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Banking Supervision

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INTRODUCTION

The number of licensed banks changed slightly, with one bank exiting the market and another obtaining a provisional banking license. The banking sector consisted of six fully-fledged commercial banks, four of which were classified as Domestic Systemically Important Banks (DSIBs), while the remaining two were categorised as second-tier banks. Additionally, the sector included one branch of a foreign banking institution and one representative office, completing the list of authorised institutions. During the year, the Bank of Namibia granted a provisional licence for the establishment of a new banking institution, Access Bank Namibia (Pty) Ltd, bringing the number of institutions with provisional authorisation to two, alongside Cadence Building Society. Furthermore, one banking institution voluntarily returned its banking licence to the regulator to pursue other business ventures.

Several supervisory activities enhancing corporate governance structures and cyber security measures were conducted during 2024 to bolster stability and confidence in the banking sector.

The Bank conducted targeted on-site examinations focused on the various institutions' governance and risk culture as well as their management of cybersecurity risk. The inspections assessed the effectiveness of boards in establishing strong corporate governance structures and policies. The outcome of these supervisory activities demonstrated that banks had made significant investments in terms of enhancing the diversity of their boards' skills and improving their institutions' cyber controls and capacity. In addition, the Bank participated in supervisory colleges that aimed at ensuring coordination, collaboration and sharing of information for effective supervision pertaining to components of cross-border banking groups.

During 2024, several by-laws were introduced to strengthen the regulatory framework, aid financial inclusion, and provide relief to the ailing sectors of the economy. The Bank issued a Determination for Microfinance Banking Institutions (BID-38) during the reporting year to drive financial inclusion and provide critical banking services to underserved communities nationwide. Similarly, to support farmers facing the ongoing drought in the country during the year, the Bank issued the Determination on Policy Changes in Response to Economic and Financial Stability Challenges (BID-39) in support of the State of Emergency declared in Namibia. The main aim of this Determination was to extend financial relief to clients in the agricultural sector.

PERFORMANCE OF THE BANKING SECTOR

Despite the modest economic growth, higher interest rate environment and inflationary pressure during 2024, the banking sector exhibited resilience, supported by adequate capital levels, sustained profitability and excess liquidity. During the period under review, both the total eligible capital ratio (TECR) and common equity Tier 1 ratio recorded values above their respective minimum regulatory requirements of 12.5 percent and 10.0 percent, respectively. The TECR decreased from 17.0 percent in 2023 to 16.7 percent in 2024, whereas the common equity tier 1 ratio decreased from 15.7 percent to 14.7 percent, primarily due to dividends paid out during the year.

The profitability of the banking sector, as measured by the return on assets (ROA) and return on equity (ROE) ratios, remained favourable on the back of net profit after tax. The banking sector ROA ratio increased from 2.1 percent in 2023 to 2.5 percent in 2024, while the ROE ratio rose from 18.4 percent to 20.3 percent over the same period. The growth in profitability ratios was driven by the improvement recorded in net interest income, which stemmed from the marginal growth observed in the loan book, as well as in non-interest income due to higher transactional volumes.

Asset quality, as measured by the NPL ratio improved slightly as the loan book growth outpaced the marginal growth observed in NPLs. The NPL ratio improved marginally from 5.8 percent reported in 2023 to 5.6 percent at the end of 2024, owing to expansion in the loan book during the period under review. However, despite the decrease in the NPL ratio, the value of NPLs remained high, having increased by N\$96.4 million to N\$6.6 billion as a result of high interest rates, inflation and unemployment observed during most of 2024 which negatively impacted customers' loan affordability.

The banking sector ROA ratio increased from 2.1 percent in 2023 to 2.5 percent in 2024, while the ROE ratio rose from 18.4 percent to 20.3 percent over the same period.

Market Share Analysis

The market share distribution within the banking industry remained largely unchanged from the previous reporting period, with DSIBs taking up the biggest share. The banking sector market share was highly concentrated among the four DSIBs, as they comprised 97.3 percent of industry total assets, 97.0 percent of total loans and advances, and 98.9 percent of deposits. The remaining portion of the market share was shared among the three non-DSIBs.

Table C.1

BANKING SECTOR MARKET SHARE

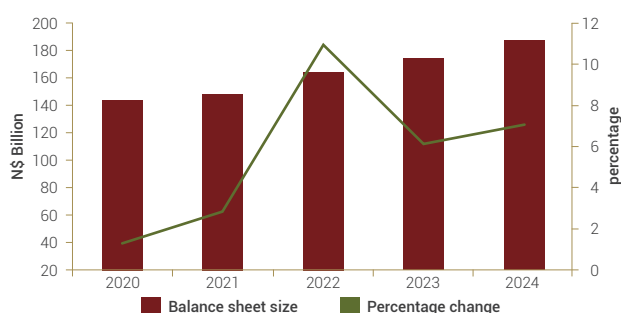
Market share component	Domestic Systemically Important Banks (%)	Second-tier banks (%)	Total (%)
Total Assets	97.3	2.7	100.0
Total Loans & Advances	97.0	3.0	100.0
Deposits	98.9	1.1	100.0
Net Income After Tax	99.4	0.6	100.0
Total Qualifying Capital	94.1	5.9	100.0

BALANCE SHEET STRUCTURE

The banking sector balance sheet recorded significant growth during 2024 compared to 2023. The size of the aggregated balance sheet grew by 7.1 percent to N\$186.7 billion, which was higher than the 6.1 percent growth reported in 2023 (Figure C.1). The nominal growth in balance sheet size was mainly driven by increases in total loans and advances, short-term negotiable securities, the total trading and investments portfolio, other assets and fixed assets.

Figure C.1

AGGREGATED BALANCE SHEET



ASSET STRUCTURE

Balance sheet growth during 2024 was mainly driven by the increase in total loans and advances, which constitutes core banking business activity. Total loans and advances grew by N\$6.3 billion from 2023 and amounted to N\$118.9 billion. The increase was mainly driven by fixed term loans which expanded by N\$4.2 billion to N\$21.8 billion. Instalment debtors and hire purchase recorded the second-highest growth. This category grew by N\$2.0 billion to N\$14.3 billion year-on-year. In addition, personal loans rose by N\$759.4 million to N\$9.8 billion in 2024 while the remaining loan book products accumulated negative growth of N\$672.2 million. Short-term negotiable securities also contributed to the rise observed in the balance sheet size during 2024, as they increased by N\$3.5 billion to N\$26.3 billion. Furthermore, total trading and investment securities increased by N\$2.6 billion to N\$9.5 billion during the period under review, while other assets moved up by N\$757.7 million to N\$3.6 billion over the same period.

