'21 RISK REPORT

Capricorn Group

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About this risk report

This is our first standalone risk report ("the report") for the Capricorn Group Ltd ("the Group" or "Capricorn Group"). The report reflects our approach to risk and application of the principles contained in the King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV™"[1]).

We focus on the way risk management contributed to the Group delivering on its purpose, and ensured that risk management continued to create value for the financial year from 1 July 2020 to 30 June 2021 ("the year"). The report is aimed primarily at providers of financial capital.

The entities that constitute the Group are set out on page 4 of the integrated annual report.

The risk report forms part of a suite of reports that are referenced throughout this report:

- Integrated annual report with summarised annual financial statements
- Annual financial statements
- Risk report
- Governance report
- King IV™ index

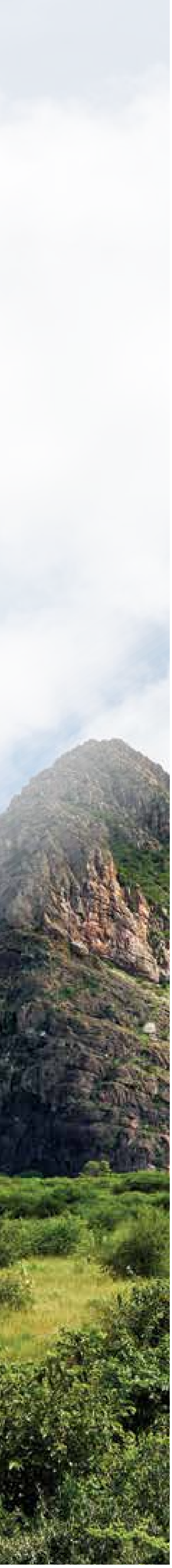
This report was compiled with input from the Group principal risk officers ("PROs") and executive leadership team, reviewed by the board of directors ("board") and its committees and finally approved by the board on 14 September 2021. The board acknowledges its responsibility to ensure the integrity of the report.

Additional information is available online at www.capricorn.com.na/Pages/Reporting-Centre.aspx. For more information or feedback on this report or any other elements listed above, contact Marlize Horn, tel: +264 61 299 1226, or investorrelations@capricorn.com.na.

Message from the executive officer ERM

A strong, sustainable financial services group relies on sound risk management. For Capricorn Group, this means looking at risk systemically and holistically. Our focus is on "what must go right" to achieve desired outcomes. We ensure that there is formal accountability for risk at every level and that roles and responsibilities are clear. Risk management is the responsibility of everyone in the Group and not just that of the central risk functions.

Nico van der Merwe
Group executive officer: Enterprise risk management ("ERM")



The year at a glance

COVID-19

The operating environment of Capricorn Group was dominated by the social and economic impacts of the COVID-19 pandemic.

Growth has slowed down globally, with emerging markets and low-income developing countries most affected[1]. Namibia and Botswana are no exceptions with gross domestic product ("GDP") declining by (8.5%) and (8.3%) respectively in 2020. GDP is expected to increase by 1% and 7.5% respectively in 2021. The pressure on the economy was reflected in the financial situation of our customers.

The threat posed by COVID-19 required us to respond with new operational measures such as split teams, remote working, additional sanitisation protocols and the like. The effectiveness of our business continuity plans and our ability to respond to unexpected risks were tested. A central coordination hub was established for central communication and as a central point for collection and dissemination of relevant information to the various subsidiary management teams. This assisted in maintaining a good understanding of the pandemic itself and the situation across the Group among senior leadership, and also ensured that Group-wide communication was consistent and fact checked.

Remote working remains a key feature of the Group's response to the pandemic to limit operational risk. The enablement of remote working resulted in an acceleration of investment, deployment and evolution of the Group's digital capabilities, complementing the Group's strategic investment in digital transformation.

Our embedded Group Risk Internal Control and Assurance Framework ("GRICAF") enabled us to respond effectively to the financial and non-financial risks resulting from the pandemic. The nature of this threat is such that not all eventualities could be foreseen and planned for. It was, therefore, imperative for each employee to assess risks in the local operating context and to make good decisions. The dynamic manner of our response demonstrated the value of a Risk Culture that is able to sense and respond to a dynamic external and internal environment.

Credit risk

The pandemic continues to have a lasting impact on many sectors in the Namibian economy, but the primary impact remains on the tourism and hospitality sectors. However, tourist numbers from Europe and other developed countries have started to increase slowly, in line with widespread vaccine roll-outs. Additionally, fewer clients in the tourism and hospitality industries are being assisted by our banks with deferments, temporary facilities and moratoriums. Although sectors like transport, fishing and retail have shown signs of improvement, slow economic growth has stifled a strong economic recovery up to this point.

Economists are still expecting interest rates to remain flat for at least the next six months; however, much guidance will be taken from the stimulus, inflation and interest rate changes that occur in the US economy in the short to medium term.

The International Financial Reporting Standards ("IFRS") provision for the year to date amounts to N$443.7 million against the prior period of N$407.4 million. The non-performing loan ("NPL") ratio increased initially in the 2021 financial year, but remained stable over the latter part of the year and ended at N$2.46 million.

Capital and liquidity risk

Despite the significant economic impact of the pandemic, the Group navigated the year with resilience. The proactive and successful repricing strategy of interest rates on both the asset and funding side, coupled with prudent credit risk management, limited the impact of the pandemic on the banking subsidiaries. The Group's diversification strategy protected profitability during the pandemic, as non-banking subsidiaries were impacted to a lesser extent. This, together with declaring dividends that balanced investor expectations with capital preservation, enabled the Group to end the year with a capital adequacy ratio of 15.0%, which remains higher than the regulatory requirement of 11.0%.

Market liquidity was under significant pressure during the year, mainly as a result of the Namibian and Botswana governments' intention to borrow from the local markets to fund budget deficits amplified by the pandemic. Despite low market liquidity at certain points in the year, Bank Windhoek kept its liquidity buffers intact and procured stable funding at respectable interest rates. Bank Gaborone improved on its loan-to-funding ratio by growing its funding sources with a mixture of stable and cheaper funding sources. Despite the pandemic, the Group was able to maintain respectable liquidity levels and buffers during the year, evidenced by the loan-to-funding ratio of 88.6% as at 30 June 2021.

Material matters

It remains a priority for our enterprise-wide risk management programme to support and enable the successful implementation of the strategic choices across the Group.

As we reviewed our strategic choices and refined our material matters this year, our risk priorities have remained in sync.

[1] *IMF World Economic Outlook: Managing Divergent Recoveries, Apr 2021.*

Message from the executive officer ERM continued

For example, the strategic investments in digital transformation are matched with an enterprise-wide focus on systematising controls, embedding risk and compliance decisions in the process, maturing cyber resilience, risk culture and ethics. Similarly, the increased level and complexity of the regulatory environment are met with enhanced compliance monitoring.

Risk appetite

We reviewed and updated the Capricorn Group board risk appetite statement to ensure the quantitative measures and thresholds are aligned to our strategy and budget plans.

With a more positive financial outlook for the next year, there were changes to the quantitative appetite statements for return on equity, cost-to-income ratio and non-interest income as a percentage of operating expenses. We broadened the scope of the qualitative appetite statement on cyber risk to include non-information technology ("IT") related processes and functions. We also refined our qualitative risk appetite statements for corporate governance and core regulatory compliance to include the board's appetite regarding the remediation of gaps and issues. Our appetite statement with regard to conduct (our culture) was made more explicit through references to internal policies such as the Group Code of Ethics and Conduct Policy, Social Media Policy and Acceptable Use (of Technology Assets) Policy.

Strengthening our risk and compliance capacity and capabilities

During the year, we aligned our Group Governance Framework with the King IV™ group governance practice notes to promote clarity of Group and subsidiary roles and responsibilities. Strides were made in scenario planning with data-driven identification of scenario themes and the development of economic scenarios and related stress testing. The scenarios were particularly useful in identifying early warning signs and triggers, enabling us to develop contingency and survival plans in response.

