bank of Namibia Act, 2002, for a period of five years, but can be re-elected.

Appointment of CEO

Martin Inkumbi, who was appointed in an acting position since the resignation of David Nuyoma on 31 December 2012, was confirmed as the Chief Executive Officer on 1 September 2013.

Board Members

Elize Angula	Chairperson, non-executive independent director
Martin Inkumbi	Executive director, CEO
Asnake Getachew	Non-executive independent director
Emma Haiyambo	Non-executive independent director
Justus Hausiku	Non-executive independent director
Muetulamba Shingenge-Haipinge	Non-executive independent director
Albertus Basson	Non-executive independent director

Conflict of interest

In terms of Part 6, sections 242 to 248 of the Companies' Act 28, of 2004 as amended, all Directors are required to disclose their interests in contracts. The Company Secretary maintains a register of interests in contracts as per section 248 of the Companies' Act. Furthermore, Directors are required to declare all interests at the meetings they attend and this is recorded in writing, as required by legislation.

Directors who have conflict of interest on any matter to be discussed at a given meeting, are required to inform the Company Secretary prior to the meeting and the Director is recused when the matter is discussed.

Code of ethics

The Bank has a sound culture of entrenched values which are reflected in the approved Code of Business Conduct and Ethics ('the Code'). All employees are made aware of the Code during their induction and are provided with a copy, which they are requested to sign. The Code is reviewed and updated annually.

Board composition and training

The Bank's Articles of Association provide that there shall be seven directors. Currently the Board comprises of six independent Non-executive Directors and one Executive Director.

The Non-executive Directors have diverse skills, experience and backgrounds and have unrestricted access to information, documents, and records of the Bank. The Executive Director provides operational understanding and the Board of the Development Bank of Namibia Limited is therefore satisfied that there is an appropriate combination of knowledge, skills, and attributes to deliver its mandate.

The Board performs its obligations as a collective and constructively engages the Chief Executive Officer and other members of executive management.

The Board is of the opinion that every Director must be aware of and knowledgeable about the company's business environment, the fiduciary duties stated in the Companies' Act, no 28 of 2004, King III, sustainability issues, and that all Directors are informed, on a continuous basis, in respect of the activities of the company. Directors are encouraged to attend seminars and courses at the expense of the company.

Ongoing training also takes the form of trips across the country to visit the Bank's clients. This provides Non-executive Directors with an opportunity to interact with the Bank's clients and witness the execution of the company's mandate.

Key activities of the Board

In setting the strategic direction of the Bank, the Board focused on specific areas, the predominant topic being the Bank's five year growth strategy.

Certain functions of the Board in the 2013 financial year included:

- Redemption of Evi Gold (Pty) Ltd preference shares
- Approval of Budget 2013
- Strategic Budget 2013 – 2017
- Approval of the Credit and Equity Investment Policy
- Approval of the Air Namibia Ltd transaction
- Approval of the Code of Business Conduct and Ethics
- Approval of Organisational structural changes
- Approval of Development Impact Report 2012
- Approval of Remuneration Strategy and Guidelines
- Approval of the Corporate Social Investment Policy
- Approval of the Annual Financial Statements for 2012

Human Capital Report

The Bank recognises that its employees are the most important assets through which its vision, mission and strategic objectives can be realised.

The Bank's approach to human capital is to be a learning organisation, in which appropriate training and development of employees takes place so that employees possess appropriate skills, knowledge and the requisite attitudes.

During the period under review the Bank continued to concentrate on job enhancement training as well as on leadership development training. Twenty executive and middle management employees went through an extensive Leadership Development Programme over a period of six months to equip them with the appropriate skills and knowledge to lead the Bank and its employees in pursuit of its mandate.

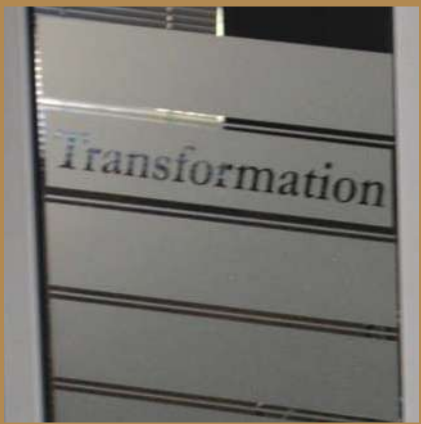
DBN ascribes to the principles of employment equity for all employees and applicants, and does not discriminate on the basis of race, colour, religion, sex, regional origin or disability. Employees are treated equitably, fairly and consistently in relation to the work they do, their contributions to the Bank's objectives, their value in the market and their skills and knowledge.

To ensure internal equity and fairness, the Bank complies with its internal policy on affirmative action, in keeping with the requirements of the Affirmative Action (Employment) Act of 1998, and all Namibian laws that have a bearing on its employment activities.

The Bank also strives to ensure that the racial, gender and age profile of the Bank is reflective of Namibian demographics.

2013 Milestones

Martin Inkumbi was appointed as the acting CEO on the departure of founding CEO, David Nuyoma, on 1 January 2013. His position as permanent CEO was formalised in August 2013 by the Board of Directors.



In late 2013, the Development Bank's strategy for 2014 to 2018 was finalised. The strategy provides finance for manufacturing, transport and logistics, and tourism, three key sectors identified by NDP 4. The strategy also envisages emphasis on lending to women and youth entrepreneurs.

In September 2013, the Bank held its second annual Good Business Awards. Winners were Fresh n Bake Bakery and Market in the SME category (pictured).

At the same award ceremony, Armstrong Construction (pictured) won in the Large Enterprise category.

Development Impact Report

In 2013, the Development Bank of Namibia approved loans amounting to N$ 840.1 million, growing by 61,8 per cent from N$ 519,1 million in 2012.

Loan approvals in 2013 impacted a total of 7,871 jobs. Of these, 1,619 were new, 3,168 were retained and 3,084 were temporary jobs. Although the impact on temporary jobs is the highest, these jobs are continuously made available, especially in the construction sector.

Job creation since inception

Period:	Loans approved (N$ m)	New jobs	Temp jobs	Jobs retained	Total jobs	Effective BEE (N$ m)	Effective women (N$ m)
Since inception:	3779.85	13,977	17,053	18,015	49,045	1,801.3	310.5
2013	840 .1	1,619	3,084	3,168	7,871	357.0	95.7
2012	519.08	1,984	2,988	2,717	7,689	352.4	73.5
2011	616.73	2,119	2,921	3,012	8,052	344 .9	90.9
2010	365.2	1,770	1,852	1,385	5,007	250.8	50.4
2009	427.5	983	2,894	1,674	5,551	144 .7	.
2008	467.8	2,499	1,281	3,235	7,015	210.1	.

Note: Data on women was not captured prior to 2010.

The DBN mandate provides the Bank with various opportunities for transformation, specifically for previously disadvantaged Namibians (PDN), youth and women. Hence the Bank supports empowerment in these areas as can be seen in its approval statistics.

Of the approvals in 2013, 93 per cent had PDN involvement, and N$ 357.0 million of the approvals impacted PDNs. Of the approvals, 26 per cent had women involvement which translates to N$ 95.7 million.

Transformation figures in 2013 are improvements on those recorded a year earlier. Data on loans extended to young entrepreneurs was captured for the first time during the last quarter of 2013 and represented 38 per cent of loans approved in the quarter.

Previously disadvantaged Namibians empowerment in 2013	
No of facilities with PDN shares	332
PDN facilities as % of total facilities	99.1
Approvals to facilities with PDNs	N$ 413.3 m
Effective PDNs	N$ 357 m
Effective PDNs as % of approvals	52.3
Facilities with female PDN shares	128
Approvals to facilities with female PDNs	N$ 202.4 m
Effective female PDN	N$ 95.m
Effective female PDNs as % of approvals	26

DBN is represented in all regions through its approvals. The spread of loans across Namibia is in support of efforts to decentralise development and to improve the quality of life nationally.

During 2013, projects at national level had the highest share of approvals at N$ 250.3 million, while the Khomas region followed at N$ 135.6 million. The Erongo region featured in third position with N$ 135.0 million, followed by Otjozondjupa with N$ 103.8 million and others with lower approvals.

Loan approvals by region are different from the 2012 composition with Erongo having the highest loans in that year. DBN loan approvals tend to follow the intensity of economic activities during reference periods.

Regional Spread	N$ m	% of total
Erongo	135	16.1
Hardap	11	1.3
Karas	19.1	2.3
Kavango	28.1	3.3
Khomas	135.6	16.1
Kunene	15.7	1.9
National	250.3	29.8
Ohangwena	13.2	1.6
Omaheke	4.6	0.5
Omusati	30.1	3.6
Oshana	73.1	8.7
Oshikoto	8.4	1
Otjozondjupa	103.8	12.4
Zambezi	12.1	1.4
Total	**840.1**	**100**

The Bank's impacts are spread across various industries, reflecting its mandate and development agenda. This is seen in the Bank's loan approvals of N$ 543.3 million or 64.7 per cent of total loans to tertiary industry. Secondary industry recorded loan approvals of N$ 295.1 million which represents 35.1 per cent of total loans while primary industry had fewer loan approvals of N$ 1.7 million or 0.2 per cent.

