GOVERNMENT GAZETTE

OF THE

REPUBLIC OF NAMIBIA

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BANK OF NAMIBIA

No. 101 2024

DETERMINATION UNDER THE BANKING INSTITUTIONS ACT, 2023: LIQUIDITY RISK MANAGEMENT FOR DOMESTIC SYSTEMICALLY IMPORTANT BANKS

In my capacity as Governor of the Bank of Namibia (Bank), and under the powers vested in the Bank by virtue of section 108(3) of the Banking Institutions Act, 2023 (Act No. 13 of 2023) read in conjunction with section 43 of the aforementioned Act, I hereby issue the **Determination on Liquidity Risk Management for Domestic Systemically Important Banks (BID-6A)** which Determination must become effective 31 March 2024.

J. !GAWAXAB
GOVERNOR

Windhoek, 13 February 2024

Bank of Namibia

Determination No. BID-6A

LIQUIDITY RISK MANAGEMENT FOR DOMESTIC SYSTEMICALLY IMPORTANT BANKS (DSIBs)

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PART I:

PRELIMINARY

1. **Short Title** – Liquidity Risk for DSIBs.

2. **Authorisation** – Authorisation for the Bank to issue this Determination is provided in sections 43(1) and 108(3) of the Banking Institutions Act, 2023 (Act No. 13 of 2023) ("Act").

3. **Application** – This Determination applies to all banking institutions classified as Domestic Systemically Important Banking Institutions (DSIBs) authorised by the Bank to conduct banking business in Namibia. As of the date that this Determination becomes effective, the Determination on Liquidity Risk Management (BID-6) published on 28 August 2019 is no longer applicable to DSIBs.

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, 2023 (Act No. 13 of 2023).

4.2. **"adjusted amount of Level 1 assets"** – means the amount of Level 1 assets that would result after unwinding those short-term secured funding, secured lending, and collateral swap transactions involving the exchange of any HQLA for any Level 1 assets (including cash) that meet, or would meet if held unencumbered, the operational requirements for HQLA.

4.3. **"adjusted amount of Level 2A assets"** - means the amount of Level 2A assets that would result after unwinding those short-term secured funding, secured lending, and collateral swap transactions involving the exchange of any HQLA for any Level 2A assets that meet, or would meet if held unencumbered, the operational requirements for HQLA.

4.4. **"adjusted amount of Level 2B assets"** - means the amount of Level 2B assets that would result after unwinding those short-term secured funding, secured lending, and collateral swap transactions involving the exchange of any HQLA for any Level 2B assets that meet, or would meet if held unencumbered, the operational requirements for HQLA.

4.5. **"available stable funding"** – means the portion of capital and liabilities expected to be reliable over the time horizon considered by the Net Stable Funding Ratio, which extends to one year.

4.6. **"Bank"** – means the Bank of Namibia as defined in the Act.

4.7. **"carrying value"** – means the amount at which a liability or equity instrument is recorded before the application of any regulatory deductions, filters, or other adjustments.

4.8. **"Domestic Systemically Important Banks (DSIBs)" -** means banking institutions that are critical for the uninterrupted availability of essential banking services to the country's real economy even during a crisis. A few banking institutions assume systemic importance due to their size, cross-jurisdictional activities, complexity, lack of substitutability, and interconnectedness. The disorderly failure of these banking institutions has the propensity to cause significant disruption to the essential services provided by the banking system, and in turn, to the overall economic activity.

4.9. **"foreign exchange hedge"** – means a type of financial derivative that banking institutions are trading in, that gives companies a means of eradicating, or "hedging", their cash flows against foreign exchange risk.

4.10. **"High-Quality Liquid Assets (HQLA)"** - means assets that can be easily converted into cash, with little or no loss of value, in public or private markets, including during periods of stress.

4.11. **"less-stable deposits"** - means deposits that are not fully covered by an effective deposit insurance scheme or sovereign deposit guarantee, high-value deposits (1 percent or more for retail deposits and 10 percent or more for wholesale deposits, of total deposits), deposits from sophisticated or high net worth individuals (N$10 million - individuals and N$100 million - corporates), deposits that can be withdrawn quickly (e.g. internet deposits) and foreign currency deposits.

4.12. **"liquidity"** – means 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 the banking institutions' board of directors.

4.13. **"Liquidity Coverage Ratio (LCR)"** – means the proportion of high-quality liquid assets held by financial institutions to ensure that they maintain an ongoing ability to meet their short-term funding obligations (i.e., cash outflows for 30 days). It is a ratio that promotes short-term resilience of the liquidity risk profile of banks ensuring they have enough high-quality liquid assets (HQLA) to survive a significant stress scenario lasting 30 calendar days.

4.14. "**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 a change of behaviours among depositors (i.e. depositors withdrawing their funds).

4.15. **"maturity ladder"** – means a measure of a banking institution's future cash inflows and outflows over a series of specified time periods.

4.16. **"maturity mismatch approach" –** means an approach used to assess the mismatches between assets and liabilities within different time bands on a maturity ladder. These are the contractual cash and security inflows and outflows from all on- and off-balance sheet items, mapped to define time bands based on their respective maturities. The data collected from the contractual maturity mismatch should provide data on the categories outlined in the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

4.17. **"marketable/tradable securities" -** means any security, stock, debenture, share, or other interest capable of being sold in a share market or exchange or otherwise and, where the context so requires, including the script, certificate, warrant or other instrument by which the ownership of or title to any such security, stock, debenture, share or other interest is represented.

4.18. **"Net Stable Funding Ratio (NSFR)" –** means the amount of available stable funding of a banking institution relative to the amount of the required stable funding. The ratio requires banking institutions to maintain a stable funding profile in relation to their assets and off-balance sheet activities over a time horizon of one year.

4.19. **"required stable funding**" – means the amount of stable funding that a banking institution is required to hold given the liquidity characteristics and residual maturities of its assets and the contingent liquidity risk arising from its off-balance sheet exposures.

4.20. **"total liabilities (incl. foreign liabilities)"** - means deposits (net of investment in negotiable certificate of deposits and inter-bank term deposits/loans), loans and advances received, and other liabilities to the public; but must exclude capital funds. Liabilities under acceptances must be excluded.

4.21. **"total deposit base"** - means a total of all deposit liabilities placed with a particular banking institution.

PART II: STATEMENT OF POLICY

5. Purpose – This Determination is intended to ensure that:

5.1. banking institutions maintain effective and ongoing liquidity management systems;

5.2. banking institutions maintain adequate high-quality liquid assets to meet liquidity needs over a 30-day stress period; and

5.3. banking institutions maintain a stable funding profile in relation to their assets and off-balance sheet activities.

5.4. provide for an alternative liquidity approach, in cases where liquidity requirements cannot be met.

