Namibia Financial Stability Report

June 2015

Bank of Namibia

NAMFISA

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Bank of Namibia

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Corporate Charters

Bank of Namibia

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

Mission
To support economic growth and development in Namibia, we

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

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

NAMFISA

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

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

Values
- Teamwork
- Service
- Integrity
- Performance Excellence

List of Abbreviations

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

Preface

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

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

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

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

Contents

I Introduction and Summary

1. **During the period under review, the Namibian financial system remained robust, notwithstanding some unfavorable developments in the domestic, regional and global economies.** The Namibian financial system was stable in the second half of 2014 characterised by a sound, profitable and adequately capitalized banking sector with low non-performing loans. Moreover, the performance of the non-banking financial sector was healthy in the second half of 2014 as its balance sheets remained robust. The payment system also operated efficiently and effectively. This is despite an increase in both household and corporate indebtedness since the last Financial Stability Report. Household indebtedness remained higher than that of comparator economies and warrants targeted policy measures to minimise risks to the stability of the financial system. In addition, the level of foreign debt exposure by the corporate sector requires monitoring. On the international front, risks of declining commodity prices, financial market volatility as well as exchange rate depreciation of the Namibia Dollar against the major trading currencies had the potential to adversely impact the Namibian financial system stability. Namibia, however, withstood endogenous and exogenous shocks to financial stability in the period under review.
2. **Since the last Financial Stability Report (FSR), risks to financial stability from the global financial system increased.** Despite an improvement in growth prospects in some key advanced economies, new challenges to global financial stability have arisen. These challenges entail, but are not limited to, lower oil prices, diverging growth patterns and monetary policies between the advanced and emerging market economies (EMEs). According to the IMF's April 2015 Global Financial Stability Report (GFSR), expectations of rising policy rates in the US have triggered a significant appreciation of the US Dollar. In addition, long-term bond yields have turned negative for almost a third of Euro Area sovereign bonds. EMEs, especially crude oil and commodity exporters, are also experiencing new financial stability challenges essentially diminishing asset valuations and rising credit risks. Moreover, significant capital outflows from several EMEs, including South Africa have caused exchange rates to depreciate with increased pressures on companies that borrowed in foreign currencies. These developments could further strain EMEs' sovereigns that have increased their exposure to foreign currency borrowings. The resulting tensions in global financial markets have amplified market and liquidity risks.
3. **Economic activities in Namibia were healthy during 2014, despite a moderation in real GDP growth.** The main engines of growth were robust construction activities, sustained growth in diamond mining, wholesale and retail trade and transport activities, as well as public infrastructure programmes. On the downside, uranium mining posted weaker performance during 2014, on account of low international prices. Furthermore, the after-effects of the drought and the response to the South African veterinary requirements imposed during the year, adversely affected livestock farming. Going forward, real GDP growth is expected to increase on account of continued robust construction work, an expected increase in mining production and activities in the wholesale and retail trade.
4. **Since the last FSR, household debt increased, driven by mortgages, overdrafts and instalment credit.** Overall, the ratio of household debt to disposable income rose to 83.9 percent in December 2014 from 82.9 percent in December 2013[1]. This calls for comprehensive monitoring and targeted policy interventions to address growth in household indebtedness. If left unchecked, growth in mortgages, instalment credit and overdrafts would lead to systemic risks in the financial system.
5. **Corporate debt levels (as a share of GDP) increased during the period under review, due to growth in foreign private sector debt, coupled with the depreciation of the domestic exchange rate.** The increase in corporate debt was, however, largely ascribed to borrowing by companies, which earn foreign exchange and thus may not pose a major risk to the financial stability of the country, at least in the short-to-medium term. Nonetheless, the acceleration in the growth rate of large exposures in the banking sector, mainly to the mining, fishing and tourism sectors warrants monitoring to mitigate concentration risk.

1 Total credit extended in Namibia is composed of credit by commercial banks and estimated credit extended by other institutions, mainly micro-lenders as well as informal lending. The ratio of household debt to disposable income reported in the March 2014 FSR changed, due to the data revision in the final National Accounts, which resulted in an increase in disposable income.

6. **The financial soundness indicators for the banking sector remain at comfortable levels by international standards, although some structural patterns of the balance sheets require monitoring.** The resilience of the commercial banks is regularly tested, and the current stress testing results indicate that the commercial banking institutions are able to withstand a shock to the banking system. The concentration of banking assets in mortgages remains high and needs continuous monitoring in light of the high level of household indebtedness. There were no major changes observed in the banking sector's structure, and the larger banking institutions continue to dominate the sector. The banking sector's financial condition is expected to remain sound and healthy in the foreseeable future.
7. **The balance sheets of Non-Banking Financial Institutions (NBFIs) are healthy and do not pose systemic risks to the country's financial system.** Overall, growth of the assets of the NBFIs sector was positive. This is expected to continue in the next six months. Since the last FSR, the capitalization of provident institutions was adequate to ensure solvency and funding levels in excess of those required by statute. These levels are sufficient to withstand the shocks and risks to which these institutions are exposed.
8. **The payment infrastructures in Namibia continue to operate efficiently and effectively.** Progress has been made to ensure that there is transparency in the way the national payment system (NPS) operates and to reduce the associated risks. The overseers continued to participate in the analysis of critical incidents that may impact the stability of the NPS, as well as to recommend ways to prevent such incidents in the future.

Summary of Risk Analysis

This section presents an analysis of the main risks to the stability of the domestic financial system. Consistent with sections III-VII in this Report, the analysis identifies risks arising from: (i) the external macroeconomic environment, (ii) trends in household and corporate debt, and (iii) trends in the domestic banking and non-banking institutions' financial soundness indicators, before concluding with, (iv) an analysis of the payment and settlement system. The risks are analysed and rated from low risk to high risk based on their probability of occurrence, and the potential impact on financial stability in Namibia, should the risk develop and materialise (Table 1).

Table 1: Risks to Financial Stability for the upcoming six months[2]

	Risk		Change from March 2014	
	Probability	Impact	Probability	Impact
Macroeconomic Environment risks				
Global economic slowdown			Down	Unchanged
Monetary expansion programme in the Euro Area			Up	Up
Gradual normalisation of US monetary policy			Up	Up
NAD/ZAR depreciation			Up	Up
Export demand fall			Down	Up
Decline in international reserves			Unchanged	Unchanged
Household debt risks				
Increase in household debt			Up	Up
Corporate debt risks				
Corporate debt increases			Up	Unchanged
Banking Sector risks				
Banking institution maturity mismatch			Unchanged	Unchanged
Payment System risks				
Security of retail payments			Unchanged	Unchanged
Settlement in last window			Unchanged	Unchanged
NBFIs risks				
Contagion amongst financial institutions			Unchanged	Unchanged
Asset exposure to capital markets			Unchanged	Unchanged
NSX asset price inflation			Unchanged	Unchanged

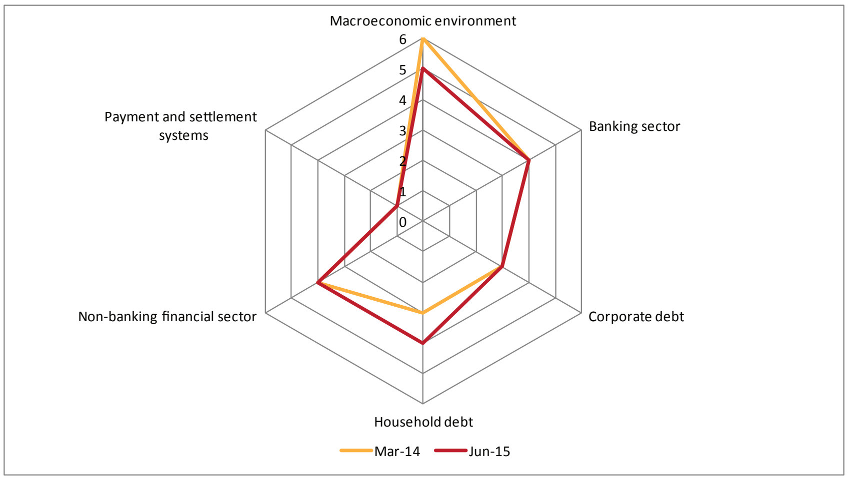
Risk analysis key

high	medium	low

2 The 'risk' column presents the risks to financial stability as assessed going forward six months (i.e. July-December 2015) and the 'change' column presents the change from the risk assessment presented in the previous FSR, in this case the March 2014 FSR.

Since the issuance of the March 2014 FSR, most of the main risks to domestic financial stability remained unchanged, with the exception of risks stemming from the macroeconomic environment and household debt. The evolution of the risks facing the domestic financial system compared to March 2014 is depicted by the Domestic Financial Stability Risk Map[3] (Figure 1).

Figure 1: Domestic Financial Stability Risk Map



A Risks Stemming from the External Macroeconomic Environment

According to the IMF's Global Financial Report for April 2015, global economic developments over the past six months have increased global financial stability risks. In this regard, the global financial system is being affected by a series of changes in financial markets, reflecting diverging growth patterns and monetary policies as global growth prospects have weakened. Deflationary forces have strengthened as oil and commodity prices have declined. Although the latter has benefited commodity and oil-importing countries and increased monetary policy space in countries with higher inflation, it has increased financial risks in some exporting countries and in the oil sector. As a result of these developments, inflation expectations and long-term bond yields have fallen. Bold monetary policy actions have been taken in both the Euro Area and Japan to arrest and reverse deflationary pressures, while the expectations of rising policy rates in the US and additional monetary stimulus by other major economies have generated rapid appreciation of the US Dollar. Risks have also rotated from advanced economies to EMEs and, from banks to shadow banks as well as from solvency to market liquidity risks.

The key transmission channels of downside risks to financial stability in EMEs are largely depreciating exchange rates and lower commodity prices. During the second half of 2014, the Namibia Dollar depreciated on average by 2.6 percent against the US Dollar, due to capital outflows from EMEs that affected South Africa. The depreciation continued in the first quarter of 2015, with the Namibia Dollar depreciating on average by 8.0 percent against the US Dollar compared to the same period in 2014. Accounting for the recent depreciation were a number of factors such as sluggish growth of the South African economy, electricity supply constraints, labour unrests and the twin deficits in South Africa. In general, depreciating exchange rates resulted from significant capital outflows from EMEs and increased pressures on companies that borrowed in foreign currencies. These developments could exert further strain to EMEs' sovereigns with increased exposure to foreign currency borrowings.

3 The DFSRM tracks six risk categories as shown above. Scores ranging from a minimum of one (1) to a maximum of six (6) are assigned to each of the six risk factors based on their probability of materializing and their potential impact.

The Namibian financial system continued to be robust and resilient, notwithstanding exchange rate volatility, declining international reserves and low commodity price shocks that affected EMEs. As mentioned earlier, in line with developments in some of the EMEs' currencies, the exchange rate of the South African Rand and the Namibia Dollar was volatile recently. On average, the Namibia Dollar depreciated by 9.4 percent for the first four months of 2015, compared to the same period in 2014. However, the impact of a weaker currency did not filter through to inflation as it normally takes a lag before being realised. Although Namibia's international reserves remained adequate for sustaining the fixed peg and currency in circulation, the import cover ratio decreased from 2.4 months in December 2013 to 1.9 months in December 2014 and warrants monitoring going forward[4]. The decline in commodity prices that began with metals and food four years ago also affected crude oil prices in mid-2014 and persisted in the first quarter of 2015. In this regard, the IMF's commodity price indices for food, metals and energy declined by 6.5, 10.0, and 16.3 percent, respectively, in the second half of 2014. Furthermore, these indices subsided on average by 15.9, 19.7 and 46.0 percent, respectively, in the first quarter of 2015, compared to the same period in 2014. Increasing supplies, bumper harvests, weak demand and a stronger US Dollar contributed to the decrease in prices. Downside risks remain and include higher-than-expected production, especially for crude oil and slower demand of non-energy commodities by China amidst tightening environmental standards.

Notwithstanding the decline in commodity prices, exchange rate volatility and the imposition of veterinary restrictions by South Africa, the Namibian economy performed well in the second half of 2014. Key activities, which underpinned growth, were largely robust construction works and sustained growth in wholesale and retail trade. For 2014, real GDP growth was estimated at 4.5 percent supported by construction activities related to mining and public works programmes. On the inflation front, Namibia's average consumer price inflation rate decreased in 2014 compared to 2013, mainly due to a reduction in the inflation rate of the housing category. The overall inflation rate averaged 5.4 percent in 2014, having fallen from a level of 5.6 percent in 2013. The reduction in overall inflation reflected a decrease in inflation rates of the housing category, particularly rental payments for dwelling and electricity, gas and other fuels. Moreover, the decrease in the international prices of crude oil has contributed to a drop in the inflation rate for the transport category during the second half of 2014. Going forward, real GDP growth is projected to expand further in 2015 supported by robust construction works, recovery in agriculture and sustained growth in wholesale & retail trade. Inflationary pressures are also expected to be well-contained. Downside risks to inflation are predominantly the recent upward movement in crude oil prices and the depreciation of the Namibia Dollar versus major trading currencies.

Overall, recent developments in the Namibian economy, the financial system and the outlook remained healthy, despite downward revisions to global growth and declining reserves. Risks originating from the global financial system increased for EMEs, but are generally well-contained in Namibia. Nonetheless, the normalisation of monetary policy in the US remains a concern to financial stability in Namibia. The monetary expansion programme in the Euro Area, however, may pose upside risk as it may lead to increased exports and foreign exchange earnings for Namibia, which could boost reserves and financial stability in Namibia.

B Risks Stemming from Domestic Household and Corporate Debt

Household Sector

Household debt as a percentage of disposable income increased at the end of December 2014. In the period under review, the ratio of household debt to disposable income stood at 83.9 percent, compared to

4 Traditional "rules of thumb" that have been used to guide reserve adequacy suggest that countries should hold reserves covering 100 percent of short-term external debt or the equivalent of 3 months worth of imports.

82.9 percent registered at the end of December 2013. The rise was largely ascribed to a higher increase in credit to households relative to a slower growth in disposable income. The adjusted credit to households rose by 12.4 percent to N$45.4 billion at the end of December 2014[5]. The estimated growth of 9.8 percent in disposable income was not strong enough to offset that of household credit.

Household indebtedness of Namibians remains high by regional and international comparisons [6]. This review therefore suggests that the risk of an increase in household debt in the next six months remains elevated. This calls for more concerted efforts in monitoring debt at microeconomic levels, particularly for mortgages and installment credit to individuals, components which dominate credit to the private sector. Otherwise, it would lead to systemic risk in the financial sector.

Corporate Sector

Total corporate debt increased significantly, mainly on account of foreign corporate debt. The rise in the corporate debt-to-GDP ratio was largely ascribed to borrowing by the private sector. Various companies, mostly multinational corporations accessed foreign financial markets to finance their operations. Despite the fact that the share of foreign corporate debt to total corporate debt is higher, a large number of corporates that borrow from abroad earns foreign exchange. Hence, external debt servicing at current levels may not pose a major risk to the financial stability of the country, at least in the short-to-medium term.

C Risks Stemming from the Performance of the Banking Sector

Since the release of the March 2014 FSR, the Namibian banking sector remained sound, profitable and adequately capitalized. Although the level of non-performing loans increased year-on-year, asset quality improved as shown by the decrease in the NPL ratio during each of the last two quarters of 2014. The concentration of banking assets in mortgages remains high and needs continuous monitoring in light of the high level of household indebtedness. There were no major changes observed in the sector's structure and the larger banking institutions continue to dominate the sector. The banking sector's financial condition is therefore expected to remain sound and healthy in the foreseeable future.

Box 1: Loan-to-value (LTV) ratios as a macro-prudential policy tool in Namibia

The global financial crisis of 2007-08 brought to the fore debate on the use of macro-prudential tools as means to maintain financial stability. This will typically be achieved by focusing on the risks arising primarily from within the financial system or risks amplified by the financial system. Following the financial crisis, the need to adopt a macro-prudential approach to financial stability has become part of conventional wisdom in Europe, the US and the rest of the world. Policy makers needed to act fast, as the cost of inaction may greatly exceed the potential negative side effects of policy intervention.

