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# Capricorn Investment Group Limited

**Namibia Bank Analysis** **November 2017**

| Rated entity | Rating class | Rating scale | Rating | Rating outlook | Review date |
|---|---|---|---|---|---|
| Capricorn Investment Group Limited | Long-term | National | AA(NA) | Stable | November 2018 |
| Capricorn Investment Group Limited | Short-term | National | A1+(NA) | | |
| Bank Windhoek Limited | Long-term | National | AA(NA) | Stable | November 2018 |
| Bank Windhoek Limited | Short-term | National | A1+(NA) | | |
| Bank Windhoek Limited | Long-term | National† | A+(ZA) | Stable | November 2018 |

**Financial data:**

(USDm comparative)

| | 30/06/16 | 30/06/17 |
|---|---|---|
| NAD/USD (avg.) | 12.75 | 13.61 |
| NAD/USD (close) | 14.69 | 13.05 |
| Total assets† | 2 482.2 | 3 540.9 |
| Total capital° | 287.6 | 393.9 |
| Total borrowings | 230.0 | 403.9 |
| Net advances | 1 810.6 | 2 562.0 |
| Liquid assets | 294.1 | 562.1 |
| Operating income | 189.2 | 194.5 |
| Profit after tax | 71.0 | 67.4 |
| Market cap.* | NAD9.4bn/USD659.4m | |
| Market share^ | | 29.9% |

† Including off-balance sheet items, excluding goodwill.
° Excluding goodwill, including non-controlling interest.
* Namibian Stock Exchange at 10/11/17.
^ Refers to the Namibian banking subsidiary. Based on total estimated banking industry assets at 30/06/17.

**Rating history:**

**Capricorn Investment Group Limited**
**Initial rating (November 2015)**
Long-term: AA(NA)
Short-term: A1+(NA)
Rating outlook: Stable
**Last rating (November 2016)**
Long-term: AA(NA)
Short-term: A1+(NA)
Rating outlook: Stable

**Bank Windhoek Limited**
**Initial rating (September 2005)**
Long-term: AA(NA)
Short-term: A1+(NA)
Rating outlook: Stable
**Initial rating (November 2013)**
Long-term (South Africa national scale): A-(ZA)
Rating outlook: Stable
**Last rating (November 2016)**
Long-term: AA(NA)
Short-term: A1+(NA)
Rating outlook: Stable
Long-term (South Africa national scale): A+(ZA)
Rating outlook: Stable

**Related methodologies/research:**

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
BW rating reports (2005-16)
Capricorn Group rating reports (2015-16)

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**Summary rating rationale**

- The accorded ratings reflect Capricorn Investment Group Limited's ("Capricorn Group", "the Group") strong domestic market share in the Namibian banking industry and significant presence in the asset management and insurance markets. The ratings also reflect Capricorn Group's risk appropriate capitalisation, comfortable liquidity, resilient earnings performance, as well as further earnings and geographic diversity from recent acquisitions (January 2017) of banking operations in Zambia and Botswana, contributing a combined 17.9% to group consolidated assets at FY17 (30 June 2017) and 3.8% of pre-tax profits. While GCR expects the Group to remain resilient, the prevailing economic challenges (including weak growth prospects in Namibia) and an uncertain global economic outlook, will continue to put pressure on Capricorn Group's (and the financial sector in general) earnings and asset quality metrics. The South African national scale rating may also be influenced by the relative sovereign ratings of South Africa and Namibia and the Group's credit quality relative to the South African peer universe.
- Further underpinning the ratings is the potential support from the Group's largest shareholders Capricorn Investment Holdings Limited ("CIH") with a 40.7% stake and Government Institutions Pension Fund ("GIPF") with 26% shareholding. GIPF, the largest institutional investor in Namibia with a net asset value of about NAD100bn, acquired 25% of the Group's shares in May 2017. The GIPF, together with CIH, became shareholders of reference for the Group. GIPF has shown its commitment as Capricorn Group's reference shareholder by extending long term senior debt funding of NAD1.3bn to the Group. Likewise, CIH also committed to provide 10-year debt funding amounting to NAD900m. The funding lines enabled the Group to make available committed contingent funding facilities (NAD1bn) to its three operating banks, significantly mitigating liquidity risk within the Group. GCR believes that timely financial support would be provided by GIPF and CIH in their role as reference shareholders, or ultimately by the Bank of Namibia ("BoN") due to Bank Windhoek Limited's ("BW") status as a systemically important financial intuition.
- The Group's leading operating subsidiary, BW, is the largest locally owned bank and second largest commercial bank in Namibia. BW contributed a lower 80.1% of the Group's consolidated assets at FY17 (FY16: 98.2%) and a marginally higher 87.0% (FY16: 86.6%) of pre-tax profit following recent acquisitions. Other non-banking subsidiaries and associates (offering asset management, unit trust management products and services, property development and long and short term insurance) contributed 2.0% of consolidated assets and 10.6% of pre-tax at FY17. While the Group's ratings have largely replicated BW's ratings, GCR has taken cognisance of added diversification benefits from recent acquisitions at Group level.
- Capricorn Group reported a total risk weighted capital adequacy ratio of 16.8% at FY17 (FY16: 15.8%) and Tier 1 risk based capital ratio of 15.4% (FY16: 14.3%), which were well above the regulatory minima of 10% and 7% respectively, providing a sufficient buffer to absorb credit losses.
- The Group's gross non-performing loan ("NPL") ratio rose to 2.2% at FY17 (FY16: 1.3%) mainly due to acquired loan books. Unreserved NPLs relative to regulatory capital remained low at 10% at FY17 (FY16: 5.6%).
- Pre-tax profit grew by a modest 0.3% in FY17 (FY16: 19.0%), on the back of a challenging economic climate. Key profitability indicators remained sound with the Group reporting a ROaE and ROaA of 19.5% (FY16: 22.9%) and 2.4% (FY16: 3.0%) in FY17 respectively.

**Factors that could trigger a rating action may include**

**Positive change:** Strong liquidity and loss-absorption buffers and steady financial metrics throughout the economic cycle, as well as further enhancement of geographic and earnings diversification benefits, would be positively considered.

**Negative change:** A sharp deterioration in the capital position, liquidity, earnings and asset quality, could see the ratings come under pressure.

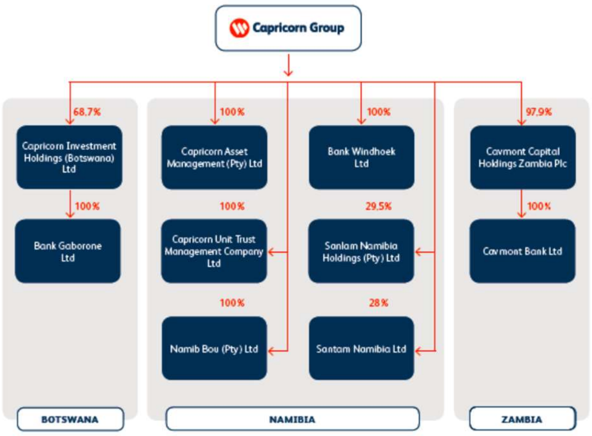
† Refers to South African national scale (Rand) issuer rating

## Organisational profile[1]

### Group structure

Established in 1996, Capricorn Group is an investment holding company, with its main investments depicted in Figure 1. Capricorn Group was listed on the Namibia Stock Exchange ("NSX") in June 2013. Through its subsidiaries and associates, Capricorn Group provides a diverse range of services, including: banking, long and short term insurance, property development, asset management and unit trust management.

Figure 1: Capricorn Group's key investments (subsidiaries and associates) at 30 June 2017




In January 2017, Capricorn Group acquired a controlling shareholding (68.7%) in Capricorn Investment Holdings (Botswana) Limited ("CIHB") which in turn holds 100% of the share capital of Bank Gaborone Limited. At the same time, Capricorn Group also acquired 97.9% shareholding in Cavmont Capital Holdings Zambia Plc ("CCHZ"), which owns 100% of the share capital of Cavmont Bank Limited. The subsidiaries were already part of the Group at CIH level, making the integration at Capricorn group level seamless, with IT systems and risk management processes already in line with Group policies.

