Financial Stability Report
March 2014

Bank of Namibia

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Corporate charter

Bank of Namibia

Vision
Our vision is to be the center of excellence - a professional and credible institution - working in the public interest, and supporting the achievement of the national economic development goals.

Mission
To support economic growth and development in Namibia, we

- Act as fiscal advisor and banker to the Government,
- Promote price stability,
- Manage reserves and currency, and
- Ensure sound financial systems and conduct economic research.

Values
- We value high-performance impact and excellence.
- We uphold open communication, diversity, integrity and teamwork.
- We care for each other's well-being.

NAMFISA

Vision
NAMFISA's vision is to be a respected regulator of the financial sector that fosters a stable and safe financial system contributing to the economic development of Namibia.

Mission
NAMFISA's mission is to effectively regulate and supervise financial institutions and to give sound advice to the Minister of Finance.

Values
- Teamwork
- Service
- Integrity
- Performance Excellence

List of Abbreviations

BoN	Bank of Namibia
CMA	Common Monetary Area
ECB	European Central Bank
EMEs	Emerging Market Economies
FNB	First National Bank
FSR	Financial Stability Report
HHI	Herfindahl-Hirschman Index
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
LHS	Left-hand Side
NAD	Namibia Dollar
NAMFISA	Namibia Financial Institutions Supervisory Authority
NBFI	Non-bank Financial Institution
NISS	Namibia Inter-bank Settlement System
NPL	Non-performing loan
NSX	Namibian Stock Exchange
PSCE	Private Sector Credit Extension
RHS	Right-hand Side
ROA	Return on Assets
ROE	Return on Equity
RWCR	Risk-Weighted Capital Ratio
SACU	Southern African Customs Union
SARB	South African Reserve Bank
WEO	World Economic Outlook
VIX	Volatility Index

Preface

The purpose of the Financial Stability Report (FSR) is to identify risks and vulnerabilities in the financial system and assess the resilience of the financial system to domestic and external shocks. The report also serves as a communication tool. The report presents recommendations to the identified risks. Lastly, the report is published to inform the reader on the soundness of the financial system, and what the regulators and government are doing in order to mitigate risks to the Namibian financial system.

Financial system stability is defined as the resilience of the domestic financial system to internal and external shocks, be they economic, financial, political or otherwise. It can also be described as the absence of macroeconomic costs of disturbances in the system of financial exchanges between households, corporates, and financial institutions.

The financial system in Namibia consists of financial markets, instruments, institutions and infrastructure. The regulatory structure, while not strictly a part of the financial system, plays an important role in regulating and monitoring the system. Under the mandate of Section 3(a) of the Bank of Namibia Act, 1997 (No 15 of 1997, as amended) the Bank of Namibia has an objective "to promote and maintain a sound monetary, credit and financial system in Namibia and sustain the liquidity, solvency and functioning of that system". The mandate of NAMFISA, with regards to financial stability, encompasses the supervision of the business of financial institutions and financial services and providing advice to the Minister of Finance on matters related to financial institutions and services. The stability of the financial system is critical as the system provides important services to households, corporates and the real economy.

This report is jointly produced by the Bank of Namibia and the National Financial Institution Supervisory Authority (NAMFISA). The two institutions, which are entrusted with the regulation of the financial system in Namibia, work closely to ensure a healthy financial system. There is also active engagement between the Bank of Namibia, NAMFISA and the Ministry of Finance to ensure a comprehensive assessment of systematic financial risks and of policy actions to ensure lasting financial system stability.

Content

I. Introduction

1. **Since the last issuance of the FSR in September 2013, the risks stemming from the external macroeconomic environment have remained largely unchanged and may diminish going forward on account of enhanced financial stability in emerging markets and sustained economic recovery from advanced economies.** The initial pessimistic scenario for emerging markets expected upon announcement of the US Fed's tapering of its Quantitative Easing (QE) appears to have abated so far, with somewhat regained stability of leading emerging markets' currencies and foreign capital flows. Advanced economies, particularly the US, continue to recover.

2. **Despite exchange rate volatility and severe drought, the domestic economy registered satisfactory performance and low inflation during the second half of 2013**. Domestic engines of growth, including sizeable construction activity in the mining sector (uranium and gold), sustained a brisk growth of the local economy. Also, relatively rapid growth of the tertiary sector, particularly wholesale and retail trade suggests a strong growth of private consumption, albeit putting pressure on the central bank's international reserve position. Monthly inflation rates have remained relatively low with an annual inflation rate of 5.6 percent for 2013, down from 6.7 percent in 2012.

3. **Household debt as a share of disposable income increased from 83 percent in end-June 2013 to 87 percent by end-December 2013, thus warranting strong monitoring.** The rise in the household indebtedness ratio is largely attributed to a faster increase in bank credit to households relative to the growth in households' disposable income. As was highlighted in previous FSRs, household debt is predominantly mortgage loans, contracted at variable interest rate. As such, going forward, any increases in interest rate levels may place an additional debt burden, which is already high by international comparisons.

4. **Corporate debt levels (as a share of GDP) are higher than years back (albeit declining marginally between end-June and end-December 2013), but are, in principle, supporting valuable future export promotion activities.** As such, risks of corporate debt remain low and unchanged from earlier FSR assessments, but warrant monitoring going forward, as new corporate debt and debt service costs increase. Large exposures to manufacturing, as well as to transport and logistics, also warrant oversight due to concentration risks.

5. **Financial soundness indicators for the banking sector remain at comfortable levels by international standards, although some structural patterns of the balance sheets require monitoring.** The resilience of the commercial banks is regularly tested and current stress testing results suggests that the commercial banking institutions are able to withstand a shock to the banking system. Of concern is the assets of banking institutions, which are highly concentrated in mortgage loans, and as such, the situation needs continuous monitoring in light of the high level of household indebtedness. The inherent risk of banking institution maturity mismatch remain unchanged for the next six month (i.e. the same as observed in FSR in September 2013). Notwithstanding the above concerns, the banking sector remains compliant with regulatory liquidity requirements.

6. **Since the last FSR report of September 2013, the balance sheets of non-banking financial institutions remain healthy.** This is expected to continue in the next six months. NBFIs continue to register double-digit asset growth during the year 2013. Provident institutions remained well capitalised, with solvency levels exceeding the statutory requirements. Investment institutions invested most of their assets locally, in line with regulatory requirements as well as the risk appetite of their clients.

7. **Since the previous Financial Stability Report in September 2013, the payment infrastructures continue to operate effectively and efficiently with no major outages.** Some operational controls are being reviewed in order to further strengthen efficiencies.

II. Summary of Risk Analysis

This section presents an analysis of the main risks to the stability of the domestic financial system. Consistent with sections III-VII of this Report, the analysis identifies risks arising from: (i) the external macroeconomic environment, (ii) developments in household and corporate debt, (iii) domestic banking and non-banking institutions, and (iv) the payment and settlement system. The risks are analysed and rated from low risk to high risk based on their probability of occurring and the potential impact on financial stability in Namibia, should the risk develop and be realised.

The main risks to domestic financial stability largely remain unchanged as identified in the September 2013 edition of the FSR. The spider-chart (Figure 1) and comparison table (Table 1) show the evolving risks facing the domestic financial system between the September 2013 and the March 2014 editions, and highlight the probability and potential impact of specific risks.

Figure 1: Domestic Financial Stability Risk Map

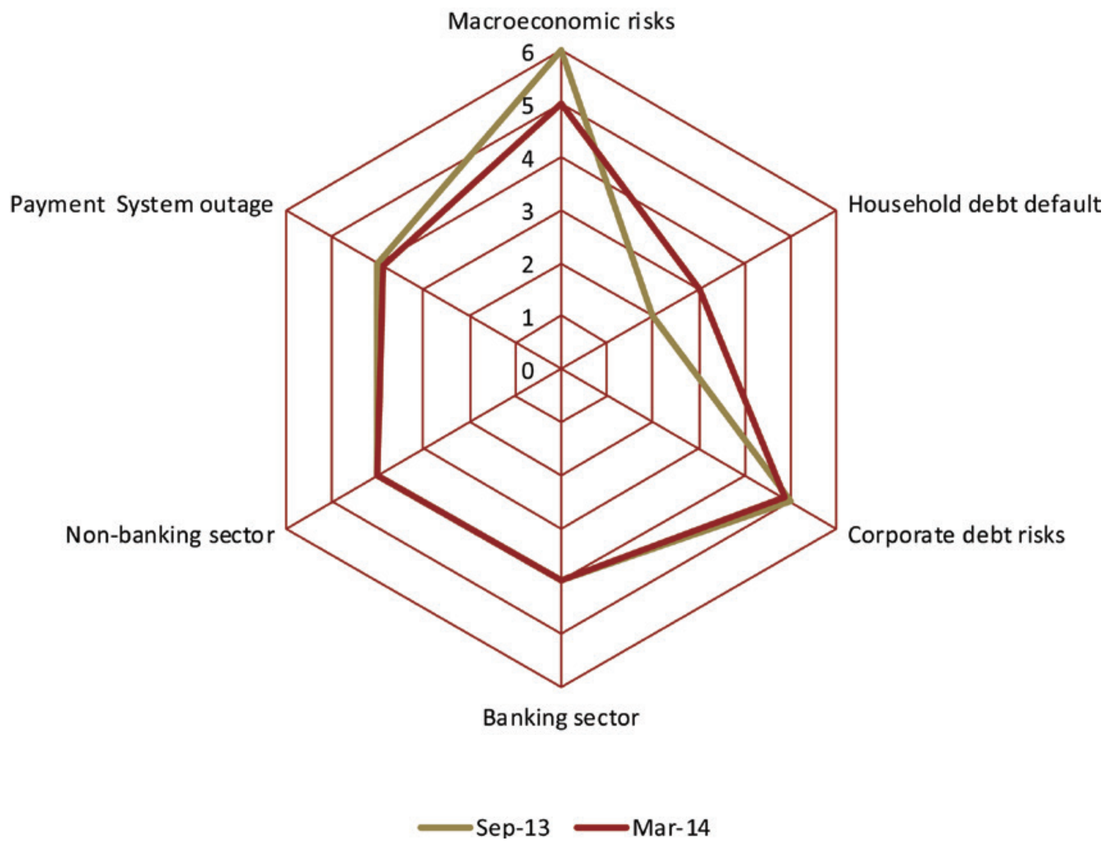


Table 1: Risks to Financial Stability for the upcoming six months[1]

	Risk		Change from Sep2013 Assesment	
	Probability	Impact	Probability	Impact
Macroeconomic Environment risks	**Medium**	**Medium**	**Down**	**Unchanged**
Global economic slowdown			Down	Unchanged
NAD/ZAR depreciation			Unchanged	Unchanged
Export demand falls			Down	Unchanged
International Reserves fall			Unchanged	Unchanged
Household Debt risks	**Medium**	**Medium**	**Up**	**Up**
Household debt increases			Up	Up
Corporates Debt risks	**Low**	**Low**	**Unchanged**	**Unchanged**
Corporates debt increases			Unchanged	Unchanged
Banking Sector risks	**Low**	**Low**	**Unchanged**	**Unchanged**
Banking institution maturity mismatch			Unchanged	Unchanged
Payment System risks	**Low**	**Medium**	**Down**	**Down**
Security of retail payments			Down	Unchanged
Settlement in last window			Unchanged	Unchanged
NBFI risks	**Low**	**Medium**	**Unchanged**	**Unchanged**
Contagion amongst financial institutions			Unchanged	Unchanged
Asset exposure to capital market			Unchanged	Unchanged
NSX asset price inflation			Unchanged	Unchanged

Risk analysis key	High	Medium	Low

1 *The 'Risk' column presents the risks to financial stability as assessed going forward six months (i.e. the period Jan – Jun 2014) and the 'Change' column presents the change from the risk assessment, as it was presented in the previous FSR, in this case the September 2013 FSR.*

A. Risks Stemming from the External Macroeconomic Environment

The risks stemming from the external macroeconomic environment are likely to remain contained and may diminish during the next six months on account of enhanced financial stability in emerging markets and sustained economic recovery in advanced economies. The initial pessimistic scenario for emerging markets expected upon announcement of the US Fed's tapering of its Quantitative Easing (QE) program, appears to have abated so far, with somewhat regained stability of leading emerging markets' currencies and foreign capital flows. Going forward, the external environment may be broadly stable as the US clarified its expected exit from QE, largely guided by accommodative monetary stance and a broad approach to macroeconomic assessments on the financial health of the American economy.

The depreciation of the nominal Rand/US$ dollar exchange rate experienced during the last quarter of 2013 appears to be contained. On average, the Rand traded at R9.2 against the USD during the first half of 2013, and depreciated further to R10.18 during the second half of 2013. However, the rand has appreciated in nominal terms in the recent past following a 50 basis point increase in the SARB's repo rate in January, as well as diminished uncertainty about the QE exit strategy of the US Federal reserve. By early April 2014, the Rand traded at around R10.6 per US dollar, down from R10.9 per US dollar in late January/early February 2014.

Despite exchange rate volatility and severe drought the domestic economy displayed a satisfactory performance during the second half of 2013, largely on account of a dynamic construction sector and limited pass through from the exchange rate depreciation to domestic inflation. Domestic engines of growth, including sizeable construction activity in the mining sector, sustained a brisk growth of the local economy. Also, relatively rapid growth of the tertiary sector, particularly wholesale and retail trade suggests a strong growth of private consumption, albeit putting pressure on the central bank's international reserve position. Monthly inflation rates have remained relatively low, with an annual inflation rate of 5.6 percent for 2013, down from 6.7 percent in 2012. Going forward, the Namibian economy is projected to expand further to 5.3 percent in 2014, while inflation is expected to remain low, before accelerating mildly later in the year.

In sum, in terms of the overall macroeconomic risks assessment, the risks remain unchanged since the latest FSR, while the external environment is somewhat more benign than early assessed on account of diminished uncertainties about an abrupt QE's exit policy implementation.

B. Risks Stemming from Domestic Households and Corporate Debt

Household Sector

Household debt as a share of disposable income increased from 83 percent at end-June 2013 to 87 percent by end-December 2013, thus warranting strong monitoring. The rise in the household indebtedness ratio is largely attributed to a faster increase in bank credit to households relative to the growth in households' disposable income. During the second half of 2013, credit to households increased by 8.2 percent to N$36.6 billion, while disposable income rose by 4.3 percent to N$46.8 billion. On a yearly basis, the credit to households increased by 15.0 percent, while the growth in disposable income surged by 8.9 percent.

As was highlighted in previous FSRs, household debt is predominantly mortgage loans, contracted at variable interest rate. As such, going forward, any increases in interest rate levels may place an additional burden in debt service costs.

Corporate Sector

Corporate debt levels (as a share of GDP) are higher than years back (albeit declining marginally between end-June and end-December 2013), but are, in principle, supporting valuable future export promotion activities. As such, risks of corporate debt remain low and unchanged from earlier FSR assessments, but warrant monitoring, going forward, as new corporate debt and debt service costs increase. Large exposures to manufacturing, as well as to transport and logistics, also warrant oversight due to concentration risks.

C. Risks Stemming from the Performance of the Banking Sector

The review of the banking sector and stress testing the books of the commercial banking institutions reveal that the industry remains adequately capitalised, however some structural patterns of the balance sheets require monitoring. The results of the stress testing exercise suggest that the commercial banking institutions are able to withstand a shock to the banking system[2]. It is also worth nothing that non performing loans on mortgages credit remain at very loaw levels. Despite the testing results, monitoring is warranted, especially on the high exposure of the commercial banking institutions to mortgage loans, which continues to remain a concern.

The inherent risk of banking institution maturity mismatch remains unchanged for the next six month i.e. the same as observed in FSR in September 2013. The maturity mismatch is evident in the high proportion of credit extended to the mortgage sector and the fact that, on the liability side, demand deposits constitute the majority of deposits. Otherwise, the banking sector remains compliant with regulatory liquidity and foreign exchange exposure requirements.

D. Risks Stemming from the Performance of the Non-Banking Financial Sector (NBFIs)

The NBFIs predominantly manage assets to support liabilities in respect of beneficiaries and/or policyholders. Specifically, pension funds and long-term insurers manage assets of about N$142 billion to support liabilities of approximately N$137 billion. The assets of these institutions are invested through unit trust schemes and investment managers, although this is more prevalent for pension funds than long-term insurers. These institutions invest their assets over a medium to long-term period and as such assume investment risk as a result of prolonged exposure to the domestic, regional and global capital markets.

A slump in the domestic capital market or within the common monetary area (CMA) could pose a risk to the assets of key NBFIs. This could for instance be caused by weak economic performance in the rest of Africa and the world at large. It should be noted, nonetheless, that an increasing portion of earning of listed

2 *See the highlights on stress testing results under section V (i.e. Performance of the Banking Sector).*

equity on the JSE are related to foreign activities (mining companies, telecommunication, etc.), therefore less exposed to events in South Africa specifically only. However, the assets of a number of key NBFIs, particularly long term insurance and pension funds, could potentially come under duress.

E. Risks Stemming from the Payment and Settlements System

The risks emanating from the payment and settlement system remain as reported in the September 2013 FSR. A number of disruptions to NISS were recorded over the second half of 2013, but did not pose any major threat to financial stability. Conversely, two disaster recovery tests were successfully conducted during the second half of 2013, which increases the availability of NISS. The inadequacies in the operational control environment, as identified in the September FSR, remain. Additionally, a trend towards more payments being processed in the last settlement window in the NISS (i.e. Window 3, 15H00- 16H40) was observed during the last half of 2013. This is counter to the ideal of settlements occurring in Window 1 (i.e. 08H00-12H00). The reasons for this are temporary and it is expected that efforts will be made to reverse the trend in the next six months. Besides, there have been a lot of improvements in the regulatory sphere, which has helped anchor the risk profile of the payment and settlement system. When calculated as a proportion of the total amount transacted by Namibians using cheques and payment cards (i.e. debit, cheque/hybrid, credit, etc.), fraud to sales losses declined to 0.01 percent during the second half of 2013, with a turnover of N$18.4 billion (compared to 0.03 percent in the first half of 2013 when the turnover was N$16.8 billion).