6. Scope – This Determination applies to all banking institutions classified as DSIBs in Namibia.

7. Responsibility – The board of directors of each banking institution is accountable for:

7.1. establishing, implementing, and maintaining a liquidity management strategy that is appropriate to the operations and liquidity risk profile of the banking institution, to ensure that it has sufficient liquidity to meet its obligations as they fall due. The board must be prudent with its liquidity management strategy at all times and review it at least annually to take account of changing operating circumstances. The board must assess and monitor the adequacy of a banking institution's liquidity risk management framework and its liquidity position as and when required and take prompt action when a banking institution is deficient in either area to protect depositors' interests and limit potential damage to the financial system.

7.2. ensuring that a banking institution has an effective risk management framework that warrants that the banking institution maintains a stable funding profile in relation to its assets and off-balance sheet activities; and

7.3. ensuring that a banking institution has a robust liquidity risk management framework that warrants that it maintains sufficient high-quality liquid assets, including a cushion of unencumbered liquid assets, at all times to withstand the range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

7.4. implementing a strategy to ensure compliance with the LCR and NSFR requirements.

PART III: MINIMUM RISK MANAGEMENT SYSTEMS REQUIREMENTS

8. Governance and the Role of the Board

All banking institutions must uphold the following minimum requirements in respect of this Determination:

8.1. A banking institution's liquidity management strategy or framework must include the following elements:

(a) A liquidity management policy approved by the board of directors or a board committee commensurate to the nature, scale, and complexity of the bank's operations and its systemic importance;

(b) A liquidity risk tolerance aligned to the business objectives, strategic objectives, overall risk appetite, and funding capacity of the banking institution;

(c) A system including customised metrics for measuring, assessing, monitoring, limiting, and reporting on liquidity, liquidity indicators, and changes in market conditions;

(d) Clearly defined managerial responsibilities, procedures, and controls for

managing liquidity across business lines, and related entities that have an impact on the banking institution's liquidity and cross-border operations, where applicable;

(e) A formal contingency plan for dealing with escalating liquidity risk and liquidity crises;

(f) An effective communication strategy with counterparties, credit rating agencies, and other stakeholders for use when a liquidity problem arises;

(g) Valuation of liquid assets and measurement of liquidity costs, benefits, and risks in internal pricing, performance measurement, and new product approval for both on- and off-balance sheet activities of the banking institution and, where relevant, the banking group across all currencies; and

(h) Where a banking institution manages liquidity on a group basis, the strategy must cover the banking institution, foreign branches, subsidiaries, and the group as a whole.

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 that 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. The strategy must address all on- and off-balance sheet activities of the banking institution and, where relevant, the banking group across all currencies.

8.3. A banking institution must have a sound process and adequate systems in place to identify, measure, monitor, and control liquidity risk. Such processes and systems are to be administered by its senior management. To this end:

a) The senior management of the banking institution should ensure that the liquidity management framework and modeling assumptions are regularly assessed and challenged by an independent assurance provider but at least once in three years and that revisions or enhancements to internal controls are implemented in a timely manner.

b) The board and senior management are to demonstrate a thorough understanding of the interactions between funding liquidity risk and market liquidity risk as well as the impact of credit, market, operational, and other risks on the liquidity strategy.

c) A banking institution must have in place a reliable management information system to provide the board of directors, senior management, and appropriate staff with accurate, timely, and for ward-looking information on the liquidity position of the banking institution. Such a system should capture and report on all soures of liquidity risk including contingent risks, monitoring metrics including internal triggers, early warning indicators, breaches, trends, and market developments, and deliver granular and time-sensitive information during normal and crisis times.

8.4. A banking institution must adopt intraday liquidity management objectives that which consider how its liquidity profile changes throughout the day including risks that are typically eliminated by the end of the day. These objectives must allow for the identification and prioritisation of time-specific and other critical obligations.

The banking institution is expected to settle all other less critical obligations within a short time. A banking institution should actively manage its collateral position, differentiating between encumbered and unencumbered assets. To achieve its intraday liquidity management objectives, a banking institution should include at least six operational elements as follows:

a) A banking institution must have the capacity to measure expected daily gross liquidity inflows and outflows, anticipate the intraday timing of these flows where possible, and forecast the range of potential net funding shortfalls.

b) A banking institution must have the capacity to monitor intraday liquidity positions against expected activities and available resources (balances, remaining intraday credit capacity, and available collateral).

c) A banking institution must acquire enough intraday funding to meet its intraday objectives.

d) A banking institution must have the ability to manage and mobilize sufficient collateral necessary to obtain intraday funds.

e) A banking institution must have a robust capacity to manage the timing of its liquidity outflows in line with its intraday objectives.

f) A banking institution must be prepared to deal with unexpected disruptions to intraday liquidity flows.

8.5. A banking institution's liquidity management strategy should, where appropriate, include scenario analysis. Stress testing should be conducted at least once every quarter to determine whether the banking institution would be prepared to manage liquidity under stressed conditions. The stress scenarios should be designed to cater for the nature of the banking institution's business, activities, products, and funding sources. At least the following items should form part of the stress test analysis:

(a) A banking institution must be stress tested for going concern at least once per quarter. For the purpose of this Determination, "going-concern" refers to the "normal" behaviour of cash flows in the ordinary course of business (i.e. business as usual). In addition, the banking institution must also stress test for cashflow behaviour under stress conditions that are bank-specific and market-related.

(b) The stress testing scenarios and shocks to be applied should be approved by the board of the banking institution or by its board risk committee at least on an annual basis.

(c) The stress testing results should be presented to the board of the banking institution or its board risk committee on a quarterly basis for purposes of informing policy/strategy changes to ensure effective risk management.

(d) Contractual maturity mismatch profile should indicate gaps between contractual inflows and outflows over a period of 30 days and one year for LCR and NSFR, respectively; and

8.6. Banking institutions must also be required to set their own Business as Usual (BaU) limits on net-cumulative mismatches for each maturity time band. These are to be set on 0 to 7 days, 8 to 30 days, and above 30 days' time bands. These limits should be

included in the banking institution's liquidity management policy, approved by the board of directors of the banking institutions.

PART IV: IMPLEMENTATION OF LCR AND SPECIFIC REQUIREMENTS

9. **Objective of the LCR –** this ratio aims to ensure that a banking institution maintains an adequate level of unencumbered, High-Quality Liquid Assets (HQLA) that can be converted into cash to meet its liquidity needs for a 30-calendar daytime horizon under a significantly severe liquidity stress scenario specified by the Bank. At a minimum, the stock of liquid assets should enable the banking institution to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions must have been taken by the board of the banking institution, or the banking institution may have to consider alternative recovery plans.

