Namibia Financial Stability Report

May 2016

Bank of Namibia

NAMFISA

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Corporate Charters

Bank of Namibia

Vision

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

Mission

To support economic growth and development in Namibia, we

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

Values

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

NAMFISA

Vision

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

Mission

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

Values

- Teamwork
- Service
- Integrity
- Performance Excellence

List of Abbreviations

AEs	Advanced Economies
ATM	Automatic Teller Machines
BI	Business Intelligence
BoN	Bank of Namibia
CIS	Collective Investment Schemes
CMA	Common Monetary Area
DFSRM	Domestic Financial Stability Risk Map
DI	Disposable Income
DR	Disaster Recovery
DSS	Data Security Standard
ECB	European Central Bank
EFT	Electronic Funds Transfer
EMEs	Emerging Market Economies
EMV	Euro-Pay Mastercard Visa
FNB	First National Bank
FSR	Financial Stability Report
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
HHI	Herfindahl-Hirschman Index
IIP	International Investment Position
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
LHS	Left-hand Side
MPC	Monetary Policy Committee
NAD	Namibia Dollar
NAMFISA	Namibia Financial Institutions Supervisory Authority
NBFIs	Non-bank Financial Institutions
NISS	Namibia Inter-bank Settlement System
NPL	Non-performing loan
NPS	National Payment System
NSX	Namibian Stock Exchange

PAN	Payments Association of Namibia
PCI	Payment Card Industry
PKI	Public Key Infrastructure
POS	Point-Of-Sale
PSCE	Private Sector Credit Extension
RBOPF	Risk Based Oversight Policy Framework
RHS	Right-hand Side
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
RWCR	Risk-Weighted Capital Ratio
SACU	Southern African Customs Union
SARB	South African Reserve Bank
SOEs	State Owned Enterprises
US	United States of America
VIX	Volatility Index
WEO	World Economic Outlook

Preface

The purpose of the Financial Stability Report (FSR) is to identify risks and vulnerabilities in the financial system and assess the resilience of the financial system to domestic and external shocks. The report presents recommendations to the identified risks. Lastly, the report is published to inform the reader on the soundness of the financial system, and various initiatives the regulators and government are doing in order to mitigate risks to the Namibian financial system.

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

The financial system in Namibia consists of financial markets, instruments, institutions and infrastructure. The regulatory structure, while not strictly a part of the financial system, plays an important role in regulating and monitoring the system. Under 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.

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I. Introduction and Summary

1. **During the current review period[1], the Namibian financial system remained robust, despite a rise in household indebtedness and some adverse developments in the global economy.** The Namibian financial system remained stable in 2015 characterised by a sound, profitable and adequately capitalized banking sector with a relatively low level of Non-Performing Loans (NPLs). Moreover, the performance of the non-banking financial sector was strong during 2015, as its balance sheets remained robust. The payment system also operated efficiently and effectively. This is despite an increase in both household and corporate indebtedness since the last Financial Stability Report published in June 2015. Household indebtedness[2] remained higher than comparator economies and warrants targeted strategies to reduce risks to financial system stability. In addition, the level of foreign debt exposure by the corporate sector requires monitoring. On the international front, a slowdown in China, and declining commodity prices, particularly for uranium, copper and zinc posed a potentially negative impact on financial stability. Also, capital outflows from the emerging market economies (EMEs), financial market volatility and exchange rate depreciation of the Namibia Dollar against the major trading currencies had the potential to undesirably impact financial stability in the country. The Namibian financial system has, nonetheless, coped well with shocks to financial stability in the period under review.

2. **Since the last Financial Stability Report (FSR), uncertainty and weakening global growth prospects have increased financial stability risks.** The key drivers of uncertainty are mainly: reduced risk appetite, tightened financial conditions and raised credit risks. In addition, the global growth outlook has deteriorated in advanced economies as a result of declining confidence, while the decline in commodity prices and slower economic growth have kept risks elevated in EMEs. Financial spillovers from EMEs have also risen substantially, implying their importance when assessing macro-financial conditions.

3. **The Namibian economy recorded respectable growth in 2015, although slower than that of the preceding year.** Real GDP growth was largely driven by construction, wholesale and retail trade, complemented by public services. On the downside, the

[1] This report deals with developments from December 2014 up to December 2015.

[2] Household debt in Namibia includes: credit extended by commercial banks, microlenders and informal credit. In South Africa, it include credit extended by banks and consumer credit.

agricultural sector was estimated to have contracted during 2015, mainly as a result of the adverse effects of the drought. Looking ahead, economic activities are expected to continue registering a positive increase, nonetheless risks remain and include: the slowdown in the economies of Namibia's main trading partners, sluggish commodity prices, volatile exchange rates and the impact of the prevalent drought conditions.

4. **Since the last FSR, household debt increased, driven by mortgages and other loans and advances.** The ratio of household debt to disposable income rose to 89.1 percent in December 2015 from 85.5 percent in December 2014[3] . The trend in household debt will be closely examined and suitable policy measures will be adopted to keep its growth rate at sustainable levels.

5. **As a proportion of GDP, corporate debt levels rose during the period under review on the back of increases in both foreign and domestic private sector debt, coupled with the depreciation of the Namibia Dollar.** The increase in corporate debt was largely ascribed to borrowing by both local and multinational enterprises to expand their operations, augmented by exchange rate depreciation. Since credit extended to businesses was used for productive activities, it is anticipated that this may not pose a major risk to financial stability of the country. Similarly, the acceleration in the growth rate of large exposures in the banking sector, in sectors such as manufacturing and construction, does not pose a major risk to Namibia's financial system.

6. **Since the last FSR, the performance of the Namibian banking sector has been characterised by healthy profit levels and adequate capital.** The banking institutions remained resilient and maintained capital and liquidity at levels higher than the minimum set by the Bank of Namibia. Moreover, banking institutions have exhibited robust aggregate balance sheet growth. Despite the slight deterioration in the banking sector asset quality, the NPL ratio remains satisfactory.

7. **The balance sheets of Non-Banking Financial Institutions (NBFIs) are strong and do not pose systemic risks to the country's financial system.** Overall, growth of the assets of the NBFIs sector was positive and is expected to continue, so going

[3] Total credit extended in Namibia is composed of credit by commercial banks and estimated credit extended by other institutions, mainly micro-lenders and the informal markets. The ratio of household debt to disposable income reported in June 2015 FSR changed, due to the data revision in the final National Accounts, which resulted in an increase in disposable income.

forward. Since the last FSR, the capitalization of provident, insurance and investment institutions was adequate to ensure solvency and funding levels are in excess of those required by relevant statutes. These levels are sufficient to withstand the shocks and risks to which these institutions are exposed.

8. **Since the previous FSR, the payment system operated effectively.** In this regard, progress was made to ensure transparency in the way the national payment system (NPS) operates to reduce the associated risks. Specifically, an analysis of critical incidents that could impact the stability of the NPS was performed and ways to prevent such incidents in the future were recommended, and include techniques to improve operational controls.

II. Summary of Risk Analysis

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

The main risks to domestic financial stability broadly changed only slightly since the issuance of the June 2015 FSR. The comparison table (Table 1) and spider-chart (Figure 1) show the evolving risks facing the domestic financial system compared to December 2014, and highlight the probability and impact of specific risks. The main risks identified are discussed below:

Table 1: Risks to Financial Stability in Namibia

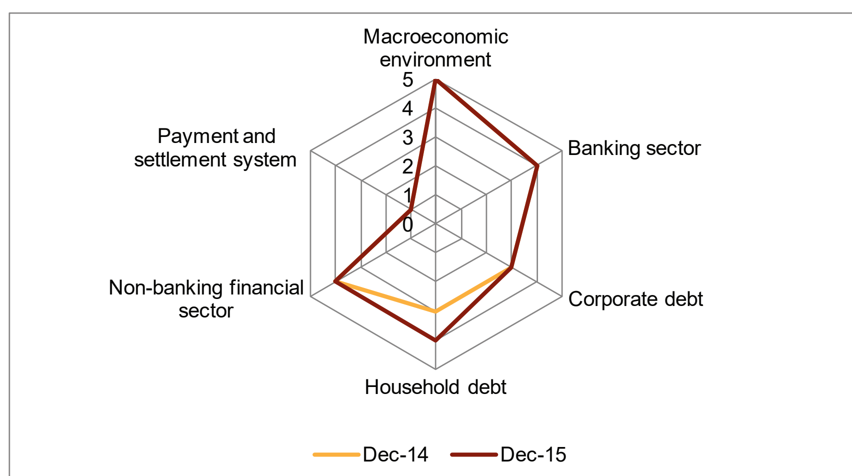
	Risks		Change from December 2014			
	Probability	Impact	Probability		Impact	
Macroeconomic Environment risks						
Global economic slowdown			Up	↑	Unchanged	→
Monetary expansion programme in the Euro Area			Up	↑	Unchanged	→
Gradual normalisation of US monetary policy			Up	↑	Up	↑
NAD/ZAR depreciation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

Risk analysis key

Since the issuance of the June 2015 FSR, most of the key risks to domestic financial stability remained steady, with the exception of household debt. The evolution of risks to the domestic financial system for the remainder of the year 2016 is illustrated by the Domestic Financial Stability Risk Map (Figure 1)[4].

[4] The evolution of risk presented in the domestic financial stability map is based on the December 2015 data and is compared to the same period in 2014. However, the risks are presented in a forward looking manner and hence the reference to the six months until June 2016.

Figure 1: Domestic Financial Stability Risk Map[5]



A. Risks Stemming from the External Macroeconomic Environment

According to the April 2016 Global Financial Stability Report (GFSR) of the IMF, risks to global financial stability increased for both advanced economies and EMEs since the October 2015 GFSR. In the advanced economies, risks have deteriorated because of heightened uncertainty and setbacks to growth and confidence. Disruptions to global asset markets have added to these pressures. Declines in oil and commodity prices have kept risks elevated in EMEs, while greater uncertainty in EMEs about China's growth transition has increased spillovers to global markets. These developments have tightened financial conditions, reduced risk appetite, raised credit risks, and hindered balance sheet repair, thereby undermining financial stability.

The Report stressed further that more needs to be done in both Advanced Economies (AEs) and EMEs to secure global financial stability. AEs need to deal with the crisis legacy, particularly attaining sustainable profitability of banks and finding a solution to European banks. Elevated NPLs also need to be urgently tackled using a comprehensive strategy, and excess capacity in the Euro Area banking system will have to be addressed over time. The United States, mortgage markets, which were at the epicentre of the 2008-09 financial crisis continue to benefit from significant government support. Authorities should strengthen efforts to reduce the dominance of government sponsored mortgage lenders. EMEs are faced with slower growth, weak commodity prices, volatile portfolio flows and depreciated exchange rates. They therefore, need to boost their resilience to these developments, through targeted interventions.

[5] The domestic financial stability map tracks six categories as shown above. Scores ranging from a minimum of one (1) and a maximum of six (6) are given to each of the six factors based on their probability of occurring.

The Namibian financial system continued to be robust and resilient, notwithstanding slower growth, weak commodity prices, and depreciated exchange rates in EMEs. Although real GDP growth in Namibia moderated in 2015, compared to 2014, it remained fairly strong by historical standards and did not have a negative impact on financial stability. The year 2015 was characterized by the weaker commodity prices in more than a decade. International prices for commodities in energy, metals and food industries fell on average by 45.0 percent from their peak levels in 2011. The fall in commodity prices did not have a negative impact on financial stability in Namibia as financial institutions in the country do not have significant exposures to multinationals that engage in mining activities. On average, the nominal exchange rate of the Namibia Dollar depreciated by 17.6 percent against the US Dollar in 2015, compared to the same period in 2014. It however, did not adversely affect financial stability as the export earnings of corporates increased in local currency terms.

Real GDP growth in Namibia is projected to remain positive in 2016, supported by good growth prospects mainly across all industries, however risks remain. Real GDP is expected to grow by 4.3 percent during 2016, a slowdown from the estimated 5.7 percent recorded in 2015. The prevailing drought is estimated to restrain growth in the agricultural sector. Moreover, the slowdown in the EMEs and subdued commodity prices could adversely affect global growth prospects. The normalisation of monetary policy in the US could induce further capital outflows from EMEs and through contagion, weaken financial stability in Namibia. On the contrary, the monetary expansion programme in the Euro Area and exchange rate depreciation, however, may bode well for Namibia growth and financial stability in the country if it leads to increased export earnings.

B. Risks Stemming from Domestic Household and Corporate Debt

Household Sector

Household debt as a percentage of disposable income rose at the end of December 2015. The proportion of household debt to disposable income stood at 89.1 percent, during the review period, compared to 85.5 percent in December 2014. The rise was largely on account of higher growth in credit extended to households, compared to the growth in disposable income. Adjusted credit to households increased by 12.5 percent to

N$51.0 billion at the end of December 2015[6]. The estimated growth in disposable income of 12.2 percent was not robust enough to counteract that of growth in household credit. Household indebtedness of Namibians remains high by regional and international standards. This calls for more concerted efforts in monitoring debt at microeconomic levels, particularly for mortgages and other loans and advances to individuals, categories that recorded significant growth in the review period, as well as collecting data on household indebtedness as part of the National Household Income and Expenditure Survey.

Corporate Sector

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

C. Risks Stemming from the Performance of the Banking Sector

Since the release of the June 2015 FSR, the Namibian banking sector remained sound, profitable and adequately capitalized. The performance of the Namibian banking sector has been characterised by healthy profit levels and adequate capital. The banking institutions remained resilient and maintained capital and liquidity at levels higher than the minimum set by the Bank of Namibia. Banking institutions have displayed robust aggregate balance sheet growth, positive profitability and satisfactory liquidity levels. The asset quality continued to be good with very low levels of NPLs, which stood at 1.6 percent compared to the benchmark of 4.0 percent. This good performance is expected to continue into the future. The banking sector's financial condition is expected to remain sound and healthy in the foreseeable future.

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

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

The NBFIs continued to manage the assets well to support liabilities as per prudential standards and requirements of beneficiaries and policy-holders. Specifically, pension funds and long-term insurers held assets of approximately N$177 billion to meet the liabilities of approximately N$148 billion. Due to the nature of these institutions, the assets are invested through unit trusts and investment managers, or invested on a proprietary basis. These institutions invest their assets over a medium to long-term period, due to the nature of their businesses; and as such assume investment risk as a result of prolonged exposure to the domestic, regional and global capital markets. In terms of the overall NBFIs risk assessment, the risks remained unchanged during the review period.

E. Risks Stemming from the Payment and Settlements System

Since the last FSR, the likelihood of operational and settlement risks decreased slightly as the proportion of payments, settled in Window 3 decreased. Settlement window periods for payments settled in the Nambia Interbank Settlement System (NISS) indicate that around 41.3 percent, or N$156.4 billion of payments, was settled in Window 1 (08h00 to 12h00). Furthermore, 26.7 percent, or N$102.7 billion was settled in Window 2 (12h00 to 15h00) and 32.0 percent, or N$121.4 billion, in Window 3 (15h00 to 16h40). To minimize operational and settlement risks, it is ideal that the majority of all settlements take place in the earlier Windows i.e. Windows 1 and 2. Currently 68.0 percent of payments are settled in Windows 1 and 2, which significantly assists in mitigating operational and settlement risks, although some improvements can still be made to increase the percentage share settled in Windows 1 and 2. No disruptions to NISS were recorded over the second half of 2015. The NISS front-end availability ratio was 100.0 percent, which was above the acceptable availability level of 99.0 percent. Further, two successful disaster recovery (DR) tests and one business continuity simulation were conducted during the second half of 2015.

III. Macroeconomic Environment

Global Economic Growth

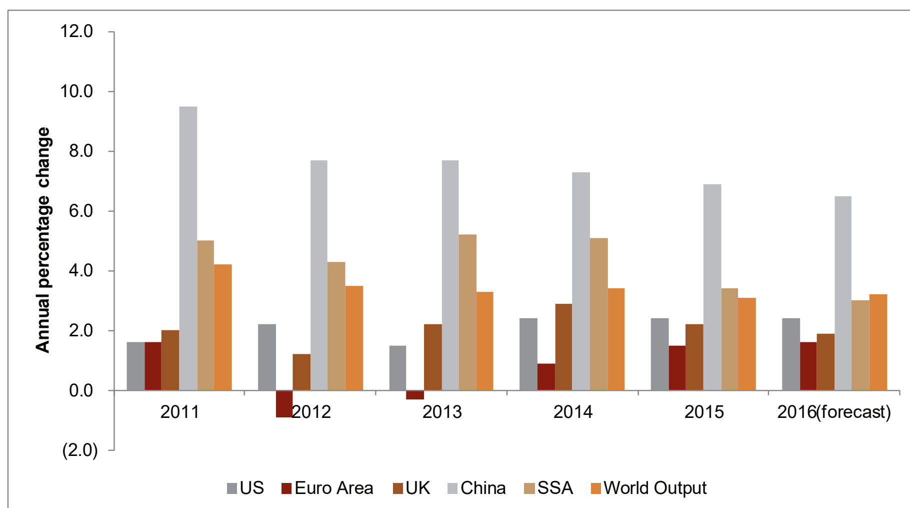
Global growth moderated during 2015, compared to 2014, due to lower growth rates in EMEs. World output growth receded to 3.1 percent in 2015, from 3.4 percent in the previous year. The pace of growth in EMEs, which underpinned the global economy in recent years slowed to 4.0 percent in 2015 from 4.6 in 2014. A combination of factors restrained economic activities in EMEs in 2015. These include: the switch from investment to consumption and services based growth in China, weaker growth by oil exporting economies and depressed commodity prices (Figure 2). In addition, the limited pass-through to consumers of the gains from lower crude oil prices, together with the depreciation of the exchange rates, also contributed to sluggish activities in these economies.

Growth in AEs increased modestly in 2015 supported by activities in the US, the Euro Area and Japan. During 2015, the US recorded an increase of 2.4 percent in real GDP growth and was a major driver of global growth. The moderate recovery in the Euro Area and a return to positive growth in Japan supported by declining oil prices. The accommodative monetary policy stances also sustained global growth in 2015. Real GDP growth in the Euro Area increased to 1.5 percent in 2015 from 0.9 percent in 2014 supported by domestic demand in Italy, Ireland and Spain. Japan recorded growth of 0.5 percent in 2015 compared to no growth in the preceding year on the back of higher wages. Developments in Japan were further strengthened by the additional monetary policy measures by the Bank of Japan, as well as, lower oil and other commodity prices. In the United Kingdom, real GDP growth slowed to 2.2 percent in 2015, compared to 2.9 percent in 2014, due to sluggish activities of its major trading partners.

