



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

AGRICULTURAL BANK

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2010

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REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Agricultural Bank of Namibia for the financial year ended 31 March 2010, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991 (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

WINDHOEK, August 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT of the AUDITOR-GENERAL on the
ACCOUNTS of the AGRICULTURAL BANK OF NAMIBIA
for the financial year ended 31 MARCH 2010**

1. INTRODUCTION

The accounts of the Bank for the year ended 31 March 2010 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Agricultural Bank of Namibia Act, 2003 (Act 5 of 2003).

The firm Grand Namibia of Windhoek has been appointed by the Auditor-General in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Bank on his behalf and under his supervision.

Section 3 of the Act stipulates as follows:

"Agribank

The juristic person known as the Agricultural Bank of Namibia continues to exist under the name Agribank."

Section 4 of the Act defines the objects of the bank as follows:

"Object of the Agribank

The object of the Agribank is to promote agriculture or activities related to agriculture by lending money -

- a) to persons, which money is to be used in connection with agriculture or activities related to agriculture; and*
- b) to financial intermediaries, who or which in turn lend money to persons for the purposes contemplated in paragraph (a)"*

To finance loans advanced as stipulated in Section 6(2)(a) in respect of persons mentioned in Section 4(2) above, the Bank may in terms of the Act conclude contracts relating to:

- (i) security in respect of a loan;
- (ii) the manner of, and period for, the repayment of a loan;
- (iii) the interest payable in respect of a loan;
- (iv) records and returns to be submitted to the Agribank;
- (v) any other matters, which the Agribank considers necessary.

2. ANNUAL FINANCIAL STATEMENTS

In terms of Section 20(b) of the Act, the Chief Executive Officer shall:

"(b) as soon as possible, but not later than six months after the end of a financial year, cause a statement of the income and expenditure of the Agribank for that financial year, and a balance sheet of its assets and liabilities as at the end of that financial year, to be prepared."

The following documentation is attached to this report:

- Audit observations
- Contents and approval of financial statements

- Value Added Statement
- Statement of financial position
- Statement of comprehensive income
- Statement of cash flows
- Notes to the financial statements

3. SCOPE OF THE AUDIT

The Accounting Officer of the Bank is responsible for the preparation of the financial statements and for ensuring the regularity of the financial transactions. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is the responsibility of the Auditor-General to form an independent opinion, based on the audit, on those statements and on the regularity of the financial transactions included in them and to report his opinion to the National Assembly.

The audit as carried out by the said firm in accordance with International Standards on Auditing, included:

- a) performing procedures, selected based on the auditor's judgements, to obtain evidence about the amounts and disclosures in the financial statements.
- b) assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- c) in making those risk assessments, considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity;
- d) evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management; and
- e) evaluating the overall presentation of the financial statements.

The audit was planned and performed so as to obtain all the information and explanations considered necessary to provide sufficient evidence to give reasonable assurance that:

- the financial statements are free from material misstatement, whether caused by error, fraud or other irregularity;
- in all material respects, the expenditure and income have been applied to the purposes intended; and
- the financial transactions conform to the authorities which govern them.

4. AUDIT OBSERVATIONS

The observations made during the previous audit were dealt with either by management or by the internal audit department through regular reporting on the progress in this regard.

The following are items of a critical nature also contained in our report to management:

4.1 Calculation method of provision for doubtful debts

The Board, in January 2006, approved a policy on the provision for bad and doubtful debts. This policy contains formulas as to how the provision for doubtful debts should be calculated. As reported previously as well as during the year under review, management used a different method, than the one prescribed in the policy, to do the calculation for bad debts.

It should however be noted that application of this Board approved policy for the calculation of the bad debt provision would, in the auditor's opinion not result in fair presentation of the financial statements. Accordingly, the deviation from this policy did not impact on the audit opinion. It is again recommended that the Board reverse this policy.

4.2 Late submission of annual financial statements

For the third consecutive year the Board failed to comply with Section 21 of the Agribank Act, 2003 as amended, which required that the audited financial statements be submitted to the Minister within 6 months of the financial year-end. This was mainly due to the implementation of the new SAP System with which the staff was still unfamiliar. The bank went live in October 2009.

5. RESPONSES FROM THE LAWYERS

Correspondence with the lawyers indicates no notarial claims against the Agribank.

The labour case of four employees against the bank has been postponed to April 2011.

The case of Hardap Ostriches (Pty) Ltd, instituted during August 2008, against the bank for alleged breach of contract, is still in its infancy stage and will probably go to trial in 2011. Hardap Ostriches (Pty) Ltd are claiming relief in the amount of N\$ 13 986 678.

Since significant uncertainties regarding the ultimate outcome of these cases prevail, no provision for any liability has been made in the financial statements.

6. ACKNOWLEDGEMENT

The assistance and co-operation given by the staff of the Bank during the audit is appreciated.

7. AUDIT OPINION

The financial statements of the Bank for the financial year ended 31 March 2010 have been audited in accordance with the provisions of Section 25(1)(b) of the State Finance Act, 1991, read with the provision of Section 20(2) of the Agricultural Bank of Namibia Act, 2003 (Act 5 of 2003).

Audit opinion

In my opinion the financial statements fairly present, in all material respects, the financial position of the Bank as at 31 March 2010 and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards and in the manner required by the State Finance Act, 1991 (Act 31 of 1991) and the Agricultural Bank Act, 2003 (Act 5 of 2003).

WINDHOEK, August 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

AGRICULTURAL BANK OF NAMIBIA

ANNUAL FINANCIAL STATEMENTS - 31 MARCH 2010

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APPROVAL

The annual financial statements, set out on pages 7 to 41, have been compiled from the books of the Bank and to the best of our knowledge and belief, are correct.

Ambassador Leonard N Iipumbu
Chief Executive Officer

Mr. Ignatius Theodore
Senior Manager Finance

The annual financial statements, set out on pages 7 to 41, have been approved by the Board of the Agricultural Bank of Namibia and are signed on their behalf:

Mr Hans-Günther Stier
Chairman of the Board

Director

AGRICULTURAL BANK OF NAMIBIA

ANNUAL FINANCIAL STATEMENTS - 31 MARCH 2010

Statutory Information

DIRECTORS:

The composition of the board of directors is as follows:

CHAIRMAN OF THE BOARD:

Mr Hans-Günther Stier Appointed 06 October 2004

NON-EXECUTIVE DIRECTORS

Mrs Wilburga G Katamelo Appointed 06 October 2004

Mr Desmond R Tshikesho Appointed 06 October 2004

Mr Vehaka M Tjimune Appointed 06 October 2004

EX-OFFICIO MEMBER

Ambassador Leonard N Iipumbu (Chief Executive Officer) Appointed 01 February 2005

The Chief Executive Officer attends board meetings as an Ex-officio member.

