



# GOVERNMENT GAZETTE

## OF THE

# REPUBLIC OF NAMIBIA

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## General Notice

### BANK OF NAMIBIA

No. 320

2019

#### DETERMINATION UNDER THE BANKING INSTITUTIONS ACT, 1998, AS AMENDED: LIQUIDITY RISK MANAGEMENT

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), as amended read in conjunction with Section 31 of the aforementioned Act, I hereby issue **this Determination on Liquidity Risk Management (BID-6)**. The Determination on Minimum Liquid Assets (BID-6) published, as General Notice No. 441, in the Government Gazette No. 5634 of 18 December 2014, is hereby repealed.

**I. SHIMI**  
**GOVERNOR**

Windhoek, 29 July 2019

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**PART I: PRELIMINARY**

1. **Short Title** – Liquidity Risk.
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 banking institutions 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 **“behavioural adjustment”** - means the modification made to the contractual maturity of assets and liabilities in determining the cash inflows, cash outflows and ultimately liquidity mismatches in each successive maturity band, in line with the behaviour of these assets and liabilities.
  - 4.2 **“composition of liquid assets”** - For the purpose of this Determination, liquid assets comprise of: -
    - (a) Notes and coins which are legal tender in Namibia, gold coin and bullion;
    - (b) Settlement account balances held with the Bank;
    - (c) Call account balances held with the Bank;
    - (d) Securities of the Bank;
    - (e) Treasury Bills of the Government of Namibia;
    - (f) Stocks, securities, bills and bonds of the Government of Namibia issued in domestic and foreign currencies;
    - (g) STRIPS<sup>1</sup> bonds;
    - (h) Any other securities, bonds and bills fully guaranteed by the Government of Namibia, which form part of the public issue<sup>2</sup>;
    - (i) Debt securities (rated by reputable international rating agency such as Fitch, Moody’s and Standard & Poor’s (S&P) or any other reputable institution recognized by the Bank) issued by Namibian Public Sector Entities (PSE) and Corporates;
    - (j) Net amount of loans and deposits, repayable on demand, plus the net amount of negotiable certificates of deposits with maturities of twelve months or less, with Namibian banking institutions or building societies other than a subsidiary or fellow subsidiary of the banking institution or building society concerned or of a banking institution or building society by which the banking institution or building society concerned is controlled directly or indirectly;
    - (k) Investment graded debt securities (rated by reputable international rating agencies such as Fitch, Moody’s and Standard & Poor’s or any other reputable institution recognised by the Bank) issued by Multilateral Development Banks or Multilateral Development Organizations, denominated in domestic currency;
    - (l) Foreign currency deposits placed with the Bank.

<sup>1</sup>Separate Trading of Registered Interest and Principal of Securities of Namibian Government Securities

<sup>2</sup>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.

- 4.3 **“material change”** – for the purpose of this Determination, refers to a shift of 10 percent or more in behaviour of deposits or assets that do not conform to their previously agreed upon behavioural adjustment. E.g. 10 percent or more of deposits that clients usually rolled over have become overly sensitive to any market news and clients have ceased rolling them over.
- 4.4 **“maturity mismatch approach”** – means an approach used to assess the mismatches between assets and liabilities within different time bands on a maturity ladder.
- 4.5 **“maturity ladder”** – means a table constructed for comparison of a banking institution’s future cash inflows and outflows over a series of specified time periods.
- 4.6 **“liquidity”** – refers to a banking institution’s ability to fund increases in assets and meet obligations as they fall due including off-balance sheet commitments, without incurring unacceptable losses as approved by banking institution’s board of directors.
- 4.7 **“liquidity disruption”** - refers to a situation where a banking institution is faced with challenges to meet all of its funding obligations on a timely basis, either due to market wide or bank specific liquidity shortages, which may result in change of behaviours among depositors (i.e. depositors withdrawing their funds).
- 4.8 **“average amount of total liabilities to the public”** – means an average daily amount of total liabilities to the public must 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 must 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/loans<sup>3</sup>), loans and advances received and other liabilities to the public; but must exclude capital funds<sup>4</sup>.

Liabilities under acceptances must be excluded.