In EMEs and developing countries, economic activities moderated further during 2015 as a result of restrained demand. Overall, growth in the emerging and developing economies slowed to 4.0 percent in 2015 from 4.6 percent in 2014 as domestic demand and commodity prices declined. China's growth rate slowed to 6.9 percent in 2015 compared to 7.3 percent in the previous year on account of policy efforts to reduce investment and increase the contribution of consumption and services. Meanwhile, India recorded steady growth of 7.3 percent in 2015 boosted by low international crude oil prices and strong

aggregate demand from some AEs. Economic activities in South Africa moderated to 1.3 percent in 2015 from 1.5 percent in 2014, due to low commodity prices, drought and low confidence among both consumers and businesses. Conversely, the Brazilian and Russian economies were in recessions and contracted by 3.8 and 3.7 percent during 2015, respectively.

Figure 2: Global growth and projections



Source: IMF World Economic Outlook, April 2016

During 2016, the global economy is projected to grow at a sluggish pace, due to the modest recovery in the AEs. It is anticipated that real GDP growth in AEs will remain at 1.9 percent in 2016 the same as in the preceding year. In the United States, growth is expected to be constant at 2.4 percent, with a modest increase in 2017. Domestic demand in the US will be supported by a stronger housing market that will help offset restrained exports, due to a stronger US Dollar and weaker manufacturing activities. In the Euro Area growth in economic activities are expected to remain at 1.5 percent in 2016 on the back of low investment, high unemployment, volatile capital markets and weak balance sheets. Growth in Japan is projected to increase to 0.5 percent in 2016, unchanged from the growth rate in 2015, before turning slightly negative to -0.1 percent in 2017, as the scheduled increase in the consumption tax rate goes into effect.

Although EMEs will still account for a large share of global growth in 2016, prospects across countries are expected to slowdown, except in India. The IMF's World Economic Outlook for April 2016, projects real GDP growth in EMEs to increase

only modestly to 4.1 percent in 2016, compared to 4.0 percent in 2015. The projections are largely based on slowing growth in oil exporters, weak outlook for non-oil commodity exporters, a modest slowdown in China, and continued deep recessions in Brazil and Russia. It is also anticipated that growth will be weak in some Latin America and Middle East countries, particularly those severely impacted by the decline in oil price as well as conflicts and security risks. In Sub-Saharan Africa, real GDP growth is projected to remain sluggish at 3.0 percent in 2016, due to the unfavourable external conditions. Resource intensive economies have suffered from the decline in commodity prices, while region's frontier markets[8] are adversely affected by tighter global financial conditions. On the positive side, India remains a bright spot with strong growth prospects and rising real incomes.

Risks to the global economic outlook remain. These include: further exchange rate depreciations in EMEs, which could further worsen corporate balance sheets, more capital outflows. This could cause a significant reduction in liquidity, resulting in higher interest rates. Furthermore, a protracted period of low oil prices could further destabilize the outlook for oil exporting countries. A severe slowdown in China than currently projected could also have strong international spillovers through trade, commodity prices, and confidence, and lead to a more generalized slowdown in the global economy. Non-economic shocks such as geopolitical conflicts, terrorism, refugee flows, if left unchecked, could have significant spillovers on global economic activity.

Developments in the Financial Markets[9]

Advanced Economies

During 2015, financial markets were volatile, due to concerns about slow global growth and an increase in interest rates in the US. In this regard, the Volatility Index (VIX)[10] averaged at 16.4 index points in 2015, fluctuating between 11.5 and 16.2, compared to 14.1 index points in 2014 where the fluctuations were much smaller between 11.6 and 18.2 index point. Although, AEs recorded better real GDP growth during 2015

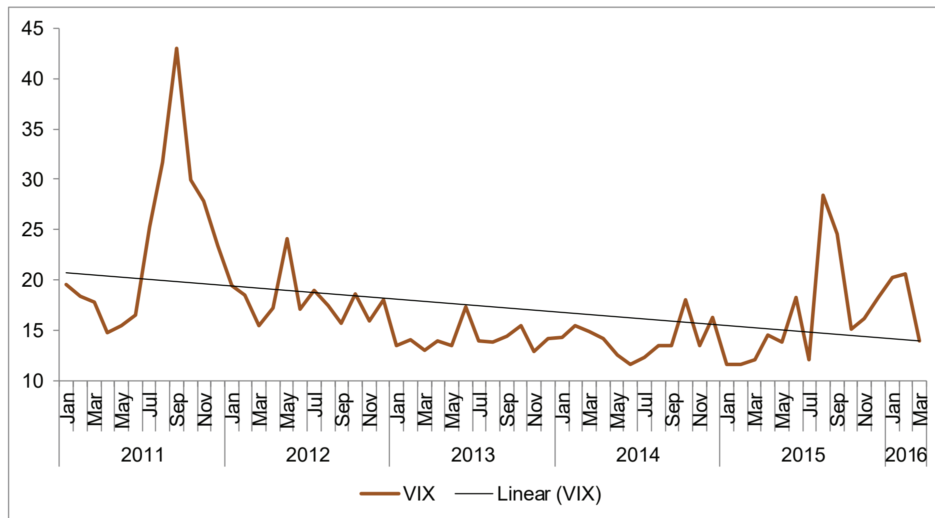
[8] A frontier market is a developing country, which is more developed than the least developing countries, but too small to be generally considered an emerging market.

[9] This section draws significantly from the December 2015 Quarterly Review of the Bank for International Settlement's titled: "International banking and financial market developments".

[10] The Chicago Board Options Exchange Volatility Index or VIX is used by stock and options traders to gauge the market's anxiety level.

than in the preceding year, the slowdown in EMEs contributed to uncertainty resulting in high volatility in financial markets. Moreover, the expectations of normalisation of interest rates in the US caused portfolio investments to flow into the US and contributed to volatile equity markets globally.

Figure 3: Volatility Index



Source: Bloomberg

Emerging Market Economies (EMEs)

Financial markets in EMEs experienced volatility on the back of slower growth in China and depreciated exchange rates. Amidst the Chinese slowdown, investors pulled out about US$40 billion from EMEs in the fourth quarter of 2015. China's growth has slowed down to 6.9 percent in 2015, its lowest growth rate in 25 years, as the economy transitions from an investment and export-led growth strategy to the new growth model led by domestic consumption and services. In addition, the devaluation of the Yuan triggered the fall in the Shanghai Stock Market Index by 30 percent between June and December 2015. A weaker growth outlook in China and the devaluation of its currency exerted pressure on EMEs currencies and growth, especially those that are dependent on China's demand for commodities.

Looking ahead, the rise in US interest rates is expected to dampen capital inflows to or increase capital outflows from EMEs as the US becomes more attractive for global investors looking for stable and safe returns. With the expectation of

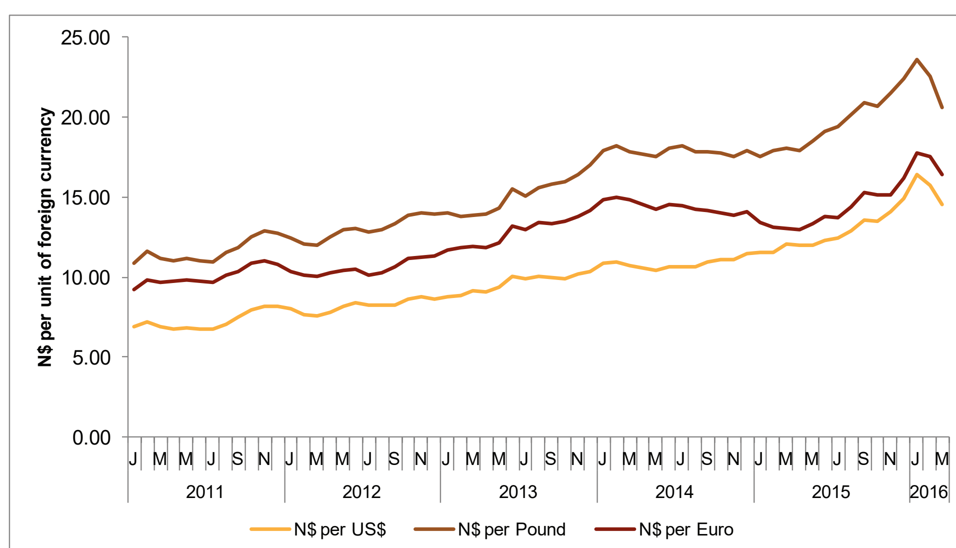
subsequent interest rate increases, the US yield curve could steepen as long term interest rates increases, although the extent of rate increases have subsided significantly in recent months. This could result in a surge in borrowing costs in EMEs and further strain sovereign and corporate balance sheets. The most vulnerable countries are those with large external financing needs, large stocks of inward foreign portfolio investments (shares and bonds), high foreign currency denominated debt, small foreign reserve buffers, and low monetary policy credibility.

Exchange rate developments

Currencies of most EMEs and developing economies depreciated against major trading currencies during 2015, owing to slow growth in China, weaker demand for commodities and the expectations of increases in interest rates by the US. The moderation in growth in China and the devaluation of the Yuan triggered a global sell-off in equities and thus resulted in the depreciation of most EMEs currencies. Moreover, the gradual normalisation of the monetary policy stance in the U.S. caused an outflow of portfolio investment from EMEs and resulted in weaker exchange rates for their currencies. This development contributed to the appreciation of the US Dollar against the currencies of EMEs.

During 2015, both domestic and international factors fuelled the depreciation of the South African Rand and thus the Namibia Dollar. The international factors that characterized the year 2015 were the sharp depreciation in EMEs currencies and negative sentiments towards these economies. Furthermore, domestic factors in the South African economy, which among others includes: subdued economic growth and the sustained high level of unemployment, socio-political issues as well as fears of credit-rating downgrades also contributed to the developments in the value of the Rand and the Namibia Dollar (Figure 4).

Figure 4: Currency movements of the Namibia Dollar per major selected currencies



Source: Bloomberg

During 2015, the South African Reserve Bank increased the repo rate to mitigate inflationary pressures from exchange rate depreciation and increases in administered prices. As a result, the Monetary Policy Committee (MPC) raised the repo rate by 50 basis points at its 2015 meetings. For the first three months of 2016, the South African Reserve Bank raised the repo rate by 75 basis points on the back of growing risks to the inflation outlook stemming from exchange rate depreciation and upward adjustment in administered prices, such as water and electricity tariffs. Annual inflation decreased to 4.6 percent in 2015, compared to 6.1 percent in 2014, as a result of lower food inflation. This was partly caused by declined prices of bread and cereals, following a bumper harvest in 2015. The decline in international oil prices also resulted in a slowdown in transport inflation during 2015 and contributed to the lower average annual inflation (Table 2).

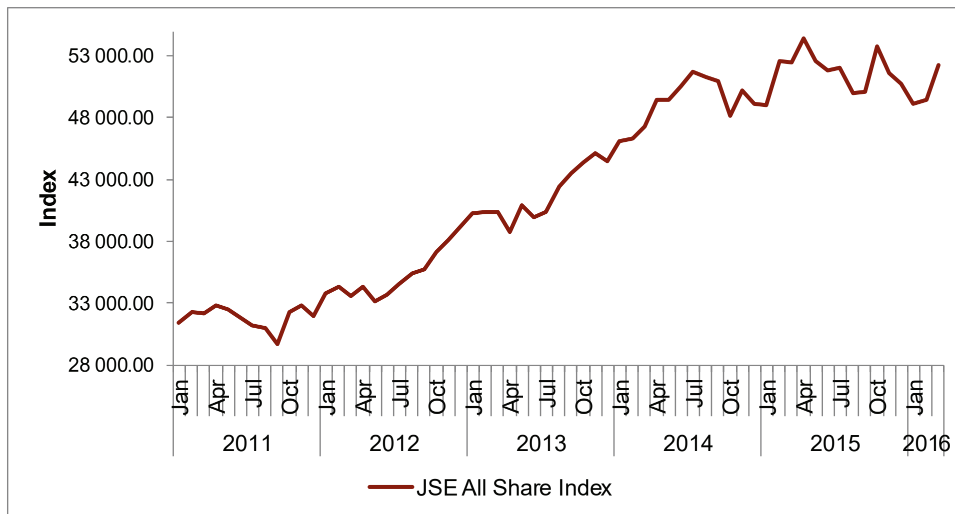
Table 2: South Africa's Consumer Price Index and Annualised Monthly Inflation Rate (Dec. 2012=100)

2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Index	106.1	107.2	108.6	109.1	109.4	109.8	110.6	110.9	110.9	111.1	111.1	110.9
Rate (%)	5.8	5.9	6.0	6.1	6.6	6.6	6.3	6.4	5.9	5.9	5.8	5.3
2015	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Index	110.8	111.5	113.1	114.1	114.4	114.9	116.1	116.1	116.1	116.4	116.5	116.8
Rate (%)	4.4	3.9	4.0	4.5	4.6	4.7	5.0	4.6	4.6	4.7	4.8	5.2

Source: Statistics South Africa

Looking ahead, the monetary policy stance of the South African Reserve Bank will be determined by developments in the exchange rate of the Rand, coupled with developments in food and administered prices as well as inflation expectations. The MPC's future decision will be based on the economic and financial data. More specifically, the MPC stated in the January 2016 statement that demand pressures remain constrained, and the focus will therefore, be on the evolution of inflation expectations and indications of second-round effects of the exogenous shocks to the inflation outlook. It further noted that there are some indications that inflation expectations may have deteriorated, but the extent of this will become more evident in the near future.

Figure 5: The JSE All Share Index



Source: Bloomberg

In line with developments in global equity markets during 2015 the Johannesburg Stock Exchange (JSE) All Share Index (ALSI) was volatile. The key factors that backed the fall in the All Share Index of the JSE in 2015 were: concerns about the impact of the moderation in growth prospects in EMEs, especially in China (Figure 5), the significant correction of equity prices on the Chinese stock exchanges during 2015, as well as, uncertainty about the impact of rising interest rates in the US.

Domestic Economy

Output and Inflation

Real GDP growth in Namibia slowed in 2015, on the back of lower growth in the construction, wholesale and retail trade and agricultural sectors, compared to 2014. Overall, real GDP growth slowed to 5.7 percent in 2015, from a robust expansion of 6.3 percent in 2014. The moderation in real GDP growth was ascribed to the completion of some key construction projects in the mining sector, coupled with slower activities in wholesale and retail trade during 2015. Additionally, the prevailing drought has adversely impacted the agricultural sector, and consequently the overall performance of the Namibian economy.

During 2016, the Namibian economy is projected to continue its healthy growth trajectory supported by good growth prospects across most industries. Real GDP growth is projected to remain positive at 4.3 percent during 2016, which is lower than the estimated 5.7 percent recorded in 2015. The prevailing drought is expected to restrain growth in the agricultural sector. The average inflation rate decreased to 3.4 percent in 2015 from 5.4 percent recorded during 2014. The reduction in overall inflation was largely attributed to a fall in the inflation rate for the category, housing, water, electricity, gas and other fuels, which is the largest contributor to the inflation basket (28.4 percent) as per the National Consumer Price Index (NCPI).

IV. Domestic Households and Corporate Debt Indicators

Household Debt to Disposable Income[11]

The ratio of household indebtedness to disposable income at the end of December 2015 increased compared to the same period in 2014. Despite moderating to 12.5 percent in December 2015 from 13.3 percent in December of the previous year, growth in household debt remained elevated (Table 3). The rise in household debt was comparable to the growth in private sector credit extended, which rose by 13.6 percent in December 2015. Annual growth in Household Disposable Income was, however, not robust enough as it registered a slower increase relative to the growth in household debt. The main factors that drove household debt were, mortgage loans and other loans and advances. Growth in mortgage loans increased to 12.5 percent in December 2015 from 12.0 percent in 2014. Similarly, other loans and advances rose by 20.9 percent over the same period, compared to 15.9 percent in December 2014.

Table 3: Household Debt to Disposable Income

	2011	2012	2013	2014	2015
Household Disposable Income	35 889	41 649	49 257	53 074	57 357
Credit to individuals/households	27 391	31 242	35 939	40 703	45 810
Credit to Disposable Income (%)	76.3	75.0	73.0	76.7	79.9
Adjusted Credit to individuals /Households	30 540	34 834	40 072	45 384	51 079
Adjusted Credit to Disposable income (%)	85.1	83.6	81.4	85.5	89.1

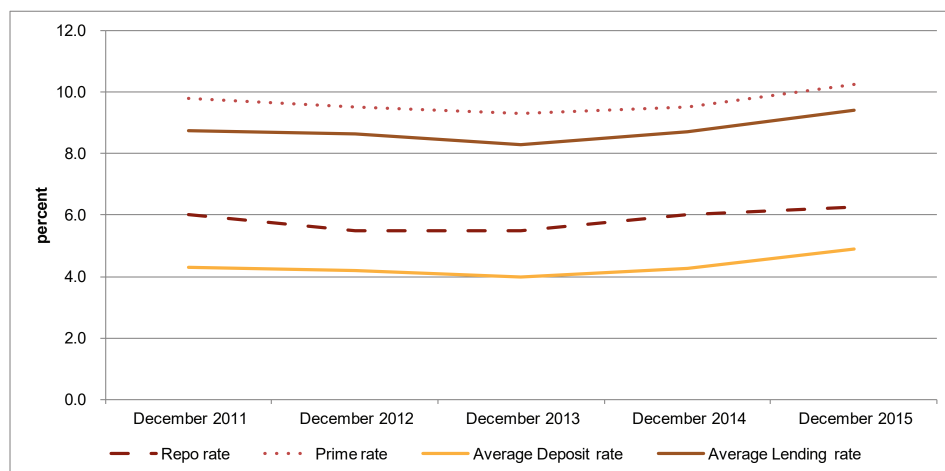
Source: Bank of Namibia

The ratio of household debt to disposable income in Namibia remained higher relative to South Africa, notwithstanding methodological differences. Mortgage loans, which constituted 51.4 percent of total credit extended to the private sector (PSCE) in December 2015 accounted for the largest share of total PSCE in Namibia. As a proportion of disposable income, mortgage loans rose to 53.4 percent during December 2015, from 50.3 percent in December 2014. This is higher than South Africa’s share of 36.8 percent over the same period. Although investment in housing is anticipated to

[11] The ratio of household debt to disposable income is calculated based on income and tax data from the national budget documents, national accounts, and household debt data from the Bank of Namibia. The National Accounts were revised from 2007 to 2015, resulting in changes in the household disposable income data, which were published in the June 2015, FSR.

improve the net worth of households, it poses financial stability risks when mortgagors are highly indebted. Given the current interest cycle, households with floating rate mortgages are likely to experience challenges in servicing their debt obligations (Figure 6). Going forward, household indebtedness will be continuously monitored and appropriate policy interventions may be advanced.