10. **Description of the LCR**

10.1. The numerator of the LCR is the HQLA. To qualify as HQLA, an asset must be liquid in the market during a time of stress and must be desirable by the Bank. The requirements of HQLA are detailed in **paragraph 11** below.

10.2. The denominator of the LCR is the total net cash outflows. It is defined as total expected cash outflows, minus total expected cash inflows, in the specified stress scenario for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in, up to an aggregate cap of 75% of total expected cash outflows. Thus, total net cash outflows over the next 30 days = Outflows – In-flow (limited to 75% of outflows).

11. **Composition of HQLA**

For this Determination, all assets in the stock of HQLA should ideally have the following characteristics:

11.1. **Fundamental characteristics:**

a) Be of low risk because less risky assets tend to be more liquid, encompass low legal risk, low inflation risk, and are denominated in convertible currencies with low foreign exchange risk;

b) Be easily valued with certainty by market participants;

c) Demonstrate low correlation to risky assets, i.e., not be subject to wrong-way risk; and

d) Be listed on a developed and recognised exchange, either domestically or on international markets.

11.2. **Market-related characteristics:**

a) **Active and sizable market:** the asset should have an active outright sale or repo market at all times, i.e., the asset must be recognised by the Bank for intraday liquidity needs and overnight liquidity facilities;

b) **Low volatility:** low volatility of traded prices and spreads evidenced through historical data;

c) **Flight to quality:** historically, the market must have shown tendencies to move into these types of assets in a systemic crisis. The correlation between proxies of market liquidity and banking system stress is one simple measure that could be used.

11.3. **All assets in the stock of HQLA must demonstrate the following operational requirements:**

11.3.1. **Must be unencumbered:**

a) the asset must be free from legal, regulatory, contractual, and other restrictions on the ability to liquidate, sell, transfer, or assign the asset;

b) the asset must not be pledged (explicitly or implicitly) to secure, collateralize, or credit-enhance any transaction nor be designated to cover operational costs (such as rent and salaries);

c) the asset must be received in reverse repos and securities financing transactions that are held at the banking institution;

d) the asset must not have been received under the right of rehypothecation unless the banking institution has the legal and contractual right to re-use (or rehypothecate) the asset and per contractional rights the client may not withdraw this asset during the 30-day stress period; and

e) the asset must be legally and contractually available for the banking institution's use at any time.

12. Classification of HQLA

For this Determination, all stock of HQLA is classified into three categories, namely, Level 1 assets, Level 2A assets, and Level 2B assets.

12.1. **Description of Level 1 assets** – these assets can be included in the stock of HQLA without limits. Assets to be included in each category are those that the bank is holding on the first day of the stress. These assets are not subject to a haircut under the LCR consideration, however, under severe stress conditions, the Bank may require banking institutions to apply haircuts to market securities, as it may be deemed appropriate and necessary.

12.2. **Types of Level 1 assets recognised in Namibia –** these are limited to the following:

a) Notes and coins which are legal tender in Namibia;

b) The banking institution's reserves with the central bank (including required reserves) to the extent to which the Bank's policy allows them to be drawn down in times of stress;

c) The Bank of Namibia Bills;

d) Treasury bills issued by the Government of the Republic of Namibia;

e) Treasury bonds issued by the Government of the Republic of Namibia;

f) Securities fully guaranteed by the Government of the Republic of Namibia;

g) Separate Trading of Registered Interest and Principal of Securities (STRIPS) stripped by the Government of the Republic of Namibia.

12.3. **Description of Level 2A assets** - these assets can be included in the stock of HQLA, subject to the requirement that they comprise no more than 40% of the overall stock after haircuts have been applied. A 15% haircut must be applied to the current market value of each Level 2A asset held in the stock of HQLA.

12.4. **Types of Level 2A assets recognised in Namibia** – these are limited to the following:

a) Investment-grade debt papers of State-Owned Enterprises with eligibility at the repo window as category 2 instruments as per the operational notice., e.g. NamPower bonds;

b) Separate Trading of Registered Interest and Principal of Securities (STRIPS) not stripped by the Government of the Republic of Namibia.

12.5. **Level 2B assets"** – There are currently no Level 2B assets recognised in Namibia.

13. Formula for the Calculation of LCR

13.1. **The LCR must be calculated as per the following formula:**

$$LCR = \frac{HQLA}{\text{Total net cash outflow amount over a 30 - day stress period}} \geq 100\%$$

The LCR requires that liquid assets should be sufficient to cover an acute stress scenario lasting up to 30 days. The ratio should be equal to at least 100% on an on-going basis. The banking institutions will follow a phased approach as per the transitional arrangement stated in section 36 of this Determination to build-up to the required prudential ratio to ensure full compliance.

13.2. **The formula for the calculation of the stock of HQLA s as follows:**

Where:

a) Adjustment for 15% cap = Max ((Adjusted Level 2B – 15/85 * (Adjusted Level 1 + Adjusted Level 2A), (Adjusted Level 2B -15/60 * Adjusted Level 1), 0); and

b) Adjustment for 40% cap = Max ((Adjusted Level 2A + Adjusted Level 2B – Adjustment for 15% cap) – 2/3* Adjusted Level 1 assets), 0).

13.3. Annexure 1 provides a summary of the factors that are applied to each HQLA category as well as a summary of the cash outflow and cash inflow rates that applies to each category for outstanding secured funding transactions that matures within the 30-day LCR horizon.

14. General prohibitions and requirements for the LCR calculation

14.1. Calculation of the stock of HQLA requires computations of adjusted Level 1 and Level 2 assets. Level 2 assets cannot exceed 40% of the overall stock of liquid assets after haircuts have been applied and Level 2B assets cannot exceed 15% of the total stock of HQLA after haircuts have been applied. However, there may be instances when assets classified under a lower level may get temporarily converted into an asset classified under a higher level or vice-versa (e.g.**,** borrowing/lending cash, a Level 1 asset, by repo/reverse repo of Corporate Bonds, a Level 2A asset). Approval to reclassify assets may be granted by the Bank, on a case-by-case basis.

14.2. The calculation of 40% cap on Level 2 assets and 15% cap on Level 2B assets should consider the impact of such secured funding transactions on the stock of HQLA to be categorized under a particular Level. To ensure this while calculating the eligible amounts of HQLAs under Level 1 and Level 2, any repo / reverse repo transactions undertaken in repo-eligible Level 2 assets up to and including 30 days need to be reversed i.e., adjusted. Corporate bonds are the only Level 2 assets where repo is allowed.

14.3. Double counting of items is prohibited, i.e., if an asset is included as part of the stock of HQLA (i.e. the numerator), the associated cash inflows cannot also be counted as cash inflows (i.e. part of the denominator). Where there is potential that an item could be counted in multiple outflow categories, (e.g., committed liquidity facilities granted to cover debt maturing within the 30-calendar day period), a banking institution must only assume up to the maximum contractual outflow for that product.

