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BANK OF NAMIBIA

No. 278

2003

DETERMINATIONS UNDER THE BANKING INSTITUTIONS ACT, 1998 (ACT NO.2 OF 1998): ASSET CLASSIFICATION, SUSPENSION OF INTEREST AND PROVISIONING

In my capacity as Governor of the Bank of Namibia (Bank) and under the powers vested in the Bank by virtue of sections 71(3) of the Banking Institutions Act, 1998 (Act No.2 of 1998), read in conjunction with section 30 of the aforementioned Act, I hereby issue Determination on Asset Classification, Suspension of Interest and Provisioning (BID-2). The Determinations on Classification of Loans and the Suspension of Interest on Non-Performing Loans and the Provisions for Bad and Doubtful Debts (BID-2) published, as general notice No. 120. in the Government Gazette No.1899 of 29 June 1998, is hereby repealed.

T. K. ALWEENDO
GOVERNOR

Windhoek, 13 October 2003

Determination No. BID-2

**ASSET CLASSIFICATION, SUSPENSION OF INTEREST
AND PROVISIONING**

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PART I: PRELIMINARY

- 1: **Short Title** - Classification and provisioning.
- 2: **Authorisation** – Authority for the Bank to issue this Determination is provided in Section 71(3) of the Banking Institutions Act, 1998 (Act).

3: Application – This Determination applies to all banks authorised by the Bank to conduct banking business in Namibia.

4: Definitions - Terms used within this Determination are as defined in the Act, as further defined below, or as reasonably implied by contextual usage.

4.1 **“bank”** - means banking institution as defined in Section 1 of the Act.

4.2 **“capitalised interest”** - means any accrued and uncollected interest which has been added to the principal amount of a loan at a payment date or at maturity; capitalised interest also includes unpaid interest which is refinanced or rolled-over into a new loan. For purposes of this Determination, capitalisation of interest will not be permitted **unless:**

- a) the borrower has the ability to repay the full debt (including principal and interest) in the normal course of business;
- b) the capitalisation of interest was anticipated at approval of the initial
- c) loan based on the borrower’s planned temporary lack of cash flow;
- d) the debt is well-secured by the net realisable value of collateral security; or
- e) repayment, including all capitalised interest, is based on a reasonably ascertainable future event.

For other loans or advances not having pre-established repayment schedules or where interest is normally capitalised to the account, deposits to the account during a temporary period of diminished cash flow should at least be sufficient to cover accrued interest for the period.

4.3 **“in the process of collection”** - means that collection of an obligation is proceeding in due course in a timely manner either through:

- a) legal action, including the enforcement of a judgement against the borrower; or
- b) collection efforts not involving legal action but which are reasonably expected to result in full repayment of the debt (including principal and all accrued interest) within 90 days, or in restoration of the debt to a current status through payment of all principal and interest which is due.

4.4 **“loans and advances”** - means any direct or indirect advance of funds (including obligations as maker or endorser arising from discounting of commercial/business paper) which are made to a person on the basis of an obligation to repay the funds. “Loans and advances” also includes all exposures as defined in the Act.

4.5 **“net realisable value”** - means that amount after discounting collateral held as security to current market conditions and also deducting the reasonable and estimable costs of recovery and sale including but not limited to: legal fees, valuation costs, estate agent fees, insurance cover to date of sale, costs of maintenance, security, and expenses necessary to put the collateral in a saleable condition.

4.6 **“non-accrual”** - means that accrual of interest has been suspended and an asset has been placed on a cash basis for financial reporting purposes. Interest is no longer taken into income unless paid by the borrower in cash. Non-accrual assets include all assets which are non-performing unless an asset is both (i) well-secured and (ii) in the process of collection.

4.7 **“non-performing”** - means that an asset is no longer generating income. For purposes of this Determination, the entire outstanding balance of an asset is considered “non-performing” when:

- a) any portion of principal and/or interest is due and unpaid for 90 days or more; or
- b) interest due for 90 days or more have been capitalised, re-financed, or rolled-over into a new loan.

Current accounts (overdrafts) are considered "non-performing" when any of the following conditions exist:

- a) the debt exceeds the approved limit for 90 consecutive days or more;
- b) the borrowing line has expired for 90 days or more;

Other loans and advances not having pre-established repayment schedules are considered "non-performing" when any of the following conditions exist:

- a) interest is due and unpaid for 90 days or more; or
- b) the account has been inactive for 90 days, or deposits have been insufficient to cover the interest that was capitalised during the period.

The entire principal balance outstanding (not just the amount of payments in arrears) is to be shown as "non-performing" for purposes of this Determination and when preparing and submitting financial returns to the Bank.

4.8 "**overdue**" - means any asset for which:

- a) any portion of principal and/or interest is due and unpaid for 30 days or more; or
- b) interest due equal to 30 days interest or more have been capitalised, refinanced, or rolled-over.

Current accounts (overdrafts) are considered "overdue" when any of the conditions below exist:

- a) the debt exceeds the approved limit for 30 consecutive days or more;
- b) the borrowing line has expired for 30 days or more;

Other loans and advances not having pre-established repayment schedules are considered "overdue" when any of the conditions below exist:

- a) interest is due and unpaid for 30 days or more; or
- b) the account has been inactive for 30 days, or deposits have been insufficient to cover the interest capitalised during the period.

The entire principal balance outstanding (not just the amount of payments in arrears) is to be shown as "overdue" for purposes of this Determination and when preparing and submitting financial returns to the Bank.

4.9 "**provisions**" - means a balance sheet account established through charges to "provision expense" in the income statement and against which uncollectible assets, or portions thereof, are written-off. Also referred to as "provision for loan losses"; includes both "specific" and "general" provisions. The provision accounts are offset against loans for financial reporting purposes.

For purposes of this Determination, provisions set aside for loans graded Substandard, Doubtful, and Loss are considered "specific" provisions; provisions for loans graded Pass, Special Mention, are considered "general" provisions.

4.10 "**well-secured**" – means that a loan or advance is secured by:

- a) collateral that can repay the full debt (principal plus accrued interest) through timely sale under an involuntary liquidation program; also, (i) proper legal documentation must be held, (ii) the collateral must have a “net realisable value” which covers principal, accrued interest, and costs of collection, and (iii) there can be no prior liens which prevent the bank from obtaining clear title; or
- b) a guarantee from a financially responsible party where the beneficiary bank has performed proper financial analysis and determined that the guarantor is financially sound, well-capitalised, and able to honour the guarantee on demand; such guarantees must be (i) affirmed, (ii) irrevocable and unconditional, and (iii) payable on default of the borrower.

4.11 “**restructured/rescheduled/renegotiated loans and advances**” - means any loans and advances for which the bank has granted a concession to a borrower owing to deterioration in the borrower’s financial condition. The restructuring/rescheduling/renegotiating may include –

- i. a modification of terms from what have been originally agreed, for example, a reduction in the interest rate, or lengthening of maturity, or deferring of loan principal payment;
- ii. the substitution or addition of new debtor for the original borrower.

All restructured/rescheduled/renegotiated agreements shall be in writing.

PART II: STATEMENT OF POLICY

- 5: **Purpose** - This Determination is intended to ensure that: (a) all loans and advances are regularly evaluated using an objective grading system that is consistent with regulatory standards; (b) the accounting treatment for accrued but uncollected interest on non-performing assets is consistent with international accounting standards and regulatory reporting requirements; and (c) timely and appropriate provisions and write-offs are made to the loan loss provisions account in order to accurately reflect the condition and operations of the bank. It is also intended to promote well-reasoned, effective work-out plans for problem assets, and effective internal controls to manage the level of such assets.
- 6: **Scope** - This Determination apply to all loans and advances reflected on a bank’s balance sheet or otherwise reflected as off-balance sheet items.
- 7: **Responsibility** - The board of directors of each bank shall be responsible for adopting a written loan policy that includes a loan review process which accurately identifies risk, ensures the adequacy of provisions for loan losses, and properly reflects the condition and operations of the bank in required financial statements.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

- 8: **Loan Review - (a) Frequency and reporting.** The board of directors shall cause a review to be made of the quality of a bank’s loan book on a regular basis, at least at the end of each calendar quarter. Reports of such reviews shall be made on a timely basis directly to the board of directors and shall include enough information for the board to identify problems and require bank officers to correct the problems in a timely manner.

(b) Objectives. The loan review function shall ensure that: (i) the loan portfolio and lending function conform to a sound, written lending policy which has been adopted and approved by the board of directors; (ii) executive management and the board of directors are adequately informed regarding portfolio risk; (iii) problem credits are promptly identified, classified, and placed on non-accrual in accordance with this Determination; (iv) fully adequate provisions are made to the loan loss provisions account; and (v) write-offs of identified losses are taken

in a timely manner.

(c) Committee. The loan review function shall be performed by a committee of not less than three persons, at least one of whom shall not be an executive director or a substantial shareholder of the bank.

9: Suspension of Interest

(a) Transfer to non-accrual status

A loan or advance is to be placed on non-accrual if: (i) it is maintained on a cash basis because of deterioration in the financial condition or paying ability of the borrower; (ii) payment in full of principal or interest is not expected; or (iii) it is non-performing unless it is both well-secured and in the process of collection as defined in this Determination.

(b) Treatment of accrued interest

All interest which is accrued but is uncollected and still carried on the books shall be reversed by the end of the calendar quarter in which the loan is, or should have been, placed on non-accrual status, but in no event later than 90 days after being transferred to non-accrual status or included in the loan balance with an adequate specific provision to offset the full amount which was previously accrued.

Interest which has already been taken into income and capitalised by increasing the principal amount of the loan shall be reversed or written-off from the time the loan is, or should have been, placed in non-accrual status.

