



No: 2/25

CIRCULAR BIA 02/25 – NOTIFICATION ON THE EARLY WARNING SYSTEM INDICATORS AND PROMPT CORRECTIVE ACTION

In my capacity as the Director of Banking Supervision and under the power vested in the Bank by virtue of section 3(1) of the Banking Institutions Act, 2023 (Act No 13 of 2023) ("the Act"), I hereby issue the **Circular BIA 02/25 – Early Warning System Indicators and Prompt Corrective Action**

ANCOIS PLAATJE
DIRECTOR: BANKING SUPERVISION
DECEMBER 2025

CIRCULAR BIA 02/25

TO: ALL BANKING INSTITUTIONS

DATE: 09 December 2025

EARLY WARNING SYSTEM AND PROMPT CORRECTIVE ACTION

1. INTRODUCTION

Section 69(1) of the Banking Institutions Act, 2023 (Act No.13 of 2023) (“the Act”) empowers the Bank of Namibia (“the Bank”) to intervene and apply prompt corrective measures when a banking institution, microfinance banking institution, controlling company, or its affiliates show signs of insolvency, unlawful or detrimental business conduct, or inability to meet prudential obligations. These triggers ensure early regulatory action to protect customers and maintain financial stability. In the execution of the Bank’s mandate as per Section 69 of the Act, the Bank implemented Early Warning Systems and Prompt Corrective Action procedures (“procedures”) which are designed to ensure that timely and effective corrective actions are taken to address and correct specific problems and weaknesses identified within the financial and operational affairs of a banking institution and controlling company.

The process of corrective action begins with monitoring a specific banking institution, during which the banking institution's performance is measured against the limits, targets, and triggers outlined in the procedures and annexed hereto as Annexure 1. Once a weakness or problem is identified, the Bank will assess the nature, seriousness, severity, and significance of the issue. In this regard, the Bank will engage the banking institution to conduct an off-site analysis covering a 12-month period prior to the breach to identify the root cause and then apply discretionary or statutory remedies, as may be applicable. The Bank will use judgment to determine the severity of the weakness, which will inform the enforcement actions. Depending on the severity of the breach, the banking institution will be required to submit an action plan detailing how the breach will be remediated, along with timelines, which will be monitored and tracked monthly or quarterly.

2. PURPOSE

The purpose of this Circular is to notify the banking industry about the early warning system and prompt corrective action to be taken by the Bank in the event of a banking institution, microfinance banking institution or controlling company showing signs of financial weakness, non-compliance with the Act, or conducting business in a manner detrimental to customers.

3. DEFINITIONS

Terms used in this Circular are as defined below, or as reasonably implied by the contextual usage in the said Circular:

