

Chairman's Report

After years of robust growth, the Namibian economy contracted in the past few years with the economy deteriorating even further in 2020 due to consequences of the pandemic-induced lockdown. The president declared a six-month-long state of emergency on 17 March with strict lockdown regulations because of the COVID-19 outbreak. Namibia experienced a persistent drought for the past years, leading to the economy to fall into a recession since 2016 and has ever since struggled. The COVID-19 (coronavirus) pandemic is set to have an unprecedented impact on the Namibian economy and exacerbated pre-existing structural challenges.

In the capital market, the overall comparative value traded was N\$ 11,011 billion for the year ending December 2020 increasing by 24% compared to the previous year. At 31 December 2020 the total market capitalisation was N\$ 1,738 trillion or US\$ 119 billion, hopefully re-confirming the position of the NSX as the second largest Exchange by total market capitalisation in Africa, after the JSE. The contributions of the top 13 listed equities, being those with a market capitalisation of N\$ 20 billion or more, are shown in the Management Commentary, pages 39 to 44.

The Local Index dropped by 25.67% in 2020 (2019: 1.22% decrease) on turnover of N\$ 536 million (2019: N\$ 1,373 million), all in an illiquid market, while the Overall Index dropped by 5.67% (2019: 0.04% decrease) against the JSE All Share Index which increased by 4.07%. On page 2 the graph tracks the month-end movement of the NSX Overall Index on the left-hand scale and the Local Index on the right-hand scale since 2002.

Selected highlights of the NSX contributions to deepening and diversifying the capital markets in Namibia during 2020 include:

- Total net assets of the NSX and its Guarantee Fund now exceeds N\$ 90 million;
- Year-to-date bond trades, nominal value traded N\$ 2,660 million, an increase of 11.37%
- A market steering committee has been established for the purpose of obtaining input in implementing a central securities depository and dematerialising the Namibian capital market

On the listing's frontier, four new listings were recorded to the total number of listed companies with two delisting's.

- Listing of MCUBE One Investment Ltd and Omajowa Properties Ltd, as capital pool companies on the Development Capital Board (DevX);
- Listing of two additional Exchange Traded Funds 1InvestGold ("ENXGLD") and 1InvestPlatinum ("ENXPLT"); and
- Issuance of 5 new bonds and registration of a new bond programme

Traditionally the legislative updating processes in Namibia are slow and this is more evident in the preceding years, however the NSX is:

- Continuing to participate in the debate on the requirement of NEEEF and the impact on the financial sector;
- NAMFISA provided the second draft standards under the Financial Institutions and Markets Act, 2018 for the CSD, these were discussed with all market participants from which comments were derived for NAMFISA to review certain aspects of the standards. The NSX is awaiting the final standards and passing of the FIM Bill to proceed with the license application;

I am pleased to advise that the intended plans of formalising the bond market, which will entail additional trading functionality and transparency for on market bond trading, are on track as NAMFISA issued a license in the fourth quarter of 2019 to the exchange. Bond trading, or rather bond trades reported to the NSX in 2020 surpassed values of previous years with a nominal value of N\$ 2,660 million and an increase of 11.37% compared to 2019. We are optimistic that the numbers in coming years will increase even more with the additional trading functionality for on market bond trading. Revision of the bond trading activities and how they can be amended to accommodate on market trading and full reporting of trades is currently conducted by the NSX.

The annual Scholar Investment challenge that was relaunched in 2017 unfortunately had to be postponed to 2021, due to the closure of schools in relation to the COVID-19 pandemic.

The NSX, being a not for profit members association continues to engage in the clarification and planning for demutualisation as envisaged in the Financial Institutions and Markets Bill and intends to self-list as many other exchanges in the region. It is in a position to do so, as it is cash positive and self-funding.

Work in progress items:

- Revision of the bond trading activities and how they can be amended to accommodate on market trading and full reporting of trades;
- Clarification and planning for demutualisation as envisaged in the Financial Institutions and Markets Bill; and
- Additional trading system functionality for bond and derivative trading in conjunction with the CSD project;

Continued uncertainty of the much discussed modalities of Regulation 13 to the Pension Fund Act prescribing 45% of its total fund in Domestic assets, remains a challenge to the Pension fund and Long term insurance industries. It is clear localised products are required to fill the void, as the current investment in dual listed stocks decline. The long-term effect on the NSX on the reduction in the dual listed percentage of assets is impossible to determine at this stage. As shown in the Management Commentary the traded value primary listed equities (local trades) amounted to 4.87% (2019: 15.47%) of the total trades. In June 2017, the Namibia Financial Institutions Supervisory Authority passed a circular, amending guiding regulations where it increased the minimum domestic asset requirement from 35% to 45%, which was to be complied with by 1 October 2018. In 2020 two dual listed companies delisted from the NSX main board.

