Bank of Namibia

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Financial Stability Report
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THE BANK'S CORPORATE CHARTER

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
- 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.

LIST OF ABBREVIATIONS

List of Abbreviations

BoN	Bank of Namibia
CMA	Common Monetary Area
EMEs	Emerging Market Economies
FNB	First National Bank
FSR	Financial Stability Report
HI	Herfindahl Index
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
LHS	Left-hand Side
NAD	Namibia Dollar
NAMFISA	Namibia Financial Institutions Supervisory Authority
NBFI	Non-Bank Financial Institution
NISS	Namibia Inter-bank Settlement System
NPL	Non-performing loan
NSX	Namibian Stock Exchange
PSCE	Private Sector Credit Extension
RHS	Right-hand Side
ROA	Return On Asset
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

CONTENTS

CONTENTS

PURPOSE

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 communication tool. The report presents recommendations to 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.

PREFACE

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 the mandate of Section 3(a) of the Bank of Namibia Act, 1997 (No 15 of 1997, as amended) the Bank of Namibia has an objective “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 of policy actions to ensure lasting financial system stability.

I. INTRODUCTION AND SUMMARY

1. **Since the last issuance of the *FSR* in March 2013, the risks to the global economic recovery remain, with conceivable potential effects to the real economy and financial sector in Namibia.** The weakness in the global economy is transmitted to the Namibian economy mainly through the trade and foreign direct investment channels, and foreign exchange markets.

2. **On the regional front, the first half of 2013 witnessed depreciation of the South African Rand.** This was mainly on account of the global financial markets reaction to statements by the US Federal Reserve that the unwinding of financial support to the financial institutions may begin sooner than previously anticipated. The news impacted on capital flows to emerging markets and the currency markets.

3. **On the domestic front, the output and inflation mix in Namibia remained broadly favourable for 2013**. The domestic economy is expected to moderate to 4.7 percent in 2013[1] compared to 5.0 percent in 2012. The slowdown is mainly due the prevailing severe drought affecting the primary sector. For the first half of 2013, inflation at 6.3 percent, is lower compared to the Consumer Price Index (CPI) rate of 6.6 percent for the last half of 2012.

4. **Since the review in March 2013, domestic commercial banking institutions remain sound, profitable and adequately capitalised; however, some structural patterns of the balance sheets require monitoring.** The banking institutions assets are highly concentrated in long term mortgage loans, and as such the situation needs continuous monitoring in light of the high level of household indebtedness.

5. **Since the last issuance of the Financial Stability Report in March 2013, household indebtedness stabilised although the level remains high by regional and international standards**. This stabilisation is mainly due to improved household disposable income levels. The main risk in this sector emanates from the debt servicing ratio which remains high, despite the historically low interest rates environment. Going forward, household debt levels warrant a monitoring.

6. **The corporate debt to GDP ratio has increased from 41 percent at the end of 2012, to an estimated 45 percent at the end of the second quarter of 2013.** This increase was on account of strong growth in foreign debt, partly attributed to new borrowing and on going Namibia dollar weakness against major currencies. The increase in overall levels of debt (particularly foreign debt) warrants monitoring. It is however noted that foreign debt is used by export oriented corporates that earn foreign exchange, which crucial for the external debt servicing. Given that, its current levels may not pose a major problem to the financial stability of the country in the medium term.

7. **Non-banking financial institutions (NBFIs) balance sheets appear to be robust and growing.** However, since these financial intermediaries are net creditor in relation to the rest of the world, NBFIs are exposed to the headwinds of international finance. The existing prudential regulations reduced their exposure to offshore markets with large share of funds invested locally and within the Common Monetary Area.

8. **Lastly the national payment systems infrastructure continues to operate efficiently and safely.**

[1] Bank of Namibia Economic Outlook, August 2013

II. 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 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 occurring, and the potential impact on financial stability in Namibia should the risk develop and be realised.

The main **risks to domestic financial stability broadly remain the same as identified in the FSR March 2013.** The spider-chart (Figure 1) and heat chart (Table 1) show the evolving risks facing the domestic financial system during September 2013 compared to March 2013, and highlight the probability and impact of specific risks. The main risks identified are discussed below:

Figure 1: Domestic Financial Stability Risk Map

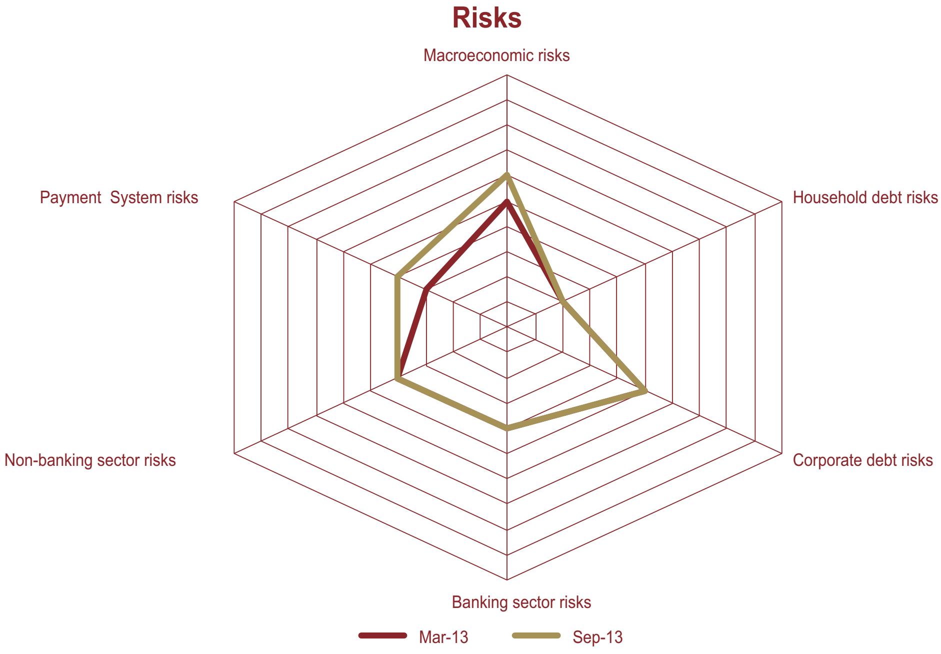


Table 1: Risks to Financial Stability

	Risk		Change	
	Probability	impact	Probabllity	Impact
Macroeconomic Environment risks	**Medium**	**Medium**	**Unchanged**	**Unchanged**
Global economic slowdown			Unchanged	Unchanged
NAD/ZAR depreciation			Up	Up
Export demand falls			Unchanged	Unchanged
International Reserves fall			Unchanged	Unchanged
Household Debt risks	**Medium**	**High**	**Unchanged**	**Unchanged**
Household debt inceases			Down	Unchanged
Corporates Debt risks	**Low**	**Low**	**Unchanged**	**Unchanged**
Corporates debt increases			Up	Unchanged
Banking Sector risks	**Medium**	**Medium**	**Unchanged**	**Unchanged**
Banking institution maturity mismatch			Unchanged	Unchanged
Payment System risks	**Medium**	**High**	**Up**	**Unchanged**
Payment system outage			Unchanged	Unchanged
NBFI risks	**Low**	**Medium**	**Unchanged**	**Unchanged**
Contagion amongst financial institutions			Unchanged	Unchanged
Exposure to capital market			Unchanged	Unchanged

Risk analysis key

High		Medium		Low	

A. Risks Stemming from the External Macroeconomic Environment

Global economic slowdown: Notwithstanding notable improvements in some advanced economies such as the US and UK, the global economic recovery is projected to remain weak in 2013 due to weaker domestic demands and slower growth in key emerging economies. In its July World Economic Outlook, the IMF has revised downward the global growth from 3.3 percent to 3.1 percent for 2013. Despite the positive signs emerging from the Euro zone with the release of the second quarter GDP for 2013, it is early to conclude whether the recovery signal sustained recovery. Therefore, the risk of economic slowdown in the next six months remains unchanged.

The impact of global economic slowdown on the Namibian economy is transmitted directly and indirectly through terms of trade and movements in the Namibia dollar. As an exporter, a slowdown in global growth could translate into a depressed demand for export products, most notably in the mining sector. The country's external position would also be affected through increased imports due to exchange rate movements. It should be noted, however, that the effects of the global slowdown have not been fully transmitted to the domestic economy as the trade balance has improved between first quarter and second quarter of 2013. The risk of export demand fall has decreased notably on the back of a weaker exchange rate.

Depreciation of the Rand: The probability and impact rating resulting from further depreciation of the rand has increased due to the likelihood of the US unwinding its monetary stimulus. The recent rand volatility and weakness has been in line with reaction of emerging market currencies to fears of US monetary policy tightening and unwinding of monetary stimulus, which resulted in capital flow reversals. As at end-August 2013, the Rand had depreciated by approximately 20 percent since the beginning of the year and, as mentioned in the March 2013 FSR, this poses a real sector risk to Namibia, which could filter through its financial system. The depreciation most significantly affects the importation bill of Namibia (especially fuel imports).

In terms of the **overall macroeconomic risks assessment, the risks increase by one notch**, mainly due to the depreciation of the Rand, for which the impact increases for the next six months as compared to the level identified in FSR March 2013.

B. Risks Stemming from Domestic Households and Corporate Debt

Household Sector

High indebtedness among Namibian households: Since the last issuance of the FSR in March 2013, household debt as percentage of disposable income has stabilised during first half of 2013, however remains at a relatively elevated level by international standards. Even if household indebtedness is showing some level of decline, debts in Namibia are still at high level by international standards.

The risk of an increase in household debt for the next six month remain unchanged i.e. the same as observed in FSR in March 2013, however debt levels warrant monitoring going forward. Household debt is dominated by mortgage credit; as such any changes in the interest rate may place an additional repayment burden on households.

Corporate Sector

The growth in foreign debt, poses a risk to local corporates on the back of new borrowing coupled with a weaker exchange rate. The corporate debt to GDP ratio has increased from 41 percent at the end of 2012, to an estimated 45 percent at the end of the second quarter of 2013. If the trend continues, the levels and repayment cost of foreign debt could put undue financial burden on a number of local institutions. The increase in overall levels of debt (particularly foreign debt) warrant monitoring. However, noted is that foreign debt is used by export oriented corporates that earn foreign exchange which crucial for the external debt servicing as such its current levels may not pose a major problem to the financial stability of the country in the medium term.

The **risk of corporate debt increase** remains unchanged for the next six month i.e. the same as observed in FSR in March 2013.

C. Risks Stemming from the Performance of the Banking Sector

Financial soundness indicators for the banking sector remain at comfortable levels by international standards; however, some structural patterns of the balance sheets require monitoring. Noted is that the banking institutions assets are highly concentrated in long term mortgage loans, and as such the situation needs continuous monitoring in light of the high level of household indebtedness.

The inherent **risk of banking institution maturity mismatch remain unchanged** for the next six month i.e. the same as observed in FSR in March 2013. The banking sector remained complaint with regulatory liquidity requirements. Furthermore, the stress testing, conducted as part of the surveillance work of the Bank of Namibia, found the banking institutions to be robust.

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

NBFIs predominantly manage assets to support their liabilities to the public. Specifically, pension funds and long-term insurers manage assets of N$ 117 billion to support liabilities of approximately N$ 110 billion. The assets of these institutions are invested through unit trust schemes and investment managers, although this is more prevalent for pension funds than long-term insurers. These institutions invest for the medium to long-term, take investment risk, and as a result have significant exposure to the domestic, regional and global capital markets.

Exposure to capital market: A downturn of large magnitude in key capital markets domestically and within the common monetary area (CMA) would present a risk to the assets of key NBFIs. Should capital markets experiences a slowdown, for example, on the back of weak economic performance in the region, the assets of a number of key NBFIs, particularly long term insurance and pension funds, could come under duress.

Contagion risks among financial institutions: Inter-linkages between NBFIs and the banking sector remain significant and warrant continuous monitoring. Risk to the banking sector via the non-banking financial sector exists due to the nature of the assets and liabilities of some non-bank financial institutions, specifically short-term insurance and medical aid funds - the realisation of a major event[1] that is covered by these institutions may necessitate large scale deposit withdrawals and cause liquidity problems. All NBFIs have cash or near cash investments deposited with commercial banking institutions. This is either directly through deposits or indirectly through unit trust schemes invested in bank deposits.

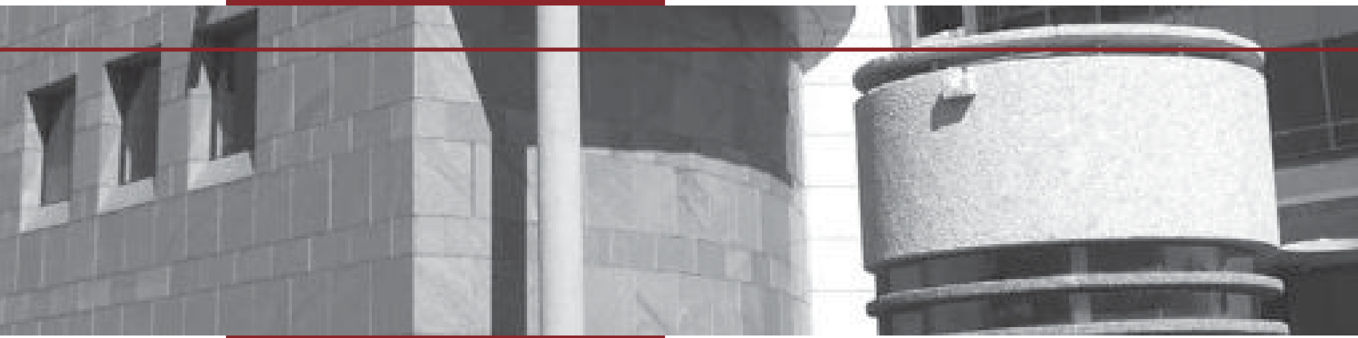
In terms of overall NBFI risk assessment, the risks remain unchanged for the next six month i.e. the same as observed in FSR in March 2013. Going forward there is a need to enhance understanding on the inter-linkages of NBFI activities in the Namibian economy.

E. Risks Stemming from the Payment and Settlements System

Potential outages pose operational risk to the financial system. Any strains in the financial system are likely to be reflected in the payment system, with settlements being affected due to liquidity issues faced by one or more of the participants. Thus, due to the interconnected nature of payment systems, such disturbances have the potential to transmit themselves to other participants as well, leading to possible financial instability.

The risk of payment and settlement systems outage increases by two notches for the next six month compared to the March 2013 FSR, due to some identified inadequacies in the operational controls environment.

[1] Such as a natural catastrophe or an epidemic



III. MACROECONOMIC ENVIRONMENT

Global Economic Growth

Due to weaker domestic demands and slower growth in key emerging economies, indicators for the second quarter of 2013 demonstrated that global growth continued to signal a recovery, primarily driven by the US and UK economies. Nevertheless, overall global growth is projected to remain weak in 2013. Economic growth in both the US and UK increased slightly in the second quarter of 2013, compared to the first quarter (1.4 percent and 1.4 percent growth in the second quarter, compared to 1.3 percent and 0.6 percent, respectively, in the first quarter). Key factors which underpinned growth for the US in the second quarter of 2013 were an increase in private consumption, exports and fixed investments. In the UK, while services were the biggest contributor to growth, manufacturing and construction also expanded during the second quarter of 2013.