REGISTERED OFFICE

Agricultural Bank of Namibia

10 Post Street Mall

Private Bag 13208

WINDHOEK

AGRICULTURAL BANK OF NAMIBIA

VALUE ADDED STATEMENT

		<u>2010</u>	<u>2009</u>	
		N\$ '000	N\$ '000	
Value added:				
Value added is the wealth created by the Agricultural Bank of Namibia through the provision of services to clients.				
Interest income and non-interest income		135 464	131 376	
Interest paid and other expenditure		(81 061)	(72 169)	
		54 403	59 207	
Distribution of wealth created by the Bank				
Employee compensation				
- Salaries, wages and other benefits	52%	28 395	24 770	42%
Government				
- Taxation	11%	5 767	5 904	10%
Retention for expansion of growth	37%	20 241	28 533	48%
- Retained income		14 951	27 347	
- Depreciation and amortisation		5 290	1 186	
		54 403	59 207	

AGRICULTURAL BANK OF NAMIBIA
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

	Notes	2010	2009	2008
		N\$ '000	N\$ '000	N\$ '000
ASSETS				
Non-current assets				
Long-term portion of advances	4	990 625	847 979	831 815
Property and equipment	6	52 474	52 355	49 231
Intangible assets	7	24 628	20 833	18 087
		1 067 727	929 767	899 133
Current assets				
Cash on hand	2	25	14	14
Bank balances	3	97 581	156 394	121 343
Short-term portion of advances	4	225 046	232 864	239 118
Other receivables	5	799	12 017	6 115
		323 451	401 289	366 590
Total assets		1 391 178	1 332 456	1 265 723
CAPITAL RESERVES AND LIABILITIES				
Capital and reserves				
Capital	18	465 415	447 415	319 256
Reserves	17	432 069	417 118	389 771
Funds and grants	16	117 386	124 265	120 715
		1 014 870	988 798	829 742
Non-current liabilities				
Line of credit	10	-	207 090	216 077
Deferred income	14	141 104	-	-
Other borrowed funds	11	21 543	18 723	18 483
Long-term borrowings	12	79 685	2 961	7 562
Post-retirement employee benefits	15.2	8 806	7 404	5 931
		251 138	236 178	248 053
Current liabilities				
Creditors and provisions	13	37 047	9 542	6 046
Current portion of line of credit	10	-	19 750	13 500
Current portion of long-term borrowings	12	13 284	4 691	3 998
Special purpose funds	8	70 896	59 576	160 425
Bills	9	3 943	3 921	3 959
		125 170	98 480	187 928
Total liabilities		376 308	333 658	435 981
Total capital, reserves and liabilities		1 391 178	1 332 456	1 265 723

AGRICULTURAL BANK OF NAMIBIA

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010	2009
		N\$ '000	N\$ '000
INCOME			
Interest income on advances	20.1 & 19	120 736	114 781
Interest expense	20.2	(16 579)	(38 320)
Net interest income before provision for impairment on advances		104 157	76 461
Provision for losses on advances	4	(35 741)	(19 535)
Net income from lending activities		68 416	56 926
Interest income on banks and fixed deposits	20.1	7 906	12 159
Other operating income	20.3	6 822	4 436
Total income		83 144	73 521
General administrative expenses	20.4	(66 742)	(45 010)
Other operating expenditure	20.5	(1 451)	(1 164)
Surplus for the year		14 951	27 347

AGRICULTURAL BANK OF NAMIBIA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010	2009
		N\$ '000	N\$ '000
Cash flow from operating activities	1	(74 440)	17 149
Cash received from customers	2	135 464	130 873
Cash paid to financiers	3	(16 579)	(38 320)
Cash paid to employees and suppliers		(61 501)	(43 515)
Cash movement in operating liabilities/assets	4	38 745	(2 445)
Cash movement in advances	5	(170 569)	(29 444)
Cash flow from investing activities		(9 204)	(6 553)
Proceeds from the disposal of property and equipment		-	503
Intangible assets capitalized		(7 257)	(2 746)
Acquisition of property and equipment		(1 947)	(4 310)
Cash flow from financing activities		24 842	24 455
Payment of finance lease liability		(4 717)	(3 908)
Movement in funds		11 121	131 709
Movement in Special Purpose Fund		11 320	(100 848)
Movement in other borrowed funds		2 820	240
Increase in deferred income		141 104	-
Long-term borrowings raised		90 034	-
Line of credit repayments		(226 840)	(2 738)
Cash and short-term funds (utilized)/generated		(58 802)	35 051
Cash and short-term funds in the beginning of the year		156 408	121 357
Cash and short-term funds at the end of the year		97 606	156 408

AGRICULTURAL BANK OF NAMIBIA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2010

(continued)

NOTES TO THE CASH FLOW STATEMENT	2010	2009
	N\$ '000	N\$ '000
1. Reconciliation of surplus for the year to cash flow from operating activities		
Surplus for the year	14 951	27 347
Adjusted for non-cash items:		
Depreciation	1 828	1 186
Amortization of intangible assets	3 462	-
Post-retirement benefits	1 402	1 473
Profit on disposal of property and equipment	-	(503)
Movement in creditors	27 505	3 496
Movement in bills	22	(38)
Movement in trade receivables	11 218	(5 903)
Movement in advances	(134 828)	(9 909)
Cash flow from operating activities	(74 440)	17 149
2. Cash received from customers		
Interest received on advances	120 736	114 781
Interest received on banks and fixed deposits	7 906	12 159
Other income received	6 822	3 933
	135 464	130 873
3. Cash paid to financiers/loan providers		
Interest paid	16 579	38 320
4. Cash movement in operating liabilities/assets		
Debtors	11 218	(5 903)
Creditors and provision	27 505	3 496
Bills	22	(38)
	38 745	(2 445)
5. Cash movement in advances		
Movement in advances	(134 828)	(9 909)
Adjusted for non-cash items:		
Movement in provision for credit losses	(35 741)	(19 535)
	(170 569)	(29 444)

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1.1 Basis of presentation

The annual financial statements have been prepared in accordance with International Financial Reporting Standards. The annual financial statements are prepared on the historical cost basis except for the measurement of certain financial- assets and liabilities at fair value.