Similar to the preceding reporting period, the balance sheet composition of the banking sector during the 2024 financial year was dominated by net loans and advances^{C1}. Net loans and advances comprised 61.0 percent of total assets, followed by Cash and balances with banks, which made up 16.4 percent. Short-term negotiable securities and Trading and investment portfolios followed with 14.1 percent and 5.1 percent, respectively. Other assets and Property plant and equipment comprised negligible portions of 1.9 percent and 1.5 percent, respectively.

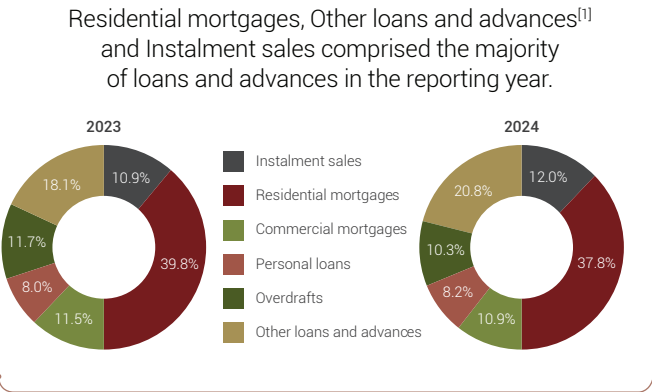
Banking sector credit extension^{C2} improved during 2024, mainly due to growth observed in fixed-term loans. Total loans and advances rose by 5.6 percent compared with their 2023 position to N\$118.9 billion in 2024. The expansion in the loan book was mainly driven by a N\$4.2 billion growth in Fixed-term loans, a N\$2.0 billion gain in Instalment debtors, hire purchase and suspensive sales, and a N\$759.4 million rise in personal loans. During 2024, Total loans and advances were mainly comprised of Residential mortgages, which made up 37.8 percent, followed by Fixed-term loans at 18.3 percent, and Instalment debtors, hire purchase and suspensive sales at 12.0 percent. Commercial mortgages constituted 10.9 percent of Total loans and advances, Overdrafts 10.3 percent, Personal loans 8.2 percent, Preference shares credit 1.1 percent, credit cards 0.7 percent, and other loans and advances 0.2 percent (Figure C.2).

^{C1} Net loans and advances refer to the total amount of loans and advances less specific provisions, general provisions, and interest in suspense.

^{C2} The banking sector credit extension only includes credit extended by commercial banks and excludes microlenders, Agribank and the Development Bank of Namibia.

Figure C.2

COMPOSITION OF LOANS AND ADVANCES



Ownership and Asset Base of Commercial Banks

The Namibian banking sector comprised four DSIBs in 2024, of which three were subsidiaries of foreign-owned banks and one was locally owned. In addition, the three Tier-2 banks in Namibia were majority foreign-owned. The majority of the banking sector's assets for the year under review were held by foreign-owned banks (Table C.2).

Table C.2

OWNERSHIP OF BANKING INSTITUTIONS

Banking institution	Total assets (N\$'000)	Share of the industry's total assets (%)
Foreign-owned banking institutions	132,752,000	71.1
Locally-owned banking institutions	53,978,000	28.9
Total	186,730,000	100.0

The three subsidiaries of South African banking institutions remained dominant in the sector as they constituted a 68.4 percent share of the banking industry's total asset base while the one local bank only accounted for 28.9 percent. The remaining portion of 2.7 percent was comprised of Tier-2 banks, owned by banks from Angola and Portugal as well as by a financial services company from Botswana. By year-end, a Namibian banking service provider had withdrawn itself from the market.

FUNDING STRUCTURE

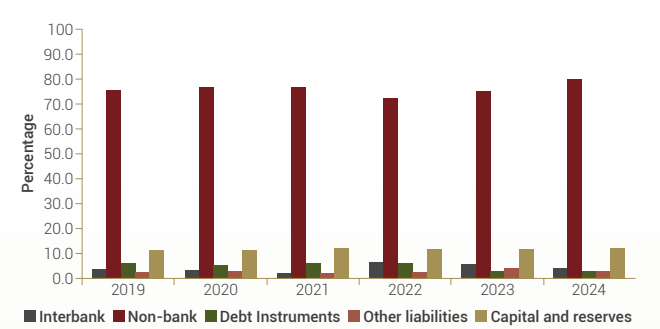
The total funding mix of the banking industry during 2024 consisted of bank funding, non-bank funding, and capital and reserves, with non-bank funding remaining the dominant source. Non-bank funding increased by N\$18.9 billion from its 2023 levels to N\$149.8 billion in 2024 due to demand deposits. A year-on-year increment was observed in capital and reserves as well, by N\$2.2 billion to N\$22.9 billion, mainly due to retained income. Conversely, bank funding contracted by N\$1.1 billion compared with its 2023 position to stand at N\$8.5 billion in 2024 (Figure C.3). Proportionally, non-bank funding accounted for 80.2 percent of total funding, followed by capital and reserves at 12.3 percent and bank funding at 4.6 percent. Other liabilities only accounted for 2.9 percent of total funding during the period under review.