The NSX remains confident it has and will continue to serve the Namibian market well and has sufficient reserves to weather any competitive environment. The total of Government debt securities at the end of 2020 is N\$ 73,773 billion (consisting of N\$ 46,443 billion Government bonds plus Inflation Linked Bonds (ILBs) and N\$ 27,330 billion treasury bills) up from N\$ 9,982 billion at the end of 2010 plus N\$ 18 billion (at exchange rate of 31 December 2020) internationally and N\$ 2,052 million listed on the JSE. This may have deflected investments from the exchange as did the introduction of Regulation 29 to the Pension Fund Act. The NSX believes that the unlisted investments (Reg 29) are inherently riskier than listed investments where corporate governance and disclosures are in keeping with best practices and subjected to transparent price discovery. We believe that as capital flows into the market and trading volumes and liquidity increase, it will encourage more retail investors to take a serious look at equities and more companies to list.

These factors are crucial to the further development of the NSX. The largest uncertainties were the sustainability of the trading results of the NSX, in part due to the above-mentioned points but offset by the accumulated reserves as highlighted in the table on page 2. The net income takes into account the ever-increasing operating costs which include the cost of accommodation, staffing and providing for the state-of-the-art technology and ensuring best practices governance.

The Development Capital Market or DevX, at the end of 2020 comprises four dual listed uranium companies and one cobalt company. In addition, MCUBE Investments One Ltd and Omajowa Properties Ltd listed in July 2020 as Capital Pool Companies. Alpha Namibia Industries Renewable Power Limited "ANIREP" listed in September 2019 as a Capital Pool Company, has been reclassified from a Capital Pool Company to the NSX Main board effectively 01 October 2020. Shares listed on the DevX are not included in either of the NSX indices which are calculated by FTSE in London. NAMFISA has advised that economic activity in Namibia is not a prerequisite for listing a company's equity on the NSX.

The graphs presented in this report highlight the volatility in share prices and exchange rates which all severely affect the share prices more than the incomes of these listed companies; the price of uranium and the unfortunate Japanese experiences in 2012 have reduced the exploration capabilities and activities of the dual listed commodity companies. The slow recovery of world demand for commodities keep posing a risk, affecting both growth and fiscal revenues.

The African Development Bank Group economic outlook of Namibia report indicated the COVID-19 pandemic hit Namibia's economy hard with expectations to shrink by 7.9% in 2020 because of declines in tourism, retail, trade and investments, health, and education. The economy contracted in 2019 and 2017 and registered anemic growth in 2018 because of poor performance in construction and mining, persistent drought, and weakening demand for Namibian exports.

The Bank of Namibia (BoN) economic outlook for August 2020 indicated the domestic economy is estimated to contract by 7.8 percent in 2020 compared to a lesser contraction of 1.1 percent in 2019. The Bank of Namibia has maintained an accommodative policy stance to support a revival of the domestic economy. It reduced the policy rate by a cumulative 275 basis points to 3.75% in 2020. Inflation was on a downward trend during the 2016-20 period, reflecting steady decline in housing prices and transport costs. The fiscal deficit was estimated to widen to 12.5% of GDP in 2020 from 4.9% in 2019, due to a surge in pandemic-related spending and lower revenues. The current account deficit narrowed from 3.4% of GDP in 2018 to 1.7% of GDP in 2019, before widening slightly to 1.9% of GDP by the end of 2020.

Furthermore, sluggish global economic growth would hold down exports and foreign direct investment inflows. The fiscal deficit and public debt levels are expected to remain elevated as the government implements its ambitious economic recovery program of NAD 8.1 billion (\$0.5 billion), and limits the fiscal space needed for infrastructure and human capital investment. Inflationary pressures are expected to rise in 2021 and 2022 with anticipated increases in prices of housing, utilities, and food and non-alcoholic beverages, coupled with a steady depreciation of the Namibian dollar, which fell by 7% against the US dollar during 2020.

The fiscal deficit is likely to be largely financed by local debt issuance in the medium term. This will push total public debt to 67.5% of GDP in 2020 and 68.4% in 2021, up from 58.4% in 2019. Domestic debt and guarantees already account for approximately 72% of total debt. Namibia's highly liquid financial sector provides a large resource pool, particularly through pension funds and insurance

companies, whose assets amount to the equivalent of 120% of GDP. The financial sector has the potential to develop long-term innovative financing instruments to fund national development projects and programs.

According to the Namibia Statistics Agency (NSA) the economy contracted by 11.1% during the second quarter of 2020 compared to a decline of 3.6% recorded in the corresponding quarter of 2019. During the review period, 2013: Q1 to 2020: Q2, this is the highest contraction recorded.