Effective 1 July 2016, Capricorn Group sold 100% of its shareholding in Welwitschia Insurance Brokers (Pty) Limited ("Welwitschia") to Sanlam Namibia. Welwitschia (a short term insurance broker) contributed 0.1% of Capricorn Group's consolidated assets and 0.7% of pre-tax profit at FY16.

BW remains the flagship of the Group, contributing 80.1% of Capricorn Group's consolidated assets at FY17 (FY16: 98.2%) and 87.0% (FY16: 86.6%) of pre-tax profits[2].

### Ownership structure

Table 1 shows Capricorn Group's shareholding composition at FY17. During FY17, CIH reduced its stake in the Group to 40.7% from a controlling stake of 55%. This followed the acquisition of a 25% stake by GIPF in May 2017. The GIPF, together with CIH, will play a joint role as shareholder of reference for Capricorn Group.

| **Table 1: Capricorn Group shareholding Composition** | **FY16 %** | **FY17 %** |
|---|---|---|
| CIH | 55.0 | 40.7 |
| GIPF† | 1.0 | 26.0 |
| Nam-mic Financial Services Holdings (Pty) Limited | 9.4 | 9.9 |
| Namibia Strategic Investments (Pty) Limited | 8.0 | - |
| Capricorn Group Employee Share Trusts | 2.7 | 3.4 |
| Other | 23.9 | 20.0 |
| **Total** | **100.0** | **100.0** |

† 15.5% purchased from CIH and 9.5% from Namibia Strategic Investments (Pty) Limited (a consortium of Namibian investors).

Source: AFS.

Table 2 provides a breakdown of CIH's ownership structure at FY17.

| **Table 2: CIH shareholding composition at FY17** | **%** |
|---|---|
| Namibia Strategic Investments (Pty) Limited | 47.9 |
| Sanlam Life Namibia Limited | 23.2 |
| Old Mutual Holdings (Namibia) (Pty) Limited | 11.3 |
| Other | 17.6 |
| **Total** | **100.0** |

Source: Capricorn Group.

### Strategy and operations

Table 3 provides a brief overview of the operations of Capricorn Group's subsidiaries and associates.

**Table 3: Operating profile**

| **Subsidiary** | **Principal activity** |
|---|---|
| Bank Windhoek Limited | Formed in 1982, BW is the largest locally owned commercial bank in Namibia, with an asset market share of about 29.9% at FY17. The bank offers a comprehensive range of personal, corporate, electronic and international banking services through a network of 55 retail and specialist finance branches and agencies countrywide, 112 ATMs and 214 Cash Express ATMs. The bank offers foreign exchange services throughout its branches and through a joint venture with American Express, which has various outlets in Namibia. During FY17, the bank launched Bank Windhoek EasyWallet mobile payment solution, GoPay cardless fuel payments and Solo Bank for children under 18 years in line with efforts to grow retail deposits. In June 2017 Bank Windhoek and Capricorn Asset Management launched the Capricorn Private Wealth Suite which included the Group's first credit card facility. |
| Bank Gaborone Limited (Botswana) | Established in 2006 in Botswana. Acquired by Capricorn Group in January 2017. The bank has a market share of 6% in terms of assets. The bank offers personal and corporate products and services tailored to different market segments. The bank operates through 9 branches. |
| Cavmont Bank Limited (Zambia) | Cavmont Bank is a 100% subsidiary of CCHZ and was established following a 2004 merger between Cavmont Merchant Bank Ltd (incorporated in October 1992) and New Capital Bank Plc (incorporated in June 1992). CCHZ listed on the Lusaka Stock Exchnage ("LuSE") in September 2006. Cavmont Bank provides corporate, investment, retail and community banking services. The bank has a market share of about 1.5% in terms of assets and operates through a network of 20 branches. |
| Capricorn Asset Management (Pty) Limited ("CAM") and Capricorn Unit Trust Management Company Limited ("CUTM") | Capricorn Group's asset management activities are conducted under two separate legal entities. Unit Trusts are registered under CUTM whilst all administration and asset management activities of the funds are performed by CAM.<br>• CAM also offers private client wealth management services and segregated portfolio management services for institutions.<br>• CUTM is the largest unit trust management company in Namibia in terms of assets under management (15 funds) with a market share of 29.3% at FY17. |
| Namib Bou (Pty) Limited ("Namib Bou") | Namib Bou is a property development company focusing on affordable housing development and property valuation services. Namib Bou acts as facilitator between local authorities and financial |

1 For a more detailed organisational profile of the Group, refer to past rating reports.

2 Given the non-banking subsidiaries' small contribution to consolidated assets, the analysis largely reflects the banking operations.

| | |
|---|---|
| | institutions (banks) to support the creation of housing stock over the long term. |
| **Associate** | **Principal activity** |
| Santam Namibia Limited ("Santam") | The largest short term insurer in Namibia with a countrywide contact centre infrastructure, a strong intermediary network, and a market share exceeding 30%. The insurer focuses on corporate, commercial and personal markets, as well as underwriting a wide range of short term insurance classes. |
| Sanlam Namibia Holdings (Pty) Limited ("Sanlam") | A well-diversified financial services Group with key operations in life assurance in the affluent and entry level markets, Group life assurance, credit life assurance, unit trust management and unit-linked platform businesses. |

Source: AFS, Capricorn Group.

Four key areas were identified to direct the Group's strategic competitiveness in the next cycle towards 2020 as follows:

- Focus on building and extending the Group's foundation in Namibia, Botswana and Zambia;
- Develop all-round capabilities in effective strategy execution that improves customer service;
- Explore strategic partnerships in Namibia, Botswana and Zambia; and
- Explore technological, borderless and cyber opportunities that will define banking in the next 10–15 years.

### Governance structure[3]

Capricorn Group and all subsidiaries follow the recommended rules on good corporate governance as set out in the Corporate Governance Code for Namibia ("NamCode"). Furthermore, the Group's varied offerings and debt raising activities attract oversight from several regulatory bodies. The banking subsidiaries are regulated by the regulatory bodies in their respective countries. The non-bank financial institutions ("NBFIs") are regulated by the Namibian Financial Institutions Supervisory Authority ("Namfisa"). Capricorn Group is listed on the NSX, and BW's South African Rand-denominated bonds are listed on the Johannesburg Stock Exchange ("JSE").

The board has delegated some of its responsibilities to various board committees, namely: Group Board Executive, Group Board Audit, Risk and Compliance ("BARC"), Group Board IT, Group Board Nominations, Group Board Remuneration, Group Board HR, Group Board Investment and Group Board Sustainability and Ethics. The BARC is responsible for monitoring compliance with relevant corporate governance principles, legislation and codes.

### Financial reporting

The Group's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of Namibia. PricewaterhouseCoopers are the Group's external auditors and issued unqualified reports for FY17 to Group and subsidiaries.

[3] Given the intricacies associated with good corporate governance, GCR recommends an independent assessment to test compliance.

## Operating environment

### Economic environment[4]

Economic growth is expected to remain weak in 2017, with real GDP growth forecast at 0.8% by the IMF. Despite positive developments in the mining (diamond, metal ores), tourism and agriculture sector, output in the construction, wholesale and retail trade, and transport sectors has declined.

**Table 4: Macroeconomic indicators (%)**

| | 2015 | 2016 | 2017f | 2018f |
|---|---|---|---|---|
| Real GDP growth | 6.0 | 1.1 | 0.8 | 2.5 |
| Inflation (annual avg. % change) | 3.4 | 6.7 | 6.0 | 5.8 |
| Government gross debt % GDP | 39.5 | 40.7 | 37.7 | 43.6 |
| Current account % GDP | (12.6) | (14.0) | (7.3) | (6.6) |

f – forecast.
Source: IMF World Economic Outlook, October 2017.