In Namibia, rising property prices and the banking sector's exposure to the mortgage segment remains a concern for policy makers. The Namibian banking industry is highly exposed to mortgage loans, which constitute more than half of the total loans extended. It was therefore highlighted in the Financial Stability Report of March 2013, the need to investigate means of addressing this credit risk through macro-prudential tools such as the loan to value ratios for mortgage loans.

5 The adjusted credit to households was derived by adjusting the credit extended to households by a historical growth rate. The idea is to capture credit provided by both the formal and informal sectors.

6 Due to differences in methodology, the ratios for Namibia are not necessarily comparable to those of other countries.

A range of capital-based, liquidity-based and asset-side macro-prudential tools are available to the Bank of Namibia to maintain financial stability. These include liquidity coverage ratios and counter-cyclical capital buffers. One asset-side tool employed world-wide is the loan-to-value (LTV) ratio in the residential mortgage market as a means to minimise credit exposure risk. The LTV ratio is a financial term used by commercial lenders to express the ratio of a loan underwritten to the value of an asset purchased.

Research by the Bank of Namibia demonstrates that imposing LTV limits on non-primary residential properties in Namibia is a viable complementary policy measure for reducing the risk to financial stability originating from banks' overexposure to the housing market. In this regard, the Bank of Namibia, in consultation with the banking industry, is busy deliberating on the implementation modalities of LTV limits across the banking sector in the country. In fact, two of the commercial banks have already introduced the practice of LTV ratios during the latter half of 2013. International experience, although limited, also shows that the introduction of LTV ratios tends to slow down the rate of growth of house prices as well as the incidence of houses bought for speculative purposes.

Source: Bank of Namibia, 2013: Investigating the Introduction of Loan-to-Value Limits on Non-Primary Residential Properties, internal paper

D Risks Stemming from the Performance of the Non-Banking Financial Sector

The NBFIs continued to prudently manage assets to support liabilities as per the expectations of beneficiaries and policyholders. Specifically, pension funds and long-term insurers manage assets of roughly about N$158.0 billion to meet liabilities of approximately N$151.0 billion. The assets of these institutions are invested through collective investment schemes and investment managers, or otherwise on a proprietary basis by pension funds and long-term insurers. These institutions invest their assets over a medium to long-term period and as such assume investment risk as a result of prolonged exposure to the domestic, regional and global capital markets. Overall, the risks to financial stability stemming from the operations of NBFIs remained unchanged during the review period.

E Risks Stemming from the Payment and Settlement System

The risks stemming from the payment and settlement system changed only slightly compared to the March 2014 FSR. Only one disruption to the Namibia Interbank Settlement System (NISS) was recorded over the second half of 2014, which did not pose any major threat to financial stability. The NISS front-end availability ratio was 99.9 percent, which was above the acceptable availability level of 99.0 percent. The system was not available for 1 hour, a situation which was attributed to a technical issue with the web interface. The non-availability of the system was of a temporary nature and was promptly resolved within the hour. Furthermore, one disaster recovery test was successfully conducted during the second half of 2014. Fewer payments (i.e. 34.0 percent) were settled in Window 3 in the second half of 2014 (15h00 to 16h40) representing an improvement from the 37.1 percent recorded at the time of the previous FSR. It is ideal if fewer payments occur in Window 3. This has contributed to a reduction in the probability of occurrence of operational and settlement risks.

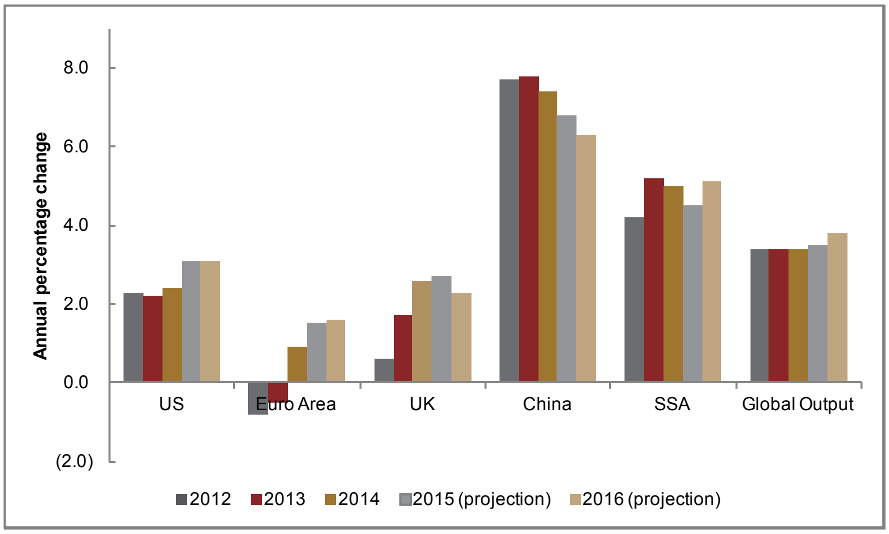
III Macroeconomic Environment

Global Economic Growth[7]

The global economy continued to register modest growth in 2014 and it is projected that this trend may carry on for the remainder of 2015. The key driver of growth during 2014 was the recovery in the advanced economies, particularly the US, supported by improved activities in other advanced economies. Overall, real GDP growth in the advanced economies improved to 1.8 percent in 2014 from 1.4 percent in 2013. Moreover, real GDP growth in the US increased to 2.4 percent in 2014, relative to 2.2 percent in the preceding year, underpinned by domestic demand, accommodative monetary policy and moderate fiscal adjustment. In the UK, real GDP growth improved to 2.6 percent in 2014, compared to 1.7 percent recorded in 2013, boosted by improved financial market conditions (Figure 2). Economic activities in the Euro Area also recovered from the recession of 2013 and recorded growth of 0.9 percent in 2014, due to increased investment and exports. In addition, growth in the Euro Area was supported by lower oil prices, low interest rates, and a weaker Euro. On the contrary, economic activities in Japan were restrained and did not adequately support global growth as earlier anticipated, registering a contraction of 0.1 percent in 2014.

Major EMEs registered slower growth in 2014. Growth for the emerging market and developing economies slowed to 4.6 percent in 2014 on the back of eased activities in China and Russia. Real GDP growth in China receded to 7.4 percent in 2014, down from 7.8 percent recorded in 2013. The slowdown in the Chinese economy is part of China's transitional adjustment to a more sustainable growth trajectory and a moderation in the rate of investment. Real GDP growth in Brazil slowed to 0.1 percent in 2014 from 2.7 percent in 2013, due to weak investment, low business and consumer confidence, and tight financial conditions. Activities in Russia receded to 0.6 percent in 2014 from 1.3 percent in 2013, impacted by sanctions imposed by the EU and US, and the decline in crude oil prices. Real GDP growth in South Africa was sluggish at 1.5 percent on account of infrastructure gaps, electricity supply constraints and tense labour relations.

Figure 2: Projected Global Growth



Source: IMF World Economic Outlook, April 2015

7 The analysis contained in this sub-section borrows substantially from the IMF World Economic Outlook, April 2015, available on www.imf.org/external/pubs/ft/weo/2015/01/

Looking ahead, global growth is projected to increase modestly in 2015, driven by activities in advanced economies, especially the US. Real GDP growth in the advanced economies is expected to rise to 2.4 percent in 2015 from 1.8 percent in 2014, mainly due to low crude oil prices, strong domestic demand and moderate fiscal adjustment. Despite the projected gradual rise in interest rates in the US, a relatively gradual adjustment in the monetary policy stance will also continue to support growth in the US (Figure 2). Weaker exchange rates for the Euro and Yen will also contribute to the recovery of economic activities in the Euro Area and Japan, respectively. Downside risks to growth include continued capital outflows from emerging markets that will trigger further appreciation of the US Dollar, coupled with geopolitical tensions in Ukraine and the Middle East and their potential global spill overs.

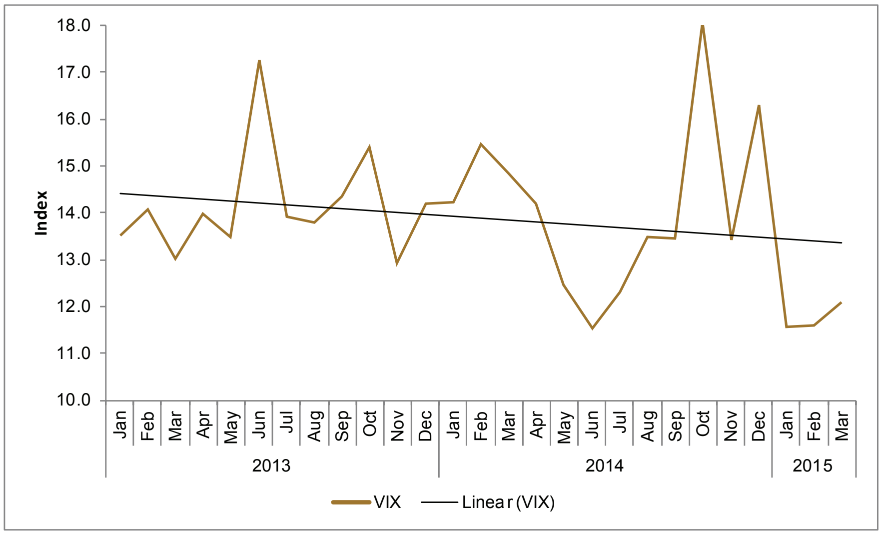
In the EMEs, growth is expected to moderate on the back of a slowdown in China's growth, downward revisions of growth prospects for major oil exporters and a decline in commodity prices. A slowdown in China reflecting a move toward a more sustainable growth pattern is anticipated to have a declining impact on real GDP growth in the EMEs. Moreover, the downward revision of growth for oil exporting economies, due to lower crude oil prices, will contribute to a moderation in growth for EMEs in 2015. The growth outlook for non-oil commodity exporters is also expected to be modest in 2015, due to depressed prices and subdued demand by China. South Africa's real GDP growth, though better at 2.0 percent in 2015, compared to 1.5 percent in 2014, still remained subdued. Downside risks to the outlook are the electricity supply constraints, weak growth of gross fixed capital formation and subdued consumer and business confidence.

Developments in the Financial Markets

Advanced Economies

Volatility in global financial markets increased since the previous FSR, following a period of low uncertainty. Changes in market sentiment, driven mainly by lower crude oil prices and developments in Russia and Greece, were reflected in higher volatilities of major asset classes. Stock markets were more unpredictable recently than during September/November 2014. In recent months, volatility broke away from the exceptional lows recorded in mid-2014 and increased in line with its long-term trend (Figure 3). After adjustments in December 2014 and early January 2015, volatility in global equities rose slightly on the back of looser monetary policies in both advanced economies and EMEs.

Figure 3: Volatility Index



Source: Bloomberg

Emerging Economies

In general, the risk appetite for EMEs' asset classes is lower prompting capital outflows by foreign investors. Lower allocations of global funds to risky assets and lower excess returns also point to slightly lower risk appetite compared to the past six months. Elevated volatility and the rapid depreciation of local currencies for some economies could jeopardise financial stability as investors and speculators move portfolio investment from EMEs. Overall, these shocks have increased financial stability risks in EMEs, given the increased leverage in the public and private sectors, and authorities need to enhance surveillance of vulnerable sectors.

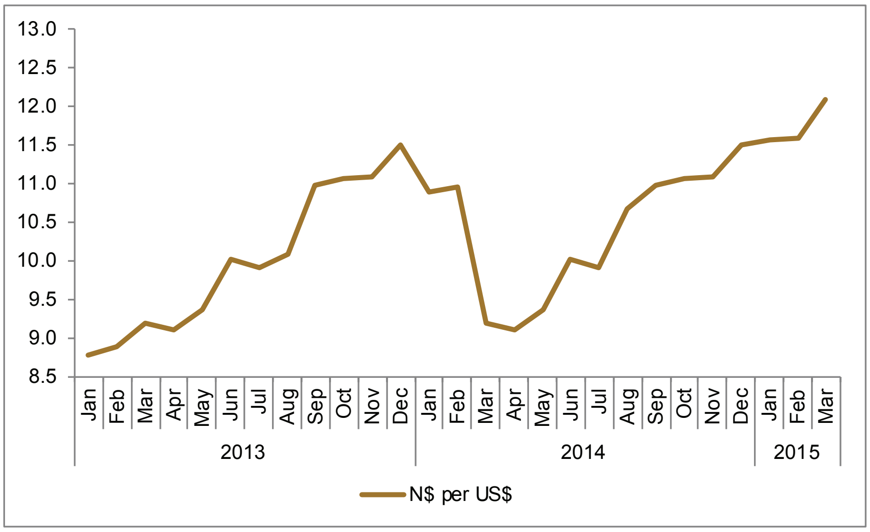
The outlook for global financial markets is largely anticipated to be positive as monetary and financial conditions are expected to be accommodative. This is predicted based on a gradual global recovery and low inflationary pressures from lower crude oil and other commodity prices. Nonetheless, it is expected that a steady normalisation of interest rate in the US could begin later in 2015. On the contrary, other major central banks, particularly the European Central Bank and the Bank of Japan are expected to continue with their monetary expansion programmes until growth stabilises. In the first quarter of 2015, central banks in China, Indonesia, Russia and Thailand reduced their policy rates amidst subsiding inflation, driven by the decline in crude oil prices to support growth. The monetary policy stance of the South African Reserve Bank will be largely data dependent, especially on the trend of the Rand/US Dollar exchange rate, adjustment in the price of electricity, wage settlements and inflation expectations.

Exchange rate developments

Capital outflows and a stronger US Dollar drove foreign exchange depreciations in many EMEs such as South Africa, Brazil and Malaysia in the last six months. After subsiding in September and October 2014, the withdrawal of funds from EMEs gathered pace in November 2014. As a direct indicator of changing sentiments and carry trade towards EMEs, capital outflows from both bond and equity funds deepened and remained significant up to the end of April 2015 and contributed to the depreciation of EMEs' currencies. The depreciations that started at the end of October 2014, maintained their course through the Federal Reserve's tapering decision on 18 December 2014, and accelerated on 23 January 2015. On that date, in an effort to preserve foreign exchange reserves, Argentina's Central Bank scaled back support for the Peso, which immediately depreciated by 10 percent against the US Dollar.

The depreciation of the Argentinian Peso spread to other EMEs and contributed to a reduction in the price of other EMEs currencies, including the South African Rand. Consequently, the nominal value of the Rand depreciated by 2.6 percent in the second half of 2014. A further depreciation of 8.0 percent occurred in the first quarter of 2015, compared to the same period in 2014 (Figure 4). Other factors that contributed to the depreciation of the Rand included tense labour relations in the mining sector, weak real GDP growth and a higher-than-expected current account deficit. These factors triggered capital outflows from South Africa and thereby exchange rate depreciation.

Figure 4: Movement in the Namibia Dollar/US Dollar Exchange Rate



Source: Bloomberg

During 2014, the South African Reserve Bank increased the repo rate to mitigate inflationary pressures from food and petrol prices as well as exchange rate depreciation. The Monetary Policy Committee (MPC) raised the repo rate by 0.50 percent at its January 2014 meeting, followed by another increase of 0.25 percent in July. For 2015, the MPC of the South African Reserve Bank has thus far kept the repo rate unchanged in line with developments in the country's economic data. Inflation in South Africa averaged 4.1 percent in the first quarter of 2014 and remained within the target band of 3 to 6 percent (Table 2).