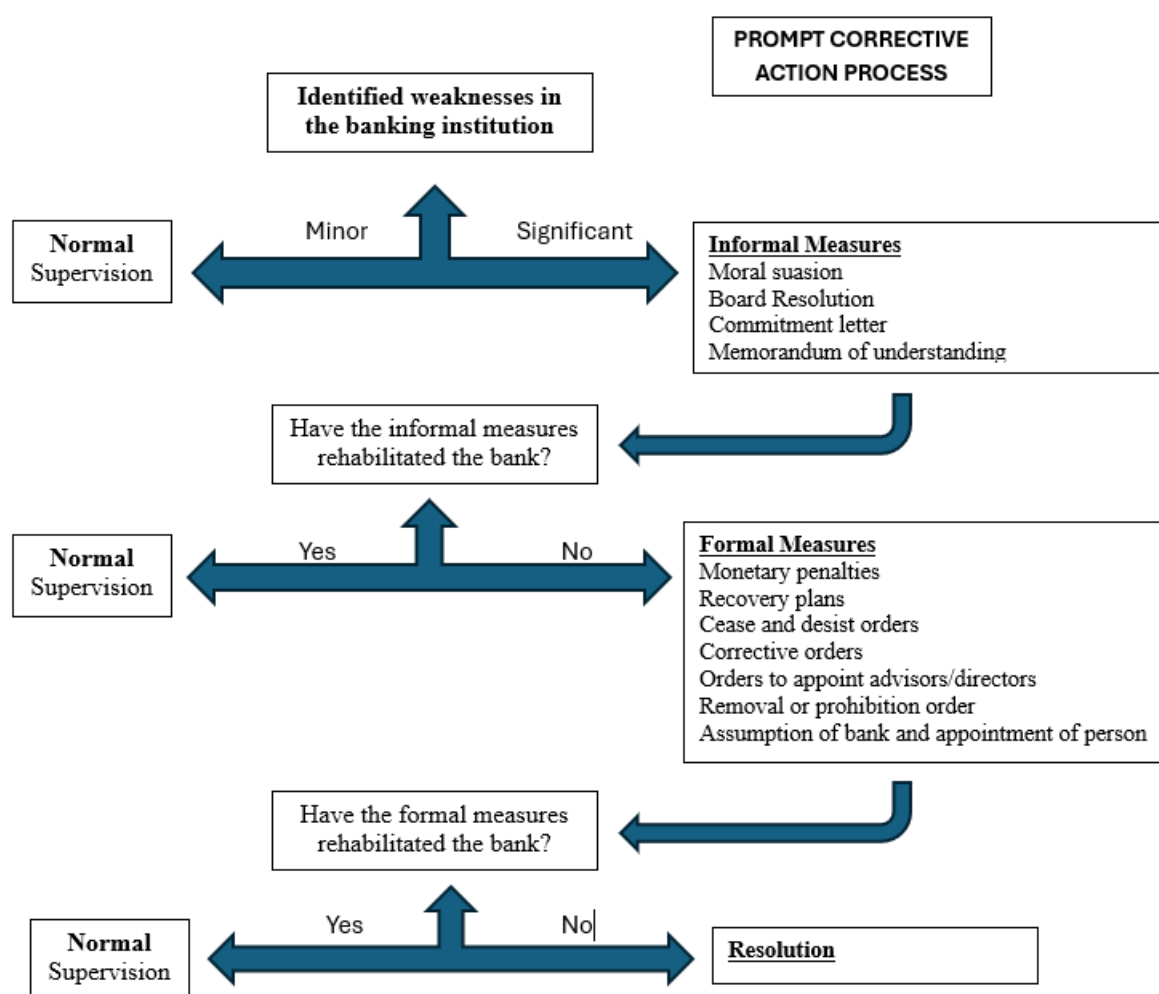
- i. **“Domestic Systemic Important Banks (DSIBs)”** – means banking institutions that are critical for the uninterrupted availability of essential banking services to the country’s real economy even during a crisis. A few banking institutions assume systemic importance due to their size, cross-jurisdictional activities, complexity, lack of substitutability and interconnectedness. The disorderly failure of these banking institutions has the propensity to cause significant disruption to the essential services provided by the banking system, and in turn, to the overall economic activity.
- ii. **“Non-Domestic Systemic Important Banks (Non-DSIBs)”** – means banking institutions whose distress or failure will not cause considerable disruption to the domestic financial system and the wider economy.
- iii. **“Material”** - means a situation, weakness or breach that has a substantial impact on the banking institution’s financial position, reputation, compliance status, or operational integrity at a certain point in time, thereby necessitating timely identification, disclosure, and appropriate management.
- iv. **“Urgent”** – means there is a critical need for prompt recognition, assessment, and response to a situation or breach that, due to its potential or actual impact on the financial position, reputation, regulatory compliance, or operational integrity of a banking institution or microfinance bank, requires immediate attention to mitigate adverse consequences and support informed decision-making by stakeholders.

4. ENFORCEMENT ACTIONS THE BANK MAY APPLY

Enforcement actions to be taken by the Bank are divided into two main categories. These are Discretionary Enforcement Actions, which the Bank may apply based on supervisory judgment, and Statutory Enforcement Actions, which are mandated by law. Together, these actions ensure timely intervention to safeguard the stability and integrity of the banking sector. These enforcement actions may apply to the banking institutions and/or the controlling companies as appropriate and applicable.

The Bank makes use of the diagram below as a guide to determine the appropriate action applicable to the identified problem.