We expanded our learning capability with several online training modules on topics such as cyber risk, ethics and risk management. Our voluntary internal Risk Culture Builder certification programme expanded from one group in one subsidiary to three groups across three subsidiaries in Namibia and Botswana.

Looking ahead

The effective management of operational and financial risks associated with the pandemic will remain a priority. There are signs of improvement in the macroeconomic environment; however, due to the nature of the pandemic, we need to remain agile in our response to emerging risks and changing circumstances globally and locally.

As we continue our digitisation journey, the strengthening of our cyber resilience capability remains a key focus.

Our Group board approved a new list of material matters. The top two priorities are to conduct business in the right way and to manage our risks effectively. These priorities not only set the tone at the top but also provide clear guidance from the board on our ethics, governance and risk management programmes. In making a positive impact on society, there will be a renewed focus on sustainability and environmental, social and governance ("ESG") issues.

In conclusion

Despite the risks and challenges the Group faced during the year, our subsidiaries managed their risks well thanks to the awareness, skills, ingenuity and responsiveness of our employees. While our risk and compliance policies, frameworks and systems play an important role, the effective management of risks on a day-to-day basis is ultimately in the hands of each employee who, through their decisions and actions, determine the outcomes. The outcomes for Capricorn Group this year bear testimony to the attitudes and calibre of our employees.

Capricorn Group's approach to risk

Our risk philosophy and approach

A strong, sustainable financial services group relies on sound risk management. For Capricorn Group, this means looking at risk systemically and holistically. Our focus is on "what must go right" to achieve desired outcomes. We ensure that there is formal accountability for risk at every level and that roles and responsibilities are clear. Risk management is the responsibility of everyone in the Group and not just that of the central risk functions. Our risk management approach is anchored in our purpose: to improve lives through leadership in financial services by being Connectors of Positive Change. It is guided by our strategic choices and a strong ethical culture, entrepreneurial spirit and commitment to transparency. We have a strong forward-looking approach and use technology, data and insights to improve and embed controls into our process. Risk management enables us to make better, more considered and sustainable decisions.

Our Group Risk Internal Control and Assurance Framework ("GRICAF")

The GRICAF is at the core of enterprise risk management ("ERM") at Capricorn Group. The purpose of the GRICAF is to create and maintain the necessary roles, accountabilities, controls and processes to ensure we are able to create value and effectively implement our strategy. The GRICAF is shaped by our strategic choices, and guides us in assessing, monitoring and reporting on risk.

The GRICAF adopts standard risk management practices from Basel II/III and the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Risk management practices are guided by business strategy and objectives and formal risk capacity, appetite and tolerance statements.

The application of GRICAF is tailored for each Group subsidiary according to the size, complexity, local operating conditions and regulation of the business while maintaining common standards which promote consistency and aggregation of risk profiles across the Group. Accountability for risk management is clear and vests with senior executives at Group and subsidiary level; however, everyone is responsible for risk management. Operating units form the first line of defence and are responsible for managing risks within their operations whilst central risk and compliance management functions form a second line of defence and are responsible for risk management policies, standards, infrastructure and processes. The Group Internal Audit function forms a third line of defence. Assurance functions such as internal audit, management assurance and compliance have varying degrees of independence from operating units and perform monitoring activities.

GRICAF objectives

At a strategic level, the objectives of the GRICAF are to:

- Optimise efficiency by effectively using risk resources in the Group
- Directly contribute to the creation of end-customer value by eliminating unnecessary tasks in the process
- Build standard risk management accountability, principles and processes into the business management process
- Ensure that risks are understood and managed proactively within acceptable risk capacity, appetite and tolerance

Principal risks

A key feature of the GRICAF is our principal risks policy and frameworks which define the main risk types (principal risks) across the Group. The principal risks policy sets out the risk types and roles and responsibilities associated with the management of the principal risks.

Appointed senior executives are accountable for each principal risk for which there is a formal and defined risk and control framework that outlines
the risk management system including relevant key controls, related key risk indicators and thresholds, and roles and responsibilities in relation to
the principal risk. Risk management frameworks are developed with a systemic approach to risk and control framework design to ensure that our risk management practices support and sustain the risk management system's performance objectives. Governance reporting requires that each principal risk is reported on at least quarterly in terms of risk profile, trends and red flag areas.

There are 14 principal risks which are reported on in more detail on page 12.

Embedding a Risk Culture

Capricorn Group continued embedding a Risk Culture as the foundation for a sound governance, risk and compliance ("GRC") environment. Risk Culture building means training each employee's mind, heart and personal character to respond effectively to any risk that presents itself in the daily operating environment. This means taking the right decision to mitigate, control or optimise risk to the advantage of Capricorn Group. Risk Culture remains an important part of The Capricorn Way, culture building interventions and the employee induction programme.

Our Risk Culture Building Framework features four pillars that are included in the performance assessment process for all employees. This requires regular performance discussions on how each employee applies the following pillars in the execution of their roles:

1. **Think differently:** Think through immediate events and consider consequences of decisions
2. **Get the whole picture:** Adopt a broader view than historical events and internal perspectives
3. **Build a risk intelligence system:** Collect information from inside and outside Capricorn Group and from multiple sources to allow us to sense and respond to changes in the operating environment
4. **Every Capricorn employee is a risk manager:** Risk management is everyone's duty, and we equip our employees to perform this duty

2021 progress

We monitor the effectiveness of risk management through a range of tools and interventions including Risk Culture assessments, risk framework self-assessments, an independent anti-money laundering ("AML") policy review and independent ethics risk assessments. Capricorn Group conducted the first Risk Culture Maturity Assessment in 2018. A follow-up assessment was completed in 2020 by 179 employees from Capricorn Group head office functions, Capricorn Asset Management, Bank Gaborone and Entrepo. The consolidated comparative results for the entities involved in both assessments reflect a total overall improvement in risk culture maturity of 16.75%.

We continue expanding sustainable capacity for Risk Culture building beyond the central risk function by developing and offering formalised training courses:

The certified Capricorn Risk Culture Building Programme trains volunteers within the Group. Over time, this will establish a critical mass of internal knowledge to evolve and sustain risk culture building as a practice which is not solely dependent on central risk function intervention. Fourteen volunteers from branches and head office functions completed the pilot programme in December 2020. The programme was launched Group-wide in March 2021 with 45 volunteers participating in this year's programme.

A risk training programme, titled Risk Management 101, was developed and customised with Capricorn-specific elements for the development of technical risk management skills. Initially designed as a classroom based programme the format was adapted for our e-learning platform in response to the changing needs brought about by the pandemic.

Our regulatory context for risk

Basel II/III phases

The Bank of Namibia embarked on the phased implementation of Basel III in 2017. In terms of Basel III Pillar 1, the bank follows the standardised approach according to the Banking Institutions Determination 5A (capital requirements for credit, market and operational risks) ("BID-5A"). BID-5A became effective on 1 September 2018 and incorporated a phased approach for the Basel III capital ratios.

The second Basel III-related determination, BID-6 (minimum liquid assets), became effective from 1 September 2019. BID-6 does not yet incorporate the two Basel III liquidity ratios, i.e. the net stable funding ratio and the liquidity coverage ratio, but these ratios are expected to follow in time. Bank Windhoek already implemented these ratios to comply with International Finance Corporation ("IFC") covenants.

The Bank of Namibia requested detailed information on liquidity risk, which will inform future updates to BID-6 to accommodate the Basel III liquidity ratios. To alleviate possible liquidity strain brought on by the pandemic, the Bank of Namibia offered a six-month relaxation to the short-term mismatch (zero to seven days' time band) allowing Bank Windhoek's outflows to exceed its inflows in this period by no more than their unencumbered liquidity buffer. In addition, the banks may set their own limit for the time band eight to 30 days over this time.

Banking regulations in Botswana are based on Basel II, and the status quo was maintained throughout the year.

2021 progress

The Bank of Botswana has yet to engage the industry on the implementation of Basel III, which was indicated during the previous year. However, the bank has performed a survey among banks about the net stable funding ratio and the liquidity coverage ratio.