- 4.9 **“net cumulative mismatch position”** – means 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 banking institutions maintain effective and ongoing liquidity management systems.
6. **Scope** - This Determination applies to all the banking institution’s authorised to conduct banking business in Namibia.
7. **Responsibility** – The board of directors of each banking institution must be responsible for establishing, implementing and maintaining a liquidity management strategy that is appropriate for the operations of the banking institution to ensure that it has sufficient liquidity to meet its obligations as they fall due.

<sup>3</sup> Whilst 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.

<sup>4</sup> Capital funds as defined in BID-5 and BID-5A, as applicable.

A banking institution must adhere to its liquidity management strategy at all times and review it regularly (at least annually) taking into account changing operating circumstances.

### **PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS**

#### **8. Requirements** – The following minimum requirements must form part of this determination:

- 8.1 A banking institution's liquidity management strategy must include the following elements:
  - (a) a liquidity management policy approved by the board of directors or a board committee.
  - (b) a system for measuring, assessing and reporting liquidity;
  - (c) procedures for managing liquidity;
  - (d) clearly defined managerial responsibilities and controls; and
  - (e) a formal contingency plan for dealing with a liquidity crisis.
- 8.2 A banking institution's liquidity management strategy must cover both the local and cross-border operations of the banking institution, as well as all related entities which have an impact on the banking institution's liquidity. Where a banking institution manages liquidity on a group basis, the strategy must cover both the banking institution and the group as a whole. The strategy must address all on- and off-balance sheet activities of the banking institution and, where relevant, the banking group as a whole across all currencies.
- 8.3 A banking institution's liquidity management strategy should, where appropriate, include scenario analysis. At least, the following two scenarios should be addressed:
  - (a) "going-concern" refers to the "normal" behaviour of cash flows in the ordinary course of business; and
  - (b) "name crisis"<sup>5</sup> refers to the behaviour of cash flows in adverse operating circumstances specific to the banking institution, where it has significant difficulty in rolling over or replacing its liabilities.
- 8.4 A banking institution must hold an average daily amount of liquid assets in Namibia which must not be less than an amount equal to 10 percent of the average daily amount of its total liabilities to the public for the preceding month and must furnish to the Bank a return in accordance with paragraph 13 of this Determination.
- 8.5 Provided that the minimum amount of liquid assets held on any day during the period specified in paragraph 9 below must 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 banking institution in terms of this Determination.
- 8.6 A banking institution is required to present its rationale to the Bank to seek for authorisation on the behavioural adjustments that it intends to apply on its cash flow projections, in line with the guidelines contained in Annexure 2 of this Determination.
- 8.7 For prudential purposes, banking institutions must report their liquidity through the maturity mismatches approach and furnish the Bank a monthly return. Liquidity mismatch positions must be reported both on a contractual basis, and on a behaviourally adjusted basis.

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<sup>5</sup> Please refer to annexure with examples. However, the examples to the excerpts should only be taken as minimum and banks should not be limited to these examples.

- 8.8 A banking institution must maintain an ongoing analysis to support its case for behavioural adjustments and such analysis should be made available to the Bank upon request.
- 8.9 Should a banking institution's deposits or assets profile undergo material change, a banking institution must notify the Bank prior to or at the time of the submission of the next monthly, statutory return, providing full details. A banking institution must, at any time, present its rationale to the Bank to alter the levels of behavioural adjustments previously agreed.
- 8.10 The level of behavioural adjustments submitted to the Bank for review and to which the Bank has not raised objection must be reflected in the banking institution's liquidity management policy.
- 8.11 In certain circumstances, e.g. during a period of liquidity disruption, the Bank holds the right to cause the banking institutions to vary levels of behavioural adjustments applied.
- 8.12 A banking institution must, at all times, maintain a maximum liquidity mismatch limit, in the time bands of (0-7days) at 0% and (8-30 days) at minus 5% to of total funding liabilities, calculated on a behavioural adjusted basis. Banking institutions must report to the Bank immediately on any day that these liquidity mismatch limits are breached. Banking institutions are required to state the reason(s) for such breach and to indicate how and when the breach is to be rectified. In addition, banking institutions are required to explain the steps to be taken to ensure such breaches will not occur again.
- 8.13 Banking institutions must set their own limits on net cumulative mismatches for the maturity time bands beyond 1 month, which must be approved by the board of directors of the banking institution. These limits should be included in the banking institution's liquidity management policy.
- 8.14 The debt securities issued by domestic PSE and Corporates must have a minimum public issue size of N\$50 million and must not be rated lower than one notch below the sovereign rating by a credit rating agency fully compliant with the eligibility criteria as outlined in the Basel II regulatory capital framework (International Convergence of Capital Measurement and Capital Standards). For debt securities issued by domestic PSE and Corporates rated one notch below sovereign rating, a 20 percent valuation haircut must be applied. These securities are also subjected to the following additional requirements:
- (a) They must not be convertible;
  - (b) Where a banking institution holds more than 30 percent of the total market value of a particular issue of debt security, a 50 percent haircut should be applied; and
  - (c) They should be carried at fair value.
- 8.15 The debt securities issued by the Multilateral Development Banks or Multilateral Development Organizations must have a minimum public issue size of at least N\$50 million and must be subject to the haircuts outlined in the table below with respect to long term domestic ratings and short-term issue ratings, including the additional requirements outlined under paragraph 8.15.