Figure 1: Determining the Corrective Action

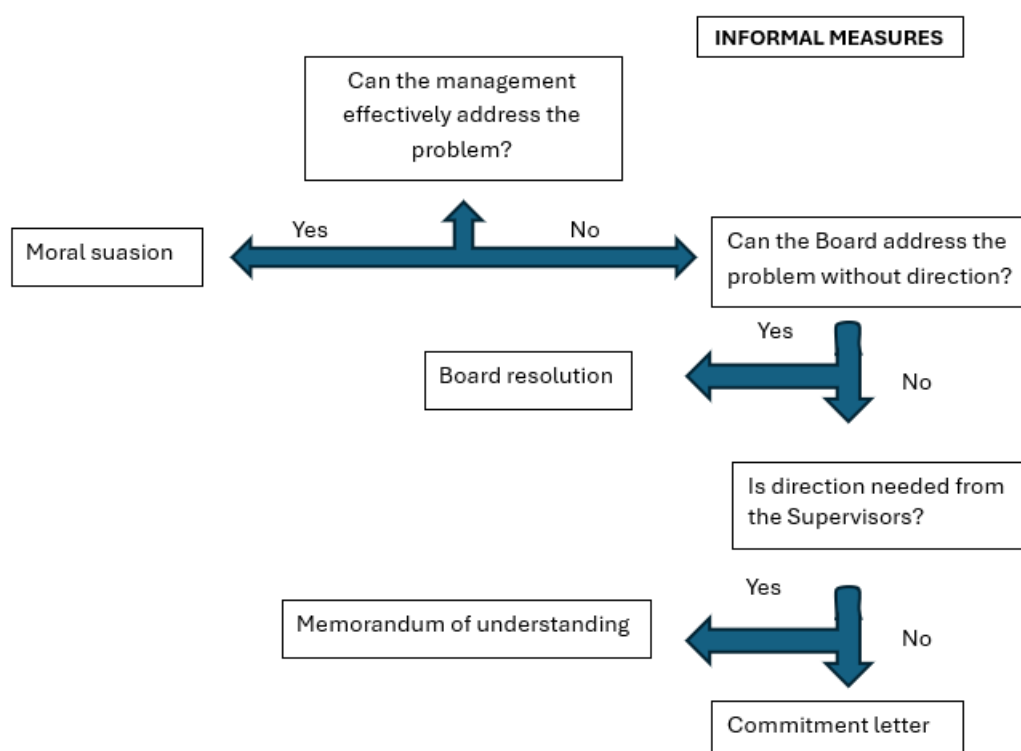


4.1 DISCRETIONARY ENFORCEMENT ACTIONS

Discretionary enforcement actions are implemented through a series of steps presented below, which guide the Bank's intervention from early detection of risks to corrective engagement and, if necessary, escalation. These actions are commonly applied to banking institutions that are adequately capitalised and liquid.

The Bank will be guided by the range of informal actions as per the diagram below:

Figure 2: Determining the informal enforcement action.



a) Letter to management

Discretionary enforcement actions are corrective measures applied at the Bank's supervisory discretion to address weaknesses that are not materially threatening to the stability of the institution but nevertheless require timely rectification. In situations where a weakness is not material but needs to be corrected, the Bank will write a letter addressed to the Managing Director or Chief Executive Officer of a banking institution, drawing the attention of the office holder to the issue(s) of concern, demanding a written explanation and rectification thereof. It may also be done orally through meetings or telephonic conversations (though not advisable). Examples of such situations would be inconsistencies on the returns submitted to the Bank or the late submission of the returns.

b) Board Resolution

When a situation occurs that is not urgent in the short term but warrants a strategic oversight and direction from the Board of Directors of a banking institution, a board resolution is considered appropriate. These are commitments made by the banking institutions' directors and incorporated into the banking institution's board minutes. It represents informal commitments developed and adopted by a banking institution's Board of Directors, often at the request of the Bank, directing the institution's personnel to take corrective action regarding specific noted deficiencies. It is officially adopted and signed by the Board of Directors and the Bank only approves and accepts the resolution as a means to initiate corrective action. The banking institution must report on the progress made and only after the Bank has sent a letter stating that the reporting is no longer necessary shall the banking institution stop reporting on such progress.

c) Commitment Letter

When a situation occurs that requires urgent and serious attention of the Board of Directors of a banking institution or when it is established that a commitment letter is the most appropriate form of action, the bank generally initiates the Letter and presents it to the institution for implementation.

