ANNUAL REPORT 2023

NAMIBIA DEPOSIT GUARANTEE AUTHORITY

NDGA

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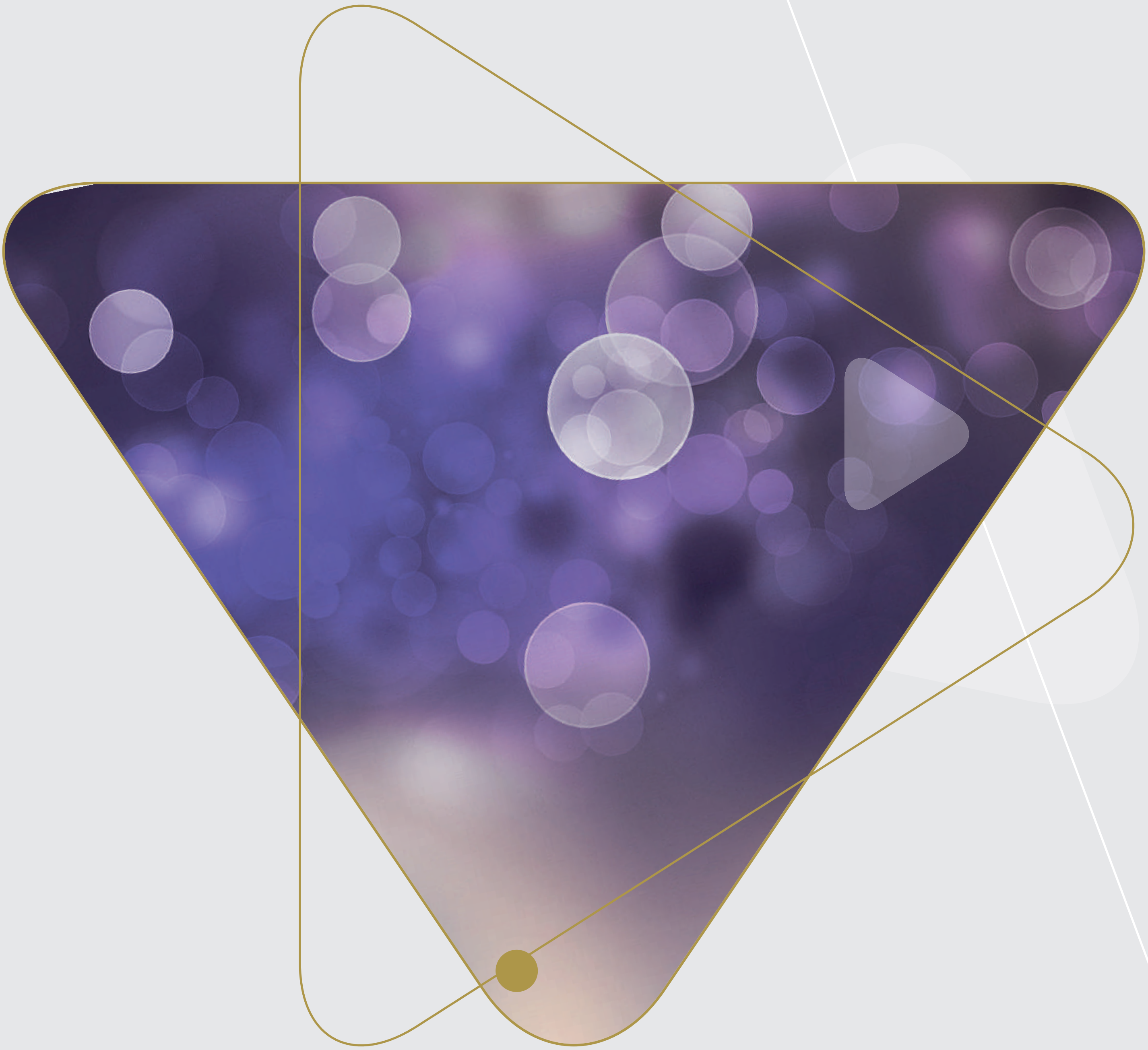
The Namibia Deposit Guarantee Authority Annual Report and Financial Statements for the financial year ended 31 December 2023 are prepared pursuant to section 32(1) of the Deposit Guarantee Act, 2018 (No. 16 of 2018).

Published by the Namibia Deposit Guarantee Authority
71 Robert Mugabe Avenue
P O Box 2882
Windhoek
NAMIBIA
Tel.: +264 61 283 5111
Fax: +264 61 283 5231
Enquiries: info@ndga.com.na

ISBN: 78-99916-995-0-9



CONTENT

Abbreviations

AGM	Annual General Meeting
ARIC	Audit, Risk and Investment Committee
GDP	Gross Domestic Product
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
NDGA	Namibia Deposit Guarantee Authority
NPL	Non-Performing Loan
SARB	South African Reserve Bank
USA	United States of America

CHAIRPERSON'S STATEMENT

Chairperson's Statement

> "The year under review marked the first year of implementation of our three-year Strategic Plan (2023–2025)."

I am deeply honoured to present the fourth Annual Report of the Namibia Deposit Guarantee Authority (NDGA) for the year ended 31 December 2023. The report is issued in terms of section 32 of the Deposit Guarantee Act, 2018 (No. 16 of 2018) and provides useful information to the Minister of Finance and Public Enterprises, the Bank of Namibia, our member institutions and all our stakeholders. The information is presented in three parts. Part A offers a background to the Authority and its organisational structure and management, Part B reports on numerous activities undertaken during the year under review, and Part C presents our Annual Financial Statements for the reporting period.

Since its establishment in 2020, the NDGA has continued to grow as an institution in terms of its organisational management and operations. Thus, it is the Authority's fourth annual report as required by the governing Act and in line with international best practice in good governance. The NDGA was established in terms of section 2(1) of the Deposit Guarantee Act with the main objective of providing depositors, particularly small depositors, with the required safety net and protection. Specifically, the NDGA is mandated to manage the Deposit Guarantee Scheme, which aims to provide compensation when a member institution fails. The Scheme fosters consumer protection, while safeguarding the stability of Namibia's financial system.

The NDGA continues to be operationalised through the structures of the Bank of Namibia while preserving and safeguarding its independence as provided for by the Act. This arrangement has enabled the NDGA to minimise its operational cost and enhance efficiency in pursuit of the institution's core mandate. As such, the institution is managed by a dedicated team seconded by the Bank who carry out the Authority's day-to-day activities, while a competent Board of Directors provides effective oversight. The Board is responsible for the general policy, control and administration of the Authority's business and affairs. The Board also ensures that the rules and determining policies for the Authority's administration are adopted and it advises the Minister on any relevant and related matters.

This report is presented at a time when economic developments, both globally and domestically, weakend somewhat. The International Monetary Fund (IMF) estimated global Gross Domestic Product (GDP) growth to have slowed from 3.5 percent in 2022 to 3.1 percent in 2023. The estimated weaker growth was influenced by the effects of tight monetary policies in which interest rates remained elevated, restrictive financial conditions and weak global trade growth. It is estimated that growth in most advanced economies and several emerging markets

> *“The NDGA is mandated to manage the Deposit Guarantee Scheme, which aims to provide compensation when a member institution fails.”*

decelerated in 2023, with the exception of the United States, where estimates are that growth remained stable. Economies such as China, Japan, and Russia on the other hand, experienced an upturn in growth during the period under review.

On the domestic front, the economy built up momentum during 2023, although at a slower pace compared to the previous year. The Namibian economy is estimated to have scaled down to 4.2 percent, compared to growth of 5.3 percent recorded in 2022. This is primarily ascribed to slower growth in the primary and secondary industries, underlined by weaker demand in both global and domestic economies on the back of high inflation and high interest rates that have a negative impact on consumer spending. From the demand side, all variables except Government consumption remained in positive territory, underpinned by elevated increases in private investment and exports.

Developments in the banking sector pointed out that the industry remained profitable, liquid and adequately capitalised in 2023 despite a strained economic environment. The banking sector continues to record higher profitability levels coupled with robust capital levels above prudential limits. The sector recorded a solid capital base for Domestic Systemically Important Banks (DSIBs) under the Basel III framework, as reflected in Total Eligible Capital ratio. The industry's common equity Tier 1 capital ratio also increased during the period under review and stood significantly above the required 7.0 percent limit. The non-performing loan (NPL) ratio picked up slightly year-on-year and is nearing the trigger ratio of 6.0 percent due to the high inflation and interest rate environment that prevailed during the period under review.

The year under review marked the first year of implementation of our three-year Strategic Plan (2023–2025). At the launch of the Strategic Plan last year, we committed ourselves to achieving its goals and objectives and I am happy to note that, thanks to sustained effort and commitment, the institution has come through the first year with tangible results. Alongside the four-set key strategic objectives, the execution of

Developments in the banking sector pointed out that the sector remained profitable, liquid and adequately capitalised in 2023 despite a strained economic environment.

the Plan will assist in actualising the NDGA's Vision and Mission. As we move into the second year of implementation, we rededicate ourselves to that task of ensuring a full implementation of the Strategic Plan for the remaining period.

We are indebted to our stakeholders and partners who helped us reach certain milestones on our journey thus far. The collaboration between Management and the Board, during the year under review saw the Authority striding ahead in achieving its strategic objectives. I would thus like to thank our Board of Directors, Management and staff for their commitment and dedication.

Moreover, I would like to thank the Board, management and staff of the Bank of Namibia for their unyielding support not only over the past 12 months, but also since the NDGA'S establishment three years ago.

Finally, appreciation is due to the member institutions for always making themselves available by providing the required information. I would like to close by urging the public to continue engaging the NDGA for any clarity regarding the deposit insurance scheme.

Ebson Uanguta
BOARD CHAIRPERSON
NAMIBIA DEPOSIT GUARANTEE AUTHORITY

HEAD OF THE AUTHORITY'S REPORT

Report by the Head of the Authority

I am delighted to present the fourth Namibia Deposit Guarantee Authority Annual Report to our stakeholders and the public at large. This report for the review period 1 January to 31 December 2023 is prepared in terms of section 32 of the Deposit Guarantee Act, 2018 (No. 16 of 2018) and in line with standards of good corporate governance. The information herein offers details on the Authority's governance and management, its operations, and the performance of the Deposit Guarantee Scheme. The report also presents the Authority's independently audited Annual Financial Statements for the year ended 31 December 2023.

> "The Fund outperformed its benchmark by 66.8 basis points during the reporting year."

Member institutions' annual premiums received totalled N$5.2 million, while the market value of the Fund closed off the year at N$23.1 million.

It important to recognise that the review period was characterised by somewhat subdued global and domestic economic environment. Global GDP growth is estimated to have weakened in 2023, largely due to the effects of tight monetary policies in which interest rates remained elevated, restrictive financial conditions and weak growth in global trade. Most advanced economies and several emerging market economies are estimated to have registered slower growth in 2023, with the exception of the United States. Domestically, the economy built up further momentum during 2023, although at a slower pace, registering a growth of 4.2 percent compared to 5.3 percent estimated for the previous year.

Despite prevailing challenges, the Namibian banking sector and the entire financial sector remained stable during the review period. The Namibian financial system remained sound and well capitalised, with no disruptions in financial infrastructures and services. The financial sector demonstrated resilience through maintaining adequate capital and liquidity buffers to absorb the impact of shocks, while simultaneously ensuring that the payment infrastructure operated efficiently. Key risks to financial stability remain inflationary pressures, high interest rates, and slow domestic and global economic recovery.

The NDGA's assets remained safe and secured as invested, in line with approved investment policy and guidelines. The NDGA Fund recorded an acceleration in growth relative to the preceding year, chiefly reflecting the premiums received from member institutions in addition to the investment performance amid the favourable interest environment. Accordingly, member institutions' annual premiums received totalled N$5.2 million, while the market value of the Fund closed off the year at N$23.1 million. The Fund outperformed its benchmark by 66.8 basis points during the reporting year. This was achieved by the portfolio generating an annual return of 8.5 percent relative to the benchmark (South African three-month STeFNI Index) annual return of 7.8 percent. The outperformance is attributed to the high interest rate environment, whereby the Fund strategically capitalised on the peak in interest rates and benefited from locking in high coupons, particularly on negotiable certificates of deposit relative to the benchmark.