Regional regulatory risk matters

On a global scale, the Financial Action Task Force ("FATF") tests AML, Combating the Financing of Terrorism ("CFT") and Counter Proliferation Financing ("CPF") capabilities per country against a set of standards. Namibia was subject to the 2020/21 FATF/Eastern and Southern African AML Group ("ESAAMLG") mutual evaluation in 2020. The evaluation was planned to commence in June 2020 but was postponed, due to the pandemic, to a future date to be determined. A National Focal Committee comprising Bankers Association of Namibia ("BAN") representatives was established to prepare Namibia for the assessment.

Bank regulators provided relief for the pandemic. The Bank of Namibia reduced the capital conservation buffer rate to 0% for at least a 24-month period to support banking institutions to supply credit to the economy. The Bank of Botswana reduced the minimum capital adequacy ratio from 15% to 12.5% for the same reason.

Alignment with King IV™

The Group Governance Framework and the GRICAF support the principles of King IV™. Principle 11 requires that risk is governed in a way that supports the Group in setting and achieving its strategic objectives. The following governance enhancements support our risk management practices:

- The Group Corporate Governance Framework was reviewed and updated in line with the King IV™ practice notes relating to Group controlling bodies. Committees' terms of reference were updated where relevant.
- Strategy development should include risk management, specifically in relation to upside risk, and risks emanating from the triple context and from dependence on resources and relationships represented by any of the capitals. This enhancement was implemented through a diligent review of PESTEL analysis as part of the strategy process.
- Risk framework self-assessment disclosure was identified as an area for improvement. This is incorporated in the overview of ERM on page 8.

How we govern and manage risk

The board recognises that risk is about the uncertainty of events, and that these could potentially have a positive or negative impact on our ability to create value. The board allocates the responsibility for oversight and governance of risk management to the board audit, risk and compliance committee ("BARC"). The Group chief executive officer is the senior executive responsible for the implementation of a sound Risk Management Framework.

BARC

The BARC is a board committee mandated to oversee risk management, including risk appetite and IT risk, as referred by the Group board IT committee ("GBITC"). It also has oversight of compliance at Capricorn Group. The financial director, Group head of risk, head of internal audit and the external auditors attend all BARC meetings. They have unfettered access to the BARC chairperson and the board. Read more about the BARC mandate and activities in the governance report.

The executive officer for ERM has delegated authority to (a) facilitate the appointment of Group and entity PROs and (b) to develop appropriate risk and control frameworks for each of the principal risks. Each principal risk is assigned to an executive officer with relevant expertise as the PRO. Entity PROs are responsible for the risk management frameworks within the respective entities. Group PROs are responsible for the appropriateness, effectiveness and consistency of principal risk frameworks across the Group.

Central risk functions within the banks and at the Group head office are responsible for providing the risk management infrastructure (guidance, policy, standards, processes and tools) to support the GRICAF, and they provide oversight and assurance.

2021 progress

The Group risk committee has oversight of the aggregated risk profile across all principal risks in the group. The committee chairmanship vests with the Executive Officer: ERM and membership includes all Group Principal Risk Owners. The committee reviews and recommends the group risk profile to the Group BARC and formulates the matters for board attention, including emerging risks. Key risks highlighted to the board during the year included high non-performing loans, emerging market liquidity constraints, areas of non-compliance to core regulation to be remediated and high value risk incidents.

Overview of ERM

The board assumes responsibility for the governance of risk and sets the direction for how risk should be approached in the Group. The way we govern risk is directed by various policies and guidelines. These are regularly reviewed as prescribed by our document governance requirements.

The GRICAF processes and enabling infrastructure allow us to proactively identify and act on risks and opportunities that may impact the Group's strategic actions. The GRICAF target maturity level is one of dynamic risk management. A dynamic maturity level is characterised by continuous improvement of methods and procedures, proactive risk identification and reward, assured regulatory delivery and evidence of industry risk behaviours. This leap from an established, process-orientated framework to a responsive and dynamic Risk Management Framework is supported by investments in technology and by building an effective Risk Culture.

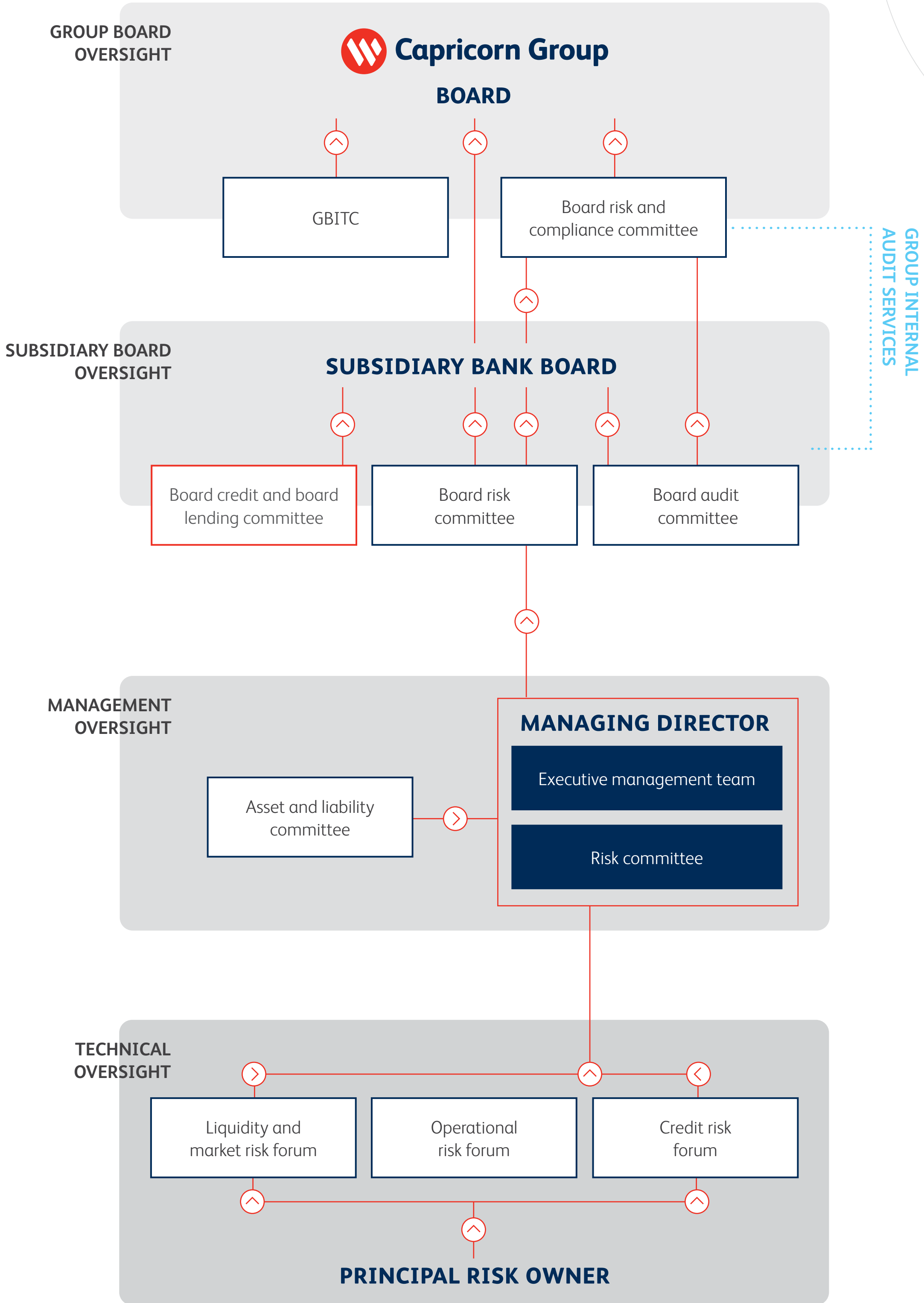
The Capricorn Group board is ultimately accountable for the adequacy of the GRICAF. The board receives assurance on the adequacy of the GRICAF through the second and third lines of defence, being the risk, management assurance, compliance and internal audit functions. Together, these internal functions provide the board with a view of how various role players execute the GRICAF practices. The board also draws on the perspectives of external auditors and regulators who conduct regular reviews of the operating entities in the Group. The combined internal and external inputs provide the board with an overall evaluation of the implementation and effectiveness of the risk policies and frameworks.