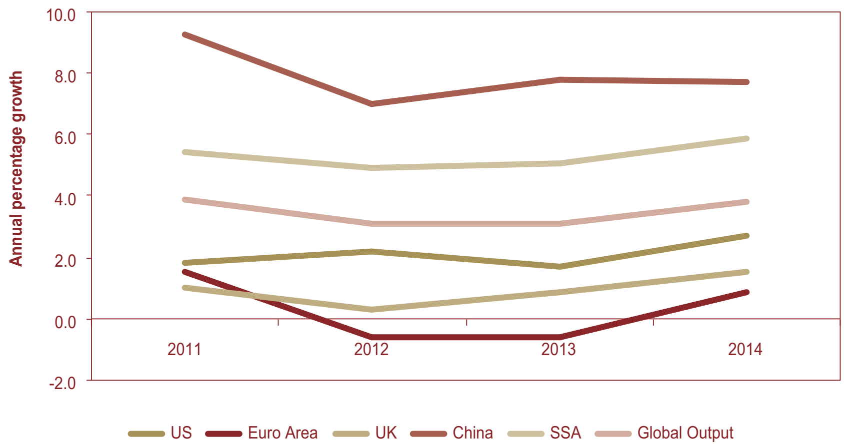
Following six quarters of negative output growth, **the Euro area real GDP rose, quarter on quarter, by 0.3 percent in the second quarter of 2013.** For the remainder of 2013, the European Central Bank (ECB) expects output to recover, albeit, at a slow pace supported by accommodative monetary policy stance.

Within the emerging economies, the Asian economies supported moderate growth in the second half of 2013, notwithstanding the continued slowdown in China's growth. Although China, recorded robust growth when compared to other emerging market economies, it has been adversely affected by weak investments and exports. This resulted in a slowdown of growth from an average of 7.6 percent during the first half of 2013, compared to an average of 7.7 percent in the last half of 2012. Nevertheless, growth in China is projected to remain at 7 percent in 2014, in line with the Government's 2011-2015 five-year plan.

According to the South African Reserve Bank (SARB), South Africa's growth prospects weakened further in July 2013 compared to May 2013. In this context, SARB revised downward its latest growth forecast to 2.0 percent for 2013, from 2.4 percent forecasted in May 2013. Growth is expected to be at 3.6 percent in 2014, compared to 3.8 percent forecasted in May 2013. The key downside risks to the outlook include delays in overcoming electricity supply constraints and labour unrest.

Going forward, the IMF in its July World Economic Outlook (WEO) has revised downward the global growth to 3.1 percent from its April projection of 3.3 percent for 2013 (Figure 2). Downside risks remain including a slowdown in emerging and developing economies, mainly because of possibly tighter financial conditions if the anticipated unwinding of quantitative easing in the US leads to sustained capital flow reversals, which could negatively affect their economies.

Figure 2: Projected Global Growth



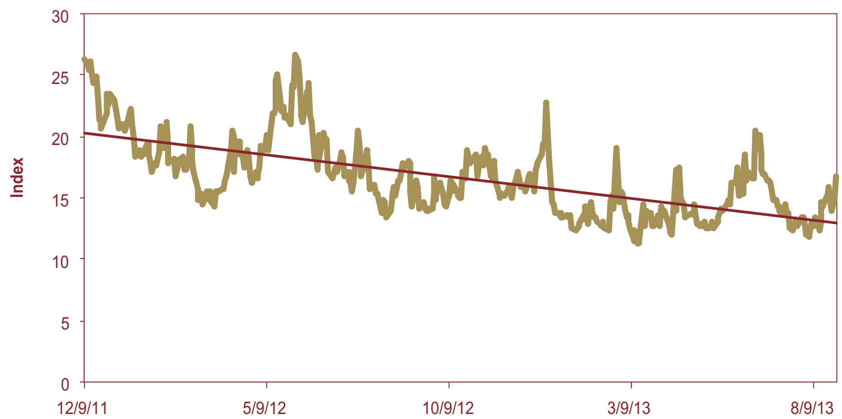
Source: IMF World Economic Outlook update, July 2013

Global Financial Markets

Advanced Economies

Since the last publication of the FSR in March 2013, financial market volatility has increased globally, particularly in the month of May and June of 2013, as is indicated by the Volatility Index (VIX[2]) (Figure 3). The market sentiment was influenced by shifting expectations of the path of the monetary policy in some of the major advanced economies. Sovereign spreads in the Euro area periphery have widened again after a period of sustained declines.

Figure 3: Volatility Index



Source: Bloomberg

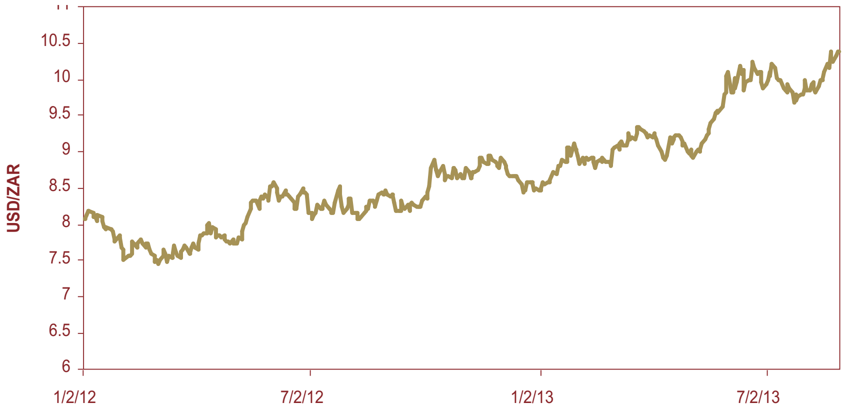
Emerging Economies

The first half of the 2013 witnessed continued depreciation of currencies in emerging economies, partly on account of anticipated unwinding of monetary policy stimulus in the United States. This led to capital flow reversal that impacted adversely on domestic bonds and currency markets.

In South Africa, compared to the last half of 2012, the Rand depreciated in the first half of 2013, settling at an average level of just above R9.21 for the first and second quarters against the US dollar, compared to an average of R8.46 during the last two quarters of 2012 (Figure 4). The risks posed to emerging economies in general, including South Africa, by normalisation of monetary policy in the US in the future, are evident particularly at a time when global growth remains weak (SARB MPC, July 2013).

[2] The CBOE Volatility Index - more commonly referred to as "VIX" - is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500® Index (SPX) option bid/ask quotes. Source: Chicago Board Options Exchange (CBOE)

Figure 4: Exchange rate movements of the Rand against the US Dollar



Source: Bloomberg

Despite the depreciation of the South African Rand, inflation remained below the upper-bound of the SARB's inflation target band for the first half of the year, averaging 5.7 percent. This is marginally higher than the average inflation rate of 5.38 percent during the last half of 2012 (Table 2). The movements in the exchange of the rand continue to pose the main upside risk to the inflation outlook in South Africa.

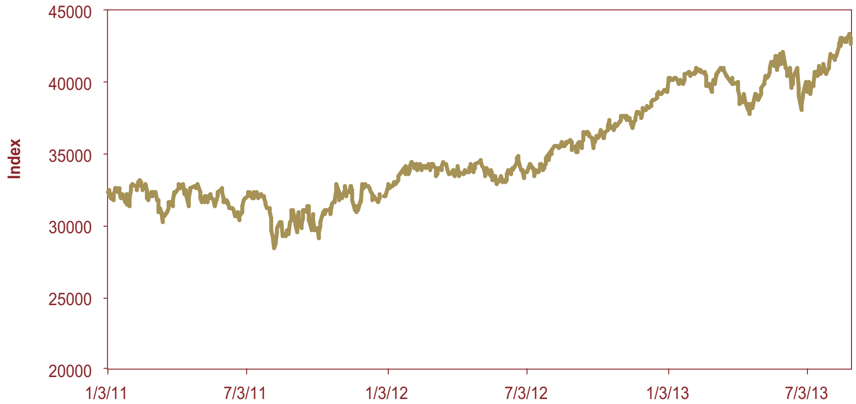
Table 2: South Africa annual inflation

	2012							2013 (Dec 2012 = 100)					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Index	123.5	123.9	124.2	125.3	126.1	126.4	126.7	100.3	101.3	102.5	102.9	102.6	102.9
Rate (%)	5.5	4.9	5.0	5.5	5.6	5.6	5.7	5.4	5.9	5.9	5.9	5.6	5.5

Source: Statistics South Africa

The strengthening US Dollar has translated into an increase in risk appetite as manifested in capital flow reversal from the emerging markets. Thus, while the JSE Africa All Share Index continues to grow overall, the behaviour of investment has slightly shifted, from 'safe' fixed income products to equity investments (Figure 5).

Figure 5: The JSE Africa All Share Index



Source: Bloomberg

Domestic Economy

Output and Inflation

The domestic economy is expected to moderate to 4.7 percent in 2013[3] compared to 5.0 percent in 2012. The slowdown in growth for 2013 is expected to mainly originate from the primary sector, due to the severe drought affecting the country. The economy is projected to pick up in 2014, with a projected growth of 5.0 percent.

Namibia's average consumer price inflation rate for the first half of 2013 was 6.3 percent, compared to the Consumer Price Index rate of 6.6 percent for the last half of 2012. This was mainly due to slowdown in inflation rates for food and *transport*. Food inflation for the first half of 2013 averaged 7.4 percent, compared to 8.95 percent of the last half of 2012. Similarly, transportation inflation moderated to 4.4 percent during the first half of 2013 compared to 6.2 percent of the last half of 2012.

Exports Earnings and Imports

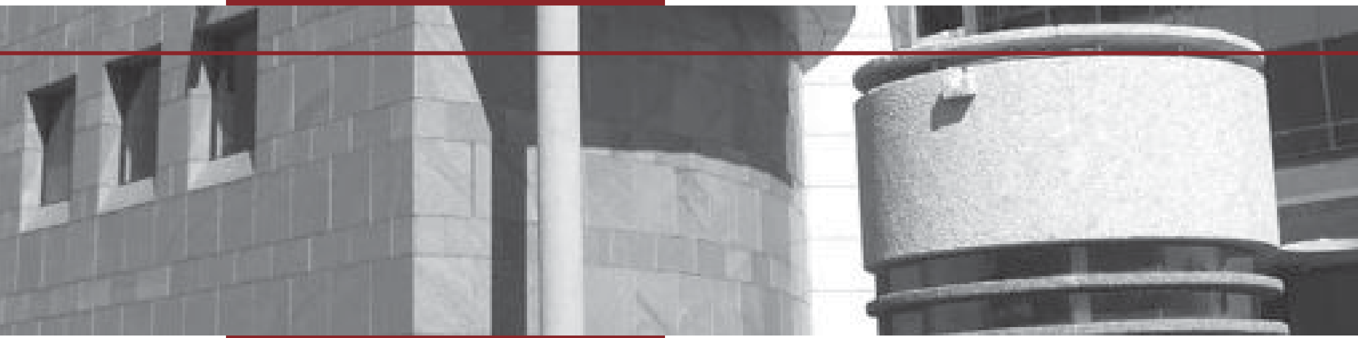
Export earnings rose in the first half of 2013 compared to the last half of 2012[4], owing mainly to diamond mining and the depreciation of the local currency. As with the previous assessment of the FSR, mineral exports remained the single highest contributor to the total export earnings. The share of mineral exports to total exports rose by 3.7 percentage points between the two periods under review, from 38.3 percent during the last half of 2012 to 42.0 percent in the first half of 2013 (Table 3).

Table 3: Major Export Receipts as Percentage of Total Exports

	2012		2013	
	Q3	Q4	Q1	Q2
Merchandise Exports (Percentage contribution)				
Diamonds	24.5	21.8	22.3	34.8
Uranium	15.4	14.8	13.6	13.1
Other mineral products	6.2	7.4	5.9	4.7
Food and live animals	9.3	13.3	12.7	10.1
Manufactured products	20.5	19.3	23.2	18.3
Other commodities	24.1	23.4	22.2	18.9
(N$ million)				
Total Exports	8 024.0	8 229.0	8 695.0	10 187.0
Total Import of Goods and Services	13 482.7	12 625.7	13674.27	13872.0
Trade Balance	-5 458.7	-4 396.7	-4 979.3	-3 685.0

The imports of good and services increased by 9.5 per cent during the second quarter of 2013 compared to the fourth quarter of 2012. However, the rise in export earnings, especially from diamonds, coincide with a lower increase in the value of imports, gave rise to the decreased deficit on *merchandise trade balance*.

3 Bank of Namibia Economic Outlook August 2013
4 From N$16.3 billion during the last half of 2012 to 18.9 billion in the first half of 2013.



IV. DOMESTIC HOUSEHOLDS AND CORPORATE DEBT INDICATORS

Household Indebtedness[5]

Since the last issuance of the Financial Stability Report in March 2013, household indebtedness stabilised although the level remains high by regional and international standards. *This stabilisation is mainly due to improved household disposable income levels. The main risk in this sector emanates from the debt servicing ratio, which remains high despite the historically low interest rates environment.*

Household Debt to Disposable Income[6]

The level of household indebtedness remained largely unchanged at 84.7 percent for first half of 2013 as compared to 84.6 per cent for 2012[7], due to improved household disposable income. The current ratio remains the same as that seen for the last three years; largely on account of growth in household disposable income levels (Table 4 and Figure 6), which was offset by growth in credit extension during the period under review. Credit extension to households grew by 12.9 percent from December 2012 to June 2013.

Table 4: Household Debt to Disposable Income

	2009	2010	2011	2012	2013est
Total (Disposable Income) (N$ mill)	29 515	33 130	36 511	41 893	47 264
Credit To Individuals/Households (N$ mill)	23 256	24 856	27 917	31 795	35 921
Household Debt to Disposable Income (%)	79	75	76	76	76
Adjusted Credit To Households (N$ mill)[8]	25 930	27 714	31 127	35 452	40 052
Adjusted Credit to Disposable Income (%)	88	84	85	85	85

The current ratio remains high by international and regional standards (Table 5). Household debt in the financial system is dominated by mortgage credit; as such any changes in the interest rate may place an additional repayment burden on households.

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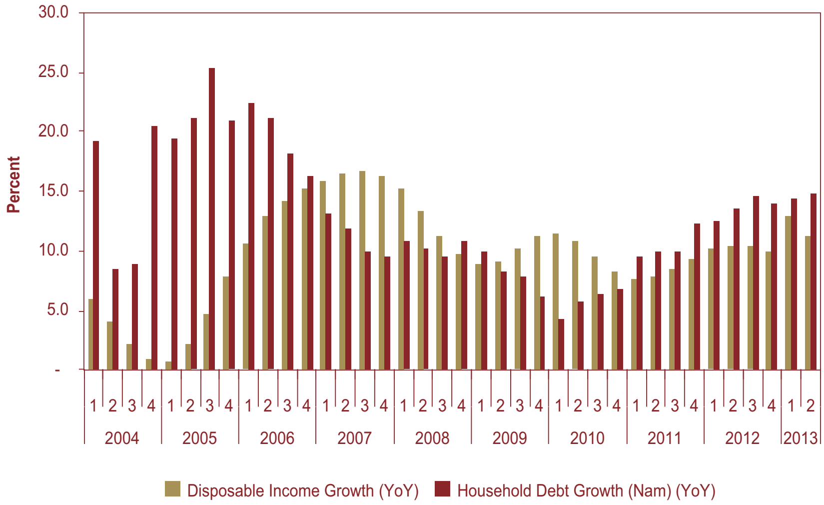
[5] The analysis of the household debt was introduced in the October 2012, FSR issue of the Bank of Namibia and all methodological issues with regard to debt indicators are covered in that report.

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

[7] Since the last publication of the financial stability report in March 2013, adjusted household indebtedness figures have been revised down, from 91 percent for 2012, to 84.6 percent, due the availability of actual data for 2012 from NSA.