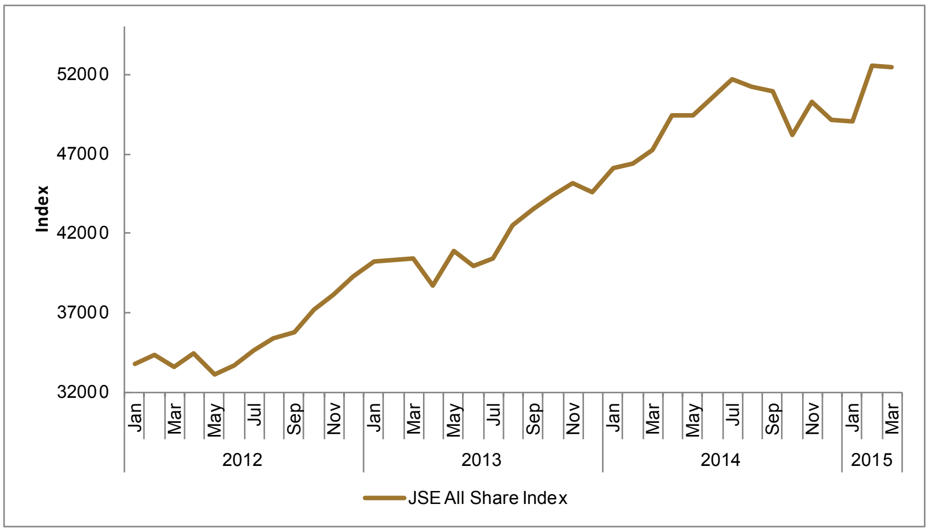
Table 2: South Africa's Consumer Price Index and Annualized Monthly Inflation Rate (Dec 2012=100)

2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Index	100.3	101.2	102.4	102.7	102.4	102.8	103.8	104.2	104.7	104.9	105.0	105.3
Rate (%)	5.5	5.9	6.0	5.9	5.5	5.5	6.4	6.4	6.1	5.5	5.3	5.3
2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Index	106.1	107.2	108.6	109.1	109.4	109.8	110.6	110.9	110.9	111.1	111.1	110.9
Rate (%)	5.8	5.9	6.1	6.2	6.8	6.8	6.6	6.4	6.9	5.9	5.8	5.3

Source: Statistics South Africa

The outlook for South Africa's monetary policy stance will be driven by inflation expectations. The main factors that are expected to underpin inflation expectations are electricity tariff increases, the trend in the exchange rate of the Rand against the major trading currencies and wage settlements.

Figure 5: The JSE All Share Index



Source: Bloomberg

Growth in global equity markets in the first quarter of 2015 was also reflected in Johannesburg Stock Exchange's (JSE) All Share Index (ALSI). The key factors that supported the increase in stock market indices in the first quarter were the stabilisation in oil prices, strong fourth-quarter earnings reports for the US and signs of easing of the Greece and Ukraine crises. In addition, the European Central Bank's quantitative easing (QE) programme, which was announced in January 2015 and started in March 2015, also added to the growth in the equity markets. As a result, the ALSI rose by 4.5 percent during the first quarter of 2015 (Figure 5 above).

Domestic Economy

Output and Inflation

Although the Namibian economy was estimated to have slowed slightly in 2014, growth was still reasonable and projections for 2015 indicate robust growth. For 2014, real GDP growth was estimated at 4.5 percent and it is projected to increase in 2015, supported by robust construction works and sustained growth in wholesale & retail trade. The relatively stronger growth during 2014 and 2015 is underpinned by increased construction activities related to the mining and public works programme. Namibia's inflation rate averaged 5.4 percent in 2014, having fallen from a level of 5.6 percent in 2013. The key drivers of the decline in inflation were reductions in the inflation rates of the housing and transport categories, the latter being a result of declining oil prices.

IV Domestic Households and Corporate Debt Indicators[8]

Household Debt to Disposable Income[9]

The ratio of household indebtedness to disposable income at the end of December 2014 increased, compared to the corresponding period in 2013. The trend in household debt, which rose by 11.1 percent in December 2014 from 15.0 percent recorded a year earlier, mirrored the growth in overall private sector credit (Table 3). Although household disposable income was estimated to have grown by 9.8 percent over the same period, its growth was lower than that of household indebtedness. The key drivers of household debt were mortgages, overdrafts and installment credit. Mortgage loans rose by 12.2 percent in December 2014 from 13.0 percent in December of 2013. Similarly, overdrafts rose by 19.9 percent relative to a much lower growth of 15.8 percent observed in December 2013. Installment credit increased by 18.6 percent in December 2014 when compared to 16.8 percent recorded in December 2013. A moderation of 14.5 percent was recorded in other loans and advances from 19.2 percent recorded in December 2013

Table 3: Household Debt to Disposable Income

(N$ million)	2010	2011	2012	2013	2014
Household Disposable Income	32,304	35,889	41,650	49,261	54,109
Credit to Households	24,856	27,917	31,832	36,621	40,703
Credit to Disposable Income (%)	76.9	77.8	76.4	74.3	75.2
Adjusted Credit to Households	27,714	31,127	35,493	40,832	45,384
Adjusted Credit to Disposable Income (%)	85.8	86.7	85.2	82.9	83.9

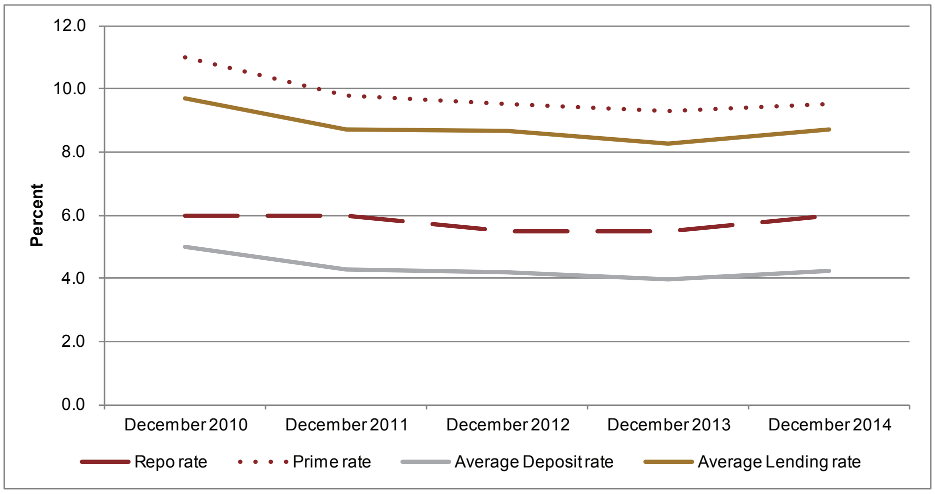
Source: Bank of Namibia

The ratio of household debt to disposable income in Namibia is higher compared to South Africa's, notwithstanding the methodological differences. As a proportion of disposable income, mortgage loans were estimated at 50.3 percent during December 2014 in Namibia, which is higher than South Africa's share of 37.2 percent over the same period. Investment in housing is expected to boost household wealth but could however pose financial stability concerns when economic agents are highly leveraged. In case interest rates are adjusted upwards, the debt-servicing capacity of mortgagors with floating rate loans will be placed under strain. At present, interest rates in Namibia are at a historically low level and hence, rendering the risk to financial stability minimal, at least in the short term (Figure 6). Although household indebtedness is not an immediate cause for concern in the near future, it warrants monitoring.

8 The analysis of the household debt was introduced in the October 2012 FSR issue of the Bank of Namibia, and all methodological issues with regard to debt indicators are covered in that report and also in the March 2014 FSR.

9 The ratio of household debt to disposable income is calculated based on income and tax data from the national budget documents, national accounts and household debt data from the Bank of Namibia.

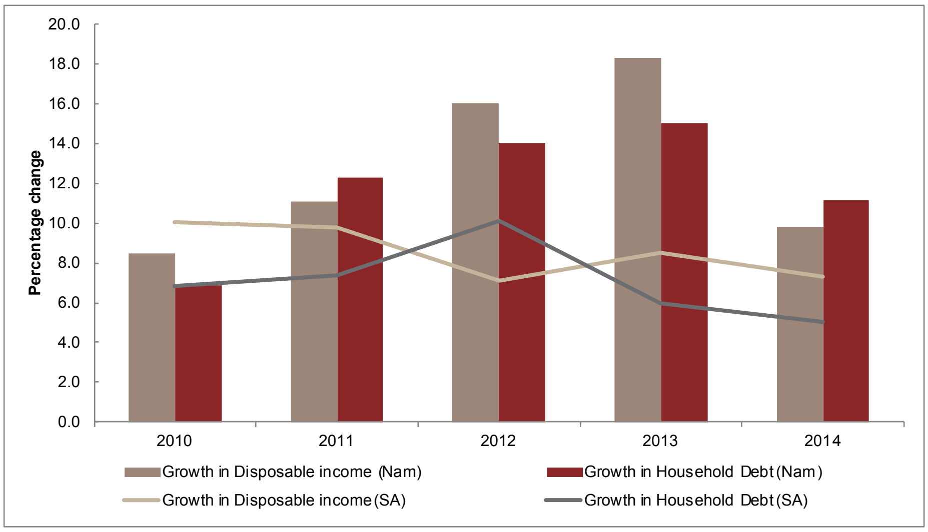
Figure 6: Selected Interest Rates 2010-2015



Source: Bank of Namibia

Growth in household debt in Namibia exceeded that of disposable income during 2014, while the opposite was the case in South Africa. Explaining the above development was the growth in mortgages, overdrafts and other loans and advances (Figure 7). Despite a slowdown in both disposable income and household debt in South Africa during 2014, growth in disposable income was still higher than that of household debt. This implies that South African households deleveraged in anticipation of an upward adjustment in interest rates during 2014. In addition, the credit ceilings legislated through the National Credit Act (No 34, 2005) also played a significant role in this phenomenon.

Figure 7: Growth in household debt and disposable income

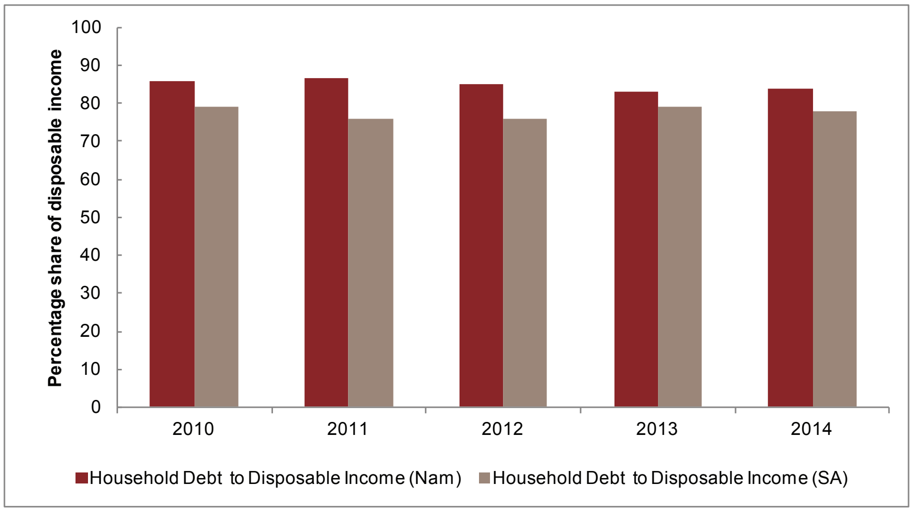


Source: Bank of Namibia

Namibia's household debt to disposable income ratio was above South Africa's during the period under review[10]. In this regard, Namibia's debt ratio at 83.9 percent of disposable income during 2014 was higher than South Africa's of 77.6 percent recorded in December 2014 (Figure 8).

10 The methodology for compiling household debt in Namibia covers credit extended by commercial banks as well as the informal sector, while in South Africa, it only includes loans and advances extended by banks and consumer credit.

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



Source: Bank of Namibia and South African Reserve Bank

Debt Servicing Ratio

The debt service[11] to disposable income ratio in Namibia increased slightly in December 2014, compared to the time when the previous FSR was released. The key drivers of the increase in the debt service ratio were debt services for overdrafts, mortgages and other loans and advances. This could partly be attributed to an increase in the repo rate of the Bank of Namibia in August 2014 and the subsequent adjustment in commercial bank lending rates (Table 5A). Debt also increased faster than disposable income, which also contributed to the deteriorating ratio.

Table 5A: Debt Servicing Ratios (%)

	Gross Income Growth (YoY)	Disposable Income Growth (YoY)	Annual Debt Servicing Growth (YoY)	Debt Servicing to Gross Income	Debt Servicing to Disposable Income	Adjusted Debt Servicing to Gross Income	Average Prime Rate
Dec 10	9.0	8.0	0.0	13.0	15.0	19.0	11.0
Dec 11	13.0	11.0	14.0	13.0	15.0	19.0	9.75
Dec 12	17.0	16.0	13.0	12.0	15.0	18.0	9.55
Dec 13	17.0	18.0	14.0	12.0	14.0	18.0	9.25
Dec 14	13.0	10.0	19.0	13.0	16.0	19.0	9.50

Source: Bank of Namibia

Corporate Debt

The level of total corporate debt stock rose significantly during 2014, largely as a result of growth in foreign private sector debt. As a proportion of GDP, corporate debt increased to 51.4 percent in December 2014 from an estimated 47.6 percent at the end of December 2013. The increase in foreign debt was underpinned by companies that borrowed from abroad to finance their operations.

11 The debt service ratio gauges the financial burden that the repayment of debt places on the average household relative to its income.

Since the last FSR, the level of total corporate debt increased on account of foreign private debt. In this regard, total corporate sector debt grew by 26.0 percent to N$74.9 billion in December 2014, relative to the same period in 2013. Compared to December 2013, foreign debt to the private sector rose by 29.4 percent (Table 5B). The rise in foreign corporate sector debt was mainly triggered by increased borrowing by the private sector, coupled with the depreciation of the national currency during 2014.

At the end of December 2014, the corporate debt-to-GDP ratio increased compared to the corresponding period in 2013. The rise in the corporate debt-to-GDP ratio was largely ascribed to companies, mostly multi-national companies in various economic sectors that accessed foreign markets to borrow funds for financing of their operations. It is however worth noting that a sizeable number of the corporates that borrowed from abroad earns foreign exchange. Hence, external debt servicing at current levels may not pose a major risk to the financial stability of the country, at least in the short-to-medium term.

Table 5B: Domestic and External Corporate Debt (Private Sector and Parastatals)

	2010	2011	2012	2013	2014
Domestic debt (%)	47.8	36.2	44.2	39.4	37.8
Foreign debt (%)	52.2	63.8	55.8	60.6	62.2
Domestic debt (N$ million)	15,797	16,864	20,641	23,429	28,350
Foreign debt (N$ million)	17,256	29,680	26,014	35,989	46,604
Total Debt (N$ million)	33,053	46,544	46,655	59,418	74,954
YoY Change in % in Total Debt	11.8	40.8	0.24	27.4	26.2
Nominal GDP (N$ million)	82,534	90,120	106,895	124,863	145,744
Debt-to-GDP ratio (%)	40.0	51.6	43.6	47.6	51.4

Source: Bank of Namibia

The private sector continued to account for a major share of total corporate debt at the end of December 2014. In this regard, the share of private sector in total corporate debt was 95.0 percent, remaining almost unchanged compared to December 2013. The remainder of the debt was held by the state-owned enterprises (SOEs). The private sector corporates owed an estimated N$72.2 billion at the end of December 2014, of which N$43.5 billion was owed to foreign lenders, while N$28.4 billion was locally issued (Table 6). Foreign private sector debt increased by 29.5 percent in December 2014 compared to December 2013. A key factor that drove the growth in foreign private sector debt was increased borrowing by corporates in the mining and energy sectors. Moreover, private credit extended to the business sector rose by 21.3 percent between December 2013 and December 2014 on the back of installment credit and overdrafts[12]. The stock of bonds issued by Namibian corporates on the Namibian Stock Exchange increased from N$4.0 billion during 2013 to N$4.6 billion in 2014, representing a growth of 15.0 percent. Of this outstanding balance, N$3.0 billion was issued by commercial banks.

12 Businesses normally use these facilities to finance machinery and equipment, as well as vehicles.

Table 6: SOEs and Private Sector Debt Breakdown

N$ Million	2010	2011	2012	2013	2014
Foreign Private Sector Debt	15,742	27,538	23,827	31,878	43,455
Local Private Sector Debt	15,481	16,411	20,049	22,702	28,364
Foreign Debt of SOEs	1,514	2,142	2,187	4,111	3,149
Local Debt of SOEs	316	453	592	727	799
Total Corporate Debt	**33,053**	**46,544**	**46,655**	**59,418**	**74,954**
Foreign Debt to Total Debt (%)	47.6	59.2	51.1	53.7	58.0
Local Debt to Total Debt (%)	46.8	35.3	43.0	38.2	37.8

Source: Bank of Namibia

Total debt outstanding by SOEs decreased in December 2014 relative to December 2013, which minimised its risk to financial stability. At the end of December 2014, SOEs owed a total of N$3.9 billion, of which N$3.1 billion was owed to foreign lenders and N$799.3 million to local lenders (Table 6). An increase of 10.0 percent was observed in the local debt portfolio of SOEs, while the total foreign debt of SOEs decreased by 23.0 percent between December 2013 and December 2014. The increase in the local debt was caused by the issuance of corporate bonds by SOEs on the Namibian Stock Exchange, which accounted for N$1.4 billion of the total amount issued in 2014. It is expected that corporate bond issuance by Namibian SOEs will contribute to capital markets development and financial sector deepening in the country. The decline in foreign debt obligations was attributed to repayments by some SOEs in the transport industry.

