GCR | Global Credit Rating Co.
Local Expertise • Global Presence

CREDIT RATING ANNOUNCEMENT

GCR affirms Capricorn Investment Group Limited’s and Bank Windhoek Limited’s ratings of $AA_{(NA)}$; Outlook Stable

Johannesburg, 30 Nov 2018 - Global Credit Ratings has affirmed the national scale ratings assigned to Capricorn Investment Group Limited of $AA_{(NA)}$ and $A1+_{(NA)}$ in the long term and short term respectively; with the outlook accorded as Stable. Global Credit Ratings has also affirmed the national scale ratings assigned to Bank Windhoek Limited of $AA_{(NA)}$ and $A1+_{(NA)}$ in the long term and short term respectively; with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the long-term South African national scale (Rand) issuer rating of $A+_{(ZA)}$ assigned to Bank Windhoek Limited; with the outlook accorded as Stable.

SUMMARY RATINGS RATIONALE

Global Credit Ratings (“GCR”) has accorded the above credit ratings to Capricorn Investment Group Limited (“Capricorn Group”, “the Group”) and Bank Windhoek Limited (“BW”) based on the adequate capitalisation, growing earnings, adequate funding and liquidity of the group. An adverse economic environment affected the Group’s asset quality and earnings growth potential. Its competitive position is strong, supported by a large market share in an oligopolistic Namibian banking industry with high barriers to entry. The Group is diversified, with a significant presence in the asset management and insurance markets, as well as geographic diversity from operations in Zambia and Botswana which, contribute a combined 16.9% to Group consolidated assets.

The stable outlook reflects our assumption that the economic climate is improving and thus the performance of the Group is bound to stabilise with an expectation of growth in earnings and in the long-term an improvement in asset quality. The Group has a strong competitive position particularly in Namibia through its subsidiary Bank Windhoek Limited (“BW”). BW contributes 78.7% to Group assets and is the 2nd largest bank in Namibia with a 29.8% market share of industry assets. The Group’s substantial market position within the Namibian economy and strong local shareholder base make it well positioned to take advantage of positive growth and infrastructure/other development within the domestic economy. Other non-banking subsidiaries and associates (offering asset management, unit trust management products and services, property development and long and short-term insurance) contributed 4.3% of consolidated assets and 11.4% of pre-tax profits at FY18.

The Group’s capitalisation is adequate with a Tier 1 to risk weighted assets ratio of 15.1% (FY17: 15.4%) and BWs at 14.4% (FY17: 13.4%) as at FY18, which is above the 10% minimum requirement. We expect the capitalisation levels of the Group to remain fairly strong with the total capital adequacy ratio expected to be in the range of 15-17% in line with our assumption that Group earnings will stabilise supported by a recovery in the performance of the economy. We expect earnings to grow by 6-11% supported by non-interest income as BW seeks to grow transaction-based income.

The Group’s risk position is adequate in comparison to peers. The Group, like most banks, suffered from the adverse economic conditions. Consequently, the gross non-performing loan (“NPL”) ratio rose to 3.4% at FY18 (FY17: 2.2%) because of Cavmont bank in Zambia and Bank of Gaborone in Botswana which historically have higher NPLs, as it was the first year their results were fully consolidated into the Groups results. NPLs are expected to reach the peak in FY19 before stabilising and improving in the long-term. The group’s reserving was also low with a loan loss reserve to non-performing and classified assets of 19.9%. Positively, credit losses remained at the lower end (0.2%) compared to peer.

The Group is predominantly funded by customer deposits (84%) of which 68% are wholesale. Funding is augmented by committed lines from the debt capital market and development finance institutions (“DFIs”) and group funding available on emergency. The liquid assets to wholesale funding ratio is 1.61x. BW is exposed to portfolio concentration risk which is a market wide phenomenon and stress tests show it may face liquidity challenges in the event of a liquidity shock as a result of its reliance on wholesale funding as deposits from wholesale banking clients are confidence sensitive. Successful development of the retail deposit base will somewhat stabilise funding. Positively, liquidity is considered adequate. BW (on a solo basis) had a liquidity coverage ratio (“LCR”) and net stable funding ratio (“NSFR”) of 103% and 114% respectively at FY18.

A sustained improvement in asset quality, capitalisation and reserving as well as an improved economic environment could positively affect the rating. A sharp deterioration in the capital position, liquidity, earnings and asset quality, could see the ratings come under pressure.

GCR Global Credit Rating Co.
Local Expertise • Global Presence

NATIONAL SCALE RATINGS HISTORY

Capricorn Investment Group Limited
Initial rating (November 2015)
Long term: AA$_{(NA)}$; Short term: A1+$_{(NA)}$
Outlook: Stable

Last rating (November 2017)
Long term: AA$_{(NA)}$; Short term: A1+$_{(NA)}$
Outlook: Stable

Bank Windhoek Limited
Initial rating (September 2005)
Long term: AA$_{(NA)}$; Short term: A1+$_{(NA)}$
Outlook: Stable

Last rating (November 2017)
Long term: AA$_{(NA)}$; Short term: A1+$_{(NA)}$
Outlook: Stable

SOUTH AFRICAN NATIONAL SCALE RATINGS HISTORY

Initial rating (November 2013)
Long term: A-$_{(ZA)}$
Outlook: Stable

Last rating (November 2017)
Long term: A+$_{(ZA)}$
Outlook: Stable

ANALYTICAL CONTACTS

Primary Analyst
Vimbai Muhwati
Credit Analyst
(011) 784-1771
vimbaim@globalratings.net

Committee Chairperson
Matthew Pirnie
Sector Head: Financial Institutions Ratings
(011) 784-1771
matthewp@globalratings.net

Secondary Analyst
Victor Matsilele
Junior Credit Analyst
(011) 784-1771
victorm@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions (March 2017)
BW rating reports (2005-17)
Capricorn Group rating reports (2015-17)

RATING LIMITATIONS AND DISCLAIMERS

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Capricorn Investment Group Limited and Bank Windhoek Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Capricorn Investment Group Limited and Bank Windhoek Limited.

Information received:

- Audited financial results of the Group and the banking subsidiary as at 30 June 2018 (plus four years of comparative figures)
- Budgeted financial statements for 2019;
- Latest internal and/or external audit report to management;
- Reserving methodologies;
- A breakdown of facilities available and related counterparties;
- Corporate governance and enterprise risk framework; and
- Industry comparative and regulatory framework.

The ratings above were solicited by, or on behalf of, Capricorn Investment Group Limited and Bank Windhoek Limited, and therefore, GCR has been compensated for the provision of the ratings.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long-Term	Not current; ordinarily more than one year.
Long-Term Rating	Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Margin	The rate taken by the lender over the cost of funds, which effectively represents the entity's profit and remuneration for taking the risk of the loan; also known as spread.
National Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Net Asset Value	The value of an entity's assets less its liabilities. It is a reflection of the company's underlying value and is usually quoted on a per share basis.
Regulatory Capital	The total of primary, secondary and tertiary capital.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term	Current; ordinarily less than one year.
Short-Term Rating	An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.

For a detailed glossary of terms please click here

GCR Global Credit Rating Co.
Local Expertise • Global Presence