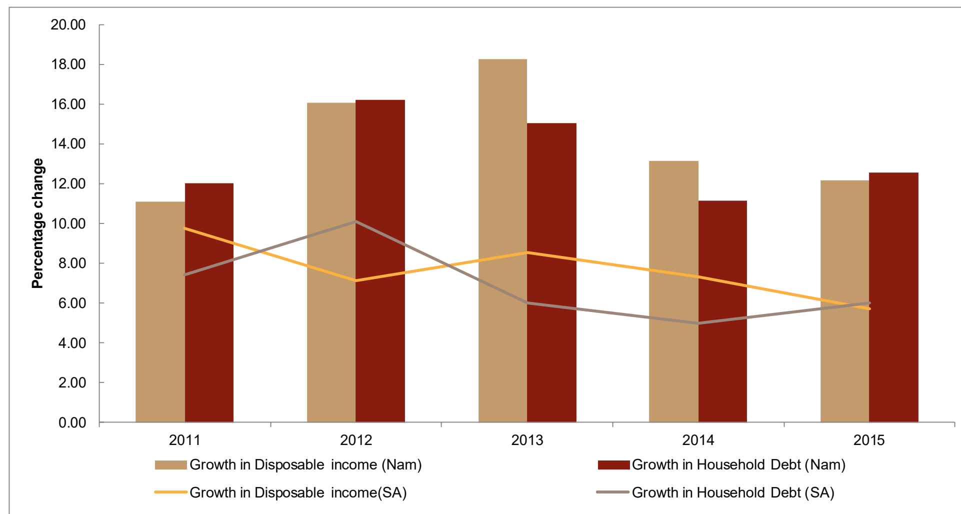
Figure 6: Selected Interest Rates 2011-2015



Source: Bank of Namibia

Growth in household debt in Namibia exceeded that of disposable income during 2015, similar to developments in South Africa. Accounting for the increase in household debt in Namibia were the mortgages and other loans and advances (Figure 7). The key drivers of growth in household debt in South Africa were overdrafts and instalment credit categories, which grew in double digits during December 2015, compared to the corresponding period last year.

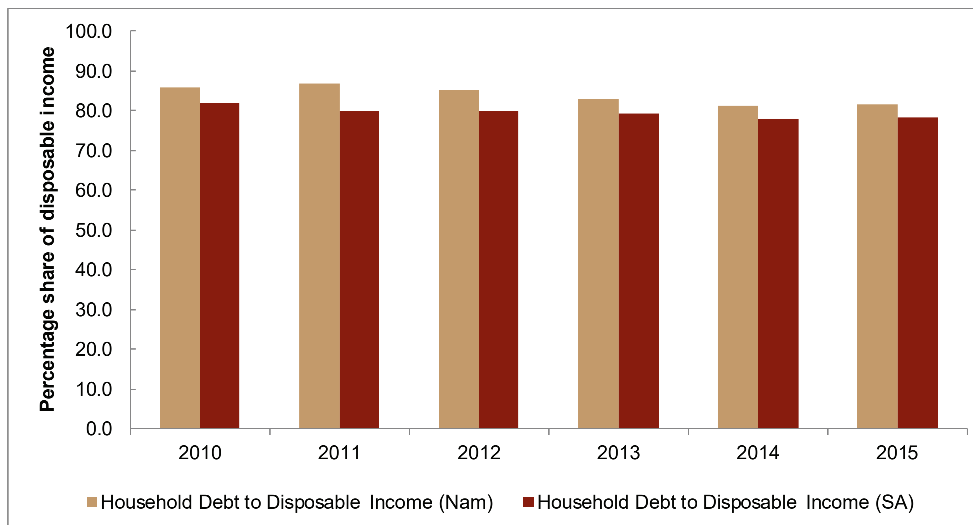
Figure 7: Growth in household debt and disposable income



Source: Bank of Namibia

The ratio of household debt to disposable income in Namibia was above South Africa's during the period under review [12]**.** In this regard, Namibia's debt ratio was at 89.1 percent of disposable income during 2015, higher than that of South Africa, which was 78.3 percent in December 2015 (Figure 8).

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



Source: Bank of Namibia and South African Reserve Bank

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

Debt Servicing Ratio

The debt service[13] to disposable income ratio in Namibia deteriorated slightly in December 2015, compared to December 2014. The key drivers of the increase in the debt service ratio were debt services for other loans and advances, mortgages and instalment finance. This could partly be attributed to increases in the repo rate of the Bank of Namibia and the subsequent adjustment in commercial bank lending rates in 2015 (Table 4).

Table 4: 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
Dec-11	10.9	11.1	9.7	13.0	14.7	19.1	10.0
Dec-12	17.5	16.0	13.2	12.5	14.3	18.4	10.0
Dec-13	17.9	18.3	17.0	12.4	14.2	18.3	9.0
Dec-14	9.0	7.7	15.9	13.2	15.2	19.4	10.0
Dec-15	7.2	8.1	13.8	14.0	16.1	20.6	10.3

Source: Bank of Namibia

Corporate Debt

Since the last FSR, total corporate debt stock increased on account of both foreign and domestic debt to the private sector. In this regard, total corporate sector debt grew by 19.1 percent to N$90.3 billion in December 2015, relative to the same period in 2014 (Table 5). The rise in foreign corporate sector debt was mainly, due to increased borrowing by the private sector, particularly mining, coupled with the depreciation of the national currency. Borrowing by the private sector from the domestic market, which increased by 18.2 percent in 2015, also drove the increase in total corporate sector debt.

At the end of December 2015, the corporate debt to GDP ratio increased, compared to the corresponding period in 2014. The rise in the corporate debt to GDP ratio was largely ascribed to foreign-owned companies, in various economic sectors that accessed foreign markets to borrow funds for financing their operations and the depreciation of the Namibia Dollar against major trading currencies (Table 5). Most of the companies that

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

borrowed from abroad earn foreign exchange and therefore, external debt servicing at current levels may not pose a major risk to the financial stability of the country, at least in the short-to-medium term, but it requires monitoring.

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

	2011	2012	2013	2014	2015
Domestic (%)	36.2	44.2	39.4	38.3	38.1
Foreign (%)	63.8	55.8	60.6	61.7	61.9
Domestic debt (N$ million)	16 864	20 641	23 429	29 163	34 482
Foreign debt (N$ million)	29 680	26 014	35 989	47 018	55 917
Total Debt (N$ million)	46 544	46 655	59 418	76 181	90 399
Y-o-Y Change in % in Total Debt	40.8	0.2	27.4	27.8	19.1
Nominal GDP (N$ million)	90 108	106 863	122 817	139 331	147 315
Debt to GDP ratio	51.7	43.7	48.4	54.7	61.4

Source: Bank of Namibia

The private sector continued to account for a major share of total corporate debt at the end of December 2015. In this regard, the share of the private sector in total corporate debt was 92.7 percent, which is slightly lower than the proportion recorded in December 2014. The remainder of the debt was held by the State-Owned enterprises Enterprises (SOEs). The corporate sector owed about N$90.4 billion at the end of December 2015, of which N$51.3 billion was owed to foreign lenders, while N$32.6 billion was locally extended (Table 6). Annual growth in foreign private sector debt moderated to 17.8 percent in December 2015, compared to December 2014 where the annual growth was 36.4 percent. A key factor that caused the slower growth in foreign private sector debt was increased repayments and debt-to-equity swaps by companies within the mining sector. Moreover, growth in domestic private sector debt slowed to 14.9 percent between December 2015 and December 2014 on the back of instalment credit and overdrafts[14]. The stock of bonds issued by Namibian corporates on the Namibian Stock Exchange increased from N$4.6 billion during 2014 to N$4.9 billion in 2015, representing a growth of 6.5 percent. Of this outstanding balance, N$3.4 billion were issued by commercial banks and N$1.3 billion by SOEs.

[14] Businesses normally use these facilities to finance machinery and equipment as well as vehicles.

Table 6: SOEs and Private Sector Debt Breakdown

N$ Million	2011	2012	2013	2014	2015
Foreign Private Sector Debt	27 538	23 827	31 878	43 490	51 250
Local Private Sector Debt	16 411	20 049	22 702	28 364	32 584
Foreign Debt of SOEs	2 142	2 187	4 111	3 528	4 667
Local Debt of SOEs	453	592	727	799	1 899
Total Corporate Debt	46 544	46 655	59 418	76 181	90 399
Foreign Debt to Total Debt (%)	63.8	55.8	60.6	61.6	61.9

Source: Bank of Namibia

Total debt outstanding by SOEs increased in December 2015 relative to the same period in the preceding year. At the end of December 2015, SOEs owed a total of N$6.5 billion, with N$4.6 billion owed to foreign lenders and N$1.9 billion to local lenders (Table 6). Increases of 137.7 percent and 32.3 percent were observed in the local and foreign debt portfolios of SOEs, respectively, during the period under review. The increase in the local debt was caused by the issuance of corporate bonds by SOEs on the Namibian Stock Exchange for infrastructure expansion. Similarly, the rise in foreign debt obligations of SOEs was due to new debt contracted by some SOEs in the transport sector during 2015.

The foreign exchange risk to the financial system stemming from foreign loan guarantees decreased since the issuance of the last FSR. The decline in the risks from foreign loan guarantees was accredited to the increase in the share of Government foreign loan guarantees denominated in the South African Rand and the Namibia Dollar. On the contrary, both US Dollar and Euro denominated foreign loan guarantees fell during the period under review.

Table 7: Foreign Private Sector Debt and Debt Servicing

N$ Million	2011 Dec	2012 Dec	2013 Dec	2014 Dec	2015 Dec
Total Foreign Private Sector Debt	27 538	23 827	31 878	43 490	51 250
Total Foreign Private Sector Debt Servicing	3 510	2 562	15 534	6 301	10 832

Source: Bank of Namibia

At the end of December 2015, foreign private debt servicing cost increased significantly by 71.9 percent to N$10.8 billion (Table 7). The increase in debt service cost was mainly attributable to a low base at the end of December 2014, following restructuring of foreign

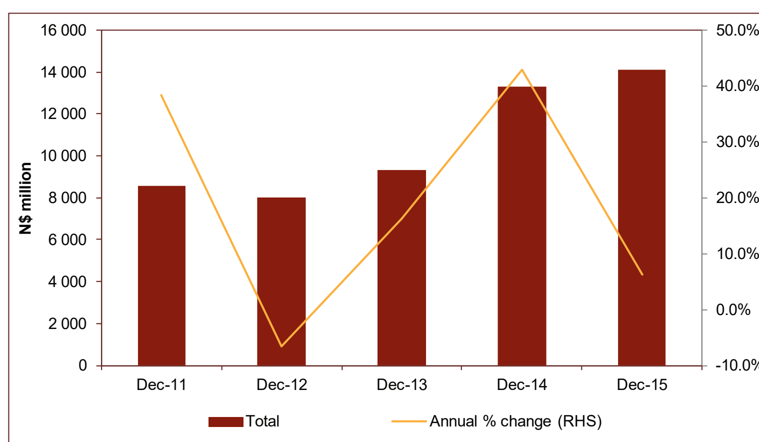
loans[15] and partly due to depreciation of the local currency. Despite the increase, foreign private debt service does not pose a risk to financial stability as companies that have such exposures earn foreign exchange.

Large Exposures

Commercial banks in Namibia often extend a large portion of total corporate loans to individual companies and/or groups of companies in a single sector. In terms of Namibian banking institutions legislation, a large exposure means any exposure to a single person or group of related persons, which in the aggregate, equals or exceeds 10 percent of capital funds. Large exposures pose a potential risk to overall financial stability in the form of excess concentration to individual companies or sectors.

The banking sector's large exposures have grown moderately since 2014. Total large exposures amounted to N$14.1 billion as at 31 December 2015, recording a moderate, year-on-year, growth rate of 6.3 percent in comparison to a significantly higher growth rate of 42.9 percent in 2014 (Figure 9). This deceleration was driven by a significant reduction in exposures to all sectors, with the exception of the manufacturing sector, which grew from 12.4 percent in 2014 to 27.9 percent in 2015. While an increased growth in exposure to manufacturing sector warrants monitoring, this sector is relatively less vulnerable to external shocks as compared to the mining sector for instance, and therefore poses minimal risk to the financial sector.

Figure 9: Banking sector large exposures and growth rate

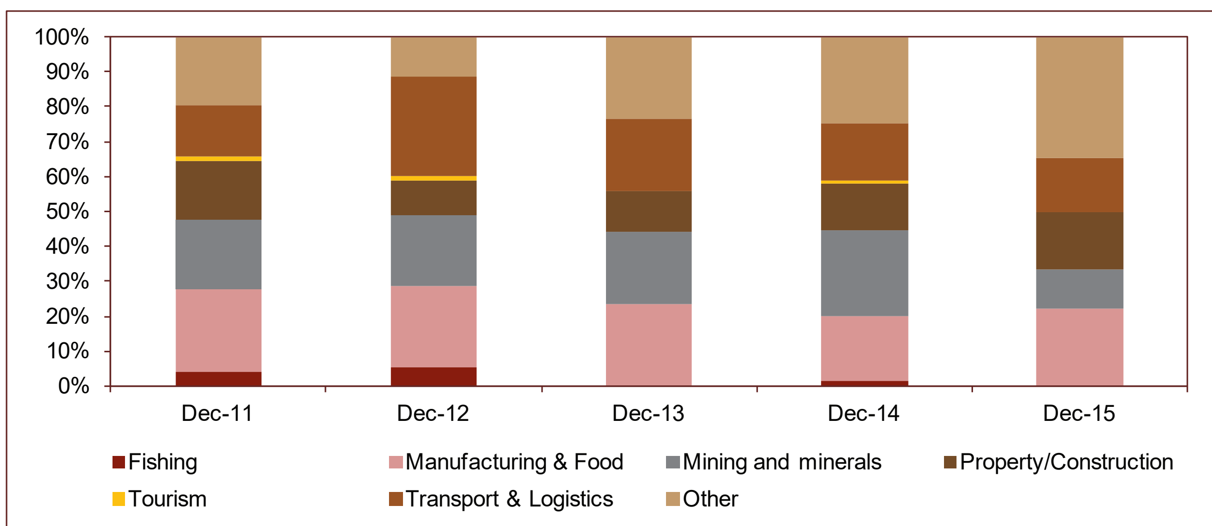


Source: Bank of Namibia

[15] There was a conversion of debt into equity capital in the mining sector during 2015. This transaction influenced the stock position of both foreign and debt outstanding and foreign debt servicing, as recorded in the International Investment Position (IIP).

The sectoral composition of large exposures changed significantly during 2015. The relative share of the manufacturing sector increased from 18.4 percent in 2014 to 22.2 percent in 2015. Similarly, the relative share of property and construction sector also increased from 13.3 percent to 16.1 percent over the same period. This increase in the relative share of property and construction particularly requires monitoring, especially in light of prevalent elevated property prices. On the other hand, the relative share of the mining and mineral sectors moved in the opposite direction when it declined from 24.6 percent in 2014 to 11.3 percent in 2015. Further, the relative share of transport and logistics sector moderated from 16.5 percent in 2014 to 15.5 percent in 2015 (Figure 10). The remaining 35.0 percent of the large exposures was roughly evenly distributed between twelve corporate borrowers outside the aforementioned sectors, which was about 10.0 percent higher than that of the previous year.

Figure10: Sectoral composition of large exposures



Source: Bank of Namibia

As a proportion of total private sector credit (PSC), large exposures moderated to 18.0 percent during 2015 from 19.3 percent at the end of December 2014 (Table 8). In relation to private sector credit to businesses, large exposures similarly declined to 43.4 percent from 46.9 percent over the same period. Despite these recent moderations, both ratios require monitoring so as to detect possible concentration risks to commercial banks, going forward.

Table 8: Large exposures in relation to private sector credit

Table 8: Large exposures in relation to private sector credit	2011	2012	2013	2014	2015
Total Largest Exposures	8 562	7 997	9 305	13 296	14 131
Total PSC	44 327	51 881	59 323	69 067	78 394
PSC to Businesses	16 937	20 693	23 384	28 364	32 584
Large Exposures to PSC	19.3%	15.4%	15.7%	19.3%	18.0%
Large Exposures to Business PSC	50.6%	38.6%	39.8%	46.9%	43.4%

Source: Bank of Namibia

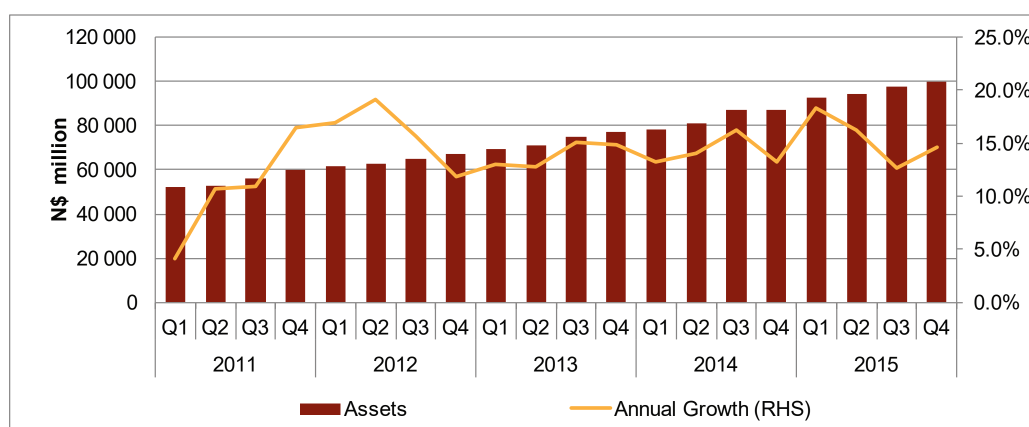
V. Performance of the Banking Sector

Since the last FSR published in June 2015, the performance of the Namibian banking sector has been characterised by healthy profit levels and adequate capital. The banking institutions remained resilient and maintained capital and liquidity at levels higher than the minimum set by the Bank[16]. Banking institutions have displayed robust aggregate balance sheet growth, positive profitability and satisfactory liquidity levels. The asset quality continued to be good with very low levels of non-performing loans (NPLs) that stood at 1.6 percent compared to the benchmark of 4.0 percent. This good performance is expected to continue into the future.