The risk to the financial system stemming from foreign loan guarantees diminished since the issuance of the March 2014 FSR. Accounting for this development were the repayments of loans granted to the SOEs in the transport and energy sectors. Loan guarantees to external creditors decreased slightly by 0.6 percent to N$6.7 billion in December 2014. Consequently, the ratio of foreign loan guarantees to GDP decreased by 0.6 percentage point to 4.7 percent at the end of December 2014. This ratio was within the safety benchmark of 10.0 percent of GDP.

Table 7: Foreign Private Sector Debt and Debt Servicing

N$ Million	2010 Dec	2011 Dec	2012 Dec	2013 Dec	2014 Dec
Total Foreign Private Sector Debt	15,742	27,538	23,827	31,878	43,455
Total Foreign Private Sector Debt Servicing	1,315	3,510	2,562	15,534	6,302

Source: Bank of Namibia

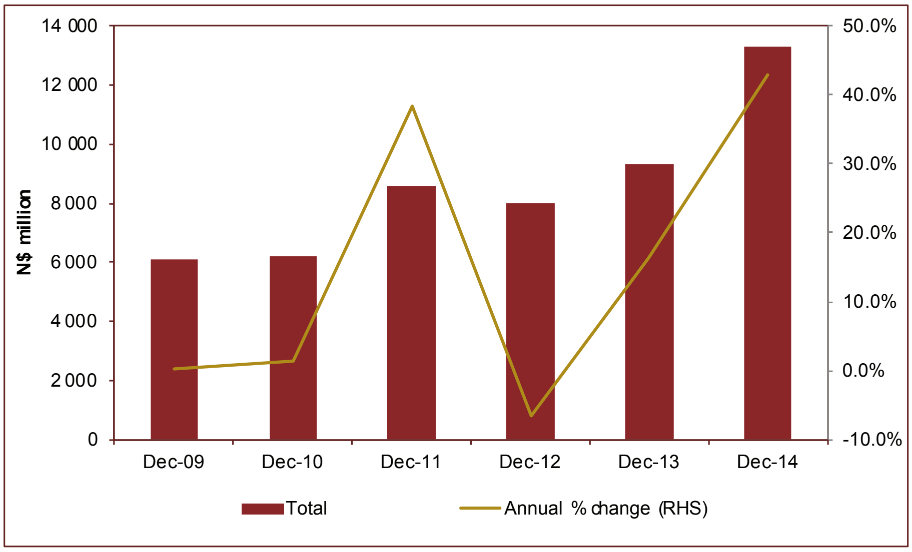
At the end of December 2014, foreign private debt servicing costs declined significantly by 59.4 percent to N$6.3 billion (Table 7). This decline was mainly attributable to a high base scenario observed at the end of December 2014, due to the restructuring of foreign loans,[13] coupled with the depreciation of the local currency.

13 During the period under review, there was a conversion of debt into equity capital in the mining sector. This transaction influenced the stock position of both foreign debt outstanding and foreign debt servicing, as recorded in the International Investment Position (IIP).

Large exposures

The banking sector's large exposures have been growing at an increasing rate since 2013. Total large exposures amounted to N$13.2 billion as at the end of December 2014, recording a higher year-on-year growth rate of 42.9 percent in comparison to 16.4 percent in 2013 (Figure 9). This acceleration was driven by exposures to all sectors, the most dominant being the mining and minerals sector, which grew by 69.5 percent. With zero exposure in 2013, large exposures to the fishing and tourism sectors rebounded to N$219.6 million and N$92.8 million, respectively.

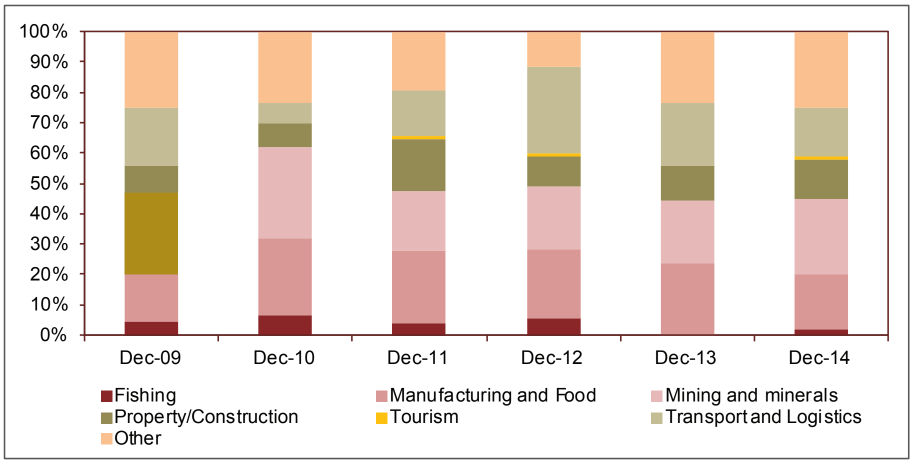
Figure 9: Banking sector large exposures and growth rate



Source: Bank of Namibia

The sectoral composition of large exposures changed significantly during 2014. The relative share of the manufacturing and food sector shrunk from 23.4 percent to 18.4 percent, while exposures to the transport and logistics sector decreased from 20.8 percent to 16.5 percent (Figure 10). On the other hand, the share of the mining and minerals sector increased by 3.9 percentage points to 24.6 percent, while the fishing and tourism sectors re-entered the large exposure portfolio with respective shares of 1.7 percent and 0.7 percent. The remaining 24.9 percent of the large exposures was roughly evenly distributed between seven corporate borrowers outside the aforementioned sectors. The fact that the mining and minerals, and manufacturing and food sectors constituted a combined 43.0 percent of total large exposures is a signal of concentration risk for domestic commercial banks and warrants monitoring.

Figure 10: Sectoral composition of large exposures



Source: Bank of Namibia

As a proportion of total private sector credit (PSC), large exposures increased to 19.3 percent during 2014 from 15.7 percent at the end of December 2013 (Table 8). In relation to private sector credit to businesses, large exposures increased from 41.0 percent to 46.9 percent. Both ratios require monitoring to detect possible concentration risks to commercial banks.

Table 8: Large exposures in relation to private sector credit

(N$ million)	2010	2011	2012	2013	2014
Total Large Exposures	6 191	8 562	7 997	9 305	13 296
Total PSC	41 838	44 575	51 881	59 323	69 067
PSC to Businesses	15 013	16 411	20 049	22 702	28 364
Large Exposures to PSC (%)	14.8	19.2	15.4	15.7	19.3
Large Exposures to Business PSC (%)	41.2	52.2	39.9	41.0	46.9

Source: Bank of Namibia

V Performance of the Banking Sector

Since the release of the March 2014 FSR, the Namibian banking sector remained sound, profitable and adequately capitalized. Asset quality improved as shown by the decrease in the non-performing loan (NPL) ratio during each of the last two quarters of 2014. The concentration of banking assets in mortgages remains high and needs continuous monitoring in light of the high level of household indebtedness. There were no major changes observed in the sector's structure and the larger banking institutions continue to dominate the sector with a Herfindahl-Hirschman Index (HHI) of 2712 in December 2014 compared to 2729 in December 2013. The banking sector's financial condition is expected to remain sound and healthy in the foreseeable future.

Overview of the Banking Sector Landscape

During 2014, the banking sector landscape grew, with the Bank of Namibia issuing one final banking license and three provisional banking licenses. The final banking license was granted to E-Bank Limited, which has since commenced banking operations, while provisional licenses were granted to Letshego Bank Namibia Limited, Bank BIC Namibia Limited and Banco Privado Atlantico Europa, SA (Namibian branch). The provisional authorizations of Letshego Bank Namibia Limited and Banco Privado Atlantico Europa, SA (Namibian branch) were subsequently extended for six months at the request of the applicants.

In addition, the Bank of Namibia, in consultation with the Namibian Competition Commission, granted approval to Trustco Group Holdings Limited to acquire a bank. Trustco Group Holdings Limited, a non-bank financial institution, was given authorization to acquire Fides Bank Namibia Limited and change its name to Trustco Bank Namibia Limited. Trustco Bank Namibia Limited will operate under the on-going supervision and regulation of the Bank of Namibia as a micro-finance banking institution.

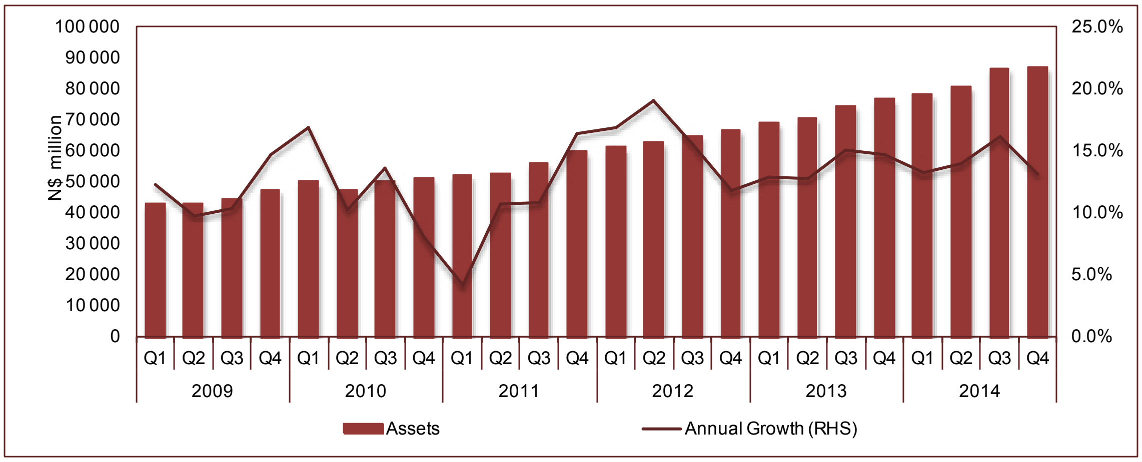
The Bank of Namibia continued with its exercise to consolidate the Banking Institutions Act, 1998 (Act No. 2 of 1998) and the Banking Institutions Amendment Act, 2010 (Act No. 14 of 2010), as well as to incorporate additional regulatory amendments that were considered necessary. Following the completion of successful stakeholder consultations in 2013, the Banking Institutions Bill will be forwarded to Cabinet for consideration and thereafter tabled in Parliament. The Bill is expected to be enacted in 2015.

Balance Sheet Structure

The total assets of the banking sector continued to grow at a robust pace, albeit at a lower rate than what was recorded a year earlier. Total assets grew at 13.2 percent at the end of December 2014 compared to 14.8 percent at the end of December 2013 (Figure 11). Net loans and advances, which constituted 74.5 percent of total assets, remained the main driver of asset growth, rising by 16.9 percent year-on-year at the end of December 2014.

The growth in the sector's loan portfolio was largely driven by residential mortgages and instalment credit, which constituted 38.7 percent and 16.2 percent of total loans and advances as at the end of December 2014 and grew annually by 11.9 percent and 18.8 percent, respectively.

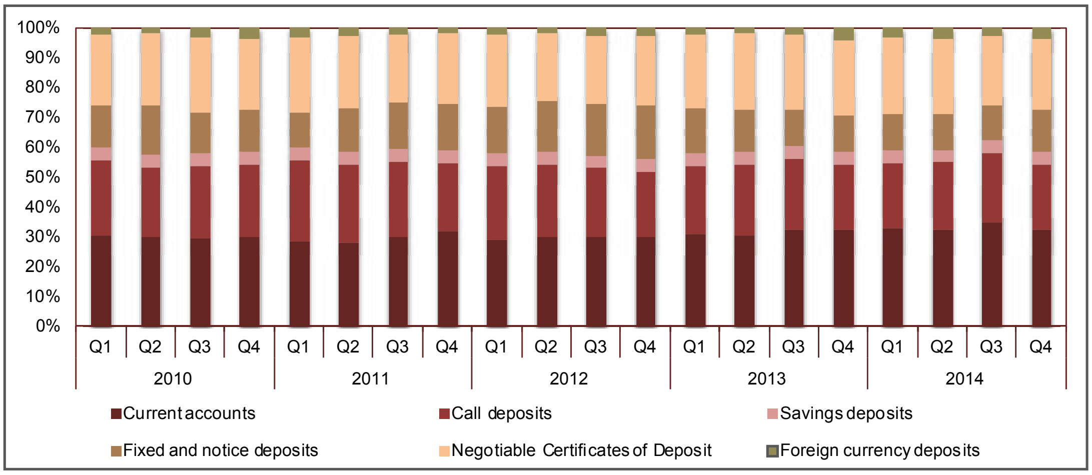
Figure 11: Banking Sector Assets and Growth Rate



Source: Bank of Namibia

On the capital and liabilities side of the balance sheet, deposits continued to be the main driver of growth. Deposits represented 79.9 percent of capital and liabilities and grew by 12.0 percent. Current accounts, negotiable certificates of deposit and call deposits constituted a combined 78.1 percent of total deposits as at 31 December 2014 (Figure 12). The remaining portion of the deposit base consisted of fixed and notice deposits, savings deposits and foreign currency deposits, with shares of 13.6 percent, 4.6 percent and 3.7 percent, respectively.

Figure 12: Composition of Banking Sector Deposits



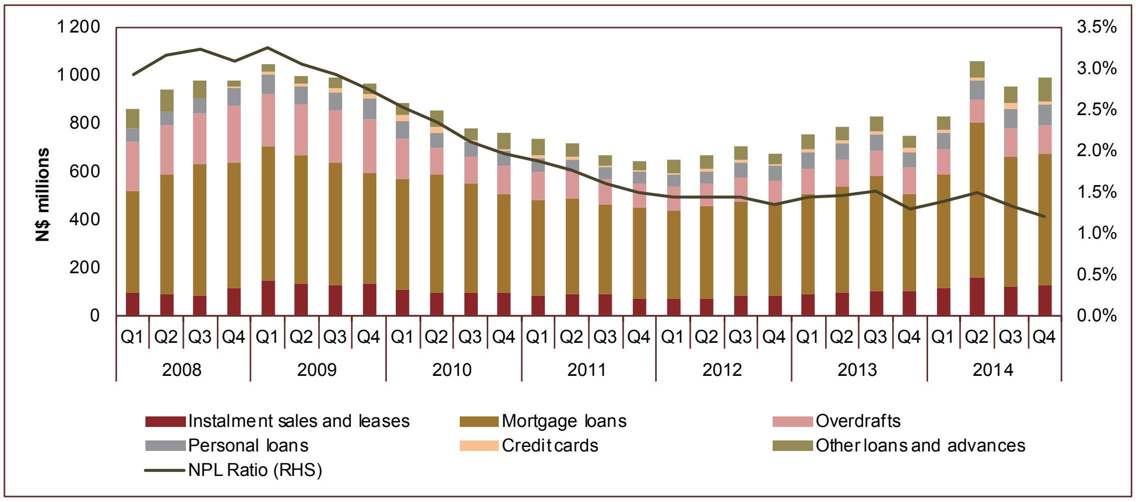
Source: Bank of Namibia

Asset Quality

Credit risk, as measured by the non-performing loan ratio, started to decline during the second half of 2014. The NPL ratio first increased from 1.3 percent to 1.5 percent during the first two quarters of 2014 before declining to 1.2 percent over the second half of the year (Figure 13). This ratio was also lower when compared to the end of 2013, when it stood at 1.3 percent.

The level of non-performing loans, however, increased year-on-year. Non-performing loans increased at an annual rate of 9.8 percent to N$821.3 million, largely due to the increase in non-performing mortgages. Overall, the composition of non-performing loans did not change significantly, with the notable changes being the increase in the relative share of mortgages from 53.8 percent to 55.3 percent, and the decrease in the relative share of overdrafts from 14.9 percent to 12.5 percent. Instalment sales and leases, personal loans and overdrafts represented 12.6 percent, 8.3 percent and 1.6 percent of non-performing loans respectively, while other loans and advances represented 9.7 percent.