Figure C.3

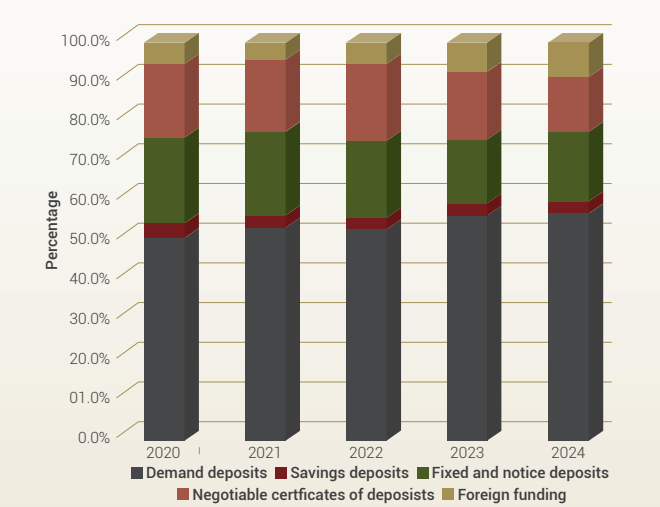
FUNDING STRUCTURE

Non-bank funding and capital and reserves were the primary sources of funding in the banking industry during the reporting year.

(a) Composition of funding structure



(b) Composition of non-bank deposits



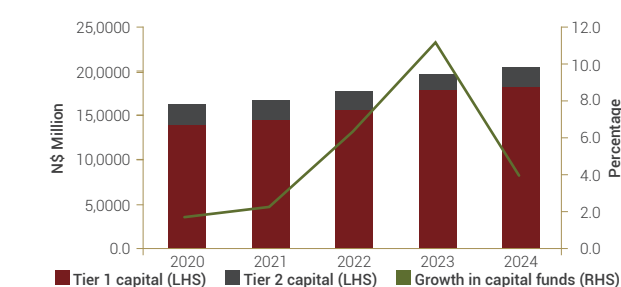
Demand deposits, consisting of current accounts and call accounts, were the main source of non-bank funding. Demand deposits increased from N\$73.9 billion in 2023 to N\$81.4 billion in 2024, accounting for 54.3 percent of total non-bank funding for the period under review. Fixed and notice deposits also rose significantly, namely by N\$4.0 billion from 2023 levels to reach N\$24.8 billion in 2024, while short-term negotiable securities decreased by N\$2.9 billion to N\$19.5 billion in the same period. Proportionally, fixed and notice deposits comprised 16.5 percent of total non-bank funding during the reporting year, followed by short-term negotiable securities at 13.0 percent. Foreign funding and saving deposits made up 8.2 percent and 3.0 percent of the total non-bank funding for the period, respectively.

CAPITAL ADEQUACY

The banking sector's capital adequacy remained robust and sufficiently strong during the review period to sustain growth and absorb potential shocks from unforeseen events. The DSIBs remained well-capitalised under the Basel III framework during 2024, demonstrating resilience to absorb shocks. Furthermore, all capital ratios exceeded the statutory minimum requirements (Figure C.4a). The total eligible capital ratio recorded a slight decline from 17.0 percent in 2023 to 16.7 percent in 2024, due to growth observed in risk-weighted assets coupled with a reduction in retained earnings, which resulted from dividends paid out during the year. The ratio, therefore, remained above the minimum prudential requirements of 12.5 percent.

Figure C.4a

DSIBS CAPITAL FUNDS GROWTH



The Common Equity Tier 1 capital ratio remained significantly above the prudential minimum requirements during 2024.

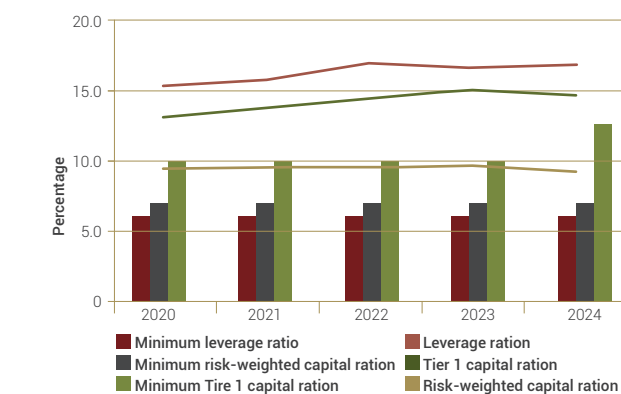
The Common Equity Tier 1 capital ratio slightly declined to 14.7 percent in 2024 compared to 15.5 percent in 2023 due to dividends declared during 2024. Despite this decrease, the ratio also remained above the minimum requirement of 10.0 percent, indicating sound capital levels. Similarly, the Tier 1 leverage ratio decreased from 10.1 percent year-on-year to 9.2 percent but remained comfortably above the regulatory minimum of 6.0 percent, ensuring adequate buffers against financial shocks.

Total eligible capital declined due to a reduction in retained profits under Tier 1 capital following the dividend pay-outs.

Total eligible capital stood at N\$20.4 billion in 2024, trending downwards from N\$21.9 billion in the previous year (Figure C.4b). The reduction was driven by an 8.6 percent decrease in common equity Tier 1 capital, which fell to N\$18.2 billion as a result of dividends declared during the year. Conversely, Tier 2 capital recorded an increase of 12.0 percent year-on-year to N\$2.2 billion in 2024, due to a growth in instruments issued by banks that meet the criteria for inclusion in Tier 2 capital.

Figure C.4b

CAPITAL ADEQUACY RATIOS



The non-DSIBs operating under the Basel II Capital Accord, also maintained adequate capital during 2024.

Total qualifying capital grew by N\$162.4 million in respect of its 2023 levels to register at N\$1.3 billion for 2024 (Figure C.4c). This growth was largely driven by a N\$93.6 million rise in Tier 1 capital, supported by an increase in paid-up ordinary shares reported by one of the banks. Correspondingly, the total risk-weighted capital ratio improved significantly, rising from 32.2 percent in 2023 to 58.6 percent in 2024, primarily due to an increase in paid-up ordinary shares. This ratio remained well above the regulatory minimum of 10.0 percent. Furthermore, the Tier 1 capital ratio and Tier 1 leverage ratio stood at 47.8 percent and 30.2 percent, respectively, comfortably exceeding their respective regulatory minimums of 7.0 percent and 6.0 percent.