14.4. If a liquid asset no longer qualifies as HQLA (e.g. due to a rating downgrade), a banking institution is permitted to keep such assets in its stock of liquid assets for an additional 30 calendar days. This would allow the banking institution additional time to adjust its stock as needed or replace the asset.

14.5. For the calculation of the consolidated LCR, a banking institution must take into account restrictions on the transferability of liquid assets across borders. No excess liquidity is to be recognised in the consolidated LCR unless there is reasonable certainty about the availability of such liquidity. Further, no excess liquidity should be recognised by a cross-border banking group in its consolidated LCR if there is reasonable doubt about the availability of such liquidity.

14.6. Liquidity transfer restrictions (e.g., ring-fencing measures, non-convertibility of local currency, foreign exchange controls, etc) in jurisdictions in which a banking group operates will affect the availability of liquidity by inhibiting the transfer of liquid assets and fund flows within the group. For practical reasons, the liquidity transfer restrictions to be accounted for in the consolidated ratio are confined to existing restrictions imposed under applicable laws, regulations, and supervisory requirements.

14.7. Any surplus of HQLA held by a banking institution can only be included in the consolidated stock if those assets would also be freely available to the consolidated (parent) group in times of stress. A banking group must have processes in place to capture all liquidity transfer restrictions to the extent practicable, monitor the rules and regulations in the jurisdictions in which the group operates, and assess their liquidity implications for the group.

15. **LCR Disclosure Standards**

a) Banking institutions are required to disclose information on their LCR in their annual financial statements under Notes to Accounts, starting with the financial year ending 31 December 2024.

b) Data must be presented as simple averages of monthly observations over the previous quarter (i.e., the average is calculated over a period of 90 days). However, with effect from the financial year ending 2025, the simple average should be calculated on daily observations.

c) For most data items, both unweighted and weighted values of the LCR components must be disclosed as per the disclosure format to be determined by the Bank. The unweighted value of inflows and outflows is to be calculated as the outstanding balances of various categories or types of liabilities, off-balance sheet items, or contractual receivables.

d) The weighted value of HQLA must be calculated as the value after haircuts are applied. The weighted value for cash inflows and cash outflows is to be calculated as the value after the cash inflow and cash outflow rates are applied.

e) Total HQLA and total net cash outflows must be disclosed as the adjusted value, where the "adjusted" value of HQLA is the value of total HQLA after the application of both haircuts and any applicable caps on Level 2A and Level 2B assets as indicated in this Determination. The adjusted value of net cash outflows must be calculated after the cap on cash inflows is applied, when applicable.

PART V: IMPLEMENTATION OF THE NSFR AND SPECIFIC REQUIREMENTS

16. Objective of the NSFR - The NSFR is intended to reduce banking institutions' overreliance on short-term wholesale funding, encourage better assessment of funding risk across all on- and off-balance sheet items, and promote funding stability.

17. Calculation of the NSFR

17.1. **The NSFR must be calculated as per the formula below.**

$$\text{NSFR} = \frac{\textit{Available amount of stable funding}}{\textit{Required amount of stable funding}} \geq$$

This ratio must be equal to at least 100% on an ongoing basis. However, the NSFR would be supplemented by a supervisory assessment of the stable funding and liquidity risk profile of a banking institution. Based on such assessment, the Bank may require an individual banking institution to adopt more stringent standards to reflect its funding risk profile. The banking institutions will follow a phased approach as per the transitional arrangement stated in section 36 of this Determination to build up to the required prudential ratio to ensure full compliance.

17.2. **Principles relating to the calibration of Available Stable Funding (ASF) and Required Stable Funding (RSF)**

Requirements for the stability of liabilities are based on two dimensions:

a) **Funding tenor** – The NSFR should be calibrated such that longer-term liabilities are assumed to be more stable than short-term liabilities.

b) **Funding type and counterparty** – The NSFR should be calibrated under the assumption that short-term (maturity is less than one year) retail deposits and funding provided by Small and medium enterprises (SME's) customers are behaviourally more stable than wholesale funding of the same maturity from other counterparties. This includes deposits from, or controlled by, micro, small and medium-sized enterprises with an annual turnover of less than N$10 million 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.

18. Computation of ASF

18.1. The ASF value is measured based on the broad characteristics of the relative stability of a banking institution's funding sources, including the contractual maturity of its liabilities and the differences in the propensity of different types of funding providers to withdraw their funding.

18.2. **The following steps must be used in calculating the ASF:**

a) Assign the carrying value of a banking institution's capital and liabilities to one of the categories as presented in Annexure 2.

b) Multiply the amount assigned to each category by an ASF factor.

c) Add the weighted amounts to get the total ASF.

18.3. The associated ASF factor for each liability category is presented in Annexure 2.

19. General Requirements for the Calculation of the ASF

19.1. **Calculation of derivative liability amounts**

Derivative liabilities are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a negative value. In calculating NSFR derivative liabilities, collateral posted in the form of variation margin in connection with derivative contracts, regardless of the asset type, must be deducted from the negative replacement cost amount.

19.2. **Determining the maturity of an equity or liability instrument**

When determining the maturity of an equity or liability instrument, investors are assumed to redeem a call option at the earliest possible date. For funding with options exercisable at the banking institution's discretion, the Bank may take into account reputational factors that may limit a banking institution's ability not to exercise the option. In particular, where the market expects certain liabilities to be redeemed before their legal final maturity date, banking institutions must assume such behaviour for the purpose of the NSFR and include these liabilities in the corresponding ASF category. For long-dated liabilities, only the portion of cash flows falling at or beyond the six-month and one-year time horizons should be treated as having an effective residual maturity of six months or more and one year or more, respectively.

20. Computation of RSF

20.1. The amount of RSF is measured based on the broad characteristics of the liquidity risk profile of a banking institution's assets and Off-Balance Sheet (OBS) exposures.

20.2. **The following steps must be used in calculating the RSF:**

a) Assign the carrying value of a banking institution's assets to the categories in Annexure 2. Unless explicitly stated, assets should be allocated to maturity buckets according to their contractual residual maturity.

b) Multiply the amount of each category by its associated RSF factor.

c) The total RSF is the sum of the weighted amounts added to the amount of OBS activity (or potential liquidity exposure) multiplied by its associated RSF factor.

