CREDIT RATING ANNOUNCEMENT

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

Rating Action

Johannesburg, 30 September 2022 - 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 affirmed at $A_{(ZA)}$. The outlooks are Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Bank Windhoek Limited	Long Term Issuer	National	$AA_{(NA)}$	Stable Outlook
	Long Term Issuer	National	$A_{(ZA)}$	Stable Outlook
	Short Term Issuer	National	$A1+_{(NA)}$	--

Simultaneously, Capricorn Group Limited's 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
Capricorn Group Limited	Long Term Issuer	National	$AA-_{(NA)}$	Stable Outlook
	Short Term Issuer	National	$A1+_{(NA)}$	

Rating Rationale

Bank Windhoek Limited

Bank Windhoek Limited's ("BW") ratings reflect the credit profile of Capricorn Group Limited ("Capricorn", or "the group"). BW's contribution to group net profit after tax (FY22: 71%) and assets (FY22: 78%) 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").

The ratings affirmation balances the group's strong and entrenched position as a leading financial services provider in Namibia with good asset quality, against adequate funding and liquidity and below peer capitalisation.

Capricorn Group Limited is a large, diversified financial services company based in Namibia, with core operations in banking through Bank Windhoek and Bank Gaborone ("BG"). Its competitive strength is derived from BW, one of the biggest banks in Namibia with strong market shares across assets (29.1%), deposits (30.6%) and loans (33.9%). There is some geographic diversity through the Botswana operations, with BG contributing c.6.1% to profit after tax in FY22. We view the Botswana market as an area of strategic focus going forward, as highlighted by the recently launched Peo Finance (Pty) Ltd, a micro lender that targets government employees, with deduction at source, like the business model of Entrepo (the group's Namibian based core micro lender). Another positive aspect is the diversification of revenue sources across asset management (Capricorn Asset Management), insurance (through associate shares in the local operations of regional behemoths, Santam and Sanlam) and telecommunications (30% stake in Paratus Group Holdings Limited). The asset manager and insurance associates are clear leaders in their respective markets, and this combined strength supports good, through the cycle revenue stability and diversity, with a high proportion of annuity type interest and fee-based income.

The group's asset quality broadly improved in FY22, following easing pressures of the pandemic in both Namibia and Botswana. Gross non-performing loans ("NPLs") moderated to 5.5% (FY21: 5.8%), while the credit loss ratio ("CLR") reduced to 0.9% (FY21: 1.1%), albeit remaining elevated relative to pre-pandemic lows. The outlook for asset quality carries some downside risks due to weakening macro conditions (high inflation and rising interest rates), with sectors such as construction and transport experiencing stress (c.23% of total group NPLs). While active loan deferments reduced notably compared to the start of the pandemic, further deterioration in these portfolios could support higher NPL formation. We expect NPLs to creep back up towards 5.5%-6%, while credit losses average 0.9%-1% over the next two years.

The funding and liquidity structure is adequate. Cost of funding is above the industry average (in both banking markets) due to tighter liquidity conditions and the group's higher exposure to costlier long-term deposits. Cost of funds was stable at 3.7% at FY22 (FY21: 3.8%), but likely to increase as interest rates rise and banks increasingly compete with higher yielding government bonds. Furthermore, around NAD3.5bn (or 8.8% of BW's total funding base) is linked to JIBAR and reprice quicker than local deposits. As with regional peers, non-bank financial institutions are large depositors in the Namibian banking system, and for the group, finance and insurance companies represented 49% and 37% of BW's and BG's total deposits respectively.

Liquidity is sound, with both BW and BG comfortably exceeding minimum regulatory liquidity metrics. Leverage (loans to deposits ratio of 103% at FY22) remained high. While this is well above the industry average, BW does utilize more long-term debt to support loan growth and liquidity metrics generally track in line with the industry average. The funding structure makes the group susceptible to market sensitivity with a combined impact of high loan growth and wholesale market deposit outflows possibly pressuring liquidity, although this has been well managed through the years.

The intermediate capital and leverage assessment reflects a GCR core capital ratio below Namibian banking peers, balanced by above average earnings generation. Capital metrics have been on an upward trajectory over the last two years as income generation continued to exceed growth in risk weighted assets. The GCR core capital ratio increased to 13.3% at FY22 and is expected to rise further to c.13.5% over the next two years. Risks to earnings are balanced, with rising interest rates likely to have a slight positive impact on net interest margins, good revenue diversification supports non-interest income growth, while higher expected credit impairments and slight cost pressures (due to high inflation) may partially offset the positives. Loan growth is projected between 5%-6.5% over the next two years as credit demand is impacted by the rising interest rates and economic uncertainties, although return on assets should continue to improve to around 1.7% (FY22: 1.6%).

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

We believe the group is well positioned to navigate challenging operating environments in its respective markets over the ratings horizon due to its entrenched and market leading Namibian banking business, and continued support to the Botswana operations. Good revenue diversification should underpin earnings growth and stability, while adequate capitalisation caters for growth objectives and provides a slight buffer against any unexpected asset quality deterioration. We expect the GCR core capital ratio to remain above 13%, balancing good earnings growth against potentially higher dividend payouts. While asset quality faces headwinds, we still expect key metrics to remain range bound and underpin the positive assessment.

Rating Triggers

A ratings upgrade could result from notably higher capitalisation, with the GCR core capital ratio registering above 15% on a sustained basis, further market share gains in the Namibian and Botswana banking sectors and an improved funding structure with lower reliance on wholesale deposits. Conversely, negative ratings pressure may stem from weakening asset quality, which would weigh on earnings and capitalisation, or any signs of liquidity stress that would undermine the funding and liquidity assessment relative to peers.

Analytical Contacts

Primary analyst Johannesburg, ZA	Vinay Nagar Vinay@GCRratings.com	Sector Head: Financial Institutions +27 11 784 1771
Committee chair Johannesburg, ZA	Matthew Pirnie MatthewP@GCRratings.com	Group Head of Ratings +27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Financial Institutions, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2022
GCR Country Risk Scores, August 2022
GCR Financial Institutions Sector Risk Score, June 2022

Ratings History

Bank Windhoek Limited (Namibian Scale)

Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	National	AA(NA)	Stable	September 2005
	Last	National	AA(NA)	Stable	September 2021
Short Term Issuer	Initial	National	A1+(NA)	N/a	September 2005
	Last	National	A1+(NA)	N/a	September 2021

Bank Windhoek Limited (South African Scale)

Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	National	A-(ZA)	Stable	November 2013
	Last	National	A(ZA)	Stable	September 2021

Capricorn Group Limited					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	National	AA(NA)	Stable	November 2015
	Last	National	AA-(NA)	Stable	September 2021
Short Term Issuer	Initial	National	A1+(NA)	N/a	November 2015
	Last	National	A1+(NA)	N/a	September 2021

RISK SCORE SUMMARY

Rating Components & Factors	Risk scores
Operating environment	**11.50**
Country risk score	5.50
Sector risk score	6.00
Business profile	**1.25**
Competitive position	1.25
Management and governance	0.00
Financial profile	**0.25**
Capital and Leverage	(0.50)
Risk	0.75
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 rating process 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 ratings have 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 ratings.

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 2022;
- Other publicly available information and
- Industry comparative data.

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