Figure C.4c

SECOND-TIER BANKS' CAPITAL FUNDS

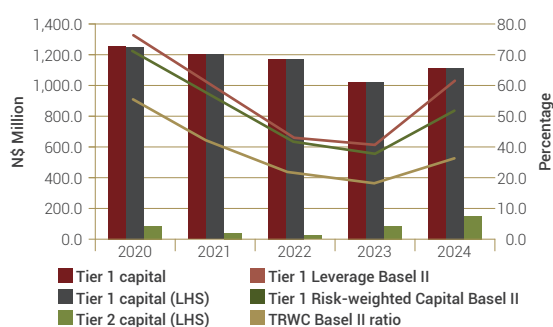
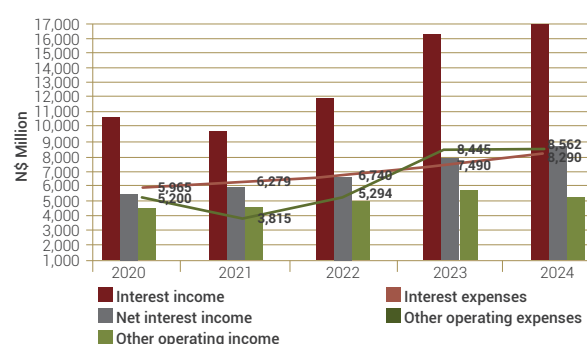


Figure C.5a

KEY INCOME STATEMENT INDICATORS



PROFITABILITY AND EARNINGS

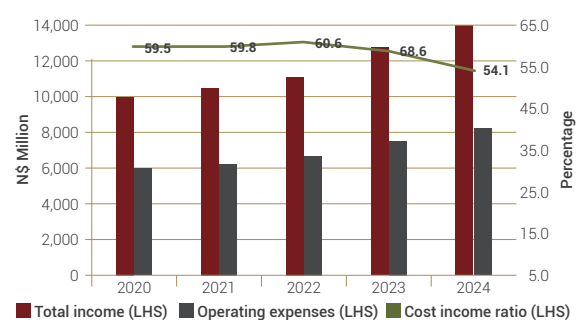
Total income for the banking sector increased due to growth recorded in net interest income and operating income for the review period. Total income amounted to N\$14.5 billion in 2024, representing an increase of 13.1 percent from the N\$12.8 billion reported during 2023. Similarly, net interest income increased by 11.1 percent, i.e. from N\$7.9 billion reported in 2023 to N\$8.7 billion reported during the period under review, mainly driven by the loan book growth. Furthermore, operating income increased by 13.3 percent from 2023's level of N\$5.8 billion to N\$6.6 billion owing to improvements in the fee income and trading income recorded in 2024, supported by high transactional volumes.

Net interest income continued to be the banking sector's principal source of income during 2024, constituting 54.6 percent of total income in 2024 in comparison with 54.7 percent in 2023. This was largely driven by the interest earned from residential mortgages, fixed term loans, and other interest-related income. The remaining 45.4 percent of total income, equivalent to N\$6.6 billion, comprised fee income of N\$4.5 billion (31.5 percent), which was the largest contributor to non-interest income, primarily derived from transaction fees and service charges. Net trading income contributed N\$1.1 billion (7.9 percent) to the sector's total income, reflecting gains from trading activities during the review period. Other sundry income contributed N\$437.7 million (3.0 percent), generated from miscellaneous revenue streams.

Despite operating expenses increasing during the reporting period in comparison with 2023 levels, the cost-to-income ratio trended downward, reflecting an improvement in operational efficiency. The operating expenses rose by 10.4 percent to N\$8.3 billion in 2024, while total income trended upward by 13.1 percent to N\$14.5 billion. The increase in operating expenses was primarily driven by higher staff costs, administration and overheads, and depreciation and amortisation, whereas total income inclined due to growth in net interest income and fee income. The cost-to-income ratio decreased from 58.6 percent in 2023 to 57.2 percent in 2024 (Figure C.5b) and remained well below the Bank's benchmark of 65.0 percent.

Figure C.5b

EFFICIENCY INDICATORS OF THE BANKING SECTOR



Income from non-traded securities made up N\$45.0 million (1.1 percent), primarily from investments held for income generation (Figure C.5a).



The banking sector continued to record profits, surpassing those registered in the preceding year, mainly due to growth in net interest income and fee income. Net income after tax grew by 17.0 percent to N\$4.4 billion in 2024. This increase was primarily due to an 11.1 percent upward trend in net interest income and a 31.5 percent boost in fee income as a result of transactional volumes. Consequently, the ROA increased from 2.1 percent in 2023 to 2.5 percent in 2024 while the ROE grew from 18.4 percent to 20.3 percent year-on-year, as capital and reserves improved relative to their position in the prior reporting period (Table C.3).

Table C.3

RETURN ON ASSETS AND RETURN ON EQUITY

Description	2019	2020	2021	2022	2023	2024
Return on Assets (%)	2.0	1.3	1.7	1.9	2.1	2.5
Return on Equity (%)	17.3	10.9	13.9	16.2	18.4	20.3

In respect of the banking sector branch and agency network, the number of bank branches remained unchanged from the previous year, whereas the number of banking agencies reduced. The number of branches remained steady at 143, while the number of agencies decreased from 53 to 47 (Table C.4).

Table C.4

BANK BRANCH AND AGENCY NETWORK

Description	2019	2020	2021	2022	2023	2024
Branches	149	145	135	135	143	143
Agencies	82	84	85	81	53	47
Total banking outlets	231	229	220	216	196	190

The number of employees in the banking sector increased during the review period relative to their 2023 levels, mainly due to banks increasing staff capacity in the credit, collections and digitisation areas. The banking industry reported a total of 6,665 employees in 2024, which was more than the 6,420 reported for 2023. Permanent personnel increased from 5,857 to 6,042 year-on-year, while the temporary personnel count increased from 563 to 623 over the same period, mainly for project-related reasons (Table C.5).