III. Macroeconomic Environment

Since the last FSR report of September 2013, global activity strengthened, with recent data pointing at further improvements. Advanced economies, mainly the US, UK and Japan, have been recovering since mid-2013, thus complementing sustained relative strong growth in the rest of the world. Following a period of heightened turbulence in foreign exchange markets in leading emerging market economies (including South Africa), exchange rate volatility and capital outflows appear to have subdued in the recent past, with output in those economies continuing to grow at a relatively strong pace. The Namibian economy has been somewhat sheltered from the reported volatility in global trade and finance. Factors explaining the domestic economy's resilience include indigenous sources of growth (i.e. sizeable construction in the mining sector) and a limited pass through from exchange rate depreciation onto inflation. Going forward, risks stemming from the macroeconomic environment appear to be somewhat contained and diminishing.

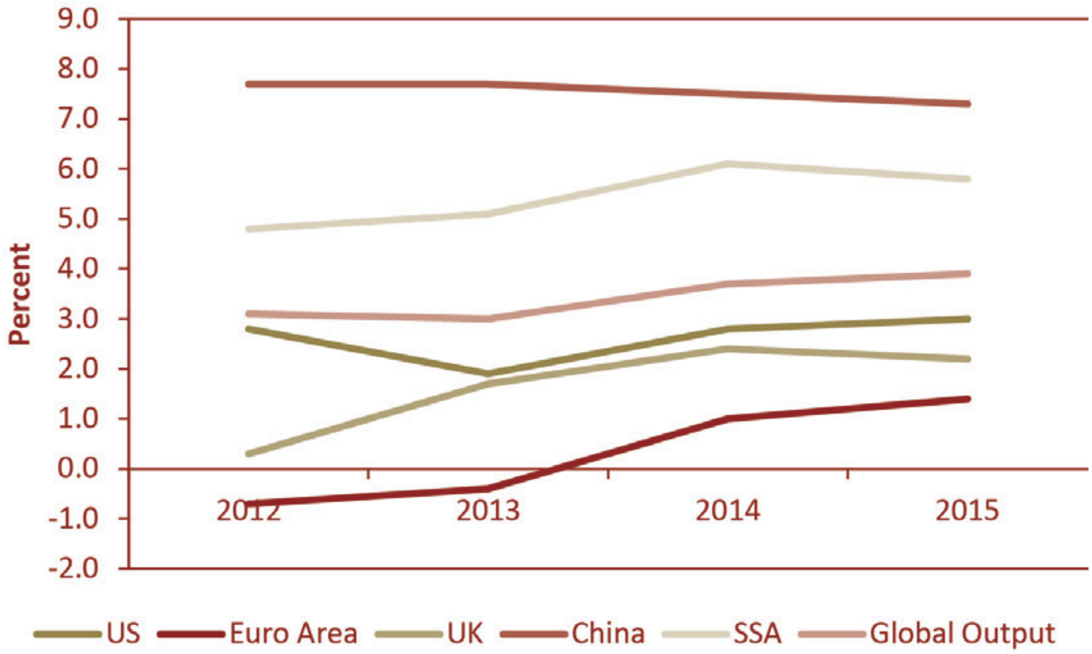
Global Economic Growth

Global activity strengthened during the second half of 2013, with recent data pointing at further marginal improvements in advanced economies. The acceleration of economic activity in the second half of 2013 was largely supported by a rebound of the American economy as well as improved growth in the Eurozone. Despite a marginal moderation in real GDP growth in emerging markets, growth continued to be relatively high, compared to advanced economies. Going forward, global growth is projected to improve to 3.6 percent in 2014, from 3.0 percent in 2013, and to rise further to 3.9 percent in 2015 largely on account of the recovery in advanced economies (IMF World Economic Outlook, April 2014) (Figure 2). Initially, the 2013 output forecasts were not optimistic, as they were overshadowed by the Fed's announcement to scale down its quantitative-easing (QE) program, which heightened volatility in the global financial markets, particularly in the main emerging market economies. These macroeconomic risks, however, have diminished in the recent past, as the US provided more comfort about a slower phasing out of its QE tapering approach than initially assumed by markets.

As noted, the US has been an engine of growth since the second half of 2013, while growth prospects in other advanced economies also improved. The US economic performance improved throughout 2013, with annual growth standing at 2.6 percent in the fourth quarter, compared with 4.1 percent growth in the third quarter. For the year as a whole, the economy grew by 1.9 percent in 2013 and it is expected to grow by 2.8 percent in 2014 and 3.0 percent in 2015. Similarly, the UK economy grew by 2.7 percent in the fourth quarter, while real GDP growth increased by 1.8 percent in 2013. It is projected to grow by 2.9 percent and 2.5 percent in 2014 and 2015, respectively. Likewise, real GDP growth for Euro Area improved further from -0.3 percent in the third quarter of 2013 to 0.5 percent in the fourth quarter, which marked a turnaround following six quarters of negative output growth. On an annual basis, the Euro Area shrank by 0.5 percent in 2013, although it is expected to grow by 1.2 percent and 1.5 percent in 2014 and 2015, respectively.

Economic growth in emerging markets remained robust, notwithstanding earlier expectations for a deceleration. China grew by 7.7 percent in the fourth quarter, despite earlier worries about a hard landing. Real GDP growth in India eased to 4.7 percent in the fourth quarter of 2014, largely due to tighter credit conditions that had an adverse impact on investment. South Africa, however, showed a lacklustre performance with growth of about 2.0 percent in the fourth quarter from 1.7 percent in the preceding quarter, driven mainly by economic activities in the mining and quarrying, construction, wholesale and retail trade as well as transport, storage and communication sectors. There was also a situation of sizeable financial imbalances in 2013. The IMF projects that South Africa's real GDP growth will increase to 2.3 percent in 2014 from 1.9 percent in 2013 on the back of slight recovery in consumption and investment. It is projected to grow further to 2.7 percent in 2015. Risks to the South Africa's economic growth are particularly expected from the effect of the continuous strikes in the mining industry and the electricity supply constraints.

Figure 2: Global Growth (2012-2015)



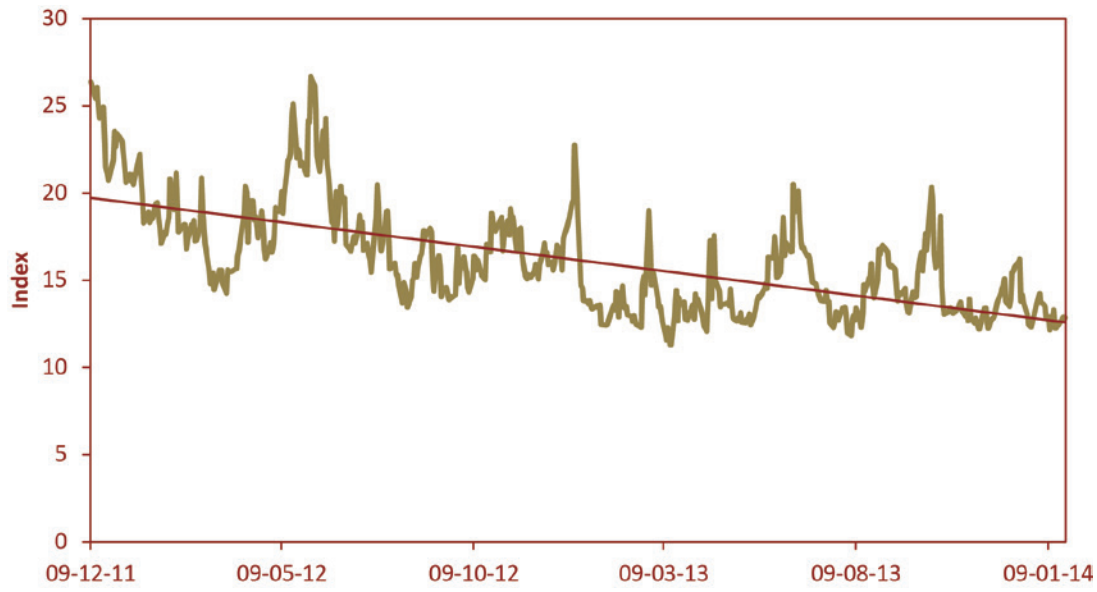
*Source: IMF World Economic Outlook update, January 2014, *=projected*

Global Financial Markets

Advanced Economies

Generally, during 2013 and in the recent months, global equity market indices continued to improve in advanced economies, while financial volatility continued to decline. This was largely attributed to the impact of broadly accommodative monetary policies worldwide and improving global economic outlook. The optimistic sentiment manifested itself in substantial gains in equity markets, sizeable inflows into equity funds, and unabated tightening of credit spreads in advanced economies. Besides, risk premium on government debt of crisis-hit Euro area economies declined noticeably. In line with these developments, the Volatility Index continued to trend downwards, suggesting that financial conditions eased toward the end of the second half of 2013 (Figure 3).

Figure 3: Volatility Index



Source: Bloomberg

Going forward, major central banks around the world are expected to sustain a forward looking stance aimed at mitigating high volatility in financial markets. In this regard, the US Federal Reserve and the Bank of England have emphasized that the monetary stance will remain accommodative despite faster-than-expected reduction in unemployment rates. The Federal Reserve also reassured markets that a fall in unemployment past 6.5 percent would not necessarily trigger an interest rate hike. Consistent with this stance, markets appear to have pushed back the expected date interest rate hikes by several months, suggesting that the macroeconomic risk posed by the US unwinding of its QE has been somewhat contained so far.

Emerging Market Economies

Capital outflows in emerging market economies have been a main concern since the Fed announced that it will start tapering of its QE program in mid-2013. Although the announcement of the tapering had been expected for long, it still resulted in portfolio shifts, capital outflows and exchange rate adjustments, particularly in large emerging markets with sizeable domestic and external imbalances. Thus, the exchange rate depreciations in the emerging markets took a full swing in the third and fourth quarter of 2013. In South Africa, these effects translated in the Rand/US dollar exchange rate depreciation from an average of R9.21 in the first half of 2013 to an average of R10.1 in the second half of 2013 (Figure 4).

Figure 4: Currency movements of the Rand against the US Dollar

Source: Bloomberg

The South Africa Reserve Bank (SARB) increased its benchmark interest rate to 5.5 percent from 5.0 percent on 29 January 2014, in response to concerns regarding underlying inflationary forces stemming from the exchange depreciation in late-2013. It was the first interest rate increase since June 2008. The primary concern was that a weaker Rand would fuel inflation, and consequently threaten the Bank's 3-to-6 percent inflation target. It is worth noting that average inflation in South Africa has been hovering just below the 6.0 percent upper target ceiling for long (Table 2).

Table 2: South Africa CPI index and annualized monthly inflation rate

	2012			2013 (Index, Dec 2012 = 100)											
	Oct	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Index	126.1	126.4	126.7	100.3	101.3	102.5	102.9	102.6	102.9	104	104.3	104.8	105	105.1	105.4
Rate (%)	5.6	5.6	5.7	5.4	5.9	5.9	5.9	5.6	5.5	6.3	6.4	6.0	5.5	5.3	5.4

Source: Statistics South Africa

The South African equity market's index marched along improvements in equity indices around the world during 2013 and in the early months of 2014 (Figure 5).

Figure 5: The JSE Africa All Share Index

Source: Bloomberg

Domestic Economy

Output and Inflation

The Namibian economy experienced a relatively strong growth and low inflation during 2013, which is expected to continue into 2014. According to the preliminary national accounts, the domestic economy is estimated to have grown by 4.4 percent in 2013 and it is projected to expand by 5.3 percent in 2014, according to BoN's staff projections. The growth in 2013 was mainly driven by investments and construction activities in the mining sector and public sector infrastructure programmes. Inflation for the second half of 2013 remained low at 5.3 percent compared to 6.3 percent during the first half of 2013. Monthly inflation rates have remained relatively low with an annual inflation rate of 5.6 percent for 2013, down from 6.7 percent in 2012.This is explained by the slowdown in food and transport inflation. Inflation is expected to remain in the single-digits for the remainder of 2014.

IV. Domestic Households and Corporate Debt Indicators

Household Indebtedness[3]

Since the last issuance of the Financial Stability Report in September 2013, household indebtedness ratio increased further and remains relatively high by regional and international comparisons. This increase in indebtedness ratios is largely due to a rapid rise in the bank credit extended to households, while households' disposable income grew at a moderate pace. The household debt service ratio rose only marginally during the last 6-7 months. The increase in the household indebtedness ratio represents a risk to the financial sector, which warrants tight monitoring going forward.

Household Debt to Disposable Income

The level of household indebtedness increased to 87 percent by end-December 2013, compared to 84 per cent by end-June, largely on account of a substantial rise in bank credit extended to the household sector (Table 4 and Figure 6). Credit extension rose at a brisk pace on account of a spike in instalment credit (increasing at an annual rate of 16.6 percent by December 2013) and sustained double digit growth in mortgage credit (i.e., increasing by 13.3 percent during the same period).

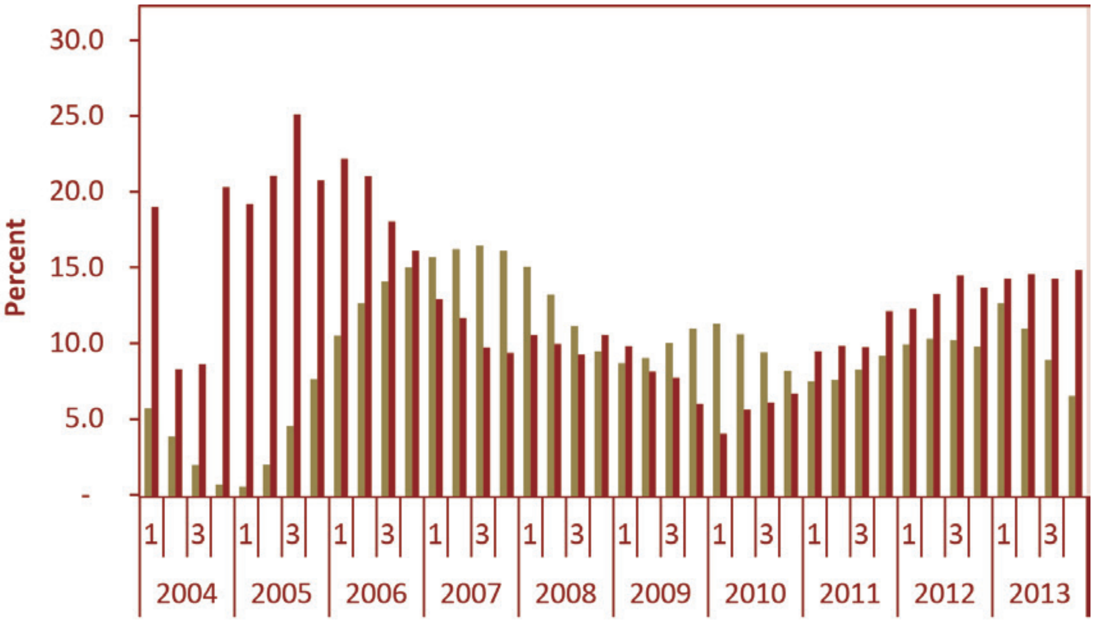
Table 4: Household Debt to Disposable Income

N$ millions	2009 Dec	2010 Dec	2011 Dec	2012 Dec	2013 June	2013 Dec
Total (Disposable Income) (N$ mill)	29 515	33 130	36 511	41 991	44 901	46 811
Credit to Individuals/Households (N$ mill)	23 256	24 856	27 917	31 832	33 858	36 620
Household Debt to Disposable Income (%)	79	75	77	74	75	78
Adjusted Credit to Households (N$ mill)	25 930	27 714	31 127	35 492	37 752	40 831
Adjusted Credit to Disposable Income (%)	88	84	85	83	84	87

On the other hand, disposable income grew at single digits mainly on account of improved tax collections by the Tax Revenue authority, whose tax collection efforts outweighed the impact of a reduction in household/ individual income tax at rates provided in the 2013/14 fiscal budget.

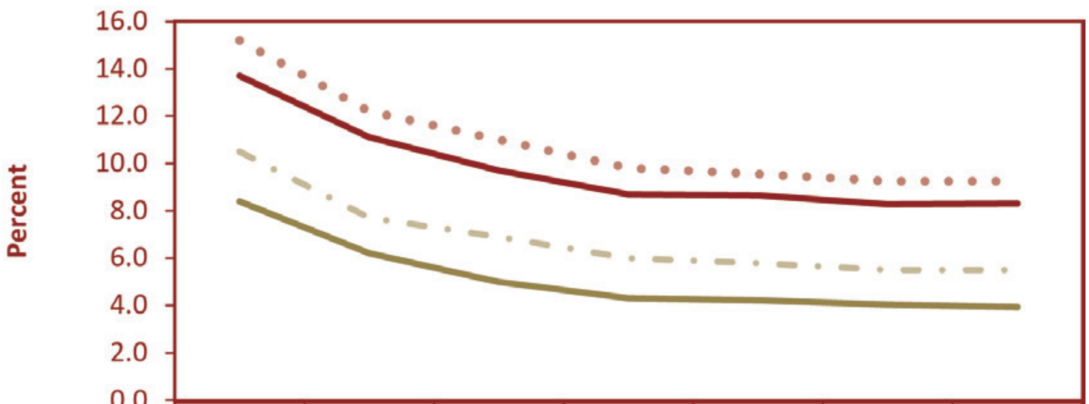
3 *See Appendix 2 on the methodology*

Figure 6: Household Debt and Disposable Income growth (by quarters)



The ratio of household debt to disposable income remains high by regional and international comparisons in an environment of historically low nominal interest rates (Figures 7 and 8). Household debt in Namibia is predominately in the form of mortgage credit,[4] contracted at variable interest rates.

