



**COMMERCIAL BANK  
OF NAMIBIA**

*We're about service*



**ANNUAL REPORT 2003**

*Thirty years of service, innovation and  
growth for all stakeholders.*

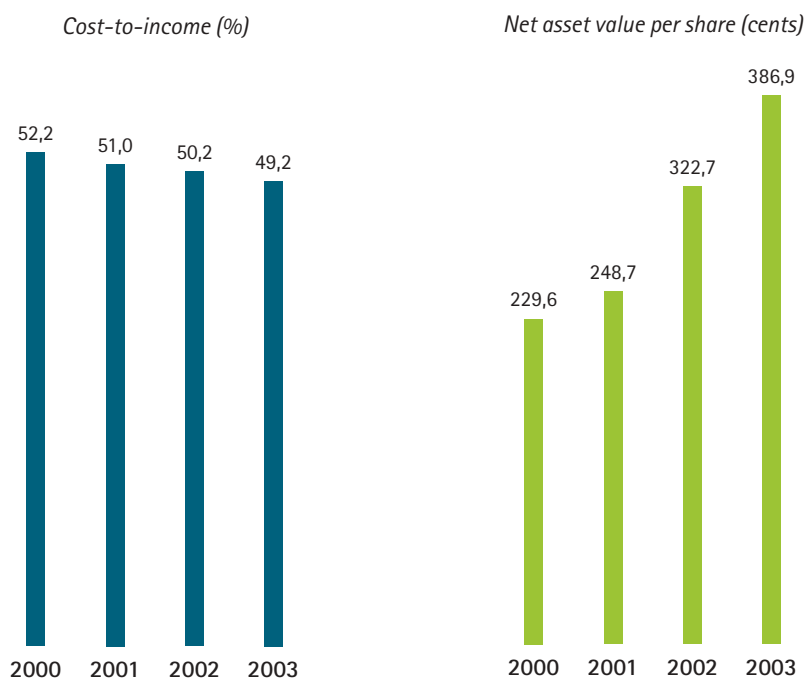
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# highlights

## of the year 2003

- Net asset value per share up 19,9% to 386,9 cents
- Total assets up 7,6% to N\$2,5 billion
- Provisions charged to income reduced by 41,7% to N\$5,4 million
- Cost-to-income ratio reduced to 49,2%
- Earnings per share up 14,7% to 127,9 cents
- Dividends per share up 15,3% to 64,0 cents



**COMMERCIAL BANK  
OF NAMIBIA**

*We're about service*

Over the years, the bank has touched the lives of thousands of

Namibians through its social fund, particularly in the fields of entrepreneurial development, education and health

Namibian artist – J Muafangejo



social  
investment

## Our vision

Our vision is to be the bank of choice.

## Our purpose

We exist to provide quality financial services to our clients.

## Our values

- People – we are a team
- Ethics – we will be honest and trustworthy and will conduct our business with the highest integrity
- Service – we will provide quality service to ensure consistent client satisfaction
- Professionalism – we will meet the challenging standards
- Excellence – we want to excel in what we do
- Innovation – we will be proactive in finding creative solutions

## Our people

Our people are the foundation of our business and our success. Mutual respect, trust and sound interpersonal communication form the basis of relationships between all our people. With ongoing training in the bank's products, systems and services, the principles of teamwork and our values and goals, their skills are continually enhanced, enabling them to operate successfully in a challenging and changing environment.

## Our stakeholders

We focus on achieving sound returns on investments for all stakeholders. Our priority is to provide timely, accurate and relevant information to those stakeholders and the financial press.

## Our communities

Commercial Bank of Namibia has a responsibility to the communities that enable us to conduct business. By focusing on triple bottom-line reporting, the bank makes significant contributions to the sustainable development of entrepreneurial, educational, cultural and conservation activities in Namibia, creating stable employment opportunities and contributing to the economic and social welfare of the wider community.

## The markets we serve

### Corporate, commercial and international banking

By forging personal relationships, we maintain a sharp focus on client needs as markets evolve and needs become increasingly complex. Our proven skills in the corporate and commercial banking market ensure we can accommodate those clients whose size and sophistication demand more advanced products, from trade finance and documentary credit services to foreign exchange, offshore loans, electronic banking and project finance. To maximise convenience for our clients, skilled corporate banking teams are concentrated in Windhoek and at the coast.

### Retail banking

The retail banking division has extensive knowledge and understanding of the differing needs of individual clients. This collective experience is reflected in the development of a comprehensive range of products and services to meet the spectrum of requirements in retail banking. Building on the cornerstone of convenient normal banking services provided to many of our clients, sophisticated and personalised services have been developed for those clients whose needs are more complex. Every client enjoys the direct attention of a personal banker or relationship manager, reflecting our commitment to building lasting relationships. In addition, clients benefit from an increased focus on internet banking.

*The bank's unique Go Green fund in aid of environmental conservation  
captured the hearts of Namibians, raising vital funds  
to protect our natural heritage*

Namibian artist – C Marais



environmental  
**responsibility**

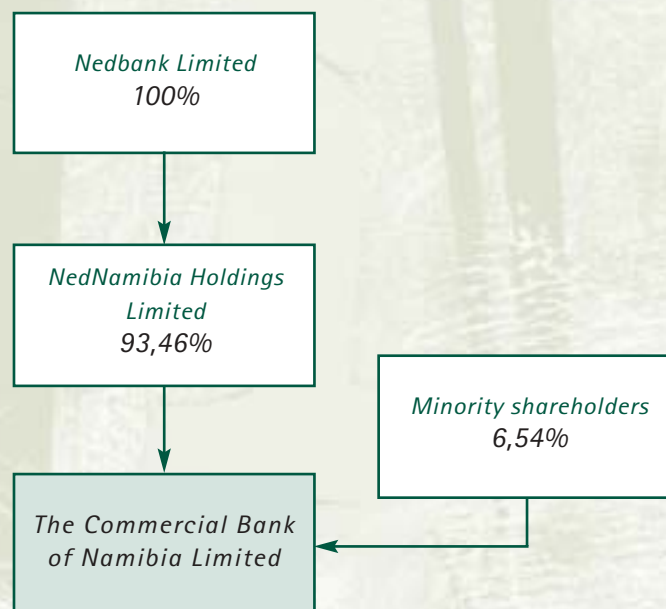
# Our profile

Commercial Bank of Namibia, founded in 1973, is a registered Namibian bank based in Windhoek. Well capitalised by international standards, the bank has assets of N\$2,5 billion. The bank is a uniquely competitive force in Namibia, providing a comprehensive range of domestic and international financial services through 379 staff members in nine branches, two agencies and a corporate service centre. In its 30th year, the bank's service-driven culture continues to be reflected in the commitment of its people to delivering consistent and superior service levels to a growing base of corporate, international and individual clients.

# Our shareholders

Commercial Bank of Namibia's majority shareholder is NedNamibia Holdings Limited (93,46%) which in turn is owned by Nedbank Limited (100%). The balance is held primarily by Namibian citizens.

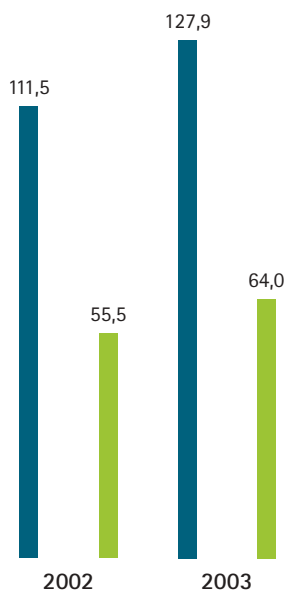
## Shareholder structure of The Commercial Bank of Namibia Limited



# Financial and statistical highlights

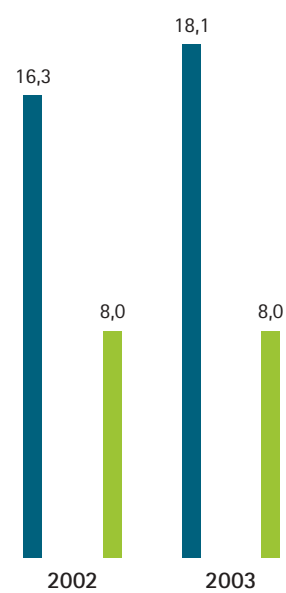
		2003	2002	% increase
<b>GROUP BALANCE SHEET AND INCOME STATEMENT</b>				
Shareholders' funds	(N\$'000)	247 990	206 826	19,9
Total assets	(N\$'000)	2 514 002	2 335 672	7,6
Net income before risk provision and taxation	(N\$'000)	123 652	94 986	30,2
Net income before taxation	(N\$'000)	118 260	85 739	37,9
Net income attributable to ordinary shareholders	(N\$'000)	81 958	71 490	14,6
Dividend – normal	(N\$'000)	41 020	35 572	15,3
Return on average shareholders' funds	(%)	36,0	39,0	
Return on average total assets	(%)	3,4	3,4	
Expenses to total income	(%)	49,2	50,2	
Capital adequacy	(%)	18,1	16,3	
Net asset value per share	(cents)	386,9	322,7	
Earnings per share	(cents)	127,9	111,5	
Dividends per share	(cents)	64,0	55,5	
Dividend cover	(times)	2,0	2,0	
Number of employees		420	373	

*Earnings and dividends per share (cents)*



■ Earnings per share  
■ Dividends per share

*Capital adequacy (%)*



■ Capital adequacy  
■ Statutory

*Internationally, we are connected. An extensive network of foreign resources complements decades of local knowledge and experience to deliver superior services to all our customers*

Namibian artist – N Kapanda



international  
expertise

# Leadership

## Board of directors

for the financial year ended 31 December 2003

Rocco J Rossouw*	<i>Chairman</i>
Michel Vayssié**	<i>Deputy chairman</i>
Pierre Delhaise****	
Vincent MJ de Roux**	
Colin M Drew*	<i>(appointed 20/11/2003)</i>
Stephanus C du Plessis*	<i>Managing director</i>
Theo J Frank (Adv)	
Willem P Frost*	
Christopher J Pearce*	
Rolf H Peters***	
Sipho M Pityana*	<i>(appointed 20/11/2003)</i>
Fanuel Tjingaete (Dr)	
Paul W Weise***	
Resigning directors	
Pierre Delhaise****	<i>(resigned 18/09/2003)</i>
Vincent MJ de Roux***	<i>(resigned 18/09/2003)</i>
Michel Vayssié**	<i>(resigned 18/09/2003)</i>
Paul W Weise***	<i>(resigned 18/09/2003)</i>

\*South African \*\*French \*\*\*German \*\*\*\*Belgian

## Audit committee

Rolf H Peters	<i>Chairman</i>
Pierre Delhaise	<i>(resigned 18/09/2003)</i>
Colin M Drew	<i>(appointed 20/11/2003)</i>
Theo J Frank (Adv)	
Christopher J Pearce	
Fanuel Tjingaete (Dr)	

## Risk management committee

Christopher J Pearce	<i>Chairman</i>
Colin M Drew	<i>(appointed 20/11/2003)</i>
Rolf H Peters	
Joachim Schwalbe	<i>(resigned 11/09/2003)</i>

## Remuneration/nomination and equity/skills retention committee

Rolf H Peters	<i>Chairman</i>
Theo J Frank	
Christopher J Pearce	

## Company secretary

Mechthild Meiring

## Registered office

12 – 20 Dr Frans Indongo Street

Windhoek

PO Box 1, Windhoek

Namibia

Telephone +264 61 295 9111

Telefax +264 61 295 2079

SWIFT CBON NA NX

[www.c-bank.com.na](http://www.c-bank.com.na)

Company registration number 73/04561

## Transfer secretaries

KPMG Corporate Secretaries (Proprietary) Limited

PO Box 30, Windhoek

Namibia

# Senior management

**Qualifications:**  
Executive Development Programme (USB)  
**Banking experience:** 37 years  
**Appointed:** January 1998



**Fanie du Plessis**  
*Managing director (outgoing)*



**Martin Shipanga**  
*Managing director*

**Qualifications:**  
BCom (University of the Witwatersrand); MSc Public Policy & Admin (ISS); Leadership and Management (University of Virginia); Executive Development Programme (Harvard University)  
**Executive management experience:** 10 years  
**Appointed:** January 2004

**Qualifications:**  
Dipl Kfm (Universität Göttingen)  
**Banking experience:** 18 years  
**Appointed:** March 1999\*




**Annette Struchtemeier**  
*Risk Management*



**Christopher Leaf**  
*International Banking*

**Qualifications:**  
Management Advancement Programme (USB); Senior Management Programme (USB)  
**Banking experience:** 20 years  
**Appointed:** March 1999\*

**Qualifications:**  
Senior Certificate  
**Banking experience:** 37 years  
**Appointed:** April 1984\*



**Martin Moeller**  
*International Business Development*




**Peter de Meersseman**  
*Information Technology*

**Qualifications:**  
Project Management (IMLT)  
**Banking experience:** 40 years  
**Appointed:** March 1997\*

**Qualifications:**  
BCompt (Unisa)  
**Banking experience:** 16 years  
**Appointed:** May 1991\*



**Johann Jurgens**  
*Financial Planning and Controlling*



**Urda Rapsch**  
*Operations*

**Qualifications:**  
CAIB (IBSA); Senior Management Programme (USB)  
**Banking experience:** 27 years  
**Appointed:** March 2000\*

\* Reflects appointment to senior management

**Qualifications:**  
 BA Industrial Relations  
 (University of Potchefstroom);  
 Senior Management  
 Programme (USB)  
**Banking experience:** 11 years  
**Appointed:** January 1998\*



**Joern Wiedow**  
*Human Resources*



**Willem Burger**  
*Internal Audit*

**Qualifications:**  
 BAdmin (University of  
 Pretoria); Organisation and  
 Work Study (Technikon  
 Witwatersrand); EMP (USB);  
 Senior Management  
 Programme (USB)  
**Banking experience:** 18 years  
**Appointed:** March 2000\*

**Qualifications:**  
 Senior Certificate  
**Banking experience:** 25 years  
**Appointed:** March 1999\*



**Dorothy Zealand**  
*Retail Banking Support*



**Birgit Hoffmann**  
*Communications and  
 Marketing*

**Qualifications:**  
 BA (University of Cape Town);  
 Industrial Psychology (Hons  
 (Unisa); Senior Management  
 Programme (USB)  
**Banking experience:** 11 years  
**Appointed:** March 1999\*

**Qualifications:**  
 National Secretarial Certificate  
 (Pretoria College for Advanced  
 Technical Education)  
**Banking experience:** 20 years  
**Appointed:** October 2003\*



**Mehti Meiring**  
*Company Secretary*



**Bertus Matthee**  
*Retail Banking*

**Qualifications:**  
 Senior Management  
 Programme (USB)  
**Banking experience:** 25 years  
**Appointed:** April 2001\*

**Qualifications:**  
 BEcon (Fachhoch Schule für  
 Wirtschaft – Berlin);  
 Social Science (Hons)  
 (Freie Universität Berlin)  
**Banking experience:** 22 years  
**Appointed:** October 1997\*



**Werner Thesen**  
*Corporate Banking  
 Coastal Region*



**Kobus Treurnich**  
*Corporate and  
 Commercial Banking*

**Qualifications:**  
 Nedcor Management  
 Advancement Programme (USB)  
**Banking experience:** 31 years  
**Appointed:** December 2002\*

\* Reflects appointment to senior management

# Report of the chairman



Rocco Rossouw  
Chairman

*"Nedbank's increased shareholding is a strong vote of confidence in both the bank and the Namibian economy."*

Globally, the business world is moving through a period of unprecedented change, characterised by governance issues, consolidation and other corporate activity focused often more on pure survival than growth. The financial services industry has not been immune.