Operationally, the NDGA continues to grow from strength to strength with each passing year. The operating model put in place to collaborate with the Bank of Namibia in the NDGA's operationalisation continues to serve the institution well. In this regard, the Bank of Namibia has seconded three of its staff to administer the Authority

and it provides the financial resources for its annual operations. In respect of progress, the year under review marked the first year of the implementation of our Strategic Plan (2023–2025), the full achievement of which will assist the Authority in pursuing its mandate. A key milestone in our commitment to good governance entailed the approval of our Risk Management Policy during the reporting period review.

On the global stage, the NDGA is delighted to have joined a growing number of deposit insurers that belong to the International Association of Deposit Insurers (IADI). The IADI is a global forum where deposit insurers as well as other financial safety net participants and international financial institutions work together to promote best practices in the areas of depositor protection, bank resolution and financial stability. The year under review also saw the NDGA joining other deposit insurers from the African continent on the Africa Regional Committee (ARC), one of the IADI's regional arms, at an IADI Annual General Meeting (AGM) and Annual Conference. The event took place in Dakar, Senegal, from 21 to 24 August 2023, under the theme "Protecting depositors – From crisis to payout". A global highlight for 2023 was the Authority's participation at the 22nd IADI AGM and Annual Conference in Boston, USA, from 25 to September 2023, which was thematically styled as "Successfully managing systemic risk: Deposit insurance in a turbulent world". By contributing actively

"We would not have accomplished what we have so far without the support and guidance from the NDGA Board of Directors and the cooperation of all our stakeholders."

to the IADI network, the Authority intends to maximise its membership benefits by taking advantage of opportunities for capacity development and international cooperation.

We would not have accomplished what we have so far without the support and guidance from the NDGA Board of Directors and the cooperation of all our stakeholders. Allow me, therefore, to sincerely thank the Board for offering their sound oversight and navigation expertise in operationalising this great institution. I would also like to thank our staff for their hard work and dedication as we continue to build this institution in the best possible way. The Bank of Namibia continues to support the Authority since establishment. For this indispensable support, I wish to thank the Bank's Board, management and staff as they accompany us on this journey. Furthermore, the association with the IADI, despite being a very recent development, has already begun to bear fruit. The Authority therefore commits itself to deriving value from this extensive network in the years ahead. Finally, I want to thank all the member institutions for their cooperation over the past reporting year. We plan to work closely with all member institutions in the financial years ahead so that we can reach out to the public and strengthen their vital trust in the financial system.

Florette Nakusera
HEAD
NAMIBIA DEPOSIT GUARANTEE AUTHORITY

CORPORATE CHARTER

Corporate Charter

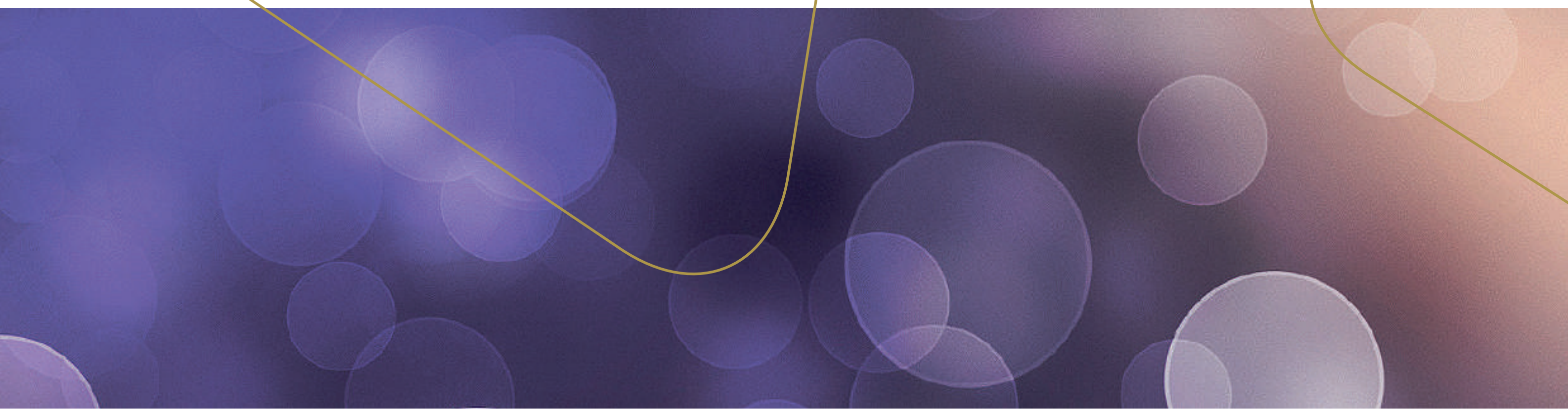
In pursuit of achieving its strategic objectives and mandate, the Namibia Deposit Guarantee Authority is guided by the principles of good corporate governance. In accordance with its establishing Act, the NDGA maintains and manages a Deposit Guarantee Scheme aimed at compensating depositors in a speedy, efficient and transparent manner in the event of member institutions' failure. On this legal and principled foundation, the NDGA aspires to be a credible entity in ensuring depositors are protected against the risk of loss. Therefore, the Authority's staff members, its Board and anyone else acting on its behalf are guided by a set of core values to actualise these aspirations and deliver on the NDGA's mandate.

Vision

To be a credible insurer committed to the protection of depositors' funds.

Mission

To establish and administer a deposit guarantee scheme for the protection of depositors against risk of loss of their deposits.



Core Values

Integrity: We are truthful and honest in all areas of our professional and personal lives.

Professionalism: We conduct ourselves in a professional manner at all times in the execution of our duties and when engaging with our stakeholders.

Transparency: We pride ourselves on providing complete information when required and authorised to do so.

Accountability: We are accountable to our principals and stakeholders and take full responsibility for our actions.

PART A: MANDATE AND GOVERNANCE OF THE NDGA

Mandate of the NDGA

The existence of a deposit guarantee or deposit insurance scheme is a crucial consideration for any regulatory structure aimed at protecting bank depositors while safeguarding financial stability. Deposit insurance schemes have grown in popularity following the aftermath of the 2008 global financial crisis. Such schemes have been implemented in many countries to protect depositors either fully or in part from losses caused by a bank or other type of financial institution's failure.

Deposit insurance schemes aid in promoting consumer protection and safeguarding financial stability as a component of a wider financial system safety net.

Deposit Insurance schemes are also intended to prevent panic withdrawals by assuring depositors that their deposits are safe in the event of a bank or similar type of institution's failure, thereby reducing the likelihood and scale of a systemic crisis.

The Namibia Financial Sector Strategy (NFSS) 2011–2021, which was developed by the country's financial authorities and stakeholders, advocated for a safety net to be put in place to protect small depositors. In this regard, a comprehensive study was conducted, as called for by the NFSS. The study recommended that, in line with international best practice and in consideration of the country's growing banking industry, Namibia should establish a deposit guarantee scheme. This led to the establishment of the NDGA and its eventual operationalisation in 2020. In line with its mandate, the NDGA now maintains and manages a Deposit Guarantee Scheme.

The main objectives of this Scheme are:

1. to protect a high percentage of depositors against loss by compensating them if a member institution should fail, and
2. to enhance financial stability in both the financial sector and the country by insuring a portion of the total deposits held by banks and building societies in Namibia.

Globally, deposit protection schemes are primarily intended to protect small depositors from losing their money when a bank or similar institution fails.

Therefore, the coverage limits of most of these schemes aim to ensure that a significant proportion of small depositors are fully protected. In Namibia, the current coverage limit is set at N$25,000 per depositor.

This limit ensures that over 90 percent of depositors receive their deposits back in full, while only about 4.5 percent of the total value of insurable deposits is covered in full. This, too, is in line with international practice, as the primary objective of establishing deposit guarantee schemes is always to ensure the protection of a significant proportion of small depositors.

POWERS OF THE NDGA

The Deposit Guarantee Act provides the NDGA with its mandate and the power to execute its functions. Although the NDGA is an independent juristic entity, it is currently administered within the existing structures of the Bank of Namibia. This was considered the most cost-effective way of running the Authority for the first few years. In pursuit of its strategic objectives and mandate, the NDGA possesses specified powers which enable it to:

- provide insurance, in accordance with the provisions of the law, against the loss of deposits
- collect premiums from member institutions in accordance with the provisions of the law
- administer the Deposit Guarantee Fund
- assess claims made against the Fund by depositors and determine the eligibility and entitlement of claimants in accordance with the provisions of the law
- keep the public informed of the benefits and limitations of the Deposit Guarantee Scheme, and
- engage in public awareness programmes aimed at increasing financial literacy to ensure depositors are always well informed.

MEMBERSHIP AND COVERAGE OF THE DEPOSIT GUARANTEE SCHEME

Many deposit insurance schemes around the world have made it obligatory for deposit-taking institutions to become members of such schemes. In Namibia's case, section 23 of the Deposit Guarantee Act defines three categories of membership for the country's Deposit Guarantee Scheme, as follows:

- A banking institution authorised under section 11 of the Banking Institutions Act, 2023 (No. 13 of 2023) to carry on banking business in Namibia
- A branch of a foreign banking institution authorised under section 26 of the Banking Institutions Act to carry on banking business in Namibia, and
- A building society registered to conduct the business of a building society under section 4 of the Building Societies Act, 1986 (No. 2 of 1986).

At the end of 2023, the Deposit Guarantee Scheme members comprised seven banking institutions and one foreign branch of a banking institution operating in Namibia. All members pay annual premiums to the Scheme which are credited to the Deposit Guarantee Fund.

Member Institutions

The Scheme covers only those deposits stipulated in section 39 of the Deposit Guarantee Act. Most types of deposits received by a bank or building society in Namibia in its usual course of business, such as savings and call or other term investments, are covered by the Scheme.

Notable exclusions are foreign currency accounts and tradeable debt and deposit instruments, negotiable certificates of deposit, and deposits at institutions regulated and overseen by the Namibia Financial Institutions Supervisory Authority (NAMFISA). Deposits from institutions in which the Namibian Government is a shareholder are also not covered.

The Scheme adopts a predetermined coverage limit per depositor in respect of the total of that individual's deposits at a member institution that has failed. Therefore, where a depositor holds more than one deposit in a failed bank or building society, the value of all deposit accounts held there by that depositor will be consolidated and the claimant will be compensated up to the maximum coverage limit. The coverage limit is determined per depositor, therefore, and not per deposit. The Board regularly reviews this guaranteed coverage threshold, which is currently set at N$25,000. This threshold ensures that a significant number of small depositors are covered in the event of a bank or building society's failure. By the end of 2023, the Deposit Guarantee Fund fully covered 91.2 percent of total depositors at the set threshold, which is a marginal increase in comparison with the 90.9 percent recorded for the end of the previous reporting year.

The Scheme also provides partial coverage for depositors with deposit values above the coverage limit, i.e. above N$25,000 in total deposits. These partially covered depositors are also eligible to receive a reimbursement up to the threshold value. By the end of the review period, partially covered depositors constituted 8.8 percent of total depositors, a slight decrease from 9.1 percent recorded by the end of 2022. For deposits above N$25,000, the depositors would typically be concurrent creditors of the member institution involved. Notably, any additional increases in the maximum amount per depositor covered will be minimal from a depositor-coverage point of view. This is because such increases will have a limited impact on the number of additional depositors that are fully covered, while the costs would increase exponentially.

Table 1: Summary estimates of deposits and depositor coverage, 31 December 2023

At N$25,000 coverage	Fully covered	Partially covered	Total
Value of qualifying deposits (N$)	3,203,401,977.19	67,712,144,220.41	70,915,546,197.60
Share of total qualifying deposits	4.5%	95.1%	100.0%
Number of depositors	1,449,703	139,570	1,589,273
Share of total depositors	91.2%	8.8%	100.0%

FUNDING

It is important that an appropriate funding model is adopted for any deposit guarantee authority to ensure there are adequate funds with which to compensate depositors. In most countries with deposit guarantee schemes, banking institutions bear the primary responsibility for paying the cost of such a scheme because they and their clients benefit directly from it. The funding of a deposit guarantee scheme can take an ex-ante, ex-post or hybrid form. Ex-ante funding of such schemes refers to funds being accumulated and maintained to cover deposit guarantee claims prior to the failure of a bank or other similar deposit-taking institution. This form of funding primarily involves member premiums. In the ex-post funding model, funds to cover deposit guarantee claims are only collected from members when a bank or other similar deposit-taking institution fails. The hybrid funding system involves the collection of funds through the ex-ante approach but, when there is a shortfall, provision is made for a mechanism to obtain further funds ex-post from members and/or to borrow from the government or the market.