Approvals by industry	N$ m	% of total
Primary	1.7	0.2
Secondary	295.1	35.1
Tertiary	543.3	64.7
Total	**840.1**	**100**

In 2013 DBN approved loans worth N$ 531.1 million, N$ 259.0 million and N$ 50.0 million to the private, SME and public sectors, respectively.

Approvals by facility	N$ m	% of total
Public Sector	50	6
Private Sector	531.1	63.2
SME	259	30.8
Total	**840.1**	**100**

Tender-based financing remains an area in which DBN continues to support local entrepreneurs. A total N$149.1 million was approved in contract-based financing (bridging finance). These facilities supported tenders worth N$834.4 million bringing DBN's bridging finance leverage ratio to 5.6.

Tenders supported	N$ m
Bridging finance approvals	149.1
Value of tenders supported	834.4
Bridging finance leverage ratio	5.6

2013 Showcase

Yellow Drum Manufacturers in Arandis received finance for expansion from the Development Bank of Namibia. The company is a valuable part of the mining and industry supply chain in the Erongo Region.

Greenlight Pharmacy in Windhoek received finance to open an outlet in Okuryangava. Following restrictions on dispensing by doctors, the pharmacy supplements health in a convenient location for residents of the Okuryangava suburb.

Lüderitz Abalone Farming received finance for expansion of facilities to 80 tonnes of productive capacity, following successful trials. The onshore abalone farm, which employs 20 to 30 people, depending on seasonality, exports its produce to China. The project creates much-needed employment in Lüderitz.

Southern Road construction received finance for acquisition of a dolerite crusher. The plant produces dimension stone necessary for construction of road and rail infrastructure in the southern Namibian regions of Karas and Hardap.

Oshakati Town Council received finance to install bulk infrastructure such as roads, electricity, and water and sewer reticulation, in a new area of Oshakati (Extension16) to create 270 new erven, mainly for residential, business and recreational purposes.

Omuriro Biomass received finance for equipment to clear bush, which is processed to manufacture Ecologs. The project has multiple benefits for numerous stakeholders, including reduction of bush encroachment, conservation of endangered trees and fuel for household fires.

Carbo Namibia, an existing charcoal processing and manufacturing plant in Grootfontein in the Otjozondjupa region received finance to expand its processing capacity from 8,000 metric tons to 15,000 metric tons annually. Export markets include the United Kingdom, Western Europe and the SADC Region.

DEVELOPMENT BANK OF NAMIBIA LIMITED

(Registration number: 2003 / 189)

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2013

Directors' Responsibility Statement

The Directors of the Development Bank of Namibia Limited ("the Bank") are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The financial statements have been prepared in accordance with International Financial Reporting Standards ("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 21.

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

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

DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements set out on pages 22 to 64 were approved by the Board of Directors and are signed on their behalf by:

Elize Angula
Chairperson
29 April 2014

Martin Inkumbi
Chief Executive Officer
29 April 2014

Independent Auditor's Report

To the member of the Development Bank of Namibia Limited

We have audited the financial statements of the Development Bank of Namibia Limited, which comprises of the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of 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 22 to 64.

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 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 2013, 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)

De Merindal Office Park
30 Schanzen Road
Windhoek
Namibia

Per Robert Grant
Partner, Windhoek
29 April 2014

Directors' Report

The directors have the pleasure in presenting their report on the activities of the Bank for the year ended 31 December 2013.

Results

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

Dividends

No dividends has been declared in the financial year under review (2012: Nil). Dividends declared in previous years were retained for re-deployment towards special enterprise development endeavours as described in note 19 to the financial statements.

Share Capital

Issued share capital has increased to N$ 161.5 million (2012: N$ 157.5 million) with share premium increasing with N$ 196 million (2012: N$ 361 million) through the issue of 40 ordinary shares for N$ 100,000 each at a premium of N$ 4,900,000. The Government 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 and Secretary 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
- E Haiyambo
- AJ Basson
- J Hausiku
- M Inkumbi (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 profit or loss and other comprehensive income

For the year ended 31 December 2013

N$	Note	2013	2012
Interest income	4	165,344,593	132,118,431
Interest expense		(49,140)	(98,703)
Net interest income		165,295,453	132,019,728
Fee and commission income	5	12,704,421	7,799,142
Revenue		177,999,874	139,818,870
Other income	6	54,053,598	91,390,055
Fair value adjustments to loans	8	(2,353,179)	(9,921,295)
Fair value loss on cash flow hedge	18.1	(16,937,703)	-
Foreign exchange gain on loan	18.1	11,309,157	-
Net impairment of loans and advances	13	(55,428,629)	(77,765,273)
Operating expenses	7	(63,947,067)	(50,995,765)
Profit before tax		104,696,051	92,526,592
Taxation	9	-	-
Profit for the year		104,696,051	92,526,592

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2013

N$	Note	2013	2012
Profit for the year		104,696,051	92,526,592
Other comprehensive income, net of income tax		20,262,686	(60,363,446)
Items that may be reclassified subsequently to profit or loss			
Net change in fair value on available-for-sale financial assets	16	27,904,037	(61,558,963)
Cash flow hedge: effective portion of changes in fair value	21.3	(12,401,496)	-
Items that will not be reclassified subsequently to profit or loss			
Revaluation gain on property	15	4,760,145	1,195,517
Total comprehensive income		124,958,737	32,163,146

Statement of financial position
at 31 December 2013

N$	Note	2013	2012
Assets			
Cash and cash equivalents	10	453,083,694	407,517,836
Trade and other receivables	11	4,495,873	106,812,226
Staff home ownership scheme loans	14	14,161,862	10,844,149
Loans and advances	12	1,727,114,394	1,388,867,665
Equity investments	16	130,411,285	70,754,924
Property and equipment	15	47,222,437	44,024,421
Intangible assets	17	384,386	1,462,747
Total assets		2,376,873,931	2,030,283,963
Liabilities			
Trade and other liabilities	18	21,803,257	19,507,774
Bank overdraft	10	-	10,003,453
Dividends retained for redeployment	19	16,402,238	16,402,238
Derivative held for risk management	18.1	29,339,201	-
Total liabilities		67,544,696	45,913,465
Equity			
Share capital and share premium	20	1,833,465,938	1,633,465,938
Retained earnings		506,234,811	401,538,760
Reserves	21	(30,371,514)	(50,634,200)
Total equity		2,309,329,235	1,984,370,497
Total liabilities and equity		2,376,873,931	2,030,283,963

Statement of Changes in Equity

for the year ended 31 December 2013

N$	Share capital and share premium						
	Share capital	Share premium	Capital revaluation reserve	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total
Balance at 1 January 2013	157,500,000	1,475,965,938	11,363,839	(61,998,039)	-	401,538,760	1,984,370,498
Total comprehensive income for the year	-	-	4,760,145	27,904,037	(12,401,496)	104,696,051	124,958,737
Profit for the year	-	-	-	-	-	104,696,051	104,696,051
Other comprehensive income, net of income tax	-	-	4,760,145	27,904,037	(12,401,496)	-	20,262,686
Transactions with owner, recognised directly in equity	4,000,000	196,000,000	-	-	-	-	200,000,000
New shares issued	4,000,000	196,000,000	-	-	-	-	200,000,000
Balance at 31 December 2013	161,500,000	1,671,965,938	16,123,984	(34,094,002)	(12,401,496)	506,234,811	2,309,329,235
Note	*20*	*20*	*21.1*	*21.2*	*21.3*		

N$	Share capital and share premium						
	Share capital	Share premium	Capital revaluation reserve	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total
Balance at 1 January 2012	150,000,000	1,114,525,938	10,168,322	(439,076)	-	309,012,168	1,583,267,352
Total comprehensive income for the year	-	-	1,195,517	(61,558,963)	-	92,526,592	32,163,146
Profit for the year	-	-	-	-	-	92,526,592	92,526,592
Other comprehensive income, net of income tax	-	-	1,195,517	(61,558,963)	-	-	(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	11,363,839	(61,998,039)	-	401,538,760	1,984,370,498
Note	*20*	*20*	*21.1*	*21.2*	*21.3*		

Cash Flow Statement

for the year ended 31 December 2013

N$	Note	2013	2012
CASH FLOWS UTILISED IN OPERATING ACTIVITIES		(140,430,655)	(158,341,279)
Interest received		163,786,107	119,726,908
Cash paid to suppliers and employees		(41,941,253)	(33,011,643)
Government grant received		150,000,000	-
Cash generated by operations	A	271,844,854	86,715,265
Loan disbursements		(700,810,527)	(368,345,413)
Loan principal repayments		320,287,342	138,288,870
Acquisition of shares in equity investment		(31,752,324)	(15,000,000)
CASH FLOWS UTILISED BY INVESTING ACTIVITIES		(4,000,032)	(6,687,740)
Acquisition of property and equipment		(694,314)	(942,463)
Proceeds from disposal of property and equipment		11,975	6,539
Acquisition of intangible assets		-	(353,063)
Increase in staff home ownership scheme loans		(3,317,693)	(5,398,753)
CASH FLOWS FROM FINANCING ACTIVITIES		200,000,000	368,068,813
Proceeds from issue of shares		200,000,000	368,940,000
Disbursements for enterprise development activities		-	(871,188)
Net increase in cash and cash equivalents		55,569,313	203,039,795
Cash and cash equivalents at the beginning of the year	10	397,514,381	194,474,587
CASH AND CASH EQUIVALENTS at the end of the year	10	453,083,694	397,514,381