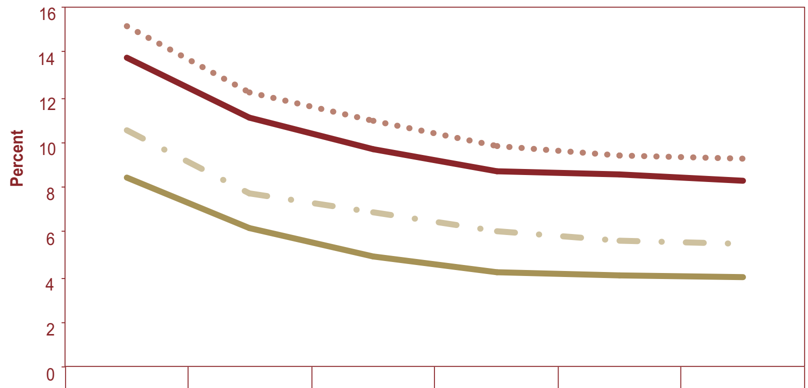
[8] Credit extension to household from commercial deposit taking institutions is collected by the Bank of Namibia. However, this data does not incorporate informal sector lending, and as such the figure is adjusted to make allowances for such. For more details, see the October 2012 edition of the Bank of Namibia's Financial Stability Report

Figure 6: Household Debt and Disposable Income growth



Interest rates in Namibia are at historically low levels (5.50 percent) and this broadly translates to low prime and bank deposit rates, which has meant that the cost of borrowing is relatively low and the return on bank deposits is low (Figure 7). While the current ratios of household debt are not an immediate cause for concern, the levels, particularly when measured as a debt servicing cost, are high by international standards.

Figure 7: Selected Interest Rates 2008-2013

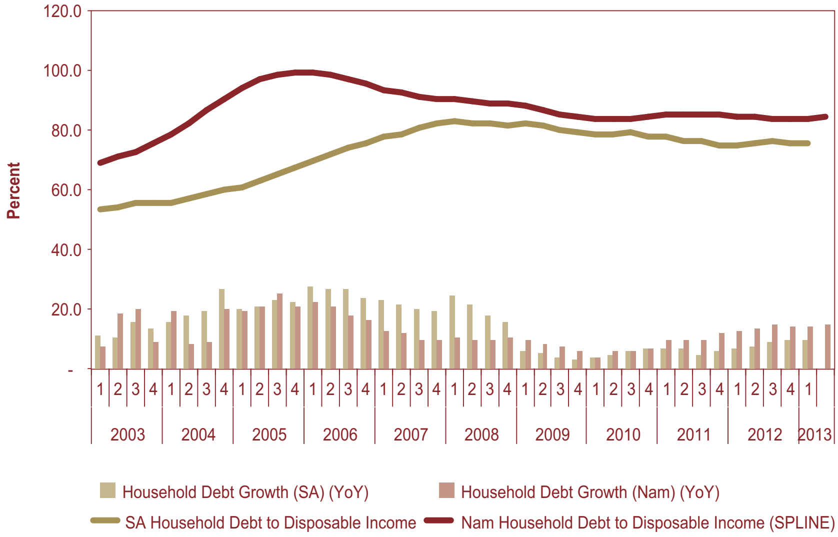


	2008	2009	2010	2011	2012*	2013*
Repo rate	10.5	7.7	6.9	6	5.6	5.5
Prime rate	15.2	12.2	11	9.8	9.4	9.3
Deposit rate	8.4	6.2	5	4.3	4.1	4.0
Lending rate	13.7	11.1	9.7	8.7	8.6	8.3

Repo rate   Prime rate   Deposit rate   Lending rate

*The data for 2012 refers to Q3 and Q4 only, and the data for 2013 refers to the first half of the year only.

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



Source: Bank of Namibia, South African Reserve Bank

Despite the stabilisation in Namibia's household debt levels, the ratio still remains above that of South Africa (Figure 8). The ratio of household debt to disposable income in South Africa is 75.4 percent (first quarter of 2013), unchanged from the previous quarter. Revised figures for Namibia show that the trend recorded by the two countries over the last year has been largely similar. While the total ratio for South Africa increased by 0.5 percent, that for Namibia increased by 0.4 percent for 2012. However, in the past two years, South Africa's household debt to disposable income ratio has fallen by 3.1 percent, while Namibia's has fallen by just 1 percent.

Debt Servicing Ratio

The debt servicing ratio is a measure of the financial burden that the repayment of debt places on the average household, relative to its income. The measure is designed to illustrate the percentage of households' incomes being spent on the servicing and repayment of debt. The ratio is calculated based on individuals' gross income and total household debt, based on normal amortisation formulas using estimated outstanding loan duration, average lending rates and the outstanding balance on each class of loan.

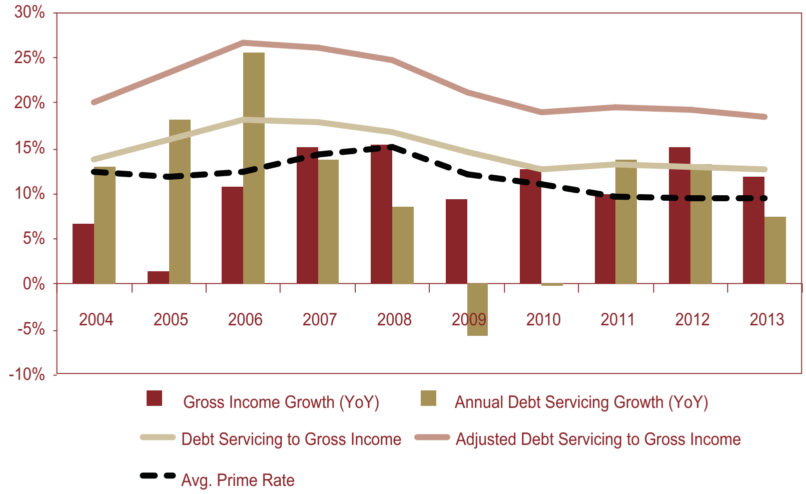
Table 5: Debt Servicing Ratios (In percentage)

	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	Avg. Prime Rate
2004	7	6	13	14	15	20	12.4
2005	2	1	18	16	18	23	11.9
2006	11	11	26	18	20	27	12.4
2007	15	16	14	18	20	26	14.4
2008	15	15	9	17	19	25	15.2
2009	9	9	-6	15	16	21	12.2
2010	13	12	0	13	15	19	11.0
2011	10	10	14	13	15	20	9.8
2012	15	15	13	13	15	19	9.5
2013*	12	13	8	13	14	19	9.5

*June 2013

Revised figures for 2012 show that the debt servicing ratio remained largely unchanged from 2011 to 2012, a trend which has continued into the first half of 2013 (Table 5). Strong gross income growth, coupled with the on-going accommodative monetary policy stance has resulted in the overall debt servicing ratio to fall marginally, despite increases in total household debt levels, which grew by 14.7 percent in the 12 months from June 2012 to June 2013. At 18.5 percent, the overall ratio has declined by 0.7 percent since the end of 2012 (Figure 9). Since the end of 2012, the total servicing cost of the two largest categories of loans, mortgage loans and instalment credit have increased at just 5.8 and 5.7 percent respectively; while gross income has increased by 11.7 percent. This increase in gross income was on account of an estimated 12 percent increase in total compensation paid to employees in Namibia, and a 13.5 percent increase in total social pension payments from government, the largest social grant in the country.

Figure 9: Debt Servicing Costs



*Estimate

Corporate Debt

The corporate debt to GDP ratio has increased from 41 percent at the end of 2012, to an estimated 45 percent at the end of the second quarter of 2013. *This increase was on account of growth in foreign debt, due to new borrowing coupled with a weaker exchange rate. Total large exposures to domestic commercial banking institutions grew by 37 percent between December 2012 and June 2013, from N$3.8 billion to N$5.2 billion. If the trend continues, the levels and repayment cost of foreign debt could put undue financial burden on a number of local institutions. Growth in large exposures signals a concentration risk to commercial banking institutions and as such, it warrants further monitoring.*

For the first half of 2013, corporate debt stock has increased by some N$8.4 billion. Over this period, domestically issued corporate debt grew by 8.0 percent, while foreign corporate debts increased by some 26.9 percent (Table 6). The increase in foreign debt can be attributed, to new borrowing and the on going Namibia dollar weakness against major currencies, which has seen the Namibia dollar depreciate by 23 percent against the US dollar over the past 12 months. The corporate foreign borrowing included increases in short term loans by resident banks and long term loans acquired by companies mainly in the mining and to a lesser extend , the fishing sectors particularly in the first quarter of 2013.

At the end of the second quarter of 2013, foreign debt made up 59 percent of total corporate debt, with domestic debt making up just 41 percent. Total corporate debt stock now stands at N$54.4 billion at the end of second quarter of 2013.

Table 6: Domestic and External Corporate Debt (Private Sector and Parastatals)

	2008	2009	2010	2011	2012	2013*
Domestic (%)	46	52	47	39	45	41
Foreign (%)	54	48	53	61	55	59
Total Debt (million)	25 679	26 230	32 472	41 867	45 922	54 364
YoY Change in % (Total)	23	2	24	29	10	18
GDP (Nominal, N$ mill)	72 946	75 070	81 120	90 835	107 325	114 180
Debt to GDP Ratio (%)	32	32	38	44	41	45

*Estimate, June 2013

The current corporate debt to GDP ratio has increased from 41 percent at the end of 2012, to an estimated 45 percent at the end of the second quarter of 2013. This increase was on account of the aforementioned strong growth in foreign debt, which has resulted in an 18 percent growth in total debt from June 2012 to June 2013. However, noted is that foreign debt is used by export oriented corporates that earn foreign exchange which crucial for the external debt servicing as such its current levels may not pose a major problem to the financial stability of the country in the medium term.

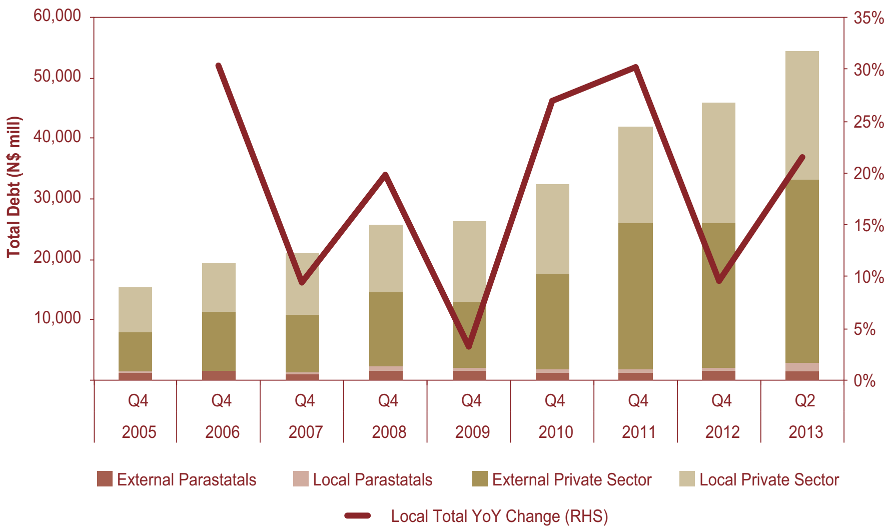
Table 7: Domestic and External Private Sector Debt Breakdown

N$ Millions	2008	2009	2010	2011	2012	2013*
Private Sector (Foreign)	12 251	11 065	15 742	24 149	23 827	30 511
Private Sector (Local)	11 210	13 155	15 013	15 876	20 049	21 110
Total	23 461	24 221	30 754	40 025	43 876	51 620
Foreign (% Total)	52	46	51	60	54	59
Local (% Total)	48	54	49	40	46	41

*Estimate, June 2013

In terms of debt composition by institutions, the private sector constitutes about 95 percent of total corporate debt as at end of June 2013, while the reminder is held by the State-owned enterprises (SOEs) (Table 7). For the first half of 2013, 95 percent of total corporate debt was extended to the private sector, while the remaining five percent was taken up by SOEs. The private sector corporates owe N$51.6 billion, of which N$30.5 billion is owed to foreign lenders and N$21.1 billion was locally issued. SOEs currently owe a total of N$2.7 billion, with N$1.6 billion being to foreign lenders, and 1.2 billion being to local lenders (Figure 10).

Figure 10: Credit to Corporations, 2005 - 2013



Foreign private sector corporate debt constituted approximately 47 percent of overall debt, resulting in foreign debt servicing cost comprising sizable portion of overall debt servicing. During the first half of 2013, debt servicing cost on foreign debt grew by 255 percent from December 2012 (Table 8). This increase in debt service cost is mainly attributable to the restructuring of foreign loans[9] and partly exchange rate depreciation.

Table 8: Foreign Private Sector Debt and Debt Servicing

N$ Million	2007	2008	2009	2010	2011	2012	2013*
	Q4	Q4	Q4	Q4	Q4	Q4	Q2
Total Foreign Private Sector Debt	9 596	12 251	11 065	15 742	24 149	23 827	30 511
Total Foreign Private Sector Debt Servicing	441	698	1 402	304	473	407	1 445

*Estimate, June 2013

Large Exposures

Commercial banks in Namibia lend a large portion of total corporate loans to individual companies, or groups of companies in a single sector. As such, these loans have the potential to become a systemic risk to overall financial stability, through the possibility of excess concentration risk to individual companies or sectors.

Following a decline in large exposures to the domestic commercial banks in 2012, the trend reversed in the first half of 2013. Total large exposures grew by 37.5 percent between December 2012 and June 2013, from N$3.8 billion to N$5.2 billion (Table 9). In particular, the exposure to the tourism sector grew by 580 percent, due to base effects. The exposure to the mining and minerals sector also grew by 165 percent. On the other hand, overall repayments of loans were only seen in two sectors, namely fishing and property/construction, which contracted by 64 and 1 percent, respectively.

Table 9: Large Exposures by Sector

N$ millions	2008	2009	2010	2011	2012	2013*
Fishing (5)	286	385	238	228	180	65
Manufacturing and Food (4)	160	167	1 024	1 264	1 413	1 598
Mining and minerals (8)	457	283	550	188	285	754
Property/Construction (10)	474	329	277	757	597	588
Tourism (2)	170	-	-	74	38	257
Transport and Logistics (7)	1 429	1 521	785	718	913	1 293
Other (16)	423	316	1 390	1 212	340	619
Total (52)	**3 400**	**3 001**	**4 263**	**4 440**	**3 765**	**5 175**
(Percentage change)						
Fishing (5)	-40	35	-38	-4	-21	-64
Manufacturing and Food (4)	19	4	513	23	12	13
Mining and minerals (8)	81	-38	94	-66	52	165
Property/Construction (10)	1	-31	-16	174	-21	-1
Tourism (2)	0	-100	0	0	-49	580
Transport and Logistics (7)	50	6	-48	-9	27	42
Other (16)	12	-25	339	-13	-72	82
Total (52)	**28**	**-12**	**42**	**4**	**-15**	**37**

*June 2013, 6 month growth

[9] During the period under review, there was a debt conversion into equity by one company and the resulting transaction being recorded in the BoP and IIP as debt service. , Balance of Payments data, 2012.

As of June 2013, large exposures to private sector corporations made up 9 percent of overall private sector credit and 25 percent of private sector credit to businesses. Both measures have increased since the end of 2012, when they stood at 7 percent and 19 percent, respectively (Table 10). This change illustrates that credit extensions to large corporates are increasing; suggesting that concentration risk to the commercial banks is also increasing.