Table C.5

BANK STAFF COMPLIMENTS

Description	2018	2019	2020	2021	2022	2023	2024
Permanent personnel	6 371	6 268	6 144	5 915	5 693	5 857	6 042
Temporary personnel	192	200	215	310	434	563	623
Total	6 563	6 468	6 359	6 225	6 127	6 420	6 665

CREDIT RISK

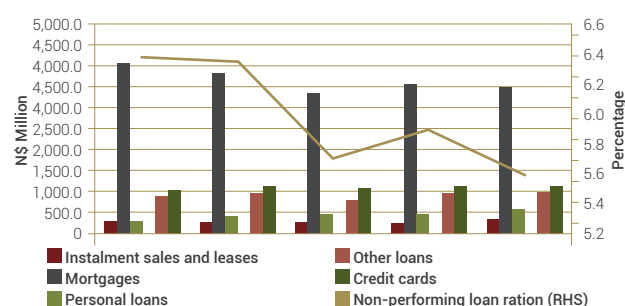
Analysis of non-performing loans

NPLs remained elevated during 2024 compared with their 2023 position, mainly due to the continuous economic pressure on households and businesses. The NPLs increased by N\$96.3 million to N\$6.6 billion in 2024 due to unfavourable economic conditions characterised by high interest rates, high inflation and unemployment which impacted the ability of households and businesses to service their debts. This upward trend was particularly evident in the Personal loans, Instalment sales agreements and Other loans categories as these categories recorded NPL increases of N\$94.3 million, N\$72.2 million and N\$17.8 million, respectively. Nonetheless, the trend was somewhat offset by decreases in Mortgage loans, Credit cards and Overdrafts. These three categories recorded declines of N\$60.4 million, N\$24.7 million and N\$3.0 million, respectively.

Despite the increase recorded in NPLs during 2024, the NPL ratio declined. The decline from 5.8 percent to 5.6 percent when compared to 2023 was attributed to marginal growth in the loan book of 5.6 percent, counteracting the increase in the NPLs (Figure C.6). Thus, overdue loans decreased by N\$1.3 billion to N\$9.5 billion. The downward trend was mainly observed in the two-to-three-month time bucket due to strict monitoring and rehabilitation of impairment by the banks concerned. Mortgages and Other loans and advances contributed the most to the observed NPL position.

Figure C.6

NON-PERFORMING LOANS PER PRODUCT



NPLs were highly concentrated in one sector. NPLs mainly emanated from the Individual's sector and Trade and accommodation, which accounted for 52.4 percent and 9.2 percent, respectively. Construction contributed 8.9 percent while Agriculture, hunting & forestry accounted for 6.2 percent during the review period. The Manufacturing; Business services; Transport, storage & communication and other sectors were responsible for the rest of NPL's share, collectively accounting for 22.2 percent.

Adequacy of provisions

The total provisioning increased marginally year-on-year and in line with the incline observed in the NPL portfolio.

Total provisions rose from N\$3.7 billion in 2023 to N\$3.8 billion in 2024 due to increases observed in NPLs. Specific provisions^[2] grew from N\$2.2 billion in 2023 to N\$2.4 billion in 2024, while general provisions marginally declined. General provisions, thus, reduced by N\$78.2 million from the N\$1.5 billion recorded previously to N\$1.4 billion in 2024. The drop occurred despite total loans and advances increasing from N\$112.6 billion to N\$118.9 billion, year-on-year. The decline in general provisions was mainly attributed to the improvement in the classification of loans amounting to N\$1.3 billion from Special mention to Pass category. Moreover, the specific and general provisions complied with the Determination on Asset Classification, Suspension of Interest, and Provisioning (BID-2)^[3] requirements during the reporting year.

Table C.6

ASSET QUALITY AND PROVISIONS

Description	31 December 2023 (N\$'000)	31 December 2024 (N\$'000)	Percentage change
Total assets	174,268,148	186,665,470	7.1
Gross loans and advances	112,575,353	118,868,706	5.6
Net loans	107,913,829	113,940,267	5.6
Total non-performing loans	6,522,231	6,618,610	1.5
Total provisions	3,690,902	3,789,423	2.7
Gross loans/Total assets (%)	64.6	63.7	-1.4
Non-performing loans/Gross loans (%)	5.8	5.6	-3.4

Loan diversification and statutory large exposures

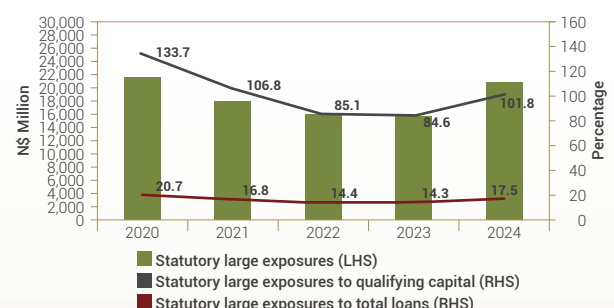
In terms of sectoral distribution, total loan growth was observed in the Individual sector, as well as in the Others, Manufacturing and Trade and accommodation sectors. The growth in sectoral distribution was depicted primarily by the incline in loans extended to individuals, which increased by N\$370.3 million from its 2023 levels to stand at N\$49.7 billion in 2024, constituting most of the total loans disbursed. Loans disbursements to the Other Sectors increased by N\$45.0 million to N\$2.0 billion in 2024, while the Manufacturing sector increased by N\$43.0 million year-on-year to N\$3.6 billion. On the other hand, significantly fewer disbursements were noted between 2023 and 2024 in the Real estate sector, resulting in a comparative decrease of N\$135.0 million. In addition, Agriculture, Fishing, Mining and quarrying, Business services and Construction recorded a combined decline in disbursements of N\$302.0 million relative to 2023.

The banking industry's large exposures increased during the year under review but remained within the prescribed capital limits. Large entities' appetite for credit increased as large exposures grew by 30.2 percent to N\$20.8 billion year-on-year. The increase was primarily a result of the growing need for working capital, guarantees, hedging, and capital expenditure. Accordingly, the large exposures to total loans ratio grew from 14.3 percent in 2023 to 17.5 percent in 2024, demonstrating that the loan book for the industry was not highly exposed to large clients, which in turn minimises the concentration risk in the banks' loan books.

Total large exposures relative to qualifying capital increased. Total large exposures^[4] in relation to qualifying capital increased from 84.6 percent to 101.8 percent year-on-year. On aggregate, this ratio stood well within the permissible limit of 800.0 percent of capital funds (Figure C.7). In addition, all individual large exposures were within the single borrower limit of 25.0 percent. The limitation is intended to mitigate the borrowing of excessive amounts of a bank's funds, whether by one person or a group of related persons or a group of counterparties whose performance is determined by common or correlated underlying factors. The limitation is also intended to safeguard a bank's depositors and creditors by diversifying risks among several persons engaged in different lines of business.