Annual inflation averaged 6.5% for the nine months to 30 September 2017 (the same over the corresponding period in 2016). On a monthly basis, however, inflation slowed down from its peak of 8.2% in January 2017 to reach 5.6% in September 2017, with a large portion attributable to lower food inflation. The Monetary Policy Committee ("MPC") increased the repo rate by 25 basis points to 7.0% in April 2016. In August 2017, the MPC reduced the repo rate by 25 basis points to 6.75% to support economic domestic activity. The MPC maintained the repo rate at 6.75% in October 2017.

Risks to domestic growth include meagre recoveries in the country's trading partners, slow recovery in international commodity prices, undue appreciation of the Namibia Dollar and uncertainty about weather conditions. The sluggish economic growth in South Africa (Namibia's main trading partner), Angola and other emerging markets coupled with the slow recovery in prices for commodities of export interest to Namibia poses main risks to projected growth for 2017 and 2018. The economic contraction in Angola since 2016 has continued to reverberate in sectors such as wholesale and retail trade, education and real estate and business services; thus, a delay of the actual growth recovery in Angola increases the possibility of contractions in these sectors. In addition, a slowdown in the demand for minerals from China will also pose a challenge to projected growth rates for the primary industries. Similarly, political uncertainty in advanced economies (e.g. the European Union), has the potential to reduce Namibia's exports.

### Financial sector overview[5]

At 31 December 2016, Namibia's financial sector comprised nine banks[6] and 460 NBFIs. NBFIs

[4] Source: International Monetary Fund ("IMF") World Economic Outlook, October 2017; Bank of Namibia ("BoN") Economic Outlook, July 2017; BoN Monetary Policy Statement, October 2017.

[5] Source: BoN Financial Stability Report, April 2017.

[6] Two new banks, Bank BIC Namibia Limited and Letshego Bank Namibia Limited were licensed in 2016.

(mainly consisting of long term insurance, pension funds, investment managers and unit trusts) dominate the financial system, in terms of asset size (about 78%). The banking sector is comparatively small and highly concentrated, with the four largest banks[7] (of which three are subsidiaries of South African banks) controlling more than 90% of total sector assets. Namibia's financial sector is supervised and regulated by BoN and Namfisa.

| Table 5: Bank and NBFI assets | No. | 2015 NADm | 2016 NADm |
|---|---|---|---|
| Banks | 9 | 99 933 | 110 060 |
| NBFIs | 453 | 384 500 | 395 540 |
| Insurance | | | |
| *Long term Insurance* | *16* | *44 746* | *47 554* |
| *Short term Insurance* | *14* | *5 587* | *5 769* |
| *Medical Aid Funds* | *10* | *1 360* | *1 445* |
| *Pension Funds* | *93* | *133 089* | *137 462* |
| Investments | | | |
| *Unit trusts* | *16* | *47 772* | *48 313* |
| *Investment mgmt.* | *23* | *147 689* | *150 775* |
| Lending | | | |
| Micro-lending | *281* | *4 257* | *4 222* |
| **Total** | **460** | **484 433** | **505 600** |

Source: BoN Financial Stability Report, April 2017; Namfisa Quarterly Report, 1Q 2017, BoN Annual Report, 2016.

Table 6 provides the banking sector's key performance metrics. The banking sector remains profitable and adequately capitalised, with low levels of NPLs despite some adverse developments in the domestic and global economy.

| Table 6: Key banking industry indicators (%) | Dec 2015 | Dec 2016 |
|---|---|---|
| **Capital adequacy** | | |
| Total regulatory capital/Risk weighted assets | 14.3 | 15.5 |
| Regulatory Tier 1 capital/Risk weighted assets | 11.8 | 12.7 |
| Tier 1 leverage ratio | 9.4 | 9.3 |
| **Asset quality** | | |
| Gross NPLs/Gross loans | 1.6 | 1.5 |
| Overdue loans/Total loans | 3.6 | 2.5 |
| Total provisions/Total loans | 1.1 | 1.0 |
| Specific provisions/NPLs | 29.3 | 20.7 |
| **Profitability** | | |
| ROaA (before tax) | 2.5 | 2.3 |
| ROaE (before tax) | 24.5 | 24.1 |
| Net interest margin | 6.1 | 5.9 |
| Cost-to-income ratio | 51.6 | 51.0 |
| **Liquidity** | | |
| Liquid assets to total assets | 11.3 | 11.4 |
| Gross loans/Total deposits | 100.5 | 97.6 |
| Gross loans/Gross assets | 77.4 | 76.5 |
| Liquidity ratio | 11.3 | 11.4 |

Source: BoN Annual Report, 2016.

The total banking sector assets grew by a slower 10.1% to NAD110.1bn at end-2016 (2015: 14.6%). Net loans and advances increased from NAD77.1bn to NAD84.0bn and accounted for 76.3% of banking sector assets in 2016 (2015: 78.2%), which shows a decrease from 78.2% in 2015. Mortgage loans constituted the largest part of the total loan book at 51.4%, which is a slight increase from 51.3% reported in 2015. Asset quality remained sound during 2016, despite increase in NPLs, due to a higher interest rate environment and slowdown in economic activities. The increase was prominently driven by the mortgage loans category. The key indicator of credit quality, namely the gross NPL ratio (gross NPLs/gross loans), improved slightly to 1.5% in 2016 (2015: 1.6%), although the economic environment continues to be challenging. The gross NPL ratio remains low and within the BoN's acceptable threshold of 4.0%. The positive result seen in the level of NPLs is partly due to more stringent credit administration practices. The banking industry maintained liquid assets above the prudential minimum of 10% at 11.4% (2015: 11.3%).

[7] First National Bank of Namibia ("FNB"), Standard Bank Namibia Limited ("SB"), Nedbank Namibia Limited ("Nedbank") and BW.

NBFIs' balance sheets remain well capitalised, with funding/solvency levels in excess of those required in terms of the law at end-2016. NBFIs' deposits are the most significant source of funding for banks. Banks rely largely on wholesale funding, mainly in the form of short term wholesale deposits (70-80% of total bank funding). The short funding maturities versus the long maturities of bank assets expose banking institutions to liquidity and refinancing risks. These funding linkages, together with tight ownership linkages, create the potential for system-wide contagion, which calls for close monitoring. Furthermore, cross-border linkages, especially with South Africa, through investments and ownership, could expose the country to systemic shocks.

### Competitive position

Table 7 provides a high level market share overview of BW relative to its peers at 30 June 2017. The four largest banks dominate the market, while additional market entrants are unlikely to impact the competitive environment significantly in the medium term. 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.

| Table 7: Peer market share (%)† | BW | FNB | SB | Nedbank |
|---|---|---|---|---|
| Total assets | 29.9 | 32.6 | 23.6 | 13.9 |
| Total customer loans | 32.8 | 32.6 | 21.7 | 12.9 |
| Total customer deposits | 28.4 | 34.2 | 23.5 | 13.9 |

† Based on publicly available financial results for the year ending 30 June 2017 for BW and FNB and 31 December 2016 for SB and Nedbank.

## Financial profile

### Likelihood of support

Subsidiaries have been well supported by shareholders which, over time, has contributed capital in support of the Group's growth trajectory. In addition, given BW's extensive market share and systemic importance, it is likely that government support would be forthcoming, should it be required.