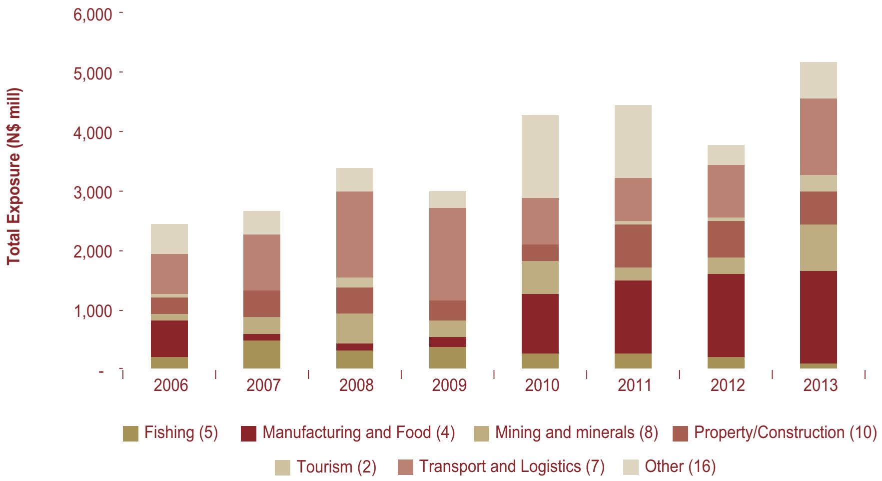
Table 10: Large Exposures

	2008	2009	2010	2011	2012	2013*
Total Largest Exposures (million)	**3 400**	**3 001**	**4 263**	**4 440**	**3 765**	**5 175**
Total PSC (million)	34 241	37 751	41 838	44 575	52 962	56 740
PSC to Businesses (million)	11 210	13 155	15 013	16 411	20 049	21 110
Large Exposures to PSC (%)	10	8	10	10	7	9
Large Exposures to Business PSC (%)	30	23	28	27	19	25

*June 2013

A significant concentration of loans remains to the manufacturing and food industry as well as the transport and logistics industry. As of June 2013, exposures to the manufacturing and food and transport and logistics sectors constituted more than 56 percent of large exposures and approximately 14 percent of total exposure to corporates. These two industries have increased in share of total large exposures over the past five years, going from just 33 percent of the total in 2009 to the current 56 percent in 2013 (Figure 11).

Figure 11: Large Exposures by Category



V. PERFORMANCE OF THE BANKING SECTOR

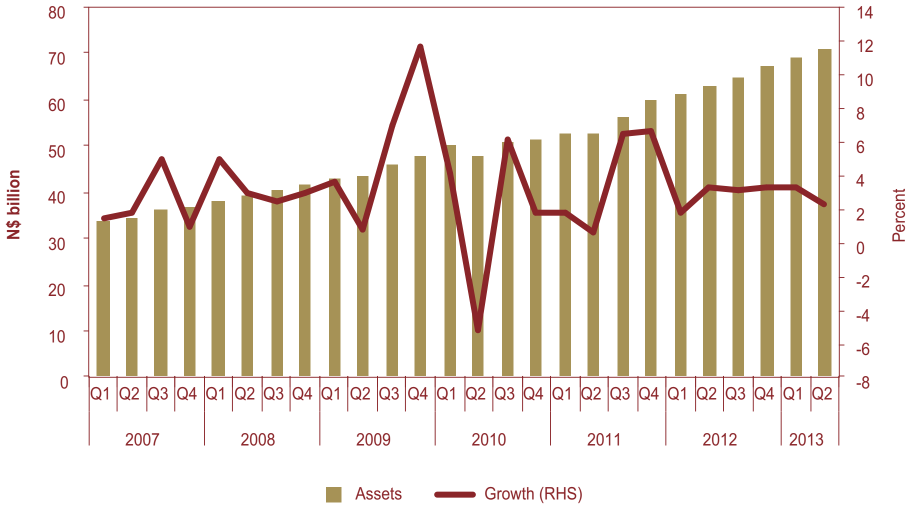
Since the review in March 2013, commercial banking institutions remain sound, profitable and adequately capitalised, as shown in the aggregated indicators of the banking sectors. *Further, there were no major changes observed in the sector's structure during the first half of 2013, as the four major commercial banking institutions continued to dominate the Namibian banking sector. The four commercial banking institutions account for close to 100 percent of the banking assets and deposits. Consequently, the sector is highly concentrated, with an Herfindahl-Hirschman Index (HHI) of 2734 points in June 2013, compared to 2727 points in December 2012*[10]**.**

The landscape of the banking sector continues to grow, with an SME Bank entering in November 2012 and a provisional license for a new entrant granted in the latter half of 2013. This, together with proposed changes to the legislation governing the business of banking is not foreseen to drastically change the structure of the sector in the near term but could do so in the medium-to-long term going forward.

Balance Sheet Structure

In the first half of 2013, the banking sector continued to be characterised by an upward trend in the total assets and the concentration in residential mortgage lending (Figure 12). The total assets of the banking sector rose by 5.8 percent during the first half of 2013, as compared with 6.6 percent during the second half of 2012. Net loans and advances, rising by 7.0 percent, remains the main driver of the growth in total assets. Within the lending categories, residential mortgages and instalments debt, with 40.4 percent and 15.7 percent share of total loans and advances respectively, rose by 5.5 percent and 5.6 percent during the period under review.

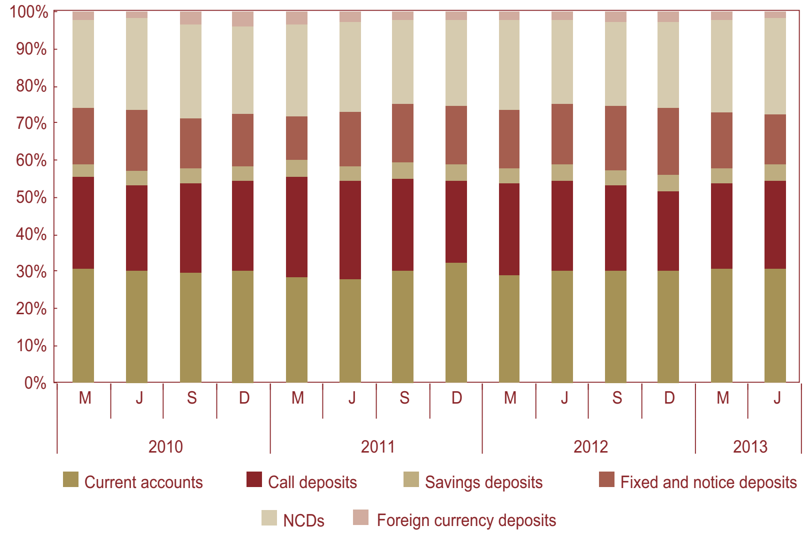
Figure 12: Banking Sector Assets and Growth Rate



[10] A score of 1 000 points is deemed competitive.

Deposits continued to drive growth on the liability side of the balance sheet. Deposits rose by 4.4 percent, raising the share of total funding-related liabilities to 96.7 percent in the first half of 2013 as compared to 93.9 percent during the latter half of 2012. The current accounts and negotiable certificates of deposits, respectively, accounting for 30.8 percent and 25.5 percent of total deposits, grew by 6.5 percent and 13.9 percent, contributing to growth in liabilities (Figure 13). During the same period, however, the fixed and notice deposits, comprising a 14.1 percent of total deposits, fell by 18.2 percent.

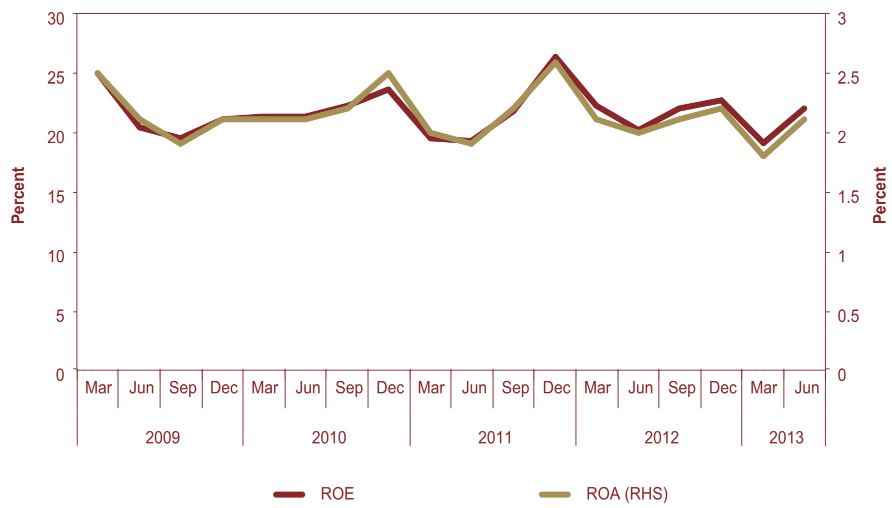
Figure 13: Composition of Banking Institution Deposits



Earnings and Profitability

Despite a marginal decline in earnings, the profitability indicators of the banking sector continued to remain relatively high by international standards in the first half of 2013. Net interest income to total income was unchanged at 55.5 percent while non-interest expenses to total income rose slightly from 56.6 percent to 56.9 percent. Thus, during the period, total income grew by 3.2 percent, compared with a growth of 12.4 percent witnessed between June 2012 and December 2012. Consequently, banking sector profitability, as measured by Return on Asset (ROA) and Return on Equity (ROE), slowed slightly from 2.2 percent and 22.7 percent at the end of December 2012 to 2.1 percent and 22.0 percent, respectively, as at the end of June 2013 (Figure 14). The ROA and ROE continue to be high by international norms.

Figure 14: Post-tax Return on Assets and Return on Equity



Capitalisation

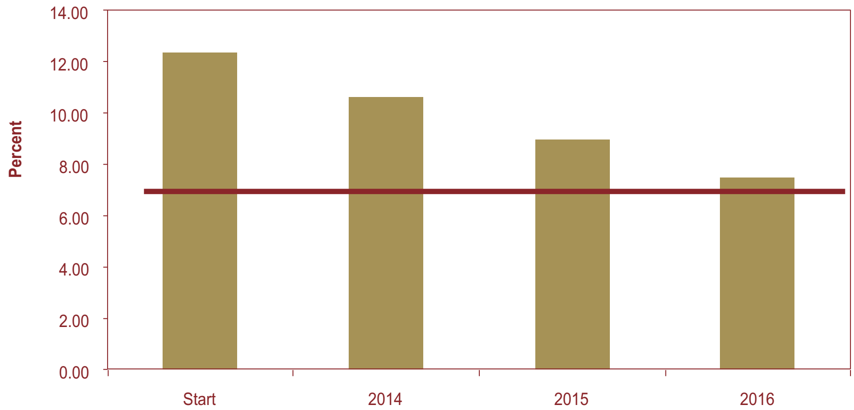
During the first half of 2013, the banking sector improved its capital adequacy, aided by retained earning and supported by an increase in risk-weighted assets. The risk-weighted capital ratio (RWCR) rose marginally from 14.2 percent at the end of December 2012 to 14.4 percent at the end of June 2013, although Tier-1 risk-based capital ratio fell from 10.9 percent to 10.7 percent during the period. The prevailing supervisory floors for the RWCR and Tier-1 capital remained at 10.0 percent and 7.0 percent, respectively.

Stress Testing for Capital Adequacy

Stress test scenarios were conducted to examine the extent to which the 'first' capital buffer (Core Tier 1 capital) would be able to withstand an increase in credit risk in the form of an increase in default rates. The tests were conducted on the four main commercial banking institutions in the country (see Appendix C for more details on methodology). The result is presented in Figure 15 below.

For financial data as at June 2013, the stress test exercise indicates that commercial banking institutions are adequately capitalised in the event of an increase in the default rate of the sectors to which they are exposed. The model links credit risk to the expected losses by trends in Probability of Default (PD) and Loss Given Default (LGD) for various sectors of the economy. Thus, given a commercial banking institution's exposures, the model shocks default rates originating from each of the sector to which it is exposed. These rates are combined with balance sheet data, income statements and capital returns in order to get an estimate of the institutions regulatory capital level. The Bank of Namibia requires the banking institutions to carry higher capital buffers, at 7 percent, than expected by the Basel II qualifications.

Figure 15: Results of Core Tier 1 Ratio after shock administered, on an aggregate level



Liquidity

The banking sector remained complaint with regulatory liquidity requirements during the period under review. Although, the liquid asset ratio (liquid assets to average total liabilities to the public), a core indicator of financial soundness, fell from 12.4 percent at the end of the second half of 2012 to 11.1 percent at the end of the first half of 2013, it remained above the 10.0 percent required level (Figure 16).

The banking sector also met the regulatory minimum asset holding requirements[11] with an average surplus stock of N$0.71 billion (or 10.9 percent of liquid assets required), during the first half of 2013. The composition of liquid assets remained relatively unchanged during the review period (Figure 17). The largest liquid asset category continued to be the Government Treasury Bills, at 54.5 percent of total liquid assets as at the end of June 2013, compared with 53.9 percent at the end of December 2012.

[11] The minimum asset holding requirement is 10 % of average total liabilities to the public.

Figure 16: Liquid Assets and Liquid Ratio

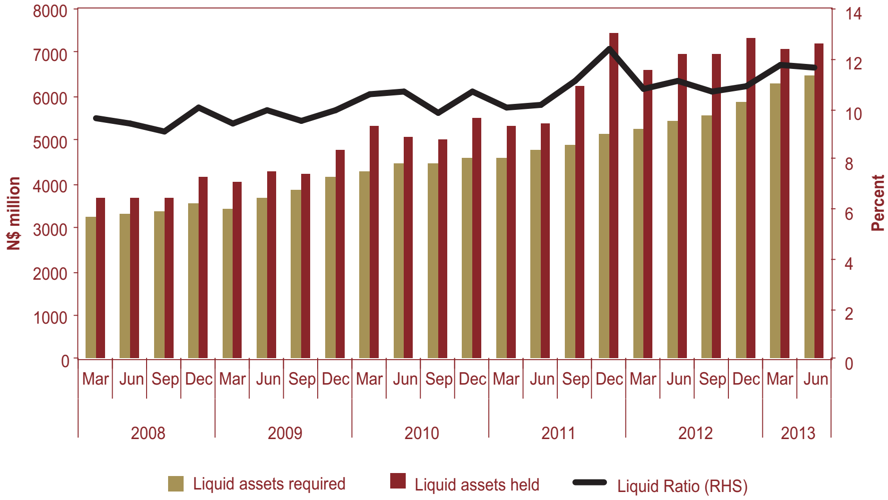
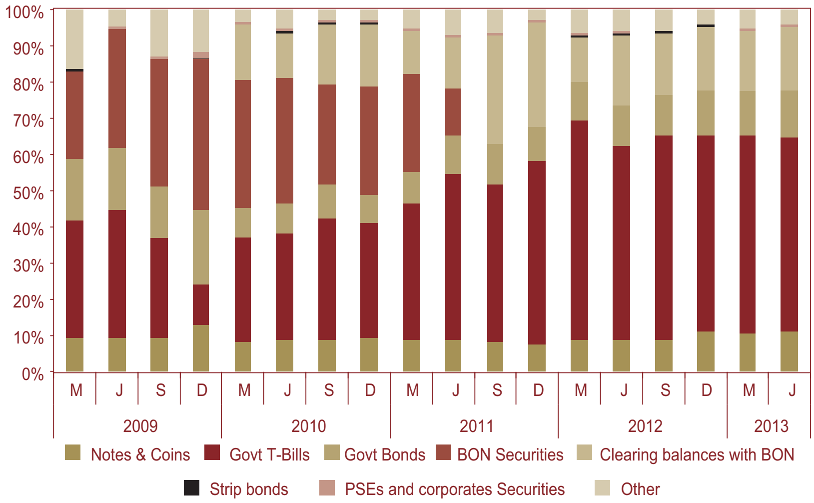


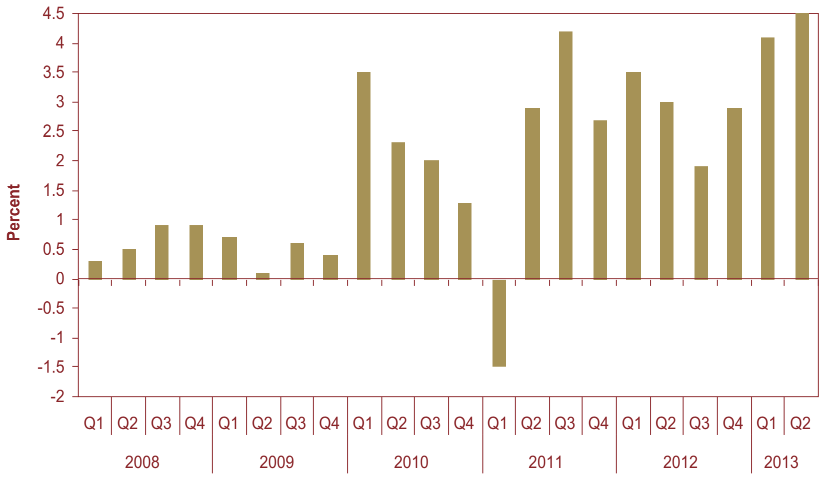
Figure 17: Composition of Liquid Assets



Foreign Exchange Risk

The net open position remained adequate to safeguard the banking sector against movements in foreign exchange rates in the first half of 2013. The ratio of foreign currency assets and liabilities to capital in the banking sector rose from 2.9 percent at the end of December 2012 to 4.9 percent at the end of June 2013 (Figure 18). Tier 1 capital improved by 5.1 percent while net open position rose by 77.4 percent, thus leading to a rise in the resulting ratio. Notwithstanding the increase, the ratio still remained well below the 20 percent regulatory limit.