The Basel risk type frameworks are assessed through self-assessments by each of the banks in the Group. The self-assessments are based on a combination of regulatory requirements and sound practices. The risk committee of each bank approves the self-assessment and oversees the implementation of any remedial actions. Detailed action plans with owners and due dates ensure that remedial actions are rigorous. The self-assessment results are reported to the Group risk committee, and progress on implementation of remediation action is monitored centrally.

The Group conducted an independent review of the AML policy framework as well as an externally facilitated assessment of the Group's risk culture maturity. In both cases a formal report was received with recommendations which then formed the basis for formal remediation.

Each subsidiary's risk management oversight and governance is structured in line with its size and complexity, and considering its legal and regulatory environment. The following diagram shows a typical structure for a bank. The structure varies depending on the nature of the subsidiary.

Overview of ERM continued



The Group risk management model encompasses corporate responsibilities (for example, the governance model design), core capabilities (typically central risk functions, for example, the operational risk department), shared services (such as compliance monitoring, internal audit and AML) and operating unit activities (most of the risk processes). The management model presents an optimal management structure to ensure:

- Effective execution of business processes to consistently achieve process objectives
- Optimal cost efficiency and use of risk resources in the Group
- The ability to scale with the growth of the Group
- Alignment to the local requirements of the various operating environments

Risk services are provided through an optimal mix of centralised services such as corporate functions and core capabilities (for example, operations risk, governance, audit, compliance and Risk Culture building), and decentralised local services such as central risk teams in banks.

The risk management value chain

The GRICAF encompasses the risk management value chain, highlighting the primary activities and role players involved in risk management.

The main risk categories, being the principal risks, are contextualised for each operating unit to ensure that the Principal Risk Framework is relevant. Not all risk categories apply equally to every operating unit.

The standard practices of the GRICAF provide a common language and understanding of risk. This allows the Group to standardise and aggregate risk reporting to enable effective oversight by governance structures at all levels.

The following table provides an overview of the risk management value chain and the related activities and role players. The GRICAF design remained unchanged during the year.

Risk management value chain	Strategic direction	Risk assessment	Risk controls	Reporting
	Our strategic choices define our risk appetite, and our material matters determine our priorities.	Principal risks have been identified and defined, and are analysed and measured. Risks to the strategy and instances of suboptimal risk-taking are dynamically identified and responded to. Emerging risks are identified and monitored.	Control objectives are determined, designed and documented. Controls are implemented, evaluated and monitored.	Risk profiles are assessed against risk appetite and tolerance, and are reported quarterly. Risk indicators have clear alert thresholds (triggers) with defined escalation paths to responsible managers, PROs and risk committees.
Main role players	Board, committees and executive leadership team	Group and entity PROs	Group and entity PROs, management and Group risk functions	Group and entity PROs, risk functions, internal and external assurance providers
Risk management tools/structures/ policies	Group management model, material matters, documented strategy, policy framework, and risk capacity, appetite and tolerance ("RCAT")	Principal risk frameworks, risk type methodologies, models, advanced analytics	Control assessment methods, GRC system, controls built into IT systems, advanced analytics	Reporting frameworks
	Group requirements for the identification/measurement, control and reporting of principal risks are documented according to the GRICAF and implemented by business units.			

Risk management enablers

Enablers of a dynamic risk management system

GRC system	Group risk committee and the Group PRO role	Centres of expertise
The GRC system contributes to proactive risk management. The system allows all role players in the GRICAF to provide input and share risk information in real time and to present up-to-date risk profiles based on integrated data across risk and assurance functions. The benefits of the system further include standardisation of risk management across the Group (speaking one language) and enabling the audit and compliance functions to plan their workstreams in a more integrated and efficient manner.	The Group PRO role was created to allocate accountability and coordinate the execution of the Capricorn Group risk committee mandate. The committee was established by the Capricorn Group executive management team to assist with overseeing risk management, compliance and risk governance across the Group. The committee differs from entity risk committees in its oversight role, which emphasises the aggregated risk profile and adequacy of the GRICAF infrastructure and systems of control (the control frameworks).	Value is created for Group subsidiaries through shared services and centres of expertise located in Namibia. These provide thought leadership and direction, and perform non-routine activities such as advisory engagements and special assignments. Examples include AML expertise, financial risk modelling, compliance monitoring, corporate governance and Risk Culture building. While strategic direction is set centrally, it is interpreted and adapted locally in line with the Group's strategic guidance approach. Decentralised local execution meets market expectations. The sharing of services such as compliance monitoring, Cyber Resilience expertise, analytics and quantitative modelling provides for economies of scale and greater integration and engagement on risk management across jurisdictions.

Risk Culture:
Our Risk Culture supports all elements of the GRICAF by cultivating and embedding the correct understanding of and attitude towards risk and risk management.

2021 progress

During the year certain AML operational procedures previously conducted by Capricorn Group on behalf of Bank Windhoek were positioned closer to the first line of defence. This allowed for greater role clarity and accountability as well as a segregation of duty between first and second line of defence in relation to AML compliance monitoring. Additional dedicated capacity was created in the shared service areas of AML compliance monitoring and cyber resilience. All key positions are filled. The board is satisfied that the GRICAF was adequately executed during the year.

Risk capacity, appetite and tolerance ("RCAT")

The board has a duty to set the risk appetite for the Group. Risk appetite statements direct and guide management in policy development and decision-making, and they are key components in the delegation of duties to management.

The capacity and appetite statements are reviewed annually, and measurements are reported to the Group risk committee, executive management team and the BARCs. The quantitative and qualitative appetite statement is developed and approved in conjunction with the budget.

The Group RCAT is cascaded to subsidiaries as appropriate. Subsidiaries are required to adopt the qualitative risk appetite statements. Quantitative risk appetite statements are set as appropriate for subsidiaries and are aligned to the Group quantitative appetite statements through our strategic and budget planning.

The following constitutes our zero tolerance levels:

- The Group has no appetite for unethical conduct of business and expects the board, all employees and contractors to subscribe and adhere to the Group Code of Ethics and Conduct
- The Group treats its customers in a fair and transparent manner and therefore has no appetite to deviate from the commitments made to customers
- The Group has no appetite for deviations from the governance principles contained in King IV™ and applicable legislation
- The Group has no appetite for reactive, persistent or recurring core regulatory non-compliance
- The Group has no appetite for conduct that places its reputation at risk

2021 Group risk profile

The Group's main risks are represented by the 14 principal risk categories that apply across the various operating units in Namibia and Botswana. The overall aggregated principal risk profile for 2021 is as follows:

Principal risk	Risk trend	Residual risk	Previous
Capital	Stable	Green	Green
Compliance	Stable	Amber	Amber
Credit	Deteriorating	Red	Amber
Finance and tax	Stable	Green	Green
Financial crime	Stable	Green	Green
Investment management	Stable	Green	Green
Legal	Stable	Green	Green
Liquidity	Stable	Amber	Amber
Market	Stable	Amber	Amber
Operations	Improving	Amber	Amber
People	Stable	Amber	Amber
Reputation	Stable	Amber	Amber
Strategic	Stable	Amber	Amber
Technology	Improving	Amber	Amber

The trend reflects the direction of the risk profile during the year, considering the effect of management actions and/or external factors on the residual risk profile.

Improving = The risk profile improved during the period
Stable = The risk profile remained largely unchanged over the period
Deteriorating = The risk increased during the period
Red = The risk has exceeded the board risk capacity and appetite thresholds
Amber = The risk is within appetite and closely monitored due to its proximity to the board risk capacity and appetite thresholds. For some risks, this could indicate an optimised risk/reward relationship
Green = The risk is comfortably within appetite and, for certain principal risks, this could indicate the capacity for more risk-taking

Capital risk

Capital risk is the risk that the Group will be unable to (a) meet its capital requirements and (b) fund business expansion when needed. It includes the risk that regulatory requirements are not adhered to and the resultant costs of non-compliance, as well as the fact that insufficient capital will adversely affect the ability to raise funds.