### Funding composition

The Group is predominantly funded by customer deposits, accounting for 74.8% of total funding at FY17 (FY16: 74.5%).

| Table 8: Funding profile | FY16 | | FY17 | |
|---|---|---|---|---|
| | NADm | % | NADm | % |
| Customer deposits | 23 724 | 74.5 | 31 572 | 74.8 |
| Due to other banks | 447 | 1.4 | 318 | 0.7 |
| *Current accounts* | *447* | *1.4* | *141* | *0.3* |
| *Interbank borrowings* | *-* | *-* | *177* | *0.4* |
| Debt securities in issue† | 2 215 | 7.0 | 4 105 | 9.7 |
| *Five-year callable bonds^* | *188* | *0.6* | *251* | *0.6* |
| *Senior debt (unsecured)* | *2 003* | *6.3* | *2 922* | *6.9* |
| *Preference shares* | *24* | *0.1* | *25* | *0.1* |
| *Debentures* | *-* | *-* | *907* | *2.1* |
| *Other borrowings°* | 1 164 | 3.7 | 1 165 | 2.8 |
| **Total non-equity funding** | **27 550** | **86.6** | **37 160** | **88.0** |
| Equity | 4 274 | 13.4 | 5 056 | 12.0 |
| **Total** | **31 825** | **100.0** | **42 216** | **100.0** |

† Comprises debentures, preference shares, subordinated debt and senior debt issued under BW's medium term note programme registered with the JSE and NSX.

^ 5-year callable bonds issued on the NSX qualifying as Tier 2 capital.

° Long term funding comprising:

i. IFC - NAD920m 7-year facility repayable semi-annually over a 7-year term with quarterly interest repayments. The first capital repayment is due December 2017. Interest at 3-month JIBAR plus an average spread of 2.95%.

ii. DEG - NAD250m 8-year facility repayable semi-annually with quarterly interest repayments. The first capital repayment is due March 2020. Interest at 3-month JIBAR plus a spread of 3.65%.

Source: AFS.

Funding is augmented by medium/long term borrowings raised from the debt capital market and development finance institutions ("DFIs"), which have served to diversify and lengthen the funding base. Interbank funding plays a limited role, providing additional liquidity if required. Total non-equity funding grew by 34.9% in FY17, mainly due the acquisition of banking subsidiaries in Zambia and Botswana, which drove growth in customer deposits. Excluding the acquisitions non-equity funding grew by 7.6% in FY17 (FY16: 12.1%), driven by growth in term and notice deposits and debt securities.

| Table 9: Customer deposits by counterparty | FY16 | | FY17 | |
|---|---|---|---|---|
| | NADm | % | NADm | % |
| Individuals | 4 595 | 19.4 | 6 884 | 21.8 |
| Corporates | 9 503 | 40.1 | 11 391 | 36.1 |
| Public sector | 865 | 3.6 | 5 246 | 16.6 |
| Financial institutions | 8 761 | 36.9 | 8 051 | 25.5 |
| **Total** | **23 724** | **100.0** | **31 572** | **100.0** |
| **By type** | | | | |
| Current accounts | 6 015 | 25.4 | 7 007 | 22.2 |
| Savings accounts | 1 641 | 6.9 | 2 194 | 6.9 |
| Demand deposits | 3 883 | 16.3 | 3 967 | 12.6 |
| Term and notice deposits | 4 502 | 19.0 | 10 546 | 33.4 |
| NCDs | 6 176 | 26.0 | 6 595 | 20.9 |
| Other deposits | 1 507 | 6.4 | 1 263 | 4.0 |
| **Total** | **23 724** | **100.0** | **31 572** | **100.0** |

Source: AFS, Capricorn Group.

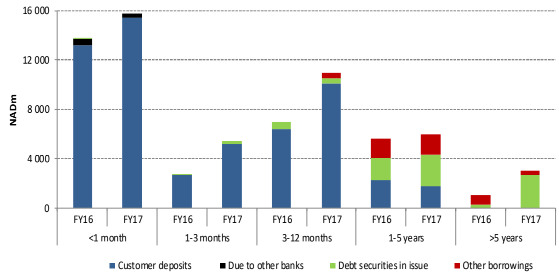
Wholesale deposits (deposits above NAD5m) constituted 71.4% of total deposits at FY17 (FY16: 73.1%). In recent years, focus has been placed on developing the retail deposit base and diversification of wholesale funding sources. Growth in debt securities/NCD balances illustrate that a higher degree of wholesale funding diversification is being achieved in this segment. NCDs are issued primarily to asset managers, who favour liquid, floating-rate instruments given the uptick in rates. That said, the small size/concentration in Namibia's economy implies natural funding concentration. Due to the low density corporate sector and lack of depth in the financial system, a large proportion of deposits are sourced from governments/parastatals, and large NBFIs (mainly asset managers).

The single largest and top 20 largest depositors comprised 9.5% and 40.4% of total deposits at FY17 respectively. GCR notes, however, that as Namibian asset managers/pension funds are required by law to invest a minimum of 35% locally (this requirement will increase to 45% in the next year), wholesale deposits from this source are more stable than might be expected, as NBFIs investment opportunities (apart from bank offerings) are limited.

*Funding maturity profile*

The liability funding pool has a particularly short term profile, both at origination and remaining contractual maturity.

Figure 2: Contractual funding maturity profile (excluding equity)



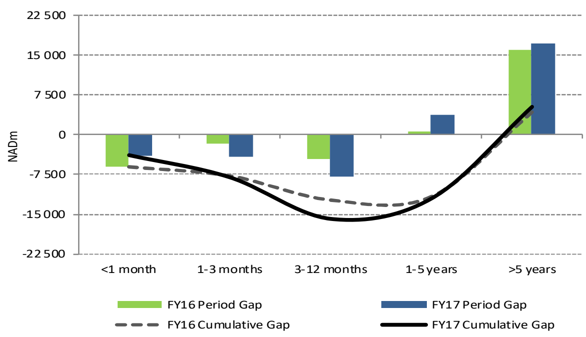

In terms of behavioral maturity, however, the Group has determined (via a historical analysis of daily trends in deposits and withdrawals over the last five years) for deposits that mature within 30 days that on average 54% are rolled over on maturity. In addition to diversification of funding sources, management strives to reduce structural volatility in the deposit book by extending tenor. Accordingly, term deposits, NCDs and debt funding have to some extent helped lengthen the maturity profile. Notwithstanding this, deposits from wholesale banking clients are confidence sensitive, and can be "flighty" in times of stress.

*Liquidity risk*

The Group's contractual maturity profile of assets and liabilities reflects negative cumulative gaps in the short term (less than one year) maturity buckets at FY17, which is in line with the banking sector in Namibia. This is given the short term nature of deposits, with 16.3% of loans and advances maturing within one month, compared to 42.2% of funding at FY17.

The Group's liquidity risk management policies, limits, processes and oversight through regular reporting and ALCO meetings, mitigate these risks to a significant extent, as do various liquidity buffers maintained. Furthermore, liquidity risk has been significantly reduced through the committed contingency facilities from reference shareholders totaling NAD1bn.

Figure 3: Contractual maturity gap analysis




Liquidity risk management (guided by policies) is managed through:

- A high degree of contractual maturity matching in the balance sheet (with cumulative mismatch limits in each maturity bucket);
- Daily monitoring of liquid assets and liquid asset minimum limits;
- Proactive 28-day and longer term cash flow forecasts which consider known maturities, liquidity triggers, changes in large clients' positions, and market liquidity trends;
- Maintenance of a liquidity buffer equal to at least 35% excess over liquid asset requirements;
- Unutilised liquidity lines with large commercial banks;
- Relationship management with other financial institutions; and
- A well documented Group contingency funding plan detailing sources, stress triggers and remediation plans.

### Capital adequacy

The BoN stipulates minimum capital adequacy ratios for a bank or banking Group calculated in line with Basel II requirements.

| Table 10: Capitalisation | FY16 NADm | FY17 NADm |
|---|---|---|
| Tier I capital | 3 835 | 5 405 |
| Tier II capital | 385 | 512 |
| **Total regulatory capital** | **4 220** | **5 917** |
| **Total risk weighted assets (RWA)** | **26 764** | **35 207** |
| **Key capital adequacy ratios (%)** | | |
| **Total regulatory capital : RWA** | **15.8** | **16.8** |
| *Statutory requirement @ 10%* | | |
| **Tier I capital : RWA** | **14.3** | **15.4** |
| *Statutory requirement @ 7%* | | |
| **Tier I capital: Total assets (Leverage ratio)** | **12.6** | **13.0** |
| *Statutory requirement @ 6%* | | |
| **Total borrowings: Total capital (Gearing ratio)** | **0.8x** | **0.9X** |

Source: AFS.