20.3. The associated ASF factor for each asset category is presented in Annexure 2.

20.4. **In determining the appropriate value of the RSF for various assets, the following criteria must be taken into consideration, recognizing the potential trade-offs between these criteria:**

a) **Resilient credit creation** – The NSFR requires stable funding for some proportion of lending to the real economy in order to ensure the continuity of this type of intermediation.

b) **Banking institution's behaviour** – The NSFR is calibrated under the assumption that banking institutions may seek to roll over a significant portion of maturing loans to preserve customer relationships.

c) **Asset tenor** – The NSFR assumes that some short-dated assets (maturing in less than one year) require a smaller proportion of stable funding because banking institutions would be able to allow some proportion of those assets to mature instead of rolling them over.

d) **Asset quality and liquidity value** – The NSFR assumes that unencumbered, high-quality assets that can be securitized or traded, and thus can be readily used as collateral to secure additional funding or sold in the market, do not need to be wholly financed with stable funding.

20.5. Additional stable funding sources are also required to support at least a small portion of the potential calls on liquidity arising from Off-Balance Sheet ("OBS") commitments and contingent funding obligations.

21. General Requirements for the Calculation of the RSF

21.1. The RSF factors assigned to various types of assets are intended to approximate the amount of a particular asset that would have to be funded, either because it will be rolled over, or because it would not be monetised through sale or used as collateral in a secured borrowing transaction over the course of one year without significant expense. Under the standard, such amounts are expected to be supported by stable funding.

21.2. Assets must be allocated the appropriate RSF factor based on their residual maturity or liquidity value. When determining the maturity of an instrument, investors must be assumed to exercise any option to extend maturity. For assets with options exercisable at the banking institution's discretion, the Bank may take into account reputational factors that may limit a banking institution's ability not to exercise the option and prescribe a higher RSF factor. Where the market expects

certain assets to be extended in their maturity, banking institutions must assume such behaviour for the purpose of the NSFR and include these assets in the corresponding RSF category.

21.3. If there is a contractual provision with a review date to determine whether a given facility or loan is renewed or not, the Bank may authorise the banking institution on a case-by-case basis, to use the next review date as the maturity date. In doing so, the Bank will consider the incentives created and the actual likelihood that such facilities/ loans will not be renewed. For amortising loans and other claims, the portion that comes due within the one-year horizon can be treated in the less-than-one-year residual maturity category.

21.4. For purposes of determining its RSF, a banking institution must:

a) include financial instruments, foreign currencies, and commodities for which a purchase order has been executed; and

b) exclude financial instruments, foreign currencies, and commodities for which a sales order has been executed, even if such transactions have not been reflected in the balance sheet under a settlement-date accounting model, provided that:

i. such transactions are not reflected as derivatives or secured financing transactions in the institution's balance sheet; and

ii. the effects of such transactions will be reflected in the banking institution's balance sheet when settled.

22. Encumbered Assets

22.1. Assets on the balance sheet that are encumbered for one year or more receive a 100% RSF factor.

22.2. Assets encumbered for a period of between six months and less than one year that would, if unencumbered, must receive an RSF factor lower than or equal to 50%, receive a 50% RSF factor.

22.3. Assets encumbered for between six months and less than one year that would, if unencumbered, receive an RSF factor higher than 50%, retain that higher RSF factor. Where assets have less than six months remaining in the encumbrance period, those assets may receive the same RSF factor as an equivalent asset that is unencumbered.

22.4. For the purpose of calculating the NSFR, assets that are encumbered for exceptional central bank liquidity operations may receive an RSF factor which must not be lower than the RSF factor applied to the equivalent asset that is unencumbered.

22.5. Encumbrance treatment applied to secured lending (e.g., reverse repo) where collateral received does not appear on a banking institution's balance sheet, and it has been rehypothecated or sold thereby creating a short position:

a) The encumbrance treatment should be applied to the on-balance sheet receivable to the extent that the transaction cannot mature without the banking institution returning the collateral received to the counterparty.

b) For a transaction to be unencumbered, it must be free from legal, regulatory, contractual, or other restrictions on the ability of the banking institution to liquidate, sell, transfer, or assign the asset. Since the liquidation of the cash receivable is contingent on the return of collateral that is no longer held by the banking institution, the receivable should be considered as encumbered. When the collateral received from a secured funding transaction has been rehypothecated, the receivable should be considered encumbered for the term of the rehypothecation of the collateral. When the collateral received from a secured funding transaction has been sold outright, thereby creating a short position, the receivable related to the original secured funding transaction should be considered encumbered for the term of the residual maturity of this receivable. Thus, the on-balance sheet receivable must:

i. be considered as being unencumbered in the NSFR if the remaining period of encumbrance is less than six months;

ii. be assigned a 50% or higher RSF factor if the remaining period of encumbrance is between six months and less than one year according to paragraph 22.2; and

iii. be assigned a 100% RSF factor if the remaining period of encumbrance is greater than one year.

22.6. Encumbrance treatment applied to secured lending (e.g., reverse repo) transactions where collateral received appears on the bank's balance sheet, and it has been rehypothecated or sold thereby creating a short position. Collateral received that ap pears on a bank's balance sheet and has been rehypothecated (e.g., encumbered to a repo) should be treated as encumbered. Consequently, the collateral received should:

a) be treated as being unencumbered if the remaining period of encumbrance is less than six months according to paragraph 22.3 of the NSFR standard, and receive the same RSF factor as an equivalent asset that is unencumbered;

b) be assigned a 50% or higher RSF factor if the remaining period of encumbrance is between six months and less than one year; and

c) be assigned a 100% RSF factor if the remaining period of encumbrance is greater than one year.

22.7. If the collateral has been sold outright, thereby creating a short position, the corrosponding sponding on-balance sheet receivable should be considered encum bered for the term of the residual maturity of this receivable.

22.8. For assets that are owned by banking institutions but segregated to satisfy statutory requirements for the protection of customer equity in margined trading accounts, should be reported in accordance with the underlying exposure, whether or not the segregation requirement is separately classified on a banking institution's balance sheet. However, those assets could be subject to a higher RSF depending on (the term of) encumbrance. The (term of) encumbrance will be determined by the Bank, taking into account whether the banking institution can freely dispose or exchange such assets and the term of the liability to the bank's customer(s) that generates the segregation requirement.

23. Secured Financing Transactions

23.1. For secured funding arrangements, the use of balance sheet and accounting treat ments should generally result in banking institutions excluding, from their assets, securities that they have borrowed in securities financing transactions (such as reverse repos and collateral swaps) where they do not have beneficial ownership. In contrast, banking institutions must include securities they have lent in securities financing transactions where they retain beneficial ownership.

23.2. Banking institutions must also not include any securities they have received through collateral swaps if those securities do not appear on their balance sheets. Where banking institutions have encumbered securities in repos or other securities financing transactions but have retained beneficial ownership and those assets remain on the bank's balance sheet, the banking institution should allocate such securities to the appropriate RSF category according to its characteristics (whether it HQLA, its term, issuer, etc.).