The NDGA's Deposit Guarantee Scheme has adopted an ex-ante approach with borrowing powers. This is regarded as a more equitable strategy for the NDGA as the cost of the deposit guarantee is spread over time, which prevents it from becoming too expensive. All member institutions contribute premiums to the Deposit Guarantee Fund. The NDGA's main source of income for the Fund, which also covers the Fund's associated expenses, comprises premium contributions collected from member institutions once a year by the Scheme's administrators.

Premiums are calculated with reference to the size of each member institution's deposit base, as well as its risk score determined by the Bank of Namibia. The Bank of Namibia's Determination which deals with premiums payable per risk category (DGD-6, gazetted on 1 April 2020) established that all Scheme members were regarded as Category 1 until the end of 2021. This allowed members to prepare themselves for the differentiated risk-based premium structure implemented in 2022.

The new structure penalises bad and rewards good risk management. Annual premiums thus differ significantly between member institutions according to their risks. Member premiums to the Fund are based on two principles, as follows:

- **Premiums are based on four risk categories:**

CATEGORY	POINTS
Category 1:	8 basis points
Category 2:	16 basis points
Category 3:	32 basis points
Category 4:	64 basis points

- Premiums are determined according to the 'double-up principle', i.e. premiums for the highest-risk member institutions are eight times higher than those for their lowest-risk counterparts.

These two principles are designed to ensure that the NDGA is fair in setting its annual premiums, that it remains sustainable, and that it can respond to a member institution's failure in a timely and effective manner. Premiums for higher-risk member institutions are higher than those with lower risks since the likelihood of higher-risk institutions failing is higher than it is for their lower-risk counterparts.

GOVERNANCE OF NDGA

GOVERNANCE OF THE NDGA

It is important that a proper governance structure comprised of effective management and oversight is put in place for any institution to carry out its mandate effectively. Thus, adopting principles of good governance is crucial for the NDGA to operate optimally. Although the NDGA falls under the Bank of Namibia for its day-to-day administrative functions, an independent Board of Directors is responsible for overseeing the Authority and formulating its policies. Section 32(1) of the Deposit Guarantee Act requires the Authority to prepare and submit to the Minister of Finance and Public Enterprises a copy of its annual report for the review period in question, containing annual accounts certified by its auditors, a report on its activities, and a report on the operations of its Deposit Guarantee Fund. The Deposit Guarantee Act further stipulates that the Minister table a copy of the said report in the National Assembly.

BOARD OF DIRECTORS

Oversight for the Authority is the responsibility of a competent Board of Directors appointed in terms of section 6 of the Deposit Guarantee Act. The Board is responsible for formulating general policy for the Authority as well as for exercising control over its affairs. In addition, the Board is responsible for adopting rules for the Authority's proper administration and functioning, for fulfilling the functions and exercising the powers assigned to it in the said Act, and for advising the Minister on any relevant and related matters. In accordance with section 6(2) of the said Act, the Board consists of the following persons who are appointed by the Bank of Namibia subject to the Minister's approval:

- The Deputy Governor of the Bank of Namibia, as referred to in Article 128(2) of the Namibian Constitution and as appointed in terms of section 9(1)(b) of the Bank of Namibia Act, 2020 (No.1 of 2020), who then serves as the Board Chairperson
- A representative from the Ministry of Finance, who is nominated by the Minister
- Two persons with relevant qualifications and experience in the fields of law, banking, finance, accounting or any other field relevant to the functions of the Board
- A person representing the interests of consumers, and
- A Head of the Authority, who is an ex officio member of the Board with no voting rights.

The NDGA Board of Directors was comprised as follows during the year under review in respect of the portfolios specified:

Ebson Uanguta
Chairperson

Non-executive Director
(Macroeconomics,
Regulation and
Monetary Policy)

Linda Dumba Chicalu
Deputy Chairperson

Non-executive Director
Member: Audit, Risk and
Investment Committee
(Legal and Consumer
protection expert)

Herman Shilongo
Non-executive Director

Chairperson: Audit, Risk and
Investment Committee
(Accounting and Finance)

Kenneth S. Matomola
Non-executive Director
(Finance and Banking, Regulation)

Festus Nghifenwa
Non-Executive Director

Member: Audit, Risk
and Investment Committee
(Macroeconomic and
Fiscal policy expert)

Florette Nakusera
Executive Director (Ex officio)

(Macroeconomic
Policy, Central Banking
and Financial Stability,
Strategic Leadership

The Board meets regularly to oversee and monitor the Authority's finances, operations and policies. An important element of the governance structure is that the Board establishes and delegates certain functions to committees. Since the first year of the Authority's existence and considering its administrative set-up, the creation of only one Committee was deemed adequate. Thus, the establishment of the Audit, Risk and Investment Committee (ARIC) is in line with section 14 of the Deposit Guarantee Act. This section states that the Board may establish one or more committees consisting of Directors to assist and advise it in exercising its powers and performing its functions or duties.

AUDIT, RISK AND INVESTMENT COMMITTEE

The ARIC assists the Board of Directors in implementing effective policy and planning for risk management and internal control to enhance the Authority's ability to achieve its strategic objectives and ensure its sustainability. The Committee is specifically responsible for matters related to financial reporting, internal control systems, risk assessment, oversight of external audit functions, and the review of investment policies and functions, in addition to executing all other powers and functions delegated or assigned to it by the Board. As such, the Committee is required to deliver regular reports to the Board in respect of matters for which it is responsible, since the Board remains the overall custodian of the Authority's good corporate governance.

BOARD AND COMMITTEE MEETINGS

As provided for under section 6 of the Deposit Guarantee Act, the NDGA is managed by a Board of Directors. The Board's main function is to provide policy direction and guidance to the Authority and to advise the Minister of Finance and Public Enterprises accordingly. The Act also provides for the Board to establish committees such as the ARIC to assist it in carrying out its functions. The ARIC reviews related policies and advises the Board on issues pertaining to audit, risk and investment per the Corporate Governance Code for Namibia (NamCode) principles.

During the review period, all scheduled Board meetings were held. The Board meets at least four times a year with the main purpose of overseeing and monitoring the Authority's policies, operations and finances, as well as the performance of the Deposit Guarantee Fund. During 2023, four ordinary Board meetings were held. Table 2 sets out the dates and attendance of these meetings.

Table 2: Attendance of Board meetings, 2023

BOARD MEMBER	16 MAR	23 JUN	15 SEP	17 NOV
Mr Ebson Uanguta (Chairperson)	✓	✓	✓	✓
Ms Linda Dumba Chicalu	✓	✓	✓	✓
Mr Festus Nghifenwa	✓	✓	✓	✓
Mr Kenneth S Matomola	✓	✓	✓	✓
Mr Herman Shilongo	✓	✓	✓	✓
Ms Florette Nakusera (Ex officio)	✓	✓	✓	✓

Similarly, the ARIC ordinarily meets four times a year. This Committee assists the Board in implementing effective policy and planning for risk management and internal control models that enhance the Authority's ability to achieve its strategic objectives and ensure its sustainability. During the year under review, five Committee meetings were held. Table 3 sets out the dates and attendance of these meetings.

Table 3: Attendance of Audit, Risk and Investment Committee meetings, 2023

COMMITTEE MEMBER	10 MAR	02 JUN	07 SEP	06 NOV
Mr Herman Shilongo (Chairperson)	✓	✓	✓	✓
Ms Linda Dumba Chicalu	✓	✓	✓	✓
Mr Festus Nghifenwa	✓	✓	✓	✓

MANAGEMENT AND ADMINISTRATION

Effective management is crucial for any institution, and this is true for the NDGA as well. Through a Service Level Agreement signed between the NDGA and the Bank of Namibia, the Bank continued to provide the human, financial and other resources required for the Authority's proper functioning. Mr Rakotoka Zaire, a Senior Financial Analyst at the Bank's Financial Stability and Macroprudential Oversight Department, was seconded to the NDGA in June 2023, as the Authority's Senior Financial Analyst. This is in addition to the Head of the NDGA and the Manager of Operations who were seconded in previous years. The NDGA's seconded staff during the year under review were therefore as follows:

Florette Nakusera
Head of the NDGA

Petrus Shifotoka
Manager of Operations

Rakotoka Zaire
Senior Financial Analyst

INFORMATION BOX

Key considerations for an effective deposit insurance system

1. Introduction

The evolving financial landscape and recently experienced financial turbulence presents several issues and challenges related to the design of explicit deposit insurance systems (Santomero 1997). One of the lessons from the 2008 global financial crisis and from the recent US banking turmoil is that, due to interconnectedness and complexities of financial markets, banks do fail, both in advanced and developing economies. It thus become important that authorities are well prepared to manage such calamities when they happen.

The ability of any jurisdiction to handle a banking crisis is a recipe for enhancing consumer confidence and trust in the financial system (Clarke 1988). In recent years, an increasing number of countries have introduced deposit guarantee or insurance schemes. Since 2018, the International Association of Deposit Insurers (IADI) has recorded 143 countries and regions worldwide with deposit guarantee or insurance schemes. In addition, the IADI has seen its membership grow from 25 founding members in 2002 to well over 109 participants 20 years later. Thus, several jurisdictions now have mechanisms to ensure that depositors are compensated in the event of failures by banks and similar deposit-taking institutions. There are, however, key considerations in designing such safety-nets and ensuring an effective deposit insurance system.

This article will limit itself to key considerations related to mandate, funding design, coverage limit and premium setting necessary for establishing an effective deposit insurance system.

2. Mandate and collaboration with other authorities

It is important to be clear on the statutory mandate of a deposit insurance scheme put in place. Ideally, a clear legislative framework or tailor-made law that establishes such a scheme should provide clarity on its mandate and objectives. Such mandates vary across jurisdictions, depending on the context and institutional set-up and the prevailing regulatory architecture. Schemes in some jurisdictions have expanded powers and mandates over and above the mere compensation of depositors. Where such schemes take on supervisory and/or resolution powers, they may require more complex systems and processes in executing their mandates. Therefore, deposit insurance systems can have different mandates.

These are as follows:

- A 'pay box' mandate: Here, the deposit insurer is only responsible for the reimbursement of insured deposits.
- A 'pay box plus' mandate: This mandate includes additional responsibilities for the deposit insurer, such as certain resolution functions (e.g. financial support).
- A 'loss minimiser' mandate: This is where the insurer actively engages in least-cost resolution strategies selected from a range of such strategies, and
- A 'risk minimiser' mandate: Here, the insurer has comprehensive risk minimisation functions that include risk assessment/management; a full suite of early intervention and resolution powers; and, in some cases, prudential oversight responsibilities.

Ensuring a fit-for-purpose role and mandate, as well as putting in place mechanisms for close cooperation among deposit insurers, the resolution authority and the prudential authority, is crucial for an effective deposit insurance system. The challenge for many deposit insurers, particularly those with a pay-box mandate, has been limited or no collaboration with relevant bodies such as prudential and resolution authorities. The sharing of information among these three parties is vital for effective deposit insurance.

Furthermore, it is important that deposit insurers have access to information regarding the soundness of deposit-taking institutions to ensure they are properly prepared for crises and are always ready to discharge their mandate. Participation in platforms such as financial stability forums/committees, concluding memoranda of understanding on sharing information with relevant authorities, and holding regular briefings and updates are therefore central considerations.

3. Design of funding arrangements for deposit insurers

The IADI Core Principle 9 advocates that a deposit insurer should have readily available funds as well as all the necessary funding mechanisms for ensuring depositors' claims are promptly reimbursed, including assured liquidity funding arrangements.