d) Memorandum of Understanding

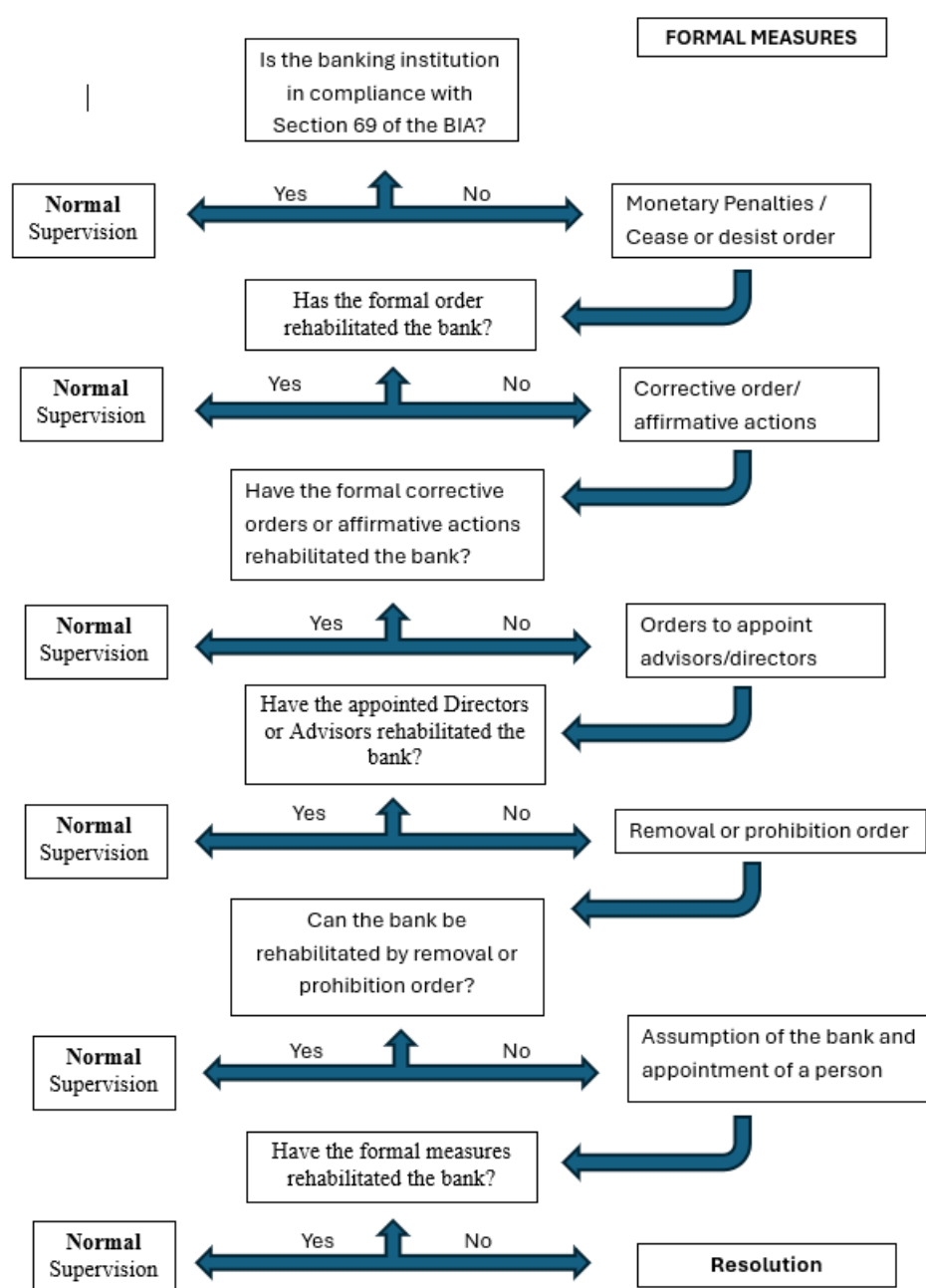
This is an informal written agreement initiated by the Bank setting forth specific corrective and remedial actions to be undertaken by a bank's Board of Directors. Though the document has a formal appearance and may be so viewed by banks, the agreement is not pursued under specific provisions of law, even though it is signed by the parties. Nevertheless, failure to comply with the Board of Directors could result in subsequent action of a formal, legal nature.

4.2 STATUTORY ENFORCEMENT ACTIONS

Formal actions are taken to correct serious deficiencies and to ensure compliance with the banking laws. These actions are mandated by legislation and are generally more severe compared to Discretionary Enforcement actions. These actions are applied when a banking institution's weaknesses pose material risks to financial stability, customer protection, or the trust and integrity of the banking system. They are also applied to ensure compliance with the banking laws and deter future non-compliance. They are employed when less formal remedial measures are considered inadequate, ineffective or otherwise unlikely to secure prompt correction of safety or soundness or compliance problems.

The Bank is guided by the range of Statutory Enforcement actions as per the diagram below.