Capricorn Group's capitalisation is comfortably within regulatory limits and provides an adequate cushion to absorb additional losses arising from heightened credit or other risks, should they arise.

Standalone capital adequacy indicators for BW are well above the prudential minima at FY17 as depicted in Table 11.

| Table 11: Capital adequacy ratios for BW (%) | Regulatory minimum | FY16 | FY17 |
|---|---|---|---|
| Total regulatory capital : RWA | 10.0 | 14.2 | 15.1 |
| Tier 1 capital : RWA | 7.0 | 12.4 | 13.4 |
| Leverage ratio | 6.0 | 10.4 | 11.3 |

Source: AFS.

## Operational profile

### Asset composition

In line with growth in funding liabilities, the Group's consolidated assets grew by 32.7% to NAD42.8bn at FY17 (FY16: 13.0%).

| Table 12: Asset composition | FY16 | | FY17 | |
|---|---|---|---|---|
| | NADm | % | NADm | % |
| Cash and liquid assets | 4 584 | 14.2 | 8 010 | 18.7 |
| *Cash* | *288* | *0.9* | *319* | *0.7* |
| *Balances with central bank°* | *881* | *2.7* | *1 224* | *2.9* |
| *Placements with other banks* | *1 007* | *3.1* | *2 199* | *5.1* |
| *Marketable securities^* | *2 408* | *7.5* | *4 268* | *10.0* |
| Customer loans and advances | 26 598 | 82.4 | 33 434 | 78.0 |
| Investments (shares) | 387 | 1.2 | 401 | 0.9 |
| Fixed assets | 158 | 0.5 | 233 | 0.5 |
| Other assets | 558 | 1.7 | 772 | 1.9 |
| **Total†** | **32 285** | **100.0** | **42 850** | **100.0** |

° Includes statutory reserve balances not available for the Group's daily operations of NAD674.8m (FY16: NAD263.6m).

^ Mainly treasury bills and money market investments, and to a lesser extent, government stock, unit trust investments and other debt securities.

† Excluding goodwill of NAD71.1m (FY16: NAD49m).

Source: AFS.

The loan portfolio is the bank's dominant risk asset class contributing 78% of total assets at FY17 (FY16: 82.4%). Credit risk is also present in the Group's treasury portfolio and interbank exposures, although the investment portfolio mainly comprises low-risk financial instruments held for liquidity management purposes. Interbank placements represented 5.1% of total assets at FY17 (FY16: 3.1%). The Group places and lends funds to local banks as an avenue for revenue generation. The Group assesses credit and counterparty risk and has set exposure limits for each counterparty. Other mitigating factors for the credit risk include the maintaining of margin accounts with counterparties.

Credit related contingencies (in the form of letters of credit, guarantees and loan commitments) represented 7.3% of total on- and off-balance sheet assets at FY17 (FY16: 11.5%) or 65.4% of capital. The majority of the guarantees and letters of credit are cash covered limiting credit risk.

| Table 13: Contingencies | FY16 | | FY17 | |
|---|---|---|---|---|
| | NADm | % | NADm | % |
| Guarantees | 1 450 | 34.7 | 1 495 | 44.5 |
| Letters of credit | 635 | 15.2 | 100 | 3.0 |
| Loan commitments | 2 094 | 50.1 | 1 764 | 52.5 |
| **Total assets** | **4 179** | **100.0** | **3 359** | **100.0** |

Source: AFS.

A breakdown of the Group's consolidated assets (by subsidiary and associate) is set out in Table 14.

| Table 14: Contribution to Group consolidated assets° | FY16 NADm | FY16 % | FY17 NADm | FY17 % |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| BW | 31 768 | 98.2 | 34 371 | 80.1 |
| CIHB | - | - | 6 016 | 14.0 |
| CCHZ | - | - | 1 681 | 3.9 |
| CAM | 36 | 0.1 | 36 | 0.1 |
| CUTM | 29 | 0.1 | 32 | 0.1 |
| Welwitschia | 28 | 0.1 | - | - |
| Namib Bou | 44 | 0.1 | 43 | 0.1 |
| **Associates** | | | | |
| Santam | 124 | 0.4 | 127 | 0.3 |
| Sanlam | 123 | 0.4 | 119 | 0.3 |
| Consolidation entries/Other† | 182 | 0.6 | 496 | 1.1 |
| **Total** | **32 334** | **100.0** | **42 921** | **100.0** |

° Excluding contingencies, including goodwill.
† Includes elimination entries and other Group operations eg, Capricorn Group, Employee Share Benefit Trust.
Source: Capricorn Group.

*Loan portfolio*

Capricorn Group's lending activities are mainly carried out by the banking subsidiaries.

| Table 15: Gross loans and advances† | FY16 NADm | FY16 % | FY17 NADm | FY17 % |
|---|---|---|---|---|
| Overdrafts | 4 156 | 15.5 | 5 402 | 16.0 |
| Term loans | 4 977 | 18.6 | 7 729 | 22.9 |
| Mortgages | 13 738 | 51.2 | 16 617 | 49.2 |
| *Residential* | *7 620* | *28.4* | *9 515* | *28.2* |
| *Commercial* | *6 118* | *22.8* | *7 102* | *21.0* |
| Instalment finance | 3 435 | 12.8 | 3 557 | 10.5 |
| Preference shares | 519 | 1.9 | 442 | 1.3 |
| **Total** | **26 825** | **100.0** | **33 747** | **100.0** |

† In addition to unsecured overdrafts, BW (through its subsidiary BW Finance (Pty) Limited), provides unsecured microloans to individuals employed in the corporate/government sector. However, micro-lending, amounting to NAD472.5m (FY16: NAD449.3m) is immaterial from the BW's balance sheet/profitability perspective.
Source: AFS.

Total gross loans and advances grew by 25.8% in FY17 (FY16: 12.6%), mainly due to acquired loan books from the Zambia and Botswana operations. Excluding the recent acquisitions, gross loans grew by 7.0% reflecting the decline in Namibian credit to the private sector. Residential and commercial mortgages, were a slightly lower 49.2% of the loan portfolio at FY17 (industry average: 51.4% at end-2016).

| Table 16: Gross loans and advances by counterparty | FY16 NADm | FY16 % | FY17 NADm | FY17 % |
|---|---|---|---|---|
| Public sector entities | 524 | 2.0 | 426 | 1.3 |
| Corporate | 6 407 | 23.9 | 9 042 | 27.8 |
| Retail | 6 156 | 22.9 | 6 397 | 19.7 |
| Residential mortgages | 7 620 | 28.4 | 9 515 | 29.3 |
| Commercial real estate | 6 118 | 22.8 | 7 101 | 21.9 |
| **Total** | **26 825** | **100.0** | **32 482** | **100.0** |
| **By maturity** | | | | |
| < 1 month | 4 414 | 16.5 | 5 513 | 16.3 |
| 1-3 months | 351 | 1.3 | 467 | 1.4 |
| 3-6 months | 343 | 1.3 | 514 | 1.5 |
| 6-12 months | 281 | 1.0 | 550 | 1.6 |
| > 12 months | 21 435 | 79.9 | 26 703 | 79.2 |
| **Total** | **26 825** | **100.0** | **33 747** | **100.0** |

Source: AFS.

The maturity profile of the Group's loan book is largely concentrated in the long term, with loans and advances over 12 months representing 79.2% of the loan portfolio at FY17 (FY16: 79.9%). The long term maturity profile is indicative of the bank's large mortgage component, and real estate financing.

By obligor, the largest and top 20 exposures accounted for 2.6% (12.3% of regulatory capital) and 25.1% (117% of regulatory capital) of the total loan book respectively at FY17. The exposures were well within prudential guidelines, which limit exposures to a single borrower to 30% of capital and the aggregate of large exposures (defined as loans more than 10% of an institution's capital base) to 800% of capital.