The following are essential criteria for Core Principle 9:

- Funding of the deposit insurer is provided on an ex-ante basis.
- Funding arrangements are clearly defined and established in law or regulation.
- Funding the deposit insurer is the responsibility of its member deposit-taking institutions.
- Initial seed funding (via government or international donor organisations) is permitted to help establish a country's deposit insurer.
- Emergency funding arrangements for the deposit insurance system, including prearranged and assured sources of liquidity funding, are explicitly set out (or permitted) in law or regulation.
- The deposit insurer bears responsibility for the sound investment and management of its funds in accordance with the following:
  - A defined investment policy that aims at preserving capital and maintaining liquidity, and
  - Adequate risk management policies and procedures as well as internal controls and reporting systems.

A well-designed deposit insurance system can make a meaningful contribution to the integrity of a country's financial system, thereby promoting financial and economic growth and stability. However, such a contribution can only be actualised via a credible funding mechanism. It is vital, therefore, that deposit insurers find ways within the ambit of the law to source funding to meet their obligations. Some funding avenues to explore include establishing emergency liquidity facilities, sourcing seed capital, and investing premiums received.

4. Coverage limit

Deciding on an appropriate coverage limit for a deposit insurance system is crucial for its effectiveness. IADI principles advocate that such a limit should ensure that a significant percentage of depositors can be compensated in full if a bank or similar deposit-taking institution fails. The challenge for many deposit insurers, therefore, is to determine an appropriate coverage limit that balances the following two perspectives:

- High coverage: The higher the extent of guarantee, the greater the risk of moral hazard on the part of depositors and deposit-taking institutions. The view is that the amount of deposit insurance coverage for retail depositors should not be set so high as to encourage irresponsible behaviour by either the depositor or the deposit-taking institution.

- Low coverage: If coverage is too low, it tends to be less effective in instilling confidence on the part of depositors. Low coverage also runs the risk of undermining the credibility of the deposit insurance arrangement, thus increasing the likelihood of a bank run.

5. Funding and premium setting

IADI Core Principle 9 advocates that a deposit insurer should have readily available funds and all the funding mechanisms it needs so that depositors can be reimbursed promptly. Core Principle 9 further emphasises that the primary source of funding for deposit insurance should be member institutions' premiums. The challenge for many deposit insurers, therefore, is setting an appropriate premium calculation formula that ensures not only that their deposit insurance scheme is sustainable, but also that they can meet their obligations and exact fair contributions from their member institutions. In this regard, many jurisdictions charge flat-rate premiums applied on eligible deposits. Others again charge risk-adjusted premiums, where premiums vary according to the degree of risk the member institution poses to the deposit insurance scheme. The principal aim of the risk-based-premium approach is to discourage insured banks and other deposit-taking institution from taking excessive risks; those that do, face a higher premium.

6. Member institutions

The primary source of income for many Deposit Insurance Schemes around the world is the contribution, in the form of premiums, from member institutions. The IADI principle 7 on membership indicates that membership in a deposit insurance system should be compulsory for all banks, including state-owned banks (with or without explicit guarantees), and all banks should be subject to sound prudential regulation and supervision. It is this important that the governing legal framework establishing a deposit insurance scheme is clear on member institutions and the criteria for selecting such members. Further, the framework should clearly articulate the roles and obligations of member institutions as well as the benefits that they derive from being members of the scheme.

7. Depositors engagement

Depositors engagement is a crucial element for the success of any Deposit Insurance Scheme. The IADI Core Principle 10 on public awareness stipulates that in order to protect depositors and contribute to financial stability, it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.
Deposit Insurers should therefore proactively and continuously engage and collaborate with stakeholders for mutual understanding and to create awarenesss. This can be done through the adoption of a comprehensive, consistent, and inclusive stakeholder engagement approach and strategy.

Depositors are the most important stakeholders of any deposit insurers and thus should be engaged proactively by providing information on important aspects such as coverage limit and procedures around submission of claims. When depositors are aware of the deposit insurance that has been put in place, this fosters consumer confidence in the financial systemm and enhances financial stability.

8. Conclusion

Bank failures seem to have increased in recent history on the back of the complexity, interconnectedness and technological evolution of the global financial landscape. This article highlights that a jurisdiction capable of handling a deposit-taking institution's failure as well as of maintaining a comprehensive crisis preparedness framework, offers a means of enhancing consumer confidence and trust in the financial system. In recent years, an increasing number of countries have introduced deposit guarantee or insurance schemes.

There are, however, important considerations for establishing an effective deposit insurance system that must be considered. Such considerations relate to mandate, funding design, coverage limit and premium setting necessary for establishing an effective deposit insurance system.

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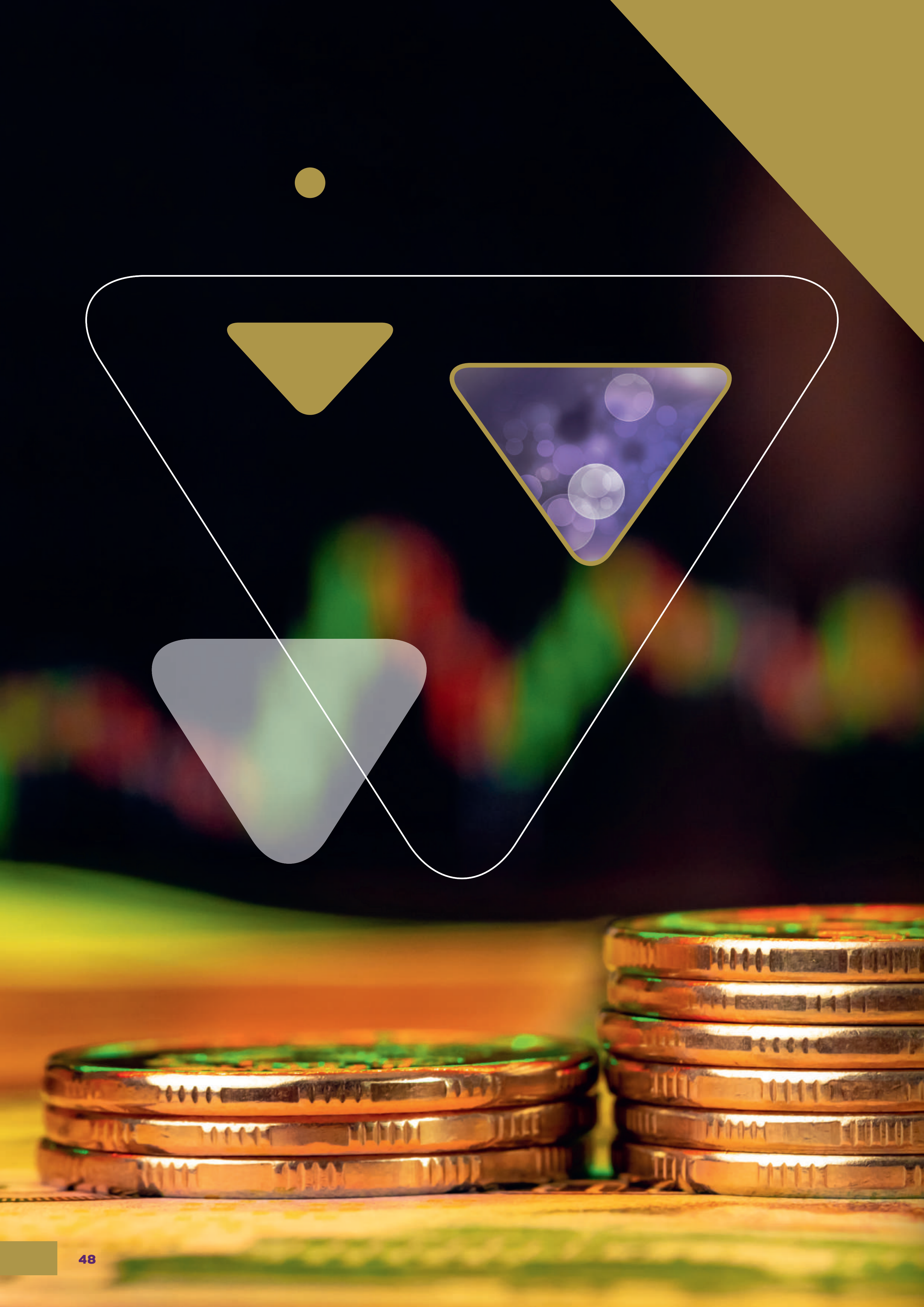


PART B:
THE YEAR UNDER REVIEW

Overview of macroeconomic and industry developments

Global GDP growth is estimated to have weakened from 3.5 percent in 2022 to 3.1 percent in 2023. The estimated weaker growth was influenced by the effects of tight monetary policies in which interest rates remained elevated, restrictive financial conditions and weak global trade growth. Despite these challenges, the economy is estimated to have been stronger than expected in the second half of 2023, primarily on account of greater-than-expected resilience in the US and several large emerging market and developing economies, as well as fiscal support in China. Conversely, global inflation witnessed a substantial decrease in 2023 due to moderating energy and food price inflation, easing in labour market tightness, restrictive monetary policy, and the recovery of global supply chains. Overall, the International Monetary Fund (IMF) World Economic Outlook projects that global inflation will continue to moderate further in 2024 and 2025, by 5.8 percent and 4.4 percent respectively.

Projections for 2024 anticipate global economic growth to remain at 3.1 percent before rising modestly to 3.2 percent in 2025. According to this IMF forecast, the 2024 projection is revised slightly upwards from the outlook for October 2023; as explained in the previous paragraph. This result is due to the better-than-expected performance of some major economies. However, the projections for global growth in 2024 and 2025 fall below the annual average of 3.8 percent seen from 2000 to 2019, mainly because of restrictive monetary policies, the withdrawal of fiscal support, and low growth in underlying productivity.

Broadly speaking, the risks to global growth are balanced. On the positive side, faster disinflation could lead to further easing of financial conditions, while looser fiscal policy than anticipated could imply temporarily higher growth. On the downside, the risks revolve around factors such as escalating conflicts in the Middle East, disruptions in commodity markets, financial stress due to heightened debt and borrowing costs, sustained inflation, lower-than-expected economic activity in China, trade fragmentation, and climate-related disasters. The recent Middle East conflict, coupled with the Russian Federation's invasion of Ukraine, has heightened geopolitical risks and the concomitant potential for greater conflict. Such circumstances result in higher energy prices, which in turn impact global activity and inflation.

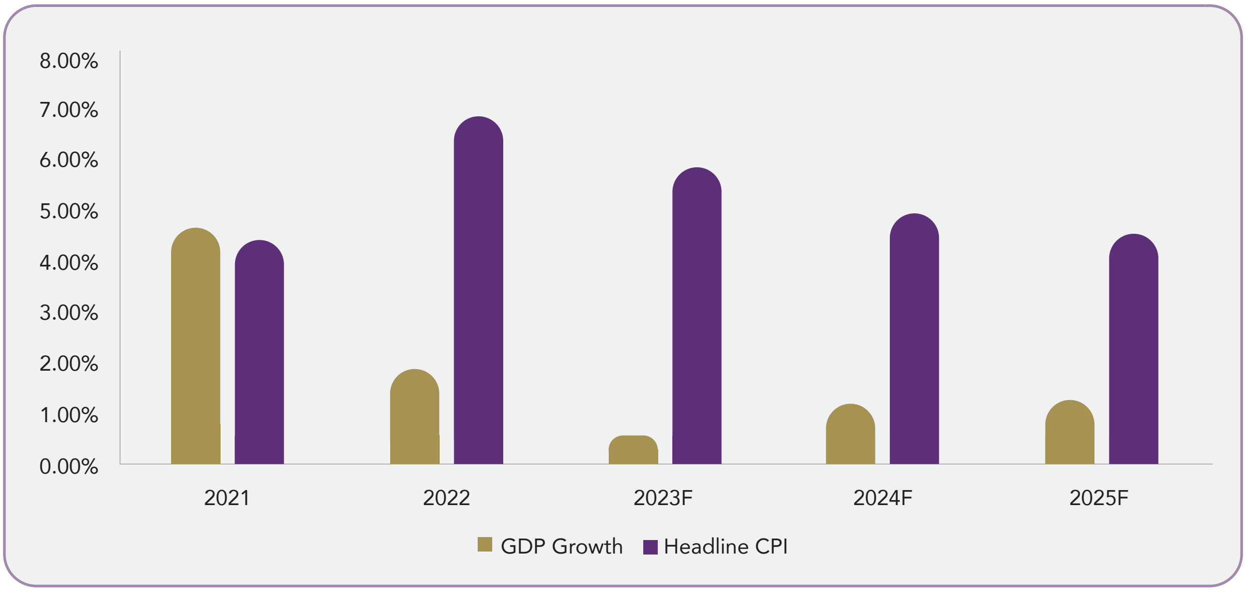
On the domestic front, the economy built up momentum during 2023, although at a slower pace compared to the previous year. The Namibian economy is estimated to have scaled down to 4.2 percent, compared to growth of 5.3 percent recorded in 2022. This is primarily ascribed to slower growth in the primary and secondary industries, underlined by weaker demand in both global and domestic economies. The slowdown in 2023 growth was predominantly due to weaker demand in global and domestic economies, underpinned by high inflation and high interest rates that have a negative impact on consumer spending. From the demand side, all variables except Government consumption remained in positive territory, underpinned by elevated increases in private investment and exports.