The principal accounting policies adopted in the preparation of these financial statements are set out below and are consistent with the previous period, unless stated otherwise.

1.2 Significant judgements

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgements are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

- Advances and loans and receivables

The bank assesses its advances, loans and receivables for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

- Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The bank uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision for financial assets and liabilities with maturities of less than one year, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the bank for similar financial instruments.

- Impairment testing

The bank reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, intangible assets are tested on an annual basis for impairment.

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

- Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 13 - Provisions.

The provisions for post-retirement medical- and severance benefits is based on an actuarial valuation by independent actuaries. In determining the provision, assumptions are made regarding discount rates, mortality rates and health care inflation rates.

1.3 Property, plant and equipment

Property, plant and equipment are initially recorded at cost. Owner-occupied properties are carried at market value, determined by valuations carried out every five years by external independent professional valuers, less subsequent depreciation and provision for impairment.

Farms acquired are stated at the amount of debt outstanding at the date of repossession. Provision is made against amounts considered to be irrecoverable. All other property, plant and equipment are accounted for at cost.

Increases in the carrying amount arising on revaluation are credited to revaluation and other reserves. Decreases that offset previous increases on the same asset are charged against the revaluation reserve; all other decreases are charged to the income statement.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately in the income statement to its recoverable amount.

All property, plant and equipment, other than land, is depreciated on the straight-line basis over its expected economic life. The rates used to amortize assets are as follows:

Buildings	-	50 years
Motor vehicles	-	5 years
Furniture and fittings	-	5 years
Computer- and office equipment	-	4 years

Depreciation is not provided for on land as it is deemed to have an indefinite life.

The residual value and the useful life of each asset are reviewed at each financial period-end.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operational profit. On disposal of revalued assets, amounts in revaluation and other reserves relating to that asset are transferred to retained earnings.

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

1.4 Leased assets

Property, plant and equipment acquired under finance leases are capitalized at the lower of fair value and present value of the minimum lease payments.

Capitalized leased assets are depreciated on a straight-line basis over the higher of the lease term and five years.

Finance costs are accrued and expensed annually, based on the effective rate of interest applied consistently to the remaining balance of the liability and are included in the related liability. This liability is reduced as and when payments are made in terms of the agreements.

Operating leases, mainly for the rental of premises and certain office equipment, are not capitalized and rentals are expensed on a straight-line basis over the lease term.

1.5 Doubtful advances and provision for impairment

Advances are stated net of specific and general provisions. Specific provisions are made against identified doubtful advances based on regular evaluations that take cognisance of, inter alia, past experience, economic climate and the client's overall risk profile. Regulatory general provisions are maintained to cover potential losses which, although not specifically identified, may be present in any portfolio of advances.

When a loan is deemed uncollectible, it is written off against the specific provision if a provision has been made; otherwise the amount is charged to the income statement. Subsequent recoveries are likewise adjusted to the provision.

1.6 Properties in possession

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

1.7 Intangible assets

Computer software development cost

Generally, costs associated with developing computer software are recognized as expenses when incurred. However, costs that are clearly associated with an identifiable system, which will be controlled by the entity and have a probable benefit exceeding the cost beyond one year, are recognized as an asset. Computer software development costs recognized as assets are, from the date the asset is brought into use, amortized in the income statement on a straight-line basis at rates appropriate to the expected useful lives of the asset, not exceeding five years.

Such assets are carried in the balance sheet at cost less any accumulated amortization and impairment losses.

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

1.8 Provisions

Provisions are recognized when the entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Employee entitlements to annual leave and long-service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

1.9 Employee Benefits

1.9.1 Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognized in the period in which the service is rendered and are not discounted.

1.9.2 Defined contribution plans

The bank provides defined contribution pension fund plans for employees. Payments to the pension fund are charged as an expense as incurred.

1.9.3 Defined benefit plans

The bank provides post-retirement benefits by way of 100% contribution of medical aid. Benefits are available to all employees. Medical aid contributions are expensed as incurred.

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted with sufficient regularity by independent actuaries separately for each plan.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Actuarial gains or losses are recognized in full during the period it arise.

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

1.10 Financial instruments

The bank classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables, available for sale assets and held-to-maturity investments. Financial liabilities are classified as financial liabilities at fair value through profit and loss and financial liabilities at amortised cost. Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

Financial instruments are recognised initially when the bank becomes a party to the contractual provisions of the instruments.

The bank classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available for sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses. Gains and losses arising from changes in fair value are recognised directly in equity until the asset is disposed of or determined to be impaired.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each balance sheet date the bank assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

Impairment losses are recognised in profit or loss.

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

Impairment of financial assets (continued)

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available for sale.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan advances and loans to employees are classified as loans and receivables.

Loan advances are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Appropriate adjustments are made for securities held by the bank in respect of identified impaired debtors.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within operating expenses. When a trade receivable and /or advance is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially recorded at fair value and subsequently at amortised cost.

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

Bank overdrafts and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the bank's accounting policy for borrowing costs.

1.11 Revenue recognition

Interest income is recognized at the effective rates of interest inherent in finance contracts and is brought into income in proportion to the balance outstanding on a time proportional method.

Interest suspended is credited directly against the provision for credit losses.

Revenue arising from the provision of services to clients is recognized on an accrual basis in the period in which the services are rendered.

1.12 Revenue and interest expense recognition

Interest income and expenses are recognized in the income statement on an accrual basis. Interest due/accrued on doubtful accounts is recognized as income but is provided for under the provision for credit losses.

1.13 Reserve Fund

The net surplus, after certain special provisions have been made, is credited to the Reserve Fund and applied to make good any loss or deficit which may occur in any transaction of the Bank.

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

1.14 Contingencies and commitments

Transactions are classified as contingencies where the bank's obligations depend on uncertain future events.

Items are classified as commitments where the bank commits itself to future transactions or if the items will result in the acquisition of assets.

1.15 Government grants

Government grants are recognized when there is reasonable assurance that:

- The Bank will comply with conditions attaching to them; and
- The grants will be received.

Government grants are recognized as income over the periods necessary to match them with the related costs that they are intended to compensate.

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

1.15 Government grants (continued)

Government grants related to income are presented as a credit in the profit or loss.

Where a loan is received from the Government at below market interest or at no interest rate, the difference between the fair value of the loan and the amount received is recognized as a Government grant.