A. CASH GENERATED BY OPERATIONS

Profit for the year		104,696,051	92,526,592
Adjusted for :			
Unwinding of present value on off-market loans		(4,196,209)	(972,960)
Fair value adjustments to loans		2,353,179	9,921,295
Depreciation and amortisation		3,321,989	4,369,458
Net impairment on loans and advances		55,428,629	77,765,273
Other income		-	(8,800,000)
Fair value loss on cash flow hedge		16,937,703	-
Foreign exchange gain on loan		(11,309,157)	-
Loss / (gain) on disposal of asset		838	(2,096)
		167,233,023	174,807,562
Changes in working capital		104,611,831	(88,092,297)
(Increase) / decrease in trade and other receivables		102,316,348	(105,585,164)
Increase / (decrease) in trade and other payables		2,295,483	17,492,867
		271,844,854	86,715,265

1. REPORTING ENTITY

Development Bank of Namibia Ltd ("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. The Bank mobilises investment capital and facilitates national and international cooperation among public and private entities as well as community organisations in the planning and implementation of larger scale projects capable of delivering sustainable economic growth as well as social development in the form of human capital development and empowerment to Namibia.

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
- Derivative instruments are 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 IFRS 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 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is recognised below.

Determination of control over investee

Management applies its judgement to determine whether the following control indicator indicates whether the Bank controls its equity investments.

The Bank controls an investee when it is exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

2.4.3 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
- Derivatives
- Equity investments

Notes 12.1.13, 18.1 and 28 contain information about assumptions and estimation uncertainty that have significant risk of resulting in a material adjustment within the next financial year.

2.4.4 Credit impairment losses on loans and advances

The Bank assesses its credit portfolios for impairment at each reporting period. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Bank makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

Information about credit impairment of loans and advances has been included in note 13.

2.4.5 Non-performing loans

Loans are impaired if amounts are due and unpaid for three or more months or if there is evidence before this that the customer is unlikely to repay its obligations in full. Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data with similar credit risk characteristics.

Information about non-performing loans has been included in note 13.

2.4.6 Impairments of available-for-sale equity instruments

The Bank determines that available-for-sale equity instruments are impaired and recognised as such in the statement of profit or loss and other comprehensive income, when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In making this judgment the Bank evaluates among other the industry conditions of the sector in which the investment is held. The Bank determines that there was no need impair available-for-sale equity instruments for the year under review.

2.4.6 Fair value measurement and valuation process

Some of the Bank's assets and liabilities are measured at fair value for reporting purposes. In estimating the fair value of an asset or a liability, the Bank uses market observable data to the extent it is available. Where level 1 inputs are not available, the Bank engages third party qualified valuers to perform the valuation.

2. Basis of preparation (continued)
2.4 Critical judgements and estimates (continued)
2.4.6 Fair value measurement and valuation process (continued)

Information about the valuation techniques and inputs used in determining the fair value of various assets and are liabilities are disclosed in note 28.

2.5 Standards adopted in the current period

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Bank has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1 the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' and the income statement is renamed as the 'statement of profit or loss'. Use of the new terminology is not mandatory.

The items of other comprehensive income should be classified by nature and grouped into those that, in accordance with other IFRSs:

(a) will not be reclassified subsequently to profit or loss; and

(b) may be reclassified subsequently to profit or loss when specific conditions are met.

IFRS 10 Consolidated Financial Statements

As a result of IFRS 10 (2011), The Bank has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its equity investments. IFRS 10 (2011) introduces a new control model that focuses on whether the group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

The change did not have an impact on the Bank's financial statements .

IFRS 11 Joint Arrangements

IFRS 11 governs the accounting for entities which party to joint arrangements . Management assess whether the Bank is a party to a joint arrangement by looking at the following definition of a joint arrangement.

A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement

(b) The contractual arrangement gives two or more of those parties joint control of the arrangement .

The change did not have an impact on the financial statements as the Bank is not party to any joint arrangements.

IFRS 12 Disclosure of Interest in Other entities

As a result of IFRS 12, the Bank has expanded disclosures about its interest and involvement in its equity investments.

The disclosure requirements related to its involvements in equity investments are not included in the comparative information.

IFRS 13 Fair Value Measurement

The Bank has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad, the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRS require or permit fair value measurements and disclosures about fair value measurements except for share based payment transactions that are within the scope of IFRS 2: Share-based payment, leasing transactions that are within the scope of IAS 17: Leases, and measurements that have some similarities to fair value but not fair value.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. IFRS 13 also includes extensive disclosure requirements. IFRS 13 has not had a major impact on the Bank as the Bank has traditionally presented extensive disclosure in relation the investment securities, property and equipment and derivatives measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Interest income expense

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

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

3. Significant Accounting Policies (continued)
3.2 Fees and commission income (continued)

related services are performed. When a loan commitment is not expected to result in the draw down of a loan, loan commitment fees are recognised on a straight line basis over the commitment period.

3.3 Other income

Refer to note 3.8 for the accounting policy on grants.

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 in 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.

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

3.7 Intangible assets

3.7.1 Computer software

Intangible assets acquired separately are recognised at cost less accumulated amortisation and accumulated impairment

3. Significant Accounting Policies (continued)
3.7 Intangible assets (continued)
3.7.1 Computer software (continued)

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 all it's leases as operating leases where the lessor effectively retains the risk and benefits of ownership, whilst classifying leases as finance leases where the Bank assumes substantially all the benefits and risks of ownership of the leased assets.

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 Financial assets and financial liabilities

3.10.1 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 adjustment 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.

3.10.2 Classification

Financial assets

At inception a financial asset is c1assified into one of the following categories:

- Loans and receivables;
- Held to Maturity;
- Available for sale; and
- At fair value through profit or loss, and within this category as:
  - held for trading; or
  - designated at fair value through profit or loss

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

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.

3.10.3 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.

3. Significant Accounting Policies (continued)
3.10 Financial assets and financial liabilities (continued)
3.10.3 Derecognition (continued)

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.

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.

3.10.4 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.

3.10.5 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.

3.10.6 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or .in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market , then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from transact ion price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriated basis over the life of the instrument but no later than when the valuation is wholly supported by observable market date or the transact ion is closed out

If an asset or a liability measured at fair value has a bid price and an ask price , then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of net exposures to either market risk or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets or liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.10.7 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

3. Significant Accounting Policies (continued)
3.10 Financial assets and financial liabilities (continued)
3.10.7 Impairment of financial assets (continued)

more events that occurred after initial recognition of the asset ("loss events") and that 'loss event / s has / have 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 (trade receivables), including staff home loans 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 27.2 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 trade receivables.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring 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.

Contractual interest is suspended on loans and advances where the probability of estimated future cash inflows are uncertain.

When a loan is determined to be uncollectible, it is written off against the related allowance account. 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 has 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 installments are treated as overdue when an installment payment is overdue and remains unpaid as at the reporting date.
- Loans and advances with a specific expiry date (i.e. term 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 installment 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 27.2). These assets form part of the collective assessment for impairment.

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 determining 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.

3. Significant Accounting Policies (continued)
3.10 Financial assets and financial liabilities (continued)
3.10.7 Impairment of financial assets (continued)

Refer to note 16 for the accounting treatment of the available for sale equity investments during the period under review.

3.10.8 Trade payables

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

3.10.9 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.

3.10.10 Loans and advances

Loans and receivables 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.

3.10.11 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 other 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; and
- 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.

3.11 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.

3.12 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 18 and 19.

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 contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

3.13 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.

3.14 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. Significant Accounting Policies (continued)

3.15 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.

3.16 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivate assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method the will be used to assess the effectiveness of the relationship. The Bank makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. The Bank makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Note 18.1 sets out details of the fair values of the instruments used for hedging purposes.