Figure 18: Net Open Position as Percentage of Tier-1 capital



Interest Rate Risk

The risk of loss in interest income or qualifying capital funds from interest rate movements remained limited. As at the end of June 2013, simulation results revealed that a 200 basis-point decline in interest rates would have a cumulative weakening in banking institutions' net interest income of about N$317.8 million over the following 12 months. The same movement would lead to an N$54.2 million fall in the banking industry's economic equity value or, equivalently, 0.7 percent of the industry's capital value. On the other hand, an increase in interest rate of the same size would result in an N$317.8 million and N$54.2 million increase in net interest income and equity, respectively. Thus, the effect of movements in interest rates on banking institutions' balance sheets and profit and loss statements are rather minimal.

Credit Risk

Despite a low interest rate environment, credit risk, as expressed by the ratio of non-performing loans (NPLs) to total loans, started rising again after a decline in the later half of 2012. Credit risk edged up from 1.3 percent at the end of December 2012 to 1.5 percent at the end of June 2013 (Figure 19). This development brought to an end the gradual downward trend of the last four years. Credit risk remained the major risk on the asset side of the banking balance sheet, with bank lending to the private sector averaging 76.4 percent of banking assets during the first half of 2013.

The increase in NPLs during the first half of 2013 was reflected not only in an increase in non-performing mortgage loans but also in the growth of non-performing overdrafts (Figures 20 and 21). The non-performing mortgage loans and non-performing overdrafts rose by 15.4 and 15.8 percent, respectively. Within NPLs, the share of non-performing mortgage loans and non-performing overdrafts accounted for around 55.7 percent and 13.8 percent, respectively. An increase in the proportion of non-performing loans, net of provisions, to total qualifying capital increased from 0.8 percent at the end of December 2012 to 1.4 percent at the end of June 2013, which is low by international standards.

Figure 19: Banking Asset Quality

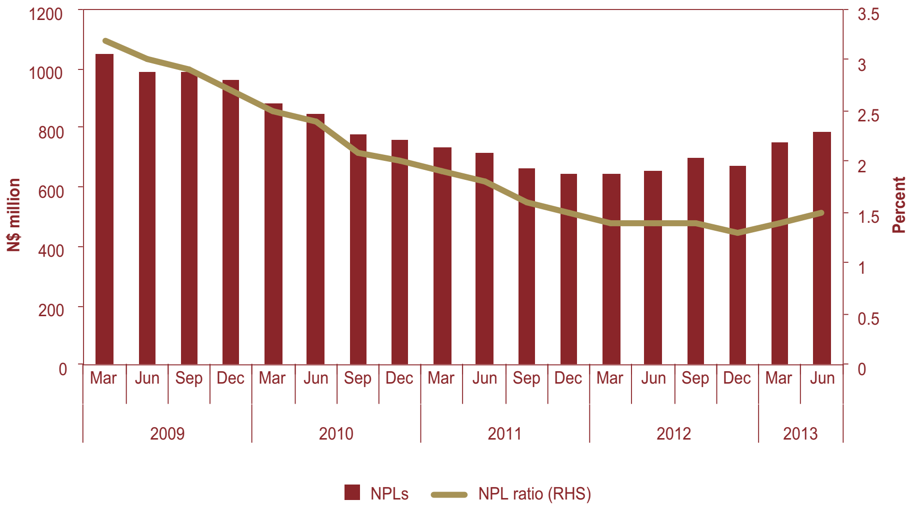


Figure 20: Non-Performing Loans by Category

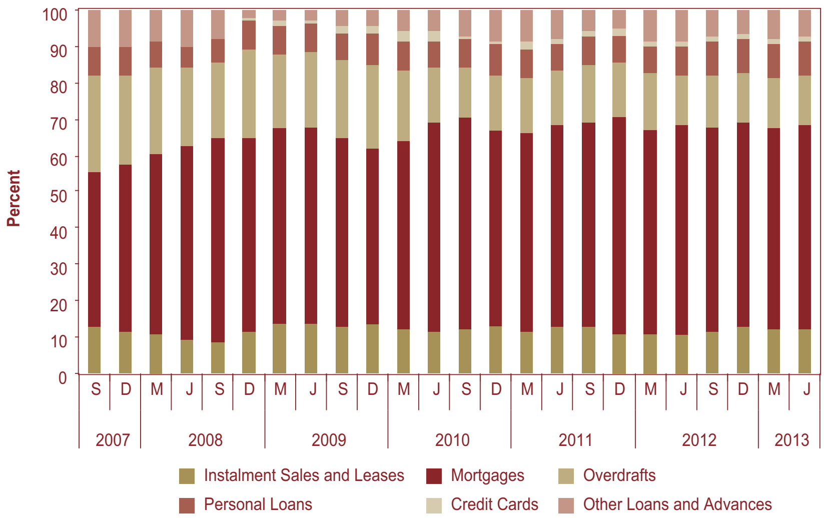
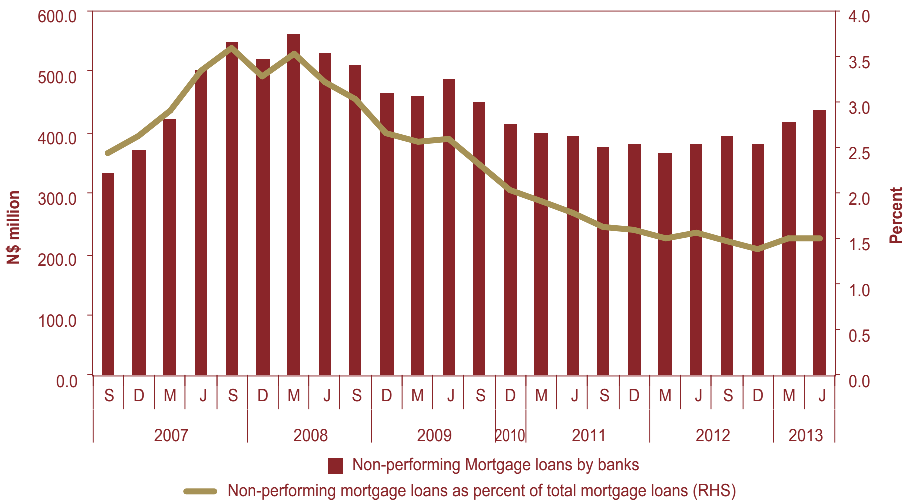


Figure 21: Non-Performing Mortgage Loans



Box Article I. Monetary Policy and Financial Stability

I. Introduction

This box article discusses and analyses the evolving relationship between financial stability and monetary policy in general and in Namibia in particular, to explain why financial stability is important for effective monetary policy. The recent financial crisis and its aftermath raised numerous questions about the appropriate relationship between financial stability considerations and the conduct of monetary policy. This is mainly due to the fact that, while efforts to achieve price stability through monetary policy are necessary, they are not sufficient in themselves to ensure financial stability during the crisis. There is now consensus that monetary policy and prudential supervision must interact in ways that increasingly demand a unified and mutually reinforcing framework. This requires an understanding and appreciation of the inter-dependence of monetary and financial stability policies.

II. The Relationship between Monetary Policy and Financial Stability: Historical context

Historically, the relationship between monetary policy and financial stability has not been well understood. More specifically, the interaction between monetary and macro prudential policies has almost always been seen as two different tools designed to achieve separate policy objectives and not as complimentary policy tools to promote both monetary and financial stability. Until recently, the conventional wisdom was that the primary purpose of monetary policy was the achievement of price stability, meaning the instruments of monetary policy were expected to address only the consequences of financial imbalances. Given the inter-linkages of the financial system, there is an emerging consensus now towards a more active engagement of monetary policy in preserving financial stability.

Why is financial stability important to effective monetary policy?

William Dudley, the President and CEO of the Federal Reserve of New York, recently gave a talk on financial stability and noted[12] that financial stability is a prerequisite for the proper and effective functioning of monetary policy, the banking sector and the real economy. Monetary policy cannot work when there exists financial instability. Therefore, central banks have an interest in ensuring a stable financial system and for credit intermediation function to continue un-interrupted. This includes taking action to eliminate sources of vulnerabilities whenever they may arise.

The inter-linkages between monetary and macroprudential policies necessitate that these functions be closely aligned. While recognising the concern and argument that having the central bank involved in the oversight and regulation of the financial system puts 'too much power' in the hands of one authority and could threaten the central bank's independence with respect to monetary policy, Dudley (2013) counters that the bigger risk lies in monetary policy that fails to accomplish its economic objectives because of financial instability. Crockett (2001) further supports this argument by noting that coherent and unified policies are easy to accomplish when undertaken by the same authority. To this effect, it is argued that central banks are most suited to carry out the responsibilities of monetary formulation and financial stability. In particular, financial stability assessment and monetary policy formulation and implementation require understanding of the manner in which macroeconomic developments interact with financial institutional behavior.

III. Interaction between Monetary Policy and Financial Stability: the Namibian Context

The Bank of Namibia has a double mandate of monetary policy formulation, which is underpinned by the fixed-exchange rate with the South African Rand, and financial stability. Monetary Policy involves adjusting the repo rate as required by economic realities, with the aim of price stability in the interest of supporting sustainable economic growth. The Bank of Namibia Act (Act 15 of 1997 as amended) stipulates that the central bank shall 'promote and maintain a sound financial system in Namibia and sustain the functioning of that system'. The conduct of financial

[12] The speech was delivered at the Andrew Crockett Memorial Lecture at the BIS 2013 Annual General Meeting in Basel, Switzerland on 23 June 2013.

stability through macro-prudential policy[13] involves an overall surveillance of the banking sector, the non-banking financial sector as well as the payment system (processes and infrastructure) – in other words, the financial system.

A cooperation framework related to financial stability exists between the Bank of Namibia and NAMFISA. Because monetary policy and prudential supervision interact in ways which increasingly demand a unified and mutually reinforcing framework, the cooperation between the two regulators encompasses data sharing, policy coordination and unified resolution strategies of ailing institutions. Consultations between the regulator of the banking sector and the regulator of the non-banking financial sector occur quarterly, and more often as required. Additionally, a Financial Systems Stability Committee, comprising of representatives from the Bank of Namibia and NAMFISA (see page 2 of this report) convenes on matters relating to the health of the system. Through this framework, the two institutions communicate to the public the state of the domestic financial system via Financial Stability Report.

IV. Conclusion

Achieving the twin goals of monetary policy and financial stability requires mutually reinforcing anchors and an appreciation of the interdependence of policy in the two areas. The task requires that the central bank understand the general and specific risks to the banking and non banking financial sectors of the economy and their interplay because a stable financial system is necessary for the effective transmission of monetary policy. Thus, while the monetary policy powers of the Bank of Namibia may be limited due to the fixed-currency arrangement, macroprudential policy offers complementary tools to ensure both financial and price stability in economy, in the interest of sustained economic growth.

We conclude the article with a quote from Crockett (2001) *"Systemic stability remains a key challenge for financial authorities worldwide. Nobody, least of all an Asian audience, needs to be reminded of the costs of crisis and disruption in the financial sector. An enormous amount has been achieved in improving the capacity of the financial system to contribute to economic growth and development. The task now is to ensure that adequate defenses are in place to understand and limit the system's exposure to financial instability."*

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[13] as opposed to micro prudential banking supervision

VI. PERFORMANCE OF THE NON-BANKING FINANCIAL SECTOR[14]

The balance sheets of non-banking financial intermediaries remain robust, with institutions witnessing double-digit growth during the last half of 2012. The provident institutions remain well capitalised, with solvency levels in excess of those required by statute. The investment institutions, in line with regulatory requirements and the risk appetite of their clients, predominately invested their assets locally. NBFI linkages to the domestic, regional and foreign capital markets remain significant and thus continue to be monitored.

The non-bank financial sector plays an important role in the intermediation of savings and risk transfer of individuals and corporations. Within the sector, the predominant shares of assets are held by pension funds and long-term insurers. The assets of non-bank financial institutions (NBFIs) - most of which are administered by investment managers and unit trust management companies - constitute 139 percent of Namibia's nominal GDP and about 2.5 times the size of the money supply in Namibia (see Table 11).

Table 11: NBFI assets and relative size, December 2012

Figures in N$ Millions	Unit Trusts	Investment Managers	Other/ Direct	Total	% of Total
Long Term Insurance	1 101	16 134	14 419	31 654	21
Short Term Insurance	198	770	2 034	3 002	2
Medical Aid Funds	46	320	492	858	1
Pension Funds	1 511	62 400	21 846	85 757	57
Companies	5 413	524	---	5 937	4
Natural persons	17 817	25	---	17 842	12
Other	1 891	2 754	---	4 645	3
Total	**27 977**	**82 927**	**38 791**	**149 695**	**100%**
Measure			N$ Millions	% of measure	
GDP			107 323	139	
Money supply			61 330	244	

Source: NAMFISA
---: No data.

There are significant inter-linkages between the different NBFIs, as well as the banking sector. Table 12 provides an overview of the usage of unit trusts and investment managers by the different NBFIs. Although there will be double counting, Table 11 provides an overview of how the balance sheets of different types of NBFIs have grown since 2010, and their asset size relative to GDP.

[14] This section analyses data up to December 2012 only, unless otherwise stated, due to data limitations.

Table 12: Size of Balance Sheets of NBFIs

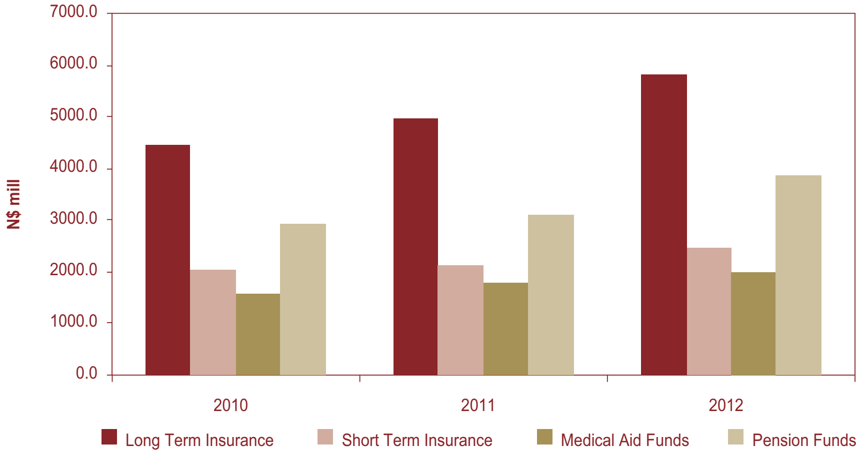
	Dec 2010		Dec 2011		Dec 2012	
	1/Assets	% of GDP	Assets	% of GDP	Assets	% of GDP
Long Term Insurance	25158	31	26 736	29	31 654	29
Short Term Insurance	2357	3	2 624	3	3 001	3
Medical Aid Funds	674	1	768	1	858	1
Pension Funds	63 903	79	69 478	76	85 757	80
Unit Trusts	25 991	32	27 526	30	32 106	30
Investment Management	86 055	106	91 665	100	109 110	102
Micro-lending	1 118	1	1 501	2	1 753	2
Nominal GDP (N$ mill)	81 016		91 658		107 323	

1/Assets measured in N$ million

Source: NAMFISA

Growth within the NBFI sector remains robust. As at 31 December 2012, the year-on-year asset growth (or loans outstanding for micro-lenders) of all NBFIs was positive, from 12 percent for medical aid funds to 23 percent for pension funds. Income from contributions and premiums for the provident institutions (long-term insurance, short term insurance, pension funds and medical aid funds) increased by 18 percent to N$14 billion for 2012 (Figure 22).