Figure 7: Selected Interest Rates 2008-2013



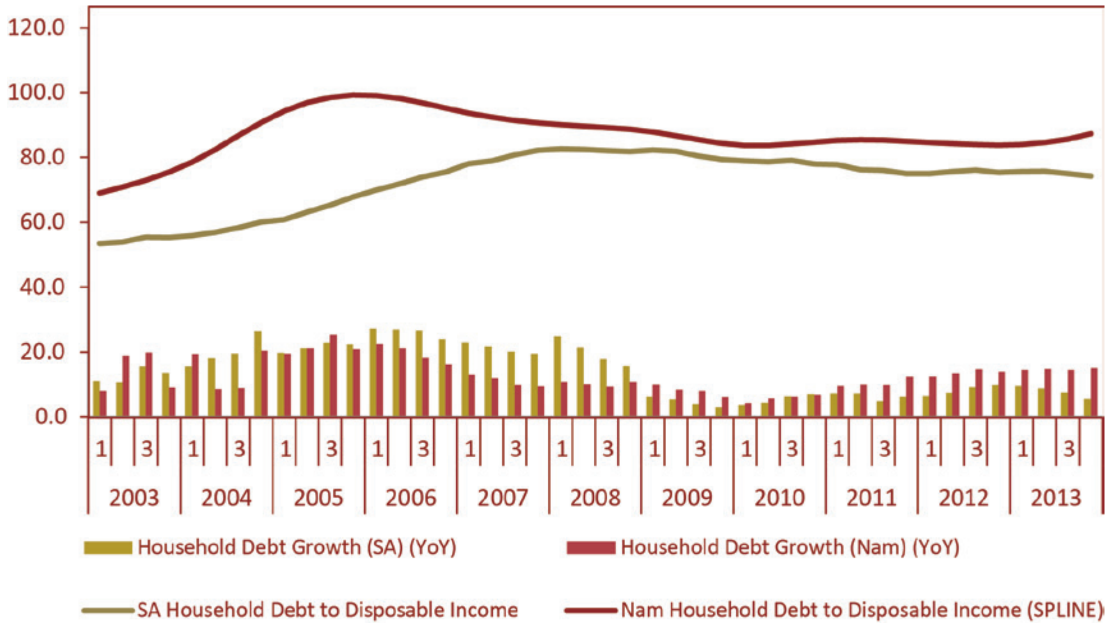
	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	June 2013	Dec 2013
Repo rate	10.5	7.7	6.9	6.0	5.8	5.5	5.5
Prime rate	15.2	12.2	11.0	9.8	9.6	9.3	9.3
Deposit rate	8.4	6.2	5.0	4.3	4.2	4.0	3.9
Lending rate	13.7	11.1	9.7	8.7	8.7	8.3	8.3

Repo rate Prime rate Deposit rate Lending rate

4 *Over 50 percent of credit extension by the commercial banking institutions is towards mortgage loans.*

Namibia's household indebtedness ratios remain above South Africa's and the gap between the two countries ratios widened during 2013 (Figure 8). Namibia's household indebtedness ratio is also considered high by international comparisons.

Figure 8: Household Debt to Disposable Income: Namibia and South Africa



Source: Bank of Namibia, South African Reserve Bank

Debt Servicing Ratio[5]

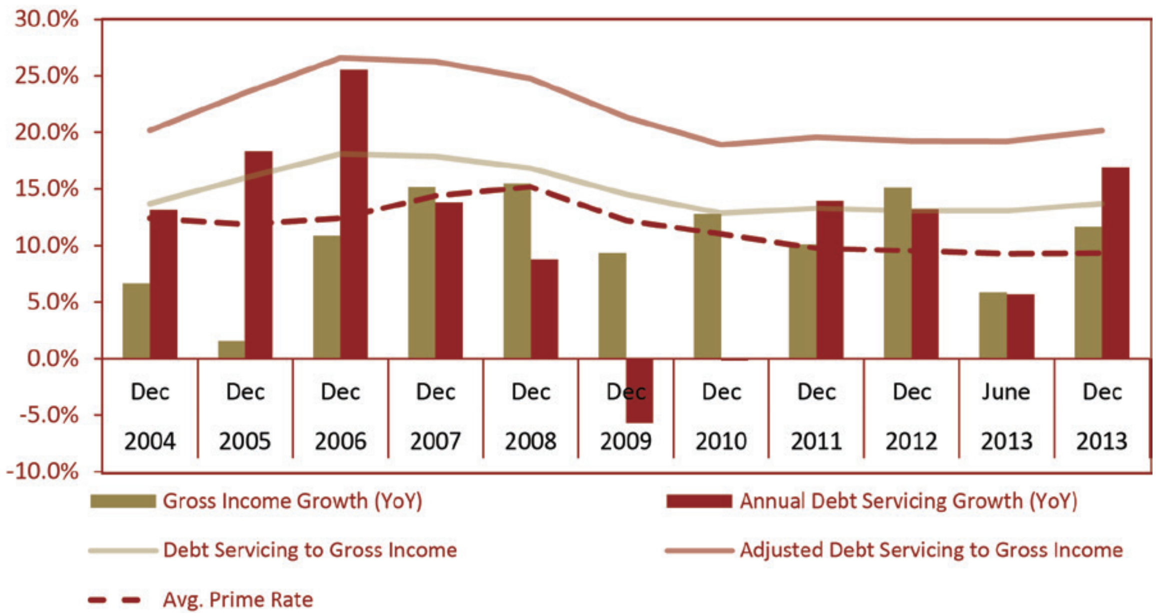
The household debt service ratio has remained virtually unchanged since end-June 2013, the trend that has been observed since 2009 (Table 5 and Figure 9). The ratio stood at 20.1 percent at the end of December 2013, representing a marginal increase of 0.9 percent, compared to end-June 2013, according to BoN's staff estimates. The general constant debt service ratio largely reflects sustained gross and disposable income growth, attributable to sliding individual income tax, increase in compensation to employees and accommodative monetary policy stance since 2009.

5 *The debt servicing ratio is a measure of the financial burden that the repayment of debt places on the average household, relative to its income. The measure is designed to illustrate the percentage of households' incomes being spent on the servicing and repayment of debt. The ratio is calculated based on individuals' gross income and total household debt, based on normal amortisation formulas using estimated outstanding loan duration, average lending rates and the outstanding balance on each class of loan.*

Table 5: Debt Servicing Ratios

	Gross Income Growth (YoY)	Disposable Income Growth (YoY)	Annual Debt Servicing Growth (YoY)	Debt Servicing to Gross Income	Debt Servicing to Disposable Income	Adjusted Debt Servicing to Gross Income	Avg. Prime Rate
Dec 06	11	11	26	18	20	27	12
Dec 07	15	16	14	18	20	26	14
Dec 08	15	15	9	17	19	25	15
Dec 09	9	9	-6	15	16	21	12
Dec 10	13	12	0	13	15	19	11
Dec 11	10	10	14	13	15	20	10
Dec 12	15	15	13	13	15	19	10
Jun 13	6	4	6	13	15	19	9
Dec 13	12	9	17	14	15	20	9

Figure 9: Debt Servicing Costs



Corporate Debt

After increasing rapidly during the first half of 2013, total corporate debt stock decreased from N$54.8 billion by end-June 2013 to N$53.7 billion by end-December 2013. The decline in total corporate debt reflects trends with foreign private corporate debt. The reduction in foreign debt conceals sizeable foreign debt reductions on account of debt conversion into equity (swap) by a prominent mining company that was offset by new corporate indebtedness to foreign creditors. Corporate debt levels (as a share of GDP) are higher than years back, but are, in principle, supporting valuable future export promotion activities. As such, risks of corporate debt remain low and unchanged from earlier FSR assessments, but warrant monitoring going forward, as new corporate debt and debt service costs increase. Large exposures to manufacturing, as well as to transport and logistics, also warrant oversight due to concentration risks.

Total corporate debt, which increased steadily (in nominal terms) starting 2009, declined marginally between end-June and end-December 2013 (Table 6). The decline in the debt stock reflected a contraction in foreign debt, albeit concealing important financial operations by corporates. The latter included[6] mainly a N$11 billion debt-equity swap by a mining company during the third quarter, which coincided with new foreign borrowing by other corporations. These were again predominantly export-led mining companies.

Table 6: Domestic and External Corporate Debt (Private Sector and SOEs)

	2009 Dec	2010 Dec	2011 Dec	2012 Dec	2013 June	2013 Dec
Domestic (%)	52.1	47.2	39.0	44.9	40.6	43.6
Foreign (%)	47.9	52.8	61.0	55.1	59.4	56.3
Total Debt (million)	26 230	32 472	41 867	45 922	54 854	53 655
YoY Change in % (Total)	2.1	23.8	28.9	9.7	23.0	-2.2
GDP (Nominal, N$ mill)	75 070	81 016	91 658	107 323	114 042	120 760
Debt to GDP Ratio (%)	34.9	40.1	45.8	42.8	48.1	44.4

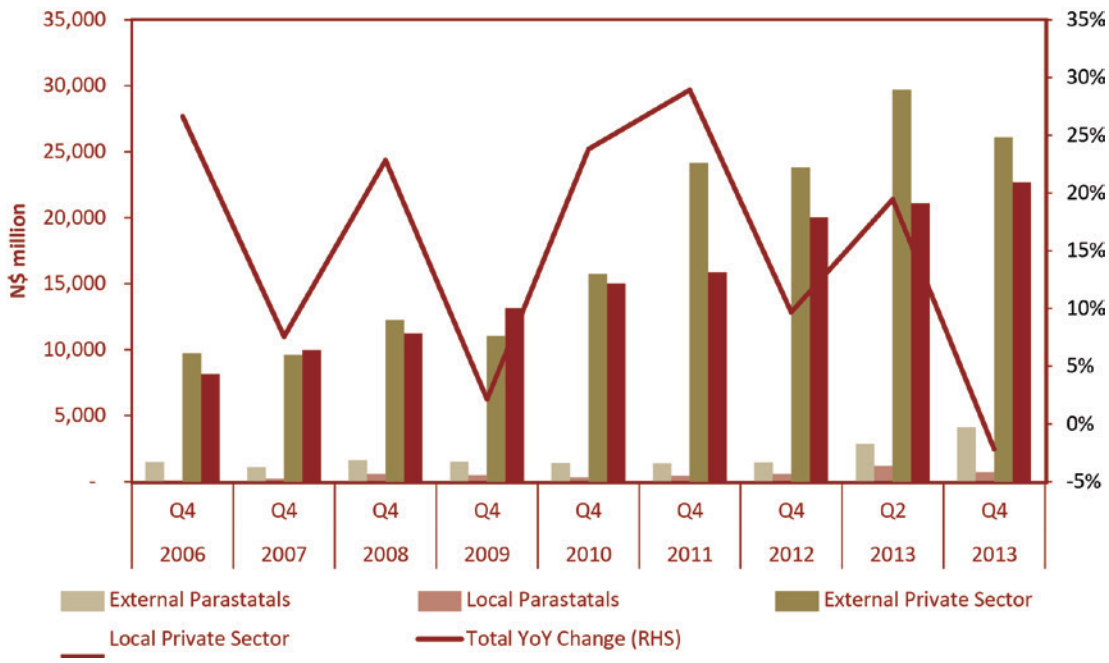
The composition of corporate's total indebtedness changed since the issuance of the FSR in September 2013 (Table 7). The share of domestic debt increased, while that of foreign debt declined, despite a sizeable increase in State Owned Enterprises (SOEs') foreign indebtedness, albeit from a lower base (Figure 10). The foreign debts for SOEs are largely guaranteed by the government. By end-December 2013, total government guarantees were equivalent to 6 percent of GDP, which is within the set safety target of 10 percent of GDP. Therefore, the rapid growth in SOEs' foreign debt, probably poses limited financial stability risk during the next six months.

6 *This is an estimated figure.*

Table 7: SOEs and Private Sector Debt Breakdown

N$ Millions	2009 Dec	2010 Dec	2011 Dec	2012 Dec	2013 Jun	2013 Dec
Private Sector (Foreign)	11 065	15 742	24 149	23 827	29 709	26 096
Private Sector (Local)	13 155	15 013	15 876	20 049	21 110	22 702
SOEs (Foreign)	1 510	1 401	1 389	1 455	2 860	4 129
SOEs (Local)	499	316	453	592	1 176	727
Total	26 229	32 472	41 867	45 923	54 855	53 654
Foreign (% Total)	47.9	52.8	61.0	55.1	59.4	56.3
Local (% Total)	52.1	47.2	39.0	44.9	40.6	43.7

Figure 10: Credit to Corporations, 2005 - 2013



Corporates' foreign debt service peaked in the third quarter of 2013, before levelling off to about N$800 million in the last quarter of the year (Table 8). The implementation of the referred debt-equity swap by a local mining company ballooned debt service costs recorded in Q3-2013. Thereafter, quarterly debt service costs converge to average levels registered in the previous three years (same quarter).

Table 8: Foreign Private Sector Debt and Debt Servicing

N$ Million	2009 Q4	2010 Q4	2011 Q4	2012 Q4	2013 Q2	2013 Q3	2013* Q4
Total Foreign Private Sector Debt	11 065	15 742	24 149	23 827	29 709	18 925	26 096
Total Foreign Private Sector Debt Servicing	1 402	304	473	576	1 763	12 741	792

Large Exposures

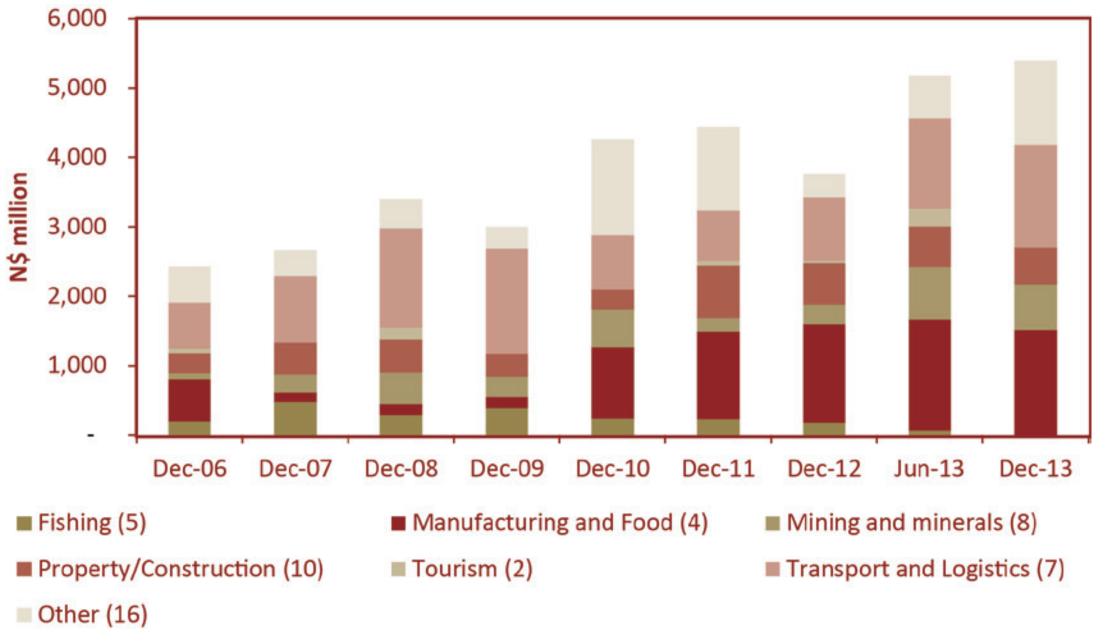
Commercial banks in Namibia often lend a large portion of total corporate loans to individual companies and/or groups of companies in a single sector. By so doing, these loans have the potential to become a systemic risk to overall financial stability, as this could amount to excess concentration risk to individual companies or sectors.

As noted in the September 2013 FSR, large exposures to the domestic commercial banks grew strongly during the first half of 2013. The total exposure grew by 37.5 percent between December 2012 and June 2013, from N$3.8 billion to N$5.2 billion (Table 9). Large exposures of the domestic commercial banks stabilized towards the end of December 2013, but still remained significant for specific sectors. Large exposure to fishing and tourism unwind, while exposures to manufacturing remained sizeable, but unchanged with respect to levels reached by end-June 2013. Overall, large exposures to the manufacturing & food and transport & logistics sectors made up 56 percent of total large exposures during the period under review (Figure11). This, per se, constitutes concentration risk for domestic commercial banks and warrants monitoring.

Table 9: Large Exposures by Sector

N$ millions	2009 Dec	2010 Dec	2011 Dec	2012 Dec	2013 June	2013 Dec
Fishing (5)	385	238	228	180	65	0
Manufacturing and Food (4)	167	1 024	1 264	1 413	1 598	1 512
Mining and minerals (8)	283	550	188	285	754	657
Property/Construction (10)	329	277	757	597	588	529
Tourism (2)	-	-	74	38	257	0
Transport and Logistics (7)	1 521	785	718	913	1 293	1 484
Other (16)	316	1 390	1 212	340	619	1 215
Total (52)	**3 001**	**4 263**	**4 440**	**3 765**	**5 175**	**5 396**
(Percentage change)						
Fishing (5)	35	-38	-21	-21	-64	0
Manufacturing and Food (6)	4	513	23	12	13	-5
Mining and minerals (8)	-38	94	-66	52	165	-13
Property/Construction (11)	-31	-16	174	-21	-1	-10
Tourism (2)	0	0	0	-49	580	0
Transport and Logistics (7)	6	-48	-9	27	42	15
Other (17)	-25	339	-13	-72	82	96
Total (56)	**-12**	**42**	**4**	**-15**	**37**	**4**

Figure 11: Large Exposures by Category



At the end of December 2013, large exposures as a share of total private sector credit remained below 10 percent, but was higher than the level registered at end-December 2012 (Table 10). The increase in the latter ratio warrants monitoring to detect possible concentration risks to commercial banks.