Commercial Bank of Namibia is well acquainted with change. In its 30-year history, the bank has successfully met the challenges of different shareholders, different leaders, and even different names. Each time the bank has emerged stronger from change, as results for the year under review prove. The first significant change during the year was the change in shareholding, when Nedbank Limited, through the N\$229-million acquisition of the shares of the other foreign shareholders, increased its stake in the holding company SND Investment Holdings Limited (renamed NedNamibia Holdings Limited in December 2003) from 47,30% to 100%, becoming a 93,46% shareholder of Commercial Bank of Namibia. This is a strong vote of confidence in both the bank and the local economy and reflects Nedbank's desire to broaden its client base and product offering in southern Africa.

The second significant change in the review period was the appointment of the first Namibian to head the bank, effective 1 January 2004. Martin Shipanga is a seasoned businessman, with experience in both the public and private sectors, and we have every confidence in his ability to lead and manage the bank in meeting its business objectives.

## Global trends

The global recovery gained momentum in the second half of 2003 after nearly three years of suboptimal growth. The improvement was due largely to a rebound in the US and remarkable internal growth in China. The US was aided by a massive fiscal boost and a weakening dollar that improved its external competitiveness. Interest rates were also cut to reach levels last seen in the 1950s. Stimulatory fiscal and monetary policies also helped recoveries in other major industrialised countries. Japanese interest rates remained close to zero, while the UK and the EU followed the US example for much of the year. However, these countries started to adopt more conservative policy stances later in the year as fears of deflation receded. The central banks of the UK and Australia raised their base lending rates late last year while the European central bank indicated that monetary policy had done enough and that other policies were necessary to stimulate the European economy.

Strong domestic spending in China emerged as an important driver of global growth in 2003. The emerging giant was also helped by

a currency that was widely viewed as undervalued. Most major emerging markets benefited from the rebound in industrialised countries. Other Asian economies picked up in the second half of last year after the SARS virus severely depressed output earlier in 2003. Added to this, the performance of the major economies in Latin America continued to recover, following the debt and currency crises of 2001.

Commodity prices surged, partly reflecting the impact of a weaker US dollar, but also the acceleration in global growth in late 2003 and growing optimism over the prospects for 2004. Precious metals were particularly strong. The gold price increased by 20% in 2003 as a whole, moving over the level of \$400 per ounce in late 2003, while platinum rose by 35,6% in 2003, breaking the level of \$800 an ounce by December. In late 2003, oil prices also broke through the key level of \$30 a barrel. Coal prices followed oil higher, while prices of base metals and industrial commodities showed modest improvements.

Equity markets rallied in late 2003 on the back of healthy corporate earnings and increasingly bullish economic news. In the US, the Dow Jones and technology-heavy Nasdaq rose by an impressive 25,3% and 50% respectively in 2003, while the S&P500 gained 26,4% over the year. European equity prices followed a similar pattern. Germany's Dax was up 37,6% in 2003, while France's Cac 40 and the UK's FTSE 100 gained 16,1% and 13,6% respectively over the year. Asian markets also performed well, with the Nikkei, Hang Seng and Singapore Straits up 24,5%, 34,9% and 32,5% respectively in 2003.

## Local developments

The effects of the strong currency, as well as a poor agricultural and fishing season, curbed Namibian economic growth to around 3,5% after the weak 2,3% experienced in 2002. The unexpected strength of the South African rand – and therefore the Namibian dollar – offset the positive effects of the international recovery and higher dollar commodity prices, keeping exports in check. The price of Namibia's key commodity, diamonds, rose only modestly in US dollar terms.

Currency strength, however, did have some benefits. Preliminary estimates suggest that inflation fell to its lowest levels in several decades. This enabled a significant easing in monetary policy. Prime lending rates were cut to 12,5% from 17,5%, providing a boost for consumer spending and capital formation. Interestingly, lending to companies rose at a significantly stronger rate than to individuals.

Fishing remained under pressure despite modest increases in the total allowable catches of certain species. However, landings remained well below the levels seen in the late 1990s and even the early 2000s.

## Outlook

Economic growth is generally expected to exceed 4% in 2004. However, much will again depend on the global economic climate, together with climatic and oceanic conditions. If international growth is sustained at current levels, commodity prices and export volumes can be expected to improve further. Structural problems stemming from high debt and a growing current account deficit in the US will ultimately threaten the durability and strength of the current upswing, but the current momentum is expected to be maintained into 2005.

Such a scenario would benefit diamond prices, as over 80% of diamond jewellery is reportedly sold in the US. Diamond production will also continue rising as offshore production is expanded. Equally, other mining production will rise as the large Skorpion zinc mine project reaches full production.

Good early rainfalls have raised hopes that agricultural production will be better in the year ahead. Fishing may also see modest improvements, although total allowable catches are not likely to rise too significantly until more evidence of better stocks accumulates.

Manufacturing growth is likely to be firm in 2004. Meat processing will continue rising as grazing recovers, while there will be increased processing of other agricultural and fish products, provided early indications of improved primary output are confirmed. Efforts to diversify secondary activity will also continue. The recent initiative on beneficiated gemstones provides an example of this trend. Lower interest rates will also support other areas of secondary activity such as construction.

Lower interest rates and inflation will also help the services sector. Although last year's currency strength was not helpful to tourism, increased regional stability and some currency depreciation this year should help.

Against this background, Commercial Bank of Namibia has set ambitious targets for the year ahead. We are confident of achieving these through continuous improvement and the strategies we have in place to meet the challenges of a competitive market.

# Report of the chairman *continued*

## Appreciation

The contribution of our former shareholders, BNP Paribas and DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH), has been considerable and we will continue to benefit from the strong relationships that remain in place. It is with deep regret that we record the passing of Vincent de Roux, our erstwhile BNP colleague.

On behalf of the board, I thank Fanie du Plessis, our outgoing managing director, and pay tribute to the influential role he has played both in positioning our bank as a top-quality organisation and in the seamless transition and integration of the new managing director.

Our people are our lifeblood and our only source of ongoing competitive advantage. The role that each staff member has played in these results is greatly appreciated and I thank you on behalf of the board.



**Rocco Rossouw**  
*Chairman*

Windhoek  
27 February 2004

*Personal relationships are the lifeblood of our bank and a cornerstone  
of our success in a competitive market. We will  
continue to build on our relationships with all  
stakeholders*

Namibian artist – J Madisia



personal  
relationships

# Report of the managing director



Fanie du Plessis  
*Outgoing managing director*

*"In my term as managing director, the bank has made good progress on many fronts because of the support and loyalty of all our stakeholders."*

## Introduction

The year to 31 December 2003 was characterised by the continued success of Commercial Bank of Namibia's unique Go Green product range, which again exceeded expectations. Since inception in October 2001, the Go Green suite has offered clients innovative product options – from home loans to financial management tools – while supporting conservation in Namibia. At the time of writing, some N\$600 000 had been committed to selected conservation projects, almost double the figure for the year to 31 December 2002.

The potential of the bank's entry into the microlending market in the previous period was confirmed during the year with good growth and progress recorded in this area.

Our consistent focus on customer service has underpinned the bank's steady growth over the years. Since Namibia celebrated its independence in 1990, the bank's asset base has grown from just N\$371 million to N\$2,51 billion at year-end.

In my final report, I am very pleased to review a year in which the bank again made significant progress towards its goals and recorded excellent performance in many areas. In its 30th year, Commercial Bank of Namibia is a strong and diverse bank, proud of our reputation for professional service and adding value for customers in the markets in which we operate.

## Financial results

Commercial Bank of Namibia recorded strong results in a year during which the industry was subjected to the dual impact of decreasing interest rates and a strong currency, reflecting the bank's ability to compete effectively in challenging markets.

Net income before tax rose 37,9% from N\$85,7 million to N\$118,3 million. Net income attributable to ordinary shareholders rose by 14,6% from N\$71,5 million to N\$82,0 million. The increase in the tax rate was the result of a decrease in the taxation allowances claimable during the period under review.

Shareholders' funds increased 19,9% from N\$206,8 million to N\$248,0 million, giving the bank a capital adequacy ratio of 18,1%, well above the stipulated level of 8,0% and above international standards.

While expenses increased by 25,0% to N\$119,6, they were well controlled. The increase was primarily due to refurbishment costs and the full impact of microloan administration costs. The cost-to-income ratio decreased to 49,2%, well within industry averages for southern Africa.

The stringent focus on effectively managing credit risks continued, maintaining the quality of the bank's balance sheet throughout the year. All known doubtful debts have been adequately provided for.

The directors have recommended an increased dividend of 64,0 cents per share for the year (2002: 55,50 cents per share), reflecting their confidence in the bank's prospects. The dividend is covered 2,0 times.

### Customer service

The bank has a proven reputation for superior service, confirmed by positive customer feedback and independent market research, which specifically highlighted the level of trust that exists between our customers and our people. The customer service council, comprising senior executives, monitors service levels throughout the bank to ensure a bank-wide culture of service awareness. Service levels across the bank continue to improve, but to entrench the bank as the undisputed leader in the customer service field in Namibia, this dynamic process will receive even more management attention in the coming year.

### Risk management

Risk management is decentralised to branches and relevant departments to continuously improve our service. Customers benefit from rapid turnaround times on advances applications, while the bank benefits from expert risk management specialists at each site.

During the year, and in line with prevailing economic conditions and changing customer requirements, the bank's credit policy was further refined and the credit decision process enhanced. Commercial Bank of Namibia is well prepared for the introduction of new regulations from the Central Bank, which will enhance governance structures in the ultimate interest of consumers. The implementation of advanced technology, which reinforces risk management structures, security and accuracy, will fully support compliance with Bank of Namibia requirements.

### Retail banking

The retail banking division recorded commendable results for the year, with strong growth in the home loan and instalment sale finance areas of 35% and 11% respectively, key income streams for longer-term growth. These results reflect innovative product development, supported by exceptional media coverage and marketing, and ever-increasing acceptance of the Go Green product range.

The Saambou microlending book, acquired in the previous period and administered by Finance in Education (Proprietary) Limited (FinEd), has delivered excellent results in its first full year as a 60%-held subsidiary. This business has enlarged the bank's customer base primarily with the employees of large corporations and the public sector, and all loan repayments are via salary deduction. FinEd has made significant progress with the collection of the Saambou portion of its portfolio. New business volumes are strong and comply with the more stringent government criteria on payroll deductions, a policy we fully support in the interests of sustainable personal financial responsibility.

Collectively, Go Green, FinEd and intensive marketing meant that processing volumes in the division increased significantly during the year. However, robust systems and strengthened and highly-trained teams ensured that customer service was uninterrupted. Continual improvements to our systems and the development of our people will enable the bank to deliver on its promise of superior customer service.

The relationship management concept, a first in our industry at the time, continues to deliver material results, differentiating the bank in a competitive market. Customers benefit as relationship managers, personal bankers and business bankers provide a single point of supply and superior service to their respective portfolios of individuals and businesses, supported by trained back-office and risk management teams.

During the year, the Swakopmund branch was completely refurbished, providing an attractive and secure environment for customers and staff. Partial refurbishments were completed at the Keetmanshoop and Lüderitz branches. The bank's bureaux de change in Windhoek and Swakopmund remain unique in Namibia, offering maximum customer convenience with some of the longest trading hours in the industry, zero commission charges and a free e-mail service, securely managed by bank personnel.

Information technology enhancements in 2004 are expected to improve efficiencies and risk management further, supported by intensive training and development initiatives. The retail banking division is well placed to continue gaining market share in the new financial year.

### Electronic banking

The electronic banking service again expanded its base of customers during the review period, particularly in the corporate sector. Customers benefit from sophisticated electronic services and

# Report of the managing director *continued*

facilities in conducting a broad range of domestic and foreign banking transactions conveniently from their premises, and the most advanced security features available. Because electronic banking is an inherently dynamic facility, ongoing improvements and enhancements will maximise the convenience for our clients and keep services affordable. With a strengthened team in place, the unit is projecting continued growth in the new financial year.

## Corporate and commercial banking

The corporate/commercial banking division recorded a mixed, but acceptable, performance for the review period in challenging and competitive trading conditions. Against intense pressures, particularly in the Namibian export-related industries, the division concentrated on consolidating its position and on the quality of business. The division has recently expanded its focus to include smaller companies with excellent growth potential, replicating the professional expertise and service that have entrenched it with large corporate customers.

By focusing on superior risk assessment, product innovation, competitive pricing and valued advisory services, the division is well positioned to capitalise on a more buoyant business environment.

## International/treasury

In the final quarter of the review period, the international and treasury departments were restructured and merged for greater efficiency and productivity.

The international operations recorded improved results for the year, despite the impact of currency strength. Excellent progress was made in complying with the new Bank of Namibia reporting system which is designed to collect data to enhance the compilation of the balance of payments and cross-border flows between residents and non-residents.

The international unit offers advisory services to customers using foreign currency accounts, short-term trade finance products, revolving trade finance, letters of credit and specialised international finance capabilities. Through our global correspondent banks, we continue to enhance our proficiency in world markets and have developed the capacity to play a proactive advisory role in a changing regulatory environment.

Money market activities produced good results for the year, capitalising on prevailing economic conditions in a declining interest rate environment. Sales of short-term treasury bills were

again higher than the previous period. Treasury operations, however, were affected by a difficult economic environment and currency strength which had a marked negative impact on Namibian export-related industries.

The new real-time interbank settlement processor for the Namibian banking industry continues to provide major benefits for large customers and has increased liquidity in the domestic interbank market.

The foreign exchange corporate desk continues to enhance the delivery of services to customers. The desk also reinforces the bank's marketing activities by continually identifying new business opportunities. A new technology platform for foreign exchange has produced the expected improvement in efficiencies, cost savings and productivity.

## Information technology

Considerable capital expenditure on information technology in recent years is producing the anticipated benefits of faster communication flow, productive information management and enhanced computer literacy among all our people. Ongoing training focuses on giving employees the skills to maximise the benefits of our technology platform and further our aim of a paperless workplace.

Final testing is under way for an advanced electronic document imaging and workflow system that will considerably streamline front-end processes, reduce costs and enhance customer service. Commercial Bank of Namibia will be one of the first banks in the country to employ such sophisticated technology.

In collaboration with other banks in Namibia, much progress has been made on several projects that will catapult the domestic banking industry into a regional leadership position.

## Internal controls

By using the early warning system of control and risk self-assessment (CRSA), the bank's internal audit function conforms to accepted international standards of corporate governance. The CRSA method proactively reinforces traditional auditing methods of substantive testing and workflow-related controls by making functional management and staff responsible for ongoing control of identified and potential bank exposures.

The CRSA system focuses on key business risks and critical controls. It is a dynamic process that is constantly refined and enhanced, and enjoys the full support of management and the board of directors.

During the year, routine audit coverage was significantly expanded to include the new subsidiary, FinEd. The controls and processes at FinEd will be further strengthened with the introduction of CRSA processes early in 2004. To augment routine audits, the review period was characterised by a marked increase in the number of ad hoc audits performed by the unit. The significant increase in unscheduled audits resulted in heightened awareness, improved disciplines and processes and higher levels of adherence to internal controls.