“The contraction in the economic performance during the second quarter of 2020 is observed across the entire sectors of the economy as domestic activities were under pressure due to the impact of the COVID-19 measures that was put in place for the country to mitigate the spread of the virus. The measures entailed among others, closing of the country’s borders and only allowing businesses that provides essential services to operate,” said NSA Stastician-General Alex Shimuafeni. ‘Hotels and Restaurants’ recorded the highest decline of 64.2% compared to a growth of 12.3% of the same quarter of 2019. While other services which includes ‘art, entertainment, recreation activities, domestic workers, caretakers, tutors, gardeners etc’ recorded the second highest decline of 43.7% during the review period. Amid the pandemic, three sectors recorded positive performance during the period under review, being ‘Agriculture and forestry’, ‘Information and communication’ and Health sectors that recorded growth rates of 47.2%, 11% and 6%, respectively. The positive performance in ‘Agriculture and forestry’ is attributed from good rainfalls experienced during 2020. Accordingly, the most affected sectors include hotels and restaurants, mining, transport and storage, manufacturing, and construction. Other factors that risk eroding Namibia’s economic outlook include high unemployment levels and widening income inequality, which have been exacerbated by the pandemic. Overall, the domestic economy is expected to start with a gradual recovery during 2021, as most countries open their economies. However, we are not expecting fast recoveries in sectors depending on travel, hotels, restaurants and transport as the COVID-19 pandemic remain a health risk.

The NamCode has continued to be widely accepted and implemented in all sectors of the Namibian market. **All NSX Primary listed companies are required to comply with the NAMCODE on “apply or explain” or King IV on an “apply and explain” basis.** The NamCode booklet is available on the NSX website free of charge and hard-copies are available for purchase at the NSX. This enhancement of the governance landscape has continued to position Namibia on the African investment scene and resulted in the deepening of the Namibian capital markets as it opens our market to a larger international investing pool. The International Finance Corporation’s issuance in Namibia as only the third African market shows the interest and trust in our markets and economy. This makes us more attractive to international investors. Many more steps are required to truly open our markets, not least of which are the formalisation of our bond market and setting up a Central Securities Depository (CSD) for the trading in electronic scrip.

The NSX has, from its reserves, funded the project to launch a Central Securities Depository in the Namibian market in partnership with the Bank of Namibia. During the latter of 2019, NAMFISA has issued a license to the exchange for the trading of debt on an additional trading system, being the Bond Trading System MITS (Multi Instrument trading system). We reported expectations of formalisation of the bond market to occur during 2020 but had to postpone this to 2021 due to the unforeseen world-wide COVID-19 pandemic outburst. The eventual launch of derivatives is expected to follow the CSD launch as soon as FIM BILL is enacted. FIM Bill was passed by Parliament on 07 July 2020 and is expected to be published in the Government Gazette soon and thereby become law. We hope by developing the market in these projects, more Namibian companies will

open their shareholder base and come to market by listing. As in most African markets, ours is plagued by small size and illiquidity and can only change by having more choice and depth. However, the exchange cannot force anyone to list their company and if they perceive uncertainty in the regulatory space, listing is a difficult step to take. It is therefore of the utmost importance to have clear guidelines on any requirements for Namibianisation, Black Economic Empowerment / New Equitable Economic Empowerment Framework and localisation. The NSX is confident it can play a meaningful role in these areas if the rules of the game are clear and consistent. The NSX has maintained world class regulation of listed companies and shall continue to do so, as dilution of these requirements may lead to lower levels of investment due to institutional investors not being allowed to participate in the market.

We further believe with the implementation of the CSD, it will open the Namibian market to additional interest from the international market which would increase the demand even more, not only for shares, but specifically on the bond market. The NSX is proud to be leading both these projects with the CSD expected to go live once FIM Bill has been tabled and approved.

Harambee Prosperity Plan (HPP) launched in 2016 - 2020 is the Namibian government's action plan towards prosperity for all and is constructed around the Namibian narrative. It acknowledges that we are not starting afresh but that we must continue with the construction of an inclusive Namibian House, built on a solid foundation of peace and stability. A total of 35 activities were planned for implementation under the Effective Governance Pillar, for the Harambee period. It is estimated that 24 of all programmed activities have been successfully executed; 10 are deemed to be slightly behind target while 1 target has not been met during the period under review. As the Namibian Stock Exchange, we are not only unified by our national identity but stand united in cause and believe we can contribute to usher Namibia into the epoch of prosperity. A second version of the Harambee Prosperity Plan (HPP) is expected to be launched.

The NSX contributes to expanding the markets in the region by its participation in the Committee of SADC Stock Exchanges and the African Securities Exchange Association.

I would like to offer my thanks to the Board, management and to the teams of committed employees, who remained focused and fastidious during the period and managed to successfully oversee projects. You have all been instrumental in moulding the operations of the NSX, its subsidiaries and I thank and commend all of you, wishing you continued success and always striving for service excellence.

The Management Commentary on pages 39 to 44 is outside the formal annual financial statements but is integral to a better understanding of the NSX.

David Nuyoma
Chairman