Namibia's banking sector remained profitable, liquid, and adequately capitalised in 2023 despite a strained economic environment. Although that environment is still subdued, banking institutions continued to bounce back in 2023, as evidenced by the rise in liquidity holdings and growth in the size of the balance sheet – although these were not as high as their 2022 increases. The core risk indicators that underpinned banking activities, particularly credit risk, deteriorated in line with the challenging credit environment. However, capital and liquidity levels remained predominantly resilient. Earnings improved during the period under review due to higher net interest income and non-interest income, although higher non-interest expenses restrained this growth. The banking sector's capital adequacy remained robust, and the capital base continued to grow during 2023.

The banking sector continues to record higher profitability levels coupled with robust capital levels above prudential limits. The sector recorded a solid capital base for Domestic Systemically Important Banks (DSIBs) under the Basel III framework, as reflected in the Total Eligible Capital ratio of 16.6 percent in 2023, which declined from 16.9 percent in the previous year. The industry's common equity Tier 1 capital ratio increased from 13.0 percent to 15.0 percent and stood significantly above the required 7.0 percent limit, while at 9.7 percent, the leverage ratio stood above the 6.0 percent regulatory limit. The non-performing loan (NPL) ratio picked up from 5.6 percent to 5.9 percent year-on-year, and is nearing the trigger ratio of 6.0 percent due to the high inflation and interest rate environment that prevailed during the period under review. The deterioration was thus fuelled by the public's continued financial difficulties in servicing their loans due to the prevailing weaker economic environment.

In respect of the South African economy, where the Deposit Guarantee Fund's assets are invested, the South African Reserve Bank (SARB) revised down their projections as of January 2024. The SARB revised South Africa's economic growth from 0.8 percent to 0.6 percent for 2023 (Figure 1). Nonetheless, for 2024 and 2025, their forecasts remained unchanged in relation to those delivered at their November 2023 meeting, namely 1.2 percent and 1.3 percent, respectively (Figure 1). These downward adjustments reflected weaker growth in the latter half 2023, which was largely ascribed to higher commodity export prices receding sharply from 2022 highs and consequently reducing the contribution to growth by foreign demand. Additionally, the operation of ports and rail in South Africa has become a serious constraint. Together with electricity shortages, these circumstances contributed to weak output growth and higher costs in 2023. Notably, the economy recorded a slight improvement in energy supply in the second half of the reporting period. This rise is expected to increase gradually over the longer term and contribute to short- and medium-term growth.

Figure 1: South Africa GDP and headline inflation

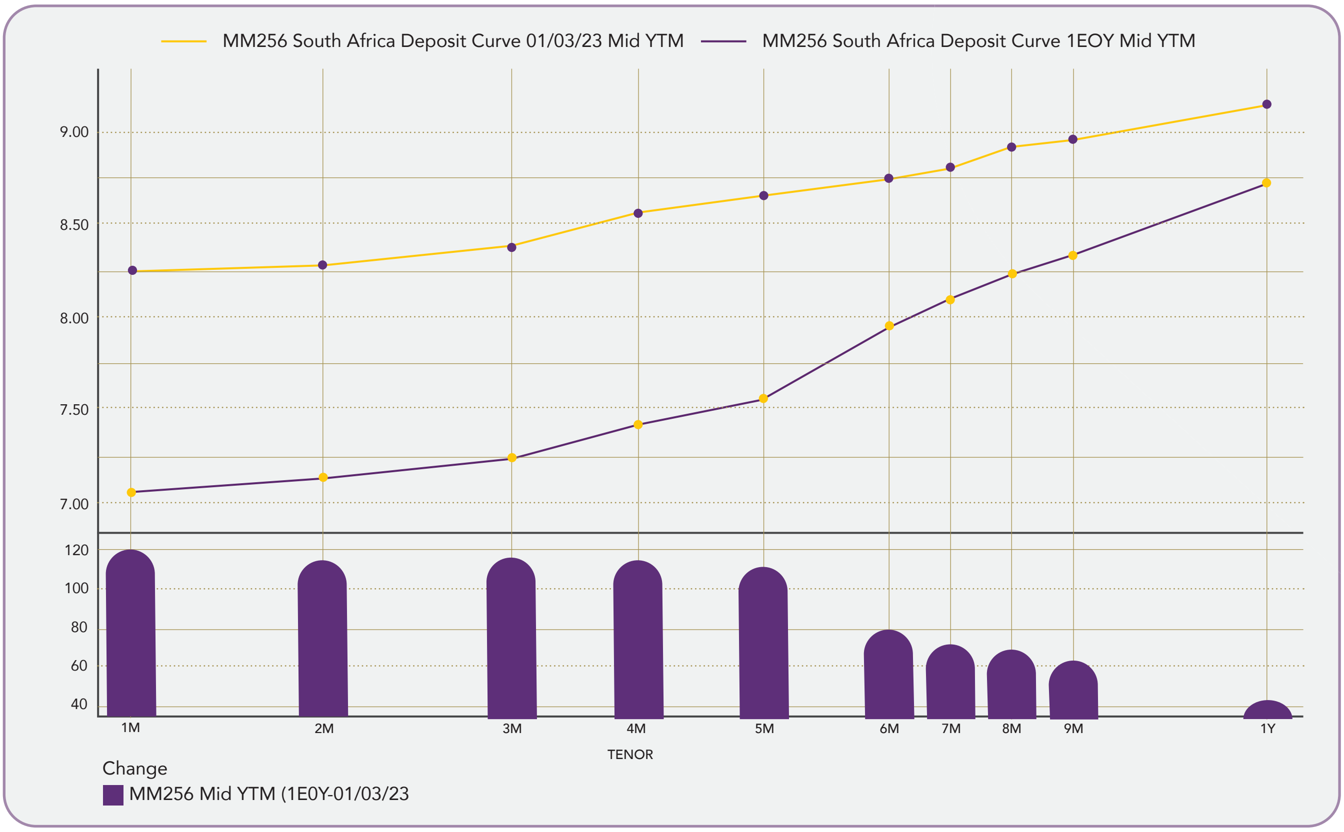


Inflation in South Africa moderated in 2023 and tracked closer to the SARB's inflation target range of 3–6 percent for most months over the year. The country's annual headline Consumer Price Index (CPI) inflation averaged 6.0 percent for 2023, down from the average of 6.9 percent in 2022. On a monthly basis, the CPI decreased by 0.4 percent in December 2023 to end the year at 5.1 percent. The main contributors to the 5.1 percent in December 2023 were Food and non-alcoholic beverages, Housing and utilities, and Miscellaneous goods and services. Notably, both headline consumer and producer price inflation accelerated in September and October 2023 as a result of production cost pressures from electricity load-shedding, rising fuel prices, and elevated food prices (the latter partly impacted by the avian influenza outbreak). Owing to these outcomes over the year, the SARB maintained a constant trajectory in the repo rate and hiked it by 125 basis points during 2023 in an effort to curb and maintain inflation within the target range.

The latest SARB projections indicate expected improvements in the baseline inflation for South Africa. Headline inflation for 2024 is expected to ease to 5.0 percent, before slowing down further to 4.6 percent in 2025 (Figure 1). Core inflation is projected to come in at 4.6 percent in 2024 before easing further to 4.5 percent in 2025. Risks to the inflation outlook are still assessed to the upside for 2024. Oil markets are tight and core inflation is sticky. Domestic food price inflation remains unpredictable and high, and electricity prices and logistics constraints continue to present clear inflation risks.

Short-term money market rates remained flat for most months in 2023 and increased only moderately in others, predominantly reflecting fluctuations in the exchange value of the rand. In line with the deposit curves illustrated in Figure 2, the subdued trend in money market rates reflected the slower interest rate environment. The SARB kept the repurchase rate – which had remained at 8.25 percent for three consecutive quarters – unchanged in November 2023; its last increase, i.e. of 50 basis points, occurred at its May 2023 meeting (the uptick is seen in Figure 2). This SARB repurchase rate movement was in line with the observed gradual slowdown in inflation over 2023, although recently the monetary policy noted upside risks to the domestic inflation outlook.

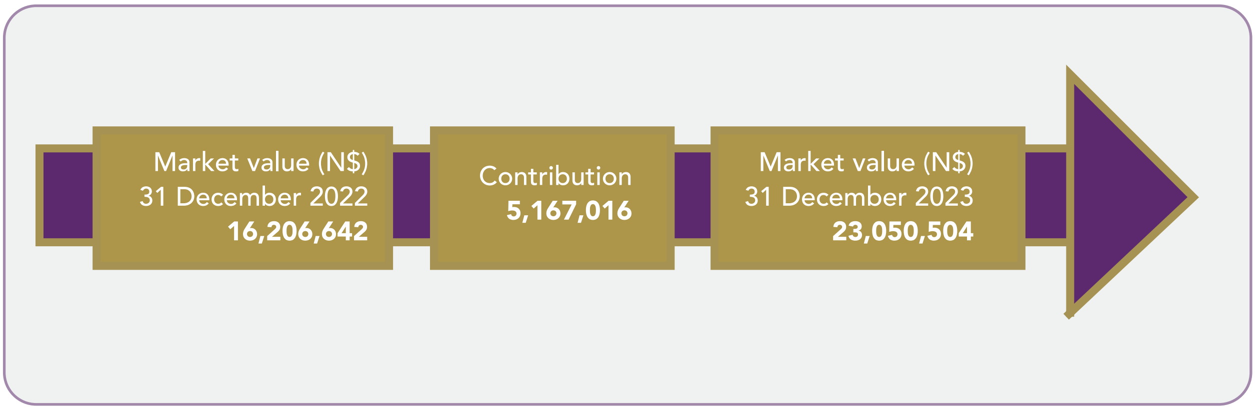
Figure 2: South Africa – Deposit curves



Fund investment performance overview

During 2023, the Deposit Guarantee Fund recorded an acceleration in growth relative to the preceding year, chiefly reflecting the premiums received from member institutions in addition to the investment's performance amid a favourable interest environment. Annual member institutions premiums received totalled N$5,167,016.30, with the market value of the Fund closing off the year at N$23,050,504 compared with N$16,206,642 at 31 December 2022 (Figure 3).

Figure 3: Portfolio contributions and their market value



The Fund outperformed its benchmark by 66.8 basis points during the reporting year. This was achieved by the portfolio generating an annual return of 8.52 percent relative to the benchmark (South African three-month STeFNI Index) annual return of 7.85 percent (Figure 4). The outperformance is attributed to the high interest rate environment, whereby the Fund strategically capitalised on the peak in interest rates and benefited from locking in high coupons, particularly on negotiable certificates of deposit relative to the benchmark. Furthermore, the Fund benefited on the cash account portion held with the SARB, where it earned an average of 7.95 percent as a return for 2023. Figure 5 shows the cumulative historical performance of the Fund portfolio and its benchmark since the NDGA's inception in 2020.