A proactive forensic audit and investigations unit focuses on crime-related and non-operational losses within the bank. This unit continues to enhance fraud awareness among staff, effectively combating crime while entrenching relationships with external security parties.

## Operations

This division manages all the organisational, security and internal service requirements of the bank. As a centralised function, the division liaises with the bank's main shareholder, Nedbank, on system-related issues and with all other bank divisions in ensuring seamless operational performance. During the year, the division was responsible for a broad range of additional activities, from co-ordinating projects on automating workflow processes, to business continuity planning and branch renovations. The division also houses the bank's security division, which boasts one of the leading security systems in the country, and is responsible for emergency response and disaster recovery planning.

## Human resources

In line with the guidelines of the second King report on corporate governance, a remuneration committee was established during the year, comprising three non-executive directors. The managing director and the senior manager: human resources attend by invitation.

During the year, Commercial Bank of Namibia rated well in the first industry-wide banking salary survey in Namibia. In line with the bank's commitment to attract and retain the calibre of people who underpin its success, staff benefits were again improved to be even more competitive in the industry.

The employee assistance programme, a confidential and anonymous service introduced during 2003, is being utilised to a high degree by the bank's staff members who benefit from counselling on a broad range of issues.

The bank's policy and programme on HIV/Aids were further developed during the year, and initial training was conducted for

management and peer educators. The bank also signalled its social commitment by becoming a member of the Namibian Business Coalition on Aids, a private sector initiative focused on prevention programmes, awareness and incentives.

The consultative process of the employee representative and affirmative action forum continues to enhance communication levels and is becoming a constructive vehicle to address common concerns. Progress made in terms of the bank's affirmative action programme is periodically reported on and discussed.

Throughout the bank, training focuses on meeting customers' needs through superior service and detailed product knowledge. Our local and international training programmes continue to keep our people abreast of domestic and international developments. During the year, some 20% more staff members received training compared to the previous reporting period. These training sessions included software, management development, skills and customer service training. The total budget expenditure allocated to training for the 2003 financial year, as a percentage of payroll, amounts to 2,34%.

Commercial Bank of Namibia is also participating in the industry initiative to develop formal banking courses that will be recognised by the National Qualifications Authority.

The bank's multi-faceted approach to personal growth comprises leadership development programmes as well as apprentice and trainee programmes for school leavers from disadvantaged backgrounds. Together with bursaries for our own people, their children and capable disadvantaged students, we are building skills that will enable us to continually improve our customer service levels. To date, the bank has awarded 16 bursaries to gifted youths from disadvantaged backgrounds for studies at tertiary institutions.

December 2003 marked the end of the first three-year progress report on affirmative action goals achieved during the period, as required by law. The bank recorded commendable progress in most categories. Our long-standing and proactive policy on equal employment opportunities is reflected in the current staff complement of 379 people, which includes 96% affirmative action candidates. At managerial level, the figure is 52%.

A system of performance agreements that complements our performance appraisal system continues to produce good results. Superior performance is recognised with both formal as well as informal awards to staff members.

# Report of the managing director *continued*

## Communications and marketing

Brand building remains an ongoing and dynamic focus, given the small, competitive market in Namibia. Independent market research has highlighted the bank's many strengths and areas that need attention are being addressed. The year was characterised by extensive media coverage of developments at the bank and the progress made by projects supported by our Go Green and social investment funds. Concerted marketing of the Go Green range resulted in another record year for home loan sales. The bank's focused and long-standing corporate sponsorships also help maintain its profile in the Namibian market. The bank's annual cycle tour, now in its 18th year, attracted record entries in 2003, with participants welcoming the online entry facility for 2004. We also enter into numerous business and professional sponsorships to maintain our profile in selected markets.

Our website continues to attract more visitors by adding value through innovative and useful features, and is considered one of the best in the country. Visitors to the site more than trebled during the review period to a monthly average of over 50 000.

## Social investment and conservation

Commercial Bank of Namibia has a long-standing and formal social investment programme. From a broad-based approach in the 1990s, the social investment fund now makes a meaningful contribution to projects that develop sustainable self-sufficiency and result in a positive contribution to the national economy in the fields of entrepreneurial development, education and health. At all times, we favour projects where recipients will learn new skills and practices, in turn passing this knowledge on to others.

In five years, the bank has touched thousands of Namibians directly and thousands more indirectly in the belief that every person who develops marketable skills – from subsistence farming to tertiary education – is one more who can be integrated into formal and informal job markets.

The bank has a formal model in being a responsible corporate citizen – aligned with the definition of sustainable development by the World Business Council for Sustainable Development: *development that meets the needs of the present without compromising the ability of future generations to meet their own needs.*

By forming partnerships, we learn more from every project, and from every facilitating organisation we deal with. These lessons underpin constant refinements to our criteria for support, which, in turn, raise the probability of success and ensure that we reach our goal of building capacity.

Social investment expenditure 1996 – 2004 (%)



Grants	30,0%
Loans	36,5%
Bursaries	33,5%

The bank's social initiatives also encompass cultural development by supporting Namibian events ranging from theatre productions and musical recitals to awards for talented young playwrights. By supporting local artists, the bank continues to play an important role in building national pride in a young democracy.

## Progress

To date, we estimate we have reached over 5 000 people directly, enabling people predominantly in disadvantaged communities to earn their income with dignity, and contributing to the reduction of poverty. Clearly, the indirect benefits are harder to quantify.

Highlights of the year include:

- Launch of a formal staff involvement programme
- Year-long sponsorship of Namibian Youthpaper – distributing educational material to schools countrywide
- Support for Ehafo Trust – furnishing four classrooms and creating jobs for handicapped people
- Over 760 gifts collected for Aids orphans countrywide – a first in Namibia
- Development loans and grants worth close to N\$800 000 disbursed
- Five bursaries awarded (16 to date)

## Conservation

As part of the bank's commitment to sustainable development, the Go Green fund was launched in 2001. It is a non-profit fund in aid of environmental conservation and the first of its kind in Namibia. Go Green is funded by contributions from the bank for each product sold from its Go Green suite, which currently includes innovative home loans, vehicle finance options and financial management products for discerning investors.

Go Green focuses on projects that:

- Support the conservation, protection and wise management of important habitats and indigenous plants and animal species
- Enhance the understanding of indigenous species and natural ecosystems, specifically where this relates to an urgent conservation problem
- Promote the efficient and appropriate use of natural resources to ensure sustainable long-term use
- Promote and distribute accurate information on environmental issues and parameters to the nation at large

## Progress

From an initial contribution of N\$50 000 in 2001, the Go Green fund has captured the hearts of Namibia's people and over N\$600 000 has been pledged to date.

Highlights of our progress

- An increase in the Damara tern breeding tempo was noted, with 179 recorded nests in the 2002/3 season, compared to 150 in the previous breeding season
- Six black mongooses have been collared and data has been collected on home ranging, diet and general behavioural ecology of the species – a first in Namibia
- In a worldwide first, 11 Cape Griffon vultures in Namibia will be fitted with satellite transponders to track their movements and identify imminent threats to their health, breeding sites and foraging areas. The bank has sponsored one of the vultures
- At the vulture aviary and restaurant, record numbers of lappet-faced vultures and white-backed vultures are being sighted
- Farmers are being educated about alternative methods of managing predators instead of using lethal chemicals
- A range of education initiatives is reaching learners around the country and at different levels
- The brown hyena project is researching and investigating the effects of mining activities on the hyena population on the southern coastal Namib Desert

## Appreciation

In my term as managing director, the bank has made good progress on many fronts because of the support and loyalty of all our stakeholders and the consistent guidance of our directors. I thank every one of you.

I welcome the bank's new managing director, Martin Shipanga, and a new era for the bank that started 30 years ago as the first bank for Namibians. Now that same bank is staffed by Namibians, for Namibians, and headed by a Namibian, I am confident that the bank's future is, indeed, promising.



Fanie du Plessis  
*Outgoing managing director*

Windhoek  
27 February 2004

# Message from the managing director



Martin Shipanga  
Managing director

*"We enter a new era as a truly Namibian bank, energised about our future and never satisfied with our achievements."*

As Namibia enters an era of economic stimulation, the importance of a very strong banking system comes to the fore. Joining the bank at this time is, therefore, both challenging and exciting given the multiplier effect that economic growth has on the quality of life of every citizen.

There are certain values that are immediately apparent in Commercial Bank of Namibia: a focused team approach, deep concern for clients, professionalism and trust. These are values I readily identify with. They are values that will guide the bank as we move forward into a new era as a truly Namibian bank, energised about our future and never satisfied with our achievements.

Commercial Bank of Namibia has a reputation for being an excellent bank. This is evident in the bank's results, which reflect strong and prudent management. It is also evident in the bank's growing customer base, which in turn reflects the calibre of the people in the bank. Again, these are elements I can identify with.

The bank also has a reputation for caring – beyond customer service. This is reflected in the active community development programmes supported by our social investment fund, by the support of our customers for the unique Go Green fund and by the commitment of our own people who give of their time and expertise to support projects currently under way – from seed growing to vulture tracking. While the bank has been a responsible corporate citizen for many years, we have now embraced the concept and practice of sustainable development or triple bottom-line reporting (economic, social and environmental). We have made excellent progress in our triple bottom-line reporting, but from next year, we will report to stakeholders in line with the guidelines of the Global Reporting Initiative – a long-term, multi-stakeholder, international framework on sustainability reporting.

Commercial Bank of Namibia has one of the strongest balance sheets in the industry, three decades of local expertise and knowledge, a strong regional shareholder that offers both autonomy and an extensive network of resources and a strategy of continuous improvement – people, products, processes and service. That's a formula I can readily identify with.

Combined, the bank's strengths make it a formidable competitor in the Namibian financial services market for individuals, corporations and the public sector. I'm proud to be part of this team because the commitment to service and excellence is the very foundation of the bank. It's a team that should be closely watched as we deliver on our promise of service, innovation and excellence.

A handwritten signature in black ink that reads "Shipanga".

Martin Kalie Shipanga  
Managing director

*Our clients value the quality of advice and confidential service they  
receive from our bank – attributes that distinguish us  
in the Namibian market*

Award-winning Namibian commission – H McGregor



trusted investment  
advice

# Group value added statement

	2003 N\$'000	%	2002 N\$'000	%
<b>VALUE ADDED</b>				
Value added is the wealth created by the group through the provision of services to clients				
Interest income and non-interest revenue	410 307		336 812	
Interest paid and other expenditure	228 038		197 194	
	182 269		139 618	
<b>VALUE ALLOCATED</b>				
<b>Employees</b>				
Salaries, wages and other benefits	57 393	31	48 592	35
<b>Government</b>				
Taxation	35 322	19	14 249	10
<b>Shareholders</b>				
Dividends	35 572	20	24 035	17
<b>Retentions for expansion and growth</b>				
Retained Income	47 366		47 455	
Depreciation	6 616		5 287	
	182 269	100	139 618	100

Value added 2003



■ Employees	31%
■ Government	19%
■ Shareholders	20%
■ Retentions for expansion and growth	30%

Value added 2002



■ Employees	35%
■ Government	10%
■ Shareholders	17%
■ Retentions for expansion and growth	38%

# Corporate governance report

## Corporate governance and risk monitoring

The directors endorsed and, during the period under review, have principally applied the code of corporate practices and conduct as set out in the King II report on corporate governance. By adhering to the code, the directors have recognised the need to conduct the affairs of the bank with integrity and in accordance with generally accepted corporate practices. The board will, during the next financial year, ensure ongoing compliance to support the code. The compliance function is in the process of being formalised in the bank to centralise enforcement and monitoring. Compliance reports are submitted to the board via the audit committee each quarter.

## Corporate governance framework

The key features of Commercial Bank of Namibia's corporate governance process and incorporation of the code are included in the board-approved corporate governance framework presented on page 28 and 29.

Vital elements of the framework and the corporate governance process in this bank are the interaction between management and non-executive directors and the significant emphasis, resources and structure given to independent management functions to champion corporate governance on a day-to-day basis and proactively assist the board, board committees and individual non-executive directors with corporate governance responsibilities.

## Financial statements

The directors are responsible for the annual financial statements which are prepared in accordance with Namibia Statements of Generally Accepted Accounting Practice. The accounting policies used are consistently applied, appropriate and supported by reasonable and prudent judgement and estimates. The directors ensured that the financial statements fairly present the state of affairs of the bank as at the financial year end and the results for the year under review. The external auditors are responsible for independently reviewing and reporting on the fair presentation of these financial statements.

## Board of directors

The board of directors presently comprises eight non-executive and one executive director who have a wide range of different skills and experience that they bring to bear for the benefit of the bank. In appointing directors, emphasis is placed on retaining the

balance of skills necessary for achieving the bank's strategic objectives. Following the change in shareholding, the composition of the board is currently being reviewed.

The board is responsible to shareholders for setting the direction of the bank through the establishment of objectives, strategies and key policies. It monitors the implementation of its strategies and policies through a structured reporting approach, accepts accountability and recognises its responsibility for relationships with its various stakeholders.

The non-executive directors are actively involved in board deliberations and discussions and bring independent judgement to the board. The chairman has significantly more involvement in the bank than other non-executive directors. The level of involvement is considered necessary for the provision of adequate guidance and input, but does not constitute the exercising of executive powers.

Formal written terms of reference of directors (board charter) were introduced to ensure that all board members acting on behalf of the bank are aware of their duties and responsibilities as members of the board and that applicable legislation and regulations affecting their conduct are clearly understood and to ensure that the principles of good corporate governance are applied in all dealings on behalf of the bank. All directors have signed the terms of reference, confirming that they have understood the contents and agreeing to be bound by those terms.

The board meets quarterly and retains full and effective control over the bank. The following board committees exist to assist the board in discharging its responsibilities:

- Audit committee
- Risk management committee
- Remuneration/nomination and equity/skills retention committee

All directors have access to the advice and services of the company secretary.

With the exception of the managing director, all directors retire by rotation and, if eligible for re-election, submit their names for election at the annual general meeting. The board as a whole approves the appointment of new directors. The retirement age for the managing director is 65, while a non-executive director is required to retire at age 70.

# Corporate governance report *continued*

## Attendance of meetings

	Board	Audit committee	Risk management committee	Remuneration/nomination and equity/skills retention committee
Meetings held	4	4	4	3
Attendance:				
Rossouw RJ (Chairman)	4			
Vayssié M* (Deputy Chairman)	3			
Delhaise P**	3	0		
De Roux VMJ*	2			
Drew CM***	1	0	0	
Du Plessis SC	4			
Frank TJ (Adv)	4	3		2
Frost WP	4			
Pearce CJ	4	4	4	3
Peters RH	4	4	4	3
Pityana SM****	1			
Tjingaete F	2	1		
Weise PW*	3			
Schwalbe J*****			3	

### Board of directors

\* (resigned 18/09/2003)  
 \*\* (resigned 18/09/2003)  
 \*\*\* (appointed 20/11/2003)  
 \*\*\*\* (appointed 20/11/2003)

### Audit committee

\*\* (resigned 18/09/2003)  
 \*\*\* (appointed 20/11/2003)

### Risk management committee

\*\*\* (appointed 20/11/2003)  
 \*\*\*\*\* only member of the risk management committee (resigned 11/09/2003)

## Directors' interest in the company

As at 31 December the directors' interest in shares in the company were as follows:

	2003	2002
<b>Beneficial</b>		
<i>Direct</i>		
SC du Plessis	149 500 shares	149 500 shares
TJ Frank	10 000 shares	10 000 shares
F Tjingaete	1 000 shares	1 000 shares
<i>Indirect</i>		
RH Peters	243 667 shares	243 667 shares

## Non-beneficial

<i>Direct</i>		
P Delhaise	100 shares	100 shares
VMJ de Roux	100 shares	100 shares
WP Frost	100 shares	100 shares
CJ Pearce	100 shares	100 shares
M Vayssié	200 shares	200 shares
<i>Indirect</i>		
	–	–

## Directors' fees

Directors' and board committee fees are paid quarterly. Board committees are categorised as "A" and "B" committees.