Figure C.7

STATUTORY LARGE EXPOSURES RELATIVE TO TOTAL LOANS AND CAPITAL FUNDS

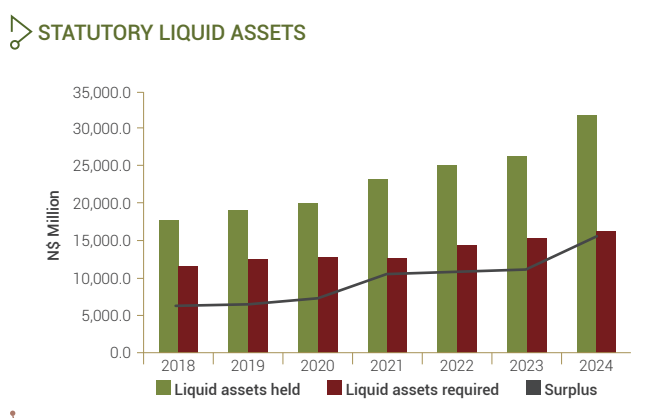


Liquidity

The banking sector liquidity position demonstrated a year-on-year increase, attributed to sustained investments in short-term securities alongside moderate growth in credit demand. As of 2024, the aggregate liquid asset holdings reached N\$31.8 billion, reflecting a robust growth of 20.2 percent compared to N\$26.4 billion in the prior year. This increase in liquid assets was primarily fuelled by investments in Government of the Republic of Namibia (GRN) Treasury bills and Bank of Namibia (BoN) bills.

The liquid assets to total asset ratio exhibited significant year-on-year improvement and remained substantially above the statutory minimum requirement. The growth in liquid asset holdings propelled the liquidity ratio from 15.2 percent in 2023 to 17.0 percent in 2024, resulting in a surplus liquidity position of N\$15.6 billion (Figure C.8). Notably, an increase in liquid assets holdings was consistently observed across all liquid asset categories except strip bonds. Investments in GRN Treasury bills, GRN Bonds, and balances in clearing and call accounts with the Bank experienced notable growth alongside stocks and securities issued by the GRN. This growth was driven by the high interest rates offered on central bank accounts, given the high repo rate coupled with the heightened credit risk which reduced appetite for loans and advances. Additionally, the issuance of BoN Bills continues to indicate substantial subscriptions from banks and effectively absorbed some of the excess liquidity within the banking sector.

Figure C.8



The liquidity ratio, which measures the relationship between public liabilities and liquid assets, showed improvement during the review period. Average total liabilities to the public rose from N\$152.6 billion in 2023 to N\$161.2 billion in 2024, heightening the banking sector's overall exposure to the public. Liquid assets also experienced an increase, leading to a year-on-year rise in the liquidity ratio from 17.3 percent to 19.7 percent. This ratio comfortably surpassed the statutory minimum of 10.0 percent.

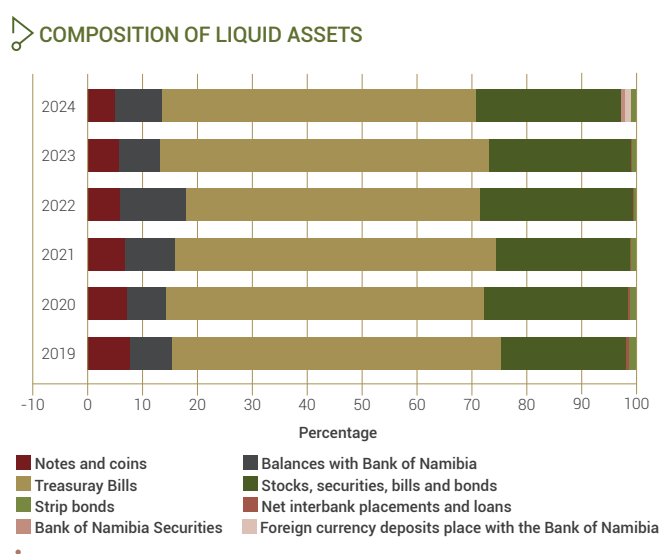
The loan-to-asset ratio decreased marginally during 2024 and remained below the international benchmark. A high ratio indicates an asset base dominated by loans and advances thus exposing the banking institutions to higher liquidity risk due to the generally illiquid nature of loans and advances. In 2024, the loan-to-asset ratio declined from its 2023 level of 61.9 percent to 61.0 percent, thus remaining below the international benchmark of 75.0 percent. The marginal decrease in the ratio was due to the higher growth observed in total assets from N\$174.4 billion to N\$186.7 billion for the two respective reporting periods relative to the growth observed in loans and advances in those years.

The banking industry experienced modest growth in total deposits for 2024, surpassing the increase in net loans and advances. The overall loan-to-deposit ratio (LDR) decreased from 77.6 percent in 2023 to 76.1 percent in 2024. The growth in total deposits from N\$139.1 billion in the prior reporting year to N\$148.8 billion in 2024 surpassed the growth observed in the net loans and advances from N\$107.7 billion in 2023 to N\$113.9 billion reported for 2024, therefore, driving the decline in the LDR. Despite the decrease in LDR, the current ratio demonstrates a balanced approach to lending and liquidity management. This indicates that banking institutions are judiciously utilising a reasonable portion of their deposits to extend loans to borrowers.

GRN Treasury bills continue to represent the predominant component of the industry's qualifying liquid assets (Figure C.9). Treasury bills comprised 57.4 percent of the total qualifying liquid assets. Stocks, securities, bills, and bonds comprised 26.3 percent of qualifying liquid assets and made up the second largest component. Balances held with the Bank comprised 8.3 percent, while notes and coins contributed 5.1 percent. Additionally, foreign currency deposits and Bank securities made up 1.0 percent each. Net interbank placements and strips contributed 0.9 percent and 0.1 percent, respectively.