Figure 3: Determining the formal enforcement actions.



a) Monetary Penalties (Section 94)

Under section 94(1), the Bank can impose penalties on banking institutions and individuals for violating the provisions of the Act and any secondary law made under it. The Determination on the Imposition of Administrative Fines (BID-25) guides the calculation of penalties and fines, including written instructions to banking institutions, corrective action plans submitted by banking institutions, or when a banking institution or its subsidiaries engage in business malpractice.

b) Cease-and-Desist Orders (Section 69(2)(a))

Section 69(2)(a)(i) and (ii) empowers the Bank to order a banking institution and any affiliated party to stop engaging in such practice or discontinue any activity when it finds that a banking institution or party: (i) is engaging, has engaged, or is about to engage in a violation of the Act, and any secondary law, a condition imposed in writing by the Bank in connection with the granting of any application or any written agreement, or (ii) is conducting its business in an unsafe or unsound practice or a manner detrimental to its customers or the general public or (iii) if the banking institution is insolvent or is likely to become insolvent.

c) Corrective Orders (Section 69(2)(a))

If the Bank is satisfied that a banking institution or affiliated person (i) is insolvent or is likely to become insolvent; or (ii) is conducting its business in contravention to any provision of the Act or any other relevant law or in a manner detrimental to its customer; or (iii) is unable to meet all or any of its obligations, or is likely to become unable to so meet its obligations; or (iv) is about to suspend any, or part of any, payment; the Bank may in terms of section 69(2)(a)(i) order a banking institution or person subject to the order to take the action or steps or discontinue any action in violation of the Act or any relevant law.

Affirmative actions may include the following:

- i. Restriction on rapid/aggressive growth strategies, debt, and dividends;
- ii. The disposition of any loan or asset (asset sales);
- iii. Restriction of agreements or contracts;
- iv. Injection of additional capital;
- v. Detailed action plan to address deficiencies;
- vi. Employment of qualified officers or employees; and
- vii. Restitution, reimbursement, indemnification, or guarantee against loss if the banking institution or person was unjustly enriched by the violation or practices, or if the violation or practices involved a reckless disregard for the law or applicable regulations or a prior order; and any other action the Bank may determine to be appropriate.

d) Order to Appoint an Advisor or Director (section 69(2)(b)(i))

If the Bank determines that a banking institution is not being properly managed or has contravened any term or condition of its license, provisions of the Banking Institutions Act, 2023, as amended ("the Act") and secondary laws or order made under the Act, pursuant to section 69(2)(a)(iv) of the Act, the Bank may order the banking institution to appoint a person who is qualified to advise the banking institution on the proper conduct of its affairs. When the Advisor or Director is placed in an institution, the Board of Directors and officers will remain in legal control of the banking institution and accountable for its condition, but they will conduct the affairs of the banking institution with guidance and direction from the Advisor or Director.

e) Removal or Prohibition Order (Section 69(2)(a)(iii))

In terms of section 69(2)(a) of the Act, the Bank may, subject to the provisions of the Labour Act 11 of 2007, order a banking institution to remove any of its director or officer for certain violations and misconduct or who was found to be no longer fit and proper for the position he or she holds, and to prohibit such director or officer from holding any office in the banking institution, or its affiliate or associate and from receiving payment or remuneration from the same parties.

f) Assumption of the Entire Business or Appointment of a Person

The Bank may assume control of the entire property, business and affairs of the banking institution, or any part thereof and conduct the entire business and affairs of the banking institution on behalf of the banking institution; or the Bank may appoint a person to so conduct the business and affairs of the banking institution in the name of the Bank.

g) Resolution

The Bank will exercise its resolution powers in terms of section 70 of the Act regarding failing banking institutions, microfinance banking institutions and controlling companies. These powers in terms of section 70(1) and 70(2) of the Act enable the Bank to exercise resolution options in respect of such banking institution, microfinance banking institution or controlling company if the Bank is satisfied that a banking institution, microfinance banking institution or controlling company has become a failing institution.

5. WAIVER OF FORMAL OR INFORMAL ACTION

The Bank will consider waiving any formal or informal action taken against a banking institution once the bank has remedied the non-compliance and further demonstrated that the bank is operating in compliance with the Act and is meeting the EWS thresholds in Annexure 1 below, at least for a period of 6 months.

6. ACKNOWLEDGEMENT OF RECEIPT

The banking institutions should ensure that a copy of this circular is made available to your institution's independent auditors. Banking institutions are required to return the attached acknowledgement of receipt, duly completed and signed by both the Chief Executive Officer and the Chairperson of the Board of Directors, within one (1) month of issuance of this circular.