Balance Sheet Structure

The balance sheet growth remained positive as the banking sector remained healthy during 2015. The balance sheet of the total banking sector stood at N$99.9 billion as at 31 December 2015, representing a year-on-year increase of 14.6 percent (Figure 11). The growth in the balance sheet was largely derived from increases in the non-bank funding (deposits) on the liability side and in the total loans and advances on the asset side.

Figure 11: Banking Sector Assets and Growth Rate



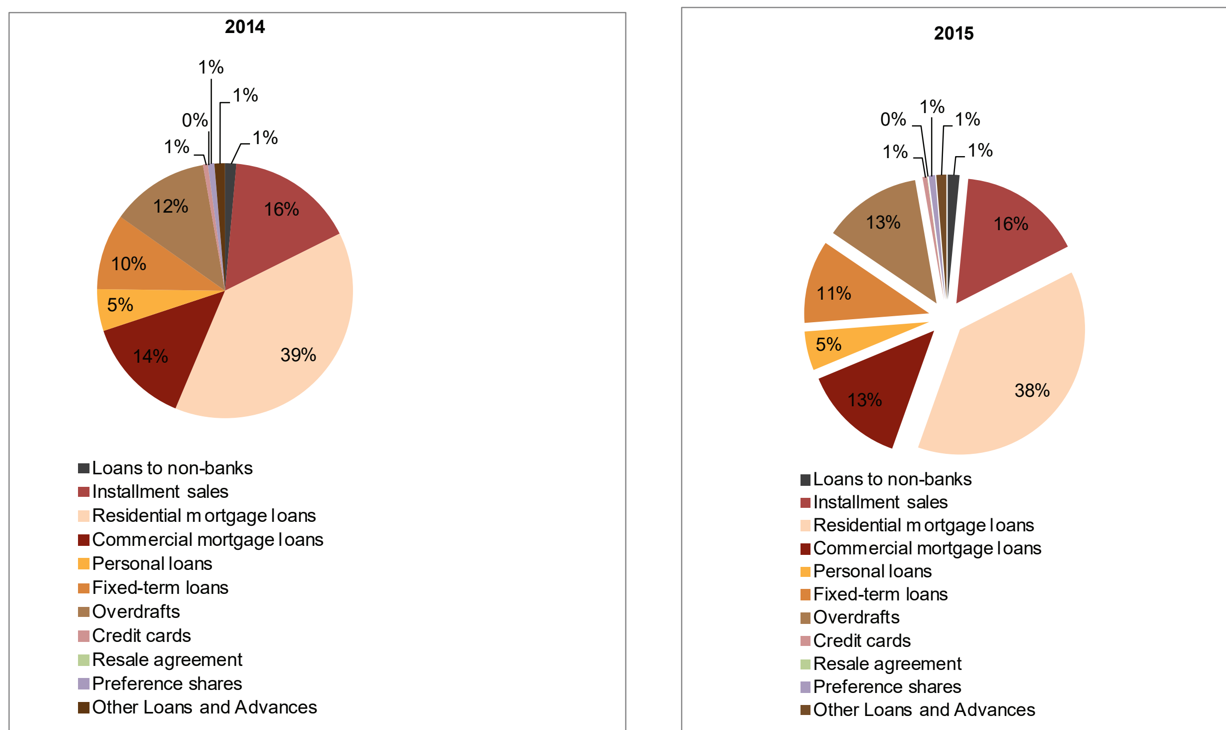
Source: Bank of Namibia

[16] The Bank obliges banking institutions to maintain a risk-weighted capital ratio (RWCR) of 10 percent, of which 7.0 percent ought to be Tier 1 risk-weighted capital. In addition, a minimum Tier 1 leverage ratio of 6.0 percent should be retained at all times.

Asset Structure

The domestic banking sector continues to offer conventional banking products. Total loans and advances increased by 15.0 percent to N$78.2 billion in 2015. Cash and balances slightly decreased by 2.9 percent to N$8.0 billion, while short-term negotiable securities increased by N$1.4 billion to N$7.8 billion, representing an increase of 21.9 percent. Total loans and advances constituted 78.2 percent of the banking sector's total assets, an increase from 74.0 percent in 2014. Cash and balances constituted 8.0 percent of total assets in 2015, declining from 9.5 percent during 2014. The total of all other assets constituted the remaining 13.8 percent, showing an increase from 12.5 percent held in 2014. Further analysis of the composition of loans and advances shows that mortgage loans (residential and commercial mortgages) represented 51.3 percent of the total loan book compared to 53.0 percent in 2014. Overdraft loans constituted 12.7 percent of the total loan book in 2015, while instalment sales represented 16.0 percent of the total loan book in 2015. The remaining share of 20.0 percent of the total loan book was shared among all the other loans and advances products in 2015, compared to 18.8 percent in 2014 (Figure 12).

Figure 12: Composition of Total Loans and Advances

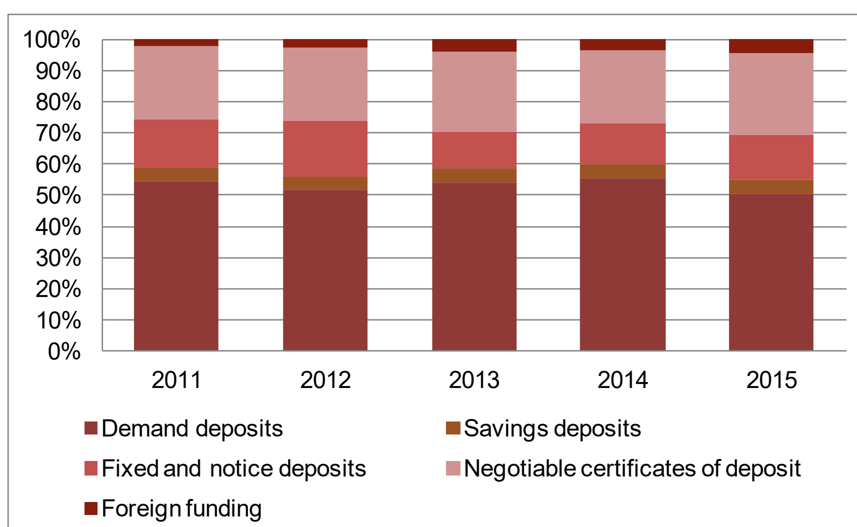


Source: Bank of Namibia

Funding Structure

On the capital and liabilities side of the balance sheet, short-term deposits continued to be the dominant funding source. Demand Deposits remained the largest component of non-bank funding representing 50.4 percent of total deposits, compared to 55.3 percent in 2014. As a result, the maturity funding structure of bank deposits continue to be skewed towards short-term rather than long-term deposits, (Figure 13). Negotiable Certificate of Deposits followed with a share of 23.4 percent, Fixed and Notice Deposits accounted for 18.9 percent, while savings deposits accounted for 4.3 percent. The share of foreign funding was minimal at 4.3 percent.

Figure 13: Composition of non-bank funding



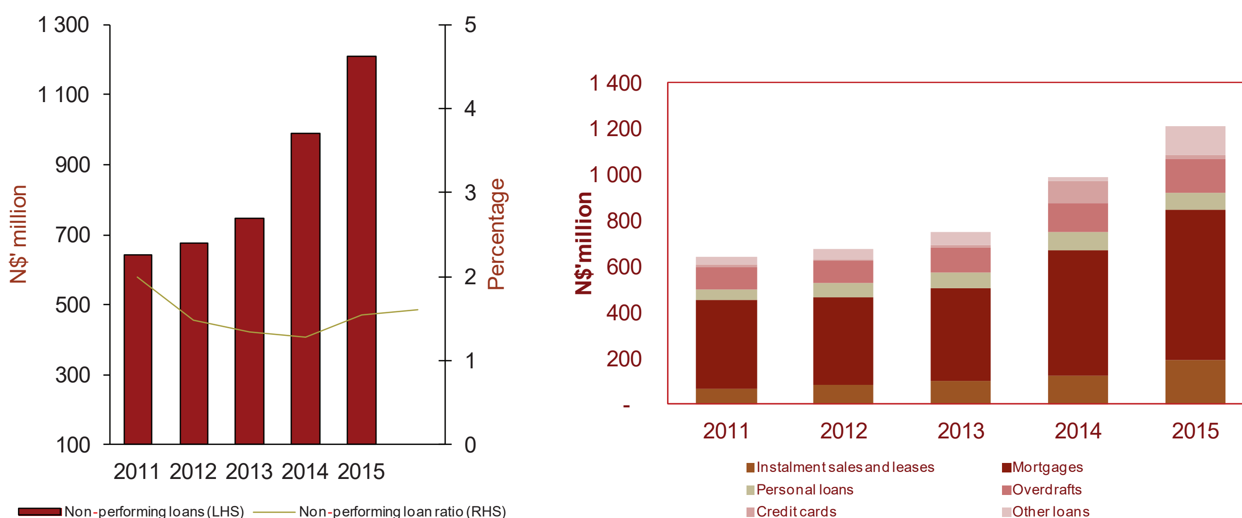
Source: Bank of Namibia

Asset Quality

The credit risk as measured by the ratio of non-performing loans of the banking sector increased but remained well below the 4.0 percent benchmark, and therefore poses no threat to the stability of the banking sector. Non-performing loans (NPLs) increased by N$222 million to N$1.2 billion. The surge in the NPLs was primarily spurred by increases in mortgages (by N$108.4 million), instalment sales (by N$69.2 million), and overdrafts (by N$25.5 million) and other loans and advances (by N$28.3 million). Non-performing mortgage loans continued to top the list of categories of non-performing loans as it constituted 54.1 percent of total NPLs followed by instalment sales and leases

and overdrafts at 16.0 percent and 12.3 percent, respectively (Figure 14a&b). The high share of mortgage loans in total NPLs is in line with its share in the total loan book of the banking industry. As at 31 December 2015, the banking sector recorded a non-performing loans ratio of 1.6 percent, which is above the 1.5 percent recorded at 31 December 2014. Despite the slight deterioration in the banking sector asset quality, the NPL ratio remains satisfactory.

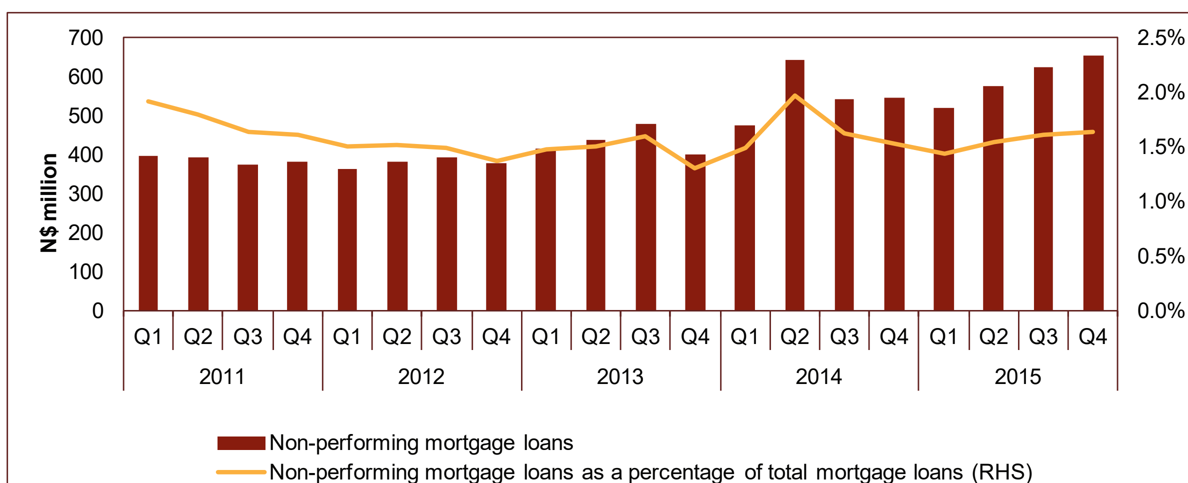
Figure 14a: Non-performing loans **Figure 14b: Non-performing loans per product**



Source: Bank of Namibia

In proportion to total mortgage loans, non-performing loans increased during all quarters of 2015. These increases in NPLs for mortgages, albeit well within the limits, could be attributed to, among others, increases in interest rates during the year under review and should be monitored, going forward.

Figure 15: Non-performing Mortgage Loans

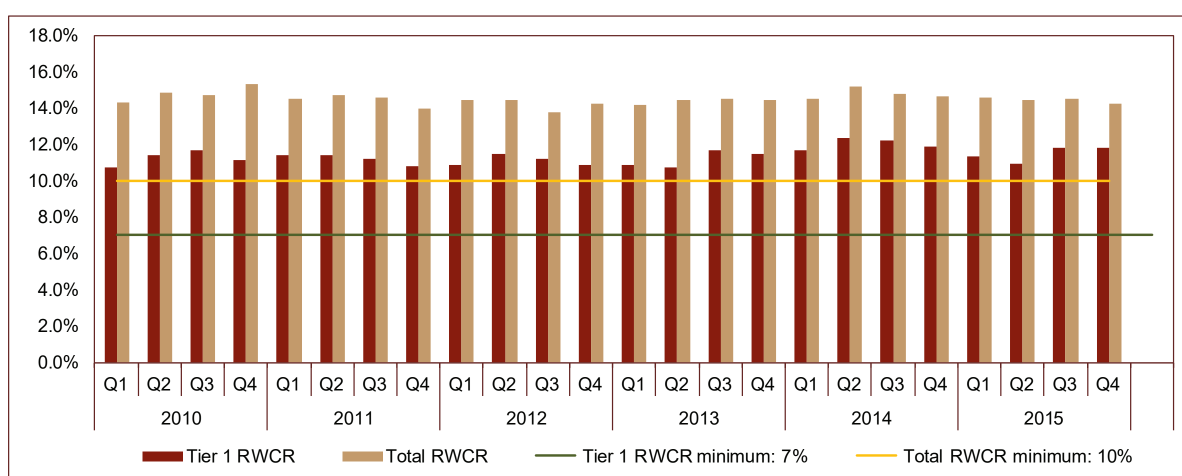


Source: Bank of Namibia

Capital Adequacy

During 2015, the banking industry remained adequately capitalised and maintained capital positions well above the prudential requirements. The purpose of maintaining adequate capital reserves is to cushion against risks associated with banking institutions' strategic growth and to protect the banks against unsecured risk that can result in operational losses and to build and maintain public confidence. The risk weighted capital ratio for the banking sector decreased to 14.3 percent in December 2015 from 14.7 percent in December 2014 (Figure 16). The decline in the risk weighted capital ratio resulted from a faster growth in the risk-weighted assets of 19.7 percent as opposed to the 16.4 percent growth in qualifying capital. Consistent with the latter, the Tier 1 capital ratio decreased slightly to 11.8 percent in 2015 from 11.9 percent the previous year, attributable to similar growth patterns noted under the overall capital level. On the other hand, the Tier 1 leverage ratio improved from 8.9 percent to 9.4 percent, since capital growth was faster than the growth in gross assets.

Figure 16: Capital Adequacy



Source: Bank of Namibia

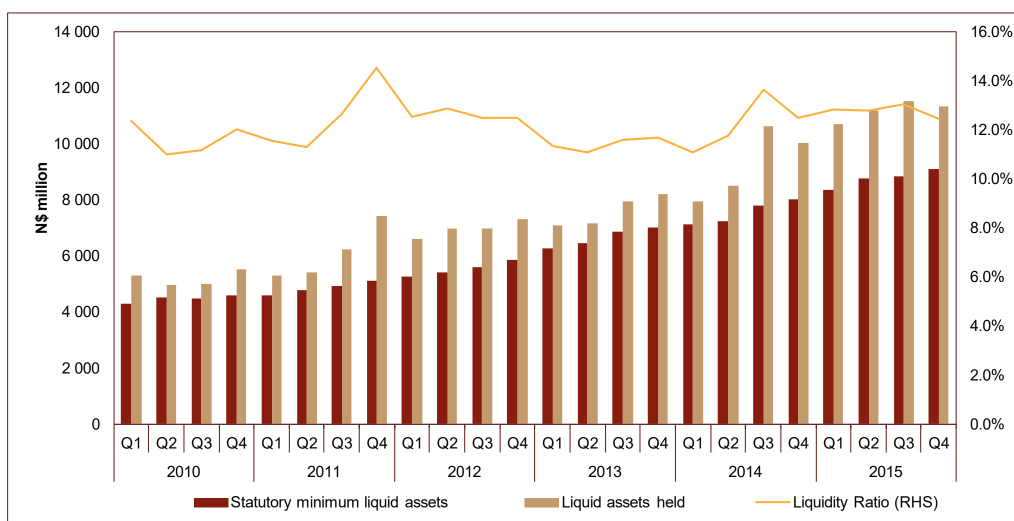
Adequacy of Provisions

Adequate provisions were raised for delinquent loans throughout 2015. Specific provisions cover increased from N$256.4 million in 2014 to N$368.2 million at the end of 2015. Expressed as a percentage of non-performing loans, specific provisions increased from 26.0 percent to 30.4 percent. The increase in provisions was in line with the increase in non-performing loans.