The following directors' and board committee fees were paid for the financial year 2003:

### Annual directors' and board committee remuneration

	Chairman (fees per annum)	Members (fees per annum)
Directors' fees	N\$72 000,00	N\$36 000,00
"A" committee fees	N\$48 000,00	N\$24 000,00
• Audit committee		
• Risk management committee		
"B" committee fees	N\$36 000,00	N\$18 000,00
• Remuneration/nomination and equity/skills retention committee		

## Director qualifications

Commercial Bank of Namibia's board members have the following qualifications:

Names	Qualifications
RJ Rossouw	Adv Management Programme; BCom; Bankers Dip
CM Drew	BCom; LLM; CA(SA); PG Dip Acc
TJ Frank	BA Law; LLB; Dip in Business Management; Certificate in Tax Law
WP Frost	BCom (Hons); MBA
CJ Pearce	BCom; CA(SA); AMP (Harvard)
RH Peters	BCom; BCompt (Hons); CA(SA); CA (Namibia)
SM Pityana	BA (Hons); MA Politics and Sociology
MK Shipanga	BCom; MSC Public Policy and Administration; Leadership and Management (University of Virginia); Executive Development Programme (Harvard University)
F Tjingaete	Master's degree and doctorate in Economics

## Director development and board evaluation

All non-executive directors, on appointment, are appropriately familiarised with the operations of the bank, senior management and the business environment and, where relevant, inducted in terms of their fiduciary duties and responsibilities as well as matters specific to the board.

The board adopted a self-evaluation plan in 2003. A questionnaire was completed by all board members and a full board assessment will be done early in 2004.

## Audit committee

The audit committee has written terms of reference that have been approved by the board of directors. It presently comprises five non-executive directors. Internal audit and the external auditors have unrestricted access to the chairman of the committee. It meets periodically, at least four times a year, to review the annual financial statements and accounting policies, interim results, the effectiveness of management information and assurances provided by management, internal and external auditors on other systems of internal controls, including the internal audit function, and to assess the external auditors' reports. The audit committee reports to the board of directors.

## Internal audit

The objective of the internal audit function is to assist the managing director and the audit committee on the effective discharge of their responsibilities by performing an independent appraisal activity of the bank's management controls, with the full co-operation of the managing director and the board of directors. By virtue of its mandate, any material or significant control weakness that may be identified from time to time is brought to the attention of the managing director and the audit committee for consideration and the necessary remedial action.

## Internal control

For the board to discharge its responsibilities to ensure the accuracy and integrity of the financial statements, management has developed and continues to maintain adequate accounting records and effective systems of internal controls. The board has ultimate responsibility for the systems of internal controls and reviews their operation primarily through the audit committee and various other risk-monitoring committees.

As part of the system of internal controls, the internal audit function conducts operational, financial and specific audits and co-ordinates audit coverage with the external auditors.

The internal controls include risk-based systems of internal accounting and administrative controls, designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the bank's policies and procedures. These internal controls are based on established and written policies and procedures and are implemented by trained, skilled staff with an appropriate segregation of duties, are monitored by management and include a comprehensive budgeting and reporting system, operating with strict deadlines and an appropriate control framework that has been developed in accordance with the bank's activities. Internal control issues are regularly discussed with the managing director and at board level.

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 independent auditors concur with the above statement by the directors.

## Risk management committee

The risk management committee is a supporting committee of the board. Its objective is to monitor the management of risks, thereby ensuring the overall effectiveness of the process of corporate governance. It meets at least four times a year to monitor aspects of operations involving risks such as credit risks, asset and liability management risks, operational risks and any other material risks not covered by the audit committee. The risk management committee reports to the board of directors.

# Corporate governance report *continued*

## Risk monitoring

In the course of normal business operations, the bank is exposed to a number of risks, the most significant of which are credit risk, interest rate risk, liquidity risk, currency risk, operational risk and solvency risks. These risks are managed through a comprehensive framework encompassing infrastructure, policies and methods that support active and effective control as well as compliance with regulations laid down by the authorities.

A credit committee has been established in the bank to approve all third-party risks including sovereign and counterparty risks within a prescribed limit as delegated by the board of directors. The credit committee meets regularly and reports to the board of directors via the risk management committee.

An operational risk committee (ORCO) has been established in the bank to manage the full spectrum of risks to which each individual division is exposed and to ensure that, as a minimum, all material risks are identified, measured, evaluated, managed effectively and reported on. ORCO meets monthly and reports to the board of directors via the risk management committee.

## Asset and liability management

The effective management of risk is critical to the success of any financial institution. The asset and liability committee (ALCO) strives to ensure that acceptable levels of financial risk, excluding credit and operational risk, are identified, understood and effectively managed, while achieving the strategic and financial objectives of the bank.

The committee meets monthly or more frequently, should changing interest rates require it to do so, and reports to the board of directors through the risk management committee.

## Credit risk

Credit risk is the risk of financial loss resulting from failure of a debtor for any reason to fully honour its financial or contractual obligations. The credit department assesses all exposures and monitors the implementation of the bank's credit policy to ensure that the extension, control and maintenance of credit, as well as the process of providing for and writing off of bad debts is executed in a proper way and within laid-down policy.

## Interest rate risk

Interest rate risk can be defined as the exposure of the bank's net interest income to adverse movements in interest rates and arises as a result of mismatches in the term characteristics of assets and liabilities.

Interest rate risk is assessed through the use of traditional gap analysis techniques. Gap analysis measures the volumes of assets and liabilities subject to repricing within a given period. For this purpose, assets and liabilities are classified according to their contractual repricing characteristics. Through the use of balance sheet stress testing and net interest income scenarios, the impact of interest rate movements and risk concentrations can be measured and identified. Strategies are then developed for mitigating such risks.

## Liquidity risk

Liquidity risk is defined as the potential inability of the bank to raise funds at market-related prices to meet commitments as they fall due, or to satisfy client demands for funds. By monitoring the maturity profile of the current balance sheet as well as the expected future structure, ALCO is proactively monitoring this risk and is able to manage any potential mismatches.

## Currency risk

Currency risk is the potential change to the value of financial instruments denominated in foreign currency due to exchange rate movements. The exchange rate movements are continuously monitored by the treasury department and dealers operate within pre-approved limits based on their knowledge, expertise and experience.

## Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Effective operational risk management enhances and protects shareholder value, specifically against unexpected or unwanted events. The management of operational risk is based on a system of internal controls. This system includes a documented organisational structure with policies, procedures and reasonable segregation of duties that are communicated throughout the bank.

The corporate governance framework for operational risk management includes monitoring bodies such as the audit committee and internal audit, the risk management committee, the remuneration/nomination and equity/skills retention committee as well as the internal operational risk committee (ORCO). Line management is responsible for the day-to-day management of individual operational risks. Senior management holds collective responsibility for all aspects of risk management including operational risk.

## Solvency risk

Solvency risk is defined as the inability of the bank to pay its debts in full. The board and management, as well as banking regulators, monitor this risk through the assessment of capital adequacy. The internal requirements of the bank are substantially more conservative than those imposed by the regulating authorities.

The internal controls in place are designed to provide assurance that transactions, records and management information are complete, valid and accurate, and that business objectives will be achieved. This internal control system is supported by a control self-assessment methodology, which enables line management to integrate control responsibilities with each job function and to ensure that supervisory controls are effectively applied.

Internal audit independently and continuously monitors the adequacy, appropriateness and effectiveness of these internal controls and reports its findings to management and the audit committee.

### Remuneration/nomination and equity/skills retention committee

A remuneration/nomination and equity/skills retention committee was established to assist the board in the discharge of its duties and responsibilities. The committee operates in terms of a mandate approved by the board and its primary objectives are to:

- ensure that the right calibre of executive and senior management is attracted, retained, motivated and rewarded appropriately for individual performance and contribution to the performance of the bank.
- develop and implement a competitive human resources strategy to ensure that the company is able to attract, retain and develop the best possible talent in terms of guidelines provided by the equity commissioner and affirmative action initiatives to support superior business performance.
- ensure that a balanced board structure is established and maintained to ensure proper and effective functioning of the board.

The remuneration/nomination and equity/skills retention committee comprises three non-executive directors and is chaired by a non-executive director. The managing director is not a member of the committee but attends all meetings. The committee meets quarterly.

The committee reports to the board of directors.

### The new Basel Capital Accord (Basel II)

Basel II is an update of the 1988 accord, which was adopted by more than 100 countries worldwide. The new Basel II regulations aim to improve the safety and soundness of the financial system by aligning capital adequacy assessment much more closely with the underlying risks (and introducing a capital charge for operational risk) in the banking industry, providing a thorough supervisory review process and enhancing market discipline through significantly increased risk disclosure.

The implementation of the new Basel Capital Accord (Basel II) is not compulsory in Namibia. However, local banks are free to implement Basel II, provided that they comply with the requirements of the Banking Institutions Act, Act 2 of 1998 and other legislation in Namibia.

Basel II is a long-term project, the implementation of which has to be finalised by 2007. Under the guidance of Nedbank, the bank is presently in the process of comprehensive planning and preparation for the applicable implementation of Basel II in the bank.

### Going concern

The directors have no reason to doubt that the bank has adequate resources to continue in operational existence for the foreseeable future. The going concern basis in preparing annual financial statements is therefore considered appropriate. The independent auditors concur with this statement by the directors.

### Affirmative action

The bank's affirmative action policy has been in place for several years and complies with legislation in Namibia. It is a carefully planned, managed and monitored process, incorporating proactive strategies aimed at transforming the employment environment within the bank. These mechanisms provide for the recruitment, development and promotion of competent individuals, especially those from previously disadvantaged groups, for such persons to gain access to opportunities based on their suitability, while also ensuring the maintenance of core standards within the organisation.

### Values and codes of conduct

#### Code of ethics

The bank is committed to a policy of fair dealing and integrity in the conduct of its business. To this end, the bank has adopted a code of ethics, governing among others, the bank's conduct regarding its relationships with clients, competitors, suppliers, employees, shareholders and the community. All directors, managers and employees have signed the code, committing themselves to maintain the highest ethical standards in ensuring that the bank's business practices are conducted in a manner which, under all reasonable circumstances, is beyond reproach.

#### Insider trading

A policy for the prevention of insider trading is in place, whereby directors, management and staff with access to confidential financial information are prohibited from trading in the shares of Commercial Bank of Namibia for a prescribed period immediately preceding the publication of the interim and year-end financial results.

# Commercial Bank of Namibia's corporate governance framework

Corporate governance is a system by which the bank is directed and controlled.

## The board's corporate governance objectives

- Maximum level of efficiency and profitability of the bank within an acceptable risk profile.
- Efficient and effective functioning of the enterprise-wide risk management framework.
- Commitment to adhere to corporate behaviour that is universally recognised and accepted as correct and proper.
- Balancing the interests of shareholders and other stakeholders who may be affected by the conduct of directors or management within a framework of accountability.
- Timely and accurate disclosure of matters that are material to the bank's business or the interests of stakeholders.
- Finding the correct balance between conforming to governance constraints and performing in an entrepreneurial way.
- Achievement of a balanced and integrated economic, social and environmental performance (triple bottom line).
- Implementation of the bank's strategy and compliance with the strategic framework.

## The board of directors

### Composition of the board

- Unitary board structure comprising non-executive and executive directors.
- The number of directors will not be less than seven and not more than 15.
- The board presently comprises eight non-executive and one executive director.

### Membership of the board

- Roles of the chairman and managing director are separate and clearly defined in the board charter.
- No one individual has unfettered powers of decision making.
- Board size, diversity and demographics reviewed at least annually, assisted by the remuneration/nomination and equity/skills retention committee.
- Procedures for appointments to the board – formal and transparent, assisted by the remuneration/nomination and equity/skills retention committee.

### Meetings of the board

- The board meets on a quarterly basis, ie four times a year.

### Board evaluation

- Annual evaluation on composition, performance, processes and procedures.

## Board committees

Board committees were established to assist the board in the discharge of its responsibilities. All board committees report to the board.

### Audit committee

Chairman: RH Peters  
CM Drew  
TJ Frank  
CJ Pearce  
F Tjingaete

*Meetings at least quarterly.*

#### Key terms of reference

- Monitors that an effective control, risk management and compliance environment is enforced.
- Monitors that the internal audit and compliance functions are effective.
- Monitors that the external auditors are effective and efficient.
- Reviews the interim report and the annual financial statements for proper and complete disclosure of timely, reliable and consistent information and confirms that the accounting policies used are appropriate.
- Monitors the control risk self-assessment (CRSA) process in the bank.
- Approves the annual internal audit work schedule.

### Risk management committee

Chairman: CJ Pearce  
CM Drew  
RH Peters

*Meetings at least quarterly.*

#### Key terms of reference

- Monitoring the management of risks, thereby ensuring the overall effectiveness of the process of corporate governance.
- Reviewing credit risks.
- Reviewing key risks managed by ALCO process.
- Monitoring technology risks.
- Monitoring other risks brought to committee's attention.

## Management committees

### Asset and liability committee (ALCO)

Chairman: MK Shipanga  
ALCO reports to the risk management committee.  
*Meets regularly, but not less than monthly.*

#### Key terms of reference

- Ensures that acceptable levels of financial risk, excluding credit and operational risk, are identified, understood and effectively managed.

### Credit committee

Chairman: MK Shipanga  
The credit committee reports to the risk management committee.  
*Meets regularly.*

#### Key terms of reference

- Approves all third-party risks, including sovereign and counterparty risks, within a prescribed limit as delegated by the board of directors.
- All advances in excess of the bank's authority in terms of the Guidelines for the Conduct of Business shall be referred to the Africa Credit Committee of Nedbank (AFGRAM).

## The board of directors (continued)

The board is the focal point of the corporate governance system in the bank. It is ultimately responsible for the performance and behaviour of the bank. There are formalised terms of reference (charters) for the board and all board committees. Salient features of these are recorded below.

### Board's key roles and responsibilities

- Promoting the interests of shareholders.
- Ultimate accountability and responsibility for the performance and affairs of the company.
- Retaining full and effective control.
- Monitoring management's performance and reviewing/approving board plans and strategies.
- Appointing and reviewing the performance of the managing director.
- Ensuring that financial statements are true and fair and contain proper and adequate disclosures.
- Enforcing high standards of ethics and corporate behaviour.
- Enforcing appropriate risk management, internal controls and regulatory compliance, assisted by audit and risk management committees.
- Implementing and maintaining corporate governance framework.
- Ensuring transparent and prompt communication with shareholders and all relevant stakeholders.
- Identifying and monitoring non-financial aspects relevant to the business of the company.
- Recording facts and assumptions to conclude that the company will continue as a going concern.