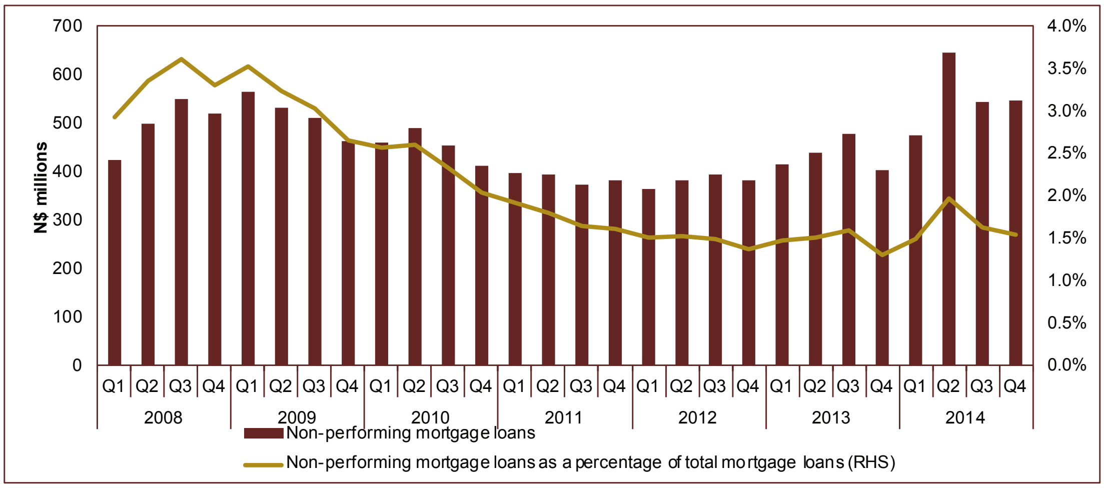
Figure 13: Non-performing loans and the NPL ratio



Source: Bank of Namibia

In proportion to total mortgage loans, non-performing mortgage loans declined from 2.0 percent to 1.5 percent during the last two quarters of 2014 (Figure 14).

Figure 14: Non-performing mortgage loans

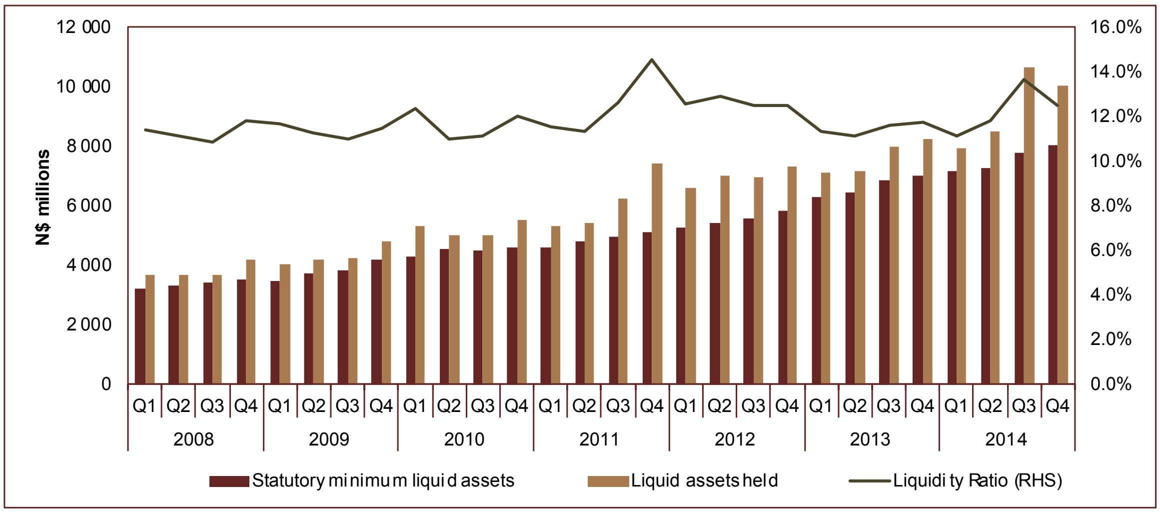


Source: Bank of Namibia

Liquidity

During 2014, the banking sector continued to hold liquid assets well in excess of the statutory minimum liquid asset requirement of 10 percent of average total liabilities to the public. The liquidity ratio increased to 12.5 percent at the end of December 2014 from 11.7 percent at the end of December 2013 (Figure 15). The banking sector had surplus liquidity holdings of N$2.0 billion over the required levels.

Figure 15: Liquid Assets and the Liquidity Ratio

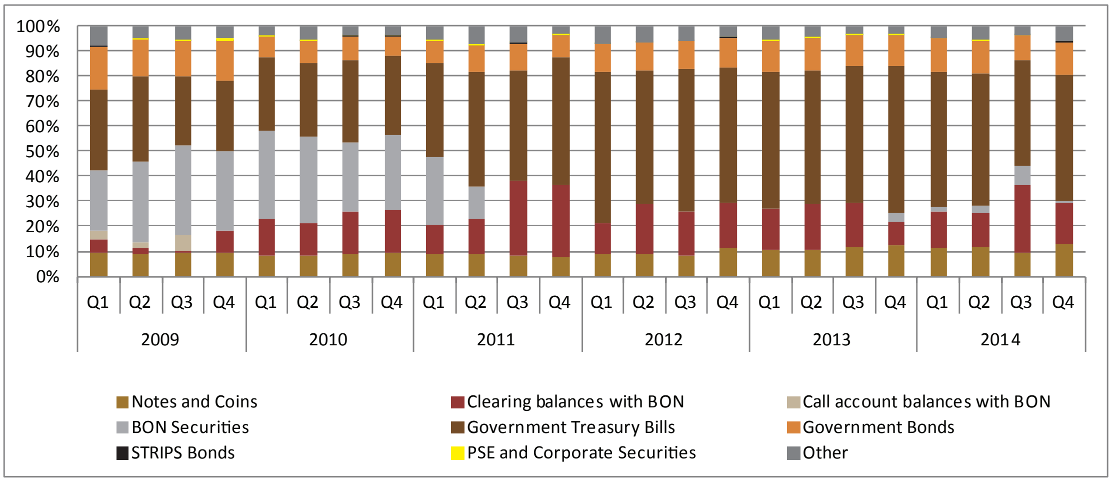


Source: Bank of Namibia

Despite statutory compliance, the trend in another key liquidity indicator, the loan-to-deposit ratio, warrants close monitoring. The loan-to-deposit ratio increased from 90.8 percent to 94.4 percent at the end of December 2014, indicating that lending activities exerted more pressure on core deposits as a source of funding. Nevertheless, the fact that the ratio was below the international benchmark of 100 percent indicates that core deposits remained sufficient to finance lending activities.

Government treasury bills continued to be the largest component of the sector's liquid asset holdings. The share of government treasury bills declined to 50.7 percent at the end of December 2014 compared to 58.7 percent a year before (Figure 16). The second biggest component of liquid assets was clearing balances with Bank of Namibia, with a higher share of 16.1 percent compared to 9.4 percent at the end of 2013. Emerging third was currency in circulation, which increased from 12.5 percent to 13.2 percent in proportion to total liquid assets, followed by government bonds with a reduced share of 12.5 percent compared to 12.7 percent one year before.

Figure 16: Composition of Liquid Assets



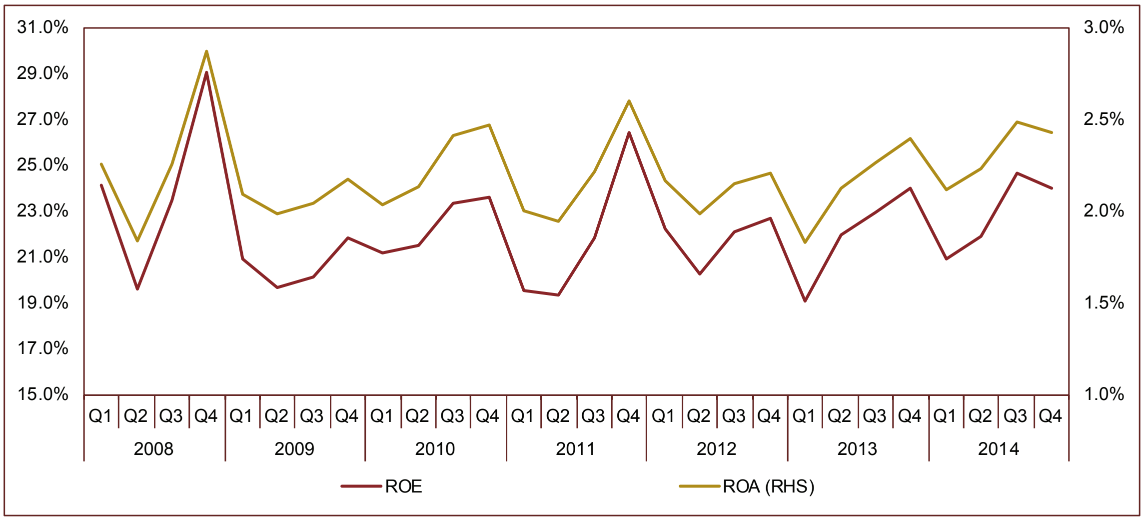
Source: Bank of Namibia

Some potential for liquidity risk due to structural factors remains in the banking sector. Firstly, the ratio of wholesale deposits to retail deposits in the banking sector remains asymmetric at approximately 70:30, indicating that the sector's deposit base remains dominated by potentially volatile funding sources. Secondly, the proportion of the sector's deposits that is attributable to the 10 largest depositors increased from 25.5 percent to 26.0 percent during the period under review, signalling an increase in deposit concentration risk.

Earnings and Profitability

The profitability indicators of the banking sector remained relatively high at the end of December 2014. The return on assets (ROA) and return on equity (ROE) ratios stood at 2.4 percent and 24.0 percent respectively at the end of 2014, remaining almost unchanged relative to the end of 2013 (Figure 17).

Figure 17: Profitability ratios



Source: Bank of Namibia

During 2014, the banking sector recorded an increase in its total income. Total income grew at an annual rate of 19.6 percent to N$1.8 billion. This growth was largely driven by net interest income, which rose by 24.1 percent and represented a slightly higher share of 56.8 percent in total income from 56.2 percent at the end of

2013. Expenses, on the other hand, increased by 15.1 percent year-on-year, largely as a result of increases in staff costs, administration and other overheads, and consultancy and management fees. Staff costs continued to be the largest component and key growth driver of total expenses, with a lower share of 49.7 percent in 2014 compared to 50.3 percent in 2013. The cost-to-income ratio improved to 52.7 percent from 54.8 percent in 2013.

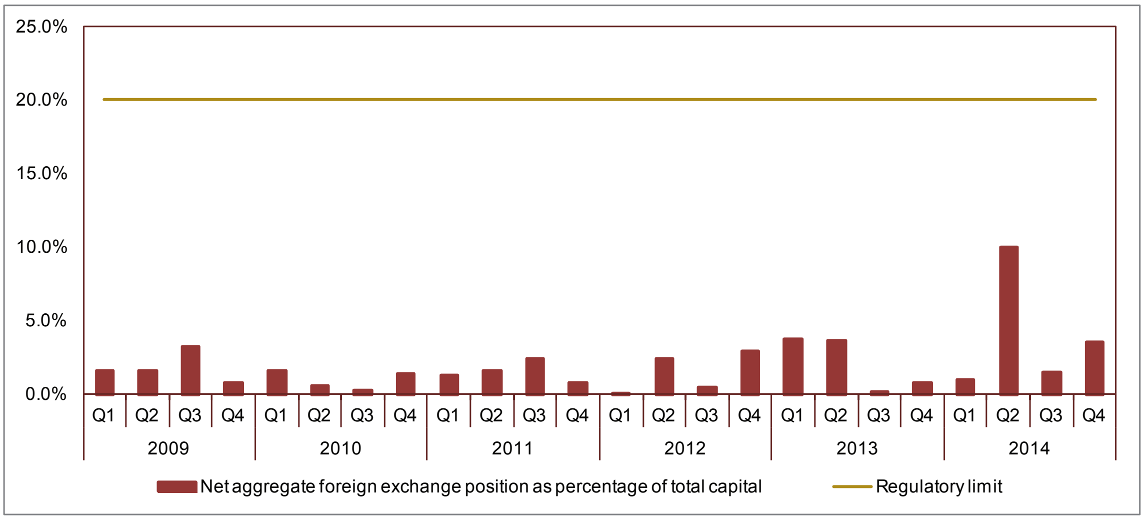
Interest rate risk in the banking book

Banking book interest rate risk continued to be minimal for Namibian banking institutions. From the results of the banking book interest rate sensitivity simulation carried out by the banking institutions, a 200 basis-point parallel decrease in interest rates over a 12-month horizon would trigger a corresponding N$280.1 million decrease in the sector's combined net interest income. In response to the same shock, the sector's economic value of equity (EVE) would increase by N$46.1 million or, equivalently, 0.48 percent of capital funds. On the other hand, a 200 basis-point increase in interest rates will result in equal, though opposite movements in earnings and EVE.

Foreign exchange risk

The banking sector's net aggregate position in foreign currencies remained well below the regulatory limit. The net aggregate position increased from 0.8 percent at the end of 2013 to 3.6 percent at the end of 2014, remaining well below the statutory limit of 20 percent of capital funds (Figure 18). This indicates that the banking sector had relatively low net exposure to foreign exchange risk, that is, the risk of losses resulting from adverse movements in foreign exchange rates.

Figure 18: Net aggregate foreign exchange position as a percentage of total capital

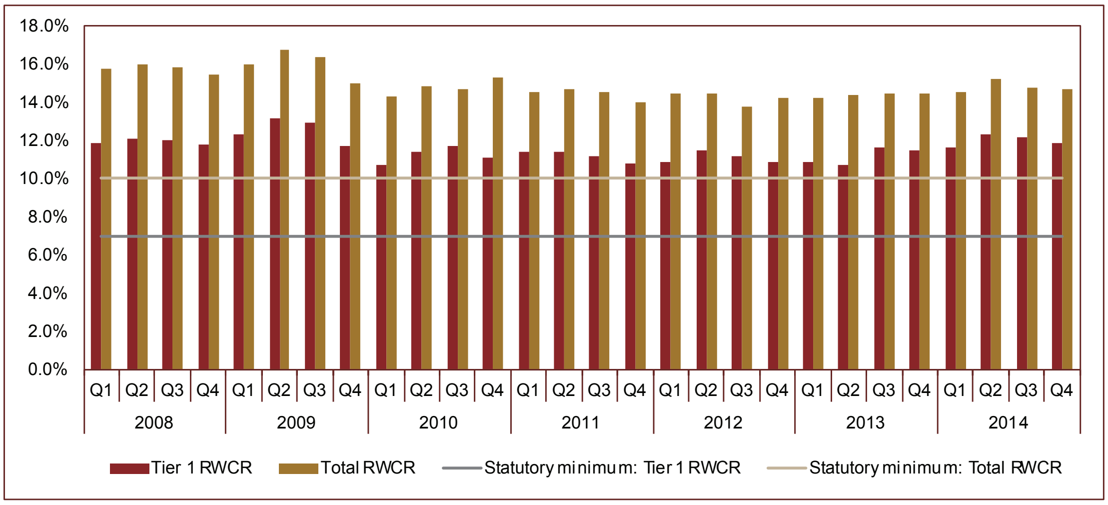


Source: Bank of Namibia

Capitalization

During 2014, the banking sector remained adequately capitalised, with all capital adequacy ratios being well above their corresponding regulatory minima. The Tier 1 risk-weighted capital ratio (RWCR) improved to 11.9 percent from 11.5 percent at the end of 2013, and so did the total RWCR from 14.4 percent to 14.7 percent (Figure 19).

Figure 19: Banking Sector Capital Ratios



Source: Bank of Namibia

Stress testing for capital adequacy

Stress testing was undertaken with the objective of assessing the resilience of the Namibian banking sector to possible interest rate hikes. The stress test featured a situation where the South African Reserve Bank and the Bank of Namibia are compelled to pursue tight monetary policy in response to a possible gradual upward normalization of interest rates in the US. This monetary tightening is expected to have the effect of prompting banks to increase their prime lending rates, resulting in increased default rates and therefore higher NPLs across the entire loan portfolio.