23.3. The treatment (applicable RSF factor) for the amount receivable by a banking institution under reverse repo transaction is the same as with any other loan, which will depend on the counterparty and term of the operation, with the exception of loans (reverse repos) to financial institutions with residual maturity of less than six months secured by level 1 assets (which receive a 10% RSF factor) or by other assets (which receive a 15% RSF factor).

23.4. Amounts receivables and payable under these securities financing transactions should generally be reported on a gross basis, meaning that the gross amount of such receivables and payables should be reported on the RSF side and ASF side, respectively.

23.5. For loans that are only partially secured and are therefore separated into secured and unsecured portions with different risk weights under Basel III, the specific characteristics of these portions of loans should be taken into account for the calculation of the NSFR: the secured and unsecured portions of a loan should each be treated according to its characteristics and assigned the corresponding RSF factor. If it is not possible to draw the distinction between the secured and unsecured part of the loan, the higher RSF factor should apply to the whole loan.

24. Calculation of Derivative Asset Amounts

24.1. Derivative assets are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value.

24.2. In calculating NSFR derivative assets, collateral received in connection with derivative contracts may not offset the positive replacement cost amount, regardless of whether or not netting is permitted under the bank's operative accounting or risk-based framework.

24.3. Any remaining balance sheet liability associated with (a) variation margin received that does not meet the criteria above or (b) initial margin received may not offset derivative assets and should be assigned a 0% ASF factor.

24.4. If an on-balance sheet asset is associated with collateral posted as initial margin to the extent that the banking institution's accounting framework reflects on the balance sheet, for purposes of the NSFR, that asset should not be counted as an encumbered asset in the calculation of a banking institution's RSF to avoid any double-counting.

24.5. Derivative transactions with the Bank arising from the latter's short-term monetary policy and liquidity operations are to be excluded from the banking institution's NSFR computation and to offset unrealised capital gains and losses related to these derivative transactions from ASF. These transactions include foreign exchange derivatives such as foreign exchange swaps and should have a maturity of less than six months at inception. As such, the banking institution's NSFR may not change due to entering a short-term derivative transaction with the Bank for the purpose of short-term monetary policy and liquidity operations.

25. Exclusions from the NSFR calculation

Derivative transactions with the banking institution arising from the latter's short-term monetary policy and liquidity operations are excluded from the banking institution's NSFR computation and to offset unrealised capital gains and losses related to these derivative transactions from available stable funding. These transactions include foreign exchange derivatives such as foreign exchange swaps and must have a maturity of six months or less at inception. As such, the banking institution's NSFR would not change due to entering a short-term derivative transaction with the Bank for the purpose of short-term monetary policy and liquidity operations.

26. National discretion on NSFR

Apart from the fact that the NSFR should be 100% on an ongoing basis, the calculation allows for great discretion and flexibility. This is so because NSFR is usually supplemented by a supervisory assessment of the stable funding and liquidity risk profile of a banking institution. As a result of such assessments, the Bank may require an individual banking institution to adopt more stringent standards commensurate to its funding risk profile.

27. NSFR Disclosure Standards

27.1. To promote the consistency and usability of disclosures related to the NSFR, and to enhance market discipline, banking institutions are required to publish their NSFR in their annual financial statements, irrespective of whether the financial statements are audited.

27.2. Data must be presented as simple averages of quarterly observations over the reporting year (i.e., the average is calculated over a period of four quarters).

27.3. A banking institution must actively monitor and control liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, and the group as a whole, taking into account legal, regulatory, and operational limitations to the transferability of liquidity.

PART VI: MONITORING TOOLS

28. Concentration of Funding

28.1. Each banking institution must maintain a diversified funding structure in terms of counterparts, products, instruments, and currencies. The concentration of the funding matrix should identify any significant source of funding that could trigger liquidity problems.

28.2. The definition and practical application of the metric is based on the following:

a) Funding liabilities sourced from each significant counterparty as a % of total liabilities.

b) Funding liabilities sourced from each significant sector as a % of total liabilities.

c) List of assets and liability amounts by significant currency.

28.3. The numerator for a) and b) above is determined by examining funding concentrations by counterparty or type of sector. Banking institutions, as well as a supervisor, should monitor both the absolute percentage of the funding exposure, as well as significant increases in concentrations.

28.4. The numerator for significant counterparties is calculated by aggregating the total of all types of liabilities to a single counterparty or group of connected or affiliated counterparties as well as all other direct borrowings, both secured and unsecured, which the banking institution can determine arise from the same counterparty.

28.5. A significant counterparty is defined as a single counterparty or group of connected or affiliated counterparties accounting in aggregate for more than 10.0% of the bank's total deposit base, although in some cases there may be other defining characteristics based on the funding profile of the bank.

28.6. The numerator for type of instrument/product should be calculated for each individually significant funding instrument/product, as well as by calculating groups of similar types of instruments/products.

28.7. A significant instrument/product is defined as a single instrument/product or group of similar instruments/products that in aggregate amount to more than 10% of the bank's total deposit base.

28.8. Banking institutions are required to capture and provide the amount of structural currency mismatches in a banking institution's assets and liabilities in each significant currency. A currency is considered significant in accordance with the definition of major currencies in the Determination on the Measurement and Calculation of Capital Charges for Credit Risk, Operational Risk, and Market Risk for Domestic Systemically Important Banks (BID-5A).

29. Available Unencumbered Assets

29.1. Each banking institution is required to report on the encumbrance of its liquid assets in its contingency funding plan.

29.2. These metrics provide data on the quantity and key characteristics, including currency denomination and location, of banks' available unencumbered assets. These assets have the potential to be used as collateral to raise additional HQLA or secured funding in secondary markets or are eligible at central banks and as such may potentially be additional sources of liquidity for the bank. The banking institution should be able to liquidate with ease either by selling or repo.

29.3. The banking institutions should provide the amount, type, and location of available unencumbered assets that could serve as collateral for secured borrowing in secondary markets and /or are eligible for borrowing from the Bank.

29.4. The banking institutions should indicate the relevant haircuts of unencumbered assets that make them eligible for secured funding with central banks or in secondary markets.

30. LCR by combined foreign currencies if significant.

30.1. All combined foreign currencies are considered significant if the aggregate liabilities denominated in such currencies amount to 10% or more of the bank's total liabilities.

30.2. To better capture potential foreign currencies mismatch, the LCR in significant combined foreign currencies should be monitored. For assets and liabilities denominated in the combined foreign currencies, whereby the currencies are significant if liabilities in those currencies amount to 10% or more of a banking institution's total liabilities.

30.3. The definition and practical application of the metric is based on the following:

a) Foreign combined currencies LCR = Stock of HQLA in all combined foreign currencies/Total net cash outflows over a 30-day time period in all combined foreign currency.