How we mitigate this risk

The objectives of the Group when managing capital include:

- Complying with minimum regulatory capital requirements in all operating jurisdictions
- Safeguarding the ability of the Group to continue as a going concern
- Maintaining a sufficient capital base to support business development

Banking subsidiaries conduct an annual internal capital adequacy assessment process ("ICAAP") to assess capital adequacy beyond regulatory capital. Important factors considered in the ICAAP include the Group and subsidiary strategy, business performance and growth objectives and budgets, adverse risk scenarios across all principal risks and the effectiveness of the risk and control frameworks to mitigate the identified risks. The outcome of the ICAAP is approved by the respective banking subsidiary boards and forms the basis for capital thresholds and the ongoing management of capital.

To mitigate capital risk, the board approved thresholds for capital adequacy, and capital was managed monthly within these parameters on a Group and entity level.

The parameters are set using a red, amber and green ("RAG") status indicator. A threshold above the minimum regulatory requirements is applied, as can be seen from the Bank Windhoek example below.

Bank Windhoek		**RAG status**	
Descriptor	Red	Amber	Green
Regulatory capital adequacy compared to minimum regulatory capital adequacy ratio of 10%	<12.5%	12.5 – 14.5%	>14.5%
Leverage ratio (regulatory minimum 6%)	<7%	7% – 8%	>8%
Tier 1 capital (regulatory minimum 7%)	<8%	8% – 9%	>9%

The Group, Bank Windhoek and Bank Gaborone are adequately capitalised in terms of local regulations. Bank Windhoek is reviewing the profile of the loan book and other assets on the balance sheet to improve capital efficiency.

Capital adequacy is reviewed at asset and liability committee ("ALCO") level monthly. Any emerging risks are managed proactively.

The regulators announced a relaxation of capital adequacy requirements as part of a stimulus package to counter the economic effects of the pandemic.

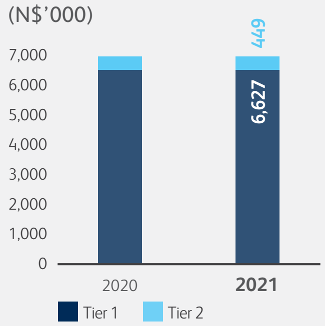
The Bank of Namibia reduced the capital conservation buffer rate to 0% for at least a 24-month period to support banking institutions to supply credit to the economy. The Bank of Botswana reduced the minimum capital adequacy ratio from 15% to 12.5% for the same reason.

The group remained well capitalised with sufficient capital buffers to sustain the economic shock experienced during the year.

Key risk indicators

Key regulatory capital figures for Capricorn Group	**2021**	**2020**	**Variation**
Tier 1 ratio	**14.1%**	13.8%	0.3%
Total capital ratio	**15.0%**	14.7%	0.3%
Leverage ratio	**12.4%**	12.1%	0.3%
Tier 1 (N$'000)	**6,627**	6,519	108
Tier 2 capital (N$'000)	**449**	454	(5)
Total capital (N$'000)	**7,077**	6,973	103
Risk-weighted assets (N$)	**47,037**	47,121	(84)

Total capital – Capricorn Group (N$'000)



Governance oversight

Capital risk is tracked at Group and entity ALCOs and executive management teams, and reported to the board on a quarterly basis.

Priorities for 2021 and progress made

It was important to maintain healthy capital buffers to ensure our businesses are resilient to economic shocks.

Stress testing and scenario planning.

Disinvestment from loss Cavmont Bank.

More information

Read more about the composition of regulatory capital and the ratios of the Group in note 3.7 of the consolidated annual financial statements from pages 93 to 94.

Outlook for this risk

The effective management of risks across our business will remain a key focus as part of our management of capital. The prolonged economic impact of the COVID-19 pandemic will continue to place pressure on capital adequacy through increased credit risk. Our digitisation programme, together with the increased use of remote working technology has increased the inherent risk and exposure to risks such as cybercrime. Furthermore, regulators are likely to roll back pandemic relief measures at some point in the future.

Aided by the successful disposal of the loss-making Cavmont Bank on 4 January 2021 and profitability of the remainder of the group, Capricorn Group is expected to maintain a healthy capital buffer in excess of regulatory requirements, despite current economic conditions.

Residual risk

Green. Capital Principal Risk is within appetite due to the adequate capital reserves above minimum regulatory and ICAAP requirements.

Compliance risk

Compliance risk is the risk of failing to comply with applicable legislation, and consequently the risk of cancelled trade licences, penalties and reputational damage.

How we mitigate this risk

As a financial services group, we have an obligation to ensure that our activities comply with local legislation, regulations, supervisory requirements and the relevant international standards.

There is no appetite within the Group for reactive, persistent or recurring core regulatory non-compliance. When instances of non-compliance occur the gaps are immediately addressed through the formal remediation process of the Compliance Framework.

The compliance function manages an extensive compliance management programme. This programme entails identifying, assessing, advising on, monitoring and reporting on the compliance risk of the Group and its subsidiaries with core legislation. The programme includes a legislative review of the impact of pending legislation, and assessments to judge readiness for implementation.

Key risk indicators

No material penalties have been issued to any Group entity during the year.

A key focus area for us is the enhancement of our systems to assist and promote compliance. This means greater levels of automation and systematisation of controls which will result in seamless execution of compliance requirements as part of our business processes.

Our change programme includes the following:

- Enhancements to customer due diligence, enhanced due diligence and ultimate beneficial ownership functionality and data to promote compliance in branches
- An AML system upgrade following the health check to provide assurance that the system is correctly configured and integrated into the banking system and to incorporate elements of advanced analytics.
- Automation of the Foreign Account Tax Compliance Act ("FATCA") onboarding process
- Improved compliance management information in dashboards to monitor compliance

Outlook for this risk

The expected trend for compliance risk is stable. We expect an increasing trend in the pro-active detection of instances of non-compliance through our compliance monitoring programme.

The FATF national Mutual Evaluation will focus on the evaluation of Namibia's AML/CFT/CPF system and its effectiveness to ensure that ML/TF/PF risk exposure is effectively identified, assessed, understood, addressed and mitigated; and that the financial system and broader economy is protected from the threats of ML/TF/PF, financial sector integrity is strengthened, and the system overall contributes to safety and security. The Mutual Evaluation may lead to enhanced regulation, monitoring and stricter regulatory oversight.

Global trends indicate a continuation of increased regulation in financial services. In Namibia significant pieces of legislation that will affect our operations include the National Equitable Economic Empowerment Bill, 2021 ("NEEEB"), Financial Institutions and Markets Bill, 2018 and Payment System Management Bill, 2020 and in Botswana, the Credit Information Bill, 2021.

In line with the Capricorn strategy to diversify income streams there is the possibility of investment in new industries and related regulation. In line with Basel principles for home-host supervisory cooperation Namibian and Botswana regulators continue to engage and share information. At the same time regulators across industries collaborate and share information in aid of consolidated supervision requirements. Examples of cross border collaboration include the planned supervisory college hosted by Bank of Namibia and attended by the Bank of Botswana and Namfisa and the FATF mutual evaluation. Internationally there has been a trend for foreign legislation with a global reach such as FATCA and General Data Protection Regulation ("GDPR").

Governance oversight

Monthly reporting to risk committees and a quarterly compliance report to the entity and Group board risk and compliance committees.

Priorities for 2021 and progress made

A Group-wide compliance monitoring plan was concluded in June 2021 to identify instances of non-compliance with core legislation. The monitoring plan demonstrated its effectiveness to pro-actively identify non-compliance.

Capacity has been created to expand the scope of monitoring to other subsidiaries and to place a special focus on AML and related legislation.

The 2022 financial year monitoring plan includes compliance monitoring of all core legislation for subsidiaries within the Namibian jurisdiction and AML legislation Group-wide.

Sanctions screening systems, reporting and processes were enhanced.

