



Credit Rating Announcement

GCR affirms Bank Windhoek's and Capricorn's Namibian scale issuer ratings; Outlooks Stable

Rating Action

Johannesburg, 29 September 2020 - GCR Ratings ("GCR") has affirmed the Namibian long and short-term issuer ratings of Bank Windhoek Limited at AA_(NA)/A1_{+(NA)}. At the same time, the South African national scale long-term issuer rating has been revised upward to A_(ZA), from A_{-(ZA)}. The outlooks are Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
	Long Term issuer	National	AA _(NA)	Stable Outlook
Bank Windhoek Limited	Long Term issuer	National	A _(ZA)	Stable Outlook
	Short Term issuer	National	A1 _{+(NA)}	--

Simultaneously, Capricorn Group Limited's (formerly Capricorn Investment Group Limited) Namibian long and short-term issuer ratings have been affirmed at AA_{-(NA)}/A1_{+(NA)}, with the outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
	Long Term issuer	National	AA _{-(NA)}	Stable Outlook
Capricorn Group Limited	Short Term issuer	National	A1 _{+(NA)}	

The rating action follows a reduction in the Namibian country and financial institutions sector risk assessments.

- On August 17, 2020, the Namibian Financial Institutions sector risk score was lowered to 6.0, from 6.5 previously. Click [here](#) to access link.
- The Namibian country risk score was also lowered to 5.5, from 5.75 previously, in a market alert released on the 27th May 2020. Click [here](#) to access link.

Combined, the above country and sector risk scores comprise the operating environment score, which is a key input into GCR's ratings.

Rating Rationale

Bank Windhoek Limited

The revised South African national scale rating of Bank Windhoek Limited ("BW") follows a change to GCR's South African mapping table on the back of the lower South African Country Risk Score which caused the rating to migrate up to A_(ZA). Given the comparatively favourable risk position and headroom in the current capital and leverage risk score of BW relative to other South African financial institutions with a similar rating, a Stable outlook was accorded.

BW's ratings reflect the credit profile of Capricorn Group Limited ("Capricorn", or "the group"). BW's contribution to group net profit after tax (FY20: 71%, excluding the loss from the Zambian subsidiary) and assets (FY20: 76%) is significant and GCR views it to be the group's core operating entity and flagship brand. As such, the ratings of BW are equalised to the group Anchor Credit Evaluation ("ACE").

Capricorn's credit profile benefits from a strong market status in the Namibian banking sector (through the core banking subsidiary, BW), geographic and product diversity provided from banking operations in Botswana, asset management and insurance businesses in Namibia and good track record of stable earnings. Risk is viewed to be well contained, with low credit costs and market aligned non-performing loans ("NPLs") reflecting sound asset quality, although comparatively lower capital and leverage does restrain the ratings. Funding and liquidity is broadly in line with industry norms and neutral to the rating.

The group's core operating market is Namibia, given BW's status as a top tier bank and reasonable levels of product diversity from the asset management and insurance businesses, while the Botswana banking subsidiary provides some geographic diversification in a relatively stable operating environment. Capricorn is expected to consolidate its positions in these core markets, and is currently in the process of disposing its Zambian banking operations, which is a small contributor to the group's balance sheet and financial performance and, as such, GCR expects the transaction to be rating neutral over the outlook horizon.

Capital and leverage is at the lower end of the intermediate range with the GCR capital ratio expected to be managed within the 12.5%-13.5% over the coming 18 months, after factoring in earnings moderation from significant provisioning and lower net interest and fee and commission income. Historically, the group generated sound and stable earnings, with Return on Assets ("RoA") averaging 1.8% over the past four years. We expect RoA will moderate to around 1.3% in the coming year (FY20: 1.7%) and we also think the group will continue to distribute dividends, albeit not to the extent witnessed in prior years. This, in combination with growth in the risk asset base is expected to constrain capital to levels below peers over the medium term, negatively impacting the rating.