Table 10: Large Exposures

	2009 Dec	2010 Dec	2011 Dec	2012 Dec	2013 June	2013 Dec
Total Largest Exposures (million)	**3 001**	**4 263**	**4 440**	**3 765**	**5 396**	**5 396**
Total PSC (million)	37 751	41 838	44 575	51 881	54 968	59 323
PSC to Businesses (million)	13 155	15 013	16 411	20 049	21 110	22 702
Large Exposures to PSC (%)	7.9	10.2	10.0	7.3	9.8	9.1
Large Exposures to Business PSC (%)	22.8	28.4	27.1	18.8	25.6	23.8

V. Performance of the Banking Sector

Since the review in September 2013, commercial banking institutions remain sound, profitable and adequately capitalised as shown in the aggregated indicators of the banking sectors. Going forward, the commercial banking institutions are expected to remain sound and healthy. Profitability indicators increased in the latter half of 2013, while at the same time the ratio of non-performing loans decreased since the review in September 2013. There were no major changes observed in the sector's structure and the four major commercial banking institutions continued to dominate the Namibian banking sector with a Herfindahl-Hirschman Index (HHI) of 2729 in December 2013, compared to 2734 points June 2013[7].

Overview of the Banking Sector Landscape

As was alluded to in the FSR of September 2013, the banking sector landscape grew with the central bank granting provisional authorization to E-Bank to conduct business as a banking institution in Namibia in July 2013. The provisional licence was valid for a period of six months, during which E-Bank was required to ready itself to commence banking operations. The provisional licence was extended for another six months in 2014.

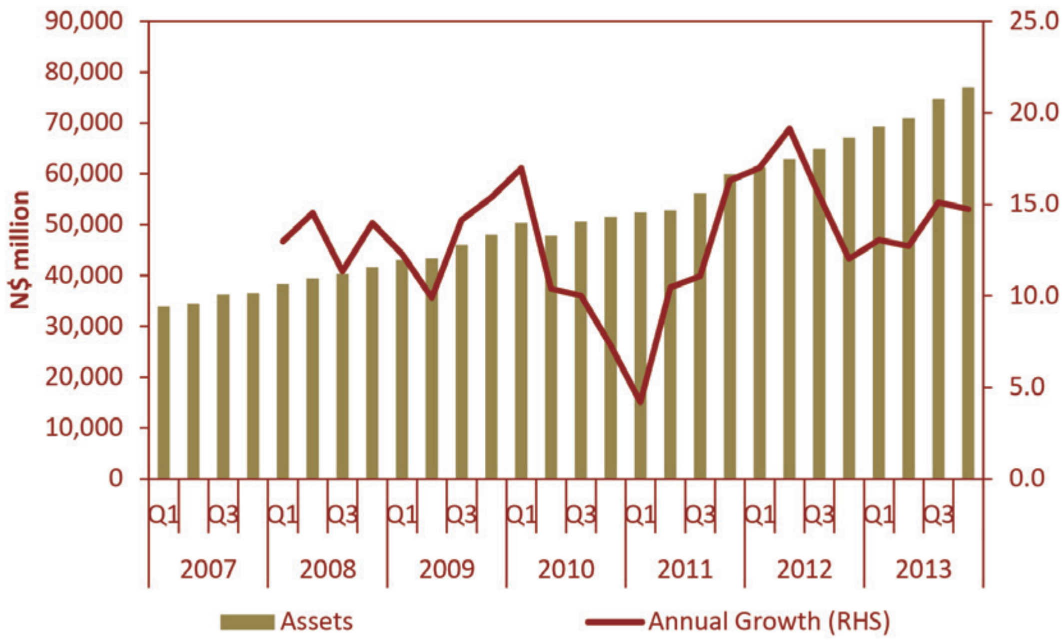
During 2013 the central bank carried out a review to consolidate the current legislations concerning banking institutions. The review consolidated the Banking Institutions Act, 1998 (Act No. 2 of 1998) and the consequent Banking Institutions Amendment Act, 2010 (Act No. 14 of 2010). The review, amongst others, aims to strengthen provisions relating to foreign shareholding in banking institutions in line with the Namibian Financial Sector Strategy. Other additional regulatory amendments related to definitions of banking businesses, resolution measures and recovery plans of troubled banks were also incorporated. The Bill is expected to be tabled in Parliament in 2014.

Balance Sheet Structure

In the last half of 2013, the banking sector continued to be characterised by an upward trend in total assets (Figure 12). The total assets of the banking sector rose by an annual growth of 14.7 percent at end December 2013, as compared to 12.7 percent at end June 2013. Net loans and advances, which constitutes over 75 percent of total assets, continues to be the main driver of asset growth, rising by 7.6 percent between the first half and second half of 2013. Within this lending category, residential mortgages and instalments debt, with 41 percent and 16.2 percent share of net loans and advances as at end December 2013 respectively, rose annually by 15.5 percent and 13.5 percent.

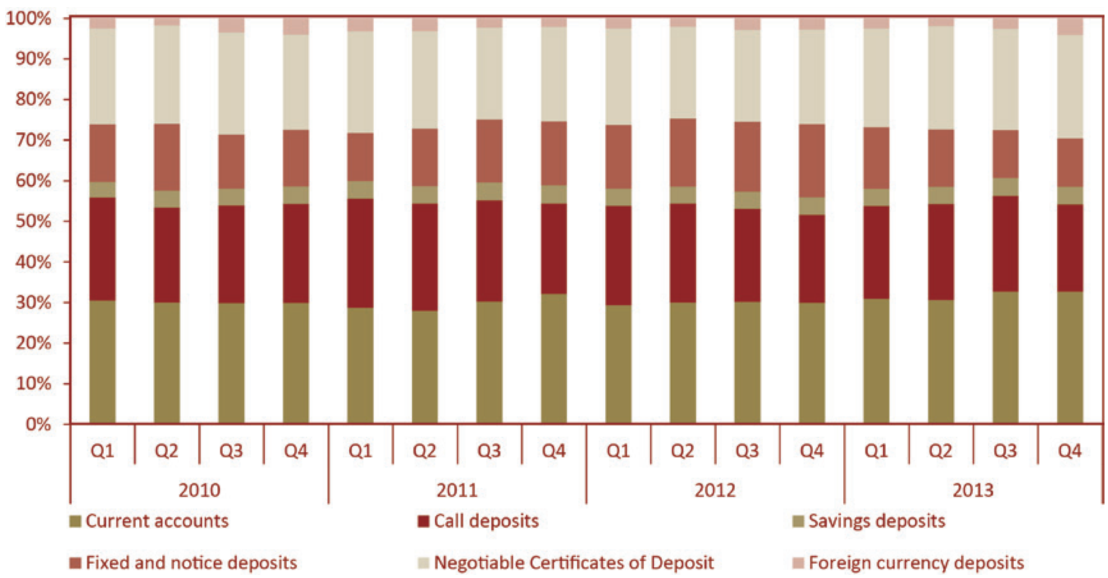
7 *A score tending to zero is deemed extremely competitive, while a score tending to 10 000 points is deemed extremely uncompetitive (monopoly).*

Figure 12: Banking Sector Assets and Growth Rate



Deposits continued to drive growth on the liability side of the balance sheet. Deposits rose annually by 12.4 percent, raising the share of total funding-related liabilities to 97.1 percent in the first half of 2013 as compared to 96.3 percent during the first half of 2013. Current accounts, call deposits and negotiable certificates of deposits represented a combined 80 percent of total deposits as at end 2013 (Figure 12). During the period, current accounts and savings accounts grew annually by 22.5 and 15.3 percent respectively, while fixed and notice deposits declined by 25.2 percent. The biggest change was observed from foreign currency deposits, which increased by 68 percent.

Figure 13: Composition of Banking Institution Deposits

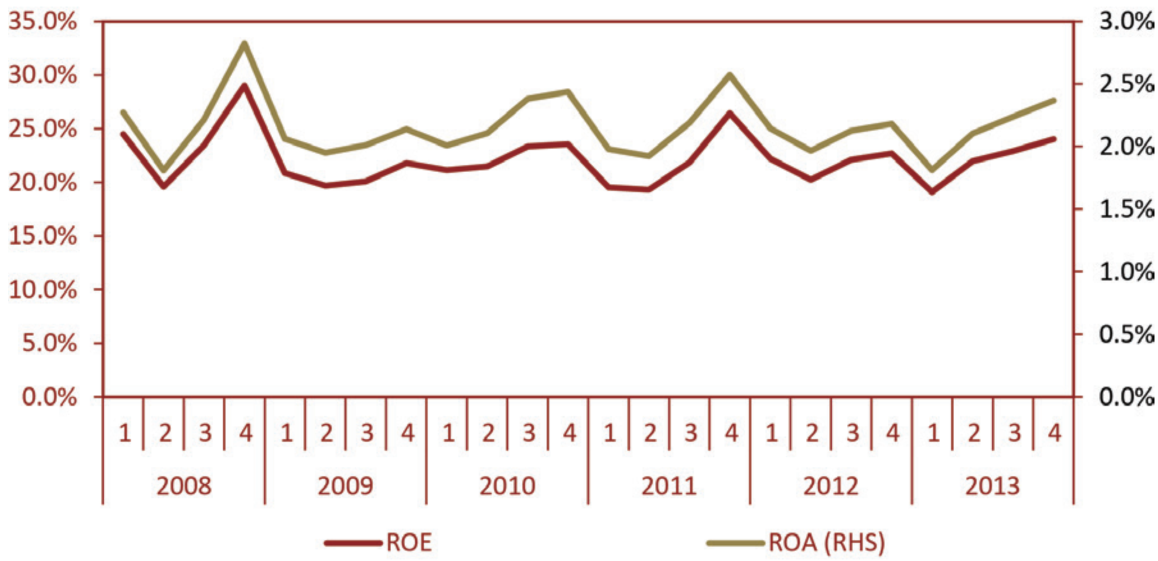


Earnings and Profitability

Profitability indicators of the banking sector continued to remain relatively high by international standards and reached their highest levels for 2013 during the end of the year. Banking sector profitability, as measured by Return on Asset (ROA) and Return on Equity (ROE), increased from 2.11 percent and 21.98 percent at the end of June 2013 to 2.37 percent and 24.82 percent, respectively, as at the end of December 2013 (Figure 14).

Net interest income to total income decreased from 69.67 as at June 2013 to 68.43 as at December 2013, while expenses[8] grew 6.09 percent for the six months ending June 2013 compared to 11.99 percent annual growth for the six month period ending December 2013. The costs were attributed to a rise in staffing costs, consultant and managements fees, administration and overhead, and auditing costs.

Figure 14: Return on Assets and Return on Equity



Capitalisation

In line with previous periods, during the last half of 2013, the banking sector remained adequately capitalised, supported by retained profits[9]. The risk-weighted capital ratio (RWCR) remained at 14.4 percent for both June 2013 and December 2013, while Tier-1 risk-based capital ratio rose from 10.7 percent to 11.5 percent during the period. The prevailing supervisory floors for the RWCR and Tier-1 capital remained at 10.0 percent and 7.0 percent, respectively.

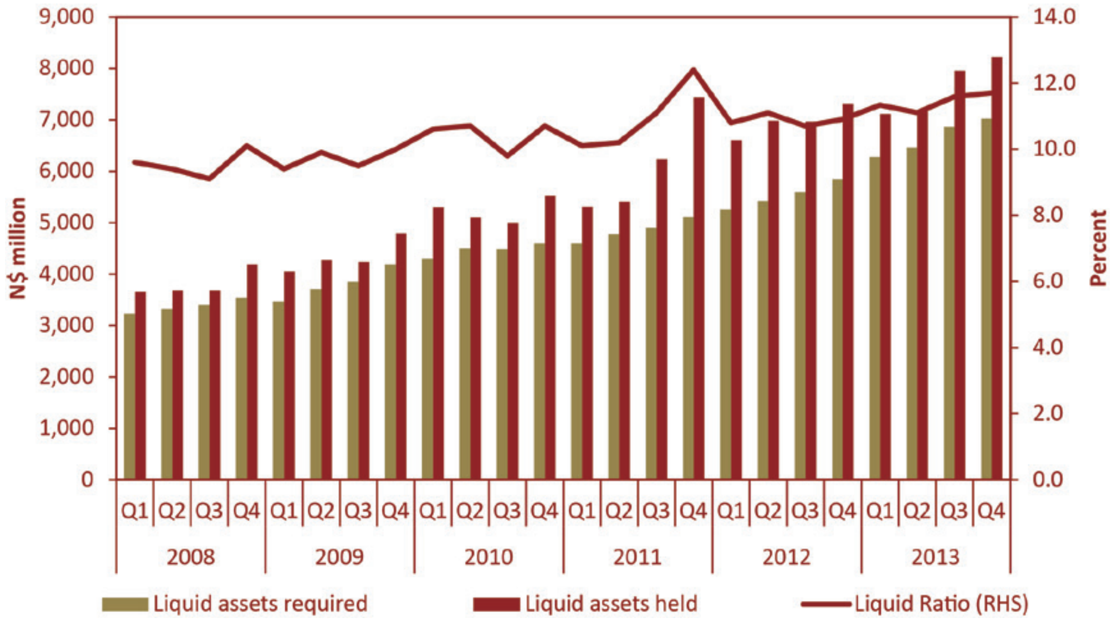
8 *The sum of interest and other expenses.*

9 *Retained profits for the industry doubled between June 2013 and December 2013*

Liquidity

The banking sector remained above the regulatory liquidity and asset holding[10] requirements, respectively, during the end of the year. The liquid asset ratio (liquid assets to average total liabilities to the public), a core indicator of financial soundness, rose from 11.1 percent at the end of the first half of 2013 to 11.7 percent at the end of the last half of 2013, which remains above the 10.0 percent required level (Figure 15). The banking sector also remained above the regulatory minimum asset holding requirements, and increased surplus stock between June 2013 and December 2013 by approximately N$ 500 million.

Figure 15: Liquid Assets and Liquid Ratio



The composition of liquid assets underwent some changes between June and December 2013. The largest liquid asset category continued to be the Government Treasury Bills, which increased from 54.0 percent of total liquid assets as at the end of June 2013 to 58.7 percent at the end of December 2013. The representation of notes and coins also increased between the two periods, from 10.9 percent to 12.5 percent. The most noticeable change in liquid asset composition was cash balances held at Bank of Namibia, which made up 3.22 percent as at end December 2013, compared to zero percent at June 2013 (Figure 16). Lastly, a decline was observed in the relative holdings of other liquid assets, namely strip bonds, Public Sector Enterprise and other securities, as well as other liquid assets.

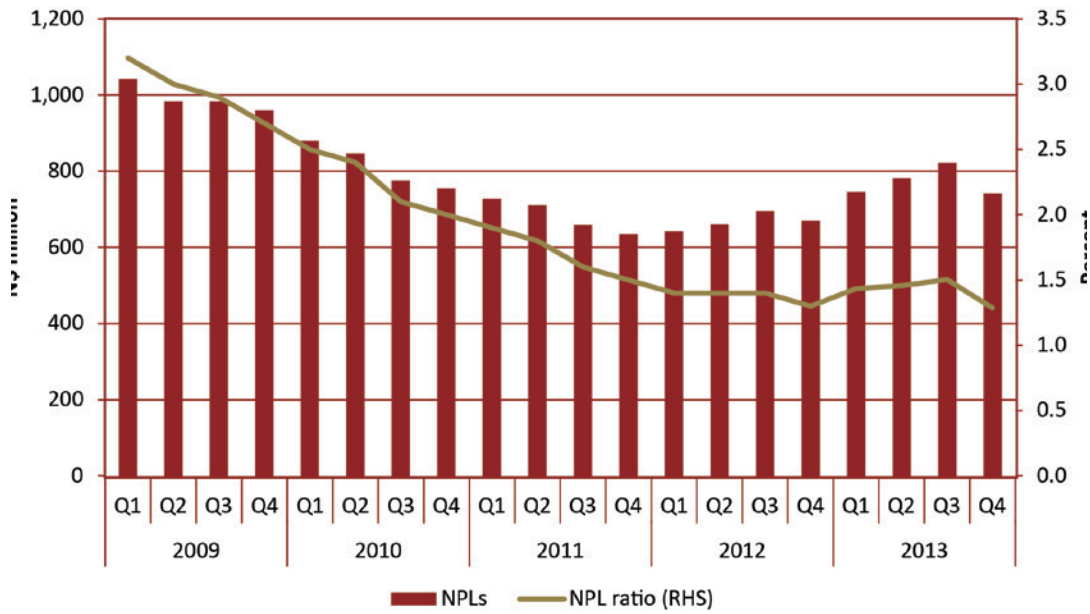
10 *The minimum asset holding requirement is 10 percent of average total liabilities to the public.*

Figure 16: Composition of Liquid Assets

Asset Quality

Credit risk, as expressed by the ratio of non-performing loans (NPLs) to total loans, started to decline during the second half of the year. The NPL ratio declined by 0.17 percentage points between June 2013 and December 2013, from 1.46 percent to 1.29 percent respectively (Figure 17). This development is in line with the general overall downward trend in NPLs observed since at least 2009. Credit risk remained the major risk on the asset side of the banking balance sheet, with bank lending composing approximately 76 percent of banking assets as at December 2013.