(c) Treatment of cash payments, and criteria for cash basis recognition of income

If a loan is on non-accrual and ultimate collection of the entire principal amount is in doubt, then any cash payments received shall be applied only to reduce principal. However, if the balance left on the books after a partial write-off of principal is considered fully collectible, and then cash payments may be shown as interest income.

When recognition of interest income on a cash basis is appropriate, the amount of income that may be shown is limited to the amount that would have been accrued on the book balance at the contractual rate. Any cash payments in excess of this amount (and not applied to the remaining book balance) shall be recorded as recoveries of prior write-offs until all such write-offs have been fully recovered.

In order to claim that a loan is fully recoverable, it must be supported by a current, properly documented credit analysis, including evaluation of the borrower's historical repayment performance and any other relevant factors.

(d) Reclassification to accrual status

A non-accrual loan may only be reclassified to accrual status when (i) no amount of principal or interest is overdue and the bank expects repayment of all remaining contractual principal and interest, or (ii) when it becomes both well-secured and in the process of collection.

For purposes of (i) above, the bank must have received repayment in cash of all delinquent principal and interest unless the loan has been formally restructured and qualifies for accrual status. Until a loan is reclassified to accrual status, cash payments received shall be handled as required in paragraph (c) above. In addition, if a restructured loan deteriorates and qualifies again for non-accrual status, then the loan must be returned to non-accrual

status and treated accordingly.

(e) Treatment of multiple loans to one borrower

If a bank has multiple loans to a single borrower, and one loan meets the criteria for placing on non-accrual status, then the bank shall evaluate every other loan to that borrower and place other loans on non-accrual status if circumstances so require.

10: Classification of Assets¹

All loans and other assets shall be classified into one of the five classification grades listed below based on the criteria provided. A bank may choose to use other classification groups for internal use, as long as they can be correlated to the regulatory grades. (A sample loan classification (grading) matrix is provided for reference as **Appendix A**).

Significant departure from the primary repayment source may justify adverse classification even when a loan is current or supported by apparent collateral value. Classification may also be warranted if the original repayment terms were too liberal or if a delinquency has been technically cured by modification of terms, refinancing, or additional advances.

In cases where different classification grades may be assigned based on subjective criteria, the more severe classification generally should apply. Moreover, nothing contained in the definitions below precludes assigning a more severe grade when analysis of a borrower's financial condition, ability, and willingness to repay justifies the more severe grade.

(a) Pass or Acceptable

Loans, or other assets, in this category are fully protected by the current sound worth and paying capacity of the obligor or the collateral pledged, is performing in accordance with contractual terms, and is expected to continue doing so.

(b) Special Mention

Loans, or other assets, in this category are currently protected, but exhibit potential weaknesses which, if not corrected, may weaken the asset or the bank's position at some future date. Examples of such weaknesses include, but are not limited to: inability to properly supervise due to an inadequate loan agreement; deteriorating condition or control of collateral; deteriorating economic conditions or adverse trends in the obligor's financial position which may, if not checked, jeopardise repayment capacity. Risk potential is greater than when the loan was originally granted; but this category should not be used as a compromise between Pass and Substandard.

Any asset which is overdue 60 days or more but less than 90 days shall be classified as Special Mention, at a minimum.

¹ A bank may have an asset classification system that differs from the framework used or suggested by the Bank. However, each bank that maintains an assets classification system that differs from the Bank's should maintain documentation that translates its assets classification into pass, special mention, substandard, doubtful and loss. This documentation should be sufficient to enable Bank Examiners to reconcile the totals for various loan grades under the bank's system to the Bank categories listed under paragraph 10 of this Determination.

(c) Substandard

Loans, or other assets, in this category are not adequately protected by the current sound worth and paying capacity of the obligor. The primary source(s) of repayment is not sufficient to service the debt, and the bank must look to secondary sources such as collateral, sale of fixed assets, refinancing, or additional capital injections for repayment. Substandard assets have well-defined weaknesses that jeopardise the orderly repayment of the debt. These assets may, or may not, be overdue but carry more than a normal degree of risk due to the absence of current and satisfactory financial information or inadequate collateral documentation. There is also the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Any asset which is overdue 90 days or more but less than 180 days shall be classified as Substandard at a minimum.

Renegotiated loans shall continue to be classified Substandard unless –

- (i) all overdue interest is paid in cash at the time of re-negotiation, and
- (ii) a sustained record of performance under a realistic repayment program has been maintained.

A sustained record of performance means that all principal and interest payments are made according to the modified repayment schedule for at least six months from the re-negotiation date.

(d) Doubtful

Loans, or other assets, in this category have all the weaknesses inherent in a Substandard asset plus the added characteristic that the asset is not well-secured. These weaknesses make collection in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable. The possibility of loss is high, but because of important and reasonably specific pending factors which may mitigate, the actual amount of loss cannot be fully determined. Pending factors may include a proposed merger, acquisition, or liquidation, a capital injection, perfecting liens on additional collateral, and refinancing plans. If pending events do not occur within 180 days and repayment must again be deferred pending further developments, a Loss classification is warranted.

Any asset which is overdue 180 days or more but less than 360 days shall be classified as Doubtful at a minimum unless (i) such assets are well-secured, (ii) legal action has actually commenced, and (iii) the time needed to realise collateral does not exceed one year after judgment. Guarantees must be honoured within 90 days of call to preclude a Doubtful classification.

(e) Loss

Loans, or other assets, which are considered uncollectible or of such little value that their continuance as a bankable asset is not warranted shall be classified Loss. Loss classification does not mean there is no recovery or salvage value; rather it is not practical or appropriate to defer writing off the asset even though partial recovery may be realised in the future. Losses shall be taken when identified as uncollectible and shall not remain on the books while pursuing long-term recovery efforts.

In some cases, a reduced carrying value for a distressed asset may require a partial write-down. Partial write-downs shall be made by a charge to the provision for loan losses account, and the remaining book value must be supported by tangible facts and reported in writing to the board of directors.

Any asset which is overdue 360 days or more shall be classified as Loss and shall be written-off within 90 days after being classified as a "loss" against the provisions for loan losses account unless such loan is: (i) well-secured; (ii) legal action has commenced; and (iii) the time needed to realise collateral does not exceed one year after judgment. Guarantees must be honoured within 90 days of call to preclude Loss classification.

Loan write-offs shall include all interest that is accrued but unpaid. Current period interest which has accrued but is uncollected shall be reversed from the income account. Prior period accrued interest which has already been taken into income shall be written-off.

11. Provisioning Requirements

a) **Provisions for loan losses account**

All banks shall maintain a provision for loan losses account which shall include both specific and general provisions. The provisions account shall be created by charges to provision expense in the income statement and shall be maintained at a level that is adequate to absorb potential losses in the loan/assets portfolio.

At the end of each calendar quarter, or more frequently if warranted, the board of directors shall cause management to evaluate the collectibility of all loans, including any accrued and unpaid interest, and shall require that appropriate entries be made to (i) accurately report earnings, and (ii) ensure that the provision for loan losses account is fully adequate to absorb potential losses. The evaluation of the appropriate level of provision should be performed in a systematic way and in a consistent manner over time. Management must maintain records to support their evaluations and shall make them available for inspection by examiners as requested.

b) **Provisioning amounts**

In determining the potential loss in specific loans, groups of loans, or in the aggregate loan portfolio, all relevant factors shall be considered including, but not limited to: current economic conditions, historical loss experience, delinquency trends, the effectiveness of the bank's lending policies and collection procedures, and the timeliness and accuracy of its loan review function.

The following minimum provisioning amounts are to be maintained unless reliable data suggests that loss potential is higher and thus larger provisions are warranted. However, for loans graded substandard, a phase-in period would be allowed starting from 5% in 1 January 2004 and 10% from 1 January 2005 thereon.

i) for loans graded "Pass" or "Acceptable"	1%
ii) for loans graded "Watch" or "Special Mention"	2%
iii) for loans graded "Substandard"	10%
iv) for loans graded "Doubtful"	50%
v) for loans graded "Loss"	100%

The above percentages shall be applied against the total outstanding balance regardless whether the loan is analysed separately or as part of a pool of loans. Suspended interest, if any, shall be deducted first. Collateral shall be treated as provided in paragraph (d) below.

Any loan, or portion thereof, which is fully secured by cash, by a segregated deposit in the lending bank, by a security issued by Government of Namibia, or by an unconditional obligation or guarantee by Government of Namibia to repay both principal and interest, is exempt from the provisioning amounts.

Any loan, or portion thereof, which is, or should be, classified "Loss" may be fully provisioned when the classification is, or should have been, assigned and shall be written-off at the end of the quarter but not later than 90 days after being classified Loss.

c) **Treatment of Collateral**

Collateral is a secondary source of repayment, and classification grades do not depend on the amount or quality of collateral pledged. Therefore, collateral is only used in determining the amount of provision for loans graded Substandard, Doubtful or Loss. This is especially true where the validity, value and ability to realise collateral are questionable.

For loans graded Substandard, Doubtful or Loss, the net realisable value of collateral shall be deducted from the loan balance before applying the provisioning percentages. In the case of real property collateral, the net realisable value may be deducted only if transferability of title is certain and an active market for the property exists. An "active market" means that a willing buyer and willing seller exist and a sale can be achieved within a reasonable period (not exceeding one year after judgment).

d) **Valuation of collateral**

Valuation should be based on the net realizable value of the collateral and should not be biased in order to enable the bank to grant a higher credit limit to the borrower or improve its internal credit rating, make a smaller amount of provision or continue interest accrual for a problem loan.