Description	Fitch rating	Moody	S & P	Haircut
Long term ratings	A to A-	A1 to A3	A to A-	10%
	<u>BBB+</u> <u>BBB</u>	<u>Baa1</u> <u>Baa2</u>	<u>BBB+</u> <u>BBB</u>	<u>20%</u>
Short term issue ratings	F1	P-1	A-1	10%
	<u>F2</u>	<u>P-2</u>	<u>A-2</u>	<u>20%</u>
	<u>F3</u>	<u>P-3</u>	<u>A-3</u>	<u>30%</u>

8.16 The foreign currency deposits of banking institutions placed with the Bank of Namibia and recognised as part of the composition of liquid assets are limited to 10 percent of the total foreign currency deposits placed at the Bank.

## 9. Maintenance

A banking institution must maintain the minimum amounts contemplated in paragraph 8.4 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

10.1 Unless specifically or generally approved by the Bank in writing, no liquid assets used for the fulfillment of the requirements of paragraph 8.4 of this Determination must be pledged or otherwise encumbered anywhere else.

10.2 Securities lodged with the Bank to secure facilities must not be regarded as pledged, except to the extent that they are required to secure facilities actually utilised.

10.3 Investments on foreign deposit accounts held at the Bank cannot be used for the purpose of collateral when participating in repurchase facilities offered by the Bank.

## 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 banking institutions must be netted out.

## 12. Contingency funding plan

Banking institutions must have in place contingency funding plans to deal with liquidity crises. The contingency funding plans have to be dynamic and should also reflect the conceivable funding in the market under stressful situations. Banking institutions should therefore on a regular basis (at least once a year) test their plans for such eventualities.

## 13. Reporting requirements

13.1 Banking institutions must comply with the reporting and submission requirements of statutory returns to the Bank in terms of this Determination and as set out in the Circular on Standard Returns.

13.2 **For the Minimum Liquid Assets Requirement Return:** banking institutions are required to submit this return to the Bank by not later than the 26<sup>th</sup> day following the preceding month end. By way of example, the liquidity compliance for the month of July 2018 which covers the compliance period of 15<sup>th</sup> of July to 14<sup>th</sup> of August 2018 must be reported by not later than the 26<sup>th</sup> of August 2018, based on the following: -

- a) Average daily liquid assets holdings over the period 15<sup>th</sup> July 2018 to 14<sup>th</sup> of August 2018.
- b) Average daily total liabilities to the public as computed over the month of June 2018.

13.3 **For the Liquidity Risk Return:** banking institutions are required to submit this return to the Bank by no later than the fifteenth (15<sup>th</sup>) day following the preceding month end.

13.4 Notwithstanding the above requirements, banking institutions 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, they fall short of the legal requirement. Banking institutions 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 banking institutions are required to explain the steps to be taken to ensure such failure will not occur again.

13.5 The Bank will engage a banking institution pertaining to any breach reporting and formally respond to the respective banking institution within five working days.

#### **PART IV: CORRECTIVE MEASURES**

14. **Remedial measures** - If a banking institution 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**

15. **Effective date** - The effective date of this Determination shall be 1 September 2019.

16. **Repeal of BID-6** - This Determination repeals and replaces the Determinations on Minimum Liquid Assets Requirements (BID-6) published, as General Notice No. 441, in the Government Gazette No. 5634 of 18 December 2014.