1.16 New Standards and Interpretations

a) Improved, revised and replaced International Reporting Standards effective for the first time for the year ended 31 March 2010:

- IFRS 1 and IAS 27 IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements: Amendment for determining cost of investment in the separate financial statements on first time adoption (effective from 01 January 2009)
- IFRS 2 Amendment: IFRS 2 – Share-based Payment: Vesting Conditions and Cancellations. (effective from 01 January 2009)
- IFRS 3 (Revised) Business Combinations. (effective from 01 July 2009)
- IFRS 8 Operating Segments (effective from 01 January 2009)
- IAS 1 (Revised), Presentation of Financial Statements (effective from 01 January 2009)
- IAS 7 Statement of Cash flows: Consequential amendments due to IAS 27 (AC 132) (Amended) Consolidated and Separate Financial Statements (effective from 01 July 2009)
- IAS 18 Revenue: Consequential amendments (effective from 01 January 2009)
- IAS 21 The Effects of Changes in Foreign Exchange Rates: Consequential
- IAS 23 (Revised), Borrowing Costs. (effective from 01 January 2009)
- IAS 32 and IAS 1 Financial Instruments: Presentation and Presentation of Financial Statements Amendment: Puttable Financial Instruments and obligations Arising on Liquidation. (effective from 01 January 2009)
- IAS 36 Impairment of Assets: Consequential amendments (effective from 01 January 2009)
- IFRIC 13, Customer Loyalty Programmes (effective from 1 July 2008);
- IFRIC 15 Agreements for the Construction of Real Estates. (effective from 01 January 2009)
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008);

Management assessed the relevance of these amendments and interpretations with respect to the operations of the Bank and concluded that they are not relevant.

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

1.16 New Standards and Interpretations (continued)

b) Improved, revised and replaced International Reporting Standards that are not yet effective and have not been early adopted:

Standards, amendments and interpretations, which have been published and are mandatory for the Bank's accounting periods beginning on or after 1 April 2009 or later periods. None of these standards, amendments or interpretations has been early adopted. The Bank will assess the relevance thereof with respect to its operations.

- IFRS 1, First time adoption of IFRS, Measurement of cost of investment in subsidiaries, jointly controlled entities and associates when adopting IFRS for the first time. (effective from 01 July 2009). Amendments relating to oil and gas assets and determining whether an arrangement contains a lease. (effective from 01 January 2010). Amendments that relieves 1st time adopters of IFRSs from providing additional disclosures introduced through amendments to IFRS 7 in March 2009 (effective from 01 July 2010).
- IFRS 2, Share Based Payments, Amendments relating to group cash-settled share-based payment transactions. (effective from 01 January 2010).
- IFRS 3, Business Combinations, Amendments to accounting for business combinations. (effective from 01 July 2009).
- IFRS 9, Financial Instruments, New standard that forms the first part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. (effective from 01 January 2013).
- IAS 21, The effects of Changes in Foreign Exchange Rates, Consequential amendments from changes to Business Combinations. (effective from 01 July 2009)
- IAS 24, Related Party Disclosures, Simplification of the disclosure requirements for government-related entities. (effective from 01 January 2011).
- IAS 27, Consolidated and Separate Financial Statements, Consequential amendments from changes to Business Combinations. (effective from 01 July 09).
- IAS 28, Investments in Associates, Consequential amendments from changes to Business Combinations. (effective from 01 July 09).
- IAS 31, Interests in Joint Ventures, Consequential amendments from changes to Business Combinations. (effective from 01 July 09).
- IAS 32, Financial Instruments: Presentation, Accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. (effective from 01 February 10).
- IAS 39, Financial Instruments: Recognition and Measurement, Clarifies two hedge accounting issues: Inflation in a financial hedged item and a one-sided risk in a hedged item. (effective from 01 July 09). Amendments for embedded derivatives when reclassifying financial instruments. (effective from 30 June 09).
- IFRIC 17, Distribution of Non-cash Assets to Owners. (effective from 01 July 09).
- IFRIC 18, Transfers of Assets from Customers. (effective from 01 July 09).
- IFRIC 19, Transfers of Assets from Customers. (effective from 01 April 10.)

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)

	2010	2009
	N\$'000	N\$'000
2. CASH ON HAND		
Cash on hand	25	14
3. BANK BALANCES		
Bank balances	59 927	47 617
Notice deposits	37 654	108 777
	<u>97 581</u>	<u>156 394</u>
4. ADVANCES		
Total advances	<u>1 417 254</u>	<u>1 306 836</u>
Provision for credit losses on advances		
Opening balance	225 993	168 823
Current provision:		
- Interest suspended	2 266	37 635
- Provision for doubtful debts	35 741	19 535
Interest in suspense reversed	(62 417)	-
Bad debts recovered	1 031	2 561
	<u>202 614</u>	<u>228 554</u>
Transfer to income statement	(1 031)	(2 561)
TOTAL PROVISION	<u>201 583</u>	<u>225 993</u>
Total advances after provision	1 215 671	1 080 843
LESS: SHORT-TERM PORTION OF ADVANCES	<u>(225 046)</u>	<u>(232 864)</u>
LONG-TERM PORTION OF ADVANCES	<u>990 625</u>	<u>847 979</u>
5. OTHER RECEIVABLES		
Accounts receivable and prepayments	797	8 445
Salary advances	2	3 572
	<u>799</u>	<u>12 017</u>

AGRICULTURAL BANK OF NAMIBIA

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)**

6. PROPERTY, PLANT & EQUIPMENT

2010 Year	Leasehold	Land and buildings	Furniture and fittings	Motor vehicles	Total
	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000
Carrying value: Beginning of the year	10	48 642	538	3 165	52 355
Cost/valuation	661	48 653	5 887	3 969	59 170
Accumulated depreciation	(651)	(11)	(5 349)	(804)	(6 815)
 During the year:	 95	 -	 1 214	 (1 190)	 119
- Additions	105	-	1 842	-	1 947
- Depreciation	(10)	-	(628)	(1 190)	(1 828)
 Carrying value : End of the year	 105	 48 642	 1 752	 1 975	 52 474
Cost/valuation	766	48 653	7 729	3 969	61 117
Accumulated depreciation	(661)	(11)	(5 977)	(1 994)	(8 643)
 2009 Year	 Leasehold	 Land and buildings	 Furniture and fittings	 Motor Vehicles	 Total
	N\$'000	N\$'000	N\$'000	N\$'000	N\$'000
Carrying value: Beginning of the year	19	48 642	570	-	49 231
Cost/valuation	661	48 653	6 653	1 987	57 954
Accumulated depreciation	(642)	(11)	(6 083)	(1 987)	(8 723)
 During the year:	 (9)	 -	 (32)	 3 165	 3 124
- Additions	-	-	341	3 969	4 310
- Disposals	-	-	(1 106)	(1 987)	(3 093)
- Reversal depreciation	-	-	1 106	1 987	3 093
- Depreciation	(9)	-	(373)	(804)	(1 186)
 Carrying value : End of the year	 10	 48 642	 538	 3 165	 52 355
Cost/valuation	661	48 653	5 887	3 969	59 170
Accumulated depreciation	(651)	(11)	(5 349)	(804)	(6 815)