Figure 22: Premium and Contribution Growth of Provident Institutions

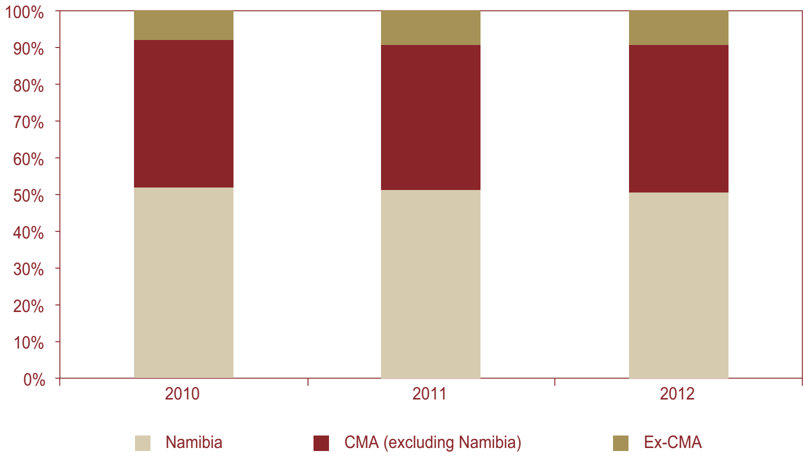


Source: NAMFISA

Provident institutions remain adequately capitalised, with the solvency levels of provident institutions remaining at levels in excess of those required by statute, and are sufficient to withstand the risks to which these institutions are exposed. As discussed elsewhere in this report, 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 policy holder, and does not pose solvency problems. For the remainder, as well as short-term insurers and medical aid funds, solvency capital exists to absorb any capital market and claims experience volatility.

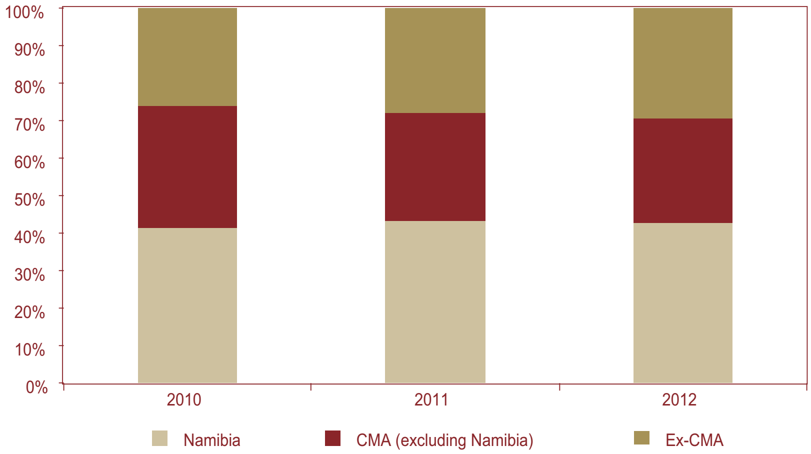
The assets of NBFIs are predominantly invested locally, which includes dual-listings on the NSX. Figure 23 provides an overview of the jurisdictional asset allocation of unit trust scheme and investment managers and Figure 24 provides asset allocation information for pension funds. Worth noting is that unit trust and investment managers invest slightly more than 50 percent in Namibia, 40 percent in CMA (almost exclusively South Africa) and 10 percent outside of the Common Monetary Area (CMA). Conversely, pension funds invest slightly more than 40 percent in Namibia, 30 percent in CMA (almost exclusively South Africa) and 30 percent outside of the CMA.

Figure 23: Jurisdictional Asset Allocation of Unit Trusts and Investment Managers



Source: NAMFISA

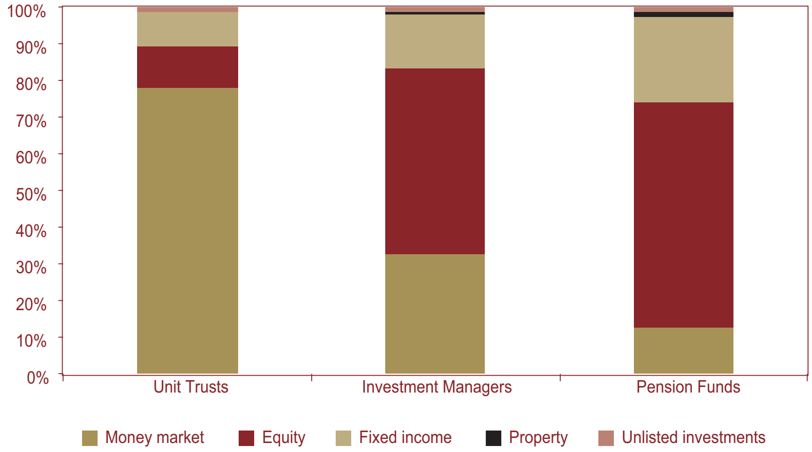
Figure 24: Jurisdictional Asset Allocation of Pension Funds



Source: NAMFISA

Asset class allocation reflects the risk appetite and liabilities of institutions and investors (Figure 25). Unit trusts invest more than 70 percent of their assets in money market instruments which matches the risk appetite of their main clients, natural person. Investment managers invest approximately 50 percent of their assets in equity and 30 percent in money market instruments as their predominant clients are pension funds, long-term insurers and unit trusts. Pension fund invest 60 percent of their assets in equity and 20 percent in fixed income, these assets suit their liabilities (explicit and implicit).

Figure 25: Asset allocation of Unit Trusts, Investment Managers and Pension Funds, December 2012

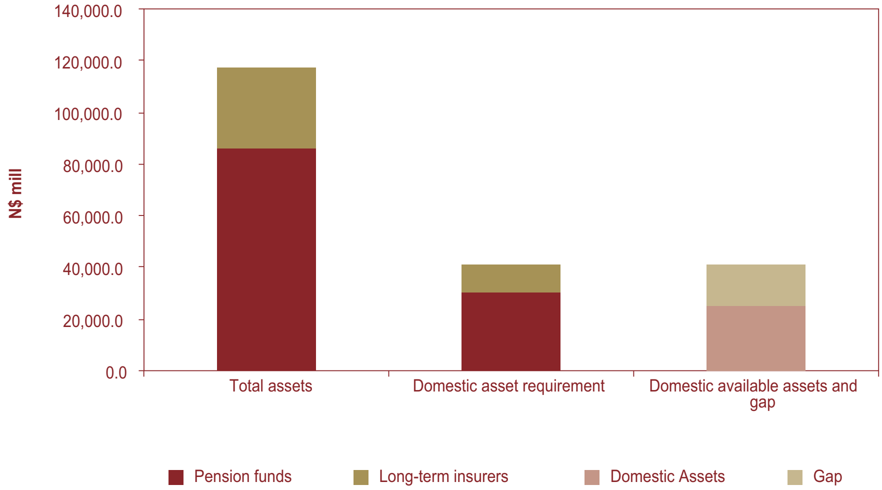


Source: NAMFISA

Capital market growth remains lacklustre. Although the market capitalisation of locally listed shares on the NSX increased by 19 percent during 2012, the total domestic market capitalisation remains low at slightly over N$11.5 billion at 31 December 2012 (N$17 billion at 30 June 2013), relative to the assets that are required to be invested in Namibia for provident institutions. Provident institutions are subject to regulations that require 35 percent of their assets to be invested locally (Figure 26).

The growth of assets of provident institutions and the limited stock of local equity on the NSX may result in asset price inflation and reduce liquidity on the NSX. As at 31 December 2012, the domestic asset requirement of pension funds and long-term insurers exceeded domestic assets by approximately N$13 billion. Although these institutions are the largest investors in Namibia, there are other institutions that compete for the same assets and this exacerbates the problem. It is likely that the excess assets of pension funds and long-term insurers will be invested through the banking sector. Monitoring of these developments is warranted. The financial sector strategy aims to develop the domestic financial market to this end.

Figure 26: Domestic Asset Requirement of Pension Funds and Long-term Insurers versus Available Local Investments



1/Domestic Assets are calculated to comprise of NSX free float available for trading, Government stock, Treasury bills and other corporate paper.

Source: NAMFISA

The exposure of the banking sector to NBFIs is likely to continue and any remedial policy intervention will have to be phased to reduce the impact on the banking sector. Under the status quo, the exposure of the banking sector to NBFIs is set to increase. Domestic asset requirements on provident institutions, robust growth in NBFIs and the bias of unit trusts to money market instruments will increase NBFI investment in banking products and this warrant continuous monitoring.

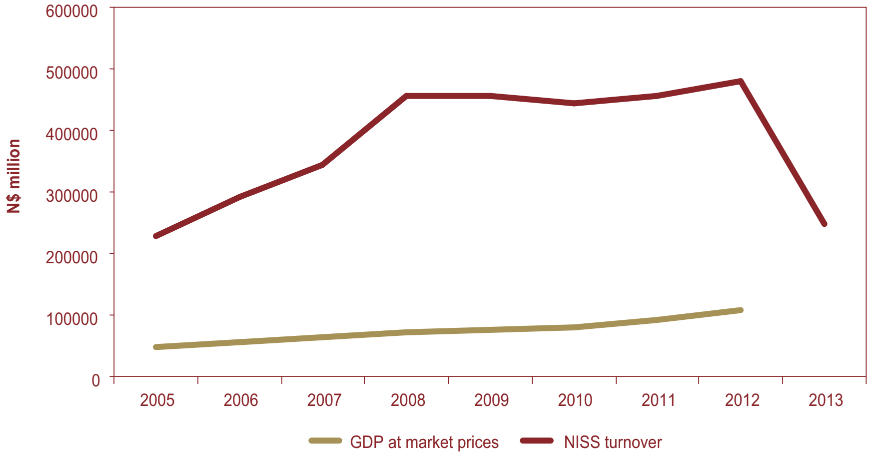
VII. PAYMENTS INFRASTRUCTURE AND REGULATORY DEVELOPMENTS

Since the issuance of the FSR in March 2013, the payment infrastructures continue to operate relatively effective and efficient to date with no major outages. However, some operational controls are currently being reviewed in order to further strengthen efficiencies. The payment and settlement systems have performed satisfactorily and exhibited a high degree of availability over the last six months. However, some inadequacies in the operational controls environment have been identified through the Bank's normal off-site monitoring and on-site inspection activities. Such operational issues are managed and resolved in accordance with the Bank's Oversight Policy Framework. The overseers normally participate in the incident analysis and ways to prevent such incidents in the future and also discuss ways of improving the operational controls environment with the service providers.

Key Trends in Payment and Settlement Systems

An indicator of the importance of the settlement systems for the national economy is the value of payments settled through these systems. The NISS turnover to GDP ratio is relatively large in Namibia compared to other countries (Figure 27).

Figure 27: GDP and NISS turnover



Source: Bank of Namibia, Namibia Statistics Agency

NISS payments during the first half of 2013 decreased compared to the second semester of 2012. NISS payments during the first half of 2013 averaged 4 070 payments per month settled, at a total value of N$242 billion. The value and volume of payments settled in NISS decreased by 8 percent and 3 percent respectively in the first half of 2013 compared to the same period in 2012. The share of gross payment[15] value settled reached 60 percent in NISS and that of retail value[16] settled in NISS stood at 40 percent in terms of value (Figure 28).

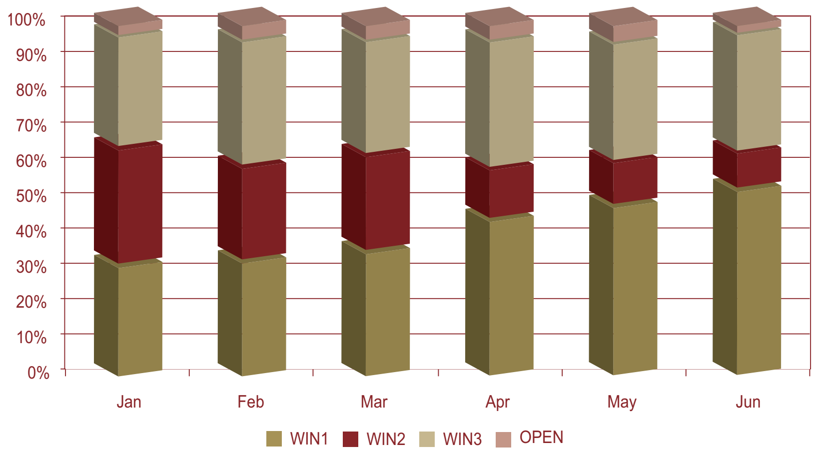
[15] Interbank and customer payments
[16] The EFT, Cheque and NamSwitch systems

Figure 28: Value of Payments Processed in NISS

Settlement Windows

Since the last Financial Stability Report was issued in March 2013, operational and settlement risks moderated as the majority of payments, in terms of value, were settled early in the day. Settlement window periods for payments submitted and processed daily indicate that: around 42 percent, or N$101 billion in payments, was settled in Window 1 (08h00 to 12h00 hours); 21 percent, or N$49 billion, in Window 2 (12h00 to 15h00 hours) and 34 percent, or N$83 billion, in Window 3 (15h00 to 16h40 hours). Although a larger portion of total value was settled during Window 1, a third of the settlement in value terms took place during Window 3 (Figure 29). This leaves room for further improvement to have more of Window 3 transactions settled during Windows 1 and 2. Having a lot of transactions settled late in the day heightens operational risk to the Namibian payment system because a failure in the system at such point, does not give sufficient time to resolve the problem to enable the affected transactions to be settled on the exact date intended.

Figure 29: Values Settled Per Settlement Window

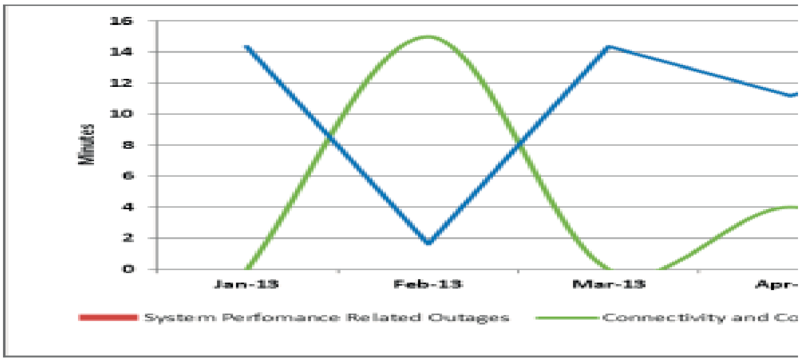


Disruptions to the NISS System

Disruptions to the system were recorded over the first half of 2013, but did not pose any major threat to financial stability. Generally, any strains in the financial system are likely to be reflected in the payment system, with settlements being affected due to liquidity issues faced by one or more of the participants. Thus, due to the interconnected nature of payment systems, such disturbances have the potential to transmit themselves to other participants as well, leading to issues of financial stability.

Since interbank settlement systems play a significant role in the smooth functioning of the money circulation, high operational availability requirements are being set on the settlement systems managed by the Bank. To guarantee the required processing and control standards, it is important to find out possible disruptions, to analyse them and then eliminate both the disruption and its cause. The overseers were promptly notified of operational problems affecting the NISS and the solutions thereof. During first half of 2013, the average NISS availability ratio was 99.99 percent. The system was not available for a total of 19 minutes attributed mainly to connectivity and communications related outages (Figure 30). The failures were of temporary nature and were resolved within a reasonable period of time and posed no major threat to Namibia's financial stability. However, the availability of NISS was still above the accepted availability level of 98.50 percent.