Liquidity

During 2015, the banking sector continued to hold liquid assets well in excess of the statutory minimum liquid asset requirement of 10 percent of average total liabilities to the public. The liquidity ratio moderated marginally to 12.4 percent at the end of December 2015 from 12.5 percent at the end of December 2014 (Figure 17). The banking sector had surplus holdings of over N$2.2 billion above the required levels.

Figure 17: Liquid Assets and Liquidity Ratio

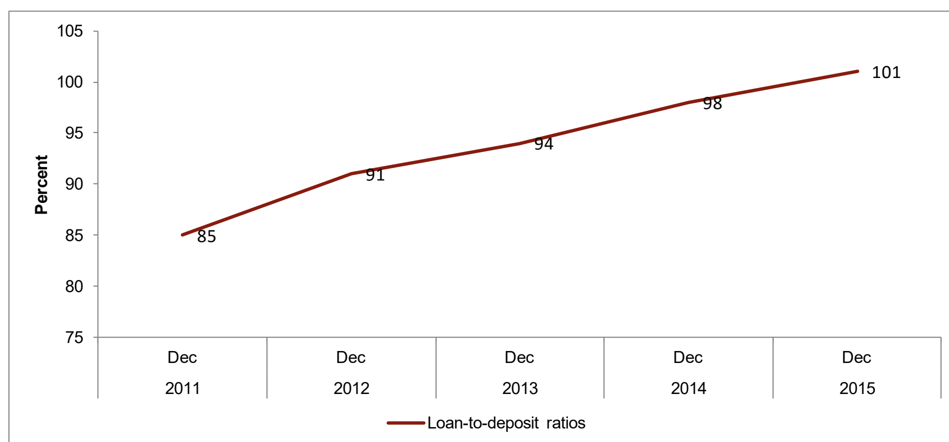


Source: Bank of Namibia

Despite statutory compliance, the trend in another key liquidity indicator, the loan-to-deposit ratio, has increased during 2015. The loan-to-deposit ratio increased from 98 percent in December 2014 to 101 percent[17] during the same period in 2015 (Figure 18). This indicates that lending activities exerted more pressure on deposits as a source of funding. Owing to the fact that this ratio was above the international benchmark of 100 percent, it indicates that the banking sector deposits are not sufficient to finance lending activities and that the banks have resorted to potentially more costly sources of funding.

[17] A loan-to-deposit ratio close to or over 100 percent implies that some of the banks rely on borrowed funds to fund their loans.

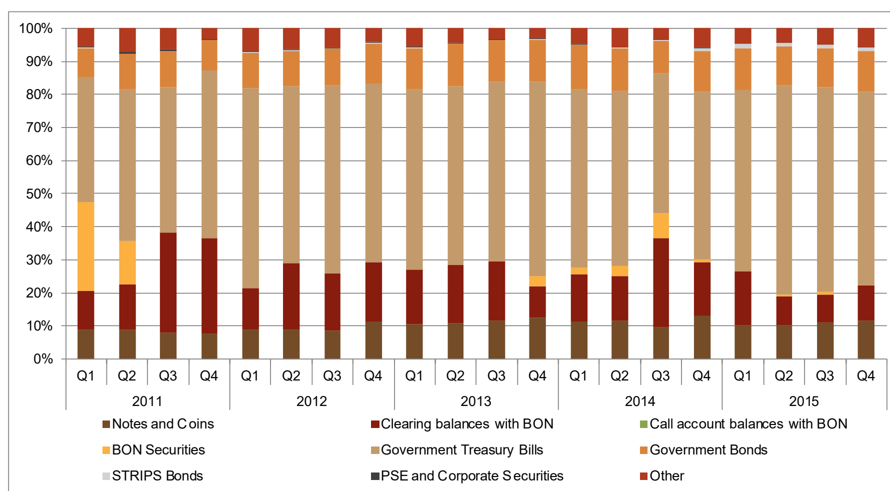
Figure 18: Loan-to-Deposit Ratios (2010-2015)



Source: Bank of Namibia

Government treasury bills continued to be the dominant component of the sector's liquid asset holdings. The share of government treasury bills increased to 58.4 percent at the end of December 2015 from 50.7 percent in the previous year (Figure 19). The second largest component of liquid assets was government bonds with a share of 12.4 percent in December 2015 compared to 12.5 percent during the previous year. Notes and coins component was the third largest component with 11.7 percent in December 2015, compared to a slightly higher share of 13.2 percent during the previous year. The remaining share of the contribution is made up of clearing balances with the Bank of Namibia with 10.5 percent, STRIPS bonds (Separate Trading of Registered Interest and Principal of Securities) and PSE corporate securities with 1.1 percent and 0.2 percent, respectively, in December 2015.

Figure 19: Composition of Liquid Assets



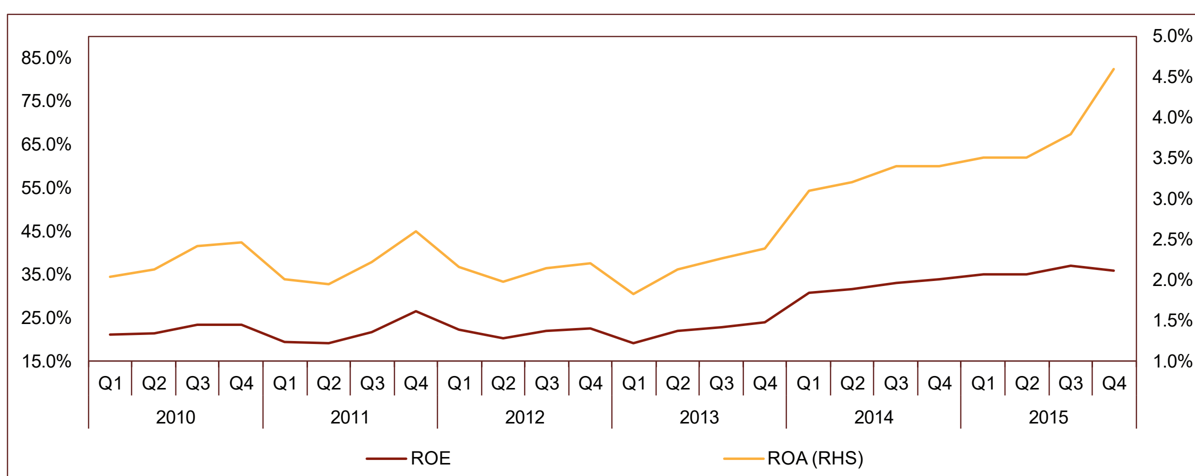
Source: Bank of Namibia

In terms of the concentration of funding sources of the banking sector, the ten largest depositors[18] constituted 20.6 percent of total funding related liabilities. In the 1-7 days' time bucket, funding from large depositors stood at N$11.8 billion, constituting 11.9 percent of total funding related liabilities at the end of 2015.

Earnings and Profitability

The profitability of the banking sector remained high at the end of the December 2015. The return on equity (ROE) ratio increased from 33.8 percent in December 2014 to 36.0 in December 2015. Similarly, Return on Asset (ROA) increased from 3.4 percent to 4.6 percent over the same period (Figure 20).

Figure 20: Profitability Ratios



Source: Bank of Namibia

The banking industry's after tax profits increased during the year driven by the overall increases in income. The banking industry after tax profits increased by 29.7 percent and amounted to N$2.5 billion, compared to N$1.9 billion a year ago. The high growth in profits also boosted the profitability ratios, which signify the sound and healthy position of the banking industry.

[18] Top 10 depositors- the banks report the highest deposits on a return and then it is aggregated. The aggregate amount relate to the ten largest customer depositors in respect of funds received from institutions in the relevant sectors.

Interest rate risk in the banking book

Interest rate risk for the banking industry remained low, as banks are well structured for rising interest rates. Liabilities repricing in the 30 days bucket increased by 6.9 percent to N$55.8 billion, while the assets repricing in the 30 days bucket increased by 12.8 percent to N$84.0 billion. The banking industry recorded an asset sensitive net-repricing gap in the 30 day time band, which signifies that the banking industry will benefit from interest income, since loans and advances will most likely reprice faster than funding products in the same time bucket. Similarly, interest rates can be transmitted to borrowers faster, while depositors may receive smaller incremental increases in deposit rates in the short to medium term in a market where banks in general do experience little liquidity pressure.

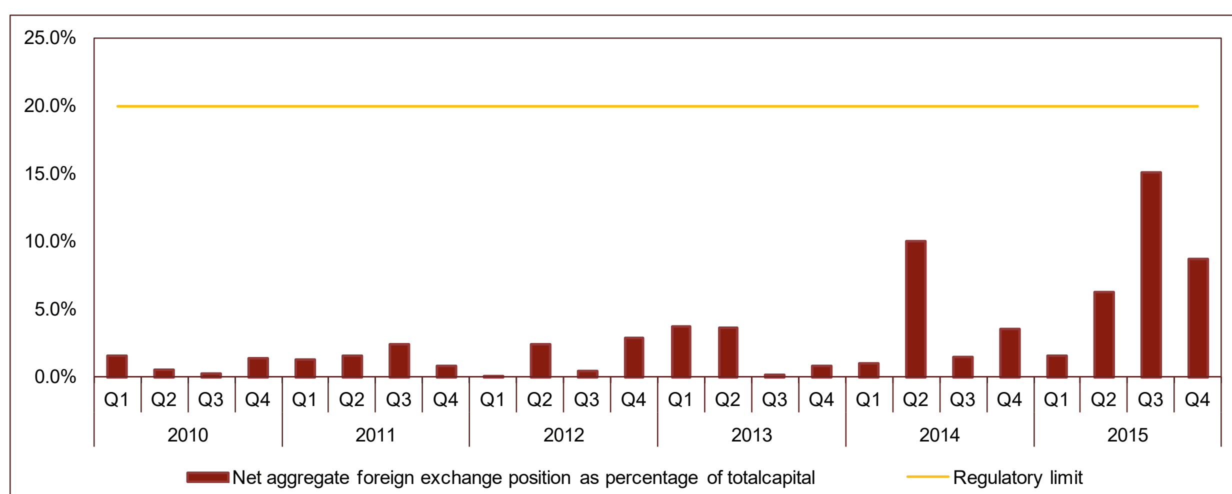
Liabilities subjected to variable interest rates continued to dominate the funding side of the balance sheet during 2015. Variable rate liabilities constituted 62.6 percent of total liabilities and capital, while fixed rate liabilities equalled 16.9 percent, with the remainder shared between capital and non-rate sensitive items. The largest share of the total assets making up 84.6 percent remained, however, subjected to variable interest rates resulting in an asset sensitive net repricing gap of N$26.8[19] billion for the first month after rate changes.

Foreign exchange risk

The banking sector's exposure to foreign currencies remained very low during the review period. The aggregate net open foreign exchange position decreased from 3.6 percent at the end of 2014 to zero percent at the end of 2015, thus remaining well below the statutory limit of 20 percent of capital funds (Figure 21). This shows that the banking sector had relatively very low exposure to foreign exchange risks at the end of 2015. This means that depreciation in any major currency as was observed during the course of 2015 may not result in significant losses or profits to the banking industry.

[19] Off-balance sheet exposures were also considered e.g. forward foreign exchange contracts.

Figure 21: Net aggregate foreign exchange position as a percentage of total capital



Source: Bank of Namibia

Stress Testing for Capital Adequacy

A stable and efficient banking system is vital in terms of providing financial services while having the capability of absorbing unforeseen shocks through effective risk, credit and liquidity management. The overall performance, profitability and soundness of the banks are equally important, and hence the need to identify their strengths and weaknesses in terms of measurements such as credit risk policies through stress testing. The ultimate objective was to obtain an estimate of losses that the banking institutions could face in the event of a significant shock and make recommendations. This was done by assuming plausible and yet adverse scenarios that could lead to losses, for which prudential measures should be exercised.

The scenarios assumed for the current stress testing relate to an increase in interest rates as a result of a combination of factors such as the depreciation of the South African Rand as well as increasing inflation in South Africa and the discouragement of capital flight from Namibia[20] **.** In line with these developments, it was prudent to assume that Namibia, and South Africa, will move into a contractionary monetary policy phase. Accordingly, the assumed scenario entails an increase in interest rates, which despite having a positive impact on interest income and thus capital, directly contribute

[20] The scenario assumptions of the stress testing exercise were increased from those in the last FSR to ensure that they are severe enough, but also plausible. Not withstanding that the results published in the last FSR were considered plausible, they were not severe enough to make any significant dent on the banks' capital. Against this background, it was deemed fit to enhance the severity of the scenarios.

to increased delinquency and therefore the level of NPLs. The increase in interest rate is primarily as a result of a combination of increasing inflation in South Africa emanating from the depreciating currency against the US dollar (cost push factor), the possibility of downgrading of the South Africa credit rating to junk status, and the normalization of interest rates coupled with the recovery of the US economy. In order to prevent capital flight to other markets, Bank of Namibia may elect to increase the Repo rate. The stress testing model assessed the impact of the interest rate increases on net interest income stemming from repricing gaps in each time band. As such, the following interest rate increases over 12 months were assumed:

i) 3 percent increase in the interest rate (Baseline scenario);
ii) 5 percent increase in the interest rate (Moderate scenario); and
iii) 7 percent increase in the interest rate (Severe scenario)

The above scenarios in terms of interest rates are believed to be plausible based on historic actions; in 1998 for instance the central bank increased the Repo rate by 2.75 percent at one of the Monetary Policy Committee meetings. As such, it is possible that the successive interest rates increments can reach 7 percent in a 12 month period whenever the central bank is justifiably prompted to do so.

In addition to the above-mentioned interest rate risk, the monetary policy tightening assumed above will prompt banks to increase their prime lending rates. This can result in the potential increase in default rates and therefore, higher non-performing loans (NPL) across all loan asset categories. It was therefore imperative to consider the resultant increase in the NPL ratio[21] using the following assumptions:

i) 3 percent increase in the NPL ratio (Baseline scenario);
ii) 5 percent increase in the NPL ratio (Moderate scenario); and
iii) 10 percent increase in the NPL ratio (Severe scenario).

[21] The NPL percentage increases stated above, relate to the Namibian banking industry NPLs which demonstrated a historic industry high of 6.6 percent in 2001. At this time, the interest rate was 15.4 percent and the repo rate was 11.25 percent; which reflects the same approximate magnitude increase above the current levels assumed in the adverse scenario of the Interest Rate Risk.

Using the stress testing model, the above scenarios on both the interest rate risk and credit risk scenarios were combined and applied to the banking sector data over a 12 month horizon. These were combined with other plausible constant variables such as a 35 percent (Table 9) depreciation of the exchange rate, which are in line with the recent developments pertaining to the South African Rand depreciation against the US dollar. Further, a 30.0 percent haircut on collateral value due to supply and demand effects related to the over supply of mainly retail, which is more likely to default in a 12 month reference period, collateral in the domestic market. Supervisory action is also anticipated in the model in the form of an increase in risk weights to 100.0 percent for claims on retail portfolios and residential mortgages, from 75.0 percent and 50.0 percent, respectively, due to the perceived increase in risk within these portfolios. The model allows for this combination through the alignment of the base, moderate and severe cases of each scenario as summarized below.

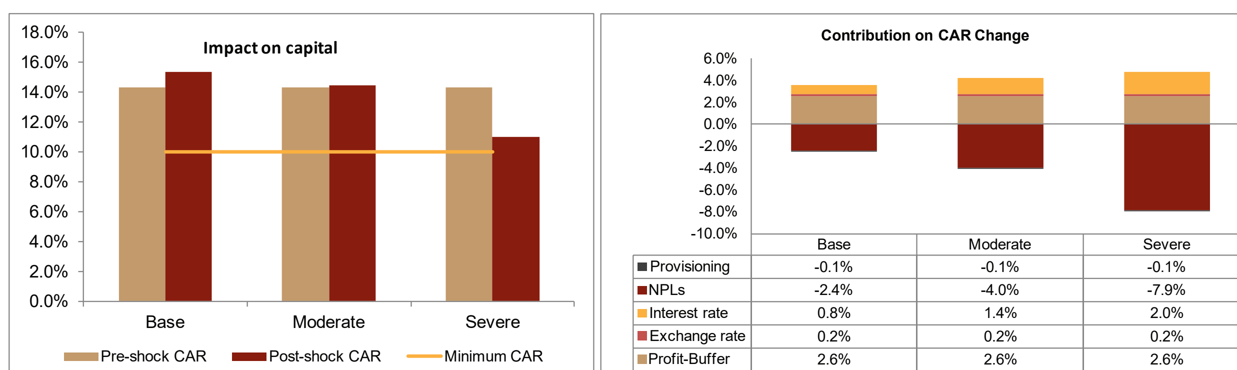
Table 9: Stress Testing Scenarios

Risk Category	Base	Moderate	Severe
Credit (NPL ratio)	3.0% ↑	5.0% ↑	10.0% ↑
Interest Rate	3.0% basis point ↑	5.0% basis points ↑	7.0% basis points ↑
Constant Variables: – 30% haircut on collateral – Risk weights increase to 100% for claims on retail portfolios and residential mortgages – 35% exchange rate depreciation			

Source: Bank of Namibia

Based on December 2015 banking sector data, the stress testing results show that the banking sector is adequately capitalized to withstand the impact of potential increase in NPLs, supported by a sizable profit buffer. With regard to the baseline scenario, the pre-shock risk-weighted capital ratio stood at 14.3 percent and would increase to 15.4 percent, well above the regulatory minimum of 10 percent (Figure 23). Similarly, with regard to the moderate scenario, the post-shock risk-weighted capital ratio would still be well above the minimum regulatory level at 14.4 percent. In the severe scenario, with the continuation and exacerbation of the assumed conditions, the post-shock risk-weighted capital ratio is observed to further decrease to 11 percent. At that level, banks would not be required to raise additional capital, but should recognize their proximity to the minimum capital requirements and the erosion of the profit buffer, which would affect their capital positions in the short to medium term should the assumed conditions prevail.