Residual risk

Amber

Credit risk

Credit risk is the risk that a borrower or counterparty will fail to meet an obligation when it falls due, and is inherent in the Group's business activities. The realisation of credit risk can cause a considerable loss in revenue and a decline in the total asset value when assets are liquidated and the exposure is paid or written off.

The operating context affecting credit risk

The continued impact of the pandemic has resulted in sustained pressure on the global economy, which has an enduring influence on the already strained southern African economies.

Large parts of Namibia have received above-average rainfall this season, which brought some relief to the struggling agricultural sector. However, the pandemic is expected to have a long-lasting detrimental impact on the economy, especially on the tourism sector. Numerous efforts to provide relief to businesses and individuals, such as reduced interest rates and payment holidays, have resulted in some short-term relief. Namibia has been in a recession for multiple years, but a small rebound in GDP growth from the COVID-19 lows is expected in the medium term. High levels of unemployment, high debt levels and slow economic growth are expected to remain for the short to medium term.

In Botswana, the NPL ratio deteriorated in line with expectations, mainly due to the simultaneous impacts of the pandemic and slow government payments on overindebted individuals and pressured small business owners. Customers' arrears statuses are being managed proactively, and efforts are being made to restructure loans.

The credit department, with the assistance of business units, is taking the necessary additional measures to ensure that credit risks are proactively managed and mitigated, and to selectively onboard new borrowers. Regulators in Namibia and Botswana have provided relief through local regulations to enable banks to assist individuals and businesses during these challenging times.

How we mitigate this risk

Credit risk is managed through a comprehensive management framework which encompasses regulations, Basel standards, IFRS, sound industry practice and board risk appetite, including the continuous monitoring of risk profiles and concentration risk of the overall portfolio. Analyses, predictive models and stress testing are used to enhance the understanding and management of credit risk in all the steps in the credit process, i.e. application vetting, credit assessment, sanctioning and payaway, repayment monitoring, debt collection and write-offs. Continued focus will be placed on managing the Environmental and Social Management System ("ESMS") and using it in the loan application process to ensure responsible, sustainable lending.

We mitigate increased credit risk through credit management and collections processes and the following measures:

- Investigating and implementing digitised credit management and collections processes
- Continuous development and enhancement of qualitative statistical tools to enable proactive management
- Embedding and refining risk grading and pricing, supported by emerging risk analytics
- Enabling broad-range credit management through the development of monitoring, detecting and assessment tools and reports
- Improving staff engagement and collaboration through various electronic training and shared-learning activities

Governance oversight

Credit risk is monitored at and managed by the entity credit risk forums, executive management team, risk committees, board audit and board risk and compliance committees.

Priorities for 2021 and progress made

- Monitoring of NPLs and enhancement of early warning mechanisms
- Improved management information to improve the legal collections process
- Portfolio-level analysis and credit risk management were further enhanced in the areas of risk-adjusted profitability measures and optimised IFRS 9 provisions
- Bank Windhoek remains ready for Basel III, although the Bank of Namibia has not implemented Basel III

More information

Read more about credit risk in the section on material matters in the integrated annual report from page 20 and in the annual financial statements from page 43.

Credit risk continued

How we mitigate this risk continued

The following actions were conducted as a result of the pandemic:

- Engaged the top 100 borrowing clients proactively in the most affected industries (tourism, transport, retail) to determine how Bank Windhoek can assist them
- Extended reviews for two months where information was still outstanding
- Determined the potential consequences of "force majeure/acts of God" on our loan agreements and facility letters
- Determined the possibility of deferments, refinancing and extensions of credit agreements
- Raised provisions due to new regulations as well as proactive management

Current and future focus areas:

- Continued focus to execute on credit management and collections processes
- Investigate and pilot collateral centralisation and optimisation actions
- Optimise credit processes for proactive problem detection and remediation
- Embed credit stress recovery plan

Key risk indicators

Key regulatory capital figures for Capricorn Group	2021	2020	Variation
NPL as a percentage of gross loans and advances (%)	5.20%	4.68%	0.52%
IFRS 9 stage 3 provision/specific impairment provision (N$'000)*	903,539	759,820	143,719
Impairment charges in income statement (N$'000)	443,748	407,448	36,300

* *2020 saw a substantial increase in the impairment provision due to the impact of COVID-19 on the IFRS 9 forward-looking model.*

Outlook for this risk

Although the short-term outlook for credit risk is negative due to the longer than anticipated impact of the pandemic, international efforts to roll out COVID-19 vaccines are set to have positive effects on tourism and the performance of local economies in the medium to long term. Economic growth is anticipated to recover slightly in the coming year, and the deteriorating growth trend is expected to stabilise and the repayment ability of customers to improve.

Despite this, pressure on irregular and NPLs is expected to remain in the short to medium term, which will have negative impacts on arrears, provisions and bad debt.

To enable proactive and efficient management of this risk, the embedment of online applications, pre-approvals, centralisation of key processes and functions, and the incorporation of artificial intelligent models will be actioned.

Residual risk

Red

Finance and tax risk

Finance risk is the risk of inaccurate financial reporting and disclosure, while tax risk relates to non-compliance to taxation laws and regulations in the regions where we operate.

How we mitigate this risk

The Group's approach is to employ suitably qualified and skilled individuals, with knowledge on the application of International Financial Reporting Standards ("IFRS") and tax legislation in the regions that we operate. Controls are suitably designed and implemented Group-wide to ensure the completeness and accuracy of all transactions from inception to reporting. The Group utilises internationally recognised accounting software, which is subject to annual general and application control audits.

All transactions are initiated and approved as per the Group's authority matrix, which ensures appropriate segregation of duties.

Management accounts are prepared and reviewed on a monthly basis by the management team, while reporting to the BARC and board is done on a quarterly basis.

Internal audits conducts various audits during the financial year on internal control processes within the finance department, while an annual external audit engagement by our auditors, PricewaterhouseCoopers, ensures compliance with IFRS on a separate and consolidated basis.

The risk of non-compliance with tax legislation is mitigated by regular internal audit reviews as well as external audit procedures conducted by tax specialists of PricewaterhouseCoopers.

Future focus areas: In order to prevent mistakes related to human error in the manual processes, the Group is focusing on automating certain processes and controls in future.

Key risk indicators

1. The number of control deficiencies identified by both internal and external auditors
2. Number of control deficiencies that remain unresolved
3. Material adjustments to amounts and financial disclosures proposed by external auditors
4. Prior period restatements related to errors

Outlook for this risk

Compliance to IFRS and tax legislation remains a top priority for the Group. The Group will continue to endeavour to remain compliant with all relevant IFRS and tax legislation by ensuring all controls are effectively designed and implemented.

Governance oversight

Monthly risk reports are submitted to risk committees. A quarterly risk report is compiled from subsidiary information and reported to the Group risk committee and BARC.

Priorities for 2021 and progress made

Group finance, Bank Windhoek finance and financial risk implemented a change in accounting treatment for interest in suspense from an IFRS perspective. This is in line with IFRS 9 enhancements undertaken after the initial implementation of IFRS 9 in July 2019. The new treatment of interest in suspense does not impact Bank of Namibia reporting requirements.

Residual risk

Green

Financial crime risk

Financial crime risk entails fraud, dishonesty, misconduct, misuse of information relating to a financial market, handling the proceeds of crime or financing terrorism. Financial crimes may involve fraud (cheque fraud or credit card fraud), theft, scams or confidence tricks, tax evasion, bribery, embezzlement, identity theft, forgery and counterfeiting, computer crime, phishing, burglary and armed robbery.

How we mitigate this risk

Losses due to financial crime remained low. Preventative measures include Risk Culture building, ethics training and fraud awareness which form part of the formal financial crime prevention approach. New products and services or major changes to existing products and services must undergo a formal risk assessment prior to changes being implemented.