Figure 30: NISS Performance Outages



Security of Retail Payments

Overall card fraud losses have remained negligible in comparison to international standards, accounting for 0.43 percent (compared to 0.12 percent in the second half of 2012) of total value of retail card payment transactions in the first second half of 2013. As electronic commerce transaction volumes continue to rise, it is clear that the risk related to *card-not-present (CNP)* fraud would continue becoming more significant. The benefit that the industry initiated Europay-MasterCard-Visa (EMV) migration provides will translate only in the reduction of forged or counterfeit card fraud. CNP fraud will remain constant and to manage this type of fraud in the future, a holistic phased strategy has to be implemented.

Total card fraud per category (i.e. lost or stolen cards, forged or counterfeit cards, CNP, not received issued cards and card identify theft) varied over the period under review, with CNP continuing to rise. Forged or counterfeit fraud accounted for 51 percent of the total fraud, while the share of CNP fraud accounted for 37 percent, card identity theft and lost or stolen card accounted for 8 percent and 4 percent, respectively. There were no significant differences from the past regarding the transaction channels used by fraudsters. Fraud incidents at the ATMs accounted for 24 percent of total fraud, while the share of CNP fraud accounted for 39 percent and the share of face-to-face or point-of-sale (POS) fraud accounted for 37 percent.

Future Developments in Payment and Settlement Systems

The Bank of Namibia is undertaking efforts to clarify and increase transparency in the way the payments and settlement system is operated and to reduce risks associated with outstanding regulatory gaps. A framework which defines the eligibility of prospective players to participate in the clearing and settlement system was gazetted on 2 April 2013. Additionally, a prospective study is being undertaken to assess the costs of provision of payment services. This information should assist the Bank of Namibia in determining the cost-effectiveness of the National Payment System and identify areas where greater efficiencies can be introduced.

VIII. CONCLUDING REMARKS AND POLICY RECOMMENDATIONS

Concluding Remarks

The assessment of the financial system indicates it to be stable, with commercial banking institutions, in particularly, being profitable and adequately capitalised. The Bank of Namibia considers the four main commercial banking institutions to be financially sound and that the risk that they will become distressed in the near future is low. This is demonstrated by the strong earnings and relatively low loan losses. Additionally, the commercial banking institutions have also increased their core tier ratios. Nevertheless, the concentration of banking assets in mortgage assets remains a concern.

Private sector debt levels remained high, even though household debt to disposable income remains largely unchanged. The household debt to disposable income ratio is estimated at 84.7 percent as at end of June 2013 as compared to a level of 84.6 percent at the end of 2012. Despite the prevailing low interest environment, the indicators remain above regional levels.

Corporate debt levels increased during the first half of 2013, due to increased in new borrowing coupled with a weaker exchange rate. Corporate issued debt grew by 8.0 percent during the period under review.

Although the balance sheets of non-banking financial intermediaries appear to be robust, NBFI warrant continuous monitoring due to their linkages to the domestic, regional and foreign capital markets. On the domestic front, investors report that the lack of availability of domestic assets in which to invest remains a concern for the sector. On the external front, NBFIs are creditors' vis-à-vis the rest of the world and, therefore, are exposed to foreign financial market contagion.

Lastly, the payment and settlement systems have performed satisfactorily and exhibited a high degree of availability over the past six months, underpinned by increased use as well as reduced outages and disruptions.

Recommendations

Macroeconomic Environment

- As noted in the March 2013 FSR, addressing the financial vulnerabilities arising from a weak international environment demands preventive policy actions to limit the build up of systemic financial risks and minimize negative impact on the real sector. In this context, strong policy coordination among the Ministry of Finance, the Bank of Namibia and NAMFISA is warranted.

Private Sector Debt

Households

- The level of household debt warrants monitoring by the Bank of Namibia and by the country's commercial banking institutions. Both household debt-to-disposable income and debt servicing ratios are potentially of concern and warrant monitoring; particularly should interest rates increase in the future.

- The Bank of Namibia as Regulator has tools in place to ensure that the local commercial banking institutions measure, monitor and control risks identified. Commercial banking institutions are required to conduct regular stress testing on the impact of possible interest rate shocks on their financial performance. In addition, the Bank of Namibia applies a 50 percent risk-weight to residential mortgage loans to ensure that commercial banking institutions have an adequate capital buffer to absorb possible losses. At the same time, the Bank of Namibia is investigating the possibility of the use of a loan-to-value ratio for second properties to contain household leverage. A position paper on this matter is currently under preparation.

Corporations

- Large increases in corporate debt, particularly foreign currency denominated debt, warrant monitoring going forward. Should the Namibia dollar continue to weaken vis-à-vis major currencies, a significant increase in the repayment burden experienced by these borrowers could be expected. Similarly, notable increases in large exposures are recorded. These levels of exposures however remain within regulatory limits, and increases are likely to be temporary in nature. No immediate action is required, but the situation will be monitored for changes going forward.

Banking Sector

- Although current policies and regulations of the Bank of Namibia remain adequate to ensuring stability in the banking sector,[17] exposure risk to the banking sector in the form of the mortgage loans extended category needs to be addressed and the central bank is investigating forward-looking policy measures which might help mitigate this risk.

Non-Banking Financial Sector

- In line with the Financial Sector Development strategy, concerted effort is necessary to develop the domestic capital market so as to keep up with the robust growth of NBFI assets and limit the (necessary) foray into, and contagion risk from, global financial markets. The idea is to affort the NBFIs to invest locally and at the same time reduce their foreign risk exposure. As NBFIs provide a source of liquidity to commercial banking institutions, care should be taken to ensure that potential reduced exposure of NBFIs to the banking sectors is phased.

- Related to the above, because NBFIs' allocate large amounts of their financial liabilities in short-term money market instruments, extending the yield curve on government debt could potentially prove a welcome development for the NBFIs while providing a leading indicator to private sector issuance of long-term debt. A formal market in domestic fixed income also needs to be developed.

Payments Infrastructure and Regulatory Developments

- Efforts to improve the control environment in the payment and settlement systems, ensuring that the residual risk level is significantly reduced. The bank is planning in the short to medium term to effect a NISS self assessment, as well as a full scope on-site inspection in terms of compliance with the new Principles of Financial Market Infrastructures (PFMIs) and the Bank's Oversight Policy Framework. This would ensure that NISS would address the identified operational controls gaps and hence, become fully compliant with international best standards in terms of payment processing and payment systems controls environment.

- Efforts to mitigate the risk and instances of forging and counterfeit fraud involve a phased strategy that includes the introduction of Europay-MasterCard-Visa (EMV) technology. This is combined with industry initiatives such as the creation of the Financial Institutions Fraud and Security Committee, with the objecti ve of driving visibility and sharing of industry best anti-fraud practices.

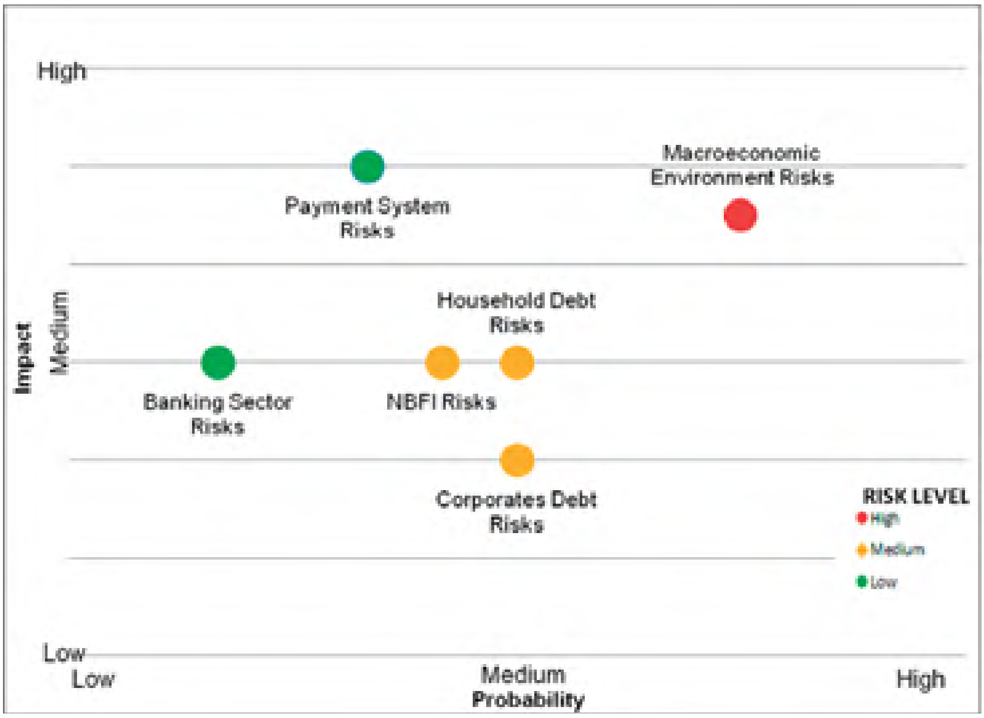
- To counter the rise of card-not present (CNP) fraud, a strategy revolving around the introduction of 3 Domain Secure (3DS) is recommended.

[17] The Bank of Namibia applies a 50 percent risk-weight to residential mortgage loans and 100 percent risk-weight to commercial real estate loans to ensure that commercial banking institutions have an adequate capital buffer to absorb possible losses.

IX. APPENDICES

A. Risk Analysis

Fig 1: Risks to Financial Stability as at September 2013



B. Performance of the Non-Banking Financial Sector

Financial Soundness Indicators

Table 1: Financial Soundness Indicators

	Jun '11	Dec '11	Jun '12	Dec '12	Jun '13
Number of banking institutions	5	5	5	5	6
Total assets of banking institutions (N$ '000 000)	52 782	59 971	62 886	67 068	70 068
Assets/GDP	61.4	66.0	65.5	65.0	
Capital Adequacy (%)					
Tier 1 leverage ratio	8.7	7.8	8.5	8.0	8.0
Tier 1 capital ratio	11.1	10.8	11.5	10.9	10.7
Total RWCR	14.7	14	14.5	14.2	14.4
Asset Quality					
NPL/Total gross loans	1.8	1.5	1.4	1.3	1.5
Gross overdue/ Total loans and advances	4.5	3.5	3.9	3.6	7.3
Provisions/Total loans	1.5	1.4	1.3	1.2	1.3
Provisions/NPLs	84.6	94	93.0	91.6	86.6
Specific provision/NPLs	31.3	33.3	32.0	29.4	26.5
Earnings and Profitability					
Return on assets	1.9	2.6	2.0	2.2	2.1
Return on equity	19.2	26.4	20.2	22.7	22.0
Net interest margin	4.9	5.7	5.4	5.6	5.4
Cost to income ratio	60.1	52.3	61.4	52.6	56.9
Liquidity (%)					
Liquid assets to total assets	10.2	12.4	11.1	10.9	10.2
Total loans/Total deposits	89.1	82.2	84.5	85.6	87.8
Total loans/Total assets	76.1	71	73.0	74.5	75.4

Source: Bank of Namibia

Stress Testing

Methodology

Stress testing is an exercise where the stability and resilience of a system is tested by applying a shock to it. Broadly, central banking institutions test for credit risk, market risk and liquidity risk to determine how the financial health of the banking sector would fare under certain probable scenarios. The scenarios are determined based on an understanding of the financial and real sectors as well as tail risks.

The Bank of Namibia, as part of its surveillance of the banking sector, conducts stress tests on the banking sector based on low probability but significant impact risks. The results presented in the current issue of the Financial Stability Report are derived from a model used by the Bank.

The model links trends in Probability of Default (PD) and Loss Given Default (LGD) of the banking institutions observed by the various sectors of the economy to which they are exposed, to the balance sheets, income statements and capital returns of the banking institutions. NPLs and provisioning as ratios to distributional exposure are employed as proxies for PDs and LGDs. The data used for the purposes of the exercise is confidential; the results do not identify a specific commercial banking institution.

A shock was applied to the 13 category exposure of the commercial banking institutions to stress test credit risk. The simulations were done to examine the effects of increase in default rates on Core Tier 1 ratio, which serves as the first 'line of defence' against capital loss. The assumption is a possible increase in default rate in all the sectors, at a rate of 20 percent to the base and subsequent losses in the years under shock, from 15 percent to 5 percent (Table 3 below)

Table 2: PD and LGD ratios used

	Sector Aggregate (%)							
	Start		2014		2015		2016	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Agriculture & Forestry	0.96	0.29	1.15	0.35	1.10	0.34	1.21	0.37
Fishing	2.54	0.68	3.05	0.82	2.92	0.79	3.20	0.86
Mining	0.31	0.09	0.37	0.11	0.35	0.10	0.39	0.11
Manufacturing	1.84	1.28	2.21	1.53	2.11	1.47	2.32	1.61
Construction	2.06	0.76	2.47	0.91	2.37	0.87	2.60	0.95
Elec., Gas & Water	1.02	0.32	1.23	0.38	1.18	0.36	1.29	0.40
Trade & Accom.	0.86	0.25	1.03	0.30	0.99	0.29	1.09	0.31
Transport and Comm.	0.73	0.25	0.88	0.30	0.84	0.29	0.92	0.32
Finance & Insurance	0.76	0.29	0.91	0.35	0.87	0.33	0.95	0.36
Real Estate & Bus. Services	0.88	0.14	1.06	0.17	1.02	0.17	1.11	0.18
Govt Services	0.25	0.08	0.30	0.09	0.29	0.09	0.32	0.10
Individuals	1.97	0.59	2.36	0.71	2.26	0.68	2.48	0.75
Other	1.91	0.64	2.30	0.77	2.20	0.73	2.41	0.80

C. Performance of the Non-Banking Financial Sector

Long-Term Insurance

Table 3: Income and Expenses

(N$ '000)	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
PREMIUM INCOME					
Single Premiums RA	171 915	166 798	184 756	181 713	177 166
Single Premiums Other	574 507	414 827	457 928	536 639	525 544
Recurring RA's	44 536	58 315	61 051	55 072	55 023
Recurring Other	728 834	734 708	821 799	781 647	808 690
Total Premiums	**1 519 792**	**1 374 648**	**1 525 534**	**1 555 071**	**1 566 423**
Investment Income	860 670	549 126	1 058 235	1 363 984	899 631
Other Income and Fees:	85 112	22 513	74 716	103 130	150 012
Total Income	**2 465 574**	**1 946 287**	**2 658 485**	**3 022 185**	**2 616 066**
BENEFITS					
Death	156 412	124 642	167 215	116 366	118 492
Disability and Health	33 638	38 917	49 657	44 311	34 740
Maturity claims	188 732	206 901	300 947	424 107	201 777
Annuity Benefits	111 222	121 319	125 527	130 643	129 892
Retirement Benefits	34 976	42 898	44 411	62 230	94
Group member withdrawals	103 346	118 376	196 346	-15 870	178 767
Surrenders	489 931	176 669	211 092	154 048	155 951
Total Benefits	**1 118 257**	**829 722**	**1 095 195**	**915 835**	**819 713**
Sales Remuneration	84 850	84 566	109 673	98 620	89 808
Admin and marketing	172 348	139 507	176 707	168 405	160 482
Asset Management Fees	11 315	11 283	9 512	10 875	9 674
Re-insurance	8 005	16 263	15 976	22 544	18 362
Other expenses	96	-4	-91	-95	-93
Total Expenses	**276 614**	**251 615**	**311 777**	**300 349**	**278 233**
Income Tax	9 668	14 400	11 228	19 336	15 925
Stamp duties	11 319	6 625	8 547	8 520	11 334
VAT on imported services not recoverable	1 409	1 644	2 163	2 147	1 650
Other input VAT not recoverable	4 358	1 426	192	2 131	2 261
Total Taxation	**26 754**	**24 095**	**22 130**	**32 134**	**31 170**
Excess of income over expenses	1 043 949	840 855	1 229 383	1 773 867	1 486 950
Transfer to (from) shareholder fund	-75 324	-323 059	-158 279	-312 988	-74 659
Increase/(Decrease) in Long-term fund	**968 625**	**517 796**	**1 071 104**	**1 460 879**	**1 412 291**