Banks should ensure that the valuation method used, whether internal or external, is based on assumptions that are both reasonable and prudent and all assumptions should be clearly documented.

To cater for collateral, whose market value is highly volatile, banks should apply a conservative haircut² when valuing it for the purpose of determining the extent to which an exposure is secured. The quantum of that haircut will depend on the price volatility of the collateral, the term of the exposure and whether the collateral is denominated in a different currency to the underlying debt.

A more conservative approach should be adopted for valuing the collateral of problem loans. This is because, in practice, the forced sale value, rather than the open market value, is likely to be closer to what eventually may be realized from an asset sale when the market conditions are unfavorable. Therefore, a discount to the estimate market value should be applied where appropriate.

In assessing the value of an asset, temporary aberrations should be disregarded (e.g. a sudden rebound in the market price).

e) **Frequency of revaluation**

² Haircut (i.e. discount the value of the collateral)

Collateral should be revalued on a regular basis, though the frequency may vary with the type of collateral involved and the nature and the internal credit rating of the underlying credit.

(f) **Examiner review**

The management shall maintain adequate records supporting its evaluation of potential loan losses and the entries made to ensure adequacy of the provision for loan losses account. Such records shall be available for examiners to assess management's loss estimation procedures, the reliability of the information on which estimates are based, and the adequacy of the provision for loan losses account. If the provision for loan losses account is determined to be inadequate by more than +5%, adjusting entries will be required.

12: Nonconforming

- (a) If a bank does not meet the minimum requirements for asset classification, suspension of interest and provisioning for loan losses as set forth in this Determination, then such a bank will be treated as 'nonconforming'.
- (b) If a bank becomes 'nonconforming' as described in (a) above, then the board and management of such a bank shall take all reasonable efforts to promptly bring it into compliance otherwise not doing so would be inconsistent with safe and sound banking practices.
- (c) Existing asset classification, accounting treatment for accrued but uncollected interest on non-performing assets and provisions which at the effective date of this Determination do not meet the requirements set out in this Determination will be considered as 'nonconforming'. However, the board and management of such bank shall take all reasonable efforts to promptly bring it into compliance.

13: Disclosure in Annual Financial Statements

In submitting annual financial accounts to the Bank, banks shall disclose whether the accounting treatment of the annual financial statements comply with this Determination. The foregoing therefore places certain responsibilities on the independent auditors of banks. Therefore, in order for independent auditors to discharge the responsibility placed on them as such, as the minimum the following shall apply:

- 1) the directors of a bank shall include in the directors report in the annual financial statements, a statement of compliance with the provisions of BID-2;
- 2) the directors of a bank shall include in the notes to the annual financial statements, under the accounting policies, a statement of compliance with the provisions of BID-2; and
- 3) while conducting their audit of loans and advances the independent auditors of a bank must be satisfied that the statements of compliance as indicated above under paragraphs 1 and 2 are included in the annual financial statements of the bank and that such compliance is achieved. The independent auditor then by signing the annual financial statements would have discharged the onus placed on them by this Determination.

14: Reporting Requirements

The bank shall, at the end of each calendar quarter submit to the Bank all returns in terms of this Determination by not later than the 21st day of the following month.

PART IV: REMEDIAL MEASURES

- 15: Remedial measures** - If a bank fails to comply with this Determination, then the Bank may pursue any remedial measures as provided under the Act or any other measures the Bank may deem appropriate in the interest of prudent banking practice.

PART V: EFFECTIVE DATE

- 16: Effective date** - The effective date of this Determination shall be 1 January 2004.
- 17: Repeal of BID-2** - This Determination repeals and replaces the Determination on Classification of Loans and the Suspension of Interest on Non-Performing Loans and the Provisions for Bad and Doubtful Debts (BID-2) published, as general notice No. 120, in the Government Gazette No. 1899 of 29 June 1998.

Questions relating to this Determination should be addressed to the Senior Manager, Bank Supervision Department, Bank of Namibia, Tel: 283-5040.

LOAN CLASSIFICATION (RATING) MATRIX**APPENDIX A**

A combined assessment of financial condition and repayment history of a borrower should be used to arrive at an initial classification grade for a loan. Adjustments to the initial grade should then be made based on mitigating or unique circumstances. The Loan Classification Matrix below provides criteria for assigning a preliminary rating.

LOAN CLASSIFICATION MATRIX			
Repayment History			
Financial Condition	<i>Strong</i>	<i>Fair</i>	<i>Unsatisfactory</i>
<i>Strong</i>	Pass	Special Mention	Substandard
<i>Satisfactory</i>	Special Mention	Substandard	Substandard
<i>Fair</i>	Substandard	Substandard	Doubtful
<i>Marginal</i>	Substandard	Doubtful	Loss
<i>Unsatisfactory</i>	Doubtful	Loss	Loss

Definitions: The following definitions are used in the Loan Classification Matrix above.

FINANCIAL CONDITION	
Strong.....	Borrower’s financial condition is of highest quality; normal indicators of financial health show that borrower is clearly able to repay both principal and interest according to original terms of loan agreement.
Satisfactory	Borrower is financially stable but various unsatisfactory aspects exist regarding the financial condition of the borrower which are generally minor.
Fair.....	Borrower is financially stable but various unsatisfactory aspects exist regarding the financial condition of the borrower, some of which may be significant.
Marginal.....	Borrower is financially unstable and significant unsatisfactory aspects exist regarding the financial condition of the borrower.
Unsatisfactory	Borrower’s financial condition is highly unsatisfactory; it is likely that liquidation or other formal insolvency proceedings have begun or will commence shortly.

REPAYMENT HISTORY	
Strong.....	Interest and principal are current (i.e., not overdue) and there is no evidence that the current loan balance includes any capitalized amounts of either principal or interest from previous loan roll-overs. A grace period of no more than 7 days may be allowed before payments are considered overdue to allow for administrative errors on the part of borrower or the bank.
Fair.....	Interest or principal has historically been overdue for more than 7 days but less than 30 days, or there is evidence of interest or principal capitalization.
Unsatisfactory	Interest or principal has been overdue for more than 30 days, or there is evidence of equivalent rescheduling of payments or capitalization of interest.



BANK OF NAMIBIA

No. 279

2003

**DETERMINATIONS UNDER THE BANKING INSTITUTIONS ACT, 1998
(ACT NO 2 OF 1998): LIMITS ON EXPOSURES TO SINGLE BORROWERS**

In my capacity as Governor of the Bank of Namibia (Bank), and under the powers vested in the Bank by virtue of section 71(3) of the Banking Institutions Act, 1998 (Act No 2 of 1998), read in conjunction with section 34 of the aforementioned Act, I hereby issue **this Determination on Limits on Exposures to Single Borrowers (BID-4)**. The Determinations on Large Exposures to a Single Person or Group of Related Persons (BID-4) published, as general notice No.122, in the Government Gazette No.1899 of 29 June 1998, is hereby repealed.

T. K. ALWEENDO
GOVERNOR

Windhoek, 13 October 2003

Determination No. BID-4**LIMITS ON EXPOSURES TO SINGLE BORROWERS****Arrangement of Paragraphs****PART I****Preliminary****PARAGRAPH**

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PART I: PRELIMINARY

1. **Short Title** - Single borrowers' limits.
2. **Authorization** - Authority for the Bank to issue this Determination is provided in Section 71(3) of the Act.
3. **Application** – This Determination applies to all banks authorised by the Bank to conduct banking business in Namibia.
4. **Definitions** - Terms used within this Determination are as defined in the Act, as further defined below, or as reasonably implied by contextual usage.
 - 4.1 **“Act”** – means the Banking Institutions Act, 1998 (Act No. 2 of 1998)
 - 4.2 **“bank”** – means banking institution as defined in the Act.
 - 4.3 **“bankers' acceptances”** - means drafts or bills of exchange drawn upon a bank and having a term not more than six months, exclusive of days of grace and (i) which arise out of transactions involving the importation or exportation of goods; (ii) which arise out of transactions involving the domestic shipment of goods or financing of operations; or (iii) which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title over readily marketable commodities.
 - 4.4 **“capital funds”** - For the purpose of this Determination, capital funds means total qualifying capital comprising both tier 1 and tier 2 capital elements as defined in the Determination on Capital Adequacy (BID-5).
 - 4.5 **“commercial paper”** - means a short term unsecured money market obligation issued by commercial and financial companies, having a term not more than six months; proceeds are used to finance current obligations; commercial paper is a negotiable instrument and may be issued either at a discount basis or as interest-bearing paper.
 - 4.6 **“common enterprise”** - a common enterprise exists when (i) the expected source of repayment is the same for exposures made to different borrowers, or (ii) exposures are made to persons related by common control, where the persons are engaged in inter-dependent businesses, or where there is substantial financial inter-dependence among them.

For purposes of this paragraph, "control" is presumed to exist when: (a) one or more persons acting together directly or indirectly own, control, or have power to vote 20 per cent or more of any class of voting shares of another person; or (b) one or more persons acting together control, in any manner, the election of a majority of the directors,

trustees, or others exercising similar functions over another person; or (c) any other circumstances exist which indicate that one or more persons acting together exercise a controlling influence, directly or indirectly, over the management or policies of another person.