3.16.1 Fair value hedges

Changes in the fair value of the derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged items attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. The fair value of the adjustment to the carrying amount of the hedged items arising from the hedged risk is amortised to profit or loss from that date.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

3.16.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of comprehensive income / income statement as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Summary of Standards and Interpretations not yet effective for December 2013

The relevant Standards and Interpretations which are not yet effective and which should be disclosed for December 2013 year-ends are identified in the table below, together with the dates on which these were issued by the IASB:

Standard / Interpretation		Date issued by IASB (1)	Effective date / periods beginning on or after	Impact
IFRS 10, IFRS 12 and IAS 27 amendment	Investment Entities	October 2012	1 January 2014	The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. This amendment is not expected to have an impact on the Bank due to the Bank's equity investment strategy.
IAS 32	Offsetting Financial Assets and Financial Liabilities	December 2011	1 January 2014	The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted. The Bank is in the process of assessing the impact of the amended statement on the financial statements.
IFRIC 21	Levies	May 2013	1 January 2014	Levies have become more common in recent years, with governments in a number of jurisdictions introducing levies to raise additional income. Current practice on how to account for these levies is mixed. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37 Provisions, Contingent Liabilities and Assets. The Interpretation is effective for annual periods commencing on or after 1 January 2014 with retrospective application. The Bank is in the process of assessing the impact of the amended statement on the financial statements.
IFRS 9 (2009)	Financial Instruments	November 2009	1 January 2018	IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The Bank is in the process of assessing the impact of the ammended statement on the financial statements.
IFRS 9 (2010)	Financial Instruments	October 2010	1 January 2018	IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The Bank is in the process of assessing the impact of the ammended statement on the financial statements.

N$	2013	2012
4. INTEREST INCOME		
Cash and cash equivalents	27,903,983	13,581,912
Loans and advances to banks	5,397,003	5,771,142
Loans and advances to staff	973,579	577,414
Unwinding of present value on off-market loans	4,196,209	972,960
Loans and advances to customers: unimpaired	113,348,312	98,277,115
Loans and advances to customers: impaired	10,630,001	8,203,426
Dividend income on preference shares in loan book	2,895,506	4,734,462
	165,344,593	132,118,431
5. FEE AND COMMISSION INCOME		
Guarantee fees	3,756,574	2,920,033
Front-end fees	7,948,290	4,838,989
Other fees received	999,557	40,120
	12,704,421	7,799,142
6. OTHER INCOME		
Subsidy - Government Grant *	54,053,598	82,590,055
Grant received - Fides grant **	-	8,800,000
	54,053,598	91,390,055

* The Government grant relates to a subsidy receivable from the Ministry of Finance in support of Special Development Fund ("SDF") activities managed by the Bank.

The Special Development Fund was established 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 governments of Namibia and Germany entered into a bilateral 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 Frankfurt am Main ("KfW Entwinklungsbank") to represent Germany and the National Planning Commission ("NPC") for Namibia.

The grant received in 2012 relates to a grant equivalent of Euro 800,000 provided to the microfinance 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 was entered into with FIDES Bank Namibia Ltd for the Namibia Dollar equivalent of Euro 800,000 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 within the corresponding loan and included under loans and advances at spot rate on the transaction date.

At reporting date there were no unfulfilled conditions or other contingencies attached to the grant.

N$	2013	2012
7. OPERATING EXPENSES		
Auditors' remuneration		
- audit fees	1,010,677	703,563
- other services	55,785	37,872
Directors' fees		
- for services as directors	1,060,971	801,765
- for management services	1,343,223	1,626,547
Depreciation and amortisation	3,321,989	4,369,458
Loss / (gain) on disposal of equipment	838	(2,096)
Professional services	4,379,657	5,291,717
Salaries and personnel costs	37,682,706	26,457,373
Operating leases:		
- buildings	93,137	85,118
- equipment	427,284	464,894
- motor vehicle	129,914	75,556
Other expenditure	14,440,886	11,083,998
Total operating expenditure	63,947,067	50,995,765
Number of employees	59	49
7.1 Directors emoluments		
7.1.1 Chief Executive Officer		
Pensionable salary - D Nuyoma (resigned December 2012)	-	1,351,231
Pensionable salary - M Inkumbi (appointed January 2013)	1,104,785	-
Company contributions to pension and medical aid schemes	238,438	275,316
	1,343,223	1,626,547
7.1.2 Non-executive directors		
E Angula (Chairperson)	203,499	200,397
A Getachew	176,290	191,357
E Haiyambo	156,845	141,888
M Shingenge-Haipinge	174,794	135,905
A Basson (appointed April 2012)	188,256	132,218
J Hausiku (appointed August 2012)	161,287	-
	1,060,971	801,765
7.1.3 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

7. Operating Expenses (continued)
7.1 Directors emoluments (continued)

7.1.4 Board committees and membership

(i) Audit, Risk and Compliance

A Basson	Chairperson, non-executive independent director
M Inkumbi (CEO) *	
A Getachew	
E Haiyambo	
J Hausiku	

** Appointment date 1 January 2013*

(ii) Credit and Investment

A Getachew	Chairperson, non-executive independent director
M Shingenge-Haipinge	
E Haiyambo	
A Basson	
M Inkumbi (CEO) *	

** Appointment date 1 January 2013*

Credit and Investment Sub-Committee

A Getachew
A Basson
M Inkumbi (CEO) *

** Appointment date 1 January 2013*

(iii) Human Capital and Remuneration

M Shingenge-Haipinge	Chairperson, non-executive independent director
E Angula	
M Inkumbi (CEO) *	

** Appointment date 1 January 2013*

7. *Operating Expenses (continued)*
7.1 *Directors emoluments ((continued)*

7.1.5 Record of attendance

Board Meetings	**Board Work-shop**		**Ordinary**				**Extraordinary**		
2013	**14.02**	**29.04**	**27.06**	**30.09**	**29.11**	**20.02**	**22.08**	**17.09**	**07.11**
E Angula (Chair)	√	√	√	√	√	√	√	√	√
M Inkumbi (CEO)	√	√	√	√	√	√	-	√	√
E Haiyambo	√	√	√	√	√	-	√	√	√
A Getachew	√	√	-	√	-	√	√	√	√
M Shingenge-Haipinge	√	√	√	√	-	√	√	√	√
A Basson	√	√	√	√	√	√	√	√	√
J Hausiku	-	√	-	√	-	√	√	√	√

Annual General Meeting
No AGM was held during 2013

Audit, Risk and Compliance Committee

2013	**09.04**	**24.06**	**24.09**	**25.11**
A Basson (Chair)	√	√	-	√
M Inkumbi (CEO)	-	-	√	√
E Haiyambo	√	√	√	√
A Getachew	√	√	√	√
J Hausiku	√	-	√	√

Credit and Investment Committee

2013	**18.04**	**20.06**	**20.06**	**26.07**	**10.09**	**11.10**	**11.12**
A Getachew (Chair)	√	√	-	√	√	√	√
M Inkumbi (CEO)	-	-	√	√	√	-	-
M Shingenge-Haipinge	√	√	√	√	-	√	√
A Basson	√	√	√	√	√	√	√
E Haiyambo	√	-	√	√	-	√	√

Credit and Investment Sub-Committee

2013	**24.01**	**21.02**	**18.04**	**30.07**	**11.10**	**11.12**
V Groenewald (Chair)	√	√	√	√	√	√
M Inkumbi (CEO)	√	√	√	√	-	√
A Basson	√	√	√	√	√	√
A Getachew	√	√	√	√	√	-
E Haiyambo	-	-	-	√	-	-

Human Capital and Remuneration Committee

2013	**28.03**	**21.06**	**27.09**	**28.11**
M Shingenge-Haipinge (Chair)	√	√	√	√
M Inkumbi (CEO)	√	√	√	√
E Angula	√	√	√	√

N$	2013	2012
8. FAIR VALUE ADJUSTMENTS TO LOANS		
Loans and advances	(1,127,069)	6,298,681
Staff home loans	3,480,248	3,622,614
	2,353,179	9,921,295

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

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$	2013	2012
10. CASH AND CASH EQUIVALENTS		
Bank balances and call deposits	172,844,479	4,846,082
Short term fixed deposits with local banks	280,239,215	402,671,754
	453,083,694	407,517,836
Bank overdraft	-	(10,003,453)
	453,083,694	397,514,383

The carrying amount approximates the fair value of cash and cash equivalents.