AGRICULTURAL BANK OF NAMIBIA

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)**

6. PROPERTY, PLANT & EQUIPMENT (continued)

Freehold land and buildings comprise of the following properties, which were independently valued during 2006 by independent valuers. The surplus of the revaluation has been credited to non-distributable reserves.

	2010	2009
	N\$'000	N\$'000
- Erf 5478, Windhoek	22 000	22 000
- Erf 995, Otjiwarongo	1 620	1 620
- Erf 870 and 871, Mariental	60	60
- Erf 1608 and 1609, Rundu	2 920	2 920
- Erf 1417, Oshakati	30	30
	26 630	26 630
	26 630	26 630

7. INTANGIBLE ASSETS – SOFTWARE DEVELOPMENT COST

Opening carrying amount	20 833	18 087
Further capitalized cost	7 257	2 746
Amortization	(3 462)	-
Closing carrying amount	24 628	20 833
	24 628	20 833

8. SPECIAL PURPOSE FUNDS

CATEGORY ANALYSES

Agricultural boards	517	206
Ministry of Lands and Resettlement	13 900	-
Staff savings scheme	105	92
Government Ministries	56 297	59 206
Agricultural and farmers unions	77	72
	70 896	59 576
	70 896	59 576

The bank acts as an agent for the management of these funds on behalf of the above third parties.

MATURITY ANALYSES

Duration	RATES		
On demand to one month	6.00% - 9.10%	1 124	368
One month to three months	6.75% - 8.30%	-	-
Three months to six months	8.35% - 8.45%	-	-
Six months to twelve months	8.25% - 9.00%	69 772	59 208
		70 896	59 576
		70 896	59 576

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)

9. BILLS	2010	2009
	N\$'000	N\$'000
Consideration amount	3 932	3 906
Accrued interest	11	15
	3 943	3 921

All bills will mature within 91 days. No bills in issue are listed and no bills carry a Government guarantee. Bills are recorded in the financial statements at nominal value. The average yield on these bills is 6.9%.

10. LINE OF CREDIT

African Development Bank - First Line of Credit	-	30 000
African Development Bank - Second Line of Credit	-	56 250
African Development Bank - Third Line of Credit	-	125 000
	-	211 250
Plus: Accrued interest	-	15 590
	-	226 840
Less payable before 31 March 2011 included in current portion of line of credit	-	(19 750)
Total line of credit	-	207 090

First line of credit

African Development Bank loan was settled in full during the year by the Government of the Republic of Namibia by way of an interest-free loan granted by the latter to Agribank.

Agribank entered into a line of credit agreement with the African Development Bank (ADB) during the 2001 financial year. A loan amounting to N\$ 60 million was obtained to assist Agribank in the financing or part financing of new loans granted to the farming community of Namibia. The line of credit together with interest is fully guaranteed by the Government of Namibia.

The principal amount of the line of credit is repayable in South African Rand (ZAR) over a period of ten years, following a four year grace period, starting 1 August 2004.

Interest on the line of credit at a floating rate (equal to the six month JIBAR plus a funding cost margin and one half of one per cent) is payable in ZAR semi-annually on 1 February and 1 August of each year.

AGRICULTURAL BANK OF NAMIBIA

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)**

10. LINE OF CREDIT (continued)

An amount of N\$ 60 000 000 (100%) was distributed at 31 March 2002. Loans were granted for the following purposes:

	<u>Number of loans</u>	<u>2010</u>	<u>2009</u>
		N\$'000	N\$'000
Land purchases	51	-	38 617
Livestock	169	-	13 831
Infrastructure	41	-	3 143
Agricultural equipment	24	-	2 660
Crop production	<u>4</u>	-	<u>1 749</u>
	<u>289</u>	-	60 000
Less : Payments made during the year		-	(6 000)
Less : Payments made during previous years		-	(24 000)
		-	30 000

Second line of credit

Agribank entered into a line of credit agreement with the African Development Bank (ADB) during the 2002 financial year. A loan amounting to N\$ 75 million was obtained to assist Agribank in the financing or part financing of new loans granted to the farming community of Namibia. The line of credit together with interest is fully guaranteed by the Government of Namibia.

The principal amount of the line of credit is repayable in South African Rand (ZAR) over a period of ten years, following a four year grace period, starting 1 November 2006.

Interest on the line of credit at a floating rate (equal to the six month JIBAR plus a funding cost margin and one half of one per cent) is payable in ZAR semi-annually on 1 May and 1 November of each year.

An amount of N\$ 75 000 000 (100%) was disbursed at 31 March 2004. Loans were granted for the following purposes:

	<u>Number of loans</u>	<u>2010</u>	<u>2009</u>
		N\$'000	N\$'000
Land purchases	61	-	54 205
Livestock	315	-	18 014
Infrastructure	81	-	2 872
Agricultural equipment	36	-	3 136
Crop production	<u>267</u>	-	<u>1 343</u>
	<u>760</u>	-	79 570
Less : Payments made during the year		-	(7 500)
Less : Payments received during previous years		-	(12 070)
Less : Portion financed by Agribank		-	(3 750)
		-	56 250

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)

10. LINE OF CREDIT (continued)

Third line of credit

Agribank entered into a line of credit agreement with the African Development Bank (ADB) during the 2004 financial year. A loan amounting to N\$ 125 million was obtained to assist Agribank in the financing or part financing of new loans granted to the farming community of Namibia. The line of credit together with interest is fully guaranteed by the Government of Namibia.

The principal amount of the line of credit is repayable in South African Rand (ZAR) over a period of ten years, following a four year grace period, starting 1 October 2009.