DSIBs reported Basel 3 liquidity ratios above the required minimums. Following the introduction of the Basel III framework through the gazetting of the Determination on Liquidity Risk Management for Domestic Systemically Important Banks (BID-6A), which became effective on 1 April 2024, DSIBs reported their liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) above the required statutory minimums. Thus, banks reported an LCR of 163.6 percent and an NSFR of 111.5 percent above the minimum requirement of 75.0 percent required for both the LCR and NSFR. All four DSIBs, therefore, operated above the minimum requirement.

Figure C.9



➤ INTEREST RATE RISK

The banking industry reported a cumulative positive net repricing gap, indicating a favourable high-interest rate environment during the year under review. The industry total repricing gap increased from N\$3.4 billion in 2023 to N\$8.2 billion in 2024, due to growth in interest-sensitive assets exceeding the growth in interest-sensitive liabilities for the overall time buckets. Positive repricing gaps were recorded in the time buckets of up to 30 days (N\$32.1 billion), more than 3 months to 6 months (N\$1.2 billion), and more than 6 months to 9 months (N\$1.1 billion). On the other hand, the negative repricing gaps were observed in the time buckets of more than 1 year (N\$12.8 billion), more than 1 month to 3 months (N\$11.9 billion) and in the more than 9 months to 12 months category (N\$1.5 billion). The overall positive net repricing gap suggests that banks are better off in a high-interest-rate environment and worse off in a low-interest-rate environment.

The dominance of interest-rate-sensitive assets and liabilities led to highly responsive interest-earning margins amid interest rate fluctuations. Interest-rate sensitive liabilities comprised the majority of total liabilities, accounting for 70.0 percent in 2024, a decline from the 82.5 percent registered in 2023. The remaining liabilities were comprised of fixed-rate liabilities and managed earning rate, which stood at 18.0 percent and 12.0 percent, respectively. On the other hand, interest-rate-sensitive assets still represented the majority of the assets, albeit significantly reducing to 72.0 percent in 2024 from 94.0 percent recorded in 2023. The remaining 20.2 percent of the total assets constituted fixed-rate assets, while non-interest and non-rate-sensitive assets comprised 6.3 percent and 1.6 percent of total assets, respectively.

Stress testing affirms the resilience of the banking sector to interest rate shocks. The results of stress testing, a supervisory tool to identify risks early, demonstrated minimal impact on the banking sector's capital during the year under review. A 200-basis-point adjustment in interest rates would result in a cumulative change of N\$436.4 million in net interest income over 12 months, either positive or negative, depending on the rate adjustment. Similarly, the economic value impact would be N\$21.7 million, either positive or negative, representing only 0.1 percent of total capital funds.



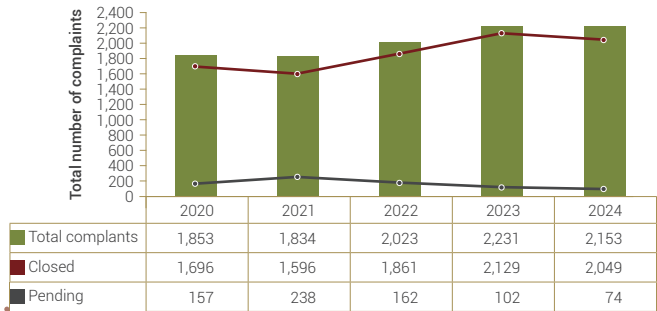
These results highlight the banking sector's strong capacity to withstand interest rate shocks, reinforcing its financial stability.

➤ CUSTOMER COMPLAINTS

The year under review recorded a decrease in the number of customer complaints lodged against banking institutions. The total number of customer complaints reduced from the 2,231 reported in 2023 to 2,153 reported for 2024. Of these 2,153 cases, 95.6 percent were lodged with the respective banking institutions, while 4.4 percent were lodged at the Bank. A total of 95.2 percent of the complaints were successfully resolved, while the remaining 4.8 percent remained works in progress (Figure C.10). The most prevalent types of complaints reported during the period under review included fraud against consumers, arrears on home loan accounts, unauthorised deductions, and poor customer service. In addition to the complaints, the Bank also handled 310 customer inquiries throughout the year, which were received via telephone, email or in-person visits to the Bank's premises.

Figure C.10

➤ TOTAL NUMBER OF COMPLAINTS



The Bank's mediation between banking institutions and customers led to an amicable resolution of complaints. The Bank's mediation resulted in the successful resolution of complaints in 2024, leading to monetary refunds. These were issued for matters such as interest discounts or write-offs on outstanding home-loan balances, reimbursement for amounts lost due to fraudulent transactions, unauthorised deductions, and refunds on fees and charges. Total refunds during 2024 amounted to N\$1.5 million for 20 complaints, reflecting a significant increase in value compared with the N\$943.7 thousand refunded in 2023 for 22 complaints and inquiries.



Notable progress was achieved in ensuring the lodging of complaints at the Oshakati Branch, enhancing accessibility by consumers. As outlined in its 2023 Guidelines for Lodging Customer Complaints, the Bank plays a pivotal role in ensuring effective mediation between consumers and banking institutions. Its strategic decision to enable customers to lodge complaints directly at its Oshakati Branch aims to bring complaint-handling services closer to the people ensuring that all consumers have an equitable platform to voice their concerns and seek redress. This enhanced access to consumers via the Bank's Oshakati Branch allowed notable progress to be made in resolving complaints during 2024.

➤ REGULATORY REFORMS

One of the core mandates of the Banking Supervision Department is to formulate policy instruments and legislative frameworks. The Bank constantly revises and develops such frameworks to regulate and supervise banking institutions in accordance with the relevant international standards. In 2024, the Bank developed the following secondary legislation as provided in the Banking Institutions Act:

- » **The Determination on Recovery Plans (BID-36) was drafted to formalise the recovery planning process for authorised banking institutions.** The Determination is designed to ensure that banking institutions in Namibia are well prepared to react quickly to and recover from financial distress through their own actions, thereby preventing disruptions to the financial system.
- » **The Determination relating to Microfinance Banking Institutions (BID-38) aims to increase access to formal banking services by introducing a new form of deposit-taking institution.** The Determination subjects the microfinance banking institutions to less stringent capital and liquidity requirements, while maintaining the integrity of the financial ecosystem by placing limits on the scope and complexity of the services such institutions are permitted to offer.
- » **The Determination on Policy Changes in Response to Economic and Financial Stability Challenges as a Result of the State of Emergency over the Persistent Drought in Namibia (BID-39) was developed to provide relief to clients engaged in the agriculture sector experiencing financial hardship due to the persistent drought conditions.** The Determination was drafted in response to the President of the Republic of Namibia's declaration of a State of Emergency owing to the persistence of the drought. The Determination outlines banking institutions' responsibilities in extending financial relief to clients in the agricultural sector whose ability to repay their loans have been affected by the drought.