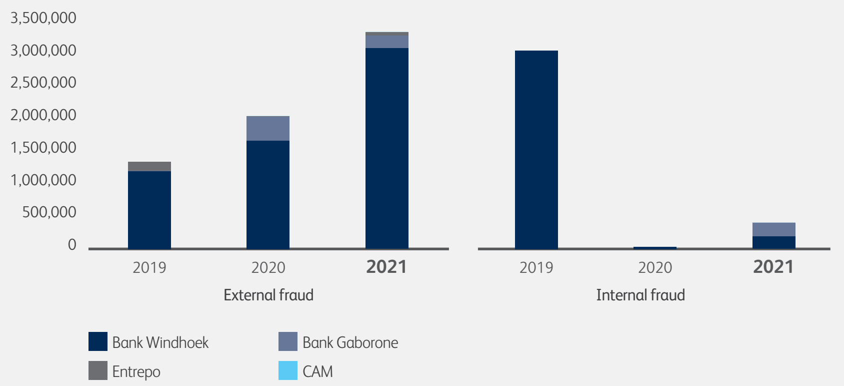
Fraud risk assessments are conducted to inform our Risk and Control Framework. The framework adheres to standard practices for operational risk in respect of risk and control assessment, key risk indicator monitoring, risk incident reporting and issue remediation.

Financial crime risk is managed through proactive and reactive methods. Proactive methods use technology to identify patterns of behaviour, whereas reactive methods involve forensic investigations. The Group employs specialists to combat financial crime. Risks associated with money laundering, tax evasion and financing of terrorist activities are regulated, and the Group processes are compliant. Enhancements to these processes are made continuously as opportunities for improvement are identified through our monitoring and assurance processes.

Progress made:

- There were enhancements to cyber resilience in the Group which strengthen the overall risk and control environment against financial crime risk.

Net losses due to financial crime (N$)



* BW External Fraud losses include card losses from 2021.

Governance oversight

Monthly risk reports are submitted to risk committees.

A quarterly risk report is compiled from subsidiary information and reported to the Group risk committee and BARC.

Priorities for 2021 and progress made

- We continue embedding the GRC system
- The Risk Culture building capability now extends to internal certification
- A new risk training module was introduced for general employees
- The ethics strategy is being implemented Group-wide
- The whistleblower hotline has been repositioned as an ethics hotline, which broadens the scope of the service as a reporting channel

Outlook for this risk

The inherent risk of financial crime is expected to increase as our digitisation programme is deployed and in line with the increasing global trends for cybercrimes.

Residual risk

Green with a stable trend

Investment management risk

Investment management risk is posed by applying a specific investment view given a certain macroeconomic and/or entity-specific view in portfolios and mandates we manage on behalf of clients.

How we mitigate this risk

We establish clear guidelines per portfolio based on strategic allocation and performance risk budget. The risk is managed proactively and in accordance with best practice standards coupled with a high understanding of local and regional markets and associated risks.

Key risk indicators

- Interest rate duration
- Spread risk allowance
- Single-party exposure limits
- Credit and liquidity ratings per instrument aggregated within each mandate
- Maximum term limits if applicable
- Performance measurement against peers and benchmarks/target returns

Future focus area: Review and improve performance and attribution on portfolios. The accuracy of investment view implementation remains an area which will receive focused attention and should improve the risk of portfolio deviation from target asset allocations and investment views.

Outlook for this risk

The two primary focus areas remain longer-term cost of capital and emerging sociopolitical risks within the region, but also growing in Namibia.

The accuracy of investment view implementation remains an area which will receive focused attention and should improve the risk of portfolio deviation from target asset allocations and investment views.

Governance oversight

Oversight is provided by monthly performance and attribution meetings, monthly credit meetings, monthly economic meetings and monthly asset allocation meetings. We have continuous portfolio-specific engagements and submit monthly risk reports at these meetings. A quarterly risk report is compiled from subsidiary information and reported to the Group risk committee and BARC.

Priorities for 2021 and progress made

- The review of relevant matrices and oversight continued
- A rework of the managed series investment management style was completed to allow for the right amount of risk given the client expectation and risk appetite

Residual risk

Green

Legal risk

Legal risk is the risk of loss primarily caused by (a) defective transactions; (b) a claim being made or another event that results in a liability for the Group, or other loss; (c) failure to take appropriate measures to protect assets (for example, intellectual property) owned by the Group; (d) changes in law and (e) exposure to fines and penalties resulting from supervisory actions.

How we mitigate this risk

The Group developed a Risk Management Framework to manage legal risk. The framework adheres to standard practices for operational risk in respect of risk and control assessment, key risk indicator monitoring, risk incident reporting and issue remediation.

An automated workflow and contract management system, GaLexy LegalSuite, was implemented to manage expiration dates and high-risk clause identification, as well as automated approvals for contracts in line with the authority matrices. Intellectual property management is centralised and the GaLexy LegalSuite system is used to manage record-keeping and expiration dates of trademarks.

Future focus areas for 2022 for Bank Gaborone are the embedment of the GaLexy LegalSuite system and uploading of legacy agreements, as well as the automatic system generation of revised template legal documentation. For Bank Windhoek, the revised legal template documentation will be updated to include further revisions following the implementation of the Directive on Unfair Contract Terms. Group-wide template legal agreements will be reviewed to integrate AML requirements into the template agreements and include derisking clauses.

Outlook for this risk

The trend for legal risk is stable, with a stable forecast for the next year. The in-house legal functions in bigger subsidiaries have matured and embedded legal processes and procedures. Smaller subsidiaries make use of external legal service providers approved by the board procurement committee for legal service delivery.

Governance oversight

We submit monthly risk reports to risk committees. A quarterly risk report is compiled from subsidiary information and reported to the Group risk committee and BARC.

Priorities for 2021 and progress made

GaLexy LegalSuite was embedded in our operations in Namibia and implemented in Botswana. Implementation of reviewed legal documentation was completed for Namibia and is in the process of being implemented in Botswana.

Residual risk

The residual risk is green as the four legal risks, namely intellectual property management, legal advice, contract management and litigation, are managed well. Contract and intellectual property management pose low residual risk due to the system supported process. Legal advice has not been challenged through litigation and there is no noteworthy litigation unusual for a Group of our nature and size.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial obligations as they fall due. It is also the risk that the Group may not be able to liquidate assets fast enough or without incurring excessive cost. Liquidity risk is inherent in the Group's business endeavours and represents its ability to fund increases in assets and meet its financial obligations while complying with all statutory and regulatory requirements.

How we mitigate this risk

The Group's approach to liquidity has remained unchanged, with liquidity always taking preference over the optimisation of profits. The Liquidity Risk Management Framework is documented and formally approved by the BARC. Liquidity risk is monitored and managed by means of a set of liquidity indicators and triggers that serve as early warning signs and action triggers. The Group's overall liquidity position is monitored and managed in conjunction with the funding action plan to ensure sound liquidity of all operating units. The liquidity risk is managed by monitoring various identified variables, which include:

- The level of understanding of demand and supply for liquid assets
- The level of adequacy and ability to access funding (established lines of funding) in a short period of time
- Relationships with depositors

Additional Capricorn Group contingency funding facilities were implemented for all regions in which we operate and included in the contingency funding plan. Annual testing of the contingency funding lines are performed, and the test was successful in the current year

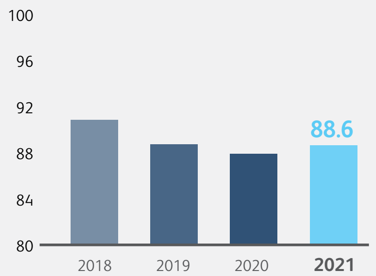
The ongoing pandemic continues to impact liquidity levels in all regions where we operate, mainly fuelled by reduced interest rates and reduced economic activity. However, with adequate liquidity buffer portfolios and the contingency funding facility, all subsidiaries remained resilient during times of low and volatile liquidity, and there was no need to access the Group's contingency funding facility during the year.

As a result of increased government borrowing in Namibia and Botswana during the year, cost of funding came under pressure, as the market priced competitively for longer-term stable funding.