Table 4: Balance Sheet

	2012				2013
	Q1	Q2	Q3	Q4	Q1
N$ '000					
Assets					
Cash	530 645	430 816	604 492	389 757	339 848
Balances with banks	3 736 402	3 973 672	3 787 454	3 653 333	4 184 773
Gilts/Bonds	4 063 651	3 687 841	3 516 124	3 476 853	3 807 986
Policy loans	271 398	282 829	291 975	302 640	307 857
Mortgage bonds	0	157	162	156	167
Debentures	177 357	50 998	58 576	195 871	281 509
Claims/Debtors	1 220 730	998 279	1 230 213	1 160 791	1 473 751
Shares: Listed	4 240 173	5 282 248	4 914 632	4 685 570	5 680 666
Shares: Unlisted	599 488	1 523 729	1 363 971	1 924 060	1 979 977
Fixed assets	517 265	520 950	523 862	543 237	545 159
Foreign assets-CMA	9 909 386	9 476 203	10 246 029	11 798 195	12 022 727
Foreign assets-Offshore	1 694 806	2 224 255	3 307 253	3 520 816	2 771 879
Other	3 262	2 816	2 866	2 545	4 049
Total Assets	26 964 563	28 454 793	29 847 609	31 653 824	33 400 348
Liabilities					
Policy liabilities	23 868 043	24 484 386	25 481 874	27 127 614	28 206 973
Current liabilities	867 940	859 542	840 955	924 998	1 132 870
CAR	543 950	532 880	541 957	623 724	578 015
Excess Assets	1 684 630	2 577 985	2 982 823	2 977 488	3 482 490

Short-Term Insurance

Table 5: Income and Expenses

	2012				2013
	Q1	Q2	Q3	Q4	Q1
N$ '000					
Gross premiums written	621 417	915 320	641 023	589 989	715 600
Net reinsurance expense	156 846	314 703	217 331	187 928	195 386
Net premiums written	464 571	600 617	423 692	402 061	520 214
Premiums earned	**497 969**	**584 309**	**417 603**	**408 334**	**559 511**
Claims incurred	323 280	330 872	253 579	247 921	372 276
Commissions	48 300	76 270	47 710	46 357	67 731
Expenses incurred	55 894	98 807	64 224	61 529	71 545
Administration fees	18 387	11 769	11 769	17 583	19 387
Underwriting surplus	**52 108**	**66 591**	**40 321**	**34 944**	**28 572**
Investment income	40 281	43 015	31 408	31 408	33 013
Capital gains	3 624	10 450	22 946	22 946	10 418
Other income/(expenses)	-4 676	-6 130	-2 681	-2 681	-2 335
Reserve decrease/(increase)	-4 786	-5 165	-5 363	-5 363	-3 031
Profit before Tax	**86 551**	**108 761**	**86 631**	**81 254**	**66 637**

Table 6: Balance Sheet

	2012				2013
	Q1	Q2	Q3	Q4	Q1
N$ '000					
Assets					
Cash	45 256	56 445	233 094	82 649	96 393
Balances with banks	1 126 170	944 498	1 030 347	1 197 463	1 291 407
Bonds, Securities, Bills w.r.t. Reg. 8(2, 3,4)	142 486	223 219	192 107	228 499	209 868
Outstanding premiums	186 376	161 441	189 680	99 591	185 959
Reinsurance deposits	16 048	70 541	10 604	1 975	1 972
Mortgage bonds	85 129	77 569	48 165	71 685	61 364
Debentures	-	-	-	-	-
Debtors	201 872	258 775	292 900	282 476	242 103
Shares - Listed	106 640	113 650	114 470	162 807	114 697
- Unlisted	180 241	166 433	163 135	171 106	204 686
Units in units trusts	352 847	407 370	307 863	309 073	343 607
Land & buildings	17 558	17 551	4 113	3 462	1 350
Fixed assets	15 270	15 583	15 171	15 790	17 412
Other assets	363 151	362 859	338 179	352 141	309 765
Total Assets	**2 839 044**	**2 875 934**	**2 939 828**	**2 978 717**	**3 080 583**
Liabilities					
Unearned premium provision	805 959	812 031	827 884	824 565	898 878
Outstanding Claims	199 637	196 637	201 787	199 034	216 876
IBNR	91 580	93 769	97 006	125 380	98 703
Contingency reserve	146 749	149 525	151 207	163 298	159 959
Unexpired risk provision	258 595	262 239	242 452	272 284	274 349
Due to insurers & reinsurers	32 100	55 126	49 609	38 762	49 149
Reinsurance deposits	-	-	-	-	-
Bank overdrafts	-	-	-	-	243
Provision for taxation	36 953	39 628	29 652	13 022	43 403
Provision for deferred tax	29 991	29 379	40 682	25 650	23 183
Contingent liabilities	42	42	42	42	201
Other (Specify):	197 617	285 179	333 383	300 986	275 690
Current liabilities	233 991	239 135	240 106	270 996	234 187
Total Liabilities	**2 033 214**	**2 162 690**	**2 213 810**	**2 234 019**	**2 274 821**
Total Industry Equity	**805 830**	**713 244**	**726 018**	**744 698**	**805 762**

Medical Aid Funds

Table 7: Income and Expenses

	2012				2013
	Q1	Q2	Q3	Q4	Q1
N$ '000					
Contributions received	490 502	500 663	502 766	508 188	571 408
Savings Plan Contributions	**18 935**	**18 955**	**19 007**	**19 496**	**20 747**
Reinsurance	5 562	4 071	2 973	(596)	7 420
Net Contribution	**466 005**	**477 637**	**480 786**	**489 288**	**543 241**
Claims	**398 573**	**427 660**	**450 151**	**431 291**	**454 275**
Underwriting surplus	**67 432**	**49 977**	**30 635**	**57 997**	**88 966**
Administration fees	**39 222**	**37 529**	**40 874**	**43 822**	**45 492**
Operational expenses	9 098	7 590	6 910	10 216	9 735
Managed Care: Management Services	**7 397**	**7 859**	**7 947**	**7 918**	**7 356**
Consultant fees/professional fees	568	1 937	1 356	1 177	834
Total Expenses	**56 285**	**54 915**	**57 087**	**63 133**	**63 417**
Surplus/ (deficit) from operations	**11 147**	**(4 938)**	**(26 452)**	**(5 136)**	**25 549**
Other income	**4 834**	**(2 565)**	**3 029**	**10 870**	**579**
Investment income	12 929	12 754	22 843	23 103	25 907
Net Surplus	**28 910**	**5 251**	**(580)**	**28 837**	**52 035**

Table 8: Balance sheet

	2012				2013
	Q1	Q2	Q3	Q4	Q1
N$ '000					
ASSETS					
Non-current Assets	**615 217**	**628 724**	**687 864**	**715 938**	**739 806**
Property, Plant & Equipment	11 740	11 723	11 763	11 747	11 756
Investments	603 477	617 001	676 101	704 191	728 050
Current assets	**214 965**	**180 483**	**136 038**	**142 335**	**198 849**
Accounts receivable	44 910	55 010	56 634	47 676	64 247
Cash & cash equivalents	170 055	125 473	79 404	94 659	134 602
Total Assets	**830 182**	**809 207**	**823 902**	**858 273**	**938 655**
FUNDS AND LIABILITIES					
Members' Funds	**649 052**	**639 229**	**644 798**	**660 968**	**707 460**
Accumulated funds	649 052	639 229	644 798	660 968	706 142
Revaluation reserve – investments	-	-	-	-	1 318
Non-current liabilities	**-**	**-**	**-**	**-**	**-**
Long term loans	-	-	-	-	-
Current liabilities	**181 130**	**169 978**	**179 104**	**197 305**	**231 195**
Accounts payable (creditors)	41 145	51 862	37 231	49 671	54 167
Provision for outstanding claims/IBNR	132 581	122 098	133 786	125 234	169 719
Bank overdraft	-	-	-	-	-
Savings plan liability(other liabilities)	7 275	(4 133)	4 942	19 801	1 320
Provision for bad debt	129	151	3 145	2 599	5 989
Total Funds and Liabilities	**830 182**	**809 207**	**823 902**	**858 273**	**938 655**

Pension funds

Table 9: Income and Expenses (N$ million)

	2009	2010	2011	2012
Contributions received	2 496	2 942	3 109	3 874
Net investment income	7 033	4 561	4 857	11 143
Capital appreciation	782	845	582	866
Insurance proceeds	67	68	81	92
Other income	43	38	39	37
Total income	**10 421**	**8 454**	**8 668**	**16 012**
Administration fees	110	131	147	161
Investment fees	150	140	139	140
Insurance premiums	168	177	181	206
Other expenses	64	98	103	98
Total expenses	**492**	**546**	**570**	**605**
Net income before transfers and benefits	9 929	7 908	8 098	15 407
Net transfers	1	135	374	377
Benefits paid	2 088	2 720	2 704	3 257
Net transfers and benefits paid	2 087	2 585	2 330	2 880
Net Income	**7 842**	**5 323**	**5 768**	**12 527**

Table 10: Balance Sheet (N$ million)

	2009	2010	2011	2012
Non-current assets	**53 681**	**62 960**	**68 306**	**84 434**
Current assets	**2 189**	**943**	**1 172**	**1 323**
Total Assets	**55 870**	**63 903**	**69 478**	**85 757**
Funds and reserves	**53 175**	**62 696**	**68 365**	**84 659**
Current liabilities	**2 695**	**1 207**	**1 113**	**1 098**
Total funds, reserves and liabilities	**55 870**	**63 903**	**69 478**	**85 757**

Unit trusts

Table 11: Funds under Management (N$ million)

	2012				2013
	Q1	Q2	Q3	Q4	Q1
Country allocations					
Namibia	15 931	16 498	16 747	16 771	17 899
Common Monetary Area	11 739	12 216	13 481	14 301	14 512
Offshore	687	700	840	1 034	1 246
Total asset allocation	**28 357**	**29 415**	**31 068**	**32 106**	**33 657**
Asset allocation					
Money market investments:	23 077	23 970	24 521	24 658	25 461
Treasury bills	*1 581*	*1 913*	*1 882*	*1 797*	*2 128*
Negotiable certificates of deposit	*8 329*	*8 531*	*9 380*	*9 806*	*10 005*
Banker's Acceptances	-		-	-	-
Debentures	-		-	-	-
Notice, call and other deposits	*5 199*	*9 718*	*5 007*	*4 855*	*4 621*
Other	*7 968*	*3 808*	*8 252*	*8 200*	*8 707*
Listed equity	2 525	2 623	3 120	3 602	4 159
Listed debt	2 026	2 088	2 624	2 981	3 160
Unlisted equity	211	214	212	187	190
Unlisted debt	226	222	223	231	154
Unlisted property	-	-	-	-	-
Other assets	292	296	368	447	533
Total Funds Under Management	**28 357**	**29 415**	**31 068**	**32 106**	**33 657**

Table 12: Source of Funds (N$ million)

	2012				2013
	Q1	Q2	Q3	Q4	Q1
Pension funds	1 315	1 377	1 597	1 511	1 971
Short-term insurance companies	160	228	200	198	231
Long-term insurance companies	779	1 005	1 003	1 101	1 121
Medical aid funds	10	9	12	46	48
Unit trust schemes	3 002	3 096	3 291	4 129	4 332
Companies	5 546	5 045	6 836	5 413	6 543
Natural persons	16 426	17 471	16 717	17 817	17 954
Other	1 119	1 180	1 412	1 891	1 457
Total	**28 357**	**29 415**	**31 068**	**32 106**	**33 657**

Investment Management

Table 13: Funds under Management (N$ million)

	2012				2013
	Q1	Q2	Q3	Q4	Q1
Country allocation					
Namibia	49 333	51 106	52 495	55 086	57 601
Common Monetary Area	36 022	36 660	38 431	41 737	42 420
Offshore	11 136	10 822	11 783	12 317	14 098
Total asset allocation	**96 491**	**98 588**	**102 709**	**109 140**	**114 119**
Asset allocation					
Money market investments:	31 105	32 404	33 337	34 036	35 389
Treasury bills	*12 244*	*13 091*	*13 616*	*13 817*	*14 706*
Negotiable certificates of deposit	*4 405*	*4 487*	*4 767*	*4522*	*4 176*
Banker's Acceptances	-	-	-	-	-
Debentures	*4*	*4*	-	-	-
Notice, call and other deposits	*11 104*	*11 461*	*11 292*	*11 549*	*12 367*
Other	*3 348*	*3 360*	*3 662*	*4 148*	*4 140*
Listed equity	45 529	46 306	47 958	53 101	55 956
Listed debt	13 932	14 434	15 221	15 540	16 450
Unlisted equity	988	1 037	1 081	1 168	1 155
Unlisted debt	347	233	233	241	164
Unlisted property	349	401	421	376	574
Other assets	4 241	3 773	4 458	4 678	4 431
Total Funds Under Management	**96 491**	**98 588**	**102 709**	**109 140**	**114 119**

Table 14: Source of Funds (N$ million)

	2012				2013
	Q1	Q2	Q3	Q4	Q1
Pension funds	54 402	55 244	57 433	62 400	65 357
Short-term insurance companies	768	812	787	770	786
Long-term insurance companies	14 351	14 730	15 344	16 134	16 916
Medical Aid funds	320	325	339	320	293
Unit Trust schemes	23 544	24 587	25 735	26 183	27 249
Companies	580	505	493	555	553
Natural persons	9	9	23	24	40
Other	2 517	2 375	2 555	2 754	2 925
Total	**96 491**	**98 588**	**102 709**	**109 140**	**114 119**

Microlending

Table 15: Credit Extension

	2012				2013
	Q1	Q2	Q3	Q4	Q1
Value of loans disbursed (N$ 000)	**366 647**	**371 799**	**403 294**	**444 720**	**447 582**
Term lenders	245 019	248 650	278 894	306 467	301 021
Payday lenders	121 627	123 149	124 400	138 254	146 561
Number of loans	**150 964**	**150 574**	**150 253**	**161 516**	**168 253**
Term lenders	25 400	23 100	24 061	24 925	26 504
Payday lenders	125 564	127 474	126 192	136 591	141 749
Average loan amount					
Term lenders	9 646	10 764	11 591	12 296	11 358
Payday lenders	969	966	986	1 012	1 034
Total value of loans (N$000)	**1 795 682**	**1 854 247**	**2 028 850**	**1 752 556**	**1 842 390**
Term lenders	1 741 010	1 793 184	1 972 657	1 685 290	1 772 657
Payday lenders	54 673	61 062	56 192	67 266	69 733

D. Payments Infrastructure and Regulatory Developments

The current payments and settlement infrastructure in Namibia comprises of four main components: 1) the Namibia Interbank Settlement System (NISS), 2) the Electronic Funds Transfer (EFT) System, 3) Cheque Processing System (CPS), and 4) NamSwitch System, as illustrated in Table 16.

Table 16: Payment and Settlement Systems

System		Description	Owner/Operator
High Value	Namibia Interbank Settlement System (NISS)	Primarily used to ensure real-time gross settlement in Namibia dollar for: the Bank of Namibia monetary policy operations; large-value interbank payments; final settlement or netting of other payment systems operating in Namibia and urgent customer payments.	Bank of Namibia
Retail	Electronic Funds Transfer (EFT) System	Supports low-value (EFT Debit maximum value of N$ 500 000 and EFT Credit maximum value of N$ 5 million) interbank electronic payments.	The three retail systems are owned by four commercial banks, which established a company, NamClear, to manage its operations.
	Code Line Clearing (CLC) System	Supports interbank cheque payments (maximum value of N$ 500 000).	
	NamSwitch System	Supports domestic interbank card payments.	

Source: Bank of Namibia

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