Interest on the line of credit at a floating rate (equal to the six month JIBAR plus a funding cost margin and one half of one per cent) is payable in ZAR semi-annually on 1 April and 1 October of each year.

		2010	2009
		N\$'000	N\$'000
	Number of loans		
Land purchases	45	-	46 935
Livestock	575	-	30 603
Production	22	-	4 138
AA Loans	11	-	9 975
Consolidation of debts	9	-	4 500
Debushing	2	-	1 797
Electricity	2	-	119
Farm vehicle	2	-	371
Farm implements	3	-	394
Improvements	9	-	1 368
Labourers housing	3	-	965
Meatco	7	-	2 101
Crop production	6	-	1 015
Tractor	2	-	307
Other	-	-	2 885
Infrastructure	125	-	12 539
Agricultural equipment	50	-	4 371
Crop production	10	-	617
	<u>833</u>	-	<u>125 000</u>

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

	2010	2009
	N\$'000	N\$'000
11. OTHER BORROWED FUNDS		
Government scheme for drought relief 92 loans	18 621	17 188
Etunda Small Farmers	2 922	1 535
	21 543	18 723
 12. LONG-TERM BORROWINGS		
The Government of the Republic of Namibia settled the Bank's outstanding line of credit balances with the African Development Bank. The total amount settled was N\$ 218 139 076. The loan is interest-free and repayable over 21 years as follows:		
- For the first 20 years – N\$ 10 350 000 annually		
- Last installment – N\$ 11 139 076		
The balance disclosed represents the fair value of the loan as at 31 March 2010	90 035	-
Finance Lease agreement Standard Bank	2 934	7 652
Less: Current portion shown under current liabilities	(13 284)	(4 691)
	79 685	2 961
The Standard Bank loan is repayable in monthly installments of N\$ 390 006,50 and bears interest at prime linked rates.		
 13. CREDITORS AND PROVISIONS		
PROVISIONS (EXCLUDING CREDIT LOSSES ON ADVANCES)		
Bonuses	-	44
Leave	1 360	924
Grants and bursaries	110	178
Total other provisions	1 470	1 146
Creditors	4 577	8 396
Income received in advance	31 000	-
Total creditors and provisions	37 047	9 542

During the current financial year the Bank received an amount of N\$ 31 million from the Namibian Government. These funds were earmarked for the 2010/2011 year.

AGRICULTURAL BANK OF NAMIBIA

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)**

14. DEFERRED INCOME	2010	2009
	N\$'000	N\$'000
Opening balance	-	-
Recognized during the year		
- Government interest-free loan	132 670	
- Ministry of Finance grant (Crop and agriculture production)	13 000	-
Amortized to the income statement	(4 566)	-
	141 104	-

The Government of the Republic of Namibia settled the Bank's outstanding line of credit balances with the African Development Bank. The total amount settled was N\$ 218 139 076. The loan is interest-free and interest-free loans are recognized as a form of government assistance. The benefit is the difference between the initial carrying amount of the loan, discounted at similar loan rates, and the actual proceeds received from the Government. The interest rate used was the equivalent of the borrowing rate that the African Development Bank would have charged for a similar loan, currently 10.685%.

The Ministry of Finance granted an amount of N\$ 13 million in total for crop and aquaculture production. The deferred income will be released to the income statement as the loans are being disbursed.

15. EMPLOYEE BENEFITS

15.1 Pension scheme

The majority of the employees are members of the Agricultural 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 of 1956, which requires an actuarial valuation every three years. The latest actuarial valuation was performed as at 31 December 2008 and in the actuary's opinion the Fund was in a sound financial position at that date. The valuation confirmed that the value of assets in the Fund exceeded the value of the actuarially determined future liabilities.

The Agricultural Bank of Namibia currently contributes 16% of basic salary to the Fund whilst the members contribute 7%.

	2010	2009
	N\$'000	N\$'000
Bank contribution	2 410	2 784
Employee contribution	1 054	1 218
	3 464	4 002

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010

(continued)

15.2 Post-retirement employee benefits

The Bank made provision for their Post-retirement medical benefit obligation as well as their Severance benefit obligation, payable in terms of the Namibian Labour Act. The balances of these two provisions made for the year are:

	2010	2009
	N\$'000	N\$'000
Medical benefit obligation	8 690	7 404
Severance benefit obligation	116	-
	8 806	7 404

15.2.1 Medical benefit obligation

The Bank contributes to the medical aid scheme for retired employees. The liability in respect of future contributions to the scheme in respect of members is valued every 2nd year.

The latest actuarial valuation for the severance benefit obligation was carried out on 31 March 2010.

The latest actuarial valuation for the post-retirement medical benefit was carried out on 31 March 2009. The valuation method used was the projected Unit Credit Method. The liability was estimated at N\$ 8.690 million as at 31 March 2010.

	2010	2009
	N\$'000	N\$'000
Present value of unfunded obligation	8 690	7 404
<i>Reconciliation showing the movement of liability reflected on the balance sheet:</i>		
Opening balance	7 404	5 931
Net expense recognized in the income statement	1 286	1 473
	8 690	7 404

Net expense recognized in the income statement:

Actuarial (gain)/loss	-	513
Current service cost	551	346
Interest cost	735	614
	1 286	1 473

The principle assumptions used were:

Discount rate	9%	9%
Health care cost inflation	8,9%	8,9%
Average retirement age	60	60

AGRICULTURAL BANK OF NAMIBIA

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)**

15.2.1 Post-retirement employee benefits – Medical benefit obligation (continued)

Valuation date

The effect of a 1% movement in the assumed health care cost inflation:

	Increase	Decrease
Effect on the current service and interest cost	1 868	1 383
Effect on the accumulated post-retirement medical obligation	10 558	7 307

The effect of members experiencing mortality 20% higher and lower than assumed:

Effect on the current service and interest cost	558	702
Effect on the accumulated post-retirement medical obligation	8 132	9 392

15.2.2 Severance benefit obligation

	2010	2009
	NS\$'000	NS\$'000
Present value of unfunded obligation	116	-

Reconciliation showing the movement of liability reflected on the balance sheet:

Opening balance	-	-
Net expense/(income) recognized in the income statement	116	-
	116	-

Net expense recognized in the income statement:

Actuarial loss	89	-
Current service cost	17	-
Interest cost	10	-
	116	-

The principle assumptions used were:

Salary inflation rate	7.31%	-
Investment return	8.81%	-
Average retirement age	60	-