Figure 4: Fund performance vs Benchmark, 2023

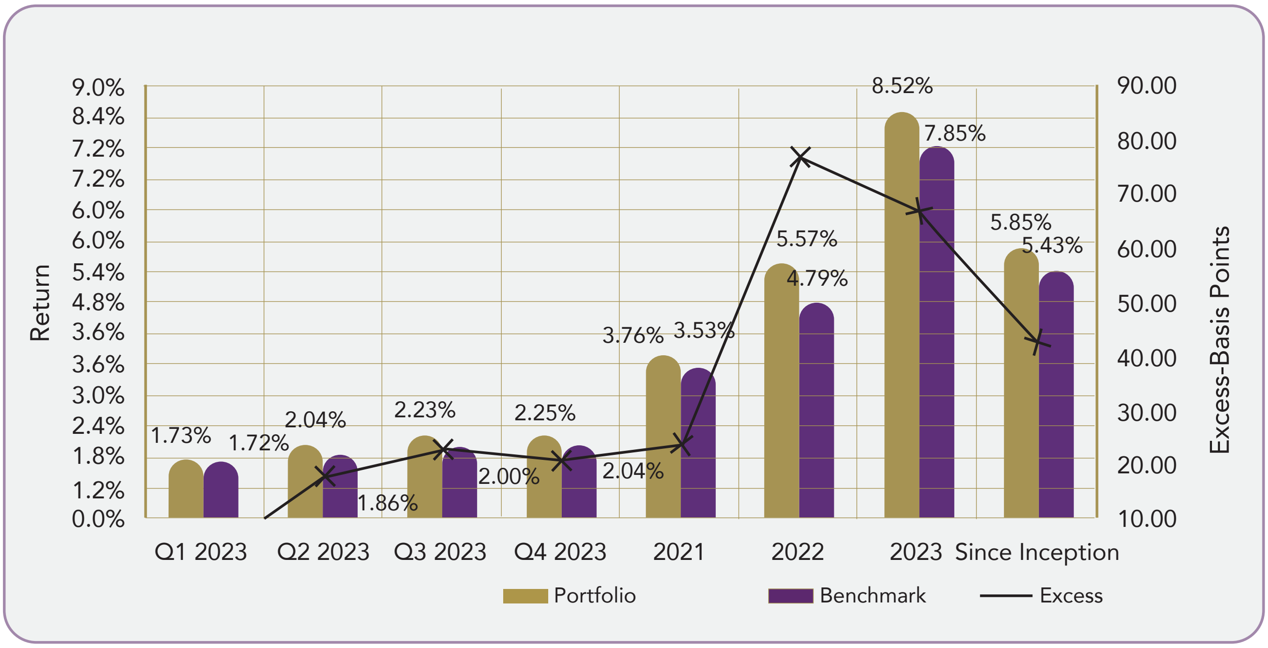
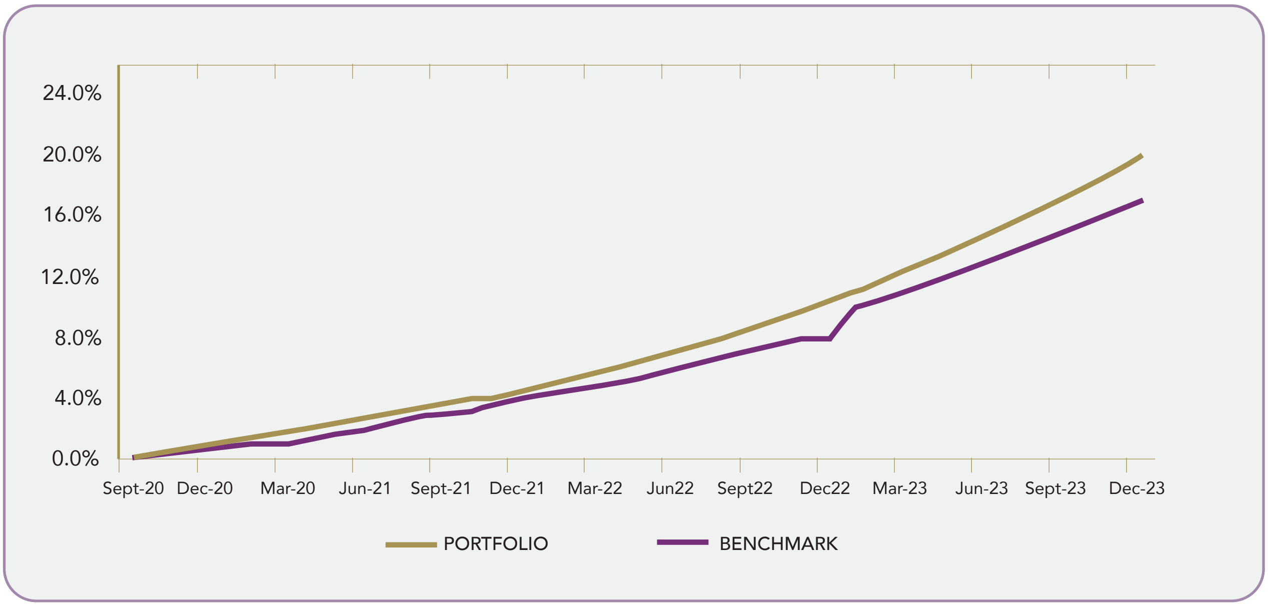
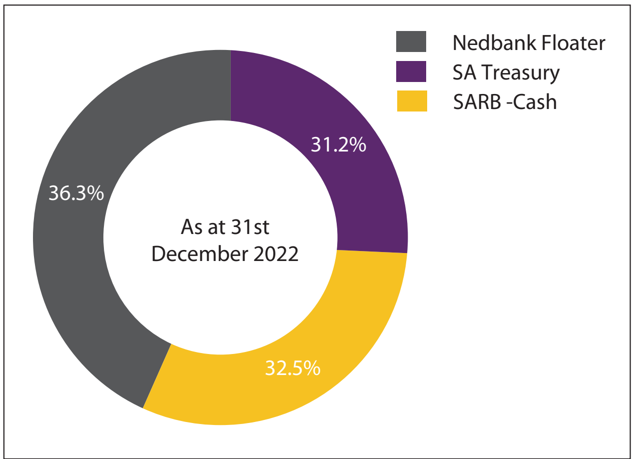


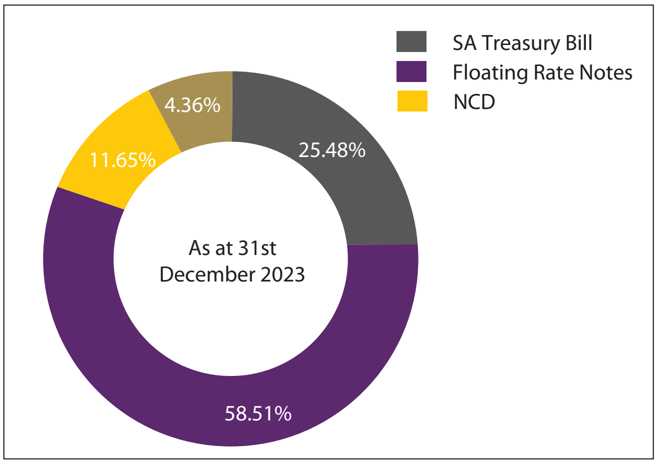
Figure 5: Cumulative historical performance



In 2023, the Deposit Guarantee Fund witnessed expansion both in terms of asset classes and counterparties. Notably, the Fund's exposure to Floating Rate Notes rose by 27.31 percent from the 2022 level to 58.5 percent in 2023 (Figure 6), in line with prevailing high interest rates. In addition, negotiable certificates of deposit were incorporated into the portfolio, constituting 11.65 percent of holdings by 31 December 2023. Treasury bills remained a substantial part of the portfolio at 25.4 percent, while the cash portion decreased to 4.36 percent indicating a more diversified exposure. Furthermore, whereas the portfolio was predominantly exposed to Nedbank South Africa and the South African Government in 2022, the reporting year saw a notable increase in exposure to various other counterparties within the permitted market. These counterparties included Absa Bank, Investec Bank and FirstRand Bank in South Africa. The South African Government remained the largest holding with 25 percent, followed by Absa Bank at 21 percent; the remainder of the portfolio was distributed across other counterparties.

Figure 6: Deposit Guarantee Fund – Asset allocation





DETERMINATION OF RISK CATEGORIES FOR MEMBER INSTITUTIONS

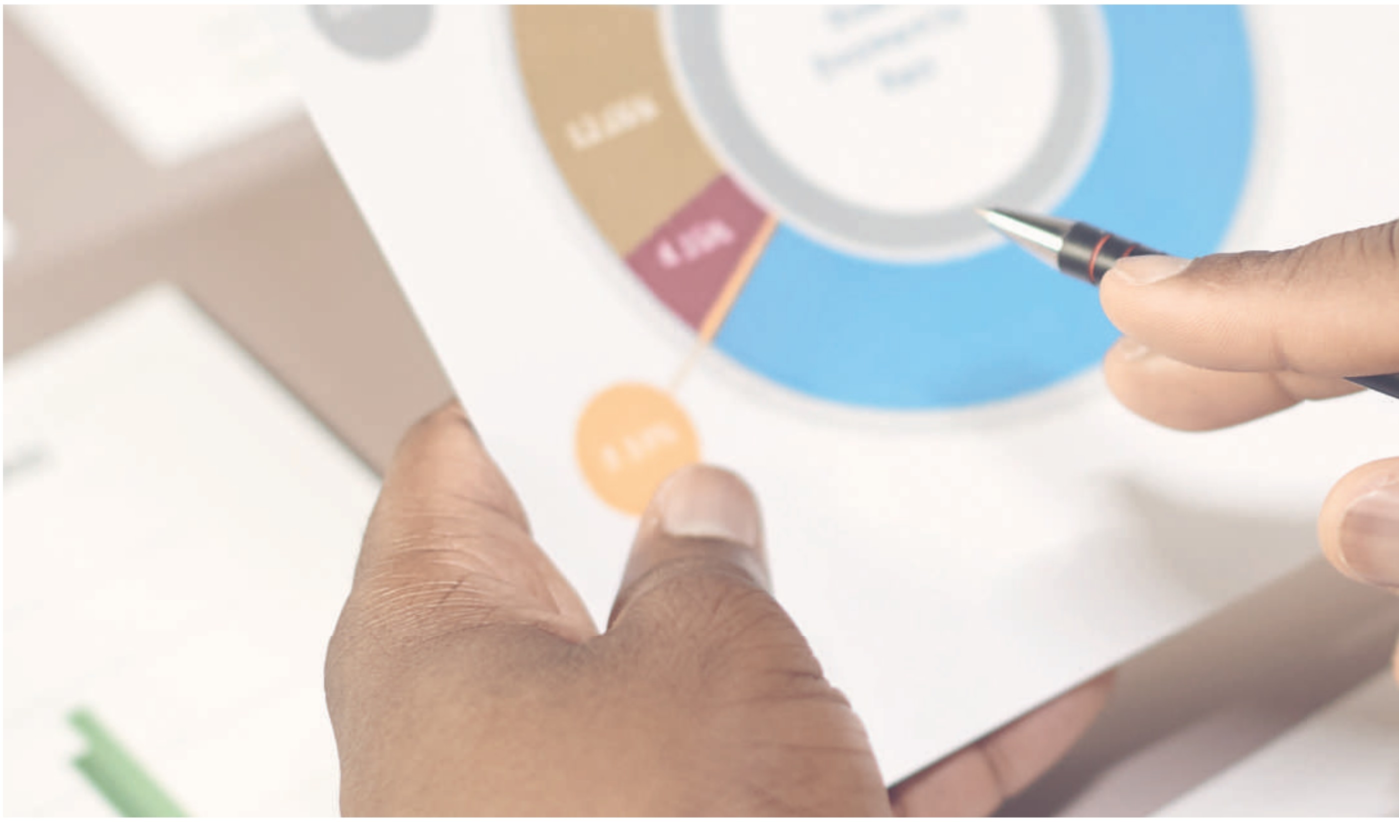
Premiums payable to the Deposit Guarantee Scheme by member institutions are based on their respective individual risk profiles. The Bank of Namibia Determination of premiums payable per risk category and interest rates payable by member institution: Deposit Guarantee Act, 2018 (DGD-6) gazetted on 1 April 2020 specifies the premiums for the various risk categories as follows:

- Category 1: 8 basis points
- Category 2: 16 basis points
- Category 3: 32 basis points
- Category 4: 64 basis points

During 2023, the risk categories for member institutions were calculated using data provided by the Bank of Namibia's Banking Supervision Department in line with the Memorandum of Agreement on sharing information between the Bank and the NDGA. The data is based on the following six variables: capital adequacy ratio, liquid asset ratio, asset quality (NPL ratio), deposit concentration, profitability (return on equity/ ROE), and supervisory assessment. These variables are all relevant for determining the performance and governance of a particular member institution as well as its risk profile. The average ratios in four specific quarters (Q3 of 2022, Q4 of 2022, Q1 of 2023 and Q2 of 2023) were applied to the risk scores and assigned weights of the selected variables to determine each member's risk category. Measuring performance, governance and risk over a longer period is regarded as more reliable than taking a single point in time as a reference. Moreover, analysing such trends eliminates the risk of attributing performance or risk to the effect of a single internal or external factor. Thus, the various risk categories were determined and communicated to members in October 2023. These categories will also apply when calculating the 2024 annual premiums.