Figure 17: Banking Asset Quality

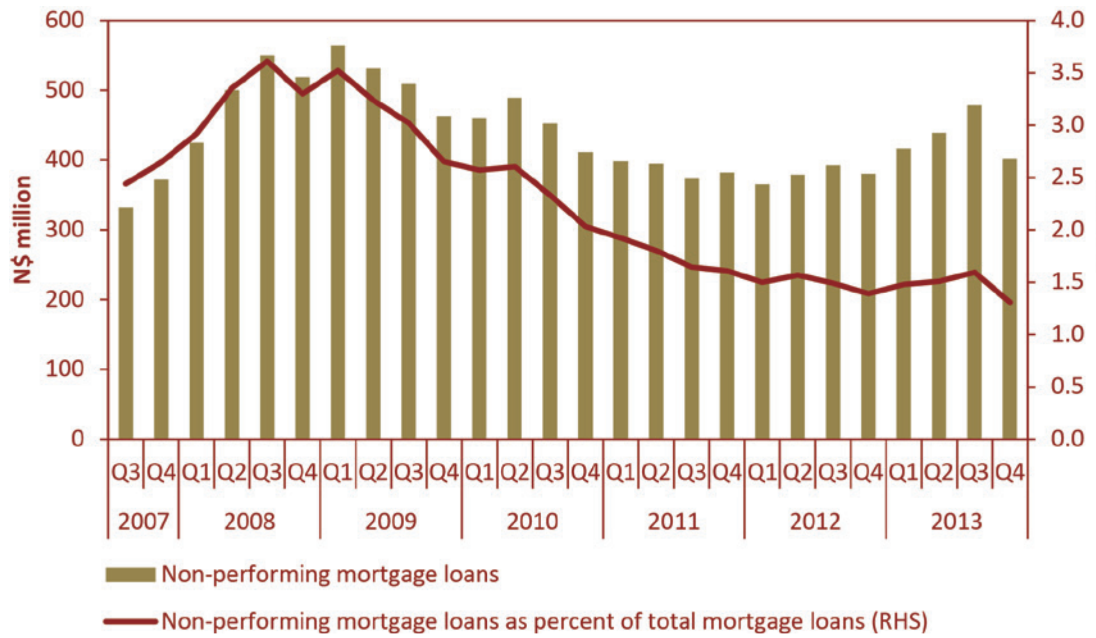


The overall decline in NPLs at end December 2013 was due to a decline in mortgage NPLs, though an increase in in the weight of other forms of credit extended was observed. The weight of mortgages as a proportion of total NPLs decreased between June 2013 and December 2013, from 55.7 percent to 53.7 percent (Figure 18). However, an increase in the weight of instalment credit as a proportion of total NPLs (from 12.53 to 13.75), overdrafts as a proportion of total NPLs (from 13.79 to 14.90) and unsecured lending in the form of credit card loans as a proportion of NPLs (from 1.40 to 1.86) over the same period was observed. The representation of personal loans as well as other loans and advances in total NPL's also decreased over this period.

Figure 18: Non-Performing Loans by Category

Reversing the general trend observed between December 2012 and September 2013, the amount and rate of default rates within the Mortgage Loans category declined in December 2013 when compared to June 2013 (Figure 19). The decline is in line with the overall five-year trend observed in default rates within the category since 2009. The development could be as a result of more stringent lending requirements by the commercial banks.

Figure 19: Non-Performing Mortgage Loans



Overview of the Resilience of the Banking Sector

The commercial banking institutions continue to operate in a manner which ensures that indicators used to measure the health of the institutions remain within accordance of regulatory requirements. The Bank of Namibia employs data, market intelligence and stress testing methodology to ascertain the likelihood of deviation from the regulatory limits, which could pose a threat to the healthy functioning of the commercial banking institutions, and takes the necessary steps should such a scenario arise.

Stress Testing for Capital Adequacy

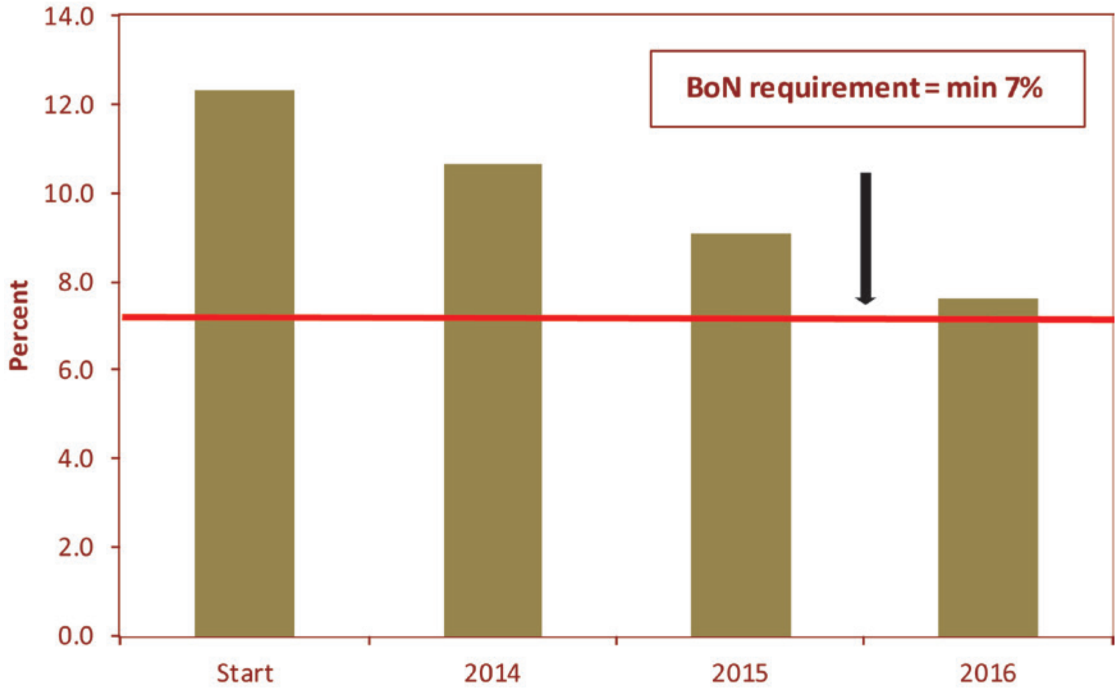
Stress testing was undertaken to determine the extent to which Core Tier 1 capital[11] would be able to withstand an increase in credit risk in the form of an increase in default rates. The tests were conducted on the four main commercial banking institutions in the country[12]. Stress testing is conducted through a model which links credit risk to the expected losses by trends in Probability of Default and Loss Given Default for various sectors of the economy. Thus, given a commercial banking institution's exposures, the model shocks default rates originating from each of the sector to which it is exposed. These rates are combined with balance sheet data, income statements and capital returns in order to get an estimate of the institutions regulatory capital level.

For financial data as at December 2013, the stress test exercise indicates that the banking industry as a whole is adequately capitalised in the event of an increase in the default rate of the sectors to which the commercial banking institutions are exposed (Figure 20). The Bank of Namibia requires the banking institutions to carry higher capital buffers than expected by the Basel II qualifications.

11 *Core Tier 1 capital is considered the 'first line of defence' capital buffer for the commercial banking institutions in an event of stress.*

12 *See Appendix B for stress testing methodology in the September 2013 edition of the Bank of Namibia's Financial Stability Report.*

Figure 20: Results of Core Tier 1 Ratio after shock administered, on an aggregate level



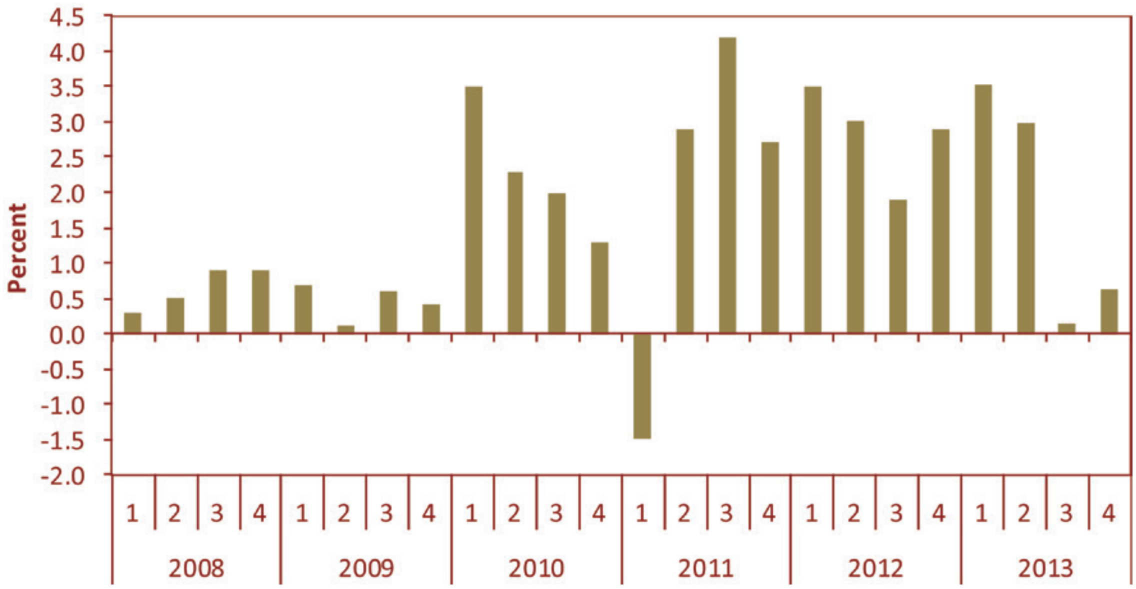
Interest Rate Risk

Earnings would decrease over a 12-month period by N$441.6 million, compared to N$317.8 million as at end June 2013. The simulation results also revealed that a 200 basis-point decline in interest rates would lead to an N$9.02 million increase in the banking industry's economic equity value or, equivalently, 0.0104 percent increase of the industry's capital value. On the other hand, an increase in interest rate of the same size would result in equivalent, though opposite movements in earnings and economic value.

Foreign Exchange Risk

The net open position remained below the 20 percent regulatory limit and was deemed adequate to safeguard the banking sector against movements in foreign exchange rates in the last half of 2013. The ratio of foreign currency assets and liabilities to capital in the banking sector declined from 3.0 percent at the end of June 2013 to 0.15 percent at the end of September 2013, before increasing to 0.64 percent at the end of December 2013 (Figure 21).

Figure 21: Net Open Position as Percentage of Tier-1 capital



VI. Performance of the Non-Banking Financial Sector[13]

Since the last FSR report of September 2013, the balance sheets of non-banking financial institutions remain healthy. This is expected to continue in the next six months. NBFIs continue to register a double-digit growth during the year of 2013. The provident institutions remained well capitalised, with solvency levels exceeding the statutory requirements. Investment institutions invested most of their assets locally in line with regulatory requirements and the risk appetite of their clients.

The non-bank financial sector performs a significant role of channelling savings and transfer of risk of the public and corporate bodies. The assets of the NBFI are relatively large constituting 149 percent of the country's nominal GDP or 259 percent of the money supply (Table 11). As of December 2013 pension funds and long term insurers originated a combined 80 percent of the assets of the industry, most of which are administered by unit trust management companies, investment managers or by themselves.

Compared to the size of the assets of the NBFIs as reported in the September 2013 FSR, the industry grew by 19.5 percent. The growth was driven by Pension Funds, which increased their asset size from N$85.8 billion to N$105.3 billion (Table 11), mainly on the back of improved returns on investments. Similarly, Long-term insurance assets grew from N$ 31.7 billion as reported in the September 2013 FSR to N$36.4 billion. The third largest component, Natural Persons, also grew- from N$17.8 billion to N$19.1 billion

Table 11: NBFI assets and relative size, December 2013

Figures in N$ Millions	Unit Trusts	Investment Managers	Other/Direct	Total	% of Total
Long Term Insurance	1 259	18 796	16 369	36 424	20%
Short Term Insurance	182	373	2 906	3 461	2%
Medical Aid Funds	49	320	633	1 002	1%
Pension Funds	2 388	71 551	31 328	105 267	59%
Companies	8 292	808	---	9 100	5%
Natural persons	19 096	46	---	19 142	11%
Other	1 484	3 019	---	4 503	3%
Total	**32 750**	**94 913**	**51 236**	**178 899**	**100%**
Measure			N$ Millions	% of measure	
GDP			120 058	149%	
Money supply			68 958	259%	

Source: NAMFISA, BON

---: No data.

13 *This section analyses data up to December 2013 only, unless otherwise stated, due to data availability*

Due to their relative large size in the economy, NBFIs should be closely monitored to mitigate against potential risks (Table 12). Although there will be double counting, Table 12 provides an overview of how the balance sheets of different types of NBFIs have grown since 2011, and their asset sizes relative to GDP. As is illustrated, none of the balance sheet decreased with relation to GDP for the period under review. Nevertheless, constant monitoring is warranted.

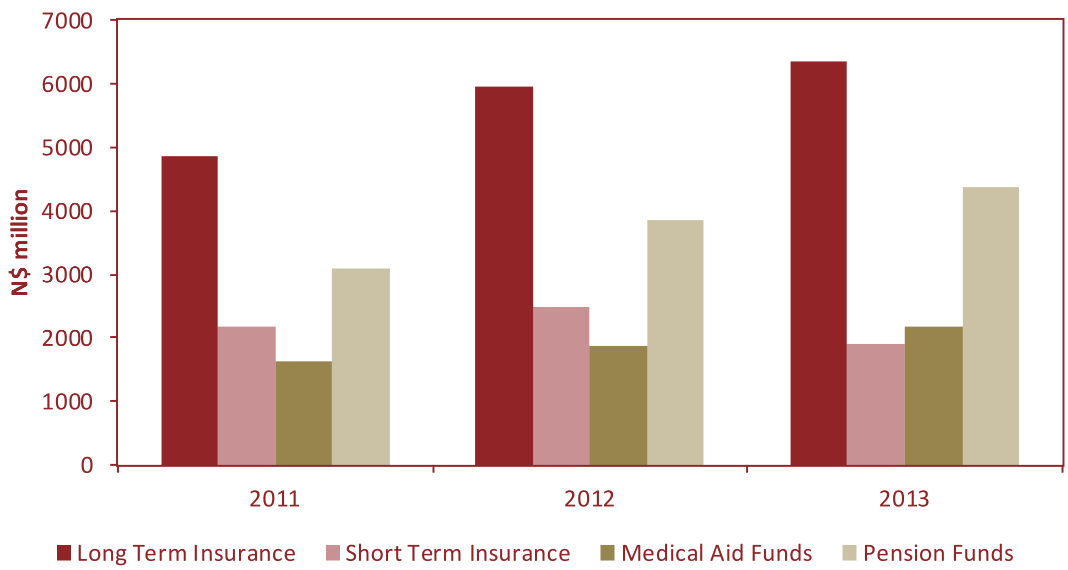
Table 12: Size of Balance Sheets of NBFIs

	Dec 2011	Dec 2012	Dec 2013			
Asset Values N$ million	**Assets**	**% of GDP**	**Assets**	**% of GDP**	**Assets**	**% of GDP**
Long Term Insurance	26 736	29	31 654	29	36 424	30
Short Term Insurance	**2 624**	**3**	**3 001**	**3**	**3 461**	**3**
Medical Aid Funds	768	1	858	1	1 002	1
Pension Funds	**69 478**	**76**	**85 757**	**80**	**105 267**	**88**
Unit Trusts	27 526	30	32 106	30	37 267	31
Investment Management	**91 665**	**100**	**109 110**	**102**	**123 322**	**103**
Micro-lending	1 501	2	1 753	2	2 616	2
Nominal GDP (N$ mill)	**91 658**		**107 323**		**120 058**	

Source: NAMFISA

Growth within the NBFI sector remains robust. As at 31 December 2013, the year-on-year asset growth (including loans outstanding for micro-lenders) for NBFIs all had positive growth, from 17 percent for medical aid funds to 23 percent for pension funds. Income from contributions and premiums for the provident institutions (long-term insurance, short term insurance, pension funds and medical aid funds) increased by 4.8 percent to N$14.9 billion for the year 2013 (Figure 22).

Figure 22: Premium and Contribution Growth of Provident Institutions

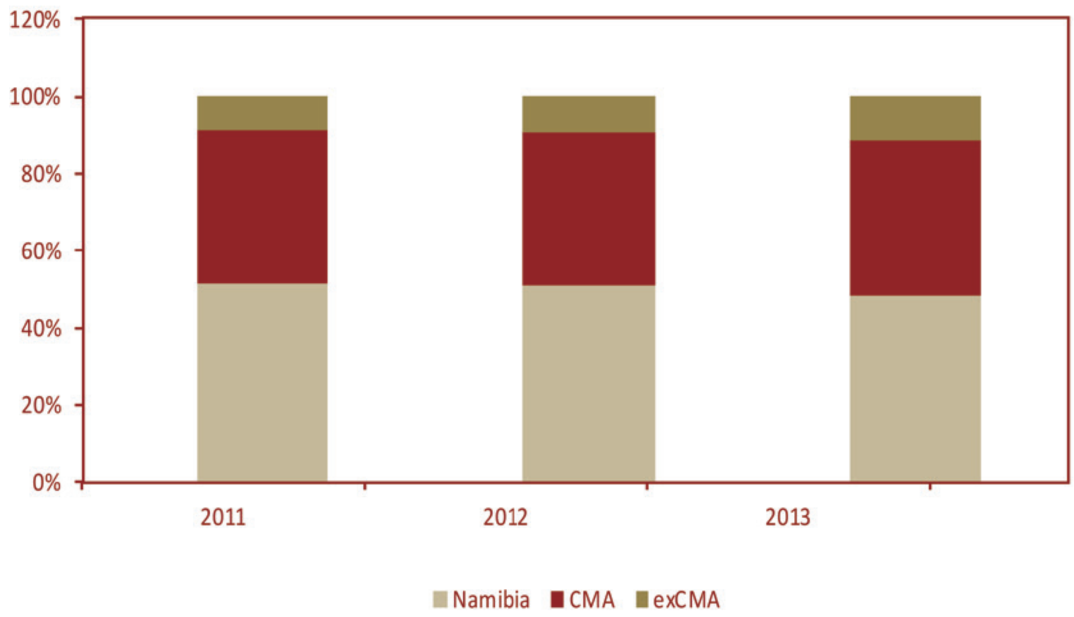


Source: NAMFISA

Similar to the September 2013 FSR report, provident institutions remain adequately capitalised, with the solvency levels remaining above the statutory requirements and thus sufficient to withstand any risk. This is expected to continue going forward. A substantial proportion of the liabilities of pension funds and long-term insurers are associated to investment performance, thus capital market volatilities are borne by policy holders or members. Consequently these institutions are spared from potential solvency problems (the only exception is the defined benefit funds which are guaranteed by their respective employers). Short-term insurers and medical aid funds on the other hand set aside solvency capital to cater for any capital market volatility.