AGRICULTURAL BANK OF NAMIBIA

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)**

<i>The effect of a 1% movement in the assumed salary inflation:</i>	Increase	Decrease
Effect on the current service and interest cost	13	12
Effect on the accumulated severance obligation	129	104

The effect of members experiencing mortality 20% higher and lower than assumed:

Effect on the current service and interest cost	21	22
Effect on the accumulated post-retirement medical obligation	137	94

16. FUNDS AND GRANTS

	2010	2009
	N\$'000	N\$'000
European Fund Account	11 528	11 528
Government	36 102	36 102
Agribank - NACP contribution	34 561	34 561
Government Tractor Scheme	35 195	42 074
	117 386	124 265

Tractors and implements were transferred to Agribank from Government for sale and on-lending to communal farmers during the previous financial years. Agribank administered the scheme on behalf of Government and any proceeds out of the scheme will be repayable to Government. The balance of the Government Tractor Scheme of N\$ 35 195 000 (2009: N\$ 42 074 000) has been included under funds and grants, as this scheme is administered on behalf of the Ministry of Agriculture, Water and Forestry, and does not represent a liability of the bank.

17. RESERVES

Balance at the beginning of the year	417 118	389 771
Surplus previously stated	-	411 782
Correction of error (Note 19)	-	(22 011)
Surplus for the year	14 951	27 347
Surplus previously stated	-	36 834
Correction of error (Note 19)	-	(9 487)
Balance at the end of the year	432 069	417 118

AGRICULTURAL BANK OF NAMIBIA

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)**

18. CAPITAL FUND		2010	2009
		N\$'000	N\$'000
Account No. 1	*	54 284	54 284
Account No. 2	**	108 893	108 893
Account No. 3	***	6 079	6 079
Account No. 4	****	296 159	278 159
		465 415	447 415

* The amount consists of loans and grants made available to the Bank by the then Administration of SWA, through its South West Africa account and the then General Authority.

** The amount consists of loans granted by the former second tier agricultural departments of the then administration of SWA which were transferred to the Bank on 31 January 1992 in terms of Section 23 of the Agricultural Amendment Act, 1991.

*** The amount consists of loans granted by the Rehoboth Investments Development Corporation Limited which were transferred to the Bank on 16 December 1996 in terms of Section 5 of the Rehoboth Investment and Development Corporation Act, 1966 (Act 15 of 1996).

**** The amount consist of a N\$ 150 000 000 investment in the Bank by the Government converted to equity participation by Cabinet decision, Decision no 3rd/27.02.07/008. An additional transfer of N\$ 128 159 was made in 2009. It was initially advanced as a loan by Government, but subsequently converted into equity. In the current financial year, the Ministry of Finance made an advance of N\$ 18 million to strengthen the Bank's statement of financial position.

19. CORRECTION OF PRIOR PERIOD ERROR

Errors, confirmed by a Board resolution in 2007, occurred in the interest calculations of the Aussenkehr loan account. In addition to these errors, which had to be adjusted retrospectively, it was found that interest on arrear accounts of clients, identified for interest to be suspended, was never suspended i.e. only the interest on the capital balance was suspended.

The effects of the retrospective correction of the errors on the financial statements are as follows:

	2010	2009
	N\$'000	N\$'000
Decrease in interest received	9 487	-
Decrease in loan advances	31 498	22 011

AGRICULTURAL BANK OF NAMIBIA

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)**

	2010	2009
	N\$'000	N\$'000
20. INCOME AND EXPENDITURE		
20.1 Interest income		
Cash and short-term assets	7 906	12 159
Advances granted	120 736	114 781
	128 642	126 940
20.2 Interest expenses		
Overdraft facilities	6	4
Interest-free loan - Government	4 566	-
Deposits	4 912	6 961
Bills	310	262
Line of credit	6 785	31 093
	16 579	38 320
20.3 Other operating income		
Commission earned	3	2
Rents received	958	1 323
Government grant released	4 566	-
Other income	1 295	2 608
Surplus on disposal of assets	-	503
	6 822	4 436

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)

	2010	2009
	N\$'000	N\$'000
20.4 General administrative expenses		
Auditors Remuneration	113	76
Audit fees	113	76
Depreciation and amortisation	5 290	1 186
Furniture & fittings	628	401
Property	10	5
Amortization - computer software	3 462	-
Vehicles	1 190	780
Directors Fees	211	100
Services as Director	175	71
Directors traveling	36	29
Insurance	461	362
Marketing	2 375	1 625
Maintenance property & equipment	420	439
Other professional fees	2 128	847
Rent paid	1 506	1 370
Equipment	411	571
Property	1 095	799
Staff cost	34 162	30 674
Salaries	20 809	20 071
Fringe benefits	12 364	10 316
Training costs	989	287
Other expenses	20 076	8 331
Post resettlement contribution	10 000	-
Computer expenses	5 539	3 537
VAT apportionment expenses	1 226	-
Municipal costs	1 180	1 097
Travel	1 451	1 164
Vehicle cost	263	299
Telephone	1 463	1 115
General expenses	954	1 119
	66 742	45 010

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

	<u>2010</u>	<u>2009</u>
	N\$'000	N\$'000
20. INCOME AND EXPENDITURE (continued)		
20.5 Other operating expenses		
Traveling & accommodation	<u>1 451</u>	<u>1 164</u>

21. FINANCIAL RISK MANAGEMENT

The bank's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

The bank's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the bank's financial performance. Risk management is carried out under policies approved by the Board. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk, and investment of excess liquidity.

21.1 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the bank maintains flexibility in funding by maintaining availability under committed credit lines.

The bank manages liquidity risk through an ongoing review of future commitments and credit facilities. The bank did not have any overdraft facility at year-end (2009: Nil).

Cash flow forecasts are prepared and adequate utilized borrowing facilities are monitored.

AGRICULTURAL BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

21.1 Liquidity risk (continued)

The table below analyses the bank's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

2010

	Less than 1 year (N\$ 000)	Between 1 and 5 years N\$ 000)	More than 5 years (N\$ 000)
Other liabilities	109 666	41 400	166 389
Trade payables	35 577	-	-

2009

	Less than 1 year (N\$ 000)	Between 1 and 5 years N\$ 000)	More than 5 years (N\$ 000)
Other liabilities	103 528	145 685	67 500
Trade payables	8 396	-	-

21.2 Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rate risks. Fair value interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in market interest rates.

As the bank's significant interest-bearing assets, are fixed rate advances, its income and operating cash flows are substantially independent of changes in market interest rates.