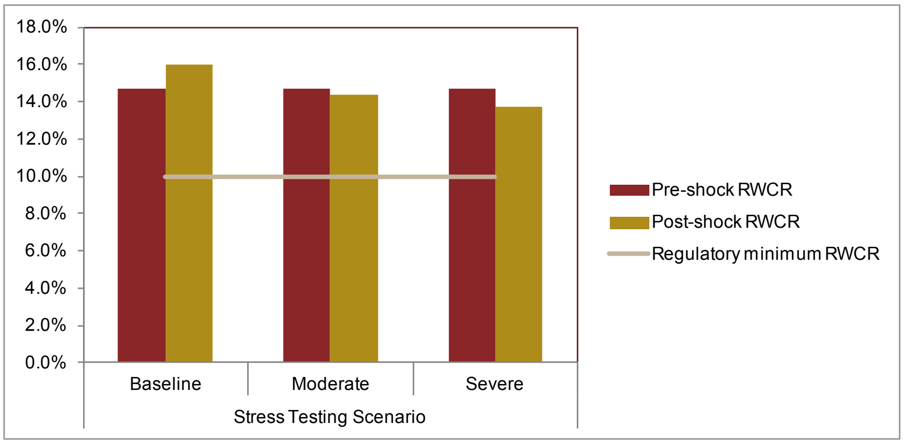
The exercise also considered the impact of the interest rate increases on net interest income stemming from maturity gaps between interest-earning assets and interest-bearing liabilities.

The following three scenarios were covered by the stress test, with a time horizon of 12 months from the reference date of December 2014:

- A baseline scenario, which features a 100 basis-point increase in nominal interest rates;
- A moderate scenario, featuring a 200 basis-point increase in nominal interest rates; and
- A severe scenario, featuring a 300 basis-point increase in nominal interest rates.

Based on financial data as at the end of December 2014, the stress testing results indicate that the banking industry as a whole is adequately capitalised to withstand the impact of possible interest rate increases. Under all three stress testing scenarios, the sector's post-shock risk-weighted capital ratio would still be well-above the regulatory minimum of 10 percent (Figure 20). Under the baseline and moderate scenarios, the risk-weighted capital ratio is in fact higher after stress, largely because profit buffers heavily offset the increase in provisions stemming from the increased NPLs.

Figure 20: Pre- and Post-Shock Risk-weighted Capital Ratio



Source: Bank of Namibia

VI Performance of the Non-Banking Financial Sector

Since the last FSR of March 2014, the balance sheets of non-banking financial institutions and intermediaries remain robust, as most of them continued to experience double-digit growth during the year of 2014. Positive returns on assets are expected during 2015 and excess assets for financial institutions and intermediaries are expected to continue growing. Pension funds, insurance companies and medical aid funds remain well capitalised, with funding/solvency levels in excess of those required in terms of the law. In line with regulatory requirements and the risk appetite of their clients, investment institutions predominantly invested their assets within the CMA. NBFI investments on the regional and international capital markets continue to be significant and should be monitored to ensure compliance with formal limits on international exposure.

The non-bank financial sector plays an important role in the intermediation of savings and risk transfer of individuals and corporations. The assets of NBFIs, most of which are managed by investment managers and collective investment schemes, constituted 132.3 percent of Namibia's nominal GDP and about 2.6 times the size of the money supply in Namibia during December 2014 (Table 11).

Table 11: NBFI assets and relative size, December 2014

(N$ million)	Collective Investment Schemes	Investment Managers	Other/Direct	Total	% of Total
Long term Insurance	1,926	20,523	17,775	40,224	20.9
Short Term Insurance	157	428	4,164	4,749	2.4
Medical Aid Funds	49	455	656	1,160	0.6
Pension Funds	6,482	77,735	35,352	119,569	62.0
Companies	718	1,258	-	2,003	1 .0
Natural Persons	20,020	56	-	20,076	10 .4
Others	1,196	3,880	-	5,076	2.6
Total	**30,548**	**104,335**	**57,947**	**192,857**	100.0
Measure				N$ Million	% of measure
GDP				145,744	132.3
Money Supply (M2)				75,520	255.4

Sources: NAMFISA (asset values); National Statistics Agency (GDP at market prices and M2). Hyphens (-) mean that no data is available

Given that institutional investors (insurers and pension funds) hold a substantial share of the fixed income securities market in Namibia, their operations warrant consistent monitoring. Generally, pension funds and long-term insurers continue to hold a significant share of assets invested in Namibia's capital markets (Table 12).

Growth in total assets of NBFIs was significant for the year 2014 on the back of continued increases mainly in asset gains, pension contributions and investment income for pension funds, short- and long-term insurance. A growth of 13.6 percent was observed in the total assets of pension funds at the end of December 2014 from 22.8 percent in the previous reporting period. In the same vein, growth in the asset base of long term insurers eased to 10.4 percent during 2014, compared to 14.9 percent in 2013. Looking ahead, the operations of NBFIs will be monitored and risks managed.

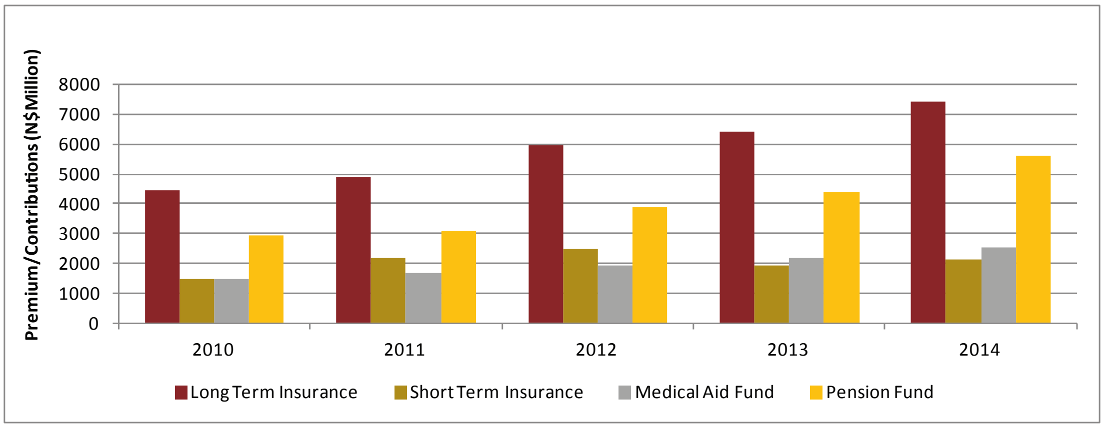
Table 12: Size of Balance Sheets of NBFIs

	Dec-11		Dec-12		Dec-13		Dec-14	
Asset Values (N$ million)	Assets	% of GDP	Assets	% of GDP	Assets	% of GDP	Assets	% of GDP
Long Term Insurance	26 736	29.6	31 654	29.6	36 424	29.1	40 224	27.6
Short Term Insurance	2 624	2.9	3 001	2.8	3 461	2.8	4 749	3.3
Medical Aid Funds	768	0.9	858	0.8	1 002	0.8	1 160	0.8
Pension Funds	69 478	77.1	85 757	80.2	105 267	84.3	119 569	82.0
CIS	27 526	30.5	32 106	30.0	37 267	29.8	42 083	28.9
Investment Management	91 665	101.7	109 110	102.1	123 322	98.8	136 186	93.4
Micro-lending	1 051	1.1	1 753	1.6	2 616	2.1	3 382	2.3
Financial Market:								
-Local market capitalization	9 304	10.3	11 057	10.3	18 729	15.0	22 322	15.3
-Local debt issued	14 644	16.2	17 125	16.0	19 077	15.2	21 806	15.0
GDP (N$ million)	**90 120**		**106 895**		**124 863**		**145 744**	

Source: NAMFISA

Overall, asset growth of the NBFI sector remains healthy. As at the end December 2014, the year-on-year asset growth (including loans outstanding for micro-lenders) for all NBFIs was positive and ranged between 10.4 percent for long term insurance and 37.2 percent for short term insurance. Income from premiums for the financial institutions (long-term insurance, short term insurance, pension funds and medical aid funds) increased by 18.0 per cent to a total of N$17.6 billion for the year 2014 (Figure 21).

Figure 21: Premium and Contribution Growth for NBFIs

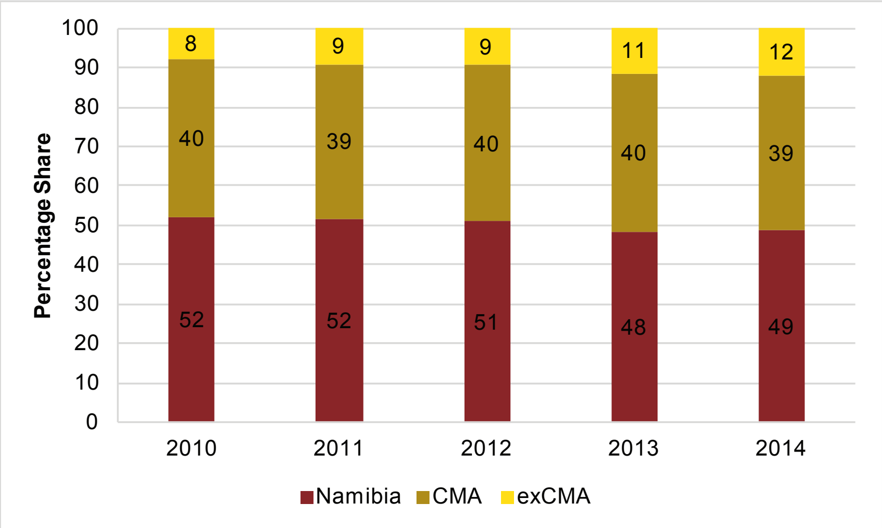


Source: NAMFISA

Since the March 2014 FSR, the capitalisation of NBFIs was adequate to ensure solvency and funding levels in excess of those required by statute. These levels are sufficient to withstand the risks to which these institutions are exposed. As is the norm, a significant proportion of the liabilities of pension funds and long-term insurers are linked to investment performance, and hence, capital market volatility is borne by the member or policyholder, and does not pose solvency problems. The only exception is two defined benefit funds, of which the biggest, the Government Institutions Pension Fund (GIPF), constitutes about 65 percent of the total assets share of the pension funds and is guaranteed by the Government of Namibia. Short-term insurers and medical aid funds normally set aside capital to deal with financial obligations, due to volatility of capital markets and claims.

Over 49 percent of the assets of NBFIs are invested in local financial markets, which include dual-listings on the NSX. On average, collective investment schemes and investment managers invested about 48.6 percent in Namibia and 39.3 percent of their assets in other countries within the Common Monetary Area (CMA), with the remaining 12.1 percent invested in offshore markets (Figure 22).

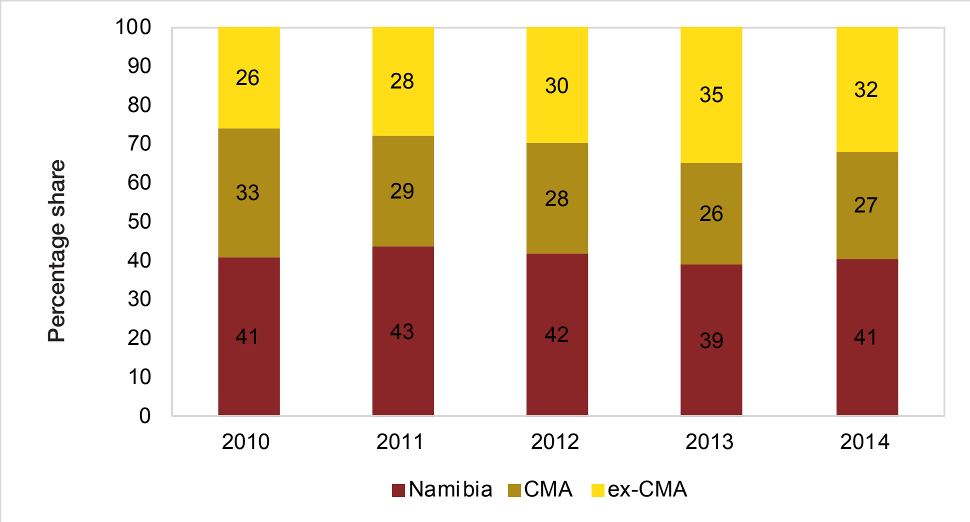
Figure 22: Jurisdictional Asset Allocation of Collective Investment Schemes and Investment Managers (Combined)



Source: NAMFISA (percentages may not add up due to rounding)

On the other hand, pension funds invested 40.6 percent of their assets in Namibia, 27.4 percent in other countries within the CMA and 32.0 percent outside of the CMA (Figure 23). GIPF invested about 37.0 percent of its assets locally while all the other funds invested 48.0 percent.

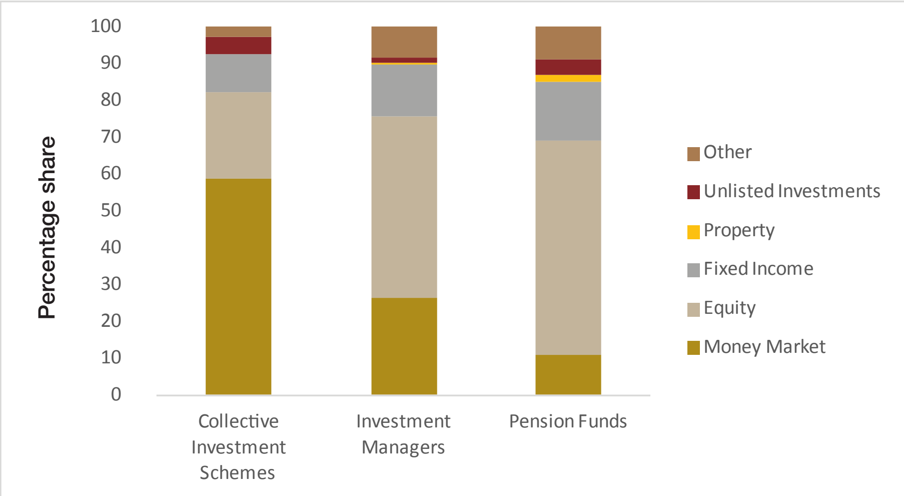
Figure 23: Jurisdictional Asset Allocation of Pension Funds



Source: NAMFISA

Since the March 2014 FSR, the asset allocation of NBFIs endures to mimic their liability structure and risk appetite. In this regard, collective investment schemes invested 58.9 percent of their assets in money market instruments, which match the risk tolerance of their main clients, being natural persons. Investment managers invested 49.4 percent of the assets in equities and 26.4 percent in money market instruments, as their clients are predominantly pension funds and long-term insurers. Pension funds invested 58.4 percent of their assets in equities and 15.8 percent in fixed income instruments, which suit their liabilities structure (Figure 24).This asset allocation for equities is anticipated to improve in the next six months.

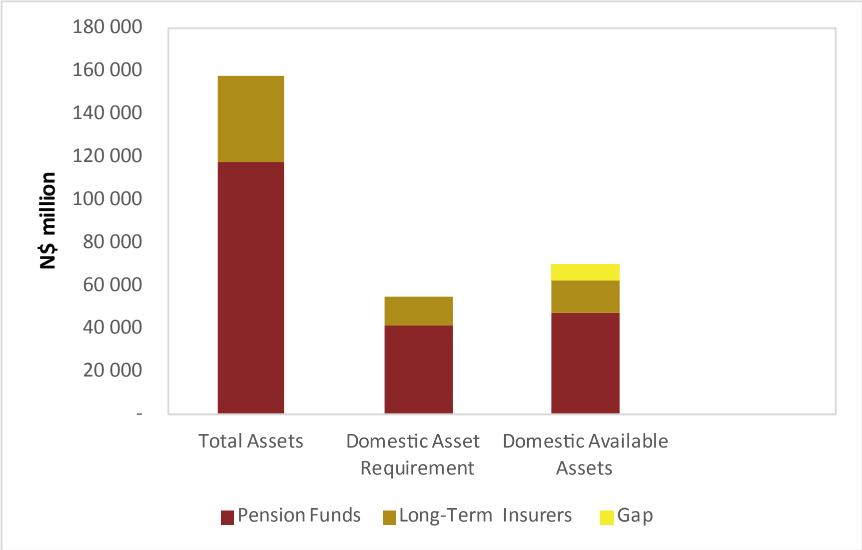
Figure 24: Asset allocation of Collective Investment Schemes, Investment Managers and Pension Funds, December 2014



Source: NAMFISA

Although the market capitalisation of both the main and local boards of the NSX increased in 2014 compared to 2013, capital market growth remained subdued. The pension funds and long-term insurers exceeded the domestic asset requirement by a total gap of N$7.2 billion (Figure 25).