Figure 22: Interpretation of the Results



Source: Bank of Namibia

In terms of contribution to the erosion of capital, credit risk effects resulting from an increase in the NPLs, related to the increase in the interest rate, was the largest contributor to the change of risk weighted capital ratio across all scenarios. The increase in NPLs contributes 2.4 percent to the post-shock level of the risk weighted capital ratio in the baseline scenario. This is followed by the effect of the profit buffer of 2.6 percent, which acts as the first line of defence for loss absorption prior to the erosion of the capital base across all three scenarios, and an increase in interest rates with a 0.8 percent positive contribution to capital (Figure 23). In the moderate scenario, an increase in the NPLs contributes 4.0 percent to the post-shock erosion of the risk weighted capital ratio, while the interest rate increase has a positive contribution of 1.4 percent to the risk weighted capital ratio. In the severe case, the contribution to the deterioration of risk weighted capital ratio increased to 7.9 percent as a result of NPL increases, which outweighed the 2.0 percent positive contribution to the risk weighted capital ratio as a result of sustained increased income attributed to interest rates. Neither of the scenarios resulted in the breach in minimum capital requirements, due mainly to the size of the current profit buffer and its ability to absorb the projected losses. The exchange rate depreciation accounts for a positive 0.2 percent contribution to capital whereas the increase in provisioning as supervisory action accounts for 0.1 percent contribution to the deterioration of the capital adequacy ratio across all three scenarios. These effects are as a result of the positive income effect due to exchange rate depreciation affecting net foreign denominated asset position and the increased provisioning directly decreasing the capital base.

VI. Performance of the Non-Banking Financial Sector

Performance of the Non-Banking Financial Sector

The Non-Banking Financial Sector maintained its resilience during the period under review as the balance sheets of non-banking financial institutions remained robust. During the period under review, NBFI's balance sheets remained well capitalised, with funding/solvency levels in excess of those required in terms of the law. In terms of assets to GDP ratio, the pension funds and investment industry stood at 90 percent and 100 percent respectively, as indicated in table 9 below. Further, the two giant sectors are followed by long-term insurance and collective investment scheme, which each accounts for 30 and 32 percent, in terms of their asset to GDP ratio, respectively.

Table 9: Size of Balance Sheets of NBFIs

	Dec 2011		Dec 2012		Dec 2013		Dec 2014		Dec 2016	
Asset Values N$ Million	Assets	% of GDP	Assets	% of GDP	Assets	% of GDP	Assets	% of GDP	Assets	% of GDP
Long Term Insurance	26,736	30%	31,654	30%	36,424	30%	40,224	29%	44,746	30%
Short Term Insurance	2,624	3%	3,001	3%	3,461	3%	4,749	3%	5,587	4%
Medical Aid Funds	768	1%	858	1%	1,002	1%	1,160	1%	1,360	1%
Pension Funds [22]	69,478	77%	85,757	80%	105,267	86%	119,569	86%	133,089	90%
CIS [23]	27,526	31%	32,1062	30%	37,2672	30%	42,0832	30%	47,7722	32%
Investment Management [24]	91,6652	102%	109,1102	102%	123,3222	100%	136,1862	98%	147,6892	100%
Micro-lending	1,051	1%	1,753	2%	2,616	2%	3,382	2%	4,257	3%
Market capitalization of Locally Listed Equity	9,304	10%	11,057	10%	18,729	15%	22,322	16%	29,430	20%
Local debt issued	14,644	16%	17,125	16%	19,077	16%	21,806	16%	20,195	14%
GDP (N$ mill)	90,108		106,863		122,817		139,331		147,315	

Source: NAMFISA (asset values); Namibia Statistics Agency (GDP at market prices)

[22] Of this figure, about N$35.8 billion is managed by foreign investment managers, which amount would hence be excluded from AuM by local investment managers and collective investment schemes. This amount is thus also excluded from Tables 10 and 11: Sources of Funds.

[23] Includes assets of/managed on behalf of institutional and other investors (pension funds, insurance companies, medical aid funds etc.). See Tables 10 and 11: Sources of Funds.

[24] Most of the assets of Pension Funds, Long Term Insurance, etc. do also form part of the figure under Investment Management.

Table 10: Unit Trust Schemes: Sources of Funds

(N$ million)	2011	2012	2013	2014	2015
Pension funds	1,23	1,511	2,388	6,482	5,996
Short-term insurance companies	146	198	182	157	418
Long-term insurance companies	723	1,101	1,259	1,926	2,289
Medical aid funds	9	46	49	49	134
Unit trust schemes	2,819	4,129	4,517	5,073	12,485
Companies/Corporates	5,418	5,413	8,292	7,18	8,498
Natural persons	16,044	17,817	19,096	20,02	15,893
Other	1,137	1,891	1,484	1,196	2,059
Total	27,526	32,106	37,267	42,083	47,772

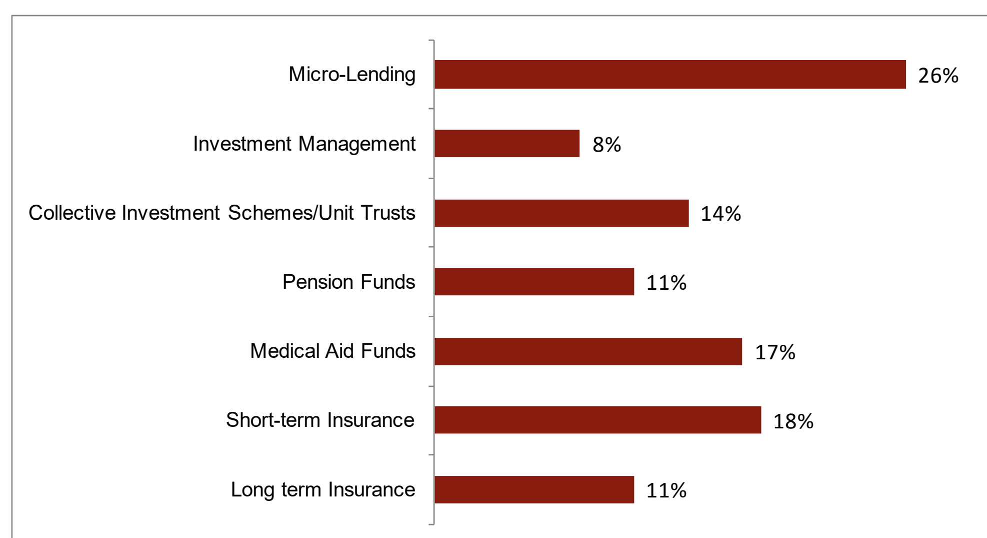
Source: NAMFISA

Table 11: Investment Managers: Sources of Funds

(N$ million)	2011	2012	2013	2014	2015
Pension funds	50 977	62 400	71 551	77 735	80,587
Short-term insurance companies	783	770	373	428	460
Long-term insurance companies	13 757	16 133	18 796	20 523	22,649
Medical aid funds	321	320	320	455	526
Unit trust schemes	22 878	26 183	28 409	31 824	37,743
Companies	532	524	808	1 285	1,446
Natura persons	9	25	46	56	76
Other	2 408	2 754	3 019	3 880	4,203
Total	91 665	109 110	123 322	136 186	147,689

Source: NAMFISA

Figure 23: Total asset growth analysis of the Non-banking Financial Sector: 2014-2015

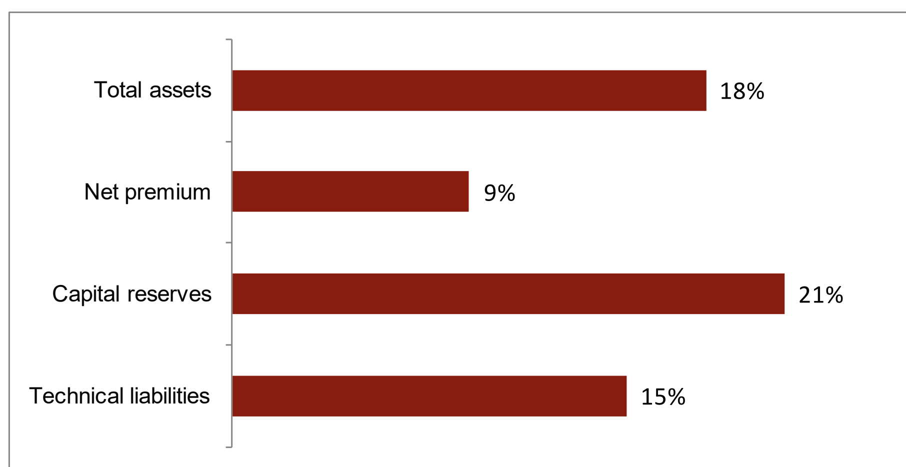


Source: NAMFISA

Growth of total assets of NBFIs was significant for the year ended 31 December 2015 on the back of continued increases mainly in asset valuation gains, contributions and investment income for pension funds, short and long-term insurance. The pension funds industry assets increased by 11 percent from N$119.57 billion reported during the previous year to N$133.09 billion recorded as at 31 December 2015. In addition, the insurance industry recorded a solid growth of 11 and 18 percent for long-term and short-term insurance, respectively (Figure 23).

During the period under review, the insurance industry remained well capitalised and solvent as it recorded solvency ratios above the minimum requirements. This implies that there is a sufficient buffer to withstand economic shocks against the insurance industry. Further, the resilience of the short-term industry is illustrated in Figure 24, which recorded a year-on-year growth ranging from 9 percent to 21 percent in terms of its capital reserves, premiums and assets.

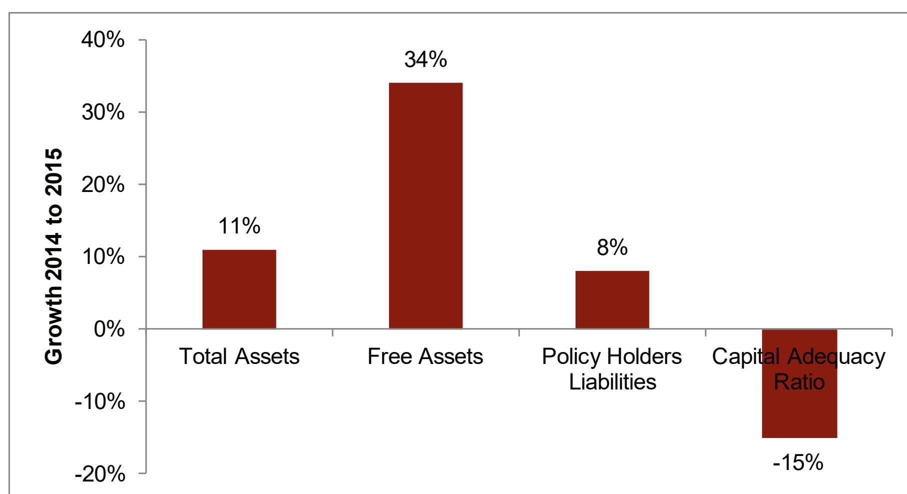
Figure 24: Short-term insurance financial indicators year-on-year growth (%): 2014-2015



Source: NAMFISA

In the same vein, the resilience of the long-term industry is illustrated in Figure 25. It indicates significant growth in free assets (excess) on the back of a strong asset base, which grew by 11 percent amounting to N$44.7 billion as at December 2015.

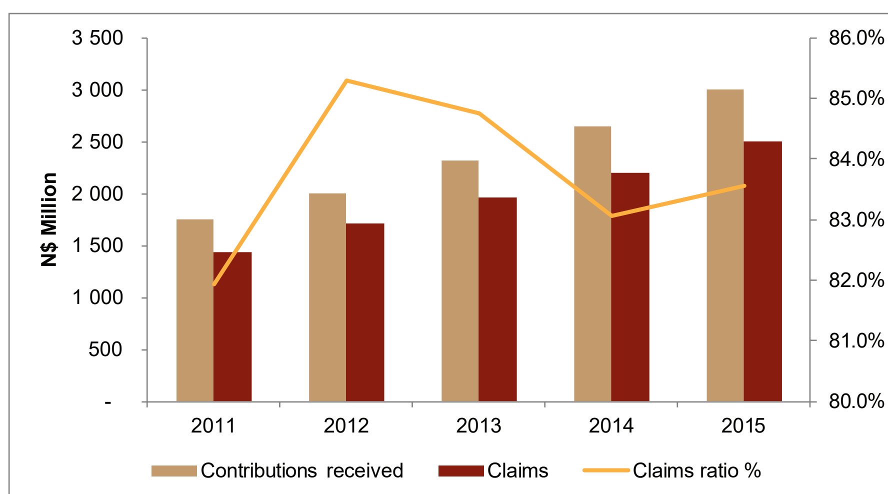
Figure 25: Long-term insurance financial indicators year-on-year growth (%): 2014-2015



Source: NAMFISA

The provident industry is made-up of medical aid funds, friendly societies and pension funds. During the period under review, the provident industry remained adequately capitalised, with the solvency ratio well above the minimum prudential required levels. The medical aid funds industry solvency ratio, increased to 35.5 percent as at 31 December 2015, due to an improved net surplus recorded as illustrated in Figure 26 below, i.e. gross contributions exceeds claims, which implies that additional funds were available to contribute to the settlement of non-healthcare expenditure and towards the building of reserves.

Figure 26: Industry gross contributions vs. gross healthcare expenditure, over 5 years



Source: NAMFISA

The pension funds industry remained financially sound since it consistently maintained a healthy funding level (i.e. total assets: total liabilities) of between 101.3 percent and 102.2 percent over the last five years (table 12). In addition, friendly societies industry reported a solvency ratio of 1.4 percent, which implies that the industry had sufficient assets to settle liabilities as and when they become due.

Table 12: Pension funds funding Position for the past 5 years

	2011	2012	2013	2014	2015
	As at 31 December 2015				
Total Assets	**77,220**	**86,566**	**106,987**	**119,569**	**133,089**
Active Members Accounts	36,229	46,657	54,202	55,335	59,801
Pensioners accounts	6,938	9,326	9,303	9,466	10,073
Reserve accounts	32,898	29,462	42,095	16,186	16,660
Others	2	21	1	35,993	44,574
Total Liabilities	**76,067**	**85,466**	**105,602**	**116,980**	**131,108**
Funding Level	**101.5%**	**101.3%**	**101.3%**	**102.2%**	**101.5%**

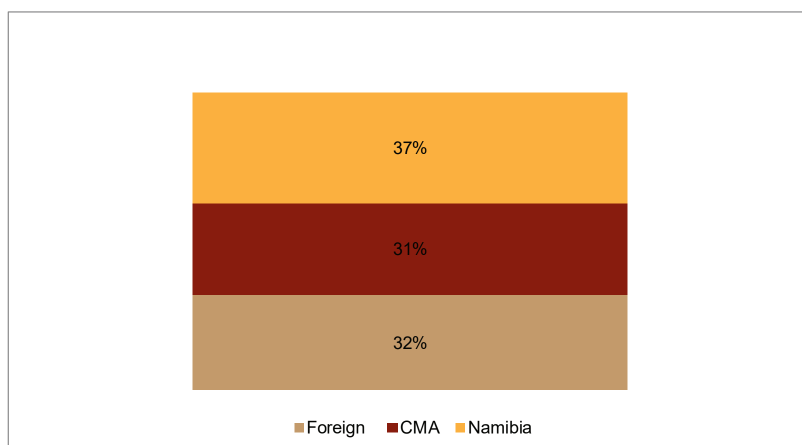
Source: NAMFISA

During the period under review, the investment industry remained sound and financially healthy. The investment industry consists of the capital markets (stock exchange), investment management and collective investment schemes. For investment managers, the assets under management (AUM) surged by N$11.5 billion (8.4 percent) from N$136.2 billion in December 2014 to N$147.7 billion[25] in December 2015. Pension funds, being the largest contributor to overall assets under management, added 2.0 percent to the annual growth, while unit trust schemes and long-term insurance contributed 4.8 percent and 1.6 percent, respectively. In addition, in terms of geographical allocation of institutional investor funds[27] , 37.0 percent (N$62.7 billion) of total funds were invested in Namibia, while assets in the Common Monetary Area (CMA) accounted for 31.0 percent (N$53 billion) and foreign investments amounted to 32.0 percent (N$54.2 billion).

[25] The N$147.7 billion excludes around N$35.8 billion of pension fund assets that are managed by foreign investment managers.

[26] Total institutional investor funds amounted to around N$170 billion, which included the N$35.8 billion in pension assets that is managed by foreign investors.

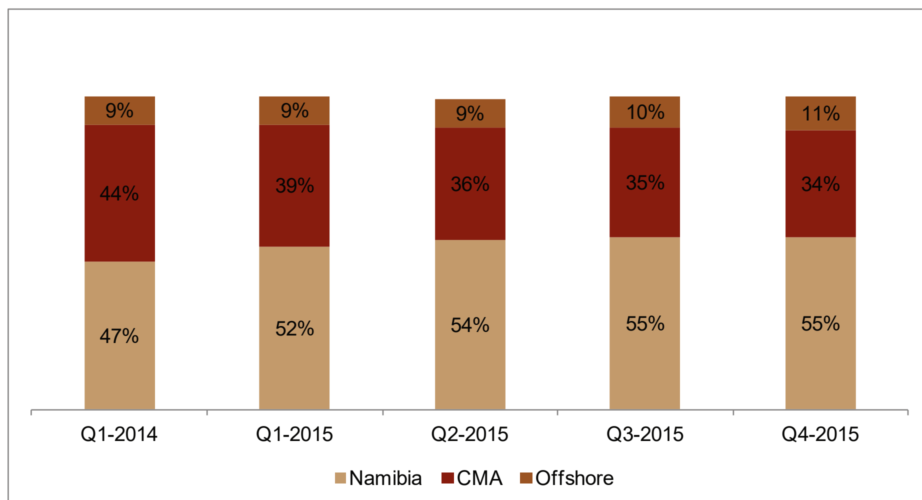
Figure 27: Assets per geographic allocation by investment managers, percent of total invested funds: Dec 2016



Source: NAMFISA

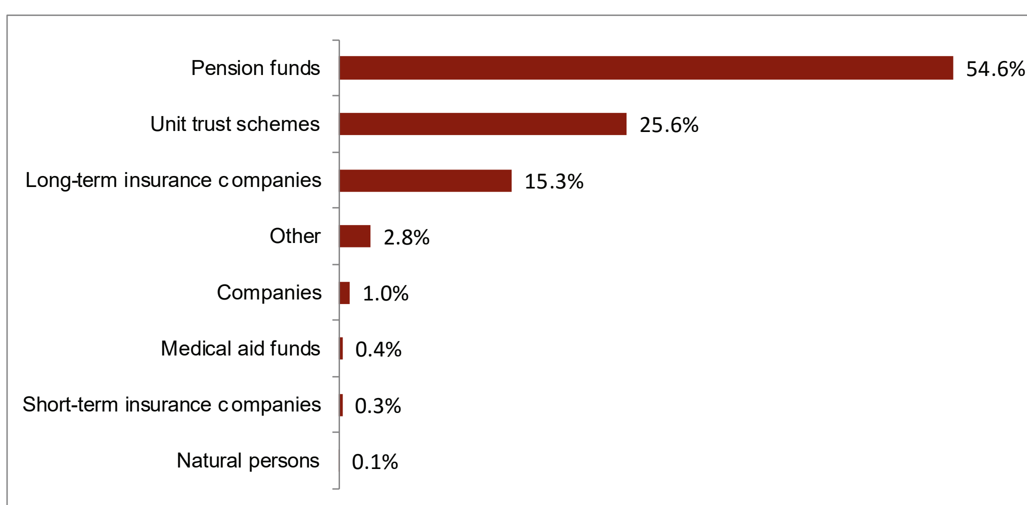
The collective investment schemes industry remained stable and its assets continued to grow in the local market, the CMA and offshore markets. In terms of year-on-year comparison, the total assets under management increased by 14.0 percent from N$42 billion in December 2014 to N$47.7 billion during December 2015. Furthermore, the geographical allocation of funds indicate that 55 percent, 34 percent and 10.9 percent of the funds under management are invested in Namibia, the CMA and Offshore, respectively (Figure 28). Natural persons continued to be the main source of funds, accounting for 33.0 percent (N$15.9 billion) of the total assets held. In addition, Unit Trust Schemes and institutional investors provide 26.0 percent (N$12.5 billion) and 18.0 percent (N$8.8 billion) of the funding, respectively, while corporates hold the fourth largest portion at 18.0 percent (N$4.5 billion).