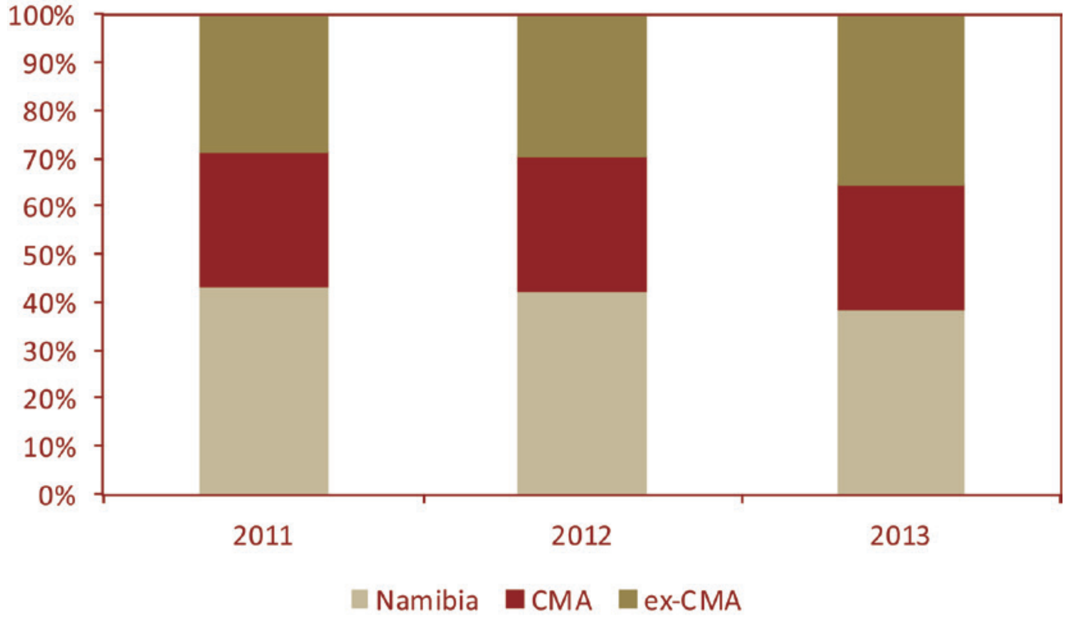
About 50 percent of the assets of NBFIs are invested in the domestic market, including dual-listings on the NSX. Pension funds invest around 40 per cent in Namibia, 30 percent in CMA (almost exclusively South Africa) and 30 percent outside of the CMA. However, most assets of NBFIs (including pension funds) are placed with Unit Trusts and Investment managers. Refer to Figure 23 for an overview of the jurisdictional asset allocation of investment managers and unit trust schemes and Figure 24 for the asset allocation information of pension funds. Accordingly, investment managers and unit trusts invests, about 50 percent in Namibia, 40 percent in CMA (almost exclusively South Africa) and only about 10 percent outside the Common Monetary Area (CMA).

Figure 23: Jurisdictional Asset Allocation of Unit Trusts & Investment Managers (Combined)



Source: NAMFISA

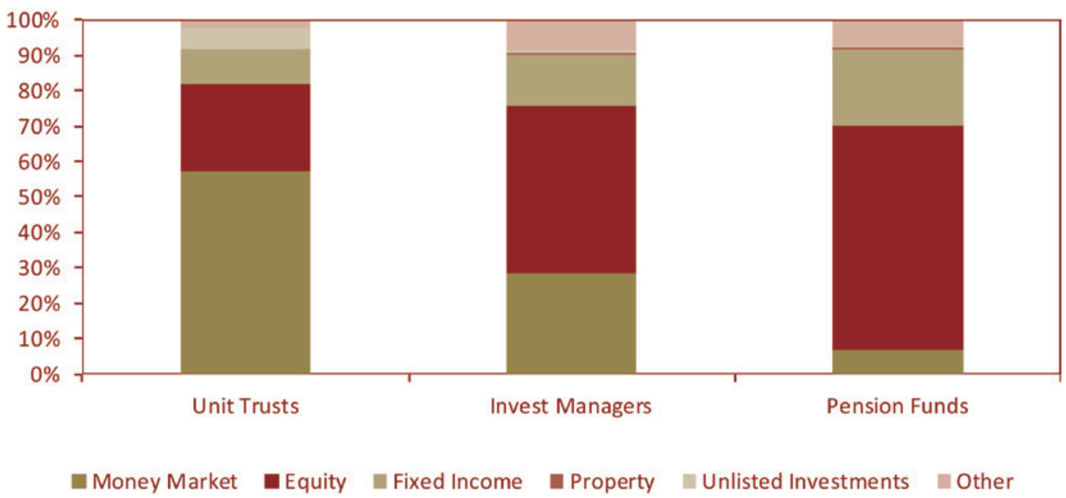
Figure 24: Jurisdictional Asset Allocation of Pension Funds



Source: NAMFISA

Since the last FSR of September 2013, the asset allocation continues to replicate the liabilities and risk appetite of institutions and investors (Figure 25). Unit trusts invested more than 55 percent of their assets in money market instruments. This is in line with the risk appetite of and instructions from their main clients (natural persons). Investment managers on the other hand invested about 50 percent of their assets in equity and approximately 30 percent in money market instruments. This was expected given the fact that most of their clients are pension funds and long-term insurers. Similarly, pension funds invested about 65 percent of their assets in equity and 20 percent in fixed income. These asset classes suits (explicit and implicit) their liabilities. The asset allocation of these NBFI is expected to continue in the next six months.

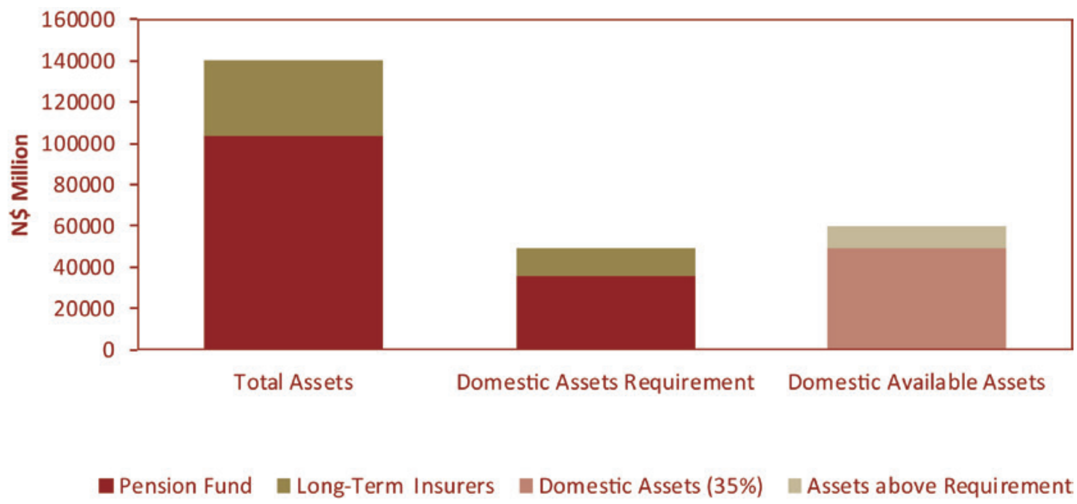
Figure 25: Asset allocation of unit trusts, investment managers and pension fund, December 2013



Source: NAMFISA

The growth of the capital market remains lacklustre. Despite that the market capitalisation of locally listed shares (NSX listings) increased by 69 per cent during 2013, the aggregate domestic market capitalisation remains low at slightly over N$18.7 billion at 31 December 2013, in relation to the assets which provident institutions are mandated to invest in Namibia. Provident institutions are obliged to keep 35 percent of their assets locally. As at 31 December 2013, pension funds and long-term insurers exceeded domestic assets (inclusive of dual listed shares) requirement by approximately N$11 billion (Figure 26).

Figure 26: Domestic Asset Requirement of Pension Funds and Long-term Insurers versus Available Local Investments [14]



Source: NAMFISA

Going forward, the strong growth of provident institutions' and the limited stock of local equity on the NSX may inflate the prices of assets and reduce liquidity on the NSX. Despite the fact that provident institutions are the largest investors in Namibia, there are other institutions which compete for the same assets and consequently put further pressure on the prices. Thus there is a need to continue monitoring the developments of these assets, however it is expected that the excess assets of pension funds and long term insurer will be absorbed into the banking sector.

Going forward, the exposure of the banking sector to NBFIs is expected to continue to increase. Domestic asset requirements on provident institutions, robust growth in NBFIs and the bias of unit trusts to money market instruments will increase NBFIs' investment in banking products and this warrant continuous monitoring.

14 *Domestic Assets are calculated to include of NSX free float available for trading, Government stock, Treasury bills and other corporate paper. Dual listed shares bought through the NSX are also included.*

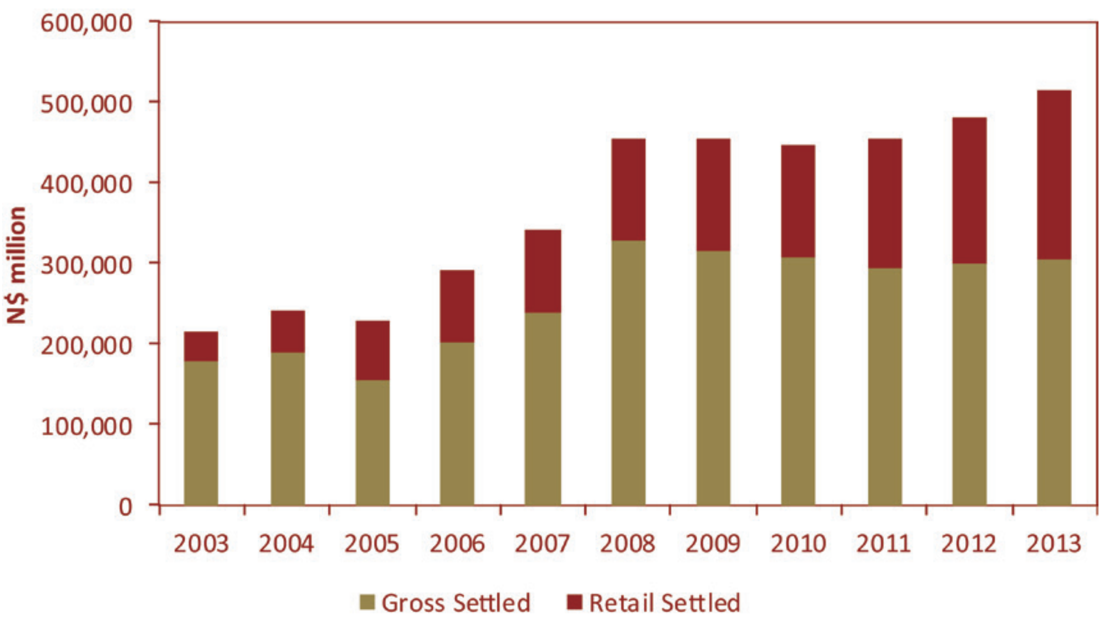
VII. Payments Infrastructure and Regulatory Developments

The payment and settlement systems have performed satisfactorily and exhibited a high degree of availability since the previous Financial Stability Report (FSR) in September 2013. The payment infrastructures continue to operate effectively and efficiently with no major outages. Some operational controls are being reviewed in order to further strengthen efficiencies.

The Bank continues with its normal on-going off-site monitoring oversight activities aimed at the management and resolution of identified operational issues as per the Risk Based Oversight Framework. The Bank participates on an on-going basis in incident analysis to identify ways to prevent such incidents in the future.

NISS payments during the second half of 2013 increased compared to the first semester of 2013. NISS payments during the second half of 2013 averaged 4 104 payments per month settled, at a total value of N$268 billion. The volume of payments settled in NISS decreased by 5 percent whereas the value increased by 5 percent when compared to the same period in 2012. The value of the share of gross payments[15] processed in NISS was 59 percent of total value settled in NISS, whilst that of the retail systems[16] was 41 percent of total value settled in NISS (Figure 27).

Figure 27: Value of Payments Processed in NISS



Source: Bank of Namibia

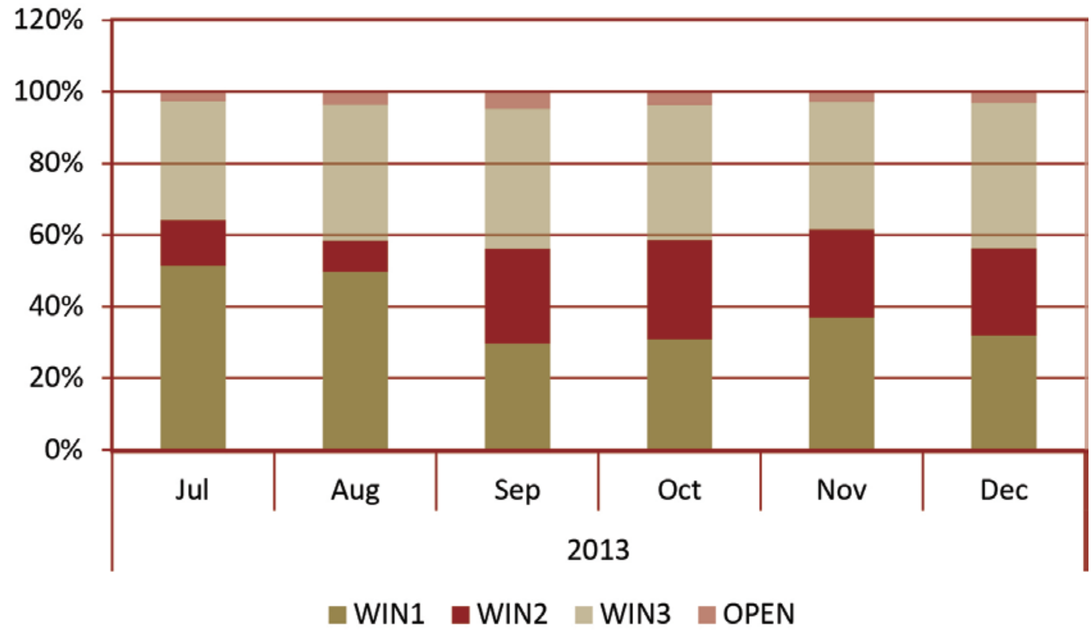
15 *Interbank and customer payments*

16 *The EFT, Cheque and NamSwitch systems*

Settlement Windows

Since the last FSR, the likelihood of operational and settlement risks increased slightly as the proportion of payments, in terms of value, settled in Window 3 increased (Figure 28). Settlement window periods for payments submitted and processed daily indicate that around 38 percent or N$107 billion in payments was settled in Window 1 (08h00 to 12h00); 21 percent or N$56 billion, in Window 2 (12h00 to 15h00) and 37 percent or N$102 billion, in Window 3 (15h00 to 16h40). Thus, more than a third of the settlement in terms of value took place during Window 3, attributed mainly to the extensions granted in the settlement of diarised Electronic Funds Transfers (EFT) and credit card batches that usually settle in Window 1, due to operational issues experienced by the service provider after the recent migration of these payment streams to new systems. To minimize operational and settlement risks, it is ideal that the majority of all settlement take place in the earlier windows, i.e. Windows 1 and 2.

Figure 28: Values Settled Per Settlement Window in 2013

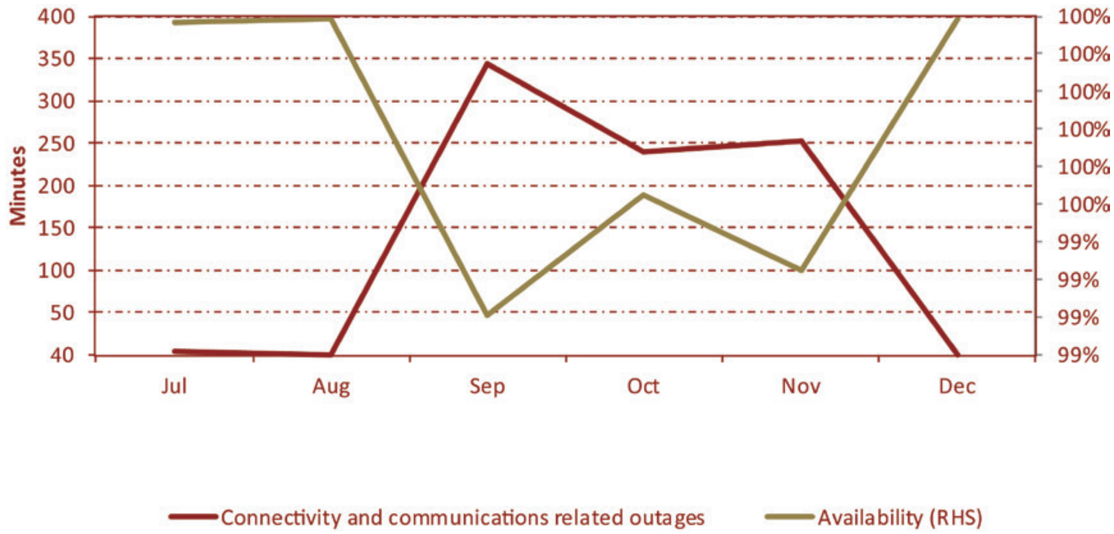


Source: Bank of Namibia

Disruptions to the Namibia Interbank Settlement System (NISS)

A number of disruptions to NISS were recorded over the second half of 2013, but did not pose any major threat to financial stability. The overseers were promptly notified of operational problems affecting NISS and the solutions thereof. The NISS availability ratio was 99.68 percent which was above the acceptable availability level of 98.5 percent. The system was not available for a total of 14 hours attributed mainly to connectivity and communications outages (Figure 29). The non-availability of the system was of a temporary nature and was overcome within a reasonable period of time and posed no major threat to financial stability. Two disaster recovery tests were successfully conducted during the second half of 2013.