RISK MANAGEMENT

Managing risk is an important part of running any organisation. Through the ARIC, the Board is tasked with monitoring risks facing the NDGA and to offer guidance on measures to be taken to mitigate them. The Board-approved ARIC Charter stipulates that the Committee should assist the Board in carrying out its risk responsibilities. In respect of risk assessment, the ARIC's duties are as follows:



- Review the Authority's progress and maturity in respect of managing risk, the effectiveness of its risk management activities, the key risks it faces, and its responses to addressing these key risks
- Consider a risk management policy and plan, and monitor the whole risk management process
- Review and recommend to the Board for its approval a Risk Management Policy, together with associated risk management frameworks, processes and practices for the Authority to adopt, and to review these once a year
- Recommend risk tolerance levels to the Board
- Ensure that the Authority takes appropriate measures to achieve a prudent balance between risk and reward in both ongoing and new business activities
- Evaluate the Authority's significant risk exposures and assess management's actions to mitigate such exposures in a timely manner including via once-off initiatives and ongoing activities such as business continuity planning and disaster recovery planning and testing, and
- Keep the Board informed in respect of risk exposures and risk management activities through the submission of periodic reports from management.

The Board approved the NDGA's Risk Management Policy during the period under review. This Policy aims to establish a systematic and comprehensive approach to

identify, assess, treat and monitor risks in the NDGA's operations and activities. The Policy also outlines the principles, guidelines, roles and responsibilities that are to be followed to ensure that the NDGA's strategic objectives are achieved while mitigating risks that may hinder the successful accomplishment of those objectives. The Policy thus provides a structured and consistent approach to managing risks, enabling the NDGA to make informed and effective decisions, allocate resources efficiently, and protect its assets and reputation. The instrument is also designed to ensure that risk management is integrated into the NDGA's business processes and practices and is aligned with the Authority's overall goals and objectives. Another aspect of the Policy is that it outlines the roles and responsibilities of all stakeholders involved in the risk management process.

The year under review also saw the ARIC continuing to track the effectiveness of the controls and risk-mitigating measures through the Authority's Risk Register and Risk Tracker. The Register highlights the key risks facing the institution so that plans and strategies can be devised to mitigate such challenges. The Risk Register and Risk Tracker have together enabled the ARIC to monitor the measures being taken to mitigate the impact of identified risks as well as keep the Board up-to-date on such measures.

Engagement with the International Association of Deposit Insurers

The NDGA began subscribing to and thereby officially became a member of the International Association of Deposit Insurers (IADI) on 16 February 2023. The IADI is the global standard-setting body for deposit insurance systems. It contributes to the stability of financial systems by enhancing the effectiveness of deposit insurance and promoting international cooperation on deposit insurance and bank resolution arrangements in active partnership with other international organisations.

Since its inception in May 2002, the IADI has sought to actively share deposit insurance expertise with the world. As a result, it has grown from a founding membership of 25 to its current 109 and has become a recognised standard-setter and evaluator for deposit insurance systems. In December 2022, the NDGA Board of Directors granted approval for the Authority to apply for IADI membership. The Association assessed the NDGA's application and granted its membership on 16 February 2023.

IADI AFRICA REGIONAL COMMITTEE AGM AND ANNUAL CONFERENCE

As an IADI member, the NDGA joined other deposit insurers from the African continent as a member of the Africa Regional Committee (ARC), one of the IADI's regional arms. The ARC held its AGM and Annual Conference in Dakar, Senegal, from 21 to 24 August 2023, under the theme "Protecting depositors – From crisis to payout". This was the first ARC meeting attended by the NDGA since becoming a member of the IADI. The AGM was attended by the Head of the Authority, Ms Florette Nakusera, and its Manager of Operations, Mr Petrus Shifotoka.

The ARC Annual Conference was graced by speakers from various jurisdictions. Presenters from the continent, featuring countries such as Ghana, Kenya, Nigeria, South Africa and Uganda, complemented speakers from Indonesia and Turkey to provide perspectives from their regions. The Conference presentations focused on two principal themes, namely "Issues and challenges facing deposit insurers" and "The funding model for deposit insurers".

IADI 22ND AGM AND ANNUAL CONFERENCE

The IADI held its 22nd AGM and Annual Conference of Members in Boston, USA, from 25 to 29 September 2023, under the theme "Successfully managing systemic risk: Deposit insurance in a turbulent world". The same occasion saw the IADI's 77th Executive Council Meeting, Technical and Council Committee Meetings and Regional Committee Meetings. This was the NDGA's first attendance of an IADI AGM and Annual Conference since becoming a member of the Association. The NDGA was represented at these events by the Head of the Authority, Ms Florette Nakusera. By contributing actively to the IADI network, the Authority intends to maximise its membership benefits by taking advantage of opportunities for capacity development and international cooperation.

Stakeholder Engagement

Stakeholder engagement is pivotal to a successful deposit insurance system.

The IADI Core Principle 10 on public awareness stipulates that, in order to protect depositors as well as to contribute to the country's financial stability, the public has to be constantly informed about the benefits and limitations of an adopted deposit insurance system.

The first essential criterion for this Core Principle advocates that the deposit insurer is responsible for promoting such public awareness, using a variety of communication tools on an ongoing basis as part of a comprehensive communication programme.

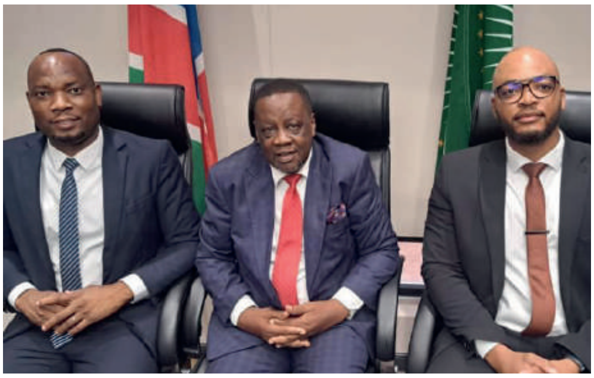
To this end, NDGA staff conducted stakeholder engagement sessions during 2023 in the Erongo, Karas, Omaheke and Otjozondjupa Regions as part of the Authority's Strategic Plan (2023–2025). These engagements began with courtesy visits to the offices of the respective Honourable Governors in the selected Regions and were followed by meetings with commercial banks. Another engagement tactic involved distributing educational and promotional materials amongst the public at specific venues.

The awareness programme and its associated activities conveyed information about the following:

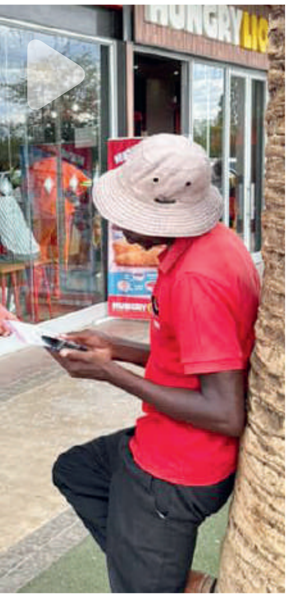
- The scope of the Deposit Guarantee Scheme, i.e. which types of financial instruments and depositors are covered by deposit insurance, and which are not
- Which banks and other deposit-taking institutions were members and how to identify them
- Deposit insurance coverage level limits, and
- The NDGA's mandate and other relevant information.

The regional visits where a huge success as members of the public had an opportunity to engage with NDGA officials and learn about the deposit insurance put in place.

The NDGA intends to roll out stakeholder engagements in the remaining Regions in 2024 and 2025, as per the Strategic Plan.



PUBLIC AWARENESS




NDGA
AMIBIA DEPOSIT GUARANTEE AUTHORITY

Strategy Execution

In 2022, the NDGA developed its first Strategic Plan, covering the period 2023–2025

The Plan sets out the following key strategic objectives, in which much progress has been made to date – as reported below:

- Grow the Deposit Guarantee Fund
- Establish robust and seamless processes
- Engage stakeholders effectively, and
- Promote a reputable brand.

GROWING THE DEPOSIT GUARANTEE FUND

The Authority's main objective is to establish, maintain and administer manage a Deposit Guarantee Scheme to protect depositors against the risk of losing their deposits. For both the insured depositors and the Scheme's member institutions to have confidence in the Authority's ability to deliver on its mandate, the NDGA must demonstrate that it has the funds available to do so. The focus of this strategic objective, therefore, is on exploring ways to grow the Deposit Guarantee Fund. This will be achieved by employing an enhanced investment strategy, maximising premium collection, and managing operational costs.

The strategic objective also highlights the need to consider entering into agreements with key institutions such as the Bank of Namibia and the Ministry of Finance for emergency funding facilities. Moreover, the need to secure seed capital for the Fund is emphasised. The reporting year saw the following milestones reached on the road to achieving this strategic objective:

- The Investment Policy and Guidelines were reviewed and updated to be line with the objective of growing the Fund.
- A proposal on ways to grow the Fund was submitted to the Board, which advised further engagement with relevant parties and authorities.
- The Board also discussed revising the model for risk category rates and coverage limits so that it could be finalised in 2024 after consulting with member institutions and the Ministry of Finance and Public Enterprises.
- Work on the feasibility of establishing an emergency liquidity facility began and should be concluded in 2024.

ESTABLISHING ROBUST AND SEAMLESS PROCESSES

The key to the success of any institution is its ability to provide its stakeholders with an effective and efficient service through robust and seamless processes and systems. Ensuring operational efficiency enables an institution to function optimally and achieve its set objectives. This strategic objective reflects the Authority's aim to ensure a smooth and seamless pay-out process in the event depositors need to be compensated. The NDGA's long-term strategy is to ensure its systems remain optimised through advances in information technology. In this regard, the following were achieved in 2023:

- The NDGA identified a pay-out agent and entered into an agreement with them.
- A Deposit Pay-out Manual was developed and approved by the Board.

ENGAGING STAKEHOLDERS EFFECTIVELY

The identification of strategic stakeholders and engagement with them are crucial to the success of any organisation. In line with the IADI Core Principle 10 on public awareness, the Authority plans to engage and collaborate proactively and continuously with all its stakeholders for mutual benefit. To this end, the NDGA has adopted a comprehensive, consistent and inclusive stakeholder engagement approach and strategy. The year saw the following progress in this regard:

- The development and implementation of a Stakeholder Engagement Strategy included the need to undertake regional stakeholder engagements across all regions in Namibia over a three-year period, beginning in 2023, and
- The NDGA began subscribing to the IADI and officially became a member on 16 February 2023.

PROMOTING A REPUTABLE BRAND

As a relatively new institution, the Authority intends to build a reputable corporate brand to ensure there is a strong national awareness of its function. Gauging awareness via surveys and developing plans and strategies to address any shortfalls that need to be addressed are some of the ways of achieving this objective. The NDGA also intends to use emerging technology for continually engaging all its stakeholders – particularly the public at large – on various digital platforms to enhance consumer confidence in the financial sector. The following achievements were recorded in this regard for 2023:

- The NDGA website was launched in June, and
- The NDGA established a social media presence on Facebook and LinkedIn, where management regularly engaged the public.