Figure 28: Geographical Asset Allocation of Unit Trust Schemes, percentage of total assets



The local capital market is structurally shallow and inherently vulnerable to liquidity risks. The amount of instruments listed on the Namibian Stock Exchange (NSX), compared to the number of investors (and amount of funds available for investment) and coupled with the statutory exposure limits/requirements induce investors to adopt a buy and hold strategy i.e. investment managers are holding shares in order to comply.

Figure 29: Assets per investor as at 31 December 2015, percentage of the total funds managed by Investment Fund Managers,



Source: NAMFISA

Since the last Financial Stability Report, the assets sourced from industries such as pension funds, insurance and unit trusts increased at a reasonable pace. Pension funds, which constitutes a significant proportion of 54.5 percent of the funds investment by Investment Fund Managers, increased by 11 percent to N$5.9 billion. Further short-term insurance assets increased by 20 percent to N$481.2 million. Assets sourced from long-term insurers increased by 4 percent from N$2.2 billion to N$2.3 billion in 2015. Assets obtained from Unit Trust Schemes increased by 146 percent from N$5.0 billion to N$12.5 billion, year-on-year.

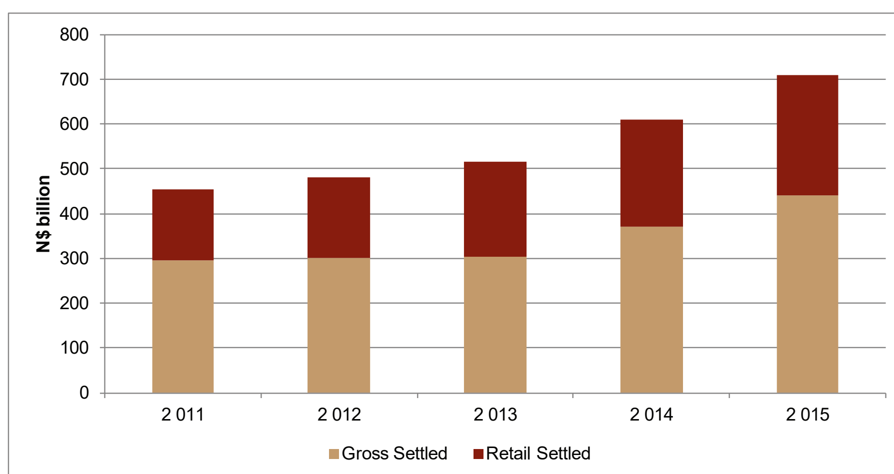
The exposure of the banking sector to NBFIs is likely to continue and targeted remedial policy interventions maybe required to reduce the potential impact on the banking sector. The impact of domestic asset requirements on especially long term insurers and pension funds, robust growth in NBFIs and the bias of unit trusts to money market instruments will increase NBFIs' investment in banking products and this warrants continuous monitoring.

VI. Payments Infrastructure and Regulatory Developments

Since the previous FSR, the payment infrastructures continued to operate effectively. The Bank of Namibia continued with its normal on-going off-site monitoring activities aimed at the identification and resolution of risks to the national payment system (NPS) as per the Risk-Based Oversight Policy Framework (RBOPF). The RBOPF was revised following the technical assistance provided by the World Bank, with the objective of strengthening and streamlining its payment system oversight function. The Bank of Namibia maintains its efforts to obtain data and information from participants and service providers on a regular basis in order to identify risks that need to be proactively managed.

During the second semester of 2015, growth in Namibia Interbank Settlement System (NISS) transactions increased both in terms of volume and value, compared to the same period in 2014. The volumes and values of payments settled in NISS increased by 15.0 and 13 percent, respectively when compared to the same period in 2014. NISS transaction volumes during the second half of 2015 averaged 5 528 transactions per month, with a total transaction value of N$386.1 billion. The value of the share of real-time (typically high-value) transactions processed in NISS was 62.0 percent of the total value settled in NISS, whilst that of the retail payment systems[27] was 38.0 percent of the total value settled in NISS (Figure 30).

Figure 30: Value of payments processed in NISS



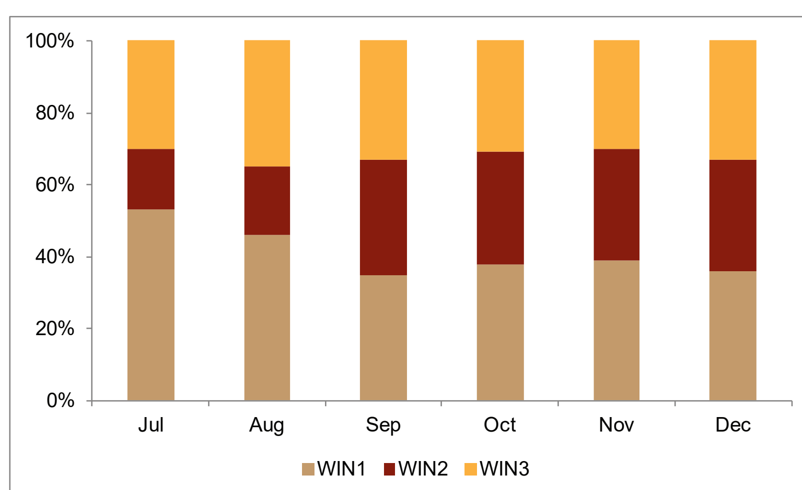
Source: Bank of Namibia

[27] The EFT, Cheque and Card Systems.

Settlement Windows

Since the last FSR, the likelihood of operational and settlement risks decreased slightly as the proportion of payments, in terms of value that settle in Window 3 decreased. Settlement window periods for payments settled in NISS indicate that around 41.3 percent, or N$156.4 billion in payments, was settled in Window 1 (08h00 to 12h00). Furthermore, 26.7 percent, or N$102.7 billion was settled in Window 2 (12h00 to 15h00) and 32.0 percent, or N$121.4 billion, in Window 3 (15h00 to 16h40) (Figure 31). To minimize operational and settlement risks, it is ideal that the majority of all settlement take place in the earlier windows i.e. Windows 1 and 2. Currently 68.0 percent of payments are settling in Windows 1 and 2, which significantly assists in mitigating operational and settlement risks, although some improvements can still be made to increase this figure.

Figure 31: Proportions of payments settled in each settlement window



Source: Bank of Namibia

Disruptions to the Namibia Interbank Settlement System (NISS)

No disruptions to NISS were recorded over the second half of 2015. The NISS front-end[28] availability ratio was 100.0 percent, which was above the acceptable availability level of 99.0 percent. Two successful disaster recovery (DR) tests and one business continuity simulation were conducted during the second half of 2015.

[28] This is the availability of NISS from a customer/front-end perspective.

Security of Retail Payments

During the period under review, the payment systems were monitored, safeguarded and enhanced to maintain financial stability by observing that the fraud-to-turnover ratio remained less than 0.05 percent. When calculated as a proportion of the total amount transacted by Namibians using cheques, Electronic Fund Transfers (EFT) and payment cards (i.e. debit, cheque/hybrid, credit, etc.), fraud-to-turnover losses decreased to 0.00151 percent during the second half of 2015 from 0.00087 percent during the second half of 2014.

The payments industry continues to monitor signs of emerging fraud trends and maintains collaborative efforts with enforcement agencies and consumer associations to avert fraud incidents involving retail payment systems. This has contributed to on-going enhancements to business practices to better protect consumers against new methods of perpetrating fraud. A sustained consumer education programme has also helped to increase public awareness on fraud prevention measures.

To combat fraud such as forged or counterfeited cards, the industry has embarked upon an Europay-MasterCard-Visa (EMV) compliance project for various cards used in the NPS. This international standard will require cards to have a “chip” instead of a “magstripe” for authenticating card transactions, making it much more difficult for these cards to be cloned. The industry was initially expected to issue EMV compliant debit cards, credit cards and hybrid cards into the market by 30 September 2015, but has been granted dispensation until 31 March 2016. The industry progress to date is that 100 percent of all Point-Of-Sale (POS) and Automated Teller Machines (ATM) are compliant, while the industry have made only 54.0 percent progress in terms of issuing EMV compliant cards. Additionally, the Payment Card Industry (PCI) Data Security Standard (DSS) has been developed to encourage and enhance cardholder data security and facilitate the broad adoption of consistent data security measures. The industry compliance deadline for Payment Card Industry (PCI) Data Security Standard (DSS) is set for September 2016. The majority of the participants have completed the scoping exercise and set their requirements.

In 2015, the Bank commenced with the migration of the Namibia Interbank Settlement System (NISS) project that was completed in February 2016. The version

upgrade included changing the hardware platform to INTEL based servers, installing a new NISS Business Intelligence (BI) application, changing the operating system and making use of the virtualisation and deployment of high-availability at both the Production and DR centers. The upgrade not only strengthened the infrastructure, but also made the Real Time Gross Settlement (RTGS) system more robust. The upgrade also allowed for enhanced functionality within the system i.e. reporting etc.

During 2016, the Bank is expected to develop a framework on payment system simulation and stress testing. The framework will provide a forward-looking approach to payment system oversight by enabling the Bank to test the resilience of the national payment system to a range of plausible and severe stress scenarios. Using this framework, the Bank will also be in a position to develop a system and mechanism of early-warning vulnerability indicators for the payment system.

Future Developments in Payment and Settlement Systems

The banking industry, through the Payment Association of Namibia (PAN), decided to reduce the cheque item limit from N$500 000 to N$100 000 with effect from 1 February 2016. The Bank supported this decision and amended the Determination on the Reduction of the Item limit for Domestic Cheque Payments within the Namibian National Payment System (PSD-2). Looking ahead, the industry intends to phase cheques out by 31 December 2017. Prior to this date, the industry, in consultation with the Bank will reconvene in 2017 to re-assess the phase out strategy and impact thereof at that time. During 2015, all stakeholders in the NPS participated in the review of the National Payment System Vision 2020. The review assessed the progress on the key strategies outlined in the 2015 Vision document, which culminated in the formulation of National Payment System Vision 2020.

During the second semester of 2015, the national RID (to allow for a local scheme for proprietary cards in Namibia) was issued to PAN in terms of the Section 3(1) of the Payment Systems Management Act, 2003 (Act no. 18 of 2003), as amended. As per its mandate as noted in Section 3(4) (a) (iii) of the Payments Systems Management Act, (Act no. 18 of 2003), as amended, PAN issued the RID to an industry participant and PAN would have to certify the Certification Authority (CA) and Public Key Infrastructure (PKI)

vendor to be used by all industry participants that will be issuing proprietary cards. The Certification Framework, which will guide and govern this process, is still being drafted.

The Bank has undertaken to obtain accurate and up-to-date information about the relative costs of payment services to attain the objective of cost-effectiveness, while ensuring the smooth functioning of payment systems. The information on the costs involved in the provisioning of payment services is critical in terms of ascertaining the cost-efficiency of the National Payments System (NPS). In 2015, the Bank rolled out the payment services costing survey to the industry and commenced with data analysis during the second half of the year. The Bank will carry out supplementary surveys in 2016 to strengthen its analysis in order to determine a clear policy direction on the cost-effectiveness of payment service provision in Namibia. The banking industry, through PAN, and in accordance with the Determination on the Efficiency within the National Payment System (PSD-7), has taken a decision to embark on an industry wide project. The project is aimed at enhancing the current EFT system managed by Namclear.

VII. Concluding Remarks and Policy Recommendations

During the period under review, the Namibian financial system was robust, amidst developments in both the domestic and global economies. On the domestic front, an increase in both household and corporate indebtedness was observed in Namibia during the period under review. Factors that impacted the stability of the global financial system were mostly the slowdown in China, weak commodity prices, volatile capital flows and financial market volatility, and depreciated exchange rate of EMEs. It was expected that these developments could have undesirable effects on financial stability in Namibia. Such a prospect did not ensue nonetheless, and financial stability in Namibia was robust in 2015.

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

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

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

Policy Actions

Private sector debt

- Household indebtedness will continue to be thoroughly monitored. Although the risk from corporate debt is minimal, there is need to monitor it going forward.

Banking Sector

- Regular and intensive work on stress testing should continue with a view to continuously assess banking sector resilience to foreseeable risks and vulnerabilities.

Non-Banking Financial Sector

- In line with the Financial Sector Strategy, concerted efforts should continuously be undertaken and implemented to develop the domestic capital market so as to keep up with the robust growth of NBFI assets and limit the contagion risk from global financial markets.
- Since NBFIs provide an important source of liquidity to commercial banking institutions, care should be taken to ensure that potential downside exposure of NBFIs to the banking sector is monitored and evaluated regularly.
- Developing a robust measurement framework on financial stability indicators for NBFIs will enhance the ability of the country's financial system to withstand potential shocks. The recently concluded workshop on financial soundness indicators by the IMF was therefore, a timely intervention in this regard.

Payment Infrastructure and Regulatory Developments

To combat fraud such as forged or counterfeited cards, the industry has embarked upon an Europay-MasterCard-Visa (EMV) compliance project for various cards used in the NPS. This international standard will require cards to have a "chip" instead of a "magstripe" for authenticating card transactions, making it much more difficult for these cards to be cloned. The industry is in the process of ensuring that all debit, credit and hybrid cards are EMV compliant and will report to the Bank, a date by which compliance must be adhered to.

During 2015, all stakeholders in the NPS participated in the review of National Payment System Vision 2020. The review assessed the progress on the key strategies

outlined in the 2015 Vision document, which culminated in the formulation of National Payment System Vision 2020.

Going forward, in 2016 the Bank is expected to develop a framework on payment system simulation and stress testing. The framework will provide a forward-looking approach to payment system oversight by enabling the Bank to test the resilience of the national payment system to a range of severe, but probable shocks. Using this framework, the Bank will also be in a position to develop a system and mechanism of early-warning vulnerability indicators for the payment system.