The bank's interest rate risk arises mainly from its long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. This risk is managed by maintaining an appropriate mix between fix and floating interest rates.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
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Financial instruments by classification

Assets as per balance sheet

2010

	Interest rate	Loans and receivables (N\$ 000)	Fair value through profit & loss (N\$ 000)	TOTAL (N\$ 000)
Advances	Fixed	1 215 671	-	1 215 671
Cash and bank balances	Floating	97 581	-	97 581
Other current assets	Non-interest- bearing	799	-	799

2009

	Interest rate	Loans and receivables (N\$ 000)	Fair value through profit & loss (N\$ 000)	TOTAL (N\$ 000)
Advances	Fixed	1 080 843	-	1 080 843
Cash and bank balances	Floating	156 394	-	156 394
Other current assets	Non-interest- bearing	12 017	-	12 017

Liabilities as per balance sheet

2010

	Interest rate	Other financial liabilities at amortised cost (N\$ 000)	Fair value through profit & loss (N\$ 000)	TOTAL (N\$ 000)
Line of credit	Floating	-	-	-
Other borrowed funds	Non-interest- bearing	21 543	-	21 543
Long-term borrowings	Floating/Non-interest bearing	2 934	90 035	92 969
Bills	Fixed	3 943	-	3 943
Special purpose funds	Fixed and floating	70 896	-	70 896
Trade creditors	Non-interest- bearing	35 577	-	35 577

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(continued)**

Liabilities as per balance sheet (continued)

2009

	Interest rate	Other financial liabilities at amortised cost (N\$ 000)	Fair value through profit & loss (N\$ 000)	TOTAL (N\$ 000)
Line of credit	Floating	226 840	-	226 840
Other borrowed funds	Non-interest-bearing	18 723	-	18 723
Long-term borrowings	Floating	7 652	-	7 652
Bills	Fixed	3 921	-	3 921
Special purpose funds	Non-interest-bearing	59 576	-	59 576
Trade creditors	Non-interest-bearing	8 396	-	8 396

The tables above summarize the bank's exposure to interest rate risks.

Cash flow sensitivity analysis for interest-bearing instruments:

A change of 100 basis points in interest rates at the reporting date would have increased/decreased profits by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis has been performed on the same basis for 2009.

As at 31 March 2010:

	100 basis points increase (N\$ 000)	100 basis points decrease (N\$ 000)
Floating rate financial assets	976	(976)
Floating rate financial liabilities	(29)	29
Increase/(decrease) in profits	947	(947)

As at 31 March 2009:

	100 basis points increase (N\$ 000)	100 basis points decrease (N\$ 000)
Floating rate financial assets	1 564	(1 564)
Floating rate financial liabilities	(2 345)	2 345
Increase/(decrease) in profits	(781)	781

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

21.3 Credit risk

Credit risk is the risk that the counterparties will not repay obligations on time and in full as expected or contracted, resulting in a financial loss to the Agribank.

Policy and responsibility

The key components of the current general credit policy are the following:

- The primary role of the Bank is to provide finance to the agricultural sector;
- In its mandate, the Bank seeks to satisfy the needs of its customer base while maintaining a sound credit portfolio;
- The bank insists upon a thorough assessment of the client's financial position during the loan decision process, so as to lead to better-quality credit decisions which result in timeouts loan repayments and reduce losses due to, for example, insolvency;
- For the vast majority of the products, credits are granted on the basis of insight into the customer's circumstances and of specific assessments that provide a context for such credits;
- The facilities should match the customer's creditworthiness, capital position or assets, and the customer should be able to substantiate his or her repayment ability, and
- The bank may assume risks only within the limits of applicable legislation and other rules, including the rules on good practice for financial enterprises.

Approval process

When the bank processes a credit application from a customer, the following minimum information is needed:

- Comprehensive identity of the borrower;
- Evidence of the borrower's legal ability to borrow;
- Ability to repay including the timing and source of repayment and evidence of verification thereof;
- Description of the terms of credit obligation;
- Assessment of major risks and key litigants;
- Credit checks;
- Overview of the facility and collateral; and
- Documentary evidence of review and approval process

Risk classification

The bank monitors the repayment record of its customers on an ongoing basis to ensure that any deterioration in repayment record is detected as early as possible. Accounts will be categorized as "normal" or "arrears". The purpose of the classification is to provide a mechanism for the efficient and effective, reporting and evaluation of problem loans, and to allow them to be managed in such a way that the bank's risk is minimized.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010 (continued)

Credit exposure

The bank's maximum credit exposure at 31 March was as follows:

Credit exposure is calculated on the basis of selected items on and off the balance sheet (guarantees and loan commitments excluded).

Asset classes with credit risk exposure:

	<u>2010</u> <u>N\$ 000</u>	<u>2009</u> <u>N\$ 000</u>
Advances	1 215 671	1 080 843
Bank balances	97 581	156 394
Other receivables	799	12 017
	<u>1 314 051</u>	<u>1 249 254</u>

Asset classes with no credit risk exposure:

Property, plant and equipment	52 474	52 355
Intangible assets	24 628	20 833
Cash on hand	25	14
	<u>77 127</u>	<u>73 202</u>

Collateral

The main types of collateral the Bank normally obtain includes the following:

- Bonds over farmland, developed/undeveloped municipal plots
- Surety bonds
- Cession of fixed deposits
- Cession of surrendering value of policies
- Listed investments and unit trust investments
- Suretyships

Other Financial Assets

The other financial assets include cash at bank and other receivables. These assets are rated as good.

Bank balances

The amounts are invested with reputable financial institutions.

Other receivables

Past trends indicate that payment has been received timeously and that the fair values post year-end fairly reflects the amounts received.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2010
(continued)**

Concentration of credit risk

The concentration risk within the Agribank consists mainly of:

- Exposure per agricultural sector
- Exposure per individual account holder

At the reporting date credit risk exposure were not concentrated to a small number of individual accounts, but was spread across entire loan book account holders.

Loan advances past due not impaired

	<u>2010</u> <u>N\$'000</u>
Less than one year	406 463
Between one and two years	97 213
Between two and three years	62 478
More than three years	198 214
	<u>764 368</u>

Loan advances neither past due nor impaired

458 880

Included in the loan book of the Bank is an amount of N\$ 147.1 million in respect of loan customers whose credit terms were re-negotiated. These customers consolidated various loan accounts with the Bank into one account.