

CREDIT RATING ANNOUNCEMENT

GCR affirms Bank Windhoek's Namibian and South African issuer ratings of AA_(NA)/ A1+_(NA) and A_(ZA) respectively and Capricorn Group's Namibian issuer ratings of AA_{-(NA)}/ A1+_(NA). Outlooks Stable.

Rating action

Ebene, 27 September 2024 – GCR Ratings (GCR) has affirmed Bank Windhoek Limited's Namibian long and short-term national scale issuer ratings AA_(NA)/ A1+_(NA) respectively. At the same time, the South African long term issuer rating has been affirmed at A_(ZA). The rating outlooks remain 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)	--

GCR has also affirmed Capricorn Group Limited's Namibian long and short-term national scale issuer ratings AA_{-(NA)}/ A1+_(NA) respectively with a Stable outlook.

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

The ratings of Bank Windhoek Limited (BW, the bank) reflect the strengths and weaknesses of Capricorn Group Limited (Capricorn, the Group). The bank is viewed to be the core operating subsidiary of the Group, representing a material component of total assets and earnings. As such, the ratings of BW are equalised to the group's Anchor Credit Evaluator (ACE).

The ratings reflect the Group's market-leading position in Namibia's banking industry via BW, demonstrably conservative risk profile, and a stable funding and liquidity structure. Capricorn is well diversified with profit largely split between Namibia (80%) and Botswana (10%) via BW, Botswana-based Bank Gaborone (BG), Capricorn Asset Management (CAM), Peo Finance and Entrepo. Further diversification is from Namibian associates Paratus, Sanlam and Santam. BW generates the majority of the profit at 66% of 2024 consolidated group.

With substantial market positions with respect to assets (30.4%), advances (35.5%), and deposits (30.6%) as of 30 June 2024 (FY2024), BW is a strongly positioned domestic commercial bank, whose leading market position continues to be demonstrated by defensive revenue streams and sound client retention. In addition, the

franchise strength is bolstered by CAM's leading position as the largest asset manager in Namibia with N\$46.6 billion of AUM and BG's defensive deposit market share of 6.9% at May 2024.

Risk position is ratings positive. The gross non-performing loan (NPL) ratio (including interest in suspense) improved to 4.7% (June 2023: 5.2%) and remained better than the industry average. The Group's additional impairments in June 2024 translated into a credit loss ratio of 0.7% (June 2023: 0.5%) but is still in line with industry norms and a 5-year average of 0.8%. The loan books of the BW and BG are moderately well diversified, although real estate is still an industry concentration for both entities – at 21.9% for BW and 41.1% for BG -. Foreign currency lending is relatively low and the top 20 loans accounted for 21.0% of total loans at 30 June 2024.

The GCR core capital ratio (GCR CAR) registered at a 5-year review period high of 14.1% at FY2024, aided by good internal capital generation outstripping risk weighted asset growth, and improving credit quality. The revenue diversification is good, supporting earnings stability through different economic cycles, with good non-interest income flows. We expect earnings momentum to continue into 2025, and forecast stable internal capital generation of 25%, cost of risk of 0.7%, cost ratio range of 50% to 53%, loan growth below 10%, and return on assets of c.2.0%. Therefore, the GCR CAR is expected to range at current levels over the next 12-18 months.

The funding and liquidity structure is adequate. Overall, funding increased by 10.9%, largely due to an increase in local funding sources, such as deposits. The Group balances shorter-term maturities (43.4%) with longer-term maturities (11.2%) of wholesale funding to allow for sustainable liquidity and manage funding costs. However, the cost of funding increased to 6.4% (June 2023: 5.6%) due to the ripple effects of interest rate hike during the 2023 period from a 2022 low of 3.7%. In line with regional peers, non-bank financial institutions are large depositors in the Namibian banking system with the top 20 representing 38% of total deposits. The Group's liquidity is sound, with both BW and BG comfortably exceeding minimum regulatory liquidity metrics. The GCR liquidity ratios are good with liquid assets covering 2.6x total wholesale funding (2023: 2.1x) and 34.3% of total deposits (2023: 33.0%).

Capricorn Group Limited

Capricorn's ratings will be 1 notch lower than the group ACE, reflecting structural subordination for non-operating holding companies (NOHC). In GCR's opinion, being a NOHC, the entity is largely reliant on cash flows and dividends from its operating subsidiaries, which are regulated entities in this case, and regulators could step in to prevent such upstream distributions in a stress scenario.

Outlook statement

Following sustained internal capital generation, we expect the GCR core capital ratio to track at current levels in the next 12-18 months. We expect the group to continue attracting lower cost retail deposits, to sustain non-interest income growth, and to maintain sound liquidity while the strain in economic conditions may pressurise asset quality.

Rating triggers

Upward rating movement could stem from sustained improvement in asset quality, with the cost of risk below 0.4% while GCR core capital ratio improves above 17%. Increased market positioning and scale of the Botswana banking subsidiary could positively impact the ratings.

The ratings could be downgraded due to 1) cost of risk deteriorating to above 1%; 2) capitalisation below 13% , or 3) a deterioration in liquidity beyond GCR's expectations.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Financial Institutions, May 2024
GCR Ratings Scale, Symbols & Definitions, May 2023
GCR Country Risk Scores, August 2024
GCR Financial Institutions Sector Risk Score, August 2024

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 2023
Short Term Issuer	Initial	National	A1+ _(NA)	N/a	September 2005
	Last	National	A1+ _(NA)	N/a	September 2023

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 2023

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 2023
Short Term Issuer	Initial	National	A1+ _(NA)	N/a	November 2015
	Last	National	A1+ _(NA)	N/a	September 2023

Risk score summary

Rating Components & Factors	Score
Operating environment	12.00
Country risk score	6.00
Sector risk score	6.00
Business profile	1.25
Competitive position	1.25
Sustainability	0.00
Financial profile	0.50
Capital and Leverage	(0.25)
Risk	0.75
Funding and Liquidity	0.00
Comparative profile	0.00
Support	0.00
Peer comparison	0.00
Total Risk Score	13.75

Glossary

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.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
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.

Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Downgrade	The rating has been lowered on its specific scale.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Forecast	A calculation or estimate of future financial events.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
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 Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
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	Current; ordinarily less than one year.
Subordination	The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches.

Salient points of accorded rating

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 the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 30 June 2024;
- Breakdown of loan book and funding as at 30 June 2024;
- Industry comparative data.

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