Figure 29: NISS Performance Outages



Security of Retail Payments

When calculated as a proportion of the total amount transacted by Namibians using cheques and payment cards (i.e. debit, cheque/hybrid, credit, etc.), fraud to sales losses declined to 0.01 percent during the second half of 2013 with a turnover of N$18.4 billion (compared to 0.03 percent in the first half of 2013 when the turnover was N$16.8 billion). The payments industry continues to monitor signs of emerging fraud trends and maintains collaborative efforts with enforcement agencies and consumer associations to avert fraud incidents involving retail payment systems. This has contributed to on-going enhancements to business practices to better protect consumers against new methods of perpetrating fraud, while a sustained consumer education programme has also helped to increase public awareness on fraud prevention measures.

Future Developments in Payment and Settlement Systems

The Bank has undertaken to obtain accurate and up-to-date information about the relative costs of payment services in order to attain the objective of cost-effectiveness while ensuring the smooth functioning of payment systems, which is a primary responsibility. The information on the costs of the provision of payment services is critical to the Bank in terms of ascertaining the efficiency of the National Payments System (NPS). As such, during the course of 2014 the central bank will be developing an industry-based payment services costing model based on the activity based costing (ABC) method.

Additionally, in line with improving the effective functioning of the NPS a determination providing the guiding principles for assessing efficiency of the NPS was gazetted in December 2013, effective 31 December 2014. Furthermore, during the second half of 2013, the Bank signed a Memorandum of Understanding (MoU) governing the relationship between the Bank of Namibia and three other central banks, i.e. South Africa Reserve Bank (SARB), the Central Bank of Lesotho and the Central Bank of Swaziland, in terms of the performance of joint oversight of the SADC Integrated Regional Electronic Settlement System (SIRESS). This is the regional system catering for cross-border settlement and time critical or high value payments between the SADC countries.

VIII. Concluding Remarks and Policy Actions

Concluding Remarks

Risks to Namibia's domestic financial system remain broadly unchanged since the issuance of the September 2013 FSR. The external environment, while still fragile, appears more benign than initially projected, with diminished concerns over Fed's abrupt exit from its QE policy that would pose extreme burdens on emerging markets' exchange rates and capital flows. Improved economic performance in advanced economies and sustained relatively high growth in leading emerging markets bode well for global trade going forward. On the domestic front, the rapid rise in household indebtedness ratios warrants monitoring, although the evidence from the commercial banks' balance sheets indicates limited non-performing loans, while the households' debt service burden remains relatively stable. Corporate indebtedness, particularly foreign borrowing by domestic residents, has also been stable since late 2013, but a number of financial operations, including a sizeable debt-equity swap by a mining company and new foreign borrowing, merit oversight by the regulator.

The commercial banking institutions remain stable, profitable and adequately capitalised, as was indicated by the developments in the sector and confirmed by stress testing exercises. During the period under review profitability indicators increased while default rates fell when compared to the previous FSR. These factors, coupled with growing liquid assets, indicate an improved situation in terms of credit risk and liquidity mismatch compared to the assessment in the September 2013 FSR. Lastly, the commercial banking institutions have also increased their core tier ratios. Notwithstanding the above, the concentration of banking assets in mortgage assets remains a concern.

Balance sheets of the NBFIs remain robust, but deemed continuous going forward, due to the NBFIs' linkages to the regional and foreign capital markets. NBFIs remain as creditors on the rest of the world, with sizeable net foreign asset positions. Thus, any foreign financial market contagion might affect their foreign asset holdings. On the domestic front, investors cite the lack of domestic assets to invest in a major constraint for the sector.

The payment infrastructures continue to operate effectively and efficiently without major outages. Some operational controls are being reviewed in order to further strengthen efficiencies.

Policy Actions

Private Sector Debt

Households

- The level of household indebtedness warrants monitoring as noted in September 2013 FSR.

Corporations

- Risks of corporate debt remain low and unchanged from earlier FSR assessments, but warrant monitoring going forward, especially taking into account new corporate debt and debt service costs increase . Large exposures to manufacturing, as well as to transport and logistics, also warrant oversight due to concentration risks.

Banking Sector

- Routine and concerted work on liquidity stress testing is recommended as a way to determine the resilience against vulnerabilities presented by maturity mismatching.
- Exposure risk, especially to the mortgage market, remains a concern and as such the work into the feasibility of introducing a macro-prudential tool to mitigate the risk (in the form of loan-to-value limits) should continue as it was announced in the March 2013 FSR.

Non-Banking Financial Sector

- In line with the Financial Sector Strategy, efforts to develop the domestic capital market are still necessary. A deepened financial sector can allow NBFIs to invest in the domestic financial markets and hence reduce the foreign risk exposure.
- Extending the yield curve on long-dated securities is recommended to mitigate risks stemming from NBFIs' sizeable investments in short-term money market instruments. An extended yield curve could also serve as a leading indicator to private sector issuance of long-term debt.

Payment Infrastructure and Regulatory Developments

- During the first half of 2014, the Bank will conduct a NISS Compliance Assessment with the new Principles of Financial Market Infrastructures (PFMIs) and an on-site risk assessment based on the Bank's Risk Based Oversight Framework. This would ensure that NISS address all the identified technical, management and operational control gaps to fully comply with international best practice.
- As part of its continued multi-layered approach to tackling fraud, the Bank fully supports the Financial Institutions Fraud and Security Committee (FIFSC)[17] with its on-going efforts to reduce fraud in Namibia. In this regard, investments in fraud prevention remain important, and should continue in order to reduce fraud losses over the longer term.

17 *The Committee consists of the Bank of Namibia, the Police, representation from the long-term insurers, representation from the Mobile Network Operators, the commercial banking institutions and representation from the non-banking financial institutions forum.*

Appendices

Appendix 1: Financial Soundness Indicators

Table 1:
Financial Soundness Indicators

	Jun '12	Dec '12	Jun '13	Dec '13
Number of banking institutions	5	5	6	
Total assets of banking institutions				
(N$ '000 000)	62,886	67,068	70,068	76,989
Assets/GDP	65.5	65.0	61.4	63.8
Capital Adequacy (%)				
Tier 1 leverage ratio	8.5	8.0	8.0	8.5
Tier 1 capital ratio	11.5	10.9	10.7	11.5
Total RWCR	14.5	14.2	14.4	14.4
Asset Quality				
NPL/Total gross loans	1.4	1.3	1.5	1.3
Gross overdue/ Total loans and advances	3.9	3.6	7.3	4.1
Provisions/Total loans	1.3	1.2	1.3	1.2
Provisions/NPLs	93.0	91.6	86.6	92.3
Specific provision/NPLs	32.0	29.4	26.5	29.5
Earnings and Profitability				
Return on assets	2.0	2.2	2.1	2.1
Return on equity	20.2	22.7	22.0	20.9
Net interest margin	5.4	5.6	5.4	4.1
Cost to income ratio	61.4	52.6	56.9	55.6
Liquidity (%)				
Liquid assets to total assets	11.1	10.9	10.2	10.7
Total loans/Total deposits	84.5	85.6	87.8	86.4
Total loans/Total assets	73.0	74.5	75.4	74.8

Appendix 2: Debt Methodology - Household Debt

Household Debt

This paper uses two measures to attempt to estimate the extent of household indebtedness in Namibia. Firstly, the ratio of household debt to household disposable income; and secondly, the debt servicing cost of household debt to gross household income. As there is no measure of household indebtedness, there is currently no measure of national household disposable income, so both must be calculated, or proxied. Similarly, there is currently no accepted debt servicing cost calculated, so this too must be estimated.

Disposable income

Using data from the National Account and National Budget a broad indication of disposable income was calculated from the following equation:

National disposable income = wages and salaries + inward remittances + pensions + subvention to veterans + other social grants – personal income tax……………………………………………………………..(1)[18]

Wages and salaries, personal income taxes, and inward remittances were collected from the national accounts published by the National Statistics Agency (NSA). This data includes salaries paid by the public and private sectors, however does not capture informal sector activities or subsistence farming in their entirety. Pensions, subvention to veterans, and other social grants data were collected from the National Budget documentation from 2003 to 2013, and capture all transfers from government to households.

Given that not all income is captured in the national accounts and budget documentation, an effort was made to estimate the excluded part of such. A comparison was carried out between the 2009/2010 National Household Income and Expenditure Survey (NHIES 2009/2010) with regards to income and consumption, and the figures calculated in equation 1 above.

Household debt

A measure of household debt was taken from BON statistics on household credit from formal institutions (including First National Bank of Namibia, Standard Bank of Namibia, Nedbank Namibia, Bank Windhoek, Agribank of Namibia, National Housing Enterprise, and the Namibia Post Office Savings Bank).

However, the FinScope survey of 2011 indicates that only 65 percent of the Namibian population is currently banked with formal financial institutions. As such, approximately 35 percent of the population remains unbanked. While a significant percent of the population is unbanked, this is not to say that they do not have debt in some form or other. As there are no data on non-bank credit extension to households, it was assumed that only 65 percent of the country's households have absorbed the total household debt recorded by BoN.

Also, we assume that those who are unbanked are more likely to be lower income earners than those who are banked. As such, while we assume that only 65 percent of the population are banked, using data from the NHIES on income deciles, we assume that those unbanked form the three and a half lowest income deciles. Further, due to a lack of data informing the contrary, we assume that the unbanked population has the same

18 *Outward remittance data was unavailable*

income to debt ratio as the banked population (implying significantly lower nominal debt however). Finally, as we have no evidence otherwise (and despite common perception and/or anecdotic evidence); we assume that there is not substantial household debt in the banked population that is not captured by credit from formal institutions to households.

Debt service to income ratio (DSR)

In order to calculate the debt service to income ratio, the following standard formula was used to estimate the repayment cost of debt (principal and interest).

$$A=12\left(\frac{\left(\frac{r}{12}p\right)}{1-\left(1+\frac{r}{12}\right)^{-12n}}\right) \quad \text{......(2)}$$

Where A is the annual debt servicing cost, r is the annual interest rate, p is the principal (outstanding) and n is the period of the loan (outstanding).

The above calculation was estimated for the disaggregated household debt figures collected by BON, using different values for the interest rates, outstanding principal and outstanding period of loan. The outstanding principal amounts were simply those recorded by BON in each of the following categories: mortgage loans, overdrafts, other loans and advances, leasing, instalment credit and other. Outstanding period of loans were estimated based on the average duration of the class of loan, under the assumption that loans are paid off over the period rather than rolled over. The average interest rates for the various classes of loans are collected by BON, and were used unaltered. For those loan classifications for which no average rate existed (i.e., other loans and advances and other), the prime rate was used as a benchmark.

Once the cost of servicing debt had been calculated, this was divided by the gross income (unadjusted) based on the calculation in equation 1, excluding the subtraction of income tax (so as to derive gross, rather than net income).

$$DSR=A/I^G \quad \text{......(3)}$$

Where DSR is the debt service to income ratio, A is the annual debt servicing cost, and IG is gross income.

As it is broadly believed that a relatively small percent of the population holds the vast majority of the nation's formal sector debt, an adjusted ratio was calculated. This adjustment assumed that the wealthiest 30 percent of the population (representing 68 percent of the income[19]) held all of the formal sector debt.

19 *NHIES, 2010*

Appendix 3: Methodology – Corporate Debt

Broad corporate debt levels

In order to assess the overall level of corporate indebtedness in Namibia, a simple calculation was done adding corporate debt to local institutions (private sector and parastatals, as collected by BoN) to the international investment position (IIP) figures on private sector debt to external institutions. It was assumed that all private sector debt owed to foreign institutions was borrowed by corporations rather than households. The overall debt figures were then calculated as a share of nominal GDP.

Large exposures

The sample of the largest exposures to local commercial lending institutions encompasses on average approximately ten percent of total (locally issued) private sector credit extension for the period under review. Information on these large exposures to the Namibian commercial banking institutions was aggregated and assessed by sector. A total of 52 companies were assessed, including five fishing, four manufacturing and food, eight mining and minerals, ten property and construction, two tourism, seven transport and logistics and the remaining 16 from various other sectors.

While the largest exposures to the commercial banking institutions are certainly important for local financial stability, it must be cautioned that a number of these big corporate clients (and other corporates) tend to have other avenues of funding, usually from outwith the country. As such it is not possible to capture every aspect and nuance of corporate debt to give a perfect picture and it should thus be noted that the size and influences of the enterprises in the sample under review is such that their debt will not be wholly covered, as debt issued instruments and funding from sources outside of the commercial banking institutions are not available - for that a rigorous study of the complete audited financial statements would be needed, something which is currently not possible[20].

20 *Not all the companies in the sample make their balance sheets and income statements publically available. Few of the sample companies are public companies.*

Appendix 4: Estimation challenges for household indebtedness

The challenges that surround determining the level of household indebtedness in Namibia are numerable, but not insurmountable. As with many such exercises, the primary challenge is overcoming data constraints, irregularities and (perceived) inaccuracies. As a result of this, a large number of assumptions must be made, which may, or may not be correct. Some of these assumptions may have a dramatic impact on calculations and data, thus if incorrect, may yield inaccurate results.

More specific challenges include:

Currently there is limited information on the breakdown of credit to individuals, whether banked or unbanked. The assumption that is made is that all households share the same debt burden, which clearly may not be the case. It is possible that (in the extreme) 10 percent of the households hold all the debt, and 90 percent have none. This is unlikely, but equally unlikely is that all households have equal debt. Given that Namibia is a very unequal society, it is likely that debt is similarly unevenly distributed (possibly in the inverse, if one assumes that the poor need, and thus withdraw, more debt)

Currently, there is no measure of the extent of informal sector debt, and thus it is unclear whether such debt is significant in comparison to incomes and formal sector debt. Should such debt be substantial relative to either, there may be cause for concern. Measuring such informal sector debt is challenging, if not impossible, particularly in cases when such debt is informal loans between family and friends. In a country with a significant unbanked population, such as Namibia, it is likely that such informal sector debt will be relatively large (relative to formal sector debt) when compared to more developed countries with higher percentage of the population banked (assuming that individuals prefer to borrow from banking institutions if possible).

Household debt to disposable income does not analyse the full balance sheet of individuals, and thus does not necessarily illustrate risk. As many Namibians hold substantial assets, be it livestock, property or otherwise, their debt levels may be highly sustainable. Should such individuals hold a substantial share of total household debt, there is perhaps less cause for concern than if such debt was in the hands of those without assets. Similarly, comparing the debt to disposable income ratio of Namibians to that of other nations may be ill advised as Namibians may have more, or fewer, assets on their personal balance sheets.

Further challenges surround the assumptions made in the calculations, more details of which can be found in the next section.

Key Assumptions

Income

Challenge	Assumptions	Shortcomings
Determining disposable income	It is assumed that the majority of the sources of income in the country is captured.	It is possible (likely) that some sources of income might be missed.
Calculating the extent to which our the calculations underestimate disposable income over time	It is assumed that the difference between the NHIES 2009/2010 income figures and staff estimates are constant (or close to) over time.	It is highly unlikely that this differential is constant over time, however it may be close. On the other hand, it is possible that the similarity between our estimate and the NHIES may be the exception, rather than the norm.

Debt

Challenge	Assumptions	Shortcomings
65 percent of the population is banked, but does this mean 65 percent of the income is banked?	It is assumed that while 65 percent of the population is banked, significantly more than 65 percent of the household income is banked. It is assumed that the poorest 35 percent of the population are unbanked, and thus (with NHIES data) only 11.5 percent of the income is unbanked.	It is highly likely that the penetration of banking in the poorest sectors of society is lower than in the richer sectors, however, to assume that all of the poorest 3.5 deciles of population are unbanked is likely to be inaccurate.
It is likely that the unbanked population is leveraged to some degree, however no data exist on such.	Due to lack of data indicating otherwise, an assumption is made that the unbanked population has the same debt to income ratio as the banked population.	It is unlikely that this is the case. It may be that borrowing from banking institutions is easier than borrowing from informal lenders, which would suggest that the debt to income ratio for those borrowing from formal lenders may be higher. On the other hand, it may be the case that (as per previous assumptions) the poorer sectors of the population are unbanked, but require credit to survive, and are thus more highly leveraged than the richer, banked, sectors of population.
It is possible that those sectors of society that are banked may have formal and informal sector credit.	The assumption is that they do not.	Simply given the lack of evidence to the contrary, it is assumed that individuals with access to bank credit, do not borrow from the informal sector. This may be wrong.