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



**Annexure 1: Examples**

1. Some examples for elements concerning scenarios for projecting cashflows considering both market-wide and banking institution specific difficulties are as follows:

To test market illiquidity or system-wide events, scenarios may assume:

- interbank market difficulties;
- the withdrawal of a major market player from a particular market;
- illiquidity in specific markets (e.g. crisis in emerging countries); and
- distress of specific currencies important for the banking institution's funding.

To test banking institution specific liquidity distress, scenarios may assume:

- a downgrade of the banking institution's own rating or an expectation of a downgrade leading to an increase in funding cost,
- a sharp increase in the drawdown of commitments by borrowers,
- a sudden change in the composition of deposits and a sudden increase of cash deposit withdrawals, and
- a tightening of credit lines.

2. Examples for reasonable assumptions when assessing the impact of these scenarios on the cash flows are:

- the banking institution's projected stock of potential assets,

Banking institutions could consider (i) the expected proportion of maturing assets that will be rolled-over, (ii) the expected amount of new loans that will be approved, and (iii) the level of draw downs of commitments to lend that the institution will need to fund.

- the cash flows arising from the banking institution's liabilities under stress conditions,

These may be derived in comparison with the cash flows that normally arise (i.e. given the level of roll-overs, the effective maturity of liabilities with non-contractual maturity and the growth of deposits). Assumptions on the liability side are likely to determine (i) the stable sources of funding in cases of stress, (ii) the potential run-off of liabilities with non-contractual maturities, (iii) the potential exercise of options giving counterparties the right to withdraw funds immediately, as well as (iv) the potential use of back-up facilities.

- the market perception of the bank and its access to the markets.

This may include assumptions relative to the banking institution's access to Over-the-Counter derivative and foreign exchange markets, as well as its access to secured funding, including by way of repo transactions. Securitisation may be also considered to assess potential triggering of early amortisation. Banking institutions may also estimate their capacity to sell assets including the terms of such sales (e.g. discounts).

3. Examples for elements of a contingency plan are:

- definition of the events triggering the plan,
- a description of the potential sources of funding either on the asset or on the liabilities side (e.g. slowing loan growth, sale or repo of liquid assets, securitisation, subsidiary sales, increasing deposit growth, lengthening maturities of its liabilities as they mature, draw-down of committed facilities, capital raising, stopping dividends to parents),
- an escalation procedure detailing how additional funds could be raised,
- a procedure for the smooth management of the contingency, which should include a description of the delineation of responsibilities (including the responsibilities of the management body) and a process to ensure timely information flow (for instance through contact lists), and
- a procedure to guide potential contacts with external parties such as important counterparties, auditors, analysts, media and/or supervisory authorities.

## **Annexure 2: Behavioural Adjustments**

This section provides guidelines to banking institutions for applying behavioural adjustments to their cash flows. These guidelines are not exhaustive and banking institutions can apply other adjustments in addition to those set out below as they deem appropriate, provided that they are submitted to the Bank for review and the Bank has no objection.

### **1. Behavioural Adjustments to Deposit Liabilities**

1.1. When presenting their rationale for behavioural adjustments to the Bank, banking institutions are required to categorize their deposit base into the following broad classifications:

i. **Wholesale:**

This includes deposits from banks or building societies (including non-committed funding from other group companies) and deposits from large corporates, international companies, central governments and Public Sector Entities (PSEs). This classification further includes deposits from all entities that fall beyond the Micro Small and Medium Enterprises (MSME) categories as defined in the National Policy on MSME. Since these are potentially the first deposits that would be withdrawn in the event of liquidity disruption, the Bank does not recommend that behavioural adjustments in terms of rollover be applied in respect of wholesale deposits. However, Banks who may opt to apply for behavioural adjustments for wholesale deposits should provide empirical evidence to justify such adjustments.

ii. **MSMEs:**

This include deposits from, or controlled by, micro, small and medium sized enterprises that fall within the category of MSMEs as defined in the National Policy on MSME. This represents the middle area between wholesale and retail deposits. Typically, these deposits will be substantially stable and less price sensitive than wholesale. It should be noted that deposits introduced from firms with a fiduciary responsibility to their clients are considered considerably less stable than retail deposits. Banks applying for a behavioural adjustment for such deposits should provide empirical evidence for such adjustments based upon practice in stressed scenarios.

iii. **Retail:**

These include deposits placed by individuals in their own names as well as personal investment vehicles being managed by the beneficial owners. Deposits from investment companies and other corporate vehicles such as Special Purpose Vehicles (SPVs) should be regarded as wholesale or SME. Retail deposits tend to be most stable and therefore may attract a higher level of behavioural adjustment.