### Board's key roles and responsibilities (continued)

- Identifying and monitoring director selection, orientation and evaluation processes put in place, assisted by the remuneration/nomination and equity/skills retention committee.
  - Ensuring that the company is achieving its goal and that the correct balance between conforming to governance constraints and performing in an entrepreneurial way is achieved.
  - Reviewing performance of the board committees.
  - Responsibility for the total process of risk management, including disclosure on risk management, assisted by the risk management and audit committees.
  - Reviewing and approving remuneration policies and incentive schemes, following the recommendations of the remuneration/nomination and equity/skills retention committee.
  - Ultimately responsible for ensuring an adequate and effective process of corporate governance is established and maintained.
- Induction of new directors**
- An induction programme is conducted for all newly-appointed directors.

## Board committees (continued)

### Remuneration/nomination and equity/skills retention committee

Chairman: RH Peters  
CJ Pearce  
TJ Frank

*Meetings quarterly.*

#### Key terms of reference

- Ensures that the right calibre of executive/senior management is attracted, retained, motivated and rewarded appropriately.
- Monitors the development and implementation of a competitive human resources strategy to attract, retain and develop the best possible talent in terms of guidelines provided by the equity commissioner and affirmative action initiatives to support superior business performance.

### Remuneration/nomination and equity/skills retention committee (continued)

- Ensures that the right board structure is established/maintained for the proper/effective functioning of the board.
- Reviews the succession planning of directors and staff.
- Recommends the fees of the chairman and non-executive directors in respect of the board and board committees.
- Reviews all aspects of remuneration, including incentive schemes.
- Recommends appointment of new executive and non-executive directors and composition of the board.
- Board self-evaluation.

## Management committees (continued)

### Operational risk committee (ORCO)

Chairman: MK Shipanga  
ORCO reports to the risk management committee.

*Meets monthly.*

#### Key terms of reference

- Manages the full spectrum of risks to which each individual division is exposed.
- Ensures that all material risks are identified, measured, evaluated, managed effectively and reported on.

# Directors' responsibility

The directors are responsible for the integrity of the financial statements and related information included in this annual report.

For the board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The board has ultimate responsibility for this system of internal control and reviews the effectiveness of its operation, primarily through the audit and risk management committees and other risk-monitoring functions.

The internal controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the bank's written policies and procedures. These controls are implemented by trained, skilled staff with clearly defined lines of accountability and an appropriate segregation of duties. The controls are monitored by management and include a comprehensive budgeting and reporting system operating within strict deadlines and an appropriate control framework. As part of the system of internal control, the bank's internal audit function conducts operational, financial and specific audits and co-ordinates audit coverage with the external auditors.

The external auditors are responsible for reporting on the financial statements.

The financial statements are prepared in accordance with the Namibian Statements of Generally Accepted Accounting Practice and incorporate responsible disclosures in line with the accounting philosophy of the bank. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The directors believe that the bank will continue to be a going concern in the year ahead. For this reason, they continue to adopt the going concern basis in preparing the bank's annual financial statements.

These financial statements set out on pages 32 – 58 have been approved by the board of directors and are signed on its behalf by:



**RJ Rossouw**  
*Chairman*



**MK Shipanga**  
*Managing director*

Windhoek  
27 February 2004

# Report of the independent auditors

To the members of The Commercial Bank of Namibia Limited

## INTRODUCTION

We have audited the annual financial statements and group annual financial statements of The Commercial Bank of Namibia Limited set out on pages 32 to 58. These financial statements are the responsibility of the company's directors. Our responsibility is to report on these financial statements based on our audit.

## SCOPE

We conducted our audit in accordance with statements of Namibian Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

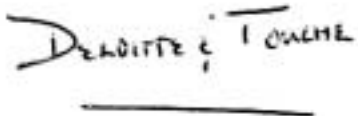
An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provided a reasonable basis for our opinion.

## AUDIT OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 31 December 2003 and the results of their operations and cash flows for the year then ended in accordance with the Namibian Statements of Generally Accepted Accounting Practice, and in the manner required by the Namibian Companies Act.



Deloitte & Touche  
*Chartered Accountants (Namibia)*

Windhoek  
27 February 2004

# Report of the directors

The directors have pleasure in submitting their report together with the annual financial statements of the bank for the year ended 31 December 2003.

## NATURE OF BUSINESS

The Commercial Bank of Namibia Limited is a registered bank that provides a full range of banking services. The bank's head office is in Windhoek and its operations are confined to Namibia.

## HOLDING COMPANY

The holding company changed its name from "SND Investment Holdings Limited" to "NedNamibia Holdings Limited" on 11 December 2003. NedNamibia Holdings Limited continues to be the holding company of The Commercial Bank of Namibia Limited and its shareholding in the bank increased from 93,26% to 93,46%. Nedbank Limited acquired SFOM's (Société Financière pour les Pays d'Outre-Mer – sole shareholder BNP Paribas) (47,31%) and DEG's (Deutsche Investitions- und Entwicklungsgesellschaft mbH) (5,39%) respective shareholdings in NedNamibia Holdings Limited, thereby becoming the 100% shareholder of NedNamibia Holdings Limited.

## RESULTS FOR THE YEAR

Following the acquisition of Finance in Education (Proprietary) Limited, Commercial Bank of Namibia Limited has now compiled group accounts for the first time in 2003. The comparatives reflected under the group column for 2002 comprise only those of Commercial Bank of Namibia Limited. The net income attributable to ordinary shareholders for the 12 months amounted to N\$82,0 million compared to N\$71,5 million for the previous year. Total assets of the bank increased by 7,6% from N\$2 335,7 million to N\$2 514,0 million.

## ACCOUNTING POLICIES

The group has adopted the accounting standard AC133 "Financial Instruments: Recognition and Measurement" which became effective from 1 January 2003. This accounting standard must be prospectively applied and thus comparatives will not be restated. In terms of AC133 transitional arrangements, retained income is adjusted to reflect all methodology changes at 1 January 2003, while current period changes are reflected in income for the year. The full effect of adopting this statement is reflected under note 2 of the financial statements.

## SHARE CAPITAL

During the year under review, the group's authorised share capital remained unchanged at N\$20,0 million, consisting of N\$17,5 million ordinary shares and N\$2,5 million convertible preference shares. The issued share capital remained at N\$16,0 million, consisting of 64 093 969 ordinary shares with a nominal value of 25 cents each.

## DIVIDENDS

The directors recommend the payment of a dividend of 64,0 cents per share (2002: 55,5 cents per share), resulting in a dividend cover of 2,0 times (2002: 2,0 times). The total dividend amounts to N\$41,0 million (2002: N\$35,6 million).

The dividend is subject to shareholders' approval and will be paid on 1 June 2004.

## ACCOUNTING TREATMENT OF LOANS AND ADVANCES

The accounting treatment of loans and advances disclosed in the annual financial statements complies with the requirements of BID-2 of the Bank of Namibia. BID-2 (Determinations on the Classification of Loans and the Suspension of Interest on Non-Performing Loans and the Provisions for Bad and Doubtful Debts) has been issued pursuant to section 71(3) of the Banking Institutions Act, Act 2 of 1998.

## SUBSIDIARY

Details of the subsidiary are reflected in note 8. The income after tax of the subsidiary is N\$2,466 million.

## BOARD OF DIRECTORS AND SECRETARY

At the bank's annual general meeting held on 19 June 2003, Adv TJ Frank, Messrs WP Frost, RH Peters and Dr F Tjingaete, who retired by rotation in accordance with the provisions of the bank's articles of association, made themselves available for re-election and were duly elected.

Following the change in majority shareholders, several changes were made to the board. Messrs P Delhaise, VMJ de Roux, M Vayssié and PW Weise resigned as non-executive directors of the board on 18 September 2003. Messrs CM Drew and SM Pityana were appointed as non-executive directors on 20 November 2003.

Subsequent to year-end, Mr SC du Plessis resigned as managing director of the group and Mr MK Shipanga was appointed as his successor, both with effect from 1 January 2004. The board appointed Mr du Plessis as consultant to the board and adviser to Mr Shipanga for the period 1 January 2004 until 30 April 2004, after which he will be on call to attend to group matters, should circumstances so indicate, until the end of 2004.

The board conveys its appreciation to the resigning directors for their valuable contributions during their terms of office, particularly the previous managing director, Mr du Plessis, for the significant contribution he has made to the growth and success of the bank.

A special word of appreciation is also extended to the outgoing shareholders, BNP Paribas and DEG, for their continued support over the past years.

The names of the directors and the company secretary as well as the company's registered address are set out on page 7 of this report.

#### **APPRECIATION**

We extend our sincere appreciation to our employees and esteemed customers for their loyalty and continued support.

Our appreciation is also extended to the Ministry of Finance, the Bank of Namibia, the local authorities and our attorneys and auditors for their assistance and co-operation.

# Balance sheets

at 31 December 2003

	Notes	GROUP		COMPANY	
		2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>ASSETS</b>					
Cash and balances with central bank	3	41 248	42 548	41 248	42 548
Government and public sector securities	4	300 713	230 653	300 713	230 653
Other short-term securities	5	–	41 580	–	41 580
Due from other banks	6	286 189	267 448	286 189	267 448
Originated loans and advances to customers	7	1 802 001	1 669 923	1 802 001	1 669 923
Investments in subsidiaries and associates	8	3 800	4 367	3 800	4 367
Property and equipment	9	29 978	31 338	29 602	31 338
Other assets	10	50 073	47 815	47 425	47 815
<b>Total assets</b>		<b>2 514 002</b>	<b>2 335 672</b>	<b>2 510 978</b>	<b>2 335 672</b>
<b>LIABILITIES</b>					
Due to other banks	11	193 905	250 692	193 905	250 692
Other deposits	12	109 454	14 091	109 454	14 091
Due to customers	13	1 882 558	1 748 004	1 883 482	1 748 004
Long-term subordinated debt instruments	14	850	729	850	729
Deferred taxation	15	38 722	36 153	38 722	36 153
Other liabilities	16	40 523	79 177	39 021	79 177
<b>Total liabilities</b>		<b>2 266 012</b>	<b>2 128 846</b>	<b>2 265 434</b>	<b>2 128 846</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	17	16 023	16 023	16 023	16 023
Share premium	17	16 424	16 424	16 424	16 424
Retained income		214 563	174 379	213 097	174 379
Shareholders' interest		247 010	206 826	245 544	206 826
Minority interest		980	–	–	–
<b>Total shareholders' equity and minority interest</b>		<b>247 990</b>	<b>206 826</b>	<b>245 544</b>	<b>206 826</b>
<b>Total equity and liabilities</b>		<b>2 514 002</b>	<b>2 335 672</b>	<b>2 510 978</b>	<b>2 335 672</b>

# Income statements

for the year ended 31 December 2003

	Notes	GROUP		COMPANY	
		2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
Interest income	18	332 547	266 169	332 675	266 169
Interest expense	18	167 008	146 133	167 008	146 133
Net interest income		165 539	120 036	165 667	120 036
Non-interest revenue	19	77 760	70 643	73 549	70 643
Total income		243 299	190 679	239 216	190 679
Impairment of advances	20	5 392	9 247	5 392	9 247
Net income		237 907	181 432	233 824	181 432
Expenses	21	119 647	95 693	119 606	95 693
Net income before taxation		118 260	85 739	114 218	85 739
Taxation	22	35 322	14 249	33 726	14 249
Net income after taxation		82 938	71 490	80 492	71 490
Attributable to outside shareholders in subsidiary		980	-		
Net income attributable to ordinary shareholders		81 958	71 490	80 492	71 490
Earnings per share (cents)		127,87	111,54		

# Statements of changes in equity

for the year ended 31 December 2003

	Notes	Share capital N\$'000	Share premium N\$'000	Retained income N\$'000	Total N\$'000
<b>GROUP</b>					
<b>Balance at 1 January 2002</b>		16 023	16 424	126 924	159 371
Net income after taxation for the year				71 490	71 490
Dividends	23			(24 035)	(24 035)
<b>Balance at 31 December 2002</b>		16 023	16 424	174 379	206 826
Effect of adopting AC133, net of tax	2				
– present value adjustment for off-market loans				(6 188)	(6 188)
– present value adjustment for negotiable securities held				1 142	1 142
– present value adjustment loan portfolio provisions				(1 156)	(1 156)
<b>Restated balance at 1 January 2003</b>		16 023	16 424	168 177	200 624
Net income attributable to ordinary shareholders				81 958	81 958
Dividends	23			(35 572)	(35 572)
<b>Balance at 31 December 2003</b>		16 023	16 424	214 563	247 010
<b>COMPANY</b>					
<b>Balance at 1 January 2002</b>		16 023	16 424	126 924	159 371
Net income after taxation for the year				71 490	71 490
Dividends	23			(24 035)	(24 035)
<b>Balance at 31 December 2002</b>		16 023	16 424	174 379	206 826
Effect of adopting AC133, net of tax	2				
– present value adjustment for off-market Loans				(6 188)	(6 188)
– present value adjustment for negotiable securities held				1 142	1 142
– present value adjustment loan portfolio provisions				(1 156)	(1 156)
<b>Restated balance at 1 January 2003</b>		16 023	16 424	168 177	200 624
Net income attributable to ordinary shareholders				80 492	80 492
Dividends	23			(35 572)	(35 572)
<b>Balance at 31 December 2003</b>		16 023	16 424	213 097	245 544

# Cash flow statements

for the year ended 31 December 2003

	Notes	GROUP		COMPANY	
		2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>Cash generated from operating activities</b>	24.1	46 795	138 762	49 715	138 762
Cash received from customers	24.2	412 622	334 746	408 539	334 746
Cash paid to customers	24.3	(159 765)	(141 060)	(159 765)	(141 060)
Cash paid to employees and suppliers		(163 639)	(40 378)	(159 597)	(40 378)
Dividends received		247	1 094	247	1 094
Dividends paid		(35 572)	(24 035)	(35 572)	(24 035)
Taxation paid	24.4	(14 656)	(15 838)	(13 797)	(15 838)
Recoveries of loans previously written off		2 058	2 328	2 058	2 328
Cash movements in advances and other accounts		(160 510)	(337 920)	(159 332)	(337 920)
Cash movements in operating liabilities	24.5	166 010	359 825	166 934	359 825
<b>Cash flow to investment activities</b>		(29 354)	(46 261)	(32 274)	(46 261)
Investment in property and equipment		(5 301)	(7 211)	(5 372)	(7 211)
Proceeds on sale of property and equipment		579	86	579	86
Proceeds from acquisition of subsidiary	24.8	2 849	-	-	-
Proceeds from other investments		(21)	1 475	(21)	1 475
Proceeds from non-dealing securities		567	-	567	-
Purchase of non-dealing securities	24.6	(28 027)	(40 611)	(28 027)	(40 611)
<b>Cash and short-term funds generated</b>		17 441	92 501	17 441	92 501
<b>Cash and short-term funds at beginning of the year</b>		309 996	217 495	309 996	217 495
<b>Cash and short-term funds at end of the year</b>	24.7	327 437	309 996	327 437	309 996

# Notes to the annual financial statements

31 December 2003

## 1. BASIS OF ACCOUNTING

The annual financial statements are prepared on the historical cost basis, except for financial assets and liabilities where the fair value basis of accounting is adopted. The consolidated financial statements conform to Namibian Statements of Generally Accepted Accounting Practice.

## 2. ACCOUNTING POLICIES

The principal accounting policies adopted and applied are set out below and are consistent with those of the previous year except for the adoption of AC133 "Financial Instruments: Recognition and Measurement", with effect from 1 January 2003. This accounting standard, which significantly impacts off-market loans and bad debt provisioning, must be prospectively applied and thus comparatives will not be restated. In terms of AC133 transitional arrangements, retained income is adjusted to reflect all methodology changes at 1 January 2003, while current period changes are reflected in income for the year.