- 4.7 **"exposure"** – for the purposes of this Determination exposure shall have the same meaning as credit facility and shall include any direct or indirect advance of funds made to a person or group of related persons on the basis of an obligation to repay the funds. Examples of exposure are, but not limited to, on-balance sheet loans, advances, overdrafts, redeemable preference shares, holdings of papers, off-balance sheet commitments (e.g. acceptances and guarantees on behalf of the person or group of related persons), underwriting facilities, endorsements, placements, documentary credits issued, performance bonds and other contingent liabilities.
- 4.8 **"large exposure"** - means any exposure to a single person or group of related persons which, in the aggregate, equals or exceeds 10% of a banking institution's capital funds.
- 4.9 **"marketable commodities"** - means agricultural or mining commodities such as agricultural staples, mineral ores, etc. which are traded on established domestic or international markets and for which there are recognized daily price quotations.
- 4.10 **"money market instruments"** - means financial instruments which are traded under ordinary circumstances with reasonable promptness at a fair market value determined by quotations based on actual transactions at an auction or a similarly available daily bid and ask price market. This includes stocks, notes, bonds, and debentures traded on a recognized securities exchange, commercial papers, negotiable certificates of deposit, and bankers' acceptances.
- 4.11 **"person or group of related persons"** – shall include the scenarios stated in paragraph 10 of this Determination.
- 4.12 **Segregated deposit"** – means a deposit account, usually savings or time deposit rather than checking, in the same bank as the lending bank and in some way tagged or frozen or identified as pledged against a loan.

PART II: STATEMENT OF POLICY

5. **Purpose** - This Determination is intended to set certain conditions and limitations on the borrowing of excessive amounts of a bank's funds by one person or a group of related persons. It is also intended to safeguard a bank's depositors and creditors by spreading exposure risks among several persons engaged in different lines of business.
6. **Scope** - This Determination applies to all exposures held or reflected on a bank's balance sheet or otherwise held or reflected as off-balance sheet items.
7. **Responsibility** - The board of directors of each bank shall be responsible for establishing policies and procedures which are adequate to ensure that (a) all exposures fully comply with the limitations set forth in the Act and in this Determination, and (b) all exposures are made and administered in accordance with prudent lending practices.

PART III: IMPLEMENTATION AND SPECIFIC LIMITATIONS

8. **Limitations** - The following limits shall apply to the approved limit for the credit facilities or the amount outstanding, whichever is higher:

- 8.1 **General:** the total of all exposures outstanding at any time to a single person or to a group of related persons shall not exceed 30 per cent of a bank's capital funds.
- 8.2 **Aggregate of large exposures:** the aggregate of all large exposures (i.e. an exposure which individually equals or exceeds 10 per cent of a bank's capital funds) shall not exceed 800 per cent of a bank's capital funds.
- 8.3 **Exemption by Bank of Namibia:** approval to exceed the limits in paragraphs 8.1 and 8.2 above, if requested by a bank pursuant to section 34(1) of the Act may only be granted by the Bank subject to the following conditions:
- (i) The total exposure to a person or group of related persons shall not exceed the amount stated in the exemption request submitted to the Bank;
 - (ii) The exposure shall comply in all respects with a written lending policy that has been adopted and approved by the board of directors of the bank;
 - (iii) Before requesting the Bank's approval, the exposure shall be reviewed and approved by a majority of the entire board of directors of the bank, and so documented in the minutes of the board; and
 - (iv) Before requesting the Bank's approval, the bank shall have made a request to at least three other banks, at least two of which are not affiliated with the bank, to participate in the loan by (a) joining in a syndication of the exposure, or (b) purchasing the portion that exceeds the single borrower limit and have been denied by all three, and written documentation of such requests and denials shall be maintained.

9. **Exceptions** - The following exceptions shall apply to the limits in paragraph 8 above:

- 9.1 **Discounted paper.** Exposures arising from the discount of commercial paper negotiated with full recourse to the issuer shall not count against the person discounting the commercial paper to the purchasing bank.
- 9.2 **Bankers' acceptances.** The aggregate amount of bankers' acceptances (including participations therein) which have been issued or accepted by another bank shall not exceed more than 200 per cent of the purchasing bank's capital funds.
- 9.3 **Marketable commodities.** A bank may lend up to 50 per cent of its capital funds so long as the total of all exposures, which exceed the 30 per cent limits in paragraph 8 above, is secured by marketable commodities. For this exception to apply, the marketable commodities held as security must: (i) have a current value that is at least 125 per cent at all times of the exposures that exceed 30 per cent of the bank's capital funds, and (ii) be fully insured.
- 9.4 **Government and Bank of Namibia.** Exposures granted to or fully secured by obligations of the Government of Namibia or the Bank of Namibia or secured by the guarantee of the Government of Namibia shall be exempted from the above limits.
- 9.5 **Segregated deposits.** Exposures which are fully or partly secured at all times by a segregated deposit account in the lending bank shall be exempt, to the extent they are covered by such deposit account, from the lending limits set forth in paragraph 8 above. For this exception to apply, the bank must have the legal right of offset for the deposit. Also, if the deposit is in a different currency than the secured exposure, then the deposit must be revalued at least weekly to existing exchange rates. Finally, if the value of the pledged deposit declines and results in an unsecured exposure exceeding

the lending limits, then the exposure must be brought into conformance within five (5) working days.

- 9.6 Bank guaranteed debts.** A bank may lend up to 50 per cent of its capital funds so long as the total of all exposures which exceed the lending limits in paragraph 8 above is guaranteed by another bank as to both principal and interest. However, for this exception to apply, the guaranteeing bank (i) must not be associated with the lending bank, (ii) must not be rated lower than the three highest grades by a rating agency of recognized international standing, (iii) the aggregate of all exposures guaranteed by another bank shall not exceed at any time more than 200 per cent of the lending bank's capital funds, and (iv) the aggregate of all exposures, including guarantee, by the guaranteeing bank to the person or group of related persons shall not exceed the lending limits in paragraph 8 above.
- 10. Combining loans to separate borrowers - (a) **Combination:**** Exposures made to one person will be combined with exposures made to another person when (i) the exposure proceeds are used for the direct benefit of the other person ('use' test), or (ii) a common enterprise exists between the persons ('source' test).
(b) **Determination:** For purpose of this Determination, the Bank will decide when an exposure nominally made to one person will be combined with exposures to another person. Such decision will be made in the case where there is doubt as to whether or not to combine two or more exposures or where the Bank discovers that two or more exposures that ought to have been combined are treated as separate exposures. The Bank shall take the following factors into account in deciding when exposures should be combined: common ownership/control, common directors or management, guarantees or cross guarantees and direct commercial interdependency which cannot be substituted in the short term.
- 11. Loans to partnerships**
11.1 **To the group:** For purposes of this Determination, exposures to a partnership will be considered exposures to each member of the partnership.
11.2 **For purchasing interests:** For purposes of this Determination, exposures made to members of a partnership for the purpose of purchasing an interest in the partnership will be combined with exposures made to the partnership.
- 12. Loans written off** - The lending limits in paragraph 8 above apply to all existing loans, including any loans or portions thereof, which have been written off in whole or in part. Loans which have been discharged in bankruptcy or which are no longer legally enforceable in a court of law are not subject to the lending limits.
- 13. Loan participations** - When a bank sells a participation in a loan, the portion that has been sold will not count against the lending limits in paragraph 8; however, to be excluded, (i) the participation agreement must require that if a default occurs, all participants will share pro rata in repayments and collections relative to their participation percentages at the time of default and (ii) the sale transaction for a portion of a loan shall be a cash transaction. For the purpose of this paragraph, cash transaction is a transaction of which payment is made within a period of not more than seven working days.
- 14. Loan syndications** - When two or more banks collectively make a loan to a single borrower, only the amount actually loaned or the approved limit allocated by each bank and representing its pro rata share of the syndicated loan will count against the limits set forth in paragraph 8 above.
- 15. Interest or discount on loans** - The limits set forth in paragraph 8 above shall not apply to any portion of an exposure which represents accrued interest unless such interest has been capitalized or in any way converted to principal.

16. **Nonconforming exposures** - (a) If an exposure complies with the lending limits in paragraph 8 above when it is made but later fails to comply because (i) the bank's capital funds decline, (ii) the borrower merges or forms a common enterprise with another borrower, (iii) the bank merges with another bank which is also lending to the borrower, (iv) the lending limit or capital funds rules change, or (v) collateral securing the exposure fails to qualify as an exception under paragraph 9, then the exposure will be treated as 'nonconforming'.

(b) If an exposure becomes 'nonconforming' for reasons (i-iv) above, then the bank must use all reasonable efforts to promptly bring the exposure into compliance with lending limits unless doing so would be inconsistent with safe and sound banking practices.

(c) If an exposure is 'nonconforming' for reason (v) above, then the bank must bring the exposure into compliance within 30 calendar days of the date that the exposure became nonconforming, unless judicial proceedings, regulatory actions, or other circumstances beyond the bank's control prevent the bank from taking action.

17. **Reporting Requirements**

The bank shall, at the end of each calendar quarter submit to the Bank returns in terms of this Determination by not later than the 21st day of the following month.

PART IV: REMEDIAL MEASURES

18. **Remedial measures** - If a bank fails to comply with this Determination, then the Bank may pursue any remedial measures as provided under the Act or any other measures the Bank may deem appropriate in the interest of prudent banking practice.

PART V: EFFECTIVE DATE

19. **Effective date** - The effective date of this Determination shall be 1 January 2004.

20. **Repeal of BID-4** - This Determination repeals and replaces the Determinations on Large Exposures to a Single Person or Group of Related Persons (BID-4) published, as general notice No. 122, in the Government Gazette No. 1899 of 29 June 1998.