The following qualifies as Level-1 foreign currency HQLA and should be reported on an aggregate basis of all foreign currencies, if significant:

i. Notes and coins which are legal tender in those foreign jurisdictions.

ii. Securities issued by central banks in those jurisdictions.

iii. Securities issued by the Governments of those jurisdictions.

iv. Securities fully guaranteed by the Governments of those jurisdictions.

b) Amount of total net foreign exchange cash outflows should be net of foreign exchange hedges.

c) The definition of the stock of high-quality foreign exchange assets and total net foreign exchange cash outflows should mirror those of the LCR for common currencies (cash flows from assets, liabilities, and off-balance sheet items should be computed in the currency that the counterparties are obliged to deliver to settle the contract).

d) The banking institutions as well as the Bank must track potential currency mismatch issues that could arise in a time of stress.

PART VII: GENERAL LIQUIDITY RISK MANAGEMENT

31. Alternative Liquidity Approaches

31.1. The Bank will review the sufficiency of HQLA denominated in Namibia Dollar from time to time considering factors relevant to the supply and demand of HQLA. Where it is evidenced that insufficient HQLA denominated in local currency genuinely exists, the Bank may implement an Alternative Liquidity Approach to assist banking institutions to meet the LCR.

31.2. The objective of the Alternative Liquidity Approach is to cater for the shortfall in HQLA experienced by the banking sector. In this regard, the Bank may avail contractual committed liquidity facilities at a fee to banking institutions experiencing a shortfall in HQLA.

31.3. Should the insufficiency of HQLA as outlined above be identified in the market, the Bank will publish the legal and operational requirements regarding the use of the Alternative Liquidity Approach accordingly.

32. Contingency Funding Plan

32.1. Banking institutions must have in place a contingency funding plan to deal with liquidity crises. The contingency funding plans must be dynamic and must reflect the conceivable funding in the market under stressful situations.

32.2. Banking institutions must internally, therefore, test and review their contingency funding plans on an annual basis. Comprehensive testing of the contingency funding plans by an external party may be conducted once every three years.

33.3. **The following elements must form part of a contingency plan:**

a) definition of the events triggering the plan;

b) 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);

c) an escalation procedure detailing how additional funds could be raised;

d) 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

e) a procedure to guide potential contacts with external parties such as important counterparties, auditors, analysts, media, and/or supervisory authorities.

33. Reporting Requirements

33.1. 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.

33.2. Banking institutions must submit statutory returns relating to LCR and NSFR on a monthly basis and quarterly basis, respectively, using the NSFFR return (BIR-640) and LCR return (BIR-641) on or before the 26th of the following month following the quarter end.

33.3. Banking institutions are required to submit statutory returns relating to intraday liquid assets holdings on a daily basis using the daily liquidity return (BIR 611) on or before 11h00 of the following day.

33.4. The Bank will engage a banking institution pertaining to any breaches reported and will formally respond to the respective banking institution within five working days.

PART VIII: CORRECTIVE MEASURES

34. Remedial Measures

34.1. If a banking institution fails to comply with any part of this Determination, 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 IX: EFFECTIVE DATE

35. Effective Date

35.1. The effective date of this Determination is 31 March 2024.

36. Transitional Arrangements

Banking institutions must follow a phased-in approach for the purpose of complying with the LCR and NSFR requirements. The phase-in arrangement must be complied with as per the following schedule:

Ratio	31 March 2024	31 March 2025	31 March 2026	31 March 2027
LCR	75%	85%	95%	100%
NSFR	75%	85%	95%	100%

37. Extension of Implementation Timelines

Notwithstanding paragraph 36 above, a banking institution that requires an extension of time to comply with the NSFR or LCR requirements must in writing apply to the Bank for such dispensation. The Bank will assess such an application and may grant approval or reject such an application, depending on the motivation provided by the applicant banking institution.

Questions relating to this Determination should be addressed to the Director, Banking Supervision Department, Bank of Namibia, Tel: 061 283-5256.

Annexure 1

Illustrative Summary of the LCR (factors applied to the categories)

Item	Factor
Stock of HQLA	
A. Level 1 assets:	
Coins and bank notes • Qualifying marketable securities from sovereigns, central banks, PSEs, and multilateral development banks • Qualifying central bank reserves • Domestic sovereign or central bank debt for non-0% risk-weighted sovereigns	100 %
B. Level 2 assets (maximum of 40% of HQLA):	
Level 2A assets	
Sovereign, central bank, multilateral development banks, and PSE assets qualifying for 20% risk weighting • Qualifying corporate debt securities rated AA- or higher • Qualifying covered bonds rated AA- or higher 85%	85%
Level 2B assets (maximum of 15% of HQLA)	
• Qualifying residential mortgage-backed securities (RMBS) • Qualifying corporate debt securities rated between A+ and BBB- • Qualifying common equity shares	75% 50% 50%
Total value of stock of HQLA	

Cash Outflows	
A. Retail deposits: Demand deposits and term deposits (less than 30 days maturity) • Stable deposits (covered by a deposit insurance scheme) • Stable deposits (not covered by deposit insurance scheme) • Less stable retail deposits	 3% 5% 10%
Term deposits with residual maturity greater than 30 days	0%

B. Unsecured wholesale funding:	
Demand and term deposits (less than 30 days maturity) provided by small business customers:	5%
• Stable deposits	10%
• Less stable deposits	25%
Operational deposits generated by clearing, custody, and cash management activities	5%
• Portion covered by deposit insurance	25%
Cooperative banks in an institutional network (qualifying deposits with the centralised institution)	40%
Non-financial corporates, sovereigns, central banks, multilateral development banks, and PSEs	20%
• If the entire amount is fully covered by the deposit insurance scheme	100%
Other legal entity customers	
C. Secured funding:	
• Secured funding transactions with a central bank counterparty or backed by Level 1 assets with any counterparty.	0%
• Secured funding transactions backed by Level 2A assets, with any counterparty	15%
• Secured funding transactions backed by non-Level 1 or non-Level 2A assets, with domestic sovereigns, multilateral development banks, or domestic PSEs as a counterparty	25%
• Backed by RMBS eligible for inclusion in Level 2B	25%
• Backed by other Level 2B assets	50%
• All other secured funding transactions	100%

Additional requirements:	
Net payable amount related to specified derivative transactions	100%
Currently, undrawn committed credit and liquidity facilities provided to:	
• Retail and small business customers	5%
• Non-financial corporates, sovereigns and central banks, MDBs and PSEs	10% for credit 30% for liquidity
• Banks subject to prudential supervision	40%
• Other financial institutions (include securities firms, and insurance companies)	40% for credit 100% for liquidity
• Other legal entity customers, credit and liquidity facilities	100%
Other contingent funding liabilities (such as guarantees, letters of credit, revocable credit and liquidity facilities, etc.) provided for:	
• Trade Finance	5%
• Customer short positions covered by other customers' collateral	50%
Net derivative cash outflows	100%
Any other contractual cash outflows	100%
Total Cash Outflows	