Below is a disclosure of the adjustments required to opening retained income, as a result of the implementation of AC133, as well as the effect of the change in accounting policy on the current year.

### Transitional adjustments – group and company

N\$'000	Retained income			Total
	Gross	Taxation	Net effect	
Closing balance at 31 December 2002	174 379		174 379	174 379
	(9 541)	3 339	(6 202)	(6 202)
– present value adjustment for off-market loans	(9 520)	3 332	(6 188)	(6 188)
– present value adjustment for negotiable securities held	1 757	(615)	1 142	1 142
– present value adjustment for loan portfolio impairments	(1 778)	622	(1 156)	(1 156)
Restated opening balance 1 January 2003	164 838	3 339	168 177	168 177

### Current year impact before taxation of AC133, reflected in the income statement and balance sheet – group and company

N\$'000	Current income	Total
– present value adjustment for off-market loans	(2 088)	(2 088)
– present value adjustment for negotiable securities held	1 816	1 816
– present value adjustment for loan portfolio impairments	(3 181)	(3 181)
– present value adjustment for specific impairments	3 181	3 181
Adjustments for the year	(272)	(272)

## 2.1 Consolidation

The group financial statements include the assets, liabilities and results of Commercial Bank of Namibia Limited and its subsidiary, Finance in Education (Proprietary) Limited, in which the aforementioned has a long-term interest and the power to exercise control over its operations. The group uses the purchase method of accounting for the acquisition of subsidiaries and consolidates from the date on which effective control is acquired. Assets and liabilities acquired are recognised at their fair value at the date of acquisition. All significant intercompany transactions and balances have been eliminated.

### 2.1.1 Associates

An associate is an enterprise in which the group has significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

Where a group enterprise transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

## 2.2 Financial instruments

Financial instruments carried on the balance sheet, include all assets and liabilities, excluding investments in subsidiary and associates, fixed assets, deferred taxation, taxation payable and intangible assets.

Financial instruments, which include foreign exchange contracts and assets and liabilities held for trading purposes, are revalued to fair value. The fair value of unlisted assets and liabilities, is the amount for which assets or liabilities could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction.

The group classifies the microloan book, acquired from Saambou Bank Limited, in the 2002 financial year, as held-to-maturity and it is carried at amortised cost.

## 2.3 Originated advances

The group classifies advances as "originated", where it provides money directly to a borrower. Originated advances are carried at amortised cost. Third party expenses, such as legal fees or origination fees, incurred in securing an advance are treated as part of the transaction. All loans and advances are recognised when money is advanced to a borrower.

A specific impairment is created when there is sufficient evidence that amounts due, will not be able to be collected. The amount of the impairment is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from collateral, discounted based on the ruling effective interest rate.

A further portfolio impairment is created when there is sufficient evidence that components of the loan portfolio contain probable losses at balance sheet date. The probable losses are estimated, based upon historical patterns of losses in each component and reflect the current economic climate in which the borrower operates.

When a loan is uncollectable, it is written off against the related impairment. Subsequent recoveries are credited to the income statement. The group writes off advances once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

Statutory and other regulatory loan reserve requirements, that exceed the specific and portfolio impairment amounts, are dealt with in a general risk reserve, as an appropriation of retained earnings.

In quantifying the provisions for loans and advances the requirements of BID-2 of the Bank of Namibia have been complied with. BID-2 (Determinations on the Classification of Loans and the Suspension of Interest on Non-Performing Loans and the Provisions for Bad and Doubtful Debts) has been issued pursuant to section 71(3) of the Banking Institutions Act, 1998.

## 2.4 Instalment transactions

Instalment credit agreements are regarded as financing transactions and the total instalments, less unearned finance charges, are included in advances and other accounts. Finance charges are precomputed at the commencement of the contractual periods and are recognised in income in proportion to the net cash investment capital balances outstanding under each contract. Finance charges are carried forward as deferred income and deducted from advances.

# Notes to the annual financial statements

## 31 December 2003 continued

### 2.5 Property and equipment

All property and equipment are stated at cost and are depreciated on the straight-line basis at rates considered appropriate to their estimated useful lives.

Freehold land and buildings	2,0%
Leasehold land and buildings	10,0%
Furniture, fittings and equipment	12,5 – 25,0%
Computer equipment	25,0%

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

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. A previously recognised impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised. For goodwill a recognised impairment loss is not reversed.

The recoverable amount is the higher of its net realisable value and its value in use. Net realisable value is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value-in-use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rates that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### 2.6 Operating leases

Leases where the lessor retains the risk and rewards of ownership of the underlying asset are classified as operating leases. Payments made on the operating leases are recognised in the income statement over the period of the lease.

### 2.7 Deferred taxation

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

### 2.8 Direct and indirect taxation

The charge for current taxation is based on the results for the year, as adjusted for items which are not taxable or disallowed. It is calculated using the taxation rate enacted in Namibia at the balance sheet date. Indirect taxation includes value added taxation paid to central government and has been expensed in the income statement, as part of the taxation charge.

## 2.9 Foreign currencies

Assets and liabilities in foreign currencies are converted at rates of exchange ruling at the year-end. Foreign exchange trading positions, including spot and forward exchange contracts, are revalued at fair value, taking maturity profiles into account and resultant profits and losses are accounted for in the income statement.

## 2.10 Discounting transactions

Acceptances, promissory notes and other bills drawn by customers and discounted, as well as amounts rediscounted, are included under advances.

## 2.11 Properties in possession

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

## 2.12 Pension fund

Contributions to the fund are charged against income as incurred.

## 2.13 Provisions

Provisions are recognised when the group 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 occur and where a reliable estimate can be made of the amount of the obligation.

### 2.13.1 Post-retirement medical benefits

Provision is made for post-retirement medical benefits for eligible employees. The expected costs of these benefits are accrued over the period of employment and are determined by independent qualified actuaries.

### 2.13.2 Contingent liabilities

The group discloses a contingent liability where:

- It is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- It is not probable that an outflow of resources will be required to settle an obligation; or
- The amount of the obligation cannot be measured with sufficient reliability.

## 2.14 Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the net identifiable assets acquired. It is capitalised and amortised over its estimated useful life.

## 2.15 Revenue

Revenue relates to the group's banking activities and comprises net income from funds, dividends from investments, fees and commissions from banking and related transactions, and net income from exchange dealings. Revenue is shown net of value added tax. Net income from funds is recognised on a time proportion basis. Dividends are recognised when the right to receive payment is established. Fees and commissions are recognised when the service to the customer has been rendered. Foreign exchange gains and losses on monetary items arising from foreign currency transactions that have not been settled at the balance sheet date are recognised in income in the period in which the exchange rate movement occurred. The premium or discount on forward exchange contracts is amortised to income over the term of the forward exchange contract.

## 2.16 Related parties

All related party transactions are at arm's length and in the ordinary course of business.

# Notes to the annual financial statements

31 December 2003 continued

	GROUP		COMPANY	
	2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>3. CASH AND BALANCES WITH CENTRAL BANK</b>				
Bank notes and coins	19 212	21 331	19 212	21 331
Balances with central bank	22 036	21 217	22 036	21 217
	41 248	42 548	41 248	42 548
<b>4. GOVERNMENT AND PUBLIC SECTOR SECURITIES</b>				
<b>4.1 Investment portfolio: Held-for-trading</b>				
Treasury bills	223 653	124 094	223 653	124 094
Government registered stock	77 060	106 559	77 060	106 559
	300 713	230 653	300 713	230 653
<b>4.2 Maturity structure</b>				
One year or less	223 653	124 094	223 653	124 094
Three years or less but over one year	57 826	102 413	57 826	102 413
Over three years	19 234	4 146	19 234	4 146
	300 713	230 653	300 713	230 653
<b>4.3 Valuation</b>				
Unlisted				
– Fair value	300 713	230 653	300 713	230 653
– Directors' valuation	300 713	230 653	300 713	230 653
Total book value	300 713	230 653	300 713	230 653
Total market/directors' value	300 713	230 653	300 713	230 653
Treasury bills with a maturity value of N\$118 million (2002: N\$106,2 million) and government stock with a maturity value of N\$46,4 million (2002: N\$10 million) have been encumbered to secure the current account with the central bank.				
<b>5. OTHER SHORT-TERM SECURITIES</b>				
Negotiable certificates of deposit	–	41 580	–	41 580
<b>6. DUE FROM OTHER BANKS</b>				
Placements with other banks	286 189	267 448	286 189	267 448

	GROUP		COMPANY	
	2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>7. ORIGINATED LOANS AND ADVANCES TO CUSTOMERS</b>				
<b>7.1 Category analysis</b>				
Home loans	404 575	299 291	404 575	299 291
Other loans and overdrafts	1 003 572	1 020 942	1 003 572	1 020 942
Leases and instalment debtors	283 765	266 420	283 765	266 420
Less: Unearned finance charges on leases and instalment debtors	(46 116)	(52 798)	(46 116)	(52 798)
Microloans	282 886	280 476	282 886	280 476
	1 928 682	1 814 331	1 928 682	1 814 331
Impairment of advances (note 20)	(126 681)	(144 408)	(126 681)	(144 408)
	1 802 001	1 669 923	1 802 001	1 669 923
<b>7.2 Sectoral analysis</b>				
Individuals	1 028 773	922 276	1 028 773	922 276
Manufacturing	49 290	51 645	49 290	51 645
Wholesale and trade	156 559	102 700	156 559	102 700
Retailers, catering and accommodation	29 598	62 806	29 598	62 806
Agriculture, hunting, forestry and fishing	278 789	330 148	278 789	330 148
Mining and quarrying	91 252	18 010	91 252	18 010
Financial services, insurances and real estates	24 166	63 092	24 166	63 092
Government and public sector	100 514	81 311	100 514	81 311
Building and property development	67 181	91 511	67 181	91 511
Transport, storage and communication	99 917	84 810	99 917	84 810
Other services	2 643	6 022	2 643	6 022
	1 928 682	1 814 331	1 928 682	1 814 331
<b>7.3 Maturity structure</b>				
Repayable on demand or at short-term notice	1 039 952	873 292	1 039 952	873 292
Three months or less but not repayable on demand or at short-term notice	12 745	46 059	12 745	46 059
One year or less but over three months	97 975	120 831	97 975	120 831
Five years or less but over one year	391 807	480 634	391 807	480 634
Over five years	386 203	293 515	386 203	293 515
	1 928 682	1 814 331	1 928 682	1 814 331
<b>7.4 Geographical analysis</b>				
Namibia	1 928 682	1 814 331	1 928 682	1 814 331

# Notes to the annual financial statements

31 December 2003 continued

	GROUP		COMPANY	
	2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>8. INVESTMENT IN SUBSIDIARIES AND ASSOCIATES</b>				
<b>Investment in subsidiary companies</b>				
- Shares at cost	1	1	1	1
<b>Investment in associates</b>				
- Carrying value at beginning of the year	4 366	5 754	4 366	5 754
- Disposal of associates	-	(1 000)	-	(1 000)
- Repayment of preference shares	(567)	(388)	(567)	(388)
- Carrying value at end of the year	3 799	4 366	3 799	4 366
	3 800	4 367	3 800	4 367
Directors' valuation	3 800	4 367	3 800	4 367

## Subsidiary companies

	Nature of business	Issued ordinary share capital and proportion held		Shares at cost		Indebtedness (to)/by subsidiary	
		N\$'000	%	2003	2002	2003	2002
				N\$'000	N\$'000	N\$'000	N\$'000
Finance in Education (Proprietary) Limited (FinEd)	Administration company	-	60	-	-	-	-
Namibia Executors and Trustees (Proprietary) Limited	Trustee company	1	75	1	1	-	-

Namibia Executors and Trustees (Proprietary) Limited is not presented in the group annual financial statements in view of the insignificant amounts involved. The directors value the investments in the subsidiary companies at cost.

## Associates

	Nature of business	Issued share capital and proportion held		Shares at cost		Indebtedness (to)/by associates	
		N\$'000	%	2003	2002	2003	2002
				N\$'000	N\$'000	N\$'000	N\$'000
Ten Kaiser Wilhelm Strasse (Proprietary) Limited	Property company						
- Ordinary shares		582	50	291	291	-	-
Walvis Bay Land Syndicate (Proprietary) Limited	Property company						
- Ordinary shares		3 000	50	1 500	1 500	53	-
- Variable rate cumulative redeemable preference shares		2 963	100	1 955	2 575	-	-
Total				3 746	4 366	53	-

Indebtedness does not include loans and advances paid in the normal course of business. These amounts were included in advances. The associates are not equity accounted and the related disclosure of associates is not provided in view of the insignificant amounts involved. The directors value the investment in the associates at cost.

	Freehold land and buildings N\$'000	Leasehold land and buildings N\$'000	Furniture, fittings and equipment N\$'000	Computer equipment N\$'000	Total N\$'000
<b>9. PROPERTY AND EQUIPMENT GROUP</b>					
<b>2003</b>					
Carrying amount at 31 December 2002	11 196	687	11 060	8 395	31 338
- at cost	12 714	1 500	24 431	18 413	57 058
- accumulated depreciation	(1 518)	(813)	(13 371)	(10 018)	(25 720)
Additions at cost	-	-	1 243	4 058	5 301
Additions from acquisition of subsidiary	-	-	350	232	582
Disposals at net book value	(340)	-	(90)	(197)	(627)
Depreciation for the year	(208)	(283)	(2 395)	(3 730)	(6 616)
Carrying amount at 31 December 2003	10 648	404	10 168	8 758	29 978
- at cost	12 374	1 500	25 934	22 506	62 314
- accumulated depreciation	(1 726)	(1 096)	(15 766)	(13 748)	(32 336)
<b>2002</b>					
Carrying amount at 31 December 2001	11 337	971	10 436	6 686	29 430
- at cost	12 647	1 500	21 715	14 001	49 863
- accumulated depreciation	(1 310)	(529)	(11 279)	(7 315)	(20 433)
Additions at cost	67	-	2 732	4 412	7 211
Additions from acquisition of subsidiary	-	-	-	-	-
Disposals at net book value	-	-	(16)	-	(16)
Depreciation for the year	(208)	(284)	(2 092)	(2 703)	(5 287)
Carrying amount at 31 December 2002	11 196	687	11 060	8 395	31 338
- at cost	12 714	1 500	24 431	18 413	57 058
- accumulated depreciation	(1 518)	(813)	(13 371)	(10 018)	(25 720)

# Notes to the annual financial statements

31 December 2003 continued

	Freehold land and buildings N\$'000	Leasehold land and buildings N\$'000	Furniture, fittings and equipment N\$'000	Computer equipment N\$'000	Total N\$'000
<b>9. PROPERTY AND EQUIPMENT (continued)</b>					
<b>COMPANY</b>					
<b>2003</b>					
Carrying amount at 31 December 2002	11 196	687	11 060	8 395	31 338
- at cost	12 714	1 500	24 431	18 413	57 058
- accumulated depreciation	(1 518)	(813)	(13 371)	(10 018)	(25 720)
Additions at cost	-	-	1 301	4 071	5 372
Disposals at net book value	(340)		(90)	(197)	(627)
Depreciation for the year	(208)	(283)	(2 320)	(3 670)	(6 481)
Carrying amount at 31 December 2003	10 648	404	9 951	8 599	29 602
- at cost	12 374	1 500	25 642	22 287	61 803
- accumulated depreciation	(1 726)	(1 096)	(15 691)	(13 688)	(32 201)
<b>2002</b>					
Carrying amount at 31 December 2001	11 337	971	10 436	6 686	29 430
- at cost	12 647	1 500	21 715	14 001	49 863
- accumulated depreciation	(1 310)	(529)	(11 279)	(7 315)	(20 433)
Additions at cost	67	-	2 732	4 412	7 211
Disposals at net book value	-	-	(16)	-	(16)
Depreciation for the year	(208)	(284)	(2 092)	(2 703)	(5 287)
Carrying amount at 31 December 2002	11 196	687	11 060	8 395	31 338
- at cost	12 714	1 500	24 431	18 413	57 058
- accumulated depreciation	(1 518)	(813)	(13 371)	(10 018)	(25 720)

Information regarding land and buildings required in terms of the Companies Act is available for inspection, by shareholders or their duly authorised agents, at the bank's registered office.