1.2. An analysis of the behaviour of deposit books should be undertaken in order to provide supporting evidence of the proposed levels of behavioural adjustments. This should cover a period of exactly three years, with the exception of banking institutions that have been in existence for a period of less than two years. The supporting evidence provided should serve as the basis for the maximum adjustments applied by any banking institution that are in its favour and any forward-looking considerations should only result in adverse adjustments. The following areas should be analysed and presented to the Bank.

i. **Deposit Profile:**

- Deposit mix – retail/SMEs/wholesale as percentages of total deposits.
- Deposit concentration by depositor and connected parties. The Bank may not allow behavioural adjustments to deposits from a single customer or group of connected customers that meet the definition of large deposits unless empirical evidence is presented to prove the stability of these large deposits. For this purpose, a large deposit may be considered as one that equates to more than 1 percent of the total deposit base irrespective of the deposit classification in which it falls.

ii. **Product Profile:**

- Identifying the banking institution's core products and their contractual liquidity profiles.

iii. **Deposit behaviour analysis:**

- The stability of deposits by product. The banking institution's own statistical analysis should be provided. It may be agreed that further analysis is necessary to support the behavioural adjustments requested.

**2. Behavioural Adjustments to Assets**

**2.1 Overdrafts:**

Behavioural adjustment should be made in respect of overdrafts. Although technically repayable upon demand, overdrafts are usually converted into loans and are paid back over a certain period of time. In this regard, overdrafts should be reported in the more than one to two-month maturity band or beyond. However, where banking institutions have empirical evidence to the contrary, different behavioural adjustments may be allowed.

**2.2 Liquid Assets**

Liquid assets should be included in the cash flow projections in the respective time-buckets as per their maturity. As such, liquid assets maturing within the 7 days' period should be included, in terms of cash inflows, in the sight to seven days' bucket while those maturing within 30 days should be included in the 8 days to 30 days' time bucket. Other liquid assets with longer maturity periods should be included in the time bands of beyond 30 days within which they fall, respectively. Furthermore, liquid assets should also serve as contingency funds to rectify mismatches positions should they occur, as these assets can either be liquidated or pledged.

**2.3 Non-performing loans and advances and interest in suspense:**

Loans and advances classified as non-performing, in line with BID-2, and including interest in suspense, should be reported in the more than 1 year to 5 years' time-band or beyond, taking into consideration the period it usually takes to realise collateral.

## 2.4 Other Assets:

If a banking institution proposes to apply a behavioural adjustment to any other asset, it should provide empirical evidence to the Bank to support the proposed adjustment.

## 3. Regulatory Assessment of Behavioural Adjustments

3.1 When assessing the appropriateness of proposed behavioural adjustments, the Bank must, in addition to the above, examine and analyse a number of areas, including, but not limited to, the following:

i. **Ownership:**

- Degree of likely parental support in a liquidity disruption;
- Parent's standing;
- Parent's country of domicile;

ii. **Independent Liquidity:**

- Level and quality of independent liquidity held, defined as placements with third party banks, or holdings of investments that meet the Bank's definition of liquid assets for the purpose of reporting liquidity;

iii. **Business Rationale**

- Nature of business;
- Business strategy;
- Asset mix; and

iv. **Pricing policy**

- How aggressive is the banking institution's pricing strategy on deposits?

3.2 The Bank will discuss with the banking institutions all relevant factors when considering the proposed behavioural adjustment.

3.3 A letter will be issued to the banking institution confirming the Bank's position towards the proposed behavioural adjustments, indicating either that:

- i. The Bank has no objection; or
- ii. The Bank has no objection subject to conditions; or
- iii. The Bank has objection.

3.4 The adjustments will represent the percentage of the amount maturing in the sight to one-month maturity bands that should be factored out of the contractual maturity bands and placed in an alternative maturity band. Different levels of adjustment may be allocated to different classes.

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