Questions relating to this Determination should be addressed to the Senior Manager, Bank Supervision Department, Bank of Namibia, Tel: 283-5040

BANK OF NAMIBIA

No. 280

2003

**DETERMINATIONS UNDER THE BANKING INSTITUTIONS ACT, 1998
(ACT NO 2 OF 1998): CAPITAL ADEQUACY**

In my capacity as Governor of the Bank of Namibia (Bank), and under the powers vested in the Bank by virtue of section 71(3) of the Banking Institutions Act, 1998 (Act No 2 of 1998), read in conjunction with section 28 and 29 of the aforementioned Act, I hereby issue **this Determination on Capital Adequacy (BID-5)**. The Determinations on Risk-Weighted Capital Adequacy (BID-5) published, as general notice No.123, in the Government Gazette No. 1899 of 29 June 1998, is hereby repealed.

**TOM K ALWEENDO
GOVERNOR**

Windhoek, 13 October 2003

Determination No. BID-5**CAPITAL ADEQUACY****Arrangement of Paragraphs****PART I****Preliminary****PARAGRAPH**

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2. Authorization
3. Application
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PART II**Statement of Policy**

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PART III**Implementation and Specific Requirements**

8. Capital Measures
9. Minimum Requirements
10. Criteria for Higher Minimum Ratios
11. Risk Weights
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PART IV**Corrective Measures**

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Effective Date

16. Effective Date
17. Repeal of BID-5

PART I: PRELIMINARY

1. **Short Title** - Capital adequacy.
2. **Authorization** - Authority for the Bank to issue this Determination is provided in Section 71(3) of the Banking Institutions Act, 1998 (“Act”).
3. **Application** – This Determination applies to all banks authorized by the Bank to conduct banking business in Namibia.
4. **Definitions** - Terms used within this Determination are as defined in the Act, as further defined below, or as reasonably implied by contextual usage:
 - 4.1 **“bank”** - means banking institution as defined in Section 1 of the Act.
 - 4.2 **“Tier 1 (core) capital”** – includes permanent shareholders' equity (issued and fully paid-up ordinary shares and perpetual non-cumulative preference shares) plus disclosed reserves (additional paid-in share premium plus retained earnings/undistributed profits) plus minority interests in consolidated subsidiaries, less intangible assets (goodwill, equity funded through capitalization of revaluation reserves).
 - 4.3 **“Tier 2 (supplementary) capital”** - includes asset revaluation reserves; general loan loss provisions; subordinated debt; and hybrid (debt-equity) capital instruments.
 - 4.4 **“Total Assets”** - means the total assets reported in financial returns required to be submitted to the Bank, less intangible assets and the excess of assets classified as Loss but not fully provisioned for.
 - 4.5 **“Total Qualifying Capital”** - means Tier 1 capital plus Tier 2 capital, less: investments in and loans to unconsolidated financial subsidiaries; investments in the capital of other financial institutions; encumbered assets (assets acquired using capital funds but subsequently pledged to secure loans or that are no longer available to cover losses from operations); and reciprocal holdings of capital instruments of banks.

PART II: STATEMENT OF POLICY

5. **Purpose** - This Determination is intended to ensure that each bank maintains a level of capital which (i) is adequate to protect its depositors and creditors; (ii) is commensurate with the risk activities and profile of the bank; and (iii) promotes public confidence in the bank and the banking system.
6. **Scope** - This Determination applies to all banks authorized and operating in Namibia.
7. **Responsibility** - The board of directors of each bank shall be responsible for establishing and maintaining at all times an adequate level of capital. The capital levels required herein are the minimums acceptable for banks that are fundamentally sound, well-managed, and have no material financial or operational weaknesses. Higher capital levels may be required for individual banks based on circumstances listed under paragraph 10 below.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

8. **Capital Eligibility, Measures and Categories** - for purposes of evaluating capital adequacy, the following criteria, measures and capital categories shall apply:

8.1 Eligibility of capital elements (criteria)

8.1.1 Tier 1 Capital (also known as Core Capital or Primary Capital):

A capital instrument will not qualify as Tier 1 capital if it is subject to any condition, covenant, term, restriction, or provision that:

- (a) unduly interferes with the ability of the bank to conduct normal banking operations;
- (b) requires unjustified dividends or interest payments relative to the financial condition of the bank or permits redemption by the holder in the event of financial deterioration;
- (c) impairs the ability of the bank to comply with regulatory requirements regarding the disposition of assets or incurrence of additional debt; or
- (d) limits the ability of a regulatory authority to take any actions for the purpose of resolving a problem or failing bank.

8.1.2 Tier 2 Capital (also known as Supplementary Capital or Secondary Capital):

- a) Revaluation Reserves. A bank may include in its Tier 2 capital, only reserves arising from the revaluation of premises and other fixed assets owned by the bank provided that the assets are prudently valued by an independent sworn appraiser, fully reflecting the possibility of price fluctuation and forced sale. In addition, the revaluation of fixed assets for purposes of inclusion in Tier 2 capital shall only be permitted after a period of 3 years from the date of purchase or 3 years from the date of last revaluation, whichever is the later.
- b) General provisions/general loan loss reserves: provisions or loan loss reserves held against future, presently unidentified losses are freely available to meet losses which subsequently materialise and therefore qualify for inclusion within supplementary elements. Provisions ascribed to impairment of particular assets or known liabilities shall be excluded. Where general provisions include amounts reflecting lower valuations of assets or latent but unidentified losses already present in the balance sheet, the amount of such provisions or reserves eligible for inclusion will be limited to a maximum of 2 percent of total risk-weighted assets.
- c) Hybrid (debt/equity) capital instruments: This heading includes a range of instruments, which combine characteristics of equity capital and of debt. To qualify for Tier 2, these instruments require prior approval of the Bank and they must meet the following requirements:-
 - they must be unsecured, subordinated and fully paid-up;
 - they must not be redeemable at the initiative of the holder or without the prior consent of the Bank;

- they must be available to participate in losses without the bank being obliged to cease trading (unlike conventional subordinated debt);
- it must **allow** service obligations to be deferred (as with cumulative preference shares) where the profitability of the bank would not support payment even although the capital instrument may carry an obligation to pay interest that cannot permanently be reduced or waived (unlike dividends on ordinary shareholders' equity).
Cumulative preference shares and mandatory convertible debt instruments, having the above characteristics, are examples of hybrid capital instruments.

(d) Subordinated term debt: Unlike the hybrid capital instruments, the instruments under this category are not normally available to participate in the losses of a bank which continues trading since they are able to absorb losses only in liquidation. This deficiency justifies an additional restriction on the amount of such debt capital which shall be eligible for inclusion in the capital base, in that the eligible amount shall be restricted to a maximum of 50% of Tier 1 capital. In addition, to qualify for Tier 2, subordinated term debt requires prior approval of the Bank and must satisfy the following conditions:-

- the debt must be unsecured and fully paid-up;
- the debt must have a minimum original fixed term to maturity of five years;
- early repayment or redemption shall not be made without the prior written consent of the Bank;
- the debt eligible for inclusion shall be subjected to straight line amortisation over the last five years of its life to reflect the diminishing value of such debt as a continuous source of strength to the capital position of the banking institution; and
- there shall be no restrictive covenants.

8.2 Capital measures - the ratios used for measuring capital adequacy are:

- Leverage (equity) capital ratio (i.e. Tier 1 capital divided by gross assets; for purposes herein, “gross assets” means total assets plus general and specific provisions).
- Tier 1 risk-based capital ratio (i.e. Tier 1 capital divided by total risk-weighted assets).
- Total risk-based capital ratio (i.e. total qualifying capital divided by total risk-weighted assets).

9. Minimum Requirements - the following minimum ratios shall apply (unless higher ratios are set by the Bank for an individual bank based on criteria set forth in paragraph 10 below):

- (a) **Leverage Capital**: the minimum leverage ratio shall be 6.0%. However, if a bank is pursuing or experiencing significant growth, has inadequate risk management systems, an inordinate level of risk, or less than satisfactory asset quality, management, earnings or liquidity, a higher minimum may be required.
- (b) **Tier 1 Risk-Based Capital**: the minimum Tier 1 ratio shall be 7.0%. However, if a bank is pursuing or experiencing significant growth, has inadequate risk management systems, an inordinate level of risk, or less than satisfactory asset quality, management, earnings or liquidity, a higher minimum may be required.

(c) **Total Risk-Based Capital:** the minimum total ratio shall be 10.0%. However, if a bank is pursuing or experiencing significant growth, has inadequate risk management systems, an inordinate level of risk, or less than satisfactory asset quality, management, earnings or liquidity, a higher minimum may be required.

10. **Criteria for Higher Minimum Ratios** - the Bank may require higher minimum ratios for an individual bank if any of the following criteria apply: The bank –

- 10.1 has been operating less than three years;
- 10.2 has, or is expected to have, losses resulting in a capital deficiency;
- 10.3 has significant exposure to risk, whether credit, concentrations of credit, market, interest rate, liquidity, operational, or from other non-traditional activities;
- 10.4 has a high, or particularly severe, volume of poor quality assets;
- 10.5 is growing rapidly, either internally or through acquisitions;
- 10.6 may be adversely affected by the activities or condition of its parent holding company, associates or subsidiaries; or
- 10.7 has deficiencies in its ownership or management (shareholding structure; composition or qualifications of directors or officers; or risk management policies or procedures.)

11. **Risk Weights** - the risk weights applicable to on-balance-sheet assets are:

0% Category

- cash, gold coin and bullion;
- foreign notes and coins;
- statutory reserve with Bank of Namibia;
- claims on the Government of Namibia and the Bank of Namibia;
- claims guaranteed by Government or fully secured by securities issued by the Government and the Bank of Namibia;
- claims on OECD central governments and central banks; and
- claims fully secured by pledged deposits in the same bank.