N$	2013	2012
11. TRADE AND OTHER RECEIVABLES		
Prepaid expenses	2,973,066	2,827,322
Other receivables	13,250	41,836
Government grant *(refer to note 6)*	-	100,000,000
Receivables: Trust Accounts	-	47,774
Deposits	8,093	2,300
Accrued interest on short term fixed deposits with local banks	1,501,464	3,892,989
	4,495,873	106,812,221

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

N$	Notes	2013	2012
12. LOANS AND ADVANCES			
12.1 Category analysis			
Installment sales		220,494,883	146,060,056
Preference share advances		46,007,487	59,467,039
Guarantees honoured by Bank		1,501,008	506,145
Term loans		1,517,761,025	1,137,747,905
Loans and advances to banks acting as intermediaries		100,001,011	160,001,011
Notional value of advances		1,885,765,414	1,503,782,156
Impairment of loans and advances	13	(158,651,020)	(114,914,491)
Loans and advances, including guarantees honoured		(150,674,482)	(108,810,717)
Unwinding of present value on non-performing loans taken over from Development Fund of Namibia		(1,452,862)	(1,689,595)
Unwinding of present value on Fides loan		(4,853,940)	-
Unwinding of discounted present value of loans to banking intermediaries		(1,669,736)	(4,414,178)
Net loans and advances		1,727,114,394	1,388,867,665
12.2 Sectoral analysis			
Agriculture including fishing		131,744,648	138,207,067
Building and property development		189,849,482	148,481,373
Government and public authorities		234,175,587	75,036,706
Manufacturing and commerce		389,237,325	282,296,061
Mining		13,246,599	42,000,674
Transport and communication		413,730,881	164,895,964
Medical services		56,663,792	43,773,311
Financial institutions		115,141,272	171,569,898
Hotel and tourism		239,814,842	216,070,761
Business services		102,160,986	221,460,340
Notional value of advances		1,885,765,414	1,503,782,155
Impairment of loans and advances	13	(158,651,020)	(114,914,491)
Loans and advances, including guarantees honoured		(150,674,482)	(108,810,717)
Unwinding of present value on non-performing loans taken over from Development Fund of Namibia		(1,452,862)	(1,689,595)
Unwinding of present value on Fides loan		(4,853,940)	(6,226,205)
Unwinding of discounted present value of loans to banking intermediaries		(1,669,736)	(4,414,178)
Net loans and advances		1,727,114,394	1,388,867,665

12. Loans and Advances (continued)

N$	2013	2012
12.3 Maturity structure per contractual maturity date		
Repayable on demand	70,963,813	20,364,120
One year or less but not repayable on demand	108,239,880	183,300,039
Five years or less but over one year	325,967,584	442,180,019
Over five years	1,221,943,117	743,023,487
Net loans and advances	1,727,114,394	1,388,867,665
12.4 Geographical analysis		
Namibia – net loans and advances	1,727,114,394	1,388,867,665

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

13. IMPAIRMENT OF LOANS AND ADVANCES

N$ 2013	Total Impairment	Specific Impairment	Portfolio Impairment	Profit or Loss
Opening balance	114,914,491	111,206,337	3,708,154	-
Amounts written off against impairment provision	(14,503,553)	(14,503,553)	-	-
Unwinding of discounted present value loans	(2,981,174)	(2,981,174)	-	(2,981,174)
Off-market Development Fund loans	(236,733)	(236,733)	-	(236,733)
Below market rate loans to banks	(2,744,441)	(2,744,441)	-	(2,744,441)
New impairments created	96,406,568	85,004,639	11,401,929	96,406,568
Non-performing loans: Provisions	84,491,863	73,089,934	11,401,929	84,491,863
Non-performing loans: Interest in suspense	10,630,001	10,630,001	-	10,630,001
On loans written off during the year	1,284,704	1,284,704	-	1,284,704
Recoveries of bad debts previously written off	-	-	-	(2,811,453)
Provisions reversed	(35,185,312)	(35,185,312)	-	(35,185,312)
Closing Balance	158,651,020	143,540,937	15,110,083	55,428,629

N$ 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 provision	(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 year	9,684,399	9,684,399	-	9,684,399
Recoveries of bad debts previously written off	-	-	-	(2,014,475)
Provisions reversed	(8,825,292)	(8,825,292)	-	(8,825,292)
Closing balance	114,914,491	111,206,337	3,708,154	77,765,274

13. Impairment of loans and advances (continued)

13. IMPAIRMENT OF LOANS AND ADVANCES

N$ **Non-performing loans by sector** **31 December 2013**	Credit Risk	Security	Contractual Interest Suspended	Impairment provision
Agriculture and forestry	5,812,749	3,620,460	321,834	902,854
Business services	41,942,633	13,545,789	2,796,581	19,610,747
Construction	51,005,767	12,778,827	3,756,181	15,858,517
Education	2,706,739	1,080,000	71,706	1,555,033
Fishing and fish processing	7,200,654	2,003,107	890,082	4,432,142
Health	5,442,875	3,354,418	104,758	950,797
Hotels and tourism	29,639,750	15,493,523	1,644,446	1,735,102
Manufacturing and commerce	37,855,790	13,661,294	6,457,180	19,366,799
Mining and quarrying	10,461,820	3,630,650	764,078	3,876,650
Transport and communication	23,580,954	13,242,962	1,482,805	8,599,384
Water	203,946	-	-	2,003
Wholesale and retail trade, repairs	27,173,725	6,361,930	2,163,833	15,207,107
Total non-performing loans	243,027,402	88,772,960	20,453,484	100,097,135

N$ **Non-performing loans by sector** **31 December 2012**	Credit Risk	Security	Contractual Interest Suspended	Impairment provision
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
Electricity	2,968,726	-	27,216	850,165
Fishing and fish processing	6,560,365	3,407,332	189,730	3,923,347
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
Mining and quarrying	11,666,339	1,309,104	377,277	6,845,297
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
Total non-performing loans	210,555,502	54,417,868	9,823,483	89,377,078

N$ **Non-performing loans by category** **31 December 2013**	Credit Risk	Security	Contractual Interest Suspended	Impairment provision
Guarantees	20,694,440	1,864,000	-	671,771
Preference Shares	2,475,281	-	485,277	1,990,005
Installment sales	54,059,359	18,038,211	3,491,738	22,054,031
Term loans	165,798,322	68,870,749	16,476,469	75,381,329
Total non-performing loans	243,027,402	88,772,960	20,453,484	100,097,135

N$ **Non-performing loans by category** **31 December 2012**	Credit Risk	Security	Contractual Interest Suspended	Impairment provision
Guarantees	26,085,491	2,872,000	-	3,478,884
Installment sales	30,313,887	9,249,674	659,965	12,340,136
Term loans	154,156,124	42,296,194	9,163,518	73,558,058
Total non-performing loans	210,555,502	54,417,868	9,823,483	89,377,078

N$	2013	2012
14. STAFF HOME OWNERSHIP SCHEME LOANS		
Staff home loans	14,161,842	10,844,149

Staff home loans are deemed as not at market as they represent loans granted to staff members at lower than market related rates. The present value adjustment amounted to N$ 5,300,905 (2012: N$ 2,722,131).

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

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

15. PROPERTY AND EQUIPMENT

N$ Cost or revalued amount	Land	Buildings	Vehicles	Furniture & equipment	Total
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 / 1 January 2013	15,603,973	28,951,366	47,592	7,185,307	51,788,238
Additions	-	-	-	694,314	694,314
Disposals	-	-	-	(745,406)	(745,406)
Revaluation gain	3,898,998	861,147	-	-	4,760,145
Balance at 31 December 2013	19,502,971	29,812,513	47,592	7,134,215	56,497,290
Accumulated depreciation and impairment					
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 / 1 January 2013	-	(2,555,338)	(7,139)	(5,201,341)	(7,763,818)
Eliminated on disposals of assets	-	-	-	732,594	732,594
Depreciation expense	-	(1,260,147)	(9,519)	(973,963)	(2,243,629)
Balance at 31 December 2013	-	(3,815,485)	(16,658)	(5,442,711)	(9,274,853)
Carrying amount					
As at 31 December 2012	15,603,973	26,396,028	40,453	1,983,965	44,024,421
As at 31 December 2013	19,502,971	25,997,028	30,934	1,691,505	47,222,437

The carrying amount, if carried under the cost model as at 31 December 2013, was N$ 28,802,916.

The property represents land and buildings situated on Erf number 5444 Windhoek and Erf number 7640 (sectional title) respectively and were valued by an independent external, qualified valuator, Mr. Benjamin Joseph (Sworn Appraiser) on an income capitalisation basis on 31 December 2013. 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.

Details of the Bank's freehold land and buildings and information about the fair value hierarchy as at 31 December 2013 is as follows:

N$	Level 1	Level 2	Level 3	Total
Land	-	-	19,502,971	19,502,971
Buildings	-	-	29,812,,514	29,812,,514
	-	-	49,315,845	49,315,845

N$

16. EQUITY INVESTMENTS

16.1 Available for sale equity investments unlisted	Norsad * Finance Ltd	Nest ** Lüderitz Investments (Pty) Ltd	Ohorongo *** Cement (Pty) Ltd	Total
Cost or fair valued amount	*4.55% Shareholding*	*23.25% Shareholding*	*9.07% Shareholding*	
Balance at 1 January 2012	-	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 / 1 January 2013	-	5,310,924	65,444,000	70,754,924
Acquisitions	-	-	-	-
Recapitalisation issue	-	-	31,752,324	31,752,324
Disposals	-	-	-	-
Net change in fair value	3,714,285	(2,393,049)	26,582,801	27,904,037
Balance at 31 December 2013	3,714,285	2,917,875	123,779,125	130,411,285
Director's valuation of unlisted equity investments	3,714,285	2,917,875	123,779,125	130,411,285

Refer to Note 28 on the fair value of financial instruments for the methodologies used to determine the fair value of the investments in securities.

* 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 ("DFIs") and 4 Nordic DFI's as designated by their respective Governments. The share certificates were issued in December 2012.

In the prior year neither the cost nor the fair value of the 4.55% shareholding could not be determined as the first set of audited Annual Financial Statements (financial information) of Norsad was not yet available. These financials were received in the current year and as such the investment was revalued based on the discounted cash flows of the entity.