*Asset quality*

Impaired loans grew 111.0% in FY17 (FY16: 36.2%), largely emanating from Zambia and Botswana. Consequently, the gross NPL ratio rose to 2.2% at FY17 (FY16: 1.3%). The gross NPL ratio excluding acquisitions increased slightly to 1.4% at FY17 (FY16: 1.3%).

| Table 17: Asset quality | FY16 NADm | FY17 NADm |
|---|---|---|
| **Gross advances** | **26 825** | **33 747** |
| *Neither past due nor impaired* | *26 253* | *32 335* |
| *Past due but not impaired* | *217* | *663* |
| *Impaired* | *355* | *749* |
| **Less : Provisions** | **(227)** | **(313)** |
| *Raised against NPLs* | *(118)* | *(158)* |
| *Other* | *(109)* | *(155)* |
| **Net advances** | **26 598** | **33 434** |
| Net NPLs | 237 | 591 |
| Collateral on NPLs | 237 | 591 |
| Write-offs | 35 | 64 |
| Post write-off recoveries | 5 | 7 |
| **Key asset quality indicators (%)** | | |
| Gross NPL ratio | 1.3 | 2.2 |
| Net NPL ratio | 0.9 | 1.8 |
| Net NPLs/Total Capital (net specific provisions) | 5.6 | 10.0 |
| Credit loss ratio^ | 0.2 | 0.2 |
| Coverage ratio (specific provisions) | 33.3 | 21.1 |
| Coverage ratio (specific + collateral) † | 100.0 | 100.0 |

^ Income statement impairment charge as a % of average gross loans and advances.
† The value of tangible collateral disclosed is limited to the outstanding balance, therefore any over-collateralised portion of a loan is excluded from the value of tangible collateral. Provisions are raised for under-collateralised NPLs, resulting in a net exposure of nil.
Source: AFS.

Table 18 sets out a breakdown of NPLs by product. Specific provisions covered 21.1% of NPLs at FY17 (FY16: 33.3%). Specific provisions are raised after taking into account expected recoveries on NPLs, which includes the liquidation of collateral or partial loan repayments. Collateral includes mortgages over residential and commercial property, charges over assets financed, suretyships, registered cession of life insurance policy and cession of fixed deposits, notice deposits, bills, bonds, shares, investments or debtors.

| Table 18: Gross NPLs by product | FY16 NADm | FY16 % | FY17 NADm | FY17 % |
|---|---|---|---|---|
| Overdrafts | 75 | 21.1 | 119 | 15.9 |
| Term loans | 87 | 24.5 | 261 | 34.8 |
| Mortgages | 119 | 33.5 | 318 | 42.3 |
| Instalment finance | 74 | 20.9 | 52 | 7.0 |
| **Total** | **355** | **100.0** | **749** | **100** |

Source: AFS

Loss absorption capacity is also underpinned by strong pre-impairment operating profit. Loan write-offs amounted to NAD64m at FY17 (FY16: NAD35m). Recoveries of loans previously written-off totalled NAD7m at FY17 (FY16: NAD5m).

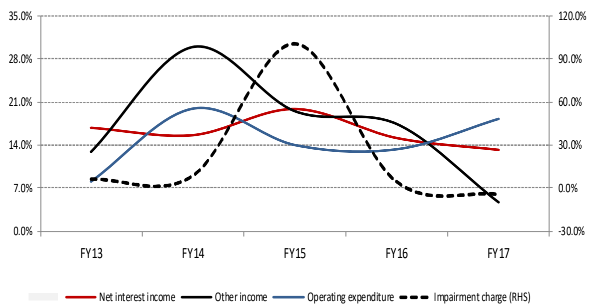
Notwithstanding this, IFRS 9, set to be implemented in 2018, is expected to lead to higher provisioning and earlier recognition of credit losses for Capricorn Group for the financial year beginning 1 July 2018. The Group's management expects a transitional increase in balance sheet provisions in line with IFRS 9 requirements, which are not expected to have a significant impact on regulatory capital adequacy levels (a parallel run is being conducted in FY18 to assess the likely impact).

## Financial performance

A five year financial synopsis for both Capricorn Group and BW is shown on pages 9-10 of this report, supported by the commentary below.

Net interest income grew by 13.1% in FY17 (FY16: 15.1%) supported by recent acquisitions (CIHB and CCHZ) and the expanded loan book, partly offsetting a decline in net interest margin to 4.4% (FY16: 5.0%) from a rise in funding costs in Namibia due to tight market liquidity.

Figure 4: Annual change in primary income statement line items




Non-interest income grew by a relatively modest 4.7% in FY17 (F1Y16: 17.4%), despite the strong growth (24.6%) in transaction fee and commission fee income from cards and electronic channels in FY17. The modest growth in non-interest income, reflected a decline in foreign exchange trading (with the prior year benefiting from once-off foreign exchange trading income from Angolan Kwanza trading activities), and commission and insurance related income on the back of Welwitschia disposal). Non-interest income contributed a lower 37.7% of total operating income in FY17 (FY16: 39.5%), and covered 71.6% of operating costs (FY16: 80.8%). Overall, total operating income grew 9.8% in FY17 (FY16: 16.0%).

Operating expenses grew by 18.2% in FY17 (FY16: 13.2%) driven by higher cost to income ratios in the Botswana and Zambia banking operations and ongoing investments in IT infrastructure and service offerings. Staff costs made up 51.8% of operating expenses in FY17 (FY16: 54.7%). The Group's cost to income ratio increased to 52.7% in FY17 (FY16: 48.9%). Loan impairment charges amounted to 2.2% of operating income in FY17 (FY16: 2.5%).

The contribution to pre-tax earnings for each subsidiary and associate is shown in Table 19, with all operations reporting positive earnings performances in FY17.

| Table 19: Contribution to Group consolidated profit before tax | FY16 NADm | FY16 % | FY17 NADm | FY17 % |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| BW | 1 100 | 86.6 | 1 109 | 87.0 |
| CIHB | - | - | 43 | 3.4 |
| CCHZ | - | - | 5 | 0.4 |
| CAM | 35 | 2.8 | 30 | 2.4 |
| CUTM | 20 | 1.6 | 24 | 1.9 |
| Welwitschia | 9 | 0.7 | - | - |
| Namib Bou | 13 | 1.0 | 2 | 0.2 |
| **Associates** | | | | |
| Santam | 35 | 2.8 | 32 | 2.5 |
| Sanlam | 63 | 5.0 | 46 | 3.6 |
| Consolidation entries/Other† | (5) | (0.5) | (17.0) | (1.4) |
| **Total** | **1 270** | **100.0** | **1 274** | **100.0** |

† Includes elimination entries and other Group operations eg, Capricorn Group, Employee Share Benefit Trust.
Source: Capricorn Group.

Looking ahead, the Group will continue to focus on ongoing initiatives under its strategic plan including client loyalty and retention through innovative offerings and digital enablers, and growing market share in new geographic markets. Given a challenging economic environment across operating jurisdictions, lending will remain cautious while more focus will be placed on collections and maintaining high liquidity and capital buffers.