10% Category

- claims on the central governments of countries in common monetary area (CMA), excluding Namibia;
- claims on Namibian public sector entities, regional government and local authorities (excluding commercial entities owned by the public sector);
- claims on and claims guaranteed by or collateralized by securities issued by the following Multilateral Development Banks: International Bank for Reconstruction and Development, Inter-American Development Bank, Asian Development Bank, African Development Bank, European Investment Bank and any other institution approved by the Bank.

20% Category

- claims on other Namibian or RSA banks;
- claims on banks incorporated in the OECD and claims guaranteed by such banks;
- claims on public-sector entities (excluding commercial entities owned by the public sector) of common monetary area countries, excluding Namibia;
- claims on OECD public-sector entities (excluding commercial entities owned by the public sector);
- items in transit

50% Category

- loans that are fully secured by mortgages on residential properties which are either owner-occupied or rented to tenants. The 50% weight is applicable only to loans secured by first mortgage bond (first charge) on the property. Mortgage loans granted against second or third mortgage bonds may also be accorded a 50% weight provided that the bank is also the holder of the first mortgage bond. However, claims on companies involved in residential building or property development would not qualify.

100% Category

- all other private sector claims;
- financial leases and factoring;
- commercial and industrial mortgages and real estate;
- premises, equipment and other fixed assets, and
- all other assets.

12. **Credit Conversion Factors** - the credit conversion factors listed below shall apply for off-balance-sheet items and be multiplied by the weights applicable to the corresponding on-balance sheet asset category. The Bank will, in its discretion, allocate particular instruments into the categories listed below based on the characteristics of the instrument.

12.1 Factor Off-balance sheet instrument

100%	Direct credit substitutes (i.e. general guarantees of indebtedness including standby letters of credit serving as financial guarantees for loans and securities; and acceptances including endorsements similar to acceptances)
50%	Transaction-related contingent items (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions)
20%	Short-term self-liquidating trade-related contingencies (e.g. documentary credits collateralized by the underlying shipments)
100%	Sale and repurchase agreements and assets sales with recourse where the credit risk remains with the bank
100%	Forward asset purchases, forward deposits and partly-aid shares and securities which represent commitments with certain draw-down
50%	Note issuance facilities and revolving underwriting facilities
50%	Other commitments (e.g. formal stand-by facilities and credit lines) with an original maturity of over one year
0%	Similar commitments with an original maturity of up to one year, or which can be unconditionally canceled at any time

1 Notes to exposure methods:

1. For contracts with multiple exchanges of principal, the conversion factors are to be multiplied by the number of remaining payments in the contract.
2. For contracts structured to settle outstanding exposures after specified payment dates and where the terms are reset such that the market value of the contract is zero on the specified dates, the residual maturity must be set equal to the time until the next reset date. In the case of interest rate contracts with remaining maturities of more than one year and which meet the above criteria, the add-on factor is subject to a floor of 0.5%.
3. Forwards, swaps, purchased options, and similar derivative contracts not covered by any of the columns in this matrix are to be treated as "other commodities".
4. No potential future credit exposure shall be calculated for single currency floating/ floating interest rate swaps; the credit exposure on such contracts shall be evaluated solely on the basis of its mark-to-market value.

Once credit equivalent amounts have been calculated using either method above, the amounts shall be multiplied (i.e. weighted) by the weight applicable to the corresponding on-balance-sheet asset category.

12.2 Interest Rate and Foreign Exchange Contingencies

For interest rate and foreign exchange-related contingencies, the percentages shown in the matrices below shall be applied to calculate the credit equivalent amounts.

Original Exposure Method. Banks shall use the “original exposure” method for determining credit equivalent for interest rate and foreign exchange-related contracts until such time as other capital requirements for market risk are implemented. Thereafter, the "current exposure method" must be used unless otherwise specified. To calculate the credit equivalent amount using the original exposure method, apply the conversion factors below to the notional principal amount of each instrument according to the nature of the instrument and its maturity:

Original Maturity	Interest Rate Contracts	Exchange Rate Contracts
One year or less	0.5%	2.0%
Over one year, but not more than two years	1.0%	5.0% (i.e. 2% + 3%)
For each additional year	1.0%	3.0%

Current exposure method. Banks that engage in forward contracts, swaps, purchased options, or similar contracts based on equities, precious metals or other commodities must calculate the credit equivalent amounts by (i) adding the total replacement cost of all contracts with positive value (obtained by "marking-to-market"), and then (ii) adding an amount (called the "add-on") for potential future credit exposure calculated on the basis of the total notional principal amount of its book, split by residual maturity as follows:

Residual Maturity	Interest Rate	Exchange Rate	Equities	Precious Metals	Other Commodities
One year or less	0.0%	1.0%	10.0%	8.0%	10.0%
Over one year, but not more than five years	0.5%	5.0%	12.0%	10.0%	12.0%
Over five years	1.5%	10.0%	15.0%	12.0%	15.0%

12.3 Bilateral netting. For capital adequacy purposes and subject to Bank discretion, banks may net transactions that are subject to a valid and binding bilateral netting agreement, i.e. novation (an agreement under which a bank is obligated to deliver a specified amount of currency on a given value date to a counterparty is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations).

Once the bank has calculated the credit equivalent amounts, they shall be weighted according to the category of counter-party in the same way as in the main framework, including concessionary weighting in respect of exposures backed by eligible guarantees and collateral.

13. Plan to comply with minimum capital requirements - Any bank which fails to comply with the minimum ratios set forth in paragraph 9 above, or with any higher minimum ratio that may be required by the Bank under paragraph 10 above, shall submit to the Bank a detailed plan stating how and when the bank will comply with the required minimum capital ratios.

Such plan must be submitted within 60 days of written request from the Bank unless a shorter time is specified due to the severity of the capital deficiency.

14. Reporting Requirements

The bank shall, at the end of each month submit to the Bank all returns in terms of this Determination by not later than the 21st day of the following month.

PART IV: CORRECTIVE MEASURES

15. Remedial measures - If a bank fails to comply with this Determination, then the Bank may pursue any remedial measures as provided under the Act or any other measures the Bank may deem appropriate in the interest of prudent banking practice.

PART V: EFFECTIVE DATE

16. Effective date - The effective date of this Determination shall be 1 January 2004.

17. Repeal of BID-5 - This Determination repeals and replaces the Determinations on Risk-Weighted Capital Adequacy (BID-5) published, as general notice No. 123, in the Government Gazette No. 1899 of 29 June 1998.

Questions relating to this Determination should be addressed to the Senior Manager, Bank Supervision Department, Bank of Namibia, Tel: 283-5040.

BANK OF NAMIBIA

No. 281

2003

**DETERMINATIONS UNDER THE BANKING INSTITUTIONS ACT, 1998
(ACT NO 2 OF 1998): MINIMUM LIQUID ASSETS**

In my capacity as Governor of the Bank of Namibia (Bank), and under the powers vested in the Bank by virtue of section 71(3) of the Banking Institutions Act, 1998 (Act No 2 of 1998), read in conjunction with Section 31 of the aforementioned Act, I hereby issue **this Determination on Minimum Liquid Assets (BID-6)**. The Determinations on Minimum Liquid Assets (BID-6) published, as general notice No.90, in the Government Gazette No. 2105 of 17 May 1999, is hereby repealed.

**T.K. ALWEENDO
GOVERNOR**

Windhoek, 13 October 2003

Determination No. BID-6

MINIMUM LIQUID ASSETS

Arrangement of Paragraphs

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Preliminary

PARAGRAPH

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3. Application
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8. Requirements
9. Maintenance
10. Assets Pledged or Encumbered
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PART IV

Corrective Measures

13. Remedial Measures

PART V

Effective Date

14. Effective Date
15. Repeal of BID-6

PART I: PRELIMINARY

1. **Short Title** – Liquidity Risks.
2. **Authorization** - Authority for the Bank to issue this Determination is provided in section 71(3) of the Banking Institutions Act, 1998 (Act).
3. **Application** – This Determination applies to all banks authorized by the Bank to conduct banking business in Namibia.
4. **Definitions** - Terms used within this Determination are as defined in the Act, as further defined below, or as reasonably implied by contextual usage:
 - 4.1) **“bank”** – means banking institution as defined in the Act.
 - 4.2) **“composition of liquid assets”** - For the purpose of this Determination, liquid assets comprise: -
 - (a) Notes and coins which are legal tender in Namibia, gold coin and bullion;
 - (b) Clearing account balances held with Bank of Namibia;
 - (c) Call account balances held with Bank of Namibia;
 - (d) Securities of the Bank of Namibia;
 - (e) Treasury Bills of the Government of Namibia;
 - (i) Stocks, securities, bills and bonds of the Government of Namibia;
 - (g) Any other securities, bonds and bills fully guaranteed by the Government of Namibia, which form part of the public issue¹; and
 - (h) Net amount of loans and deposits, repayable on demand, with Namibian banks or building societies other than a subsidiary or fellow subsidiary of the bank or building society concerned or of a bank or building society by which the bank or building society concerned is controlled directly or indirectly.
 - 4.3) **“maturity mismatch approach”** - an approach used to assess the mismatches between assets and liabilities within different time bands on a maturity ladder.
 - 4.4) **“maturity ladder”** – a table constructed for comparison use of a bank’s future cash inflows and outflows over a series of specified time periods.
 - 4.5) **“liquidity”** – ability to accommodate decreases in liabilities and fund increases in assets promptly, including off-balance sheet commitments, and at a reasonable cost.
 - 4.6) **“average amount of total liabilities to the public”** - average daily amount of total liabilities to the public shall be determined by aggregating the total liabilities of all the days in a given month divided by the number of the days of the same month.