** Although shareholding in Nest Lüderitz Investments (Pty) Ltd exceeds 20%, the Bank is not deemed to have a significant influence due to the non-representation on Board and less than 50% voting rights.

*** The shareholding in Ohorongo Cement (Pty) Ltd decreased from 10.08% during 2012 to 9.07% during 2013.

N$	2013	2012
17. INTANGIBLE ASSETS		
Software		
Cost		
Opening balance	8,392,775	8,039,712
Additions	-	353,063
Closing balance	8,392,775	8,392,775
Accumulated amortisation and impairment		
Opening balance	(6,930,028)	(5,008,603)
Amortisation for the year	(1,078,361)	(1,921,425)
Closing balance	(8,008,389)	(6,930,028)
Carrying amount	384,386	1,462,747

N$	2013	2012
18. TRADE AND OTHER LIABILITIES		
Trade payables	443,264	1,247,575
Receiver of Revenue	15,460	(170,258)
Deferred guarantee fee income	217,500	117,000
Deferred Government Subsidy - SDF	13,356,347	17,409,945
Salary related payables	7,770,686	903,513
	21,803,257	19,507,774

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 also considered to approximate their fair value at reporting date.

N$	2013		2012	
18.1 Derivative held for risk management				
	Asset	Liability	Asset	Liability
Balance at beginning of year	-	-	-	-
Instrument type :			-	
Interest rate	-	16,937,703	-	-
Foreign exchange	-	12,401,496	-	-
Balance at end of year	-	29,339,201	-	-

In the current year the Bank entered into a 12 year financing transaction to provide funding to Air Namibia for the purchase of a new aircraft. The agreement entailed the Bank advancing USD 20,000,000 to Air Namibia. At the inception of the transaction the Bank did not have the required USD to finance the transaction, thus the transaction exposed and further exposes the Bank to currency risk associated with converting capital and interest payments between USD and NAD. To hedge the risks associated with this transaction the bank entered into a 12 year cross currency swap.

During 2013, net losses of N$ 16,937,703 (2012: nil) relating to the ineffective portion of the hedge were recognised in profit and loss for the year, while net losses of N$ 12,401,496 relating to the effective portion of the casflow hedge were recognised in OCI.

The derivative instruments are disclosed at fair value.

Future cash flows are expected to be received monthly until 29 August 2025. Profit or loss will be affected by foreign exchange rate fluctuations at the end of each reporting period.

The time periods in which the hedged cash flows are expected to occur and affect profit or loss are as follows:

Period	**Within 1 year**	**1 - 5 years**	**Over 5 years**
31 December 2014	2,350,434	11,752,169	13,319,125

N$	2013	2012
19. DIVIDENDS RETAINED FOR REDEPLOYMENT		
Balance at beginning of year	16,402,238	17,273,425
Disbursements	-	(871,188)
Ondenga Consultancy	-	(36,000)
SME Competitiveness	-	(835,188)
Balance at end of year	16,402,238	16,402,238

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$	2013	2012
20. SHARE CAPITAL AND SHARE PREMIUM		
Share capital		
Authorised		
2,000 Ordinary shares of N$100 000 each	200,000,000	200,000,000

Authorised ordinary shares were increased by 500 shares at the Annual General Meeting held on 4 October 2012 as resolved by the Board of Directors.

Issued		
Share capital: 1,615 (2012: 1,575) Ordinary shares of N$100 000 each	161,500,000	157,500,000
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$4 819 200.00 each	361,440,000	361,440,000
Share premium: 40 Ordinary shares of N$4 900 000.00 each	196,000,000	-
	1,671,965,938	1,475,965,938
Total share capital and share premium	1,833,465,938	1,633,465,938

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$	2013	2012
21. RESERVES		
21.1 Capital revaluation reserve		
Balance at beginning of year	11,363,839	10,168,322
Increase in reserve	4,760,145	1,195,517
Balance at end of year	16,123,984	11,363,839
The capital reserve relates to the revaluation of property.		
21.2 Fair value reserve		
Balance at beginning of year	(61,998,039)	(439,076)
Increase / (decrease) in reserve	27,904,037	(61,558,963)
Balance at end of year	(34,094,002)	(61,998,039)
The fair value relates to the change in fair value of the available for sale equity instruments.		
21.3 Cash flow hedging reserve		
Balance at beginning of year	-	-
Increase / (decrease) in reserve	(12,401,496)	-
Balance at end of year	(12,401,496)	-
Net closing balance	(30,371,514)	(50,634,200)

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedging transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Bank's accounting policy.

Please refer to note 18.1 for details of the hedged risk and the fair value of the hedging instruments.

	2013	2012
22. LOAN COMMITMENTS AND CONTINGENT LIABILITIES		
Irrevocable commitments in respect of loans approved	320,490,000	87,497,389
Guarantees issued	82,144,795	62,246,642
Letters of credit	2,508,353	1,550,000
Performance and demand guarantees	79,636,442	60,696,642
	402,634,795	149,744,031

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

	2013	2012
23. CAPITAL COMMITMENTS		
Capital expenditure authorised:		
not yet contracted for	5,154,186	5,848,500

N$	2013	2012
24. LEASE COMMITMENTS		
Operating lease commitments:		
Buildings	210,000	282,000
Vehicles	460,361	510,593
Office equipment and leased lines	2,370,313	1,067,162
	3,040,674	1,859,755
To be incurred as follows:		
Up to 1 year	1,757,831	1,063,559
2 – 5 years	1,282,843	796,196
	3,040,674	1,859,755

The Bank leases two motor vehicle 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.

25. 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$ 4,042,640 (2012: N$3,355,290).

26. 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.

26.1 Related party balances and transactions

26.1.1 Directors	-	-

The remuneration of directors is determined by the Shareholder.

Refer to note 7.1 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.

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, with the following exception:

- Approved facility for Guinas Investments (Pty) Ltd of which Ms. Muetulamba Shingenge-Haipinge is a director. Loan value : N$ 7.5 million.

26.1.2 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$ 161.5 million (2012: N$ 157.5 million) with share premium increasing with N$ 196 million (2012: N$ 361.4 million).

N$	2013	2012
Dividends declared	-	-

26. Related party information (continued)
26.1 Related party balances and transactions (continued)

26.1.3 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$	2013	2012
Compensation	6,551,979	5,655,628
Pension benefits	897,804	810,179
Other short-term benefits	291,090	252,363
	7,740,873	6,718,170

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

26.1.4 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 SOEs, individually or collectively as significant for disclosure purposes.

N$	2013		2012	
Related party	Outstanding Balance	Interest charged	Outstanding Balance	Interest charged
Installment Sales				
Namibian Ports Authority	35,331,127	355,208	11,546,312	1,992,197
Preference shares advance				
Seaflower Whitefish Corporation	32,123,539	1,451,313	30,672,225	5,072,225
Guarantees				
Central North Electricity Distribution	10,056,250	-	10,075,783	-
Central North Electricity Distribution	5,056,250	-	5,161,413	-
Term loans				
Nampost Financial Brokers	103	2	102	1
Namibia Power Corporation Limited	51,589,611	2,433,827	55,080,065	2,783,739
Namibia Wildlife Resorts Limited	90,861,410	6,587,475	90,861,418	6,987,726
Namibian Ports Authority	27,311	457	-	204,136
National Housing Enterprise of Namibia	19,704,629	1,210,501	24,094,215	1,565,462
National Housing Enterprise of Namibia	-	-	304,003	13,691
Seaflower Whitefish Corporation	33,203,250	2,435,286	35,840,190	2,403,641
Telecom Namibia Limited	115,000,000	7,835,212	120,000,000	8,575,409
Polytechnic of Namibia	101,009,257	1,009,257	-	-
	493,962,737	23,318,538	383,635,726	29,598,227

27. FINANCIAL RISK MANAGEMENT

27.1 Introduction and overview

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

- Credit risk
- Liquidity risk
- Market 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 Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of directors has established the Risk and Compliance Management Committee which is responsible for developing and monitoring of the Bank's risk management policies.The Committee has the responsibility and accountability for the following core risk functions viz. 1. Internal Audit function, 2. External Audit function and 3. Enterprise-wide risk management 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 Sustainability Model includes 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 Credit and Equity 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.

27.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer of counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's lending activities as well as the placement of deposits with financial institutions. For the Bank, credit risk comprises the potential loss on loans, advances, guarantees and equity investments.

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.

Management of credit risk

The Credit Risk Management Framework consists of the following: Credit Risk Governance Framework, Board and Executive Management Oversight, Systems, Policies and Procedures for identification, acceptance, measurement, monitoring and control of risks. The Credit Risk Governance Framework manages credit risk through 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 Credit, Management Credit and Investment Committee ("MCIC"), DBN Credit and Investment Committee (consisting of CEO, Head of Credit and two Board members) and the Credit Investment Committee (consisting of the CEO and three board members). Tiered authorisation limits are allocated to the Head of Credit and the various Credit and Investment Committees. Credit authorisations falling outside of the mandates of the Management Credit and Investment Committee, DBN Credit and Investment Sub-Committee, Credit Investment Committee require approval by the Board.