## Capricorn Investment Group Limited

(Namibian Dollars in millions except as noted)

| Year end: 30 June | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **Income Statement Analysis** | | | | | |
| Interest income | 1 708 | 1 945 | 2 425 | 2 963 | 3 626 |
| Interest expense | (794) | (888) | (1 158) | (1 505) | (1 977) |
| **Net interest income** | **914** | **1 057** | **1 267** | **1 458** | **1 649** |
| Fees and commission | 416 | 493 | 564 | 607 | 777 |
| Trading income | 46 | 47 | 96 | 143 | 101 |
| Other income | 61 | 139 | 152 | 204 | 120 |
| **Total operating income** | **1 438** | **1 737** | **2 080** | **2 412** | **2 648** |
| Impairment charge | (27) | (29) | (58) | (61) | (58) |
| Operating expenditure | (763) | (915) | (1 042) | (1 180) | (1 395) |
| Income not attributable to operations (eg, share in associates/joint ventures) | 62 | 85 | 88 | 99 | 79 |
| **Net profit before tax** | **710** | **878** | **1 067** | **1 270** | **1 274** |
| Tax | (216) | (253) | (314) | (364) | (356) |
| **Net profit after tax** | **493** | **625** | **753** | **905** | **918** |
| **Balance Sheet Analysis** | | | | | |
| Subscribed capital | 467 | 532 | 530 | 512 | 685 |
| Reserves (incl. net income for the year) | 2 157 | 2 562 | 3 113 | 3 762 | 4 372 |
| Minority interest | - | - | - | - | 155 |
| Less: Goodwill | (3) | (49) | (49) | (49) | (71) |
| **Total capital and reserves** | **2 621** | **3 045** | **3 595** | **4 225** | **5 140** |
| Bank borrowings (incl. deposits, placements and REPOs) | 167 | 283 | 130 | 447 | 318 |
| Customer deposits | 15 762 | 17 183 | 20 466 | 21 654 | 29 977 |
| Other borrowings | 115 | 221 | 279 | 497 | 575 |
| **Short-term funding (< 1 year)** | **16 044** | **17 687** | **20 876** | **22 598** | **30 870** |
| Customer deposits | 1 154 | 1 599 | 1 528 | 2 070 | 1 595 |
| Other borrowings | 828 | 1 620 | 2 182 | 2 882 | 4 695 |
| **Long-term funding (> 1 year)** | **1 982** | **3 219** | **3 710** | **4 953** | **6 290** |
| Payables/Deferred liabilities | 289 | 318 | 380 | 509 | 550 |
| **Other liabilities** | **289** | **318** | **380** | **509** | **550** |
| **Total capital and liabilities** | **20 935** | **24 270** | **28 560** | **32 285** | **42 850** |
| Cash in hand | 183 | 190 | 220 | 288 | 319 |
| Balances with central bank | 670 | 519 | 400 | 881 | 1 224 |
| Fixed assets | 129 | 130 | 154 | 158 | 233 |
| Receivables/Deferred assets | 228 | 318 | 499 | 557 | 772 |
| **Non-earnings assets** | **1 210** | **1 157** | **1 273** | **1 885** | **2 548** |
| Loans and advances (net of provisions) | 17 652 | 20 245 | 23 622 | 26 598 | 33 434 |
| Bank placements | 251 | 473 | 740 | 1 007 | 2 199 |
| Marketable/Trading securities | 1 493 | 2 105 | 2 587 | 2 408 | 4 268 |
| Investments (listed/unlisted shares) | 329 | 289 | 337 | 387 | 401 |
| **Total earning assets** | **19 725** | **23 112** | **27 287** | **30 400** | **40 302** |
| **Total assets** | **20 935** | **24 270** | **28 560** | **32 285** | **42 850** |
| **Contingencies** | **2 179** | **3 162** | **4 272** | **4 179** | **3 359** |
| **Ratio Analysis (%)** | | | | | |
| ***Capitalisation*** | | | | | |
| Internal capital generation | 18.8 | 20.2 | 20.7 | 21.2 | 18.1 |
| Total capital/Net advances + net equity invest. + guarantees + letters of credit | 14.0 | 14.0 | 13.8 | 14.7 | 14.6 |
| Total capital/Total assets | 12.5 | 12.5 | 12.6 | 13.1 | 12.0 |
| ***Liquidity*** | | | | | |
| Net advances/Customer deposits | 104.4 | 107.8 | 107.4 | 112.1 | 105.9 |
| Net advances/Customer deposits + other short-term funding | 102.6 | 105.0 | 105.4 | 107.8 | 103.0 |
| Net advances/Total funding (excl. equity portion) | 97.9 | 96.8 | 96.1 | 96.5 | 90.0 |
| Liquid and trading assets/Total assets | 11.5 | 12.7 | 13.0 | 13.4 | 17.1 |
| Liquid and trading assets/Total short-term funding | 15.1 | 17.4 | 17.7 | 19.1 | 23.8 |
| Liquid and trading assets/Total funding (excl. equity portion) | 13.4 | 14.7 | 15.1 | 15.7 | 19.7 |
| ***Asset quality*** | | | | | |
| Non-performing loans/Gross advances | 0.9 | 0.7 | 1.1 | 1.3 | 2.2 |
| Total loan loss reserves/Gross advances | 0.8 | 0.7 | 0.8 | 0.8 | 0.9 |
| Bad debt charge (income statement)/Gross advances (avg.) | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 |
| Bad debt charge (income statement)/Total operating income | 1.9 | 1.7 | 2.8 | 2.5 | 2.2 |
| ***Profitability*** | | | | | |
| Net interest margin | 4.9 | 4.9 | 5.0 | 5.0 | 4.4 |
| Interest income + com. fees / Earning assets + guarantees (a/avg.) | 4.5 | 4.6 | 4.6 | 4.6 | 4.3 |
| Non-interest income/Total operating income | 36.4 | 39.1 | 39.1 | 39.5 | 37.7 |
| Non-interest income/Total operating expenses (or burden ratio) | 68.6 | 74.3 | 78.0 | 80.8 | 71.6 |
| Cost ratio | 53.1 | 52.7 | 50.1 | 48.9 | 52.7 |
| ROaE | 21.9 | 21.9 | 22.4 | 22.9 | 19.5 |
| ROaA | 2.5 | 2.8 | 2.8 | 3.0 | 2.4 |
| ***Nominal growth indicators*** | | | | | |
| Total assets | 10.7 | 15.9 | 17.7 | 13.0 | 32.7 |
| Net advances | 14.0 | 14.7 | 16.7 | 12.6 | 25.7 |
| Shareholders funds | 39.1 | 17.9 | 17.8 | 17.3 | 18.3 |
| Total capital and reserves | 39.1 | 16.2 | 18.0 | 17.5 | 21.6 |
| Customer deposits | 9.0 | 11.0 | 17.1 | 7.9 | 33.1 |
| Total funding (excl. equity portion) | 8.1 | 16.0 | 17.6 | 12.1 | 34.9 |
| Net profit after tax | 22.5 | 26.7 | 20.5 | 20.2 | 1.4 |

# Bank Windhoek Limited

(Namibian Dollars in millions except as noted)