In determining the average as described above, the total liabilities as at the end of the previous working day shall be used for liabilities on Sundays and Public Holidays. Total liabilities (incl. foreign liabilities) mean deposits (net of investment in negotiable certificate of deposits and inter-bank term deposits/loans²), loans and advances received and other

³ Method for inviting offers from the public, for the subscription or purchase of shares in, or debentures of, a body corporate by means of a notice, circular or advertisement in the press.

⁴Whilst net interbank deposits repayable on demand are accorded liquid asset status, net interbank deposits of a term nature are not. However, these term deposits are allowed to be netted off against the total liability base.

liabilities to the public; but shall exclude capital funds.

Liabilities under acceptances shall be excluded.

- 4.7) “**net cumulative mismatch position**” – a figure obtained by cumulating the differences between assets and liabilities in various time bands and expressed as a percentage of total liabilities.

PART II: STATEMENT OF POLICY

5. **Purpose** - This Determination is intended to ensure that banks maintains effective and ongoing liquidity management systems.
6. **Scope** - This Determination applies to all the banks overall components of liquidity.
7. **Responsibility** - The board of directors of each bank shall be responsible for establishing policies and procedures which are adequate to ensure that, as a minimum requirement, each bank has written policies and procedures for measuring and managing liquidity which ensure daily compliance with the statutory liquid assets requirement.

These policies, including procedures, should address the cash flow management of the bank to ensure the short-term matching of out-going commitments and inflow of funds, management of marketable assets to ensure adequate stock of liquid assets and the borrowing capacity of the bank to ensure its ability to borrow market funds at short notice.

The policies and procedures should also include a variety of “what if” scenarios to ensure that banks are able to measure the behaviour of cash flows under different conditions. These scenarios should take into account factors that are both internal (bank-specific) and external (market-related).

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

8. **Requirements** – The following minimum requirements shall form part of this determination:
- 8.1 A bank shall hold an average daily amount of liquid assets in Namibia which shall not be less than an amount equal to **10** per cent of the average daily amount of its total liabilities to the public for the preceding month and shall furnish to the Bank a return in accordance with paragraph 12 of this Determination.
- 8.2 Provided that the minimum amount of liquid assets held on any day during the period specified in paragraph 9 below shall not be less than an amount equal to **75** per cent of the average daily amount of liquid assets required to be held by the bank in terms of this Determination.
- 8.3 For prudential purposes, banks shall be required to report their liquidity through the maturity mismatches approach and furnish the Bank a monthly return.
- 8.4 Banks shall also be required to set their own limits on net cumulative mismatches for each maturity time band. These limits should be included in the bank’s liquidity management policy, approved by the board of directors of the bank.

9. **Maintenance** – A bank shall maintain the minimum amounts contemplated in paragraph 8.1 of this Determination during the compliance period, that is, from the fifteenth day of the month to which a particular return relates, up to and including the fourteenth day of the following month.
10. **Assets pledged or encumbered** – Unless specifically or generally approved by the Bank in writing, no liquid assets used for the fulfillment of the requirements of paragraph 8.1 of this Determination shall be pledged or otherwise encumbered.

Securities lodged with the Bank to secure facilities shall not be regarded as pledged except to the extent that they are required to secure facilities actually utilized.

11. **Netting-off** – For calculation of liquid assets for the purposes of liquid assets requirement in terms of this Determination, all reciprocal deposits with other banks or building societies shall be netted out.

12. **Reporting requirements**

- 12.1 The bank shall, at the end of each month submit to the Bank all returns in terms of this Determination by not later than the 21st day of the following month.

Example: the liquidity compliance for the month of July 2003 which covers the compliance period of 15th of July to 14th August 2003 must be reported by not later the 21st of August 2003, based on the following:-

- Average daily liquid assets holdings over the period 15th July 2003 to 14th of August 2003.
- Average daily total liabilities to the public as computed over the month of June 2003.

- 12.2 Notwithstanding the above requirement, banks must report to the Bank immediately, in accordance with the provisions of section 31(2) of the Act, in the event that their liquid assets holdings, on any day, falls short of the legal requirement. The banks are required to state the reason(s) for such failure and to indicate how and when the failure is to be rectified. In addition, the banks are required to explain the steps to be taken to ensure such failure will not occur again.

PART IV: CORRECTIVE MEASURES

13. **Remedial measures** - If a bank fails to comply with this Determination, then the Bank may pursue any remedial measures as provided under the Act or any other measures the Bank may deem appropriate in the interest of prudent banking practice.

PART V: EFFECTIVE DATE

14. **Effective date** - The effective date of this Determination shall be 1 January 2004.
15. **Repeal of BID-6** - This Determination repeals and replaces the Determinations on Minimum Liquid Assets Requirements (BID-6) published, as general notice No. 90, in the Government Gazette No. 2105 of 17 May 1999.

Questions relating to this Determination should be addressed to the Senior Manager, Bank Supervision Department, Bank of Namibia, Tel: 283-5040.

BANK OF NAMIBIA

No. 282

2003

**DETERMINATIONS UNDER THE BANKING INSTITUTIONS ACT, 1998
(ACT NO 2 OF 1998): LIMITS ON INTER-BANK PLACEMENTS**

In my capacity as Governor of the Bank of Namibia (Bank), and under the powers vested in the Bank by virtue of section 71(3) of the Banking Institutions Act, 1998 (Act No 2 of 1998), read in conjunction with section 34 of the aforementioned Act, I hereby issue **this Determination on Limits on Inter-bank Placements (BID-15)**. The Determinations on Large Exposures to a Single Person or Group of Related Persons (BID-4) published, as general notice No. 122, in the Government Gazette No.1899 of 29 June 1998, is hereby repealed.

T. K. ALWEENDO
GOVERNOR

Windhoek, 13 October 2003

Determination No. BID-15**LIMITS ON INTERBANK PLACEMENTS****Arrangement of Paragraphs****PART I****Preliminary****PARAGRAPH**

1. Short Title
2. Authorization
3. Application
4. Definitions

PART II**Statement of Policy**

5. Purpose
6. Scope
7. Responsibility

PART III**Implementation and Specific Requirements**

8. Limitations
9. Nonconforming Exposures
10. Reporting Requirements

PART IV**Corrective Measures**

11. Remedial Measures

PART V**Effective Date**

- 12. Effective Date
- 13. Repeal of BID

PART I: PRELIMINARY

1. **Short Title** – Inter-bank placements.
2. **Authorization** - Authority for the Bank to issue this Determination is provided in section 71(3) of the Banking Institutions Act, 1998 (“Act”).
3. **Application** – This Determination applies to all banks authorized by the Bank to conduct banking business in Namibia.
4. **Definitions** - Terms used within this Determination are as defined in the Act, as further defined below, or as reasonably implied by contextual usage.
 - 4.1 **“bank”** – means banking institution as defined in the Act.
 - 4.2 **“capital funds”** - For the purpose of this Determination, capital funds means total qualifying capital comprising both tier 1 and tier 2 capital elements.
 - 4.3 **“exposure”** - means the following:
 - (a) all deposits in another bank;
 - (b) all loans or advances to another bank;
 - (c) all purchases of securities or other assets from another bank subject to an agreement to repurchase;
 - (d) all guarantees, acceptances, or letters of credit issued on behalf of another bank;
 - (e) all purchases of or investments in securities issued by the other bank or institution;
or
 - (f) all securities issued by the other bank or institutions and accepted as collateral.
 - 4.4 **“inter-bank placement”** - means any transaction between a bank licensed to conduct business in Namibia and any other bank either inside or outside Namibia which transaction results in an exposure as defined above.
 - 4.5 **“security”** - For purposes of paragraph 8, eligible security shall include bills, notes, bonds, or other similar evidences of indebtedness issued by the Government of Namibia or the Bank, or which the Government of Namibia or the Bank has agreed to purchase or has guaranteed as to payment of both principal and interest.

PART II: STATEMENT OF POLICY

5. **Purpose** - This Determination is intended to limit the potential for contagion risk posed when a bank fails or is otherwise unable to repay its obligations to other banks in a timely manner.
6. **Scope** - This Determination applies to all direct or indirect exposures, as defined above, to other banks.
7. **Responsibility** - The board of directors of each bank shall be responsible for establishing policies and procedures which are adequate to ensure that (a) all exposures fully comply with the

limitations set forth in the Act and in this Determination, and (b) all exposures are made and administered in accordance with prudent lending practices. The policies, among others, shall set forth the terms and conditions for all inter-bank placements and shall establish the criteria for selecting which banks are acceptable for inter-bank placements and which are not.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

8 Limitations

8.1 The following limits shall apply to all inter-bank exposures to banks licensed and operating in the Common Monetary Area (CMA banks):

- 8.1.1 exposures having a settlement period of 7 calendar days or less to a single counter-party bank shall not exceed 50 per cent of the bank's capital funds unless all amounts in excess of 50 per cent are fully secured at all times by eligible security;
- 8.1.2 exposures having a settlement period of more than 7 calendar days to a single counter-party bank shall not exceed 30 per cent of a bank's capital funds unless all amounts in excess of 30 per cent are fully secured at all times by eligible security;
- 8.1.3 exposures to all single counter-party bank may not, in aggregate, exceed **150 per cent** of a bank's capital funds unless secured as provided in 8.1.1 and 8.1.2 above;
- 8.1.4 if an inter-bank exposure having a term or settlement period of 7 calendar days or less is renewed, rolled-over or extended and it is determined by the Bank that such renewal, roll-over or extension is, in substance, an exposure having a settlement period of more than 7 calendar days, then it will be treated as the latter and be subject to the limits above; and
- 8.1.5 intra-day exposures are not subject to the limits above, but banks are expected to adhere to prudent limits specified in a written, board-approved policy; if intra-day exposures are observed to be excessive, then the Bank will take appropriate enforcement actions.