- level one high-quality liquid assets as collateral	0%
- level 2A high-quality liquid assets as collateral	15%
- eligible RMBS qualifying as level 2B high-quality liquid assets as collateral	25%
- assets other than eligible RMBS qualifying as level 2B high-quality liquid assets as collateral	50%
- assets other than level one or level two high-quality liquid assets as collateral	50%
Margin lending transactions secured by assets other than qualifying level one or level two high-quality liquid assets as collateral	50%
Credit or liquidity facilities provided to the reporting bank	100%
Specified net inflows	
- from retail and small business	50%
- from wholesale non-financial institutions	50%
- from financial institutions and central banks other than those listed under the above inflow categories.	100%
Specified deposits held at financial institutions for operational purposes	0%
Specified deposits held at a centralised institution in a cooperative banking network	0%
Net receivable amount from derivative instruments	100%
Other contractual cash inflows	100%
Total Cash Inflows	

Annexure 2: ASF categories and associated ASF factors

Table 1: Below summarizes the components of each of the ASF categories and the associated maximum ASF factor to be applied in calculating a banking institution's total amount of ASF.

Summary of liability categories and associated ASF factors	
ASF factor	Components of the ASF category
100%	• Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year) • Other capital instruments and liabilities with effective residual maturity of one year or more • Other liabilities with effective residual maturity of one year or more
95%	• Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers
90%	• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers
65%	• Funding with residual maturity of less than one year provided by non-financial corporate customers • Operational deposits • Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks • Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions

0%	• All other liabilities and equity categories not included in the other categories, including other funding with residual maturity of less than six months from the Bank and other financial institutions.
	• Other liabilities without a stated maturity. This category may include short positions and open maturity positions. Two exceptions can be recognized for liabilities without a stated maturity:
	  • first, deferred tax liabilities, which should be treated according to the nearest possible date on which such liabilities could be realized; and
	  • second, minority interest, which should be treated according to the term of the instrument, usually in perpetuity.
	• These liabilities would then be assigned either a 100% ASF factor if the effective maturity is one year or greater, or 50% if the effective maturity is between six months and less than one year.

OBS EXPOSURES

Table 2: Off-balance sheet exposures

Summary of off-balance sheet categories and associated RSF factors	
RSF	RSF category
5% of the currently undrawn portion	Irrevocable and conditionally revocable credit and liquidity facilities to any client
10%	Other contingent funding obligations, including products and instruments such as: • Unconditionally revocable credit and liquidity facilities • Guarantees and letters of credit unrelated to trade finance obligations • Non-contractual obligations such as: − potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles, and other such financing facilities − structured products where customers anticipate ready marketability, such as adjustable-rate notes and variable rate demand notes (VRDNs) − managed funds that are marketed with the objective of maintaining a stable value.
5%	Trade finance-related obligations (including guarantees and letters of credit)

ASSET TYPES AND ASSOCIATED RSF FACTORS

Table 3: Specific types of assets to be assigned to each category and their associated RSF factor

Summary of asset categories and associated RSF factors	
RSF factor	Components of the RSF category
0%	Coins and banknotes • All central bank reserves • All claims on central banks with residual maturities of less than six months • "Trade date" receivables arising from sales of financial instruments, foreign currencies, and commodities.
5%	Unencumbered Level 1 assets, excluding coins, banknotes, and central bank reserves
10%	• Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets as defined under LCR paragraph 12, and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan
15%	• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories • Unencumbered Level 2A assets
50%	• Unencumbered Level 2B assets • HQLA encumbered for a period of six months or more and less than one year • Loans to financial institutions and central banks with residual maturities between six months and less than one year • Deposits held at other financial institutions for operational purposes • All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs

65%	• Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach • Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the standardised approach
85%	• Cash, securities, or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a CCP • Other unencumbered performing loans with risk weights greater than 35% under the standardised approach and residual maturities of one year or more, excluding loans to financial institutions • Unencumbered securities that are not in default and do not qualify as HQLA with a remaining maturity of one year or more and exchange-traded equities • Physical traded commodities, including gold
100%	• All assets that are encumbered for a period of one year or more • NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities • 20% of derivative liabilities as calculated according to paragraph 19 • All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests, and defaulted securities

Annexure 3: Examples of Scenarios for Projecting Cashflows

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

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

i. interbank market difficulties;

ii. the withdrawal of a major market player from a market;

iii. illiquidity in specific markets (e.g. crisis in emerging countries); and

iv. distress of specific currencies important for the banking institution's funding.

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

i. a downgrade of the banking institution's own rating or an expectation of a downgrade leading to an increase in funding cost,

ii. a sharp increase in the drawdown of commitments by borrowers,

iii. a sudden change in the composition of deposits and a sudden increase of cash deposit withdrawals, and

iv. a tightening of credit lines.

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

c) 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 drawdowns of commitments to lend that the institution will need to fund.

d) 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.

e) 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 the potential triggering of early amortisation. Banking institutions may also estimate their capacity to sell assets including the terms of such sales (e.g. discounts).

Annexure 4: National Discretion

LCR - HQLA

Level 1 securities	The Bank may require haircuts on the following assets due to their duration, credit, and liquidity risk: (a) Securities issued or guaranteed by PSE; (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;
Level 2A Assets	The Bank only recognises level two assets as per paragraph 12.4 of this Determination. However, the Bank will continue to monitor the development of the market and may in the future consider allowing level 2A assets, particularly residential mortgage-backed securities (RMBS), rated AA or better, Non-financial corporate bonds, rated BBB- to A+. The following may be considered as well: a) Any other securities, bonds, and bills fully guaranteed by the Government of Namibia, which form part of the public issue; b) Debt securities (rated by reputable international rating agency such as Fitch, Moody and Standard &Poor (S&P) or any other reputable institution recognized by the Bank) issued by Namibian Public Sector Entities (PSE) and Corporates; c) 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; d) Investment-graded debt securities (rated by reputable international rating agencies such as Fitch, Moody's and Standards and Poor or any other reputable institution recognised by the Bank) issued by Multilateral Development Banks or Multilateral Development Organizations, denominated in domestic currency; and e) Foreign currency deposits placed with the Bank.
Level 2B Assets	Level 2B assets, certain additional assets as specified under Basel iii will be allowed provided the banks have sufficient tools as indicated by the corresponding determination. Possible assets are as specified under the Basel iii framework.