	GROUP		COMPANY	
	2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>10. OTHER ASSETS</b>				
Remittances in transit	1 554	242	1 554	242
Zero coupon bonds	42 457	36 798	42 457	36 798
Sundry debtors and other accounts	6 062	3 070	3 414	3 070
Current taxation	–	7 705	–	7 705
	<b>50 073</b>	<b>47 815</b>	<b>47 425</b>	<b>47 815</b>
<b>11. DUE TO OTHER BANKS</b>				
Deposits and borrowings from other banks	193 905	250 692	193 905	250 692
<b>12. OTHER DEPOSITS</b>				
Negotiable certificates of deposit	109 454	14 091	109 454	14 091
<b>13. DUE TO CUSTOMERS</b>				
<b>13.1 Category analysis</b>				
Current accounts	565 104	541 460	566 028	541 460
Savings accounts	91 339	84 362	91 339	84 362
Other deposits and loan accounts	1 147 022	986 864	1 147 022	986 864
Foreign currency liabilities	79 093	135 318	79 093	135 318
	<b>1 882 558</b>	<b>1 748 004</b>	<b>1 883 482</b>	<b>1 748 004</b>
Generally, foreign currency liabilities are either matched by advances to clients or covered against exchange rate fluctuations.				
<b>13.2 Sectoral analysis</b>				
Government and quasi government	620 941	366 746	620 941	366 746
Insurance and pension funds	101 231	82 640	101 231	82 640
Companies and close corporations	569 515	827 516	570 439	827 516
Individuals	590 871	471 102	590 871	471 102
	<b>1 882 558</b>	<b>1 748 004</b>	<b>1 883 482</b>	<b>1 748 004</b>
<b>13.3 Maturity structure</b>				
Repayable on demand	1 543 033	1 383 444	1 543 957	1 383 444
Three months or less but not repayable on demand	254 549	28 427	254 549	28 427
One year or less but over three months	84 947	316 986	84 947	316 986
Five years or less but over one year	29	19 147	29	19 147
	<b>1 882 558</b>	<b>1 748 004</b>	<b>1 883 482</b>	<b>1 748 004</b>
<b>13.4 Geographical analysis</b>				
Namibia	1 794 584	1 639 202	1 795 508	1 639 202
South Africa	7 585	–	7 585	–
Lesotho	25 722	–	25 722	–
Europe	54 667	108 802	54 667	108 802
	<b>1 882 558</b>	<b>1 748 004</b>	<b>1 883 482</b>	<b>1 748 004</b>

# Notes to the annual financial statements

31 December 2003 continued

	GROUP		COMPANY	
	2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>14. LONG-TERM SUBORDINATED DEBT INSTRUMENTS</b>				
Unsecured, subordinated debentures, at issue price as adjusted for amortised discount and the portion of the coupon payments in excess of the effective interest expense.	850	729	850	729
The debentures were issued at a discount on 15 September 1995 and are redeemable at their nominal value of N\$40 million on 15 September 2030. Interest was payable on these debentures on a six-monthly basis at the rate of 17% per annum on nominal value until 15 September 2000. These coupon payments were partially charged against income and partially against the capital value of the debentures. For the years 2001 to 2030 the effective interest expense is capitalised. The coupon holders are entitled, in the event of interest default, to put the coupon covering such interest payments to Nedbank Limited. In the unlikely event of redemption prior to 15 September 2030 a contingent liability of N\$26,3 million (2002: N\$25,7 million) would arise.				
<b>15. DEFERRED TAXATION</b>				
The movement on the deferred tax account is as follows:				
Balance at beginning of the year	36 153	33 987	36 153	33 987
Movements during the year				
– Transitional AC133 adjustment	(3 339)	–	(3 339)	–
– Temporary differences – current year	5 908	2 166	5 908	2 166
Balance at end of the year	38 722	36 153	38 722	36 153
The balance comprises:				
Capital allowances	5 806	5 547	5 806	5 547
Provisions and others	32 916	30 606	32 916	30 606
	38 722	36 153	38 722	36 153
<b>16. OTHER LIABILITIES</b>				
Creditors and other accounts	26 486	72 628	25 721	72 628
Current taxation	7 053	–	6 316	–
Leave pay accrual	1 990	2 200		2 200
Provision for post-retirement medical benefits				
Balance at beginning of the year	4 349	3 789	4 349	3 789
Amounts recognised in income	645	560	645	560
Balance at end of the year	4 994	4 349	4 994	4 349
	40 523	79 177	39 021	79 177

Provision is made for post-retirement medical benefits for eligible employees. The expected costs for these benefits are accrued over the period of employment and are determined by independent qualified actuaries.

	GROUP		COMPANY	
	2003	2002	2003	2002
<b>17. ISSUED CAPITAL AND SHARE PREMIUM</b>				
Number of shares	64 093 969	64 093 969	64 093 969	64 093 969
	N\$'000	N\$'000	N\$'000	N\$'000
Ordinary shares	16 023	16 023	16 023	16 023
Share premium	16 424	16 424	16 424	16 424
<b>Total</b>	<b>32 447</b>	<b>32 447</b>	<b>32 447</b>	<b>32 447</b>
<p>The total number of authorised shares at year-end was:  70 000 000 (2002: 70 000 000) ordinary shares of  25 cents each  10 000 000 (2002: 10 000 000) convertible preference  shares of 25 cents each  All issued shares are fully paid.  Subject to the restrictions of the Companies Act, the  unissued shares are under the control of the directors  until the forthcoming annual general meeting.</p>				
<b>18. NET INTEREST INCOME</b>				
Interest and discount income				
Cash and short-term funds	51 584	66 086	51 584	66 086
Loans and advances	280 963	200 083	281 091	200 083
	<b>332 547</b>	<b>266 169</b>	<b>332 675</b>	<b>266 169</b>
Interest expense				
Banks and customers	167 008	146 133	167 008	146 133
	<b>165 539</b>	<b>120 036</b>	<b>165 667</b>	<b>120 036</b>
<b>19. NON-INTEREST REVENUE</b>				
Commission and fees	37 633	31 032	33 422	31 032
Dividends	247	1 094	247	1 094
Exchange earnings	29 761	33 835	29 761	33 835
Profit on sale of fixed property and equipment	(48)	124	(48)	124
Sundry trading gains	7 817	3 186	7 817	3 186
Other income	2 350	1 372	2 350	1 372
	<b>77 760</b>	<b>70 643</b>	<b>73 549</b>	<b>70 643</b>

# Notes to the annual financial statements

31 December 2003 continued

	GROUP		COMPANY	
	2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>20. IMPAIRMENT OF ADVANCES</b>				
<b>20.1 Movements</b>				
Balance at beginning of the year	144 408	44 206	144 408	44 206
Debts recovered	2 058	2 328	2 058	2 328
Debts written off	(49 271)	(7 593)	(49 271)	(7 593)
Acquisition of microloans	–	66 530	–	66 530
Balance of interest reserve	24 094	29 690	24 094	29 690
Income statement charge	5 392	9 247	5 392	9 247
– specific impairment	1 843	2 752	1 843	2 752
– general impairment	3 549	6 495	3 549	6 495
Balance at end of the year (note 7.1)	126 681	144 408	126 681	144 408
<b>20.2 Analysis</b>				
Specific impairment	92 490	88 207	92 490	88 207
Portfolio impairment	34 191	56 201	34 191	56 201
	126 681	144 408	126 681	144 408
<b>21. EXPENSES</b>				
Expenses include the following items which are separately disclosable:				
Auditors' remuneration				
– Audit fees – current year	651	317	550	317
– prior year	479	–	479	–
– Overprovision previous year	–	(51)	–	(51)
– Other services	368	55	368	55
Depreciation	6 616	5 287	6 481	5 287
Staff costs	57 393	48 592	54 076	48 592
Operating lease charges				
– Fixed property	3 807	2 775	2 840	2 775
– Equipment and vehicles	2 392	1 470	2 392	1 470
Remuneration other than to employees for:				
– Managerial services	3 082	2 273	3 082	2 273
Directors' fees paid by the company				
For services as directors	710	470	710	470
Other services	1 471	739	1 471	739
Other expenses	42 678	33 766	47 157	33 766
	119 647	95 693	119 606	95 693

	GROUP		COMPANY	
	2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>22. TAXATION</b>				
<b>22.1 Charge for the year</b>				
Taxation on income				
Namibian normal	27 000	8 995	25 404	8 995
Deferred – current	5 908	2 166	5 908	2 166
	<b>32 908</b>	<b>11 161</b>	<b>31 312</b>	<b>11 161</b>
<b>Other taxation</b>				
Value-added tax charge in respect of current expenditure net of input credits	2 414	3 088	2 414	3 088
Total taxation	<b>35 322</b>	<b>14 249</b>	<b>33 726</b>	<b>14 249</b>
<b>22.2 Reconciliation of rate of taxation</b>				
Namibian normal rate of taxation	35,0	35,0	35,0	35,0
Reduction in rate for the year:	(7,1)	(22,0)	(7,6)	(22,0)
– Non-taxable income	(3,0)	(6,6)	(3,1)	(6,6)
– Other permanent differences	(4,1)	(15,4)	(4,5)	(15,4)
Increase in rate for the year:	2,0	3,6	2,1	3,6
– Value-added tax charge in respect of current expenditure net of input credits	2,0	3,6	2,1	3,6
Effective rate of taxation	<b>29,9</b>	<b>16,6</b>	<b>29,5</b>	<b>16,6</b>
<b>23. DIVIDENDS</b>				
Ordinary dividend of 55,5 cents per share paid on 30 June 2003 (2002: 37,5 cents per share paid on 30 June 2002)	35 572	24 035	35 572	24 035
	<b>35 572</b>	<b>24 035</b>	<b>35 572</b>	<b>24 035</b>

The directors have proposed the payment of an ordinary dividend of 64,0 cents per share (2002: 55,5 cents per share) for confirmation at the forthcoming annual general meeting. The total dividend amounts to N\$41,0 million (2002: N\$35,6 million).

# Notes to the annual financial statements

31 December 2003 continued

	GROUP		COMPANY	
	2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>24. CASH FLOW INFORMATION</b>				
<b>24.1 Reconciliation of net income before taxation to cash generated from operating activities</b>				
Net income before taxation	118 260	85 739	114 218	85 739
Adjustments for non-cash items:	551	5 950	416	5 950
- Interest accrued on non-dealing securities	(4 079)	(411)	(4 079)	(411)
- Discount on government stock amortised	(2 034)	1 198	(2 034)	1 198
- Profit/(loss) on disposal of fixed property and equipment	48	(124)	48	(124)
- Depreciation	6 616	5 287	6 481	5 287
Other adjustments	(74 406)	(36 014)	(72 810)	(36 014)
- Movement in long-term subordinated debt instruments	121	104	121	104
- Current income tax charge	(29 414)	(12 083)	(27 818)	(12 083)
- Transitional AC133 adjustment	(9 541)	-	(9 541)	-
- Dividends	(35 572)	(24 035)	(35 572)	(24 035)
Movement in operating assets	2 390	83 087	7 891	83 087
- Deposit, current and other accounts	129 571	411 058	133 899	411 058
- Advances and other accounts	(127 181)	(327 971)	(126 008)	(327 971)
Cash flow from operating activities	46 795	138 762	49 715	138 762
<b>24.2 Cash received from customers</b>				
Interest received	335 071	264 540	335 198	264 540
Commission and fees received	53 907	45 338	49 696	45 338
Other income received	23 644	24 868	23 645	24 868
	412 622	334 746	408 539	334 746
<b>24.3 Cash paid to customers</b>				
Interest paid on deposits	(159 765)	(141 060)	(159 765)	(141 060)
	(159 765)	(141 060)	(159 765)	(141 060)
<b>24.4 Taxation paid</b>				
Amounts prepaid/(outstanding) – beginning of year	7 705	3 950	7 705	3 950
Charge to income statement	(27 000)	(8 995)	(25 404)	(8 995)
Amounts (prepaid)/outstanding – end of year	7 053	(7 705)	6 316	(7 705)
VAT output tax	(2 414)	(3 088)	(2 414)	(3 088)
	(14 656)	(15 838)	(13 797)	(15 838)

	GROUP		COMPANY	
	2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>24. CASH FLOW INFORMATION</b> <i>(continued)</i>				
<b>24.5 Cash movements in operating liabilities</b>				
Current accounts	23 953	98 930	24 877	98 930
Savings deposits	7 047	6 188	7 047	6 188
Other deposits and loan accounts	101 800	232 863	101 800	232 863
Foreign currency accounts	(54 790)	57 844	(54 790)	57 844
Negotiable certificates of deposit	88 000	(36 000)	88 000	(36 000)
	<b>166 010</b>	<b>359 825</b>	<b>166 934</b>	<b>359 825</b>
<b>24.6 Purchase of non-dealing securities</b>				
Other short-term securities	(59 559)	(32 911)	(59 559)	(32 911)
Government and public sector securities	31 532	(7 700)	31 532	(7 700)
	<b>(28 027)</b>	<b>(40 611)</b>	<b>(28 027)</b>	<b>(40 611)</b>
<b>24.7 Cash and short-term funds</b>				
For the purpose of the cash flow statement, cash and short-term funds comprise the following balances with less than 90 days maturity:				
Bank notes and coins (note 3)	19 212	21 331	19 212	21 331
Balances with central bank (note 3)	22 036	21 217	22 036	21 217
Due from other banks (note 6)	286 189	267 448	286 189	267 448
	<b>327 437</b>	<b>309 996</b>	<b>327 437</b>	<b>309 996</b>
<b>24.8 Proceeds from acquisition of subsidiary</b>				
Assets acquired:				
Property and equipment	582	-	-	-
Accounts receivable	1 468	-	-	-
Cash and short-term funds	2 849	-	-	-
	<b>4 899</b>	<b>-</b>	<b>-</b>	<b>-</b>
Liabilities acquired:				
Creditors and accruals	3 416	-	-	-
	<b>3 416</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net asset value acquired	1 483	-	-	-
Outside shareholders' interest	(1 483)	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Consideration for subsidiary	-	-	-	-
Cash and short-term funds	2 849	-	-	-
Cash flow from acquisition of subsidiary	<b>(2 849)</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to the annual financial statements

31 December 2003 continued

	GROUP		COMPANY	
	2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>25. COMMITMENTS</b>				
<b>25.1 Capital expenditure</b>				
Authorised but not contracted	16 518	8 060	16 518	8 060
Funds to meet capital expenditure will be provided from internal resources.				
<b>25.2 Bond commitments</b>				
Bonds granted, not yet paid out	600	6 008	600	6 008
<b>25.3 Operating leases</b>				
Premises				
2004	2 931	1 427	2 354	1 427
2005	191	980	173	980
2006	527	-	527	-
<b>26. PENSION FUND</b>				
All eligible employees are members of the Commercial Bank of Namibia Pension Fund, a defined contribution plan which has been registered in Namibia in accordance with the requirements of the Pension Funds Act. The fund is governed by the Pension Funds Act 1956, which requires an actuarial valuation every three years. The findings of independent consulting actuaries, based on their appraisal of the fund during May 2001, confirmed that the fund was financially sound.				
The total value of contributions to the pension fund during the year amounted to:				
Number of members	418	372	377	372
Employer contributions	3 733	3 150	3 571	3 150
Employee contributions	2 474	2 087	2 358	2 087
<b>27. CONTINGENT LIABILITIES</b>				
Confirmed letters of credit	3 023	1 303	3 023	1 303
Liabilities under guarantees	184 192	198 910	184 192	198 910
	187 215	200 213	187 215	200 213
See also note 14				
<b>28. RELATED PARTY DISCLOSURE</b>				
<b>28.1 Parent company</b>				
Commercial Bank of Namibia Limited's majority shareholder is NedNamibia Holdings Limited (93,46%) (2002: 93,26%), which is in turn owned by Nedbank Limited, incorporated in South Africa.				