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

- recommending all credit applications, reviews, write-off's, legal proceedings, restructurings, rescheduling and changes in collateral in excess of limits delegated to the department;
- ensuring the effectiveness of the Workout and Recoveries unit;
- determining and recommending portfolio objectives and risk tolerance levels; and
- formulating credit policies in consultation with business units, determining requirements, credit assessment, measurement and quantification of and reporting on collateral.

27. Financial risk management (continued)
27.2 Credit risk (continued)

For risk management reporting purposes, the Bank considers all elements of credit risk exposures, such as economic sector, single obligor default and business concentration risks.

Concentration risk is determined by assessing the following exposure limits:

- 12% of capital (ito Credit & Equity Investment Policy)
- 30% sectoral exposure (ito AADFI guidelines)

None of these exposure limits have been exceeded.

These exposure limits are determined on an annual basis.

The credit risk on short term fixed term deposits is limited as the Bank deposits its surplus cash with major banks and investment houses of high quality credit standing.

N$	2013	2012
Maximum exposure to credit risk		
Cash and short term funds	453,083,694	397,514,383
Advances		
Installment sales	220,494,885	146,060,056
Term loans	1,517,761,024	1,137,747,905
Preference Share advances	46,007,487	59,467,039
Loans to banks	100,001,011	160,001,011
Guarantees honoured by Bank	1,501,008	506,145
Trade and other receivables	1,522,807	103,984,899
Staff home ownership scheme loans	14,161,862	10,844,149
	2,354,533,777	2,016,125,586
Amounts not recognised on the statement of financial position		
Guarantees	82,144,795	61,646,642
Irrevocable commitments to borrowers	320,490,000	87,497,389
	2,757,168,572	2,165,269,167

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

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

A - Pass or Acceptable:	These are loans that are performing in accordance with contractual terms, and 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.

27. Financial risk management (continued)
27.2 Credit risk (continued)

N$ 2013	Installment sales	Preference shares	Term loans	Loans to banks	Guarantees	Total	Collateral held
Category							
A	126,108,845	37,165,342	1,222,707,193	100,001,011	(3,851,535)	1,482,130,856	973,642,751
B	39,350,096	6,128,965	132,893,892	-	4,107,755	182,480,708	82,401,913
C	9,317,974	-	20,458,071	-	62,459	29,838,504	15,691,721
D	8,901,479	-	30,186,645	-	100,191	39,188,315	18,379,303
E	36,816,490	2,713,180	111,515,225	-	1,082,137	152,127,032	52,864,720
	220,494,883	46,007,487	1,517,761,025	100,001,011	1,501,008	1,885,765,414	1,142,980,408

N$ 2012	Installment 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	1,137,747,905	100,001,011	506,145	1,503,782,156	742,353,215

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, cession of contract income and guarantees. For collateral not readily convertible to cash, the bank obtains judgement whereby the assets are attached and then sold. The proceeds are used towards settlement of debt.

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 DBN to determine expected recovery values for varying types of security are shown below:

Type of security	**Risk Value of Security ("RSV")**
Immovable assets	Residential properties – 80% of net present value Commercial properties – 60% of net present value Industrial properties – 50% of net present value
Movable assets	30% - 50% of net present market value
Intangible assets	30% - 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% of net present value of investment
Third party collateral	
- ceded investments	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

27. Financial risk management (continued)
27.2 Credit risk (continued)

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 determining the fair values of collateral held on the remaining performing loans.

At the client or transactional level, these assessments are 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$ 2013	Total unimpaired loans	Past due but not impaired 31-60 days	61-90 days	91-120 days	More than 120 days	Total
Installment sales	174,367,274	5,687,001	335,239	486,653	1,772,155	8,281,048
Preference shares	36,953,539	-	-	-	-	-
Term loans	1,327,110,297	13,653,026	411,868	4,072,274	17,387,951	35,525,119
Guarantees	90,720,652	220,433	141,738	22,971	(28,735)	356,407
	1,629,151,762	19,560,460	888,845	4,581,898	19,131,371	44,162,574

N$ 2012	Total unimpaired loans	Past due but not impaired 31-60 days	61-90 days	91-120 days	More than 120 days	Total
Installment sales	116,945,905	2,452,724	235,872	47,371	-	2,735,967
Preference shares	24,991,251	-	-	-	-	-
Term loans	975,068,524	11,682,914	1,907,957	532,247	3,753,218	17,876,333
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

27. *Financial risk management (continued)*
27.2 *Credit risk (continued)*

Credit decisions are subject to both single obligor limits and the appraised debt service capacity of the borrowers. As part of the credit risk decision process, the Bank also requires collateral in the form of eligible assets or third-party guarantees when deemed prudent. All lending decisions are further subject to an independent risk review performed by the Credit Unit. This review aims to ensure that all significant risks have been identified and, where deemed prudent, appropriately mitigated.

N$

Credit quality of past due but not impaired loans and advances

2013 **Category**	**Installment sales**	**Preference shares**	**Term loans**	**Guarantees**	**Total**
A	120,290	-	7,209,337	(197,191)	7,132,436
B	5,243,167	-	16,636,274	271,032	22,150,473
C	277,279	-	3,390,897	62,403	3,730,579
D	724,171	-	607,521	53,652	1,385,344
E	1,916,141	-	7,681,089	166,512	9,763,742
	8,281,048	-	35,525,118	356,408	44,162,574

2012 **Category**	**Installment sales**	**Preference shares**	**Term loans**	**Guarantees**	**Total**
A	1,545,646	-	6,020,591	140,711	7,706,948
B	1,190,321	-	11,855,745	422,738	13,468,804
	2,735,967	-	17,876,336	563,449	21,175,752

N$

Credit quality of neither past due nor impaired loans and advances

2013 **Category**	**Installment sales**	**Preference shares**	**Term loans**	**Guarantees**	**Total**
A	114,071,936	4,830,000	977,288,443	60,570,459	1,125,192,471
B	275,341	-	758,403	19,174,065	2,226,764
C	-	-	-	4,070,090	409,373
D	-	-	(2,094)	3,455,403	2,415,972
E	-	-	(740)	3,450,635	1,220,180
	114,347,277	4,830,000	978,044,012	90,720,652	1,131,464,760

2012 **Category**	**Installment sales**	**Preference shares**	**Term loans**	**Guarantees**	**Total**
A	60,758,463	24,991,251	675,609,397	14,104,822	775,463,942
B	502,642	-	8,355,858	-	8,858,500
C	-	-	-	1,507,713	1,507,713
D	-	-	-	394,304	394,304
E	-	-	-	-	-
	61,261,105	24,991,251	683,965,255	16,006,839	786,224,449

27. Financial risk management (continued)
27.2 Credit risk (continued)

N$

Credit quality of total unimpaired loans and advances

2013 **Category**	**Installment sales**	**Preference shares**	**Term loans**	**Guarantees**	**Total**
A	126,084,921	36,953,539	1,201,707,829	60,570,459	1,425,316,748
B	39,350,096	-	105,307,831	19,174,065	163,831,992
C	976,584	-	7,441,622	4,070,090	12,488,296
D	2,200,760	-	1,708,144	3,455,403	7,364,307
E	5,754,913	-	10,944,871	3,450,635	20,150,419
	174,367,274	36,953,539	1,327,110,297	90,720,652	1,629,151,762

2012 **Category**	**Installment sales**	**Preference shares**	**Term loans**	**Guarantees**	**Total**
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	138,244,339
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

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 2013 amounts to N$ 327,464,389 (2012: N$ 220,796,636).

27. *Financial risk management (continued)*
27.2 *Credit risk (continued)*

N$

Contractual discounted cash flows of assets and liabilities

		Term to maturity			
2013	**Carrying amount**	**Demand**	**1 - 12 months**	**2 - 5 years**	**Over 5 years**
Assets					
Cash and cash equivalents	453,083,694	172,844,480	280,239,214	-	-
Trade and other receivables	4,495,873	4,495,873	-	-	-
Staff home ownership scheme loans	14,161,863	-	-	-	14,161,863
Loans and advances	1,727,114,394	71,700,568	108,239,880	325,967,584	1,221,206,362
Financial assets	2,198,855,824	249,040,921	388,479,094	325,967,584	1,235,368,225
Non-financial assets	47,606,823	-	-	10,115,213	37,491,610
Total assets	2,246,462,647	249,040,921	388,479,094	336,082,797	1,272,859,835
Liabilities					
Trade and other liabilities	(21,803,258)	-	(21,803,258)	-	-
Derivative held for risk management	(29,339,201)	-	-	-	(29,339,201)
Dividends retained for redeployment	(16,402,238)	-	(3,280,448)	(9,841,342)	(3,280,448)
Financial liabilities	(67,544,697)	-	(25,083,706)	(9,841,342)	(32,619,649)
Total equity	(2,309,329,235)	-	-	-	(2,309,329,235)
Net liquidity gap	(130,411,285)	249,040,921	363,395,388	326,241,455	(1,069,089,049)

		Term to maturity			
2012	**Carrying amount**	**Demand**	**1 - 12 months**	**2 - 5 years**	**Over 5 years**
Assets					
Cash and cash equivalents	407,517,836	4,846,083	402,671,753	-	-
Trade and other receivables	106,812,221	106,812,221	-	-	-
Staff home ownership scheme loans	10,844,149	-	-	-	10,844,149
Loans and advances	1,388,867,665	20,365,364	183,299,873	442,179,618	743,022,809
Financial assets	1,914,041,871	132,023,668	585,971,626	442,179,618	753,866,958
Non-financial assets	45,487,168	-	-	3,487,164	42,000,003
Total assets	1,959,529,039	132,023,668	585,971,626	445,666,783	795,866,961
Liabilities	(19,507,774)	-	(19,507,774)	-	-
Trade and other liabilities	-	-	-	-	-
Derivative held for risk management	(10,003,453)	(10,003,453)	-	-	-
Dividends retained for redeployment	(16,402,238)	-	(3,280,448)	(9,841,342)	(3,280,448)
Financial liabilities	(45,913,465)	(10,003,453)	(22,788,222)	(9,841,342)	(3,280,448)
Total equity	(1,984,370,497)	-	-	-	(1,984,370,497)
Net liquidity gap	(70,954,923)	122,020,215	563,183,404	435,825,441	(1,191,783,984)

27. Financial risk management (continued)
27.2 Credit risk (continued)

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.