Other

Challenge	Assumptions	Shortcomings
It is unlikely that the debt and income of the nation are shared equally.	As limited data exists to shed light on the distribution of household debt, It is assumed that it is equally distributed amongst all household. It is further assumed that income is similarly evenly distributed.	While it is known that income is unevenly distributed, it is not known how household credit is distributed. It is unlikely that debt is distributed equally, or relative to income.

Appendix 5: Performance of the Non-Banking Financial Sector

Long-Term Insurance

Table 2:
Income and Expenses

	2012	2013			
(N$000)	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
PREMIUM INCOME					
“Single Premiums RA	181 713	177 166	221 918	345 668	232 277
“Single Premiums Other	536 639	525 544	270 014	590 277	294 255
“Recurring RA’s	55 072	55 023	63 383	58 675	66 285
“Recurring Other	781 647	808 690	849 551	878 244	951 230
“TOTAL PREMIUMS	**1 555 071**	**1 566 423**	**1 404 866**	**1 872 864**	**1 544 047**
“INVESTMENT INCOME	1 363 984	899 631	507 863	1 783 728	1 146 148
OTHER INCOME AND FEES:	103 130	150 012	177 208	123 345	99 280
TOTAL INCOME	**3 022 185**	**2 616 066**	**2 089 937**	**3 779 937**	**2 789 475**
“BENEFITS					
“Death	**116 366**	**118 492**	**144 447**	**165 611**	**136 829**
“Disability and Health	44 311	34 740	48 630	57 260	36 810
“Maturity claims	424 107	201 777	491 028	375 398	274 942
“Annuity Benefits	130 643	129 892	130 727	138 419	157 154
“Retirement Benefits	62 230	94	0	3 766	1 175
“Group member withdrawals	-15 870	178 767	164 775	277 691	250 879
“Surrenders	154 048	155 951	186 454	153 381	439 041
“TOTAL BENEFITS	**915 835**	**819 713**	**1 166 061**	**1 171 526**	**1 296 830**
“Sales Remuneration	98 620	89 808	94 205	125 563	131 295
“Admin and marketing	168 405	160 482	190 330	185 347	242 266
“Asset Management Fees	10 875	9 674	11 975	17 517	29 008
“Re-insurance	22 544	18 362	16 722	20 009	46 200
Other expenses	-95	-93	366	-324	1215
“TOTAL EXPENSES	**300 349**	**278 233**	**313 598**	**348 112**	**449 984**
“Income Tax	19 336	15 925	15 977	14 599	21 109
“Stamp duties	8 520	11 334	7 720	6 692	11 315
“VAT on imported services not recoverable	2 147	1 650	2 258	1 957	2 743
“Other input VAT not recoverable	2 131	2 261	1 027	1 151	1 277
“TOTAL TAXATION	**32 134**	**31 170**	**26 982**	**24 399**	**36 444**
“					
“Excess of income over expenses	1 773 867	1 486 950	583 296	2 235 900	1 006 217
“Transfer to (from) shareholder fund	-312 988	-74 659	-317 454	-209 696	-405 652
INCREASE/(DECREASE) IN LONG-TERM FUND	**1 460 879**	**1 412 291**	**265 842**	**2 026 204**	**600 565**

Table 3:
LTI Industry Balance Sheet

(N$000)	2012 Q4	2013 Q1	Q2	Q3	Q4
Assets					
Cash	389 757	339 848	258 509	409 136	387 073
Balances with banks	3 653 333	4 184 773	4 319 727	4 498 959	5 727 477
Gilts/Bonds	3 476 853	3 807 986	3 311 617	3 198 025	3 717 377
Policy loans	302 640	307 857	317 136	331 712	339 551
Mortgage bonds	156	167	407	693	1 163
Debentures	195 871	281 509	259 726	279 505	6 052
Claims/Debtors	1 160 791	1 473 751	1 235 220	1 599 686	1 160 819
Shares: Listed	4 685 570	5 680 666	7 599 738	8 551 665	4 968 265
Shares: Unlisted	1 924 060	1 979 977	2 008 927	2 863 644	2 619 994
Fixed assets	543 237	545 159	569 676	599 379	384 676
Foreign assets-CMA	11 798 195	12 022 727	9 976 168	10 379 938	13 484 239
Foreign assets-Offshore	3 520 816	2 771 879	2 710 814	3 068 093	3 408 184
Other	2 545	4 049	21 717	202 895	218 886
Total Assets	**31 653 824**	**33 400 348**	**32 589 382**	**35 983 330**	**36 423 756**
“Liabilities:					
Policy liabilities	27 127 614	28 206 973	28 115 780	30 120 341	30 937 929
Current liabilities	924 998	1 132 870	984 280	1 209 637	1 158 579
CAR	623 724	578 015	604 405	616 635	648 783
Excess Assets	**2 977 488**	**3 482 490**	**2 884 917**	**4 036 717**	**3 678 465**

Short-Term Insurance

Table 4:
Income and Expense

(N$ 000)

(N$000)	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Gross premiums written	589 989	715 600	666 647	736 536	669 369
Net reinsurance expense	187 928	195 386	184 492	231 288	221 912
Net premiums written	402 061	520 214	482 155	505 248	447 457
Premiums earned	**408 334**	**559 511**	**448 569**	**481 199**	**447 434**
Claims incurred	247 921	372 276	287 281	305 392	239 809
Commissions	46 357	67 731	49 624	67 335	67 154
Expenses incurred	61 529	71 545	63 275	78 905	68 616
Administration fees	17 583	19 387	16 681	6 369	15 679
Underwriting surplus	**34 944**	**28 572**	**31 708**	**23 198**	**56 176**
Investment income	31 408	33 013	33 191	36 117	34 454
Capital gains	22 946	10 418	3 704	19 937	41 981
Other income/(expenses)	-2 681	-2 335	-2 689	-2 623	-5 836
Reserve decrease/(increase)	-5 363	-3 031	-10 934	-1 571	-4 173
Profit before tax	**81 254**	**66 637**	**54 980**	**75 058**	**122 602**
Performance ratios					
Cession ratio	32%	27%	28%	31%	39%
Net loss ratio	**61%**	**67%**	**64%**	**63%**	**54%**
Expense ratio	31%	28%	29%	32%	34%
Net combined ratio	**91%**	**95%**	**93%**	**95%**	**87%**

Table 5:

Balance sheet

	2012	2013			
	Q4	Q1	Q2	Q3	Q4
(N$000)					
Assets					
Cash	82 649	96 393	91 579	95 463	97 800
Balances with banks	1 197 463	1 291 407	1 319 945	922 266	1 335 926
Bonds, Securities, Bills	228 499	209 868	424 259	733 238	256 517
Outstanding premiums	99 591	185 959	203 089	110 388	209 771
Reinsurance deposits	1 975	1 972	9 541	114 895	4 325
Mortgage bonds	71 685	61 364	50 268	50 507	63 239
Debentures	-	-	-	-	-
Debtors	282 476	242 103	311 191	299 375	306 824
Shares - Listed	162 807	114 697	106 531	114 905	121 529
- Unlisted	171 106	204 686	194 774	195 236	279 419
Units in units trusts	309 073	343 607	171 901	468 262	429 118
Land & buildings	3 462	1 350	3 641	3 633	1 126
Fixed assets	15 790	17 412	20 855	22 100	25 439
Other assets	352 141	309 765	305 378	292 061	330 447
Total Assets	**2 978 717**	**3 080 583**	**3 212 952**	**3 422 329**	**3 461 480**
Liabilities	**Q4-2012**	**Q1-2013**	**Q2-2013**	**Q3-2013**	**Q4-2013**
Unearned premium provision	824 565	898 878	931 742	972 620	965 968
Outstanding Claims	199 034	216 876	222 760	243 374	206 092
IBNR	125 380	98 703	111 324	115 888	117 833
Contingency reserve	163 298	159 959	170 893	172 466	176 334
Unexpired risk provision	272 284	274 349	302 318	297 592	291 510
Due to insurers & reinsurers	38 762	49 149	40 150	60 866	66 515
Reinsurance deposits	-	-	7	7	7
Bank overdrafts	-	243	225	18	-
Provision for taxation	13 022	43 403	15 942	19 254	5 202
Provision for deferred tax	25 650	23 183	22 341	24 781	27 581
Contingent liabilities	42	201	159	159	133
Other (Specify):	300 986	275 690	285 848	336 794	350 450
Current liabilities	270 996	234 187	285 285	321 514	348 146
Total Liabilities	**2 234 019**	**2 274 821**	**2 388 994**	**2 565 333**	**2 555 771**
Total Industry Equity	**744 698**	**805 762**	**823 958**	**856 996**	**905 709**
Solvency Ratio	**25.00%**	**26.20%**	**25.60%**	**25.00%**	**26.20%**

Medical Aid Funds

Table 6:
Income and expense

	2012	2013			
	Q4	Q1	Q2	Q3	Q4
(N$000)					
Contributions received	508 188	571 408	578 345	578 884	586 937
Savings Plan Contributions	**19 496**	**20 747**	**20 932**	**21 093**	**20 780**
Reinsurance	(596)	7 420	8 255	(380)	4 959
Net Contribution	489 288	543 241	549 158	558 171	561 198
Claims	**431 291**	**454 275**	**503 284**	**556 644**	**448 009**
Underwriting surplus	57 997	88 966	45 874	1 527	113 189
Administration fees	**43 822**	**45 492**	**44 890**	**50 105**	**47 344**
Operational expenses	10 216	9 735	9 049	8 861	11 199
Managed Care: Management Services	**7 918**	**7 356**	**9 733**	**9 455**	**8 962**
Consultant fees/professional fees	1 177	834	1 057	773	792
Total Expenses	**63 133**	**63 417**	**64 729**	**69 194**	**68 297**
Surplus operations	(5 136)	25 549	(18 855)	(67 667)	44 892
Other income	**10 870**	**579**	**510**	**10 029**	**4 651**
Investment income	23 103	25 907	10 158	31 792	41 585
Net Surplus	**28 837**	**52 035**	**(8 187)**	**(25 846)**	**91 128**

Table 7:
Balance sheet

	2012	2013			
	Q4	Q1	Q2	Q3	Q4
(N$000)					
ASSETS					
Non-current Assets	715 938	739 806	744 134	770 504	819 397
Property, Plant & Equipment	11 747	11 756	11 751	11 738	11 736
Investments	704 191	728 050	732 383	758 766	807 661
Current assets	142 335	198 849	164 535	144 854	182 598
Accounts receivable	47 676	64 247	61 782	63 024	34 704
Cash & cash equivalents	94 659	134 602	102 753	81 830	147 894
Total Assets	**858 273**	**938 655**	**908 669**	**915 358**	**1 001 995**
FUNDS AND LIABILITIES					
Members' Funds	660 968	707 460	701 443	670 439	759 829
Accumulated funds	660 968	706 142	700 080	670 439	759 829
Revaluation reserve – investments	-	1 318	1 363	-	-
Non-current liabilities	-	-	-	-	-
Long term loans	-	-	-	-	-
Current liabilities	197 305	231 195	207 226	244 919	242 166
Accounts payable (creditors)	49 671	54 167	57 125	54 546	77 107
Provision for outstanding claims/IBNR	125 234	169 719	145 954	179 440	139 957
Bank overdraft	-	-	-	-	-
Savings plan liability(other liabilities)	19 801	1 320	(2 326)	7 098	22 923
Provision for bad debt	2 599	5 989	6 473	3 835	2 179
Total Funds and Liabilities	**858 273**	**938 655**	**908 669**	**915 358**	**1 001 995**

Pension funds

Table 8:
Income and expenses (N$ Million)

	2009	2010	2011	2012	2013
Contributions received	2 496	2 942	3 109	3 874	4 414
Net investment income	7 033	4 561	4 857	11 143	13 288
Capital appreciation	782	845	582	866	2 298
Insurance proceeds	67	68	81	92	93
Other income	43	38	39	37	11
Total Income	**10 421**	**8 454**	**8 668**	**16 012**	**20 104**
Administration expenses	110	131	147	161	262
Investment fees	150	140	139	140	215
Insurance premiums	168	177	181	206	223
Other expenses	64	98	103	98	45
Total expenses	**492**	**546**	**570**	**605**	**745**
Net income before transfers and benefits	9 929	7 908	8 098	15 407	19 359
Net transfers	-1	-135	-374	-377	-288
Benefits paid	2 088	2 720	2 704	3 257	3 885
Net transfers and benefits paid	2 087	2 585	2 330	2 880	3 597
Net income	**7 842**	**5 323**	**5 768**	**12 527**	**15 762**

Table 9:
Balance sheet (N$ Million)

	2009	2010	2011	2012	2013
Non-current assets	53 681	62 960	68 306	84 434	103 997
Current assets	2 189	943	1 172	1 323	1 270
Total assets	**55 870**	**63 903**	**69 478**	**85 757**	**105 267**
Funds and reserves	53 175	62 696	68 365	84 659	103 886
Current liabilities	2 695	1 207	1 113	1 098	1 381
Total funds, reserves and liabilities	**55 870**	**63 903**	**69 478**	**85 757**	**105 267**

Unit Trusts

Table 10:
Funds under Management (N$ Million)

	2012	2013			
	Q4	Q1	Q2	Q3	Q4
Country allocations					
Namibia	16 771	17 899	18 072	18 122	18 742
Common Monetary Area	14 301	14 512	15 022	15 707	16 559
Offshore	1 034	1 246	1 358	1 603	1 966
Total asset allocation	32 106	33 657	34 452	35 432	37 267
Asset allocation					
Money market investments:	24 658	25 461	25 193	24 835	21 395
Treasury bills	1 797	2 128	1 996	1 731	1 454
Negotiable certificates of deposit	9 806	10 005	9 984	8 907	9 310
Banker's Acceptances	-	-	-	-	-
Debentures	-	-	3	-	-
Notice, call and other deposits	4 855	4 621	4 635	5 146	5 594
Other	8 200	8 707	8 575	9 051	5 037
Listed equity	3 602	4 159	4 492	4 817	9 179
Listed debt	2 981	3 160	3 199	3 992	3 658
Unlisted equity	187	190	636	658	1 704
Unlisted debt	231	154	343	464	574
Unlisted property	-	-	-	-	-
Other assets	447	533	589	666	757
Total Funds Under Management	**32 106**	**33 657**	**34 452**	**35 432**	**37 267**

Table 11:
Source of Funds (N$ million)

	2012	2013			
	Q4	Q1	Q2	Q3	Q4
Pension funds	1 511	1 971	1 994	2 245	2 388
Short-term insurance companies	198	231	286	106	182
Long-term insurance companies	1 101	1 121	1 085	1 280	1 259
Medical aid funds	46	48	48	41	49
Unit trust schemes	4 129	4 332	4 171	4 104	4 517
Companies	5 413	6 543	7 623	8 968	8 292
Natural persons	17 817	17 954	18 213	17 335	19 096
Other	1 891	1 457	1 032	1 353	1 484
Total	**32 106**	**33 657**	**34 452**	**35 432**	**37 267**

Investment Management

Table 12:
Funds under Management (N$ million)

	2012	2013			
	Q4	Q1	Q2	Q3	Q4
Country allocation					
Namibia	55 086	57 601	55 992	57 710	58 571
Common Monetary Area	41 737	42 420	43 344	45 290	48 467
Offshore	12 317	14 098	14 771	15 726	16 284
Total asset allocation	109 140	114 119	114 107	118 726	123 322
Asset allocation					
Money market investments:	34 036	35 389	34 216	34 475	35 280
Treasury bills	13 817	14 706	14 651	14 587	15 180
Negotiable certificates of deposit	4522	4 176	4 395	4 394	4 396
Banker's Acceptances	-	-	-	-	-
Debentures	-	-	8	-	-
Notice, call and other deposits	11 549	12 367	11 166	11 073	11 096
Other	4 148	4 140	3 996	4 421	4 608
Listed equity	53 101	55 956	56 104	60 344	58 027
Listed debt	15 540	16 450	16 948	16 704	17 552
Unlisted equity	1 168	1 155	1 350	1 540	1 152
Unlisted debt	241	164	176	546	255
Unlisted property	376	574	602	632	650
Other assets	4 678	4 431	4 711	4 485	10 406
Total Funds Under Management	**109 140**	**114 119**	**114 107**	**118 726**	**123 322**

Table 13:
Source of Funds (N$ Million)

	2012	2013			
	Q4	Q1	Q2	Q3	Q4
Pension funds	62 400	65 357	64 698	68 395	71 551
Short-term insurance companies	770	786	817	366	373
Long-term insurance companies	16 134	16 916	17 040	17 984	18 796
Medical aid funds	320	293	297	309	320
Unit trust schemes	26 183	27 249	27 072	27 278	28 409
Companies	555	553	755	742	808
Natural persons	24	40	327	41	46
Other	2 754	2 925	3 101	3 611	3 019
Total	**109 140**	**114 119**	**114 107**	**118 726**	**123 322**

Micro-Lending

Table 14:
Credit Extension

	2012	2013			
	Q4	Q1	Q2	Q3	Q4
Value of loans disbursed (N$000)	**444 720**	**447 582**	**452 030**	**652 744**	**682 046**
Term lenders	306 467	301 021	309 364	513 950	516 430
Payday lenders	138 254	146 561	142 666	138 794	165 617
Number of loans	**161 516**	**168 253**	**155 612**	**158 599**	**179 003**
Term lenders	24 925	26 504	23 770	32 200	32 322
Payday lenders	136 591	141 749	131 842	126 399	146 681
Average loan amount					
Term lenders	12 296	11 358	13 015	15 961	15 978
Payday lenders	1 012	1 034	1 082	1 098	1 129
Total value of loans (N$000)	**1 752 556**	**1 842 390**	**1 977 263**	**2 293 735**	**2 615 536**
Term lenders	1 685 290	1 772 657	1 920 250	2 233 283	2 538 299
Payday lenders	67 266	69 733	57 013	60 452	77 237

Notes