PART C:
ANNUAL FINANCIAL STATEMENTS

GENERAL INFORMATION

Country of incorporation and domicile	Namibia
Nature of business and principal activities	The Namibia Deposit Guarantee Authority is an established juristic body whose main responsibility is to manage the Deposit Guarantee Scheme. The Deposit Guarantee Scheme was established in terms of section 22 of the Deposit Guarantee Act, 2018 (No. 16 of 2018) to protect depositors of member institutions by paying out compensation in the event of deposits held by a member institution becoming unavailable.
Board of Directors	Mr Ebson Uanguta (Chairperson) Mr Festus Nghifenwa Ms Linda Dumba Chicalu Mr Herman Shilongo Mr Kenneth Matomola Ms Florette Nakusera (Ex officio Board Member, Head of the NDGA)
Business address	71 Robert Mugabe Avenue Windhoek Namibia
Postal address	PO Box 2882 Windhoek Namibia
Auditors	Grand Namibia Registered Accountants and Auditors Chartered Accountants (Namibia)

Content

The reports and statements set out below comprise the annual financial statements presented to the Board of Directors

FINANCIAL STATEMENTS OVERVIEW

KEY POINTS		2023 (N$)	2022 (N$)
Surplus for the year increased by N$ 352 thousand from N$ 6.2 million in 2022, to N$ 6.5 million in 2023.	Surplus for the year	6,549,373	6,197,740
Total operating expenses, increased by N$ 1.2 million from N$ 542 thousand in 2022 to N$1.8 million in 2023.	Operating Expenses	1,765,489	542,423
Total assets increased by N$ 6.6 million from N$ 17 million in 2022 to N$ 23.7 million in 2023.	Total assets	23,675,821	17,062,727
Deposit Guarantee Fund investments increased by N$ 6.8 million from N$ 16.2 million in 2022 to N$ 23.0 million in 2023.	Total investment	23,050,504	16,206,642

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The Directors are required to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the Directors' responsibility to ensure that the annual financial statements fairly present the state of affairs of the Authority as defined as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with the basis as set out in note 1. The external auditors are engaged to express an independent opinion on the annual financial statements. The annual financial statements are prepared in accordance with appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Authority and place considerable importance on maintaining a strong control environment. To enable the Board of Directors to meet these responsibilities, it sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures, and the adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Authority and all employees are required to maintain the highest ethical standards in ensuring the Authority's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the Authority is on identifying, assessing, managing and monitoring all known forms of risk across the Authority. While operating risk cannot be fully eliminated, the Authority endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Based on the information and explanations given by management, the Directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Directors have reviewed the Authority's cash flow forecast for the year ended 31 December 2024 and, in the light of this review and the current financial position, they are satisfied that the Authority has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Authority's annual financial statements. The annual financial statements have been examined by the Authority's external auditors and their report is presented on pages 78-80.

The annual financial statements set out on pages 74 to 90, which have been prepared on the going-concern basis, were approved by the Board of Directors and were signed on its behalf by the following representatives:

Ebson Uanguta
Chairperson
Windhoek
25 March 2024

Linda Dumba Chicalu
Board Member
Windhoek
25 March 2024

INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF THE NAMIBIA DEPOSIT GUARANTEE AUTHORITY

Opinion

We have audited the annual financial statements of Namibia Deposit Guarantee Authority set out on pages 82 to 90, which comprise the statement of financial position as at 31 December 2023, statement of comprehensive income, statement of changes in equity, and the statement of cashflows for the year then ended, and the notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Namibia Deposit Guarantee Authority as at 31 December 2023, and its financial performance for the year then ended in accordance with the basis of accounting set out in note 1 to the annual financial statements and the requirements of the Namibia Deposit Guarantee Act No.16 of 2018.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statement section of our report.

We are independent of the Corporation in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and other independence requirements applicable in performing audits of financial statements in Namibia. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the directors' responsibility and approval of the annual financial statements and the directors' report. The other information does not include the annual financial statements and our auditor's report thereon.

Our opinion on the annual financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Annual Financial Statements

The directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with the basis of accounting set out in note 1 to the annual financial statements and the requirements of the Namibia Deposit Guarantee Act No.16 of 2018, and for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the directors are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also –

- identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern, and
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Grand Namibia

Grand Namibia
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Per: Petrus NGHIPANDULWA - Partner
Windhoek
26 March 2024

DIRECTORS' REPORT

The Directors have pleasure in submitting their report on the annual financial statements of the Namibia Deposit Guarantee Authority for the year ended 31 December 2023.

1. Main business and operations

The main objective of the Authority in terms of Namibia Deposit Guarantee Act No.16 of 2018 is to establish and administer the Deposit Guarantee Scheme for the protection of depositors against the risk of loss of their deposits.

The surplus for the Authority for 2023 is **N$ 6 549 373 (2022: N$ 6 197 740).**

The Authority's operating results and state of affairs are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Board of Directors

The members of the Board of Directors in office at the date of this report are as follows:

Directors

Mr Ebson Uanguta (Chairperson)
Mr Festus Nghifenwa
Ms Linda Dumba Chicalu
Mr Herman Shilongo
Mr Kenneth Matomola
Ms Florette Nakusera (*Ex officio* Board Member, Head of the NDGA)

3. Events after the reporting period

The Board is not aware of any material event that occurred after the reporting date and up to the date of this report.

4. The Authority's governance

The Authority is managed by an independent Board of Directors appointed by the Governor of the Bank of Namibia with the approval of the Minister of Finance.

5. Going concern

The accumulated surplus as at 31 December 2023 amounted to N$ 23 567 100 (2022: N$ 17 017 727). The annual financial statements have been prepared on a going-concern basis.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Note(s)	2023 N$	2022 N$
ASSETS			
Current assets			
Investments (Deposit Guarantee Fund)	2	23,050,504	16,206,642
Trade and other receivables	6	96,455	-
Bank	3	528,862	856,085
TOTAL ASSETS		**23 675 821**	**17 062 727**
EQUITY AND LIABILITIES			
Equity and Liabilities			
Equity			
Accumulated surplus		23,567,100	17,017,727
Total equity		**23,567,100**	**17,017,727**
Liabilities			
Current liabilities	7	52,651	-
Audit fees provision	8	56,070	45,000
Total liabilities		**108,721**	**45,000**
TOTAL EQUITY AND LIABILITIES		**23,675,821**	**17,062,727**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	Note(s)	2023 N$	2022 N$
Revenue	4	6,638,016	5,949,200
Operating expenses	5	(1,765,489)	(542,423)
Operating surplus		**4,872,527**	**5,406,777**
Interest received		1,676,846	790,963
Surplus for the year		**6,549,373**	**6,197,740**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		**6,549,373**	**6,197,740**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

	Accumulated surplus N$	Total N$
Opening Balance	10,819,987	**10,819,987**
Surplus for the year	6,197,740	**6,197,740**
Other comprehensive income	-	**-**
Balance at 31 December 2022	17,017,727	**17,017,727**
Surplus for the year	6,549,373	**6,549,373**
Other comprehensive income	-	**-**
Balance at 31 December 2023	23,567,100	**23,567,100**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

	Note(s)	2023 N$	2022 N$
Cash flow from operating activities			
Grant and premiums received	4	6,638,016	5,949,200
Payments to suppliers and employees		(1,798,223)	(558,423)
Cash generated from operations	**A**	**4,839,793**	**5,390,777**
Net cash movement for the year		**4,839,793**	**5,390,777**
Cashflow from investing activities*	**11**	**(5,167,016)**	**(5,156,105)**
Purchase of investments*		(5,167,016)	(5,156,105)
Total cash movement for the year		**(327,223)**	**234,672**
Cash at the beginning of the year	3	856,085	621,413
Total cash at end of the year	**3**	**528,862**	**856,085**

Note:
A. Reconciliation of surplus for the year to cash generated from operations:

		2023 N$	2022 N$
Surplus for the year		6,549,372	6,197,740
Adjusted for:			
Interest received		(1,676,845)	(790,963)
Operating cash flows before movements in working capital		4,872,527	5,406,777
Increase/(Decrease) in trade and other payables		63,721	(16,000)
(Increase)/Decrease in other receivables		(96,455)	-
Cash generated from operation*		**4,839,793**	**5,390,777**

***Refer to note 11.**

1. Accounting policies

Presentation of annual financial statements

The annual financial statements have been prepared on the historical-cost basis and in accordance with the accounting policies set out below.

1.1 Basis of preparation

The preparation of these statements is in conformity with the Authority's policies that require not only the use of certain critical accounting estimates, but also that management exercise their professional judgement in applying the Authority's accounting policies. No significant estimates or judgements were used during the period under review.

1.2 Revenue recognition

Premiums received

Premium income from member institutions is levied and recognised in terms of Section 34 of the Namibian Deposit Guarantee Act 2018. The Board determines the premiums per risk category payable by each member institution for the benefit of the Fund having regard to the appropriate size of the Fund to meet its liabilities and potential liabilities and total guaranteed deposits of member institutions. Premium income is recognized once the payment is received from the member institutions.

Grant income

The grant income consists of the approved funding received from the Bank of Namibia. The funds will not be refunded to the Bank of Namibia.

Interest received

Interest received is recognised in profit or loss using the effective-interest-rate method.

1.3 Expenses

Expenses are recorded on an accrual basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(Continued)*

1. Accounting policies (continued)

1.4 Trade and other receivables

Trade and other receivables are measured at initial recognition at amortised cost and are subsequently measured at amortised cost using the effective-interest-rate method.

Trade and other receivables are classified as loans and receivables at amortised cost.

1.5 Trade and other payables

Trade payables are initially measured at amortised cost and are subsequently measured at amortised cost using the effective-interest-rate method.

1.6 Investments

Investments are initially measured at cost and are subsequently measured at amortized cost using the effective-interest rate-method. All interest received on the investments are recorded in the statement of comprehensive income.

	2023 N$	2022 N$
2. Investments		
SARB - CPD		
Opening balance at 1 January	**16,206,642**	**10,259,574**
Premiums invested	5,167,016	5,156,105
Interest received	1,676,846	790,963
Closing balance at 31 December 2023	**23,050,504**	**16,206,642**

In terms of Section 29 of the NDGA Act the Authority may in a manner approved by the Board invest money standing to the credit of the Deposit Guarantee Fund which is not required for immediate use.

Premiums received were invested with the Bank of Namibia's Corporation for Public Deposits (CPD) account at the South African Reserve Bank to enable the Fund to earn interest at a low risk.

	2023 N$	2022 N$
3. Bank		
Bank account	**528,862**	**856,085**

Section 25(2) of the NDGA Act requires the Authority to open a bank account with the Bank of Namibia.

	2023 N$	2022 N$
4. Revenue		
Premiums received	5,167,016	5,156,105
Grant received	1,471,000	793,095
Total revenue	**6,638,016**	**5,949,200**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(Continued)*

	2023 N$	2022 N$
5. Operating expenses		
Audit Fees	55,868	26,665
Computer maintenance	34,757	-
Corporate Identity	2,967	-
Development Responsibilities	-	2,823
Directors Fees	302,299	305,074
Entertainment Expenses	20,818	-
Printing & Publications	192,639	95,436
Public relations events	90,134	-
Stationery	-	5,025
Subscription	561,053	-
Training	17,118	107,400
Travel Subsistence & Accommodation (Meetings)	487,836	-
	1,765,489	**542,423**
6. Trade and other receivables		
Prepayments	96,455	-
7. Trade and other payables		
Sundry creditors	44,150	-
Staff debtors	8,501	-
	52,651	-
8. Audit fees provision		
Provision for audit fees	**56,070**	**45,000**

Provision for audit fees is recognised based on the approved budget.

9. Going concern

The annual financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available as detailed in the directors' report to finance future operations and that the realisation of assets and settlement of liabilities contingent obligations and commitments will occur in the ordinary course of business.

10. Subsequent events

There were no material subsequent events between the reporting date and the date of approval of the annual financial statements.

11. Reclassification of cashflow statement items

The cashflow statement comparatives from the following heading have been reclassified.

Reconciliation of surplus for the year to cash generated from operations.

Included is the movement in the invested funds balance. The movement is reclassified to investment in cashflows from investing activities. The movement relates to premiums received that are invested with the Bank of Namibia's Corporation for Public Deposits (CPD) account at the South African Reserve Bank to enable the Fund to earn interest at a low risk.

NOTES

NAMIBIA DEPOSIT GUARANTEE AUTHORITY

NDGA

71 Robert Mugabe Avenue
P.O. Box 2882
Windhoek
NAMIBIA
Tel.: +264 61 283 5111
Fax: +264 61 283 5231
Enquiries: info@ndga.com.na