| Year end: 30 June | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **Income Statement Analysis** | | | | | |
| Interest income | 1 708 | 1 945 | 2 425 | 2 963 | 3 327 |
| Interest expense | (795) | (897) | (1 163) | (1 512) | (1 840) |
| **Net interest income** | **914** | **1 048** | **1 262** | **1 451** | **1 487** |
| Fees and commission | 417 | 493 | 564 | 608 | 719 |
| Trading income | 46 | 47 | 104 | 152 | 65 |
| Other income | 10 | 16 | 10 | 10 | 15 |
| **Total operating income** | **1 386** | **1 604** | **1 940** | **2 221** | **2 286** |
| Impairment charge | (27) | (29) | (58) | (61) | (47) |
| Operating expenditure | (708) | (800) | (934) | (1 061) | (1 132) |
| Income not attributable to operations (eg, share in associates/joint ventures) | 1 | 1 | 1 | 1 | 1 |
| **Net profit before tax** | **652** | **777** | **949** | **1 100** | **1 109** |
| Tax | (214) | (244) | (293) | (337) | (333) |
| **Net profit after tax** | **438** | **532** | **656** | **763** | **775** |
| **Balance Sheet Analysis** | | | | | |
| Subscribed capital | 485 | 485 | 485 | 485 | 485 |
| Reserves (incl. net income for the year) | 1 831 | 2 191 | 2 640 | 3 165 | 3 820 |
| **Total capital and reserves** | **2 316** | **2 676** | **3 125** | **3 650** | **4 305** |
| Bank borrowings (incl. deposits, placements and REPOs) | 167 | 283 | 130 | 447 | 141 |
| Customer deposits | 15 935 | 17 195 | 20 617 | 21 792 | 24 125 |
| Other borrowings | 114 | 220 | 128 | 497 | 604 |
| **Short-term funding (< 1 year)** | **16 217** | **17 698** | **20 875** | **22 737** | **24 870** |
| Customer deposits | 1 154 | 1 599 | 1 528 | 2 070 | 1 296 |
| Other borrowings | 678 | 1 470 | 2 182 | 2 857 | 3 592 |
| **Long-term funding (> 1 year)** | **1 832** | **3 069** | **3 710** | **4 927** | **4 888** |
| Payables/Deferred liabilities | 274 | 359 | 351 | 454 | 308 |
| **Other liabilities** | **274** | **359** | **351** | **454** | **308** |
| **Total capital and liabilities** | **20 639** | **23 803** | **28 060** | **31 768** | **34 371** |
| Cash in hand | 170 | 189 | 220 | 288 | 240 |
| Balances with central bank | 670 | 519 | 400 | 881 | 843 |
| Fixed assets | 126 | 127 | 152 | 155 | 171 |
| Receivables/Deferred assets | 194 | 262 | 457 | 461 | 493 |
| **Non-earnings assets** | **1 160** | **1 098** | **1 229** | **1 785** | **1 747** |
| Loans and advances (net of provisions) | 17 652 | 20 245 | 23 622 | 26 598 | 28 508 |
| Bank placements | 251 | 473 | 740 | 1 007 | 861 |
| Marketable/Trading securities | 1 439 | 1 907 | 2 364 | 2 239 | 3 100 |
| Investments (listed/unlisted shares) | 137 | 80 | 105 | 139 | 156 |
| **Total earning assets** | **19 479** | **22 705** | **26 832** | **29 983** | **32 624** |
| **Total assets** | **20 639** | **23 803** | **28 060** | **31 768** | **34 371** |
| **Contingencies** | **2 179** | **3 162** | **4 272** | **4 179** | **3 129** |
| **Ratio Analysis (%)** | | | | | |
| ***Capitalisation*** | | | | | |
| Internal capital generation | 18.9 | 19.9 | 21.0 | 20.9 | 18.0 |
| Total capital/Net advances + net equity invest. + guarantees + letters of credit | 12.4 | 12.4 | 12.3 | 13.0 | 14.4 |
| Total capital/Total assets | 11.2 | 11.2 | 11.1 | 11.5 | 12.5 |
| ***Liquidity*** | | | | | |
| Net advances/Customer deposits | 103.3 | 107.7 | 106.7 | 111.5 | 112.1 |
| Net advances/Customer deposits + other short-term funding | 101.6 | 104.9 | 105.4 | 107.2 | 109.0 |
| Net advances/Total funding (excl. equity portion) | 97.8 | 97.5 | 96.1 | 96.1 | 95.8 |
| Liquid and trading assets/Total assets | 11.4 | 12.1 | 12.4 | 13.1 | 13.8 |
| Liquid and trading assets/Total short-term funding | 14.5 | 16.3 | 16.7 | 18.3 | 19.1 |
| Liquid and trading assets/Total funding (excl. equity portion) | 13.0 | 13.9 | 14.2 | 15.0 | 16.0 |
| ***Asset quality*** | | | | | |
| Non-performing loans/Gross advances | 0.9 | 0.7 | 1.1 | 1.3 | 1.4 |
| Total loan loss reserves/Gross advances | 0.8 | 0.7 | 0.8 | 0.8 | 0.7 |
| Bad debt charge (income statement)/Gross advances (avg.) | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 |
| Bad debt charge (income statement)/Total operating income | 1.9 | 1.8 | 3.0 | 2.7 | 2.0 |
| ***Profitability*** | | | | | |
| Net interest margin | 4.9 | 4.9 | 5.0 | 5.0 | 4.6 |
| Interest income + com. fees / Earning assets + guarantees (a/avg.) | 4.5 | 4.6 | 4.7 | 4.7 | 4.4 |
| Non-interest income/Total operating income | 34.1 | 34.7 | 34.9 | 34.7 | 35.0 |
| Non-interest income/Total operating expenses (or burden ratio) | 66.7 | 69.6 | 72.6 | 72.5 | 70.6 |
| Cost ratio | 51.1 | 49.8 | 48.1 | 47.8 | 49.5 |
| ROaE | 21.9 | 21.9 | 22.6 | 22.4 | 22.4 |
| ROaA | 2.2 | 2.4 | 2.5 | 2.8 | 2.8 |
| ***Nominal growth indicators*** | | | | | |
| Total assets | 11.1 | 15.3 | 17.9 | 13.2 | 8.2 |
| Net advances | 14.0 | 14.7 | 16.7 | 12.6 | 7.2 |
| Shareholders funds | 37.3 | 15.5 | 16.8 | 16.8 | 17.9 |
| Total capital and reserves | 37.3 | 15.5 | 16.8 | 16.8 | 17.9 |
| Customer deposits | 9.8 | 10.0 | 17.8 | 7.8 | 6.5 |
| Total funding (excl. equity portion) | 9.0 | 15.1 | 18.4 | 12.5 | 7.6 |
| Net profit after tax | 28.4 | 21.4 | 23.1 | 16.4 | 1.6 |

## GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS 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. |
| Basel | Basel Committee on Banking Supervision housed at the Bank for International Settlements. |
| Bond | A long term debt instrument issued by either: a company, institution or the government to raise funds. |
| 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. |
| Collateral | Asset provided to a creditor as security for a loan. |
| Credit Rating | An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories. |
| Credit Risk | The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due. |
| Demand Deposit | A deposit of funds that can be withdrawn without any advance notice, or "on demand". |
| 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. |
| Dividend | The portion of a company's after-tax earnings that is distributed to shareholders. |
| 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. |
| Fair Value | The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value. |
| Financial Institution | An entity that focuses on dealing with financial transactions, such as investments, loans and deposits. |
| Financial Statements | Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time. |
| Zxc Fixed Deposit | Where funds are deposited in a savings account for a pre-determined period of time. |
| Goodwill | Arises upon the sale/acquisition of a business and is defined as an established entity's reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets. |
| Guarantee | An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor. |
| Haircut | The percentage by which the market value of a security used as collateral for a loan is reduced. The size of the haircut reflects the expected ease of selling the security and the likely reduction necessary to realised value relative to the fair value. |
| 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. |
| 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. |
| Joint Venture | A project or other business activity in which two persons or companies partner together to conduct the project. |
| Leverage | With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt. |
| Liabilities | All financial claims, debts or potential losses incurred by an individual or an organisation. |
| Liquid Assets | Assets, generally of a short term, that can be converted into cash. |
| 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. |
| 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. |
| Off Balance Sheet | Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts. |
| Overdraft | When the amount of money withdrawn from a bank account is greater than the amount actually available in the account, the excess is known as an overdraft, and the account is said to be overdrawn. |
| Past Due | Any note or other time instrument of indebtedness that has not been paid on the due date. |
| 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 | Indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered). |
| Regulatory Capital | The total of primary, secondary and tertiary capital. |
| Risk Management Process | The systematic application of management policies, procedures and practices to the tasks of risk identification, assessment and measurement, response and action, monitoring and review, and risk reporting. |
| Securitisation | A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties. |
| 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. |
| Subordinated Debt | Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt. |
| Systemic Risk | Risk associated with the general health or structure of the financial system which would have serious adverse effects on economic conditions or financial stability. |
| Term Deposit | A savings account held for a fixed term. Also called a time deposit. Generally, there are penalties for early withdrawal. |
| Treasury Bill | Short-term obligation backed by the government that bears no interest and is sold at a discount. |

For a detailed glossary of terms please click here

**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; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

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 with no contestation of the ratings.

Information received:
- Audited financial results of the Group and the banking subsidiary as at 30 June 2017 (plus four years of comparative figures)
- Budgeted financial statements for 2018
- 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
- 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.