Figure 25: Domestic Asset Requirement of Pension Funds and Long-term Insurers versus Available Local Investments[14]



Source: NAMFISA

The exposure of the banking sector to NBFIs is likely to continue and the current situation needs to be monitored closely in a joint effort by BoN and NAMFISA. At the current stage of financial markets development, the exposure of the banking sector to NBFIs is expected to increase. The domestic asset requirements for long term insurers and pension funds, coupled with the robust growth in NBFIs and the bias of collective investment schemes to money market instruments will increase NBFIs' investment in banking products and this warrants continuous monitoring.

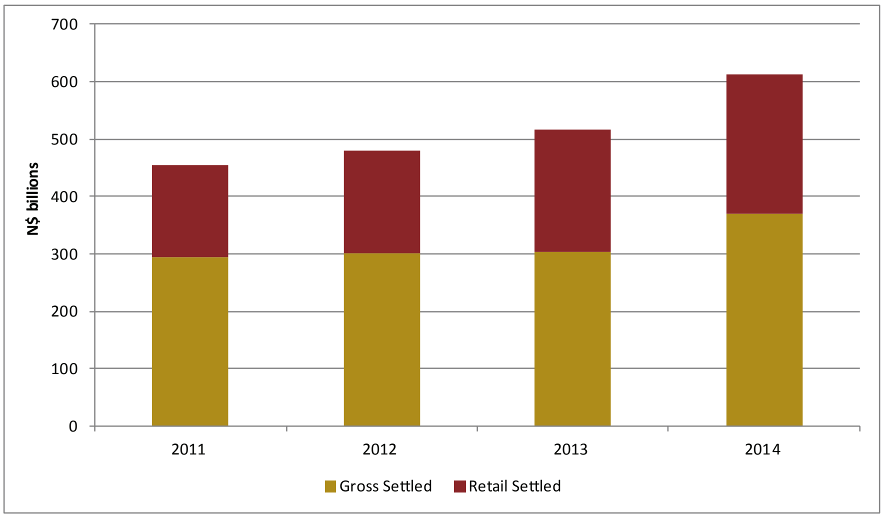
14 Domestic assets are defined to comprise NSX free float available for trading, government stock, treasury bills and other corporate paper.

VII Payment Infrastructure and Regulatory Developments

Since the March 2014 FSR, the payment infrastructures continue to operate effectively and efficiently. Progress has been made to ensure that there is transparency in the way the national payment system (NPS) is operated and to reduce the associated risks. The overseers participated in the analysis of critical incidents that may impact the stability of the NPS and recommended ways to prevent such incidents in the future. These include ways of improving the operational control environment of service providers and participants. In addition, the Bank continued with its on-going off-site monitoring and oversight activities aimed at identifying and resolving any risks to the national payment system as per the Risk Based Oversight Policy Framework. The Bank sustained its efforts to obtain data from participants and service providers on a regular basis to identify any risks that need to be proactively managed.

During the second semester of 2014, growth in NISS transactions increased both in terms of volume and value compared to the same period in 2013. The volume and value of payments settled in NISS increased by 17.2 percent and 24.3 percent respectively when compared to the same period in 2013. NISS transaction volumes during the second half of 2014 averaged 4 811 transactions per month, with a total transaction value of N$340.8 billion. The share of real-time (typically high value) transactions processed in NISS was 61.6 percent of the total value settled in NISS, whilst retail payment systems[15] represented 39.4 percent (Figure 26).

Figure 26: Value of Payments Processed in NISS



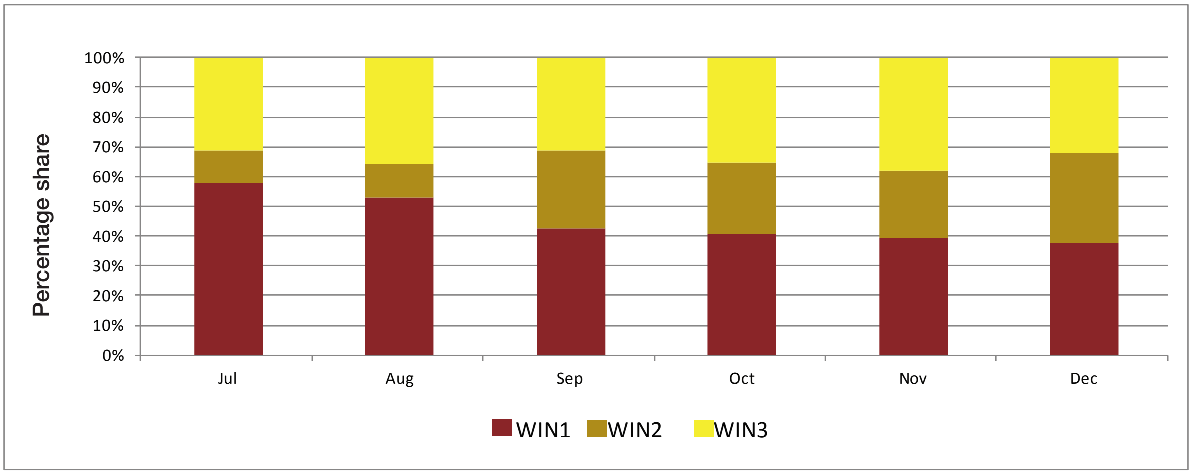
Source: Bank of Namibia

Settlement Windows

Since the last FSR, the likelihood of operational and settlement risks decreased slightly as the proportion of payments (in terms of value) that settle in Window 3 decreased. Settlement window periods for payments settled in the NISS indicate that around 45.2 percent, or N$153.8 billion in payments, was settled in Window 1 (08h00 to 12h00). Furthermore, 20.9 percent, or N$71.8 billion was settled in Window 2 (12h00 to 15h00) and 34.0 percent, or N$115.1 billion, in Window 3 (15h00 to 16h40) (Figure 27). To minimize operational and settlement risks, it is ideal that the majority of all settlement take place in the earlier windows, i.e. Windows 1 and 2. Currently 66.0 percent of payments are settling in Windows 1 and 2, which significantly assists in mitigating operational and settlement risks, although some improvements can still be made.

15 The EFT, Cheque and Card systems

Figure 27: Values Settled Per Settlement Window



Source: Bank of Namibia

Disruptions to the Namibia Interbank Settlement System (NISS)

A number of disruptions to NISS were recorded over the second half of 2014, but did not pose any major threat to financial stability. The overseers were promptly notified of operational problems affecting NISS and the resolutions thereof. The NISS front-end[16] availability ratio was 99.9 percent, which was above the acceptable availability level of 99 percent. The system was not available for 1 hour, mainly because of a technical issue with the web interface. The non-availability of the system was of a temporary nature and was resolved within the hour in which it was detected, posing no major threat to financial stability. One disaster recovery test was successfully conducted during the second half of 2014.

Security of Retail Payments

During the period under review, the payment systems were monitored, safeguarded and enhanced to maintain financial stability by observing the maximum fraud-to-turnover ratio of 0.05 percent. As a proportion of the total amount transacted by Namibians using cheques, EFT and payment cards (i.e. debit, cheque/hybrid, credit, etc.), fraud to sales losses increased to 0.00087 percent during the second half of 2014 compared to 0.00076 percent in the second half of 2013. The payment industry continues to monitor signs of emerging fraud trends and maintains collaborative efforts with enforcement agencies and consumer associations to avert fraud incidents involving retail payment systems. This has contributed to on-going enhancements to business practices to better protect consumers against new methods of perpetrating fraud. A sustained consumer education programme has also helped to increase public awareness on fraud prevention measures.

Future Developments in Payment and Settlement Systems

The Bank has undertaken to obtain accurate and up-to-date information about the relative costs of payment services in order to achieve the objective of cost-effectiveness, while ensuring the smooth functioning of payment systems. The information on the costs involved in the provision of payment services is critical for ascertaining the cost-efficiency of the National Payments System (NPS). As such, during the course of the second semester of 2014, a payment services costing model was developed based on the activity-based costing (ABC) method, and the rolling-out process to the industry has commenced in 2015.

16 This is the availability of NISS from a customer/front-end perspective.

VIII Concluding Remarks and Policy Recommendations

During the period under review, the Namibian financial system was robust, despite some unfavorable developments in both the domestic and global economies. On the domestic front, an increase in both household and corporate indebtedness was observed in Namibia during the period under review. The key factors that impacted the stability of the global financial system included declining commodity prices, financial market volatility and the depreciation of the Namibia Dollar against the major trading currencies. It was initially anticipated that these developments would adversely affect financial system stability in Namibia. This expectation however did not materialise, as the Namibian financial system remained resilient in the second half of 2014.

The commercial banking institutions remained stable, profitable and adequately capitalized. During the period under review, asset quality improved as demonstrated by the slight decrease in the NPL ratio, while the profitability indicators remained healthy. The banking sector's liquid asset holdings also remained adequate in relation to statutory requirements, while capital ratios remained high and resilient to foreseeable stress events. Notwithstanding the aforementioned observations, the concentration of banking sector assets in mortgages remains a concern.

The balance sheets of non-banking financial intermediaries are strong but require monitoring due to their linkages to the domestic, regional and foreign capital markets. Consolidated industry statistics on assets, liabilities, surpluses and reserves for insurance companies, medical aid funds and pension funds still reflect that these entities are financially stable. Moreover, according to the comparative levels of contributions received, claims paid and expenses at industry level, there were no major risk factors identified to be immediate threats to liquidity. On the domestic front, investors report that the lack of availability of domestic assets in which to invest remains a concern.

Payment system infrastructures continued to operate effectively and efficiently. In this regard, progress was made to ensure transparency in the way the national payment system (NPS) is operated and to reduce the associated risks. Specifically, an analysis of critical incidents that could impact the stability of the NPS was performed, and ways to prevent such incidents in the future were recommended, including techniques to improve operational controls.

Policy Actions

Private sector debt

- Overall, household indebtedness continues to be high, and this will require close monitoring going forward.

Banking Sector

- Regular and intensive work on stress testing should continue with a view to continuously assess banking sector resilience to foreseeable risks and vulnerabilities. The introduction of loan-to-value (LTV) limits as a macro-prudential tool is underway and remains an appropriate measure for addressing the exposure risk of the banking sector to the mortgage market.

Non-Banking Financial Sector

- In line with the Financial Sector Strategy, concerted efforts should continuously be undertaken and implemented to develop the domestic capital market so as to keep up with the robust growth of NBFI assets. This strategy will help to limit the contagion risk from global financial markets. The idea is to encourage the NBFIs to invest more of their assets locally and thereby reduce their foreign risk exposure.

- Since NBFIs provide a source of liquidity to commercial banking institutions, care should be taken to ensure that potential downside exposure of NBFIs to the banking sector is monitored and evaluated regularly.

- Extending the yield curve on long-dated securities could assist in deepening capital markets and create investment opportunities for NBFIs. It can also act as a leading indicator to the private sector regarding issuance of long-term debt.

- Developing a robust measurement framework on financial stability indicators for NBFIs will enhance the ability of the country's financial system to withstand potential shocks

Payment infrastructure and regulatory developments

- To combat fraud such as forged or counterfeited cards, the industry has embarked on a Europay-MasterCard-Visa (EMV) compliance project for various cards used in the NPS. This international standard will require cards to have a "chip" instead of a "magstripe" for authenticating card transactions, making it much more difficult for these cards to be cloned. The industry is expected to have all debit, credit and hybrid cards EMV-compliant by 30 September 2015.

- During 2015, all stakeholders in the NPS will participate in the review of National Payment System Vision 2015. The review will assess whether the key strategies that were outlined in 2010 were achieved and are still relevant with a view to craft a new Vision for 2020.

Appendices

Appendix 1: Financial Soundness Indicators

Table 1: Financial Soundness Indicators

	Jun-13	Dec-13	Jun-14	Dec-14
Number of banking institutions	6	6	7	7
Total assets of banking institutions (N$ million)	70 929	76 989	80 896	87 169
Assets/GDP	77.9	79.3	85.8	87.0
Capital adequacy ratios (%)				
Tier 1 leverage ratio	8.0	8.5	8.9	8.9
Tier 1 RWCR	10.7	11.5	12.3	11.9
Total RWCR	14.4	14.4	15.2	14.7
Asset quality ratios (%)				
NPLs/Gross loans	1.5	1.3	1.5	1.2
Overdue loans/ Total loans	7.3	4.1	3.6	3.4
Total provisions/ Total loans	1.3	1.2	1.2	1.2
Total provisions/NPLs	86.6	92.8	69.5	82.3
Specific provisions/ NPLs	28.6	29.5	29.1	31.3
Profitability ratios (%)				
Return on assets	2.1	2.4	2.2	2.4
Return on equity	22.0	24.0	21.9	24.0
Net interest margin	5.4	5.6	5.6	5.9
Cost-to-income ratio	56.9	54.8	53.4	52.7
Liquidity ratios (%)				
Liquid assets to total assets	10.1	10.7	10.5	11.5
Gross loans/ Total deposits	91.0	90.8	93.3	94.4
Gross loans/ Gross assets	75.4	74.8	76.0	77.1
Liquidity ratio	11.1	11.7	11.8	12.5

Source: Bank of Namibia

Appendix 2: Performance of the Non-Banking Financial Sector[1]

Long-term Insurance

Table 2: Industry Income and Expenses

(N$ 000)	2010	2011	2012	2013	2014
PREMIUM INCOME					
Single premiums	1 941 764	2 115 584	2 597 266	2,657119	2 681 468
Recurring premiums	2 520 101	2 837 694	3 212 438	3 731 081	4 751 746
Gross premium	**4 461 865**	**4 953 278**	**5 809 704**	**6 388 200**	**7 433 214**
Less: Reinsurance premium	38 516	61 970	56 600	101 293	170 231
Net Premium written	**4 423 349**	**4 891 308**	**5 753 104**	**6 286 907**	**7 262 983**
Gross policyholder benefits paid	3 620 903	3 590 179	3 937 090	4 454 130	4 999 082
Less: reinsurance recoveries	-	-	-	-	71 782
Net Policyholder benefits	**3 620 903**	**3 590 179**	**3 937 090**	**4 454 130**	**4 927 300**
Change in policyholder liabilities					1 312 797
Commission	299 639	330 783	370 905	440 871	522 703
Policyholder Benefits and Commission	3 920 542	3 920 962	4 307 995	4 895 001	6 762 800
Gross Profit/Loss	502 807	970 346	1 445 109	1 391 906	500 183
Total other income	2 565 845	1 513 136	4 088 219	4 887 215	3 943 922
Investment Income	2 400 167	1 409 869	3 803 984	4 337 370	3 790 416
Other income	165 678	103 267	284 235	549 845	153 506
Total other expenses	605 596	660 084	683 577	847 763	526 555
Management expenses	595 941	656 077	683 863	846 599	420 725
Finance costs	-	-	-	-	716
Other expenses	9 655	4 007	-286	1 164	105 114
Profit/(loss) before taxation	**2 463 056**	**1 823 398**	**4 849 751**	**5 431 358**	**3 917 550**

1 There were changes in the reporting format introduced in 2014. This has resulted in new data fields being introduced, and thus data points do not exist for prior years. These missing data points are denoted by a hyphen (-).