In GCR's view, while asset quality is likely to weaken due to the impact of the COVID-19 pandemic on economic activity (exacerbating weak macro fundamentals) credit costs and NPLs are likely to be contained when compared to peers and other regional players. GCR expects cost of risk to peak at around 1% in FY21 (FY20: 0.8%) before gradually tracking back down. The percentage of the loan book under payment holidays is fairly contained, and positively, has been reducing since the initial onset of the pandemic. The group also provided for an economic overlay to reserves of around NAD136m in the June 2020 financial year, which was the main driver of the rise in credit costs, and we think that these atypical spikes will normalise down from FY22 onward. NPLs, which rose to 4.7% in FY20, however, are on par or slightly above peers. GCR is projecting that the industry NPLs will average around 5.5-6% (in line with our forecast on Capricorn) over the next 18 months as the full impact of the COVID-19 pandemic begins to materialise, taking note of the high sector wide exposure to households.

Funding and liquidity is adequate and in line with most industry participants. In this regard, the group managed to mobilise more stable funding sources, with core deposits rising by 14.5% to NAD30bn. This saw the core deposits to total funding ratio register at 64%, while the GCR stable funding ratio remained at 75%, commensurate with industry norms. We believe the bank is more leveraged than peers based on gross loans to deposits above 100%, compared to around 85% for the closest rated peer. However, this is somewhat offset by good liquid asset coverage of sensitive wholesale funding of 1.9x at FY20.

Capricorn Group Limited

The ratings on Capricorn Group Limited are a notch lower than the group ACE, reflecting the structurally subordinated status of Non-Operating Holding Companies ("NOHC"). This reflects GCR's opinion that the NOHC is reliant on cash flows and dividends from largely regulated, operating group companies, which could be interrupted by regulators should there be a stress event.

Outlook Statement

The Stable Outlook is premised on the group maintaining a strong market position in the Namibian banking sector, while asset quality is expected to hold up well, even under highly challenging and uncertain operating conditions. The group's somewhat diverse revenue streams are also likely to soften the impact of the pandemic on earnings, which, despite some moderation, is expected to remain sufficient in supporting capital generation at expected levels.

Rating Triggers

There is limited upward rating potential at this time given the current macro environment in the group's core market. However, post the pandemic disruption, improved capital and leverage could support upward ratings movement. Conversely, should asset quality and capital deteriorate beyond GCR's current expectation levels, negative rating action could ensue.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Institutions, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2019
GCR Country Risk Scores, May 2020
GCR Financial Institutions Sector Risk Score, August 2020

Ratings History

Bank Windhoek Limited (Namibian Scale)

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	AA _(NA)	Stable	September 2005
	Last	National	AA _(NA)	Stable	October 2019
Short Term issuer	Initial	National	A1+ _(NA)	N/a	September 2005
	Last	National	A1+ _(NA)	N/a	October 2019

Bank Windhoek Limited (South African Scale)

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	A- _(ZA)	Stable	November 2013
	Last	National	A- _(ZA)	Stable	October 2019

Capricorn Group Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	AA _(NA)	Stable	November 2015
	Last	National	AA- _(NA)	Stable	October 2019
Short Term issuer	Initial	National	A1+ _(NA)	N/a	November 2015
	Last	National	A1+ _(NA)	N/a	October 2019

RISK SCORE SUMMARY

Rating Components & Factors	Risk scores
Operating environment	11.50
Country risk score	5.50
Sector risk score	6.00
Business profile	1.00
Competitive position	1.00
Management and governance	0.00
Financial profile	0.50
Capital and Leverage	(0.50)
Risk	1.00
Funding and Liquidity	0.00
Comparative profile	0.00
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	13.00

Glossary

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
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 exposures 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.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
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.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

SALIENT POINTS OF ACCORDED RATINGS

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

The credit rating has been disclosed to Bank Windhoek Limited and Capricorn Group Limited. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Bank Windhoek Limited and Capricorn Group Limited participated in the rating process via teleconference management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the entities and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 30 June 2020;
- Other publicly available information and
- Industry comparative data.

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