8.2 Inter-bank exposures to non-CMA banks, irrespective of the settlement period, shall not exceed 30 per cent of a bank's capital funds unless all amounts in excess of 30 per cent are fully secured at all times by eligible security.

9. Nonconforming exposures - (a) If an inter-bank placement exposure complies with the limits in paragraph 8 when made but later fails to comply because (i) the exposed bank's capital funds declines, or (ii) the other bank merges with another bank to which this bank is also exposed, or (iii) the lending limit or capital funds rules change, or (iv) the collateral securing the exposure fails to qualify, or (v) any other reasons, then the exposure will be treated as 'nonconforming'.

(b) If an exposure becomes 'nonconforming' as described in (a) above, then the board and management of the exposed bank shall take all reasonable efforts to promptly bring the exposure into compliance unless doing so would be inconsistent with safe and sound banking practices.

(c) Existing exposures which at the effective date of this determination are in excess of the limits in paragraph 8 above will not be considered as 'nonconforming'. However, the board and management of the exposed bank shall take all reasonable efforts to promptly

bring the exposure into compliance unless doing so would be inconsistent with safe and sound banking practices.

For the purposes of this determination, "inconsistent with safe and sound banking practices" refers to the deterioration in the condition of a bank as a result of an action taken by it under paragraph 9(b) or (c) above, and shall include liquidity problem, capital erosion, deterioration of earnings, losing customer base, etc.

10. Reporting Requirements

The bank shall, at the end of each calendar quarter submit to the Bank returns in terms of this Determination by not later than the 21st day of the following month.

PART IV: CORRECTIVE MEASURES

- 11. Remedial measures** - If a bank fails to comply with this Determination, then the Bank may pursue any remedial measures as provided under the Act or any other measures the Bank may deem appropriate in the interest of prudent banking practice.

PART V: EFFECTIVE DATE

- 12. Effective date** - The effective date of this Determination shall be 1 January 2004.
- 13. Repeal of BID-4** - This Determination repeals and replaces the Determinations on Large Exposures to a Single Person or Group of Related Persons (BID-4) published, as general notice No. 122, in the Government Gazette No. 1899 of 29 June 1998.

Questions relating to this Determination should be addressed to the Senior Manager, Bank Supervision Department, Bank of Namibia, Tel: 283-5040.

BANK OF NAMIBIA

No. 283

2003

**DETERMINATIONS UNDER THE BANKING INSTITUTIONS ACT, 1998
(ACT NO 2 OF 1998): FOREIGN CURRENCY EXPOSURE LIMITS**

In my capacity as Governor of the Bank of Namibia (Bank), and under the powers vested in the Bank by virtue of section 71(3) of the Banking Institutions Act, 1998 (Act No 2 of 1998), I hereby issue **this Determination on Foreign Currency Exposure Limits (BID-16)**. This Determination repeals and replaces any previous Determination or guideline issued by the Bank in regard to foreign exchange risk positions.

**TOM K ALWEENDO
GOVERNOR**

Windhoek, 13 October 2003

Determination No. BID - 16**FOREIGN CURRENCY EXPOSURE LIMITS****Arrangement of Paragraphs****PART I****Preliminary****PARAGRAPH**

1. Short Title
2. Authorization
3. Application
4. Definitions

PART II**Statement of Policy**

5. Purpose
6. Scope
7. Responsibility

PART III**Implementation and Specific Requirements**

8. Limit on Overall Foreign Exchange Risk Exposure
9. Limit on Single Currency Foreign Exchange Risk Exposure
10. Limit on Intra Day Foreign Exchange Risk Exposure
11. Global Limits
12. Exemptions
13. Computation of Foreign Exchange Risk Exposure
14. Correction of Excess Foreign Exchange Risk Exposure
15. Maintenance of Supporting Documentation
16. Reporting requirements

PART IV**Corrective Measures**

17. Remedial Measures

PART V

Effective Date

18. Effective Date
19. Repeal of BID

PART I: PRELIMINARY

1. **Short Title** - Foreign Currency Limits.
2. **Authorization** - Authority for the Bank to issue this Determination is provided in Section 71 of the Banking Institutions Act, 1998 (Act).
3. **Application** – This Determination applies to all banks authorized by the Bank to conduct banking business in Namibia.
4. **Definitions** - Terms used within this Determination are as defined in the Act, as further defined below, or as reasonably implied by contextual usage.
 - 4.1 **"bank"** - means banking institution as defined in the Act.
 - 4.2 **"capital funds"** – For the purposes of this Determination, capital funds shall have the same meaning as defined in the Determination on Capital Adequacy (BID-5).
 - 4.3 **"foreign currency exposure"** - means the domestic currency equivalent sum, currency by currency, of all foreign currency denominated assets and liabilities.
 - 4.4 **"intra-day foreign exchange risk exposure"** - means the foreign exchange risk exposure, in either a single currency or as the sum of all currencies, which a bank incurs between the opening and close of business on the same day.
 - 4.5 **"liabilities to the public"** - means all claims against a bank which are payable on demand or at a specified future date.
 - 4.6 **"overall foreign exchange risk exposure"** - means the sum of the potential gains or losses, expressed as a domestic currency equivalent amount at the spot mid-rate and using the shorthand method for measurement that a bank may incur as a result of fluctuation in the exchange rate of the underlying foreign currencies.
 - 4.7 **"single currency exchange risk exposure"** - means the potential gain or loss, expressed as a domestic currency equivalent amount at the spot mid-rate, that a bank may incur as a result of a fluctuation in the exchange rate of any single foreign currency.
 - 4.8 **"shorthand method"** - means the process of measuring the overall foreign exchange risk exposure by: (1) adding separately all short positions per currency on one side and all long positions on the other side; (2) comparing the two totals; and (3) taking the larger of the two totals as the overall open position.
 - 4.9 **"spot mid-rate"** - means that rate, expressed as a factor of the domestic currency equivalent, at which a foreign currency is converted to a domestic currency equivalent.

PART II: STATEMENT OF POLICY

5. **Purpose** - This Determination is intended to: i) ensure that the potential risk of loss to a bank's capital funds, in respect of foreign exchange transaction, is within prudential limits; ii) promote maximum availability of foreign exchange at competitive rates; and iii) allow banks to conduct business in a profitable yet prudent manner.
6. **Scope** - This Determination applies to all foreign currency-denominated assets and liabilities held by a bank, whether on-balance sheet or off-balance sheet.
7. **Responsibility** - The board of directors of each bank shall be responsible for establishing a system for monitoring and managing its foreign currency exposures prudently and in compliance with the limits set forth in this determination.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

8. **Limit on "overall" foreign exchange risk exposure** - The **overall** foreign exchange risk exposure (short and long currency positions) both on-balance sheet and off-balance sheet, as measured using spot mid-rates and the shorthand method shall not exceed **20%** of a bank's capital funds.
9. **Limit on "single" currency foreign exchange risk exposure** - the foreign exchange risk exposure in major currencies such as USD, GBP, and EUR, irrespective of short or long position, shall not exceed **10%** of a bank's capital funds. For all other currencies the limit shall not be more than **5%** of a bank's capital funds, irrespective of short or long position.
10. **Limit on "intra-day" foreign exchange risk exposure** - **intra-day** foreign exchange risk exposures, both in single currencies and overall, shall be monitored and maintained within **prudent limits** as established by a bank's board of directors in a written policy covering foreign exchange risk exposure.
11. **Global limits** - The single currency and overall foreign exchange risk exposure limits indicated above shall apply on a "global" basis, i.e., a bank may have different internal limits for its various branches; however, the limits set forth in this determination apply on a global basis to the bank as a single, consolidated entity.
12. **Exemptions** - If, in the normal course of business, a bank anticipates that it will exceed either the single currency or the overall limit, or if either limit is exceeded due to circumstances beyond the bank's reasonable ability to anticipate and control, then the bank may apply, in writing, to the Bank for a temporary exemption stating the reason therefore and indicating how and when the excess position will be corrected. No foreign currency denominated asset or liability, whether on or off-balance sheet, may be omitted unless prior permission has been given, in writing, by the Bank.
13. **Calculation of foreign exchange risk exposures** - Each bank shall calculate its single currency and overall foreign exchange risk exposures daily using the methodology required by the Bank.
14. **Correction of excess foreign exchange risk exposures** - Each bank shall take every reasonable action to immediately correct any and all foreign exchange risk exposures which exceed the limits set forth in this Determination and in its board-adopted policy. Failure to correct any non-complying risk exposure, other than one which has been exempted under 12 above, by the close of business on the following day may result in remedial measures as set forth below.

15. **Maintenance of supporting documentation** - Each bank shall maintain records which are sufficient to determine at all times its single currency and overall foreign exchange risk exposures. Each bank shall also maintain a daily record showing close-of-business foreign exchange risk exposures (both single currencies and overall) and a reconciliation of opening-to-closing positions.

16. **Reporting Requirements**

The bank shall, at the end of each month submit to the Bank returns in terms of this Determination by not later than the 21st day of the following month.

PART IV: CORRECTIVE MEASURES

17. **Remedial measures** - If a bank fails to comply with this Determination, then the Bank may pursue any remedial measures as provided under the Act or any other measures the Bank may deem appropriate in the interest of prudential banking practice.

PART V: EFFECTIVE DATE

18. **Effective date** - The effective date of this Determination shall be 1 January 2004.
19. **Repeal of BID** - This Determination repeals and replaces any previous Determination or guideline issued by the Bank in regard to foreign exchange risk positions.

Questions relating to this Determination should be addressed to the Senior Manager, Bank Supervision Department, Bank of Namibia, Tel: 283-5040.