Questions relating to this circular should be addressed to:

The Director
Banking Supervision Department
Bank of Namibia
Tel: +264 61 283 5256 or email: ancois.plaatje@bon.com.na .

ANCOIS PLAATJE
DIRECTOR

14 January 2026

ANNEXURE 1: THE EARLY WARNING SYSTEMS (EWS)

Ratios designated as DSIBs are only applicable to DSIBs, while ratios designated as second tier banks are only applicable to non-DSIBs. Ratios that are not specified are applicable to both DSIBs and non-DSIBs.

1. CAPITAL: DSIBs

a) Total Minimum Tier 1 Capital ratio

Prudential minimum limit	10.0%
Target ratio	>12.5%
Trigger ratio	≤12.5%

b) Total Risk-based or Risk Weighted Capital (RWC) ratio

Prudential minimum limit	12.5%
Target ratio	>13.5%
Trigger ratio	≤13.5%

c) Leverage ratio

Prudential minimum limit	6.0%
Target ratio	>7.0%
Trigger ratio	≤7.0%

d) Large exposures to Capital

Prudential maximum limit	25.0%
Target ratio	<25.0%
Trigger ratio	≥25.0%

2. CAPITAL: SECOND TIER BANKS

a) Leverage ratio

Prudential minimum limit	6.0%
Target ratio	>8.0%
Trigger ratio	≤8.0%

b) Tier 1 RWC ratio.

Prudential minimum limit	7.0%
Target ratio	>10.0%
Trigger ratio	≤10.0%

c) Total RWC ratio

Prudential minimum limit	10.0%
Target ratio	>15.0%
Trigger ratio	≤15.0%

d) Large exposures to Capital

Prudential maximum limit	25.0%
Target ratio	<25.0%
Trigger ratio	≥25.0%

3. CREDIT RISK

a) Non-Performing Loans/Total Loans

Prudential minimum	N/A
Target ratio	< 6.0%
Trigger ratio	≥6.0%

b) Overdue Loans/Total Loans

Prudential minimum	N/A
Target ratio	< 10.0%
Trigger ratio	≥10.0%

c) Provisions/Total Loans

Prudential minimum	N/A
Target ratio	>2.0%
Trigger ratio	≤2.0%

d) Specific Provisions /Non-Performing Loans

Prudential minimum	N/A
Target ratio	>25.0%
Trigger ratio	≤25.0%

e) Credit Loss Ratio

Prudential minimum	N/A
Target ratio	<2.0%
Trigger ratio	≥2.0%

4. EARNINGS - DSIBs

a) Return on Assets (ROA)

Prudential minimum	N/A
Target ratio	>1.0%
Trigger ratio	≤1.0%

b) Return on Equity (ROE)

Prudential minimum	N/A
Target ratio	>11.0%
Trigger ratio	≤11.0%

c) Cost to Income Ratio (CTI)

Prudential minimum	N/A
Target ratio upper limit	<65.0%
Trigger ratio	≥65.0%

5. LIQUIDITY RISK & MARKET RISK

a) Minimum Liquidity Ratio – Second tier banks

Prudential minimum	10.0%
Target ratio (BID 6)	>13.0%
Trigger ratio	≤13.0%

b) Top 10 depositors/ Total deposits - DSIBs

Prudential minimum	N/A
Target ratio	<40.0%
Trigger ratio	≥40.0%

c) Top 10 depositors/ Total deposits – Second tier banks

Prudential minimum	N/A
Target ratio	<65.0%
Trigger ratio	≥65.0%

d) Wholesale deposits/ Total deposits

Prudential minimum	N/A
Target ratio	<75.0%
Trigger ratio	≥75.0%

e) Loan to funding - DSIBs

Prudential minimum	N/A
Target ratio	<85.0%
Trigger ratio	≥85.0%

f) Loan to deposits - DSIBs

Prudential minimum	N/A
Target ratio	<95.0%
Trigger ratio	≥95.0%

g) Liquidity Coverage Ratio (LCR) - DSIBs

Prudential minimum¹	100.0%
Target ratio	>110.0%
Trigger ratio	≤110.0%

¹ The LCR prudential limit is being phased in. The targeted and trigger ratio indicated will only be applicable once the limit is fully implemented at 100 percent.

h) Net Stable Funding Ratio (NSFR) - DSIBs

Prudential minimum ²	100.0%
Target ratio	>110.0%
Trigger ratio	≤110.0%

² Similarly, the targeted and trigger ratio indicated for NSFR will also be only applicable once the limit is fully implemented at 100 percent.