27.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meetings its obligations associated with its financial liabilities that are being settled by delivering cash or another financial asset.

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 approved overdraft facilities, uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development finance institutions.

The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by monitoring cash flow forecasts and by matching the maturity profiles of financial assets and liabilities on a monthly basis.

27.4 Market risk

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 is the risk that changes in market prices such as interest rates, foreign exchange rates and equity prices will affect the Bank's income or the value of its holdings. The Banks activities expose it primarily to the financial risks of changes in interest rates. However, during the year under review the Bank entered into transactions that resulted into exposures to foreign currency risk. To manage its exposure to foreign currency risk the Bank entered into a cross currency swap agreement.

Interest rate risk

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.

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.

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 2013 would increase / decrease by N$ 10,003,974 (2012: increase / decrease by N$ 6,578,613). 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.

27. *Financial risk management (continued)*
27.4 *Market risk (continued)*

Interest rate sensitivity

	Average effective interest rate	Carrying amount	Demand	1-12 months	2 - 5 years	Over 5 years	Non-interest earning / bearing
2013 Assets				Term to repricing			
Cash and bank	6.5%	453,083,694	172,844,480	280,239,214	-	-	-
Loans and Advances	8.8%	1,727,114,394	1,718,491,685	-	4,830,000	3,792,709	-
DBN Housing scheme advances	6.5%	14,161,863	-	-	-	14,161,863	-
Trade and other receivables	-	4,495,873	-	-	-	-	4,495,873
Total financial assets		2,198,855,824	1,891,336,165	280,239,214	4,830,000	17,954,572	4,495,873
Liabilities and shareholders' equity							
Bank overdraft		-	-	-	-	-	-
Dividends retained for redeployment		(16,402,238)	-	-	-	-	(16,402,238)
Trade and other payables		(21,803,257)	-	-	-	-	(21,803,257)
Derivative for risk management		(29,339,201)	-	-	-	-	(29,339,199)
Total liabilities and shareholders' equity		(67,544,696)	-	-	-	-	(67,544,696)
Net interest sensitivity gap		2,131,311,128	1,891,336,165	280,239,214	4,830,000	17,954,572	(63,048,823)
2012 Assets				Term to repricing			
Cash and bank	6.5%	407,517,836	4,846,082	402,671,754	-	-	-
Loans and Advances	8.8%	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
Total financial assets		1,843,286,946	1,374,734,622	404,483,616	17,167,263	10,844,149	106,812,221
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)
Total liabilities and shareholders' equity		(45,913,467)	(10,003,453)	-	-	-	(35,910,012)
Net interest sensitivity gap		1,797,373,479	1,364,731,169	404,483,616	17,167,263	10,844,149	70,902,209

27. Financial risk management (continued)

27.5 Foreign currency risk

During the year under review, the Bank undertook transactions denominated in foreign currency (US Dollar), consequently exposures to exchange rate fluctuations arose. The exchange rate exposure was managed by utilising a cross currency swap agreement.

The carrying amount of the Banks foreign currency denominated monetary assets at the end of the reporting period are as follows:

N$	2013	2012
Loans and Advances	193,104,633	-
Equity Investments	3,714,285	-

Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to a 10% increase and decrease in NAD to the relevant foreign currency.

N$	2013	2012
Profit or loss	-	-
Equity	371,428	-

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year.

27.6 Equity price risk

The Bank is exposed to equity price risks arising from its equity investments. Equity investments are held for strategic rather than trading purposes. The Bank does not actively trade these investments.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period.

If the equity prices had been 5% higher or lower:

- Profit for the year ended 31 December 2013 would have been unaffected as the equity investments are classified as available-for-sale and no investments were disposed of or impaired.
- Other comprehensive income for the year ended 31 December 2013 would increase / decrease by N$ 6,520,564 (2012: N$ 5,866,694)

27. Financial risk management (continued)

27.7 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 116% (2012: 125%).

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

28. USE OF ESTIMATES AND JUDGEMENTS

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

Derivative financial instruments are entered into by the Bank as a risk management tool.

If the market for 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.

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 liquidation, or distress sale. However, fair value reflects the credit quality of the instrument.

Investment securities

The fair value of non-controlling 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 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 using the discounted cash flow method with a minority discount of 18% being applied to determine the fair value of the Bank's investment in Ohorongo.

Nest Lüderitz Investments (Pty) Ltd

The equity investment shareholding was fair valued by applying the guidelines valuation method. The key assumptions on which the valuation was based are as follows:

1. Growth in results based on the most recent financial statements;
2. Share of market;
3. Discount rate of 27% and a growth factor of 10% including inflationary increase of 6%;
4. 6% risk free rate and a beta of 2; and
5. Future project and envisaged growth in Lüderitz.

28. Use of estimates and judgments (continued)

The methods described previously 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.

Norsad Finance Ltd

The equity investment shareholding was fair valued by applying the future cash flow earnings method. The key assumptions on which the valuation is based are as follows:

1. A dividend of 60% of the annual profit was assumed to determine cash flow;
2. Discount rate at the GC 35 yield rate plus 300 bps;
3. 2/3 preference dividends for the preference shares; and
4. Annual net profits based on the most recent financial statements adjusted for an average 22% increase for the next 5 years.

The methods described above may produce a fair value measurement that may not be indicative of ultimate realisable value. However, management believes there is no other means of determining fair value for this investment. The 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.

Investment securities

Financial instruments recognised at fair value on statement of financial position

N$

31 December 2013				
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity investments	-	-	130,411,285	130,411,285
	-	-	130,411,285	130,411,285

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

Changes in level 3 fair value of financial instruments

Financial assets	
Fair value on 31 December 2012	70,754,924
Net change in fair value recognised in other comprehensive income	27,904,037
Acquisition costs	31,752,324
Fair value on 31 December 2013	130,411,285

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$ 136,931,849 and using more negative assumptions to N$ 123,890,721.

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. Use of estimates and judgments (continued)

Derivative held for risk management

The Bank used external valuators to value the derivative instrument based on the hypothetical derivative method.

The hedged risk is modelled as a derivative called a 'hypothetical derivative'. The hypothetical derivative creates a hypothetical fixed leg on the hedged item. The hypothetical derivative approach calculates a market related fixed leg derived from the swap curve at inception of the hedge. This is the interest rate which ensures that the hypothetical fixed leg is equal and opposite to the floating leg rate (constructed using market related forward rates) and results in the hypothetical derivative having a zero value at inception. The hedging instrument is fair valued at inception and the prospective testing consists of comparing the cumulative change in fair value of the hedging instrument with the change in the cumulative fair value of the hypothetical derivative on a scenario basis in order to illustrate any future ineffectiveness from stress scenarios.

The hypothetical derivative was modelled as a currency swap for the designated period.

The hypothetical derivative represents the allocated notional value of the on-balance sheet term debt. The hedged on-balance sheet debt has a term of at least that of the currency swap, with a profile as indicated in the notional amounts of the hypothetical derivative. The allocated portion of the debt matches the currency swap's term to maturity.

Financial instruments recognised at fair value on statement of financial position

N$

31 December 2013

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative held for risk management	-	-	29,339,201	29,339,201
	-	-	29,339,201	29,339,201

31 December 2012

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative held for risk management	-	-	-	-
	-	-	-	-

During the reporting periods ending 31 December 2013 and 31 December 2012 respectively, there was no transfer into or out of Level 3 fair value measurements nor any fair value measurements exits for Level 1 or 2.

Development
Bank of Namibia
Good business is good for development.

www.dbn.com.na

12 Daniel Munamava Street
Windhoek
Namibia

Tel. + 264 (0) 61 - 290 8000
Fax + 264 (0) 61 - 290 8049
PO Box 235
Windhoek
Namibia