- » **The Determination on Cloud Computing (BID-19) repealed the Determination on Localisation of Core Banking Systems (BID-19).** The new Determination aims to ensure that cloud environments are resilient to cyber threats, compliant with regulatory requirements, and capable of driving innovation and operational efficiency. Thus, banking institutions in Namibia are allowed to host their systems on the cloud, subject to approval by the Bank.
- » **Determination on Outsourcing (BID-34) amended the previous Determination on the Outsourcing in Banking Institutions and Cloud Computing (BID-34).** It sets out the requirements that banking institutions must observe in assessing and managing risks relating to outsourcing arrangements to third-party service providers. The Determination also outlines material business activities or functions that can be outsourced with the approval of the Bank. Further provisions cover the functions and activities that are not permitted to be outsourced due to the integral and fundamental nature of such functions and activities in respect of banking institutions' operations.

➤ ILLEGAL FINANCIAL SCHEMES

In 2024, the Bank remained steadfast in combating illegal financial schemes, ensuring the integrity of the financial ecosystem. The Bank collaborated with the Government Institutions Pension Fund (GIPF) and the Namibia Financial Institutions Supervisory Authority (NAMFISA) as strategic partners to expand its awareness outreach on illegal financial schemes awareness. The Bank's proactive measures in creating public awareness on such schemes, its collaborative efforts with strategic partners, and its commitment to deterring these schemes resulted in a rise in the number of queries and reports from members of the public in this regard. During the reporting period, the Bank assessed 18 illegal financial schemes compared to 8 schemes assessed in 2023. The Bank applauds the initiative taken by the public to use its digital platform to report such schemes before falling prey to them. The Bank and the public's proactive approach has resulted in a decline in active illegal financial schemes and investment in them.

➤ ON-SITE EXAMINATIONS

In 2024, the Bank completed governance and risk culture on-site examinations at four DSIBs and one second-tier bank. The governance and risk culture examinations focused on the effectiveness of the various institutions' boards in establishing strong corporate governance structures, policies, and a culture aligned with organisational values. The assessment was conducted in line with requirements and standards outlined in the Banking Institutions Act, the Determination on the Appointment, Duties, and Responsibilities of Directors, Principal Officers, and Executive Officers of Banking Institutions and Controlling Companies (BID-1), the NamCode, and the Basel Committee on Banking Supervision's

guidelines on the corporate governance principles for banks. The review identified both best practices and areas needing improvement. Recommended improvements included enhancing board diversity in terms of their members' skills, strengthening succession planning and expanding board mandates. Since strong governance and risk culture are vital to financial stability, the banks are required to remediate the findings within a period of twelve (12) months of their issue.

The Bank also completed cybersecurity risk management assessments at four DSIBs and one second-tier bank. The cybersecurity risk assessments focused on how well the banks identified, assessed, monitored, and managed cyber risks, and whether proper oversight was exercised by their boards and senior management. The assessments were based on the Determination on Information Security (BID-30) and the Determination on Outsourcing in Banking Institutions and Cloud Computing (BID-34). The outcomes of these evaluations showed significant investment by banks in respect of strengthening their cyber controls and capabilities. However, the evaluations also identified the need for greater investment in cybersecurity expertise, stronger incident response capabilities and improved third-party risk management frameworks. Given the critical nature of cyber risks, the banks are required to address all the findings within six months of their issue. In this respect the bank boards are responsible for ensuring cybersecurity frameworks align with their risk tolerance and policies to effectively close the gaps. Cyber risk remains a top concern for the banking sector and will continue to be a supervisory focal point for the foreseeable future.

The digital maturity assessment of the four largest banks commenced in 2024, with completion expected in 2025. The digital maturity assessments aim to understand the state of digital transformation within the banking sector, identifying key gaps, opportunities, and the overall landscape. Digital transformation in banking involves adopting new technologies, processes, and innovations to enhance operations and improve the delivery of products and services to customers. Thus, the insights gained from digital maturity evaluations will guide future engagements with banks and inform policy development to support and accelerate digital transformation in Namibia's banking industry.

The activities for 2025 centre on addressing high-risk areas and oversight of cross-border banking groups. The Bank has strengthened its risk-based supervision framework to allow for a more dynamic approach, focusing on institutions with the greatest risks and impact. Key activities for 2025 include industry-wide examinations revisiting the themes of credit risk and the International Financial Reporting Standard for financial instruments (IFRS9) at DSIBs and concluding the abovementioned digital maturity assessments. In addition, the Bank will host a supervisory college for one DSIB to enhance coordination, collaboration, and information-sharing among regulators and will conduct one consolidated on-site examination of one DSIB under the consolidated supervision framework. These initiatives aim to strengthen oversight, improve risk management practices, and ensure effective supervision of cross-border banking activities.

[1] Other loans and advances consisted of fixed-term loans and instalment debtors, hire purchase, suspensive sales, preference shares credit and credit cards.

[2] Specific provisions apply to loans graded as Substandard, Doubtful and Loss, namely that the net realisable value of collateral is required to be deducted from the loan balance before applying provisioning percentages.

[3] BID-2 requires banks to report, at a minimum, provisions equal to 10.0 percent, 50.0 percent and 100.0 percent of loans classified as sub-standard, doubtful and loss, respectively.

[4] The large exposure limit reduced from 30.0 percent of total capital funds to 25.0 percent from April 2024 onwards as the relief provided by BID 33 (the Determination on Policy Changes in Response to Economic and Financial Stability Challenges as a result of the Covid-19 Pandemic relief for commercial banks) had ended.



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