Table 3: Industry Balance Sheet

(N$ 000)	2010	2011	2012	2013	2014
ASSETS					
Immovable property	-	-	-	-	455 341
Property, plant and equipment	496 208	531 730	543 237	384 676	24 169
Intangible assets	-	-	-	-	279 813
Deferred tax	-	-	-	-	44
Other assets	211 400	3 176	2 545	218 886	3 319 555
Investments	18 415 484	21 180 727	25 601 521	28 205 274	26 346 262
NON-CURRENT ASSETS	**19 123 092**	**21 715 633**	**26 147 303**	**28 808 836**	**30 425 184**
Reinsurer Debtors	**-**	**-**	**-**	**-**	**152 165**
Premium Debtors	717 760	1 004 863	1 160 791	1 160 819	254 637
TECHNICAL ASSETS	**717 760**	**1 004 863**	**1 160 791**	**1 160 819**	**406 802**
Cash & Cash equivalents	5 298 283	3 758 023	4 043 090	6 114 550	3 021 720
Receivables	229 832	257 411	302 640	339 551	835 902
Investments	-				5 534 841
CURRENT ASSETS	**5 528 115**	**4 015 434**	**4 345 730**	**6 454 101**	**9 392 463**
TOTAL ASSETS	**25 368 967**	**26 735 930**	**31 653 824**	**36 423 756**	**40 224 449**
Deferred taxation	-	-	-	-	274
Other liabilities	625 296	893 392	924 998	1 158 579	175 863
NON-CURRENT LIABILITIES	**625 296**	**893 392**	**924 998**	**1 158 579**	**176 137**
Policyholder liabilities	21 696 289	22 999 539	27 127 614	30 937 929	33 943 523
Reinsurance creditors	-	-	-	-	60 548
TECHNICAL LIABILITIES	**21 696 289**	**22 999 539**	**27 127 614**	**30 937 929**	**34 004 071**
Trade & other payables	-	-	-	-	826 340
Current income taxation	-	-	-	-	5 553
CAR	421 059	484 957	628 724	648 783	226 172
Other liabilities	-	-	-	-	335 747
CURRENT LIABILITIES	**421 059**	**484 957**	**628 724**	**648 783**	**1 393 812**
TOTAL LIABILITIES	**22 742 644**	**24 377 888**	**28 681 336**	**32 745 291**	**35 574 020**
EXCESS ASSETS	2 626 323	2 358 042	2 972 488	3 678 465	4 650 429

Short-term Insurance

Table 4: Industry Income and Expenses

(N$ 000)	2010	2011	2012	2013	2014
Gross premiums written	2 028 562	2 138 593	2 444 369	2 788 152	3 338 281
Net reinsurance expense	537 281	972 235	748 665	833 078	1 054 454
Net premiums written	**1 491 281**	**1 166 358**	**1 695 704**	**1 955 074**	**2 283 827**
Change in provision for UPR	-	-	-	-	42 623
Net Premiums earned	**1 503 262**	**1 548 639**	**1 702 227**	**1 936 713**	**2 214 532**
Gross claims and loss adjustment expenses	-	-	-	-	662 172
Change in IBNR	-	-	-	-	8 590
Less: Gross claims and loss adjustment expenses recovered from reinsurers	-	-	-	-	112 713
Net Claims incurred	**941 431**	**959 265**	**1 027 977**	**1 204 758**	**1 324 230**
Commission incurred	-	-	-	-	199 964
Less: Commission earned	-	-	-	-	90 106
Net commission incurred	**164 616**	**169 675**	**182 582**	**251 844**	**233 532**
CLAIMS AND COMMISSION	**1 106 047**	**1 128 939**	**1 210 559**	**1 456 602**	**1 557 762**
Underwriting surplus	**397 216**	**419 700**	**491 668**	**480 111**	**656 770**
Management expenses	239 087	241 846	313 805	340 457	459 232
Finance costs	-	-	-	-	657
Investment income	120 331	146 269	138 690	136 775	192 621
Other income	13 014	-42 498	6 598	42 848	176 214
Other Expenses	-	-	-	-	-
Profit before tax	**291 474**	**281 625**	**323 151**	**319 277**	**565 716**
LESS: Est. taxation (Current + def.)	-	-	73 460	78 136	98 995
PROFIT FOR THE YEAR	**291 474**	**281 625**	**249 691**	**241 141**	**466 721**
Other comprehensive income for the year	-	-	-	-	-22 328
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**291 474**	**281 625**	**249 691**	**241 141**	**444 393**
Performance ratios	**2 010**	**2 011**	**2 012**	**2 013**	**2 014**
Cession ratio	26.0%	45.0%	31.0%	30.0%	32.0%
Net loss ratio	63.0%	62.0%	60.0%	62.0%	59.0%
Underwriting expense ratio	27.0%	27.0%	29.0%	31.0%	32.0%
Net combined ratio	89.0%	89.0%	90.0%	93.0%	91.0%

Table 5: Industry Balance Sheet

(N$ 000)					
	2010	2011	2012	2013	2014
NON-CURRENT ASSETS	1 051 894	1 319 354	1 314 563	1 506 834	1 251 240
Immovable property	17 293	17 565	3 462	1 126	1 756
Property, plant and equipment	41 338	15 168	15 790	25 439	13 507
Intangible assets	-	-	-	-	13 582
Deferred tax	-	-	-	-	11 172
Other assets	342 019	351 899	352 141	330 447	231 801
Investments	651 243	934 722	943 170	1 149 822	979 422
TECHNICAL ASSETS	79 382	147 514	101 566	214 096	900 333
Reinsurers' share of unearned premiums	-	-	-	-	494 145
Reinsurers' share of outstanding claims	-	16 048	1 975	4 325	87 312
Reinsurers' share of claims incurred but not reported	-	-	-	-	60 356
Commission Receivable	-	-	-	-	26 367
Premium debtors	79 382	131 466	99 591	209 771	232 153
CURRENT ASSETS	1 226 142	1 156 764	1 585 830	1 740 550	2 597 529
Cash and cash equivalents	963 426	1 008 995	1 303 354	1 433 726	1 343 310
Other Receivables	262 716	147 769	282 476	306 824	129 765
Investments	-	-	-	-	1 124 454
TOTAL ASSETS	2 357 418	2 623 632	3 001 959	3 461 480	4 749 102
CAPITAL AND RESERVES	903 533	947 177	931 238	1 082 043	1 353 146
Ordinary share capital	47 551	47 551	47 551	47 551	47 551
Share premium	100 774	100 774	100 774	100 774	100 774
Retained earnings	634 821	658 810	619 615	757 384	984 472
Contingency reserve	120 387	140 042	163 298	176 334	218 692
Other reserve	-	-	-	-	1 657
NON CURRENT LIABILITIES	23 680	25 707	25 650	27 581	61 984
Deferred taxation	23 680	25 707	25 650	27 581	44 577
Other liabilities	-	-	-	-	17 407
TECHNICAL LIABILITIES	1 126 056	1 272 552	1 460 025	1 647 925	2 705 717
Gross provision for unearned premiums	849 370	999 052	1 096 849	1 257 478	1 654 638
Gross outstanding claims	165 847	173 676	199 034	206 092	588 575
Gross claims incurred but not reported	86 743	82 743	125 380	117 833	203 588
Commission Due	-	-	-	-	30 817
Reinsurance creditors	24 096	17 081	38 762	66 522	228 099
CURRENT LIABILITIES	304 150	378 196	585 046	703 931	628 255
Trade and other payables	157 865	168 922	270 996	348 146	214 731
Current income taxation	-647	26 123	13 022	5 202	4 621
Other liabilities	146 931	183 151	301 028	350 583	408 903
TOTAL EQUITY AND LIABILITIES	2 357 418	2 623 632	3 001 959	3 461 480	4 749 102
Solvency Ratio	33.2%	30.8%	25.6%	26.2%	28.0%

Medical Aid Funds

Table 6: Industry Income and Expenses

(N$ 000)	2010	2011	2012	2013	2014
Contributions received	1 576 928	1 757 893	2 002 120	2315575	2642485
Less: Savings Plan Contributions	87 206	69 443	76 393	83552	89611
Less: Reinsurance	29 273	24 108	12 009	20245	20142
Net contributions	**1 460 449**	**1 664 342**	**1 913 718**	**2 211 778**	**2 532 732**
Claims	1 215 848	1 440 207	1707675	1962359	2194981
Administration costs	121 370	135 537	161447	187831	196224
Operational expenses	29 379	34 013	33814	38016	47624
Managed Care: Management Services	20 888	21 892	31122	35619	39927
Consultant fees/professional fees	0	3 742	5038	4033	3964
Underwriting surplus	**72 964**	**28 951**	**-25 378**	**-16 080**	**50 012**
Other income	6 000	2 365	13 664	29684	12402
Investment income	47 281	45 326	72 325	95526	82556
Net Surplus	**126 245**	**76 642**	**60 611**	**109 130**	**144 971**

Table 7: Industry balance sheet

(N$ 000)	2010	2011	2012	2013	2014
ASSETS					
Non-current Assets	**517 718**	**586 272**	**715 938**	**819 397**	**924 839**
Property, Plant & Equipment	4 076	8 707	11 747	11 736	11 687
Investments	513 642	577 565	704 191	807 661	913 152
Current assets	**156 203**	**181 736**	**142 335**	**182 598**	**237 068**
Accounts receivable	37 797	30 146	47 676	34 768	26 144
Cash & cash equivalents	118 406	151 590	94 659	147 830	210 923
Total Assets	**673 922**	**768 009**	**858 273**	**1 001 995**	**1 161 907**
FUNDS AND LIABILITIES					
Members' Funds	**519 151**	**615 940**	**660 968**	**759 829**	**897 689**
Accumulated funds	514 183	615 940	660 968	759 829	897 689
Revaluation reserve - investments	4 968	0	0	0	0
Current liabilities	**154 771**	**152 069**	**197 305**	**242 166**	**264 217**
Accounts payable (creditors)	27 089	71 720	49 671	77 032	75 629
Provision for outstanding claims/IBNR	120 844	65 412	125 234	139 508	158 506
Bank overdraft					-
Savings plan liability(other liabilities)	6 838	14 840	19 801	23 372	28 336
Provision for bad debt	0	97	2 599	2 254	1 747
Total Funds and Liabilities	673 922	768 009	858 273	1 001 995	1 161 907

Pension Funds

Table 8: Industry Income and Expenses

(N$ million)					
	2010	2011	2012	2013	2014
Contributions Received	2 942	3 109	3 874	4 414	5 627
Net Investment Income	4 561	4 857	11 143	13 288	9 143
Capital Appreciation	845	582	866	2 298	1 443
Other Income	38	39	37	11	22
Insurance Proceeds	68	81	92	93	128
Total income	**8 454**	**8 668**	**16 012**	**20 104**	**16 363**
Admin Fees	131	147	161	262	242
Investment Fees	140	139	140	215	280
Insurance Premiums	177	181	206	223	258
Other Expenses	98	103	98	45	149
Total expenses	**546**	**570**	**605**	**745**	**929**
	-	-	-	-	
Net Income Before Transfers and Benefits	**7 908**	**8 098**	**15 407**	**19 359**	**15 435**
	-	-	-	-	
Net Transfers	-135	-374	-377	-288	-472
Benefits Paid	2 720	2 704	3 257	3 885	4 855
Net Transfers and benefits paid	**2 585**	**2 330**	**2 880**	**3 597**	**4 383**
Net Income After Transfers and Benefits	**5 323**	**5 768**	**12 527**	**15 762**	**11 052**

Table 9: Industry Balance Sheet

(N$ million)	2010	2011	2012	2013	2014
Non-current Assets	62 960	68 306	84 434	103 997	118 044
Current assets	943	1 172	1 323	1 270	1 525
Total assets	**63 903**	**69 478**	**85 757**	**105 267**	**119 569**
Accumulated Funds and Reserves	62 696	68 365	84 659	103 886	116 980
Current liabilities	1 207	1 113	1 098	1 381	2 589
Total Funds and Liabilities	**63 903**	**69 478**	**85 757**	**105 267**	**119 569**

Collective Investment Schemes

Table 10: Total funds under management

(N$ million)	2 010	2 011	2 012	2 013	2 014
Country allocation					
Namibia	12 763	15 123	16 771	18 742	19 880
Common Monetary Area	12 882	11 838	14 301	16 559	18 409
Offshore	346	565	1 034	1 966	3 794
Total	**25 991**	**27 526**	**32 106**	**37 267**	**42 083**
Asset allocation					
Money market investments:	22 182	23 152	24 658	21 395	24 799
Treasury bills	*325*	*2 034*	*1 797*	*1 454*	*751*
Negotiable certificates of deposit	*7 091*	*7 851*	*9 806*	*9 310*	*10 632*
Banker's acceptances	*0*	*0*	*0*	*0*	*0*
Debentures	*0*	*0*	*0*	*0*	*28*
Notice, call and other deposits	*10 470*	*5 563*	*4 855*	*5 594*	*8 787*
Other	*4 296*	*7 704*	*8 200*	*5 037*	*4 601*
Listed equity	1 621	2 228	3 602	9 179	9 844
Listed debt	1 394	1 503	2 981	3 658	4 266
Unlisted equity	208	213	187	1 704	1 515
Unlisted debt	0	161	231	574	548
Unlisted property	0	0	0	0	0
Other assets	586	269	447	757	1 111
Total Funds Under Management	**25 991**	**27 526**	**32 106**	**37 267**	**42 083**

Table 11: Source of Funds

(N$ million)					
	2010	2011	2012	2013	2014
Pension funds	1 281	1 230	1 511	2 388	6 482
Short-term insurance companies	67	146	198	182	157
Long-term insurance companies	687	723	1 101	1 259	1 926
Medical aid funds	35	9	46	49	49
Unit trust schemes	2 743	2 819	4 129	4 517	5 073
Companies	6 639	5 418	5 413	8 292	7 180
Natural persons	13 708	16 044	17 817	19 096	20 020
Other	831	1 137	1 891	1 484	1 196
Total	**25 991**	**27 526**	**32 106**	**37 267**	**42 083**

Investment Management (IM)

Table 12: Total Funds Under Management

(N$ million)					
	2010	2011	2012	2013	2014
Country allocation					
Namibia	45 509	46 386	55 086	58 571	66 682
Common Monetary Area	32 148	35 061	41 707	48 467	51 725
Offshore	8 397	10 218	12 317	16 284	17 779
Total	**86 055**	**91 665**	**109 110**	**123 322**	**136 186**
Asset allocation					
Money market investments	30 356	30 331	34 006	35 280	35 963
Treasury bills	*9 966*	*12 269*	*13 817*	*15 180*	*14 836*
Negotiable certificates of deposit	*5 244*	*3 702*	*4 522*	*4 396*	*6 128*
Banker's acceptances	*0*	*0*	*0*	*0*	*0*
Debentures	*0*	*4*	*0*	*0*	*28*
Notice, call and other deposits	*11 348*	*11 495*	*11 519*	*11 096*	*10 867*
Other	*3 798*	*2 861*	*4 148*	*4 608*	*4 104*
Listed equity	36 650	42 553	53 101	58 027	67 233
Listed debt	11 125	13 363	15 540	17 552	19 211
Unlisted equity	636	905	1 168	1 152	1 685
Unlisted debt	49	171	241	255	94
Unlisted property	322	372	376	650	685
Other assets	6 918	3 970	4 678	10 406	11 315
Total Funds Under Management	**86 055**	**91 665**	**109 110**	**123 322**	**136 186**

Table 13: Source of Funds

(N$ million)					
	2010	2011	2012	2013	2014
Pension funds	47 574	50 977	62 400	71 551	77 735
Short-term insurance companies	686	783	770	373	428
Long-term insurance companies	12 822	13 757	16 133	18 796	20 523
Medical aid funds	288	321	320	320	455
Unit trust schemes	22 333	22 878	26 183	28 409	31 824
Companies	406	532	524	808	1 285
Natural persons	5	9	25	46	56
Other	1 941	2 408	2 754	3 019	3 880
Total	86 055	91 665	109 110	123 322	136 186

Micro-lending

Table 14: Credit Xtension

	2010	2011	2012	2013	2014
Loans outstanding (N$ 000)					
Total Loans Outstanding	**1 118 003**	**1 501 208**	**1 752 556**	**2 616 092**	**3 382 060**
Term lenders	1 059 095	1 439 594	1 685 290	2 538 299	3 302 017
Payday lenders	58 908	61 614	67 266	77 793	80 043
Loans Disbursed (N$000)					
Total Loans	**1 094 327**	**1 483 754**	**1 586 460**	**2 261 550**	**2 259 908**
Term lenders	606 992	956 645	1 079 030	1 640 765	1 551 699
Payday lenders	487 335	527 109	507 430	620 785	708 209
Number of Loans					
Total Loans	**638 132**	**656 061**	**613 307**	**698 460**	**717 031**
Term lenders	79 265	96 397	97 486	114 796	100 104
Payday lenders	558 867	559 664	515 821	583 664	616 927
Average Loan Amounts (N$)					
Total	**8 530**	**10 866**	**12 053**	**15 357**	**16 649**
Term lenders	7 658	9 924	11 069	14 293	15 501
Payday lenders	872	942	984	1 064	1 148

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