Appendix 1: Financial Soundness Indicators

Table 1: Financial Soundness Indicators

	Jun-14	Dec-14	Jun-15	Dec-15
Number of banking institutions	7	7	7	7
Total assets of banking instutions (N$ million)	80 896	87 169	93 990	99 933
Assets/Nominal GDP	63.0	63.8	66.4	67.8
Capital adequacy ratios (%)				
Tier 1 leverage ratio	8.9	8.9	8.3	9.4
Tier 1 RWCR	12.3	11.9	10.9	11.8
Total RWCR	15.2	14.7	14.4	14.3
Asset quality ratios (%)				
NPL s/Gross loans	1.5	1.2	1.6	1.6
Overdue loans/ Total loans	3.6	3.4	3.5	3.6
Total provisions/ Total loans	1.2	1.2	1.2	1.1
Total provisions/NPLs	69.5	82.3	81.0	81.2
Specific provisions/ NPLs	29.1	31.3	27.9	29.3
Profitability ratios (%)				
Return on assets	2.2	2.4	2.4	2.6
Return on equity	21.9	24.0	23.9	24.5
Net interest margin	5.6	5.9	6	6.1
Cost-to-income ratio	53.4	52.7	52.6	51.6
Liquidity ratios (%)				
Liquid assets to total assets	10.5	11.5	11.9	11.3
Gross loans/ Total deposits	93.3	94.4	91.9	95.7
Gross loans/ Gross assets	76.0	77.1	76.5	77.4
Liquidity ratio	11.8	12.5	12.8	12.4

Appendix 2: Performance of the Non-Banking Financial Sector

Long Term insurance

Table 2: Income and expenses

(N$ 000)

	2011	2012	2013	2014	2015
PREMIUM INCOME					
Single premiums	2 115 584	2 597 266	2 657 119	2 681 468	2 804 923
Recurring premiums	2 837 694	3 212 438	3 731 081	4 751 746	4 545 129
Gross premium	4 953 278	5 809 704	6 388 200	7 433 214	7 350 052
Less: Reinsurance premium	61,97	56,6	101 293	170 231	233 218
Net Premium written	4 891 308	5 753 104	6 286 907	7 262 983	7 116 834
Gross policyholder benefits paid	3 590 179	3 937 090	4 454 130	4 999 082	4 551 487
Less: reinsurance recoveries				71 782	153 181
Net Policyholder benefits	**3 590 179**	**3 937 090**	**4 454 130**	**4 927 300**	**4 398 306**
Change in policyholder liabilities				1 312 797	2 616 183
Commission	330 783	370 905	440 871	522 703	597 257
Policyholder Benefits and Commission	3 920 962	4 307 995	4 895 001	6 762 800	7 611 746
Gross Profit/Loss	**970 346**	**1 445 109**	**1 391 906**	**500 183**	**-494 912**
Total other income	**1 513 136**	**4 088 219**	**4 887 215**	**3 943 922**	**3 264 952**
Investment Income	1 409 869	3 803 984	4 337 370	3 790 416	3 019 522
Other income	103 267	284 235	549 845	153 506	245 430
Total other expenses	**660 084**	**683 577**	**847 763**	**526 555**	**1 130 316**
Management expenses	656 077	683 863	846 599	420 725	834 294
Finance costs	-	-	-	716	294 307
Other expenses	4 007	-286	1 164	105 114	1 715
Profit/(loss) before taxation	**1 823 398**	**4 849 751**	**5 431 358**	**3 917 550**	**1 639 724**

Table 3: Balance sheet

	(N$ 000)				
	2011	2012	2013	2014	2015
ASSETS					
Immovable property	-	-	-	455 341	491 299
Property, plant and equipment	531,73	543 237	384 676	24 169	21 188
Intangible assets	-	-	-	279 813	316 325
Deferred tax	-	-	-	44	0
Other assets	3 176	2 545	218 886	3 319 555	3 830 059
Investments	21 180 727	25 601 521	28 205 274	26 346 262	28 469 784
NON-CURRENT ASSETS	**21 715 633**	**26 147 303**	**28 808 836**	**30 425 184**	**33 128 655**
Reinsurer Debtors	**-**	**-**	**-**	**152 165**	**161 062**
Premium Debtors	1 004 863	1 160 791	1 160 819	254 637	284 044
TECHNICAL ASSETS	**1 004 863**	**1 160 791**	**1 160 819**	**406 802**	**445 106**
Cash & Cash equivalents	3 758 023	4 043 090	6 114 550	3 021 720	3 370 324
Receivables	257 411	302,64	339 551	835 902	1 372 891
Investments				5 534 841	6 429 514
CURRENT ASSETS	**4 015 434**	**4 345 730**	**6 545 101**	**9 392 463**	**11 172 729**
TOTAL ASSETS	**26 735 930**	**31 653 824**	**36 423 756**	**40 224 449**	**44 746 490**
Deferred taxation	-	-	-	274	309
Other liabilities	893 392	924 998	1 158 579	175 863	73558
NON-CURRENT LIABILITIES	**893 392**	**924 998**	**1 158 579**	**176 137**	**73 867**
Policyholder liabilities	22 999 539	27 127 614	30 937 929	33 943 523	36 558 806
Reinsurance creditors	-	-	-	60 548	27072
TECHNICAL LIABILITIES	**22 999 539**	**27 127 614**	**30 937 929**	**34 004 071**	**36 585 878**
Trade & other payables	-	-	-	826,34	592 532
Current income taxation	-	-	-	5 553	2 985
CAR	484 957	628 724	648 783	226 172	191 451
Other liabilities	-	-	-	335 747	1 046 493
CURRENT LIABILITIES	**484 957**	**628 724**	**648 783**	**1 393 812**	**1 833461**
TOTAL LIABILITIES	**24 377 888**	**28 681 336**	**32 745 291**	**35 574 020**	**38 493 206**
EXCESS ASSETS	**2 358 042**	**2 972 488**	**3 678 465**	**4 650 429**	**6 253 284**

Short-term Insurance

Table 4: income and expenses

Short-term Industry income and expense					
			(N$ 000)		
Income Statement	**2011**	**2012**	**2013**	**2014**	**2015**
Gross premiums written	**2 138 593**	**2 444 369**	**2 788 152**	**3 338 281**	**3 493 466**
Net reinsurance expense	972 235	748 665	833 078	1 054 454	993 145
Net premiums written	**1 166 358**	**1 695 704**	**1 955 074**	**2 283 827**	**2 500 321**
Change in provision for UPR	-	-	-	42 623	153 152
Net Premiums earned	**1 548 639**	**1 702 227**	**1 936 713**	**2 214 532**	**2 347 169**
Gross claims and loss adjustment expenses	-	-	-	662 172	1 674 514
Change in IBNR	-	-	-	8 590	9 786
Less: Gross claims and loss adjustment expenses recovered from reinsurers	-	-	-	112 713	394 253
Net Claims incurred	**959 265**	**1 027 977**	**1 204 758**	**1 324 230**	**1 290 047**
Commission incurred	-	-	-	199 964	405 140
Less: Commission earned	-	-	-	90 106	167 101
Net commission incurred	**169 675**	**182 582**	**251 844**	**233 532**	**238 039**
CLAIMS AND COMMISSION	**1 128 939**	**1 210 559**	**1 456 602**	**1 557 762**	**1 528 086**
Underwriting surplus	**419 700**	**491 668**	**480 111**	**656 770**	**819 083**
Management expenses	241 846	313 805	340 457	459 232	527 180
Finance costs	-	-	-	657	344
Investment income	146 269	138 690	136 775	192 621	203 041
Other income	-42 498	6 598	42 848	176 214	38 232
Other Expenses	-	-	-	-	880
Profit before tax	**281 625**	**323 151**	**319 277**	**565 716**	**532 832**
LESS: Est. taxation (Current + def.)	-	73 460	78 136	98 995	111 812
PROFIT FOR THE YEAR	**281 625**	**249 691**	**241 141**	**466 721**	**420 141**
Other comprehensive income for the year	-	-	-	(22 328)	(12 777)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**281 625**	**249 691**	**241 141**	**444 393**	**407 364**
Performance ratios	**2011**	**2012**	**2013**	**2014**	**2015**
Cession ratio	45%	31%	30%	32%	28%
Net loss ratio	62%	60%	62%	59%	55%
Underwriting expense ratio	27%	29%	31%	32%	33%
Net combined ratio	89%	90%	93%	91%	88%

Table 5: Balance sheet

Short-term Industry Balance Sheet					
			(N$ 000)		
	2011	2012	2013	2014	2015
NON-CURRENT ASSETS	**1 319 354**	**1 314 563**	**1 506 834**	**1 251 240**	**1 505 922**
Immovable property	17 565	3 462	1 126	1 756	1 987
Property, plant and equipment	15 168	15 790	25 439	13 507	11 273
Intangible assets	-	-	-	13 582	19 847
Deferred tax	-	-	-	11 172	9 640
Other assets	351 899	352 141	330 447	231 801	304 268
Investments	934 722	943 170	1 149 822	979 422	1 158 907
TECHNICAL ASSETS	**147 514**	**101 566**	**214 096**	**900 333**	**1 057 286**
Reinsurers' share of unearned premiums	-	-	-	494 145	572 700
Reinsurers' share of outstanding claims	16 048	1 975	4 325	87 312	152 510
Reinsurers' share of claims incurred but not reported	-	-	-	60 356	60 716
Commission Receivable	-	-	-	26 367	19 747
Premium debtors	131 466	99 591	209 771	232 153	251 613
CURRENT ASSETS	**1 156 764**	**1 585 830**	**1 740 550**	**2 597 529**	**3 023 571**
Cash and cash equivalents	1 008 995	1 303 354	1 433 726	1 343 310	1 454 932
Other Receivables	147 769	282 476	306 824	129 765	108 342
Investments	-	-	-	1 124 454	1 460 297
TOTAL ASSETS	2 623 632	3 001 959	3 461 480	4 749 102	5 586 779
CAPITAL AND RESERVES	**947 177**	**931 238**	**1 082 043**	**1 353 146**	**1 637 255**
Ordinary share capital	47 551	47 551	47 551	47 551	67 661
Share premium	100 774	100 774	100 774	100 774	172 801
Retained earnings	658 810	619 615	757 384	984 472	1 179 250
Contingency reserve	140 042	163 298	176 334	218 692	216 551
Other reserve	-	-	-	1 657	992
NON CURRENT LIABILITIES	25 707	25 650	27 581	61 984	56 900
Deferred taxation	25 707	25 650	27 581	44 577	33 974
Other liabilities	-	-	- 17 407	22 926	
TECHNICAL LIABILITIES	**1272 552**	**1 460 025**	**1 647 925**	**2 705 717**	**3 111 452**
Gross provision for unearned premiums	999 052	1 096 849	1 257 478	1 654 638	1 886 336
Gross outstanding claims	173 676	199 034	206 092	588 575	675 828
Gross claims incurred but not reported	82 743	125 380	117 833	203 588	217 456
Commission Due	-	-	-	30 817	15 840
Reinsurance creditors	17 081	38 762	66 522	228 099	315 992
CURRENT LIABILITIES	**378 196**	**585 046**	**703 931**	**628 255**	**781 172**
Trade and other payables	168 922	270 996	348 146	214 731	324 547
Current income taxation	26 123	13 022	5 202	4 621	15 992
Other liabilities	183 151	301 028	350 583	408 903	440 633
TOTAL EQUITY AND LIABILITIES	**2 623 632**	**3 001 959**	**3 461 480**	**4 749 102**	**5 586 779**
Solvency Ratio	**30.8%**	**25.6%**	**26.2%**	**28%**	**29%**

Medical Aid Funds

Table 6: Income and expenses

Income and expenses					
	(N$ 000)				
	2011	2012	2013	2014	2015
Contributions received	1 757 893	2 002 120	2 315 575	2 642 485	3 001 636
Savings Plan Contributions	69 443	76 393	83 552	89 611	97 379
Reinsurance	24 108	12 009	20 245	20 142	35 686
Net contributions	**1 664 342**	**1 913 718**	**2 211 778**	**2 532 732**	**2 868 570**
Claims	1 440 207	1 707 675	1 962 359	2 194 981	2 507 821
Administration fees	135 537	161 447	187 831	196 224	204 805
Operational expenses	34 013	33 814	38 016	47 624	47 058
Managed Care: Management Services	21 892	31 122	35 619	39 927	42 443
Underwriting surplus/(deficit)	**28 951**	**(25 378)**	**(16 080)**	**50 012**	**61 028**
Other income	2 365	13 664	29 684	12 402	7 357
Investment income	45 326	72 325	95 526	82 556	96 888
Net underwriting surplus	**76 642**	**60 611**	**109 130**	**144 971**	**165 273**

Table 7: Balance sheet

Balance Sheet					
			(N$ 000)		
	2011	2012	2013	2014	2015
ASSETS					
Non-current Assets	**586 272**	**715 938**	**819 397**	**924 839**	**12 193**
Property, Plant & Equipment	8 707	11 747	11 736	11 687	3 893
Investments	0	0	0	0	8 300
Current assets	**181 736**	**142 335**	**182 598**	**237 068**	**1 347 590**
Investments	577 565	704 191	807 661	913 152	1 098 333
Accounts receivable	30 146	47 676	34 704	26 144	21 545
Cash & cash equivalents	151 590	94 659	147 894	210 923	227 712
Total Assets	**768 009**	**858 273**	**1 001 995**	**1 161 907**	**1 359 783**
FUNDS AND LIABILITIES					
Members' Funds	**615 940**	**660 968**	**759 829**	**897 689**	**1 062 445**
Accumulated funds	615 940	660 968	759 829	897 689	1 062 445
Revaluation reserve – investments	0	0	0	0	0
Non-current liabilities	**0**	**0**	**0**	**0**	**2 000**
Long-Term Loans (Borrowings)	0	0	0	0	2 000
Current liabilities	**152 069**	**197 305**	**242 166**	**264 217**	**295 339**
Accounts payable (creditors)	71 720	49 671	77 032	75 629	76 811
Provision for outstanding claims/IBNR	65 412	125 234	139 508	158 506	184 049
Savings plan liability(other liabilities)	14 840	19 801	23 372	28 336	32 906
Provision for bad debt	97	2 599	2 254	1 747	1 574
Total Funds and Liabilities	768 009	858 273	1 001 995	1 161 907	1 359 783

Pension Funds

Table 8: Income and expenses

Income Statement					
			(N$ million)		
	2011	2012	2013	2014	2015
Contributions Received	3 109	3 874	4 414	5627	6 151
Net Investment Income	4 857	11 143	13 288	9143	7 104
Capital Appreciation	582	866	2 298	1443	250
Other Income	39	37	11	22	70
Insurance Proceeds	81	92	93	128	101
Total income	8 668	16 012	20 104	16363	13 676
					-
Admin Fees	147	161	262	242	1 058
Investment Fees	139	140	215	280	332
Insurance Premiums	181	206	223	258	268
Other Expenses	103	98	45	149	162
Total expenses	570	605	745	929	1 820
	-	-	-		-
Net Income Before Transfers and Benefits	8 098	15 407	19 359	15435	12 619
	-	-	-		-
Net Transfers	-374	-377	-288	-472	(304)
Benefits Paid	2 704	3 257	3 885	4855	5 879
					-
Net Transfers and benefits paid	2 330	2 880	3 597	4383	5 574
					-
Net Income After Transfers and Benefits	5 768	12 527	15 762	11052	7 044

Table 9: Balance sheet

Balance Sheet					
			(N$ million)		
	2011	2012	2013	2014	2015
Non-current Assets	68 306	84 434	103 997	118044	131 414
Current assets	1 172	1 323	1 270	1525	1 675
					-
Total assets	**69 478**	**85 757**	**105 267**	**119569**	**133 089**
					-
Accumulated Funds and Reserves	68 365	84 659	103 886	116980	131 108
Current liabilities	1 113	1 098	1 381	2589	1 981
					-
Total Funds and Liabilities	**69 478**	**85 757**	**105 267**	**119569**	**133 089**

Collective Investment Schemes/Unit Trusts

Table 10: Total Funds under management

	(N$ million)				
	2011	2012	2013	2014	2015
Country allocation					
Namibia	15 123	16 771	18 742	19,88	26 449
Common Monetary Area	11 838	14 301	16 559	18 409	16 129
Offshore					
Total	565	1 034	1 966	3 794	5 194
Asset allocation	**27 526**	**32 106**	**37 267**	**42 083**	**47 772**
Money market investments:	23 152	24 658	21 395	24 799	28 654
Treasury bills	2 034	1 797	1 454	751	2 713
Negotiable certificates of deposit	7 851	9 806	9,31	10 632	12 783
Banker's acceptances	0	0	0	-	-
Debentures	0	0	0	28	74
Notice, call and other deposits	5 563	4 855	5 594	8 787	8 446
Other	7 704	8,2	5 037	4 601	4 639
Listed equity	2 228	3 602	9 179	9 844	10 886
Listed debt	1 503	2 981	3 658	4 266	4 583
Unlisted equity	213	187	1 704	1 515	1 453
Unlisted debt	161	231	574	548	639
Unlisted property	0	0	0	-	-
Other assets 269	447	757	1 111	1 557	
Total Funds Under Management	**27 526**	**32 106**	**37 267**	**42 083**	**47 772**

Table 11: Source of Funds

	(N$ million)				
	2011	2012	2013	2014	2015
Pension funds	1,23	1 511	2 388	6 482	5 996
Short-term insurance companies	146	198	182	157	418
Long-term insurance companies	723	1 101	1 259	1 926	2 289
Medical aid funds	9	46	49	49	134
Unit trust schemes	2 819	4 129	4 517	5 073	12 485
Companies	5 418	5 413	8 292	7,18	8 498
Natural persons	16 044	17 817	19 096	20,02	15 893
Other	1 137	1 891	1 484	1 196	2 059
Total	**27 526**	**32 106**	**37 267**	**42 083**	**47 772**

Investment Management (IM)

Table 12: Funds under management

	(N$ million)				
	2011	2012	2013	2014	2015
Country allocation					
Namibia	46 386	55 086	58 571	66 682	72 043
Common Monetary Area	35 061	41 707	48 467	51 725	52 608
Offshore	10 218	12 317	16 284	17 779	23 038
Total	91 665	109 110	123 322	136 186	147 689
Asset allocation					
Money market investments	30 331	34 006	35 280	35 963	41 563
Treasury bills	12 269	13 817	15 180	14 836	17 715
Negotiable certificates of deposit	3 702	4 522	4 396	6 128	7 172
Banker's acceptances	-	-	-	-	0.00
Debentures	4	-	-	28	74
Notice, call and other deposits	11 495	11 519	11 096	10 867	12 338
Other	2 861	4 148	4 608	4 104	4 263
Listed equity	42 553	53 101	58 027	67 233	68 840
Listed debt	13 363	15 540	17 552	19 211	20 195
Unlisted equity	905	1 168	1 152	1 685	1 464
Unlisted debt	171	241	255	94	129
Unlisted property	372	376	650	685	703
Other assets	3 970	4 678	10 406	11 315	14 79
Total Funds Under Management	**91 665**	**109 110**	**123 322**	**136 186**	**147 689**

Table 13: Source of funds

	(N$ million)				
	2011	2012	2013	2014	2015
Pension funds	50 977	62 400	71 551	77 735	80 587
Short-term insurance companies	783	770	373	428	460
Long-term insurance companies	13 757	16 133	18 796	20 523	22 649
Medical aid funds	321	320	320	455	526
Unit trust schemes	22 878	26 183	28 409	31 824	37 743
Companies	532	524	808	1 285	1 446
Natural persons	9	25	46	56	76
Other	2 408	2 754	3 019	3 880	4 203
Total	**91 665**	**109 110**	**123 322**	**136 186**	**147 689**

Micro-lending

Table 14: Credit extension

CREDIT EXTENTION	2011	2012	2013	2014	2015
Loans outstanding			**(N$ 000)**		
Total loans	1 501 208	1752 556	2 616 092	382 060	4 257 312
Term lenders	1 439 594	1 685 290	2 538 299	3 302 017	4 166 886
Payday lenders	61 614	67 266	77 793	80 043	90 426
Loans disbursed			(N$ 000)		
Total loans	1 483 754	1 586 460	2 261 550	2 259 908	2620 904
Term lenders	956 645	1 079 030	1 640 765	1 551 699	1 892 999
Payday lenders	527 109	507 430	620 785	708 209	727 905
Number of loans					
Total loans	656 061	613 307	698 460	717 031	764 328
Term lenders	96 397	97 486	114 796	100 104	120 067
Payday lenders	559 664	515 821	583 664	616 927	644 261
Average loan amount					
Term lenders (N$)	9 924	11 074	13 157	15 501	15 766
Payday lenders (N$)	945	983	1 064	1 148	1 130

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