## 28.2 Related party transactions

The following related party transactions, which are governed by terms no less favourable than those arranged with third parties, have been entered into:

Related party	Relationship	Transaction type	GROUP		COMPANY	
			2003 N\$'000	2002 N\$'000	2003 N\$'000	2002 N\$'000
<b>Interest income</b>						
Nedbank London	Fellow subsidiary	Call deposit	124	–	124	–
Nedbank Limited	Holding company	Call deposit	412	–	412	–
Nedbank Limited	Holding company	Intergroup funding	16 774	21 838	16 774	21 838
Nedbank Limited	Holding company	Zero coupon bonds	5 659	4 902	5 659	4 902
<b>Expenses</b>						
Nedbank Limited	Holding company	Management fee	3 082	2 273	3 082	2 273
Nedbank Limited	Holding company	Directors' fee	254	337	254	337
Nedbank Limited	Holding company	IT host charges	6 840	6 840	6 840	6 840
Bastion ZA (Proprietary) Limited	Fellow subsidiary	IT processing charges	3 108	2 190	2 328	2 190
Ten Kaiser Wilhelm Strasse (Proprietary) Limited	Associate company	Rent	468	396	468	396
Walvis Bay Land Syndicate (Proprietary) Limited	Associate company	Rent	396	396	396	396
NIB Namibia (Proprietary) Limited	Fellow subsidiary	Interest	5 982	6 103	5 982	6 103
NIB Namibia (Proprietary) Limited	Fellow subsidiary	Interest	156	–	156	–
Nedbank Lesotho	Fellow subsidiary	Interest	1 028	229	1 028	229
Old Mutual Namibia Limited	Fellow subsidiary	Interest	1 610	2 140	1 610	2 140
<b>Loans from related party</b>						
NIB Namibia (Proprietary) Limited	Fellow subsidiary	Current account	40 531	39 064	40 531	39 064
NIB Namibia (Proprietary) Limited	Fellow subsidiary	Notice deposit	1 704	7 560	1 704	7 560
Nedbank Lesotho	Fellow subsidiary	Notice deposit	25 722	30 229	25 722	30 229
Old Mutual Namibia Limited	Fellow subsidiary	Notice deposit	10 130	23 375	10 130	23 375
Nedbank Limited	Holding company	Nostro account	892	–	892	–
<b>Loans to related party</b>						
Nedbank London	Fellow subsidiary	Call deposit	28 660	–	28 660	–
Nedbank Limited	Holding company	Intergroup funding	178 559	17 827	178 559	17 827
Nedbank Limited	Holding company	Zero coupon bonds	42 457	36 798	42 457	36 798
There were no related party transactions with the majority shareholding company, other than the payment of dividends on ordinary shares.						
Transactions with directors		Mortgage bond	445	456	445	456

# Notes to the annual financial statements

31 December 2003 continued

	GROUP					Total N\$'000
	N\$ N\$'000	ZAR N\$'000	EUR N\$'000	US\$ N\$'000	Other N\$'000	
<b>29. CURRENCY PROFILE</b>						
<b>Assets</b>						
Cash and balances with central bank	41 248					41 248
Treasury bills, government and public sector securities	300 713					300 713
Other short-term securities	-					-
Due from other banks		231 895	19 297	32 306	2 691	286 189
Loans and advances to customers	1 713 474		81 990	4 049	2 488	1 802 001
Investments in subsidiary and associates	3 800					3 800
Property and equipment	29 978					29 978
Other assets	7 616	42 457				50 073
<b>Total assets</b>	<b>2 096 829</b>	<b>274 352</b>	<b>101 287</b>	<b>36 355</b>	<b>5 179</b>	<b>2 514 002</b>
<b>Liabilities</b>						
Due to other banks	131 653	7 585	50 648	4 019		193 905
Other deposits	109 454					109 454
Due to customers	1 804 688		46 716	28 892	2 262	1 882 558
Long-term subordinated debt instruments	850					850
Deferred taxation	38 722					38 722
Other liabilities	40 523					40 523
<b>Total liabilities</b>	<b>2 125 890</b>	<b>7 585</b>	<b>97 364</b>	<b>32 911</b>	<b>2 262</b>	<b>2 266 012</b>
<b>Shareholders' equity</b>						
Share capital	16 023					16 023
Share premium	16 424					16 424
Retained income	214 563					214 563
Shareholders' interest	247 010					247 010
Minority interest	980					980
<b>Total shareholders' equity and minority interest</b>	<b>247 990</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>247 990</b>
<b>Total equity and liabilities</b>	<b>2 373 880</b>	<b>7 585</b>	<b>97 364</b>	<b>32 911</b>	<b>2 262</b>	<b>2 514 002</b>
<b>Net balance sheet position</b>	<b>(277 051)</b>	<b>266 767</b>	<b>3 923</b>	<b>3 444</b>	<b>2 917</b>	<b>-</b>
<b>Off-balance sheet net notional position</b>	<b>-</b>	<b>47</b>	<b>2 819</b>	<b>(2 753)</b>	<b>3 559</b>	<b>3 672</b>
Rates of exchange		1,000	8,405	6,665		

	GROUP						Non- interest sensitive	Total N\$'000
	< 3 months	3 months	6 months	1 year	> 5 years			
	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000		
<b>30. INTEREST RATE RISK ANALYSIS</b>								
<b>Assets</b>								
Cash and balances with central bank						41 248	41 248	
Treasury bills, government and public sector securities	13 711	57 045	156 282	73 675			300 713	
Other short-term securities							-	
Due from other banks	286 189						286 189	
Loans and advances to customers	1 727 595	62 850	250	10 006	1 300		1 802 001	
Investments in subsidiary and associates						3 800	3 800	
Property and equipment						29 978	29 978	
Other assets					42 457	7 616	50 073	
<b>Total assets</b>	<b>2 027 495</b>	<b>119 895</b>	<b>156 532</b>	<b>83 681</b>	<b>43 757</b>	<b>82 642</b>	<b>2 514 002</b>	
<b>Liabilities</b>								
Due to other banks	120 097	62 252	250	10 006	1 300		193 905	
Other deposits	26 481	16 196		66 777			109 454	
Due to customers	1 777 467	96 061	9 002	28			1 882 558	
Long-term subordinated debt instruments					850		850	
Deferred taxation						38 722	38 722	
Other liabilities						40 523	40 523	
<b>Total liabilities</b>	<b>1 924 045</b>	<b>174 509</b>	<b>9 252</b>	<b>76 811</b>	<b>2 150</b>	<b>79 245</b>	<b>2 266 012</b>	
<b>Shareholders' equity</b>								
Share capital						16 023	16 023	
Share premium						16 424	16 424	
Retained income						214 563	214 563	
Shareholders' interest						247 010	247 010	
Minority interest						980	980	
<b>Total shareholders' equity and minority interest</b>						<b>247 990</b>	<b>247 990</b>	
<b>Total equity and liabilities</b>	<b>1 924 045</b>	<b>174 509</b>	<b>9 252</b>	<b>76 811</b>	<b>2 150</b>	<b>327 235</b>	<b>2 514 002</b>	
<b>On-balance sheet interest sensitivity gap</b>	<b>103 450</b>	<b>(54 614)</b>	<b>147 280</b>	<b>6 870</b>	<b>41 607</b>	<b>(244 593)</b>	<b>-</b>	
<b>Accumulative on-balance sheet interest sensitivity gap</b>	<b>103 450</b>	<b>48 836</b>	<b>196 116</b>	<b>202 986</b>	<b>244 593</b>	<b>-</b>	<b>-</b>	

# Notes to the annual financial statements

31 December 2003 continued

	GROUP					
	Up to	1 – 3	3 – 12	1 – 5	Over 5	Total
	1 month	months	months	years	years	
N\$'000	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000
<b>31. LIQUIDITY RISK</b>						
<b>Assets</b>						
Cash and balances with central bank	41 248					41 248
Treasury bills, government and public sector securities	300 713					300 713
Other short-term securities	–					–
Due from other banks	212 514			73 675		286 189
Loans and advances to customers	904 369	12 745	96 737	391 807	396 343	1 802 001
Investments in subsidiary and associates	3 800					3 800
Property and equipment				19 937	10 041	29 978
Other assets	–		5 660		44 413	50 073
<b>Total assets</b>	<b>1 462 644</b>	<b>12 745</b>	<b>102 397</b>	<b>485 419</b>	<b>450 797</b>	<b>2 514 002</b>
<b>Liabilities</b>						
Due to other banks	117 215		62 252	13 138	1 300	193 905
Other deposits	379	26 189	16 109	66 777		109 454
Due to customers	1 543 034	254 549	84 947	28		1 882 558
Long-term subordinated debt instruments					850	850
Deferred taxation			38 722			38 722
Other liabilities	40 523					40 523
<b>Total liabilities</b>	<b>1 701 151</b>	<b>280 738</b>	<b>202 030</b>	<b>79 943</b>	<b>2 150</b>	<b>2 266 012</b>
<b>Shareholders' equity</b>						
Share capital					16 023	16 023
Share premium					16 424	16 424
Retained income					214 563	214 563
Shareholders' interest					247 010	247 010
Minority interest					980	980
<b>Total shareholders' equity and minority interest</b>					<b>247 990</b>	<b>247 990</b>
<b>Total equity and liabilities</b>	<b>1 701 151</b>	<b>280 738</b>	<b>202 030</b>	<b>79 943</b>	<b>250 140</b>	<b>2 514 002</b>
<b>Net liquidity gap</b>	<b>(238 507)</b>	<b>(267 993)</b>	<b>(99 633)</b>	<b>405 476</b>	<b>200 657</b>	<b>–</b>
<b>Accumulative net liquidity gap</b>	<b>(238 507)</b>	<b>(506 500)</b>	<b>(606 133)</b>	<b>(200 657)</b>	<b>–</b>	<b>–</b>

## 32. RISK MONITORING

Details of the group's risk monitoring structure, policies and methods are noted on pages 26 – 27.

## 33. COMPARATIVE FIGURES

Comparative figures have been restated to agree with the methods of presentation in the current year:

Note 13.4 Geographical analysis – to make provision for the disclosure of liabilities due to European banks – N\$109 million

Note 20 Impairment of advances – to reclassify interest in reserve from other loans and advances to specific provisions – N\$29,7 million.

# Notice of the annual general meeting

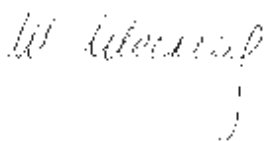
Notice is hereby given that the 30th annual general meeting of the company will be held in the boardroom of The Commercial Bank of Namibia Limited, 5th Floor, 12 – 20 Dr Frans Indongo Street, Windhoek, at 15:00 on 13 May 2004 for the following purposes:

To consider and resolve the following matters:

1. To receive and consider the annual financial statements for the year ended 31 December 2003, together with the report of the auditors.
2. To approve the dividend of 64 cents per ordinary share, as recommended by the directors for the financial year ended 31 December 2003, payable on 1 June 2004 to shareholders registered on 30 April 2004.
3. To determine the directors' remuneration.
4. To approve the actions undertaken and discharged by the directors during the year under review.
5. To appoint Deloitte Et Touche as auditors for the new financial year.
6. To authorise the directors to determine the remuneration of the auditors.
7. To elect directors in accordance with the provisions of the articles of association of the company. The following directors retire by rotation at this meeting and, being eligible, offer themselves for re-election:  
Mr CJ Pearce  
Mr RJ Rossouw
8. To elect the following newly appointed directors who retire in terms of the articles of association of the company at this meeting, but being eligible, offer themselves for re-election:  
Mr CM Drew  
Mr MK Shipanga
9. To place the unissued ordinary/convertible preference shares under the control of the directors.
10. To transact such other business as may be transacted at an annual general meeting.

A member entitled to attend and to vote at the meeting is entitled to appoint a proxy to attend and speak and, on a poll, to vote in his stead. A proxy need not be a shareholder of The Commercial Bank of Namibia Limited. Proxies must be lodged at the Commercial Bank of Namibia's registered office at least 48 hours before the commencement of the meeting. Saturdays, Sundays and public holidays are not taken into account in determining the 48 hours.

By order of the board



M Meiring  
Secretary

Windhoek  
1 April 2004

# Contact details

## HEAD OFFICE

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Fax +264 65 22 0089

SERVICE PLUS, 0800 000 115 (toll-free)

# Proxy form

## THE COMMERCIAL BANK OF NAMIBIA LIMITED

For the 30th annual general meeting

This proxy form, duly dated and signed, must be returned to reach the registered office of the company at least 48 hours before the commencement of the meeting. Saturdays, Sundays and public holidays are not taken into account in determining the 48 hours.

The Commercial Bank of Namibia Limited  
PO Box 1, Windhoek, Namibia  
Company registration number 73/04561

I/We \_\_\_\_\_ (name in full)

of \_\_\_\_\_  
\_\_\_\_\_ (address)

being a shareholder of \_\_\_\_\_ (shares)

of the abovementioned company, hereby appoint \_\_\_\_\_  
\_\_\_\_\_ (name)

residing at \_\_\_\_\_ (address)

or failing him/her, the chairman of the meeting as my proxy to speak, vote and act on my behalf at the 30th annual general meeting of the company to be held on 13 May 2004 and at any adjournment thereof, in particular to vote for/against\* the resolutions contained in the notice of the meeting.

	For	Against
Resolution No 1		
Resolution No 2		
Resolution No 3		
Resolution No 4		
Resolution No 5		
Resolution No 6		
Resolution No 7		
Resolution No 8		
Resolution No 9		

\* Please indicate by an ('x') either "for" or "against". Where this is not done, the proxy will be used in favour of the resolutions.

Signed at \_\_\_\_\_  
on the \_\_\_\_\_ day of \_\_\_\_\_ 2004

Signature/shareholder \_\_\_\_\_



*Customer research has identified key strengths in Commercial Bank of Namibia. The artworks in this report highlight some of these strengths and reflect our commitment to supporting Namibian arts and culture as an integral part of our corporate citizenship.*



**COMMERCIAL BANK  
OF NAMIBIA**

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*We're about service*

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