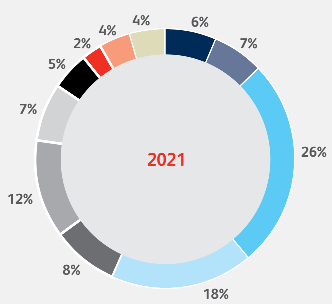
Future focus areas: An increased focus on the loan-to-funding ratio will remain during current times of high market volatility. The Group's treasury functions remains committed to procuring sources stable funding and holding sufficient excess liquid asset buffers.

Key risk indicators

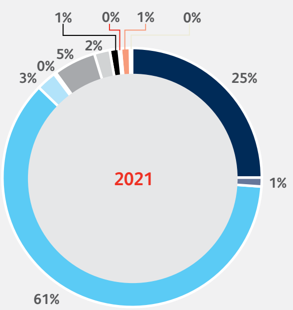
Historical loan-to-funding ratio's (%)



Bank Windhoek loan portfolio per sector:



Bank Gaborone's loan portfolio per sector:



- Individuals
- Government
- Other business and commercial activities
- Trade and accommodation
- Finance and insurance
- Agriculture and forestry
- Building and construction
- Transport and communication
- Mining
- Manufacturing
- Water, Gas and Electricity

Governance oversight

Liquidity risk is monitored and managed daily by each entity, and is overseen at Group level through daily reports. Furthermore, liquidity risk is monitored and managed (a) daily and proactively by the treasury department; (b) monthly, at the liquidity and market risks forum, bank ALCO and Group ALCO meetings and (c) quarterly, through reports to the entities and Group boards.

Priorities for 2021 and progress made

- Reducing the loan-to-funding ratio to mitigate liquidity risk – as a result of the economic impact of the pandemic, no progress was made
- Diversifying the funding base
- Maintaining healthy liquidity levels during the economic fallout of the pandemic

More information

Read more about liquidity risk in note 3.4 in the annual financial statements from page 77.

Outlook for this risk

Liquidity in the markets where we operate is expected to remain volatile considering the prolonged economic impact of the pandemic. Additionally, cost of funding is expected to remain under pressure as banks compete for limited funding with government and asset managers.

Residual risk

Amber

Market risk

Market risk is the risk of potential losses in on- and off-balance sheet exposures from movements in market rates and prices.

The following risks usually arise:

- Interest rate risk: The risk of loss resulting from changes in interest rates, including changes in the shape of yield curves
- Currency risk: Also known as foreign exchange risk, which arises from fluctuations within the currency market
- Equity risk: The risk of potential losses due to adverse change in stock prices

How we mitigate this risk

Market risks are actively monitored at Bank Windhoek and Bank Gaborone. The emphasis is on foreign currency fluctuations and on managing the interest rate of the book in an uncertain interest rate environment. Market risk will remain a key focus area, given the probability of further changes to interest rates, increased volatility in foreign currency markets and the deteriorating macroeconomic environment, amplified by COVID-19.

The sensitivity of the book-to-interest-rate moves can be seen in note 3.3 of the consolidated annual financial statements. Each entity manages its funding book according to the following:

- Actual market information
- Market expectations on the state of the local economy
- Expected future monetary policy changes

Foreign exchange risk is managed by closely monitoring the limits set out in the Market Risk Framework. Models and stress tests are used to gain a better understanding of the market risk environment. Foreign exchange positions are managed via stop-loss orders and by using derivatives in the spot market to close or hedge out unwanted exposure.

Future focus areas:

Implementation of a system to improve our ability to manage this risk in real time.

Key risk indicators

Refer to note 3 of the annual financial statements for risk indicators and the related sensitivity analysis.

Outlook for this risk

Interest rate risk: Market rates have seen the bottom of the cycle for now. Government borrowing in the domestic market will have an impact on market liquidity in the short to medium term. Inflationary pressure may result in higher rates in the medium term and a hike of 25 to 50 basis points can be expected in 2022.

Currency risk: Continued volatility in currency markets is expected over the next year. Increased government spending to fund the COVID-19 impact and stimulate economies will lead to more debt issuance by governments and will result in increased competition for medium-term funding, thus increasing funding costs and resulting in a steeper yield curve.

Governance oversight

Market risk is monitored and managed at each banking subsidiary and Group ALCO, and there is oversight at subsidiary and Group BARCs.

Priorities for 2021 and progress made

- The funds transfer pricing ("FTP") process was enhanced at Bank Windhoek
- More frequent scenario analysis
- Select and implement a system to enhance market risk management
- Interest rate margin management

More information

Read more about market risk in the financial director's review in the integrated annual report from page 44 and the section on material matters from page 20.

Residual risk

Amber

Operations risk

This is the risk of failure to deliver the intended outcome regarding facilities, data, processes, business continuity, physical cash management and payment management. Losses due to payment errors or theft as a result of poor physical security are examples of this risk.

The low levels of operational risk losses in the banking subsidiaries continue due to deliberate efforts to reduce losses from errors and the Group-wide implementation of Risk Culture building and risk training.

Operations risk is managed according to the standardised approach to operational risk management under Basel II. Qualitative and quantitative tools are applied to identify, assess, set appetite and manage operations risks.

Future focus areas:

- Data quality and process optimisation
- Implementing the branch of the future
- Improve processes using Six Sigma to remove variation and ensure clients experience consistent high-quality services
- Implement measures to improve our capacity to minimise and absorb losses
- Customer Contact Centre capability enhancement
- Automate cash services and corporate customer value proposition
- Improve active sales and relationship management
- Back-office automation
- Future Fit Leadership and remote working

Key risk indicators

- Risk incidents
- Operational losses
- Successful completion of integrated business continuity tests

Priorities for 2021 and progress made

- Business continuity management controls were implemented to mitigate the threat of the pandemic, and contingency plans were regularly revisited and updated.
- Physical cash management processes (end-to-end) were documented, implemented and monitored. Management ensures monthly compliance with regulation, and vendor contracts are reviewed on anniversary dates.
- Facilities adhere to minimum standards as required by business and the regulator. All lease agreements are in place and managed according to the internal process when due for renewal. Annual inspections were conducted for all facilities, and fitness certificates that were overdue due to COVID-19 are awaited.
- All existing electronic fund transfer ("EFT") transactions are now submitted via the new NamPay EFT service.
- Data is stored, backed-up, restored, retrieved and destroyed as per the Data Retention Policy and secured as per the Information Security Policy. The reports to maintain data quality for business and regulatory or compliance purposes are in place.

Residual risk

Amber: The prolonged pandemic and the impact on the working environment, such as split teams and enhanced safety measures, will require a continued focus on managing operational risks. Our digitisation programme will introduce significant changes in our operational practices and procedures and this change will have to be managed to ensure a safe and responsible transition.

Governance oversight

We submit monthly risk reports to risk committees. A quarterly risk report is compiled from subsidiary information and reported to the Group risk committee and BARC.

Outlook for this risk

We have a process that enables operations risks to be identified and assessed and which requires the implementation of mitigation plans, where gaps are identified. This enables appropriate risk taking, aligned with the Group's risk appetite, in pursuit of the achievement of strategic objectives. Operations risk activities remain resilient and continue to focus on saving costs, simplifying operating models and becoming more deeply connected to the customer.

We will continue to enhance our management and mitigation of operations risk, with specific emphasis on more agile development and delivery. From the outset and given the stated risk appetite as per the Operations Risk Framework, the operations risk is properly assessed and within acceptable tolerances with an expected stable trend.

As part of our digitisation programme we will increase the levels of automation and digitisation of our controls.

The pandemic has had a profound impact on our way of working and has also changed the way our employees view their work practices and environment. Some of the changes that we introduced were intended to be short term in nature and will not be sustainable over the longer term. We intend to evaluate our ways of working with a longer term focus.

People risk

This is the risk of failure to achieve the Group's business objectives due to difficulties arising from people-related matters. The People Risk Framework is linked to the Group strategy and is measured and reported as such. The framework was refined and is consistently applied. Measurements include the identification and recruitment of key positions, the consistent application of policies and people practices and the adequate application of the Performance Development Framework.

How we mitigate this risk

The people risk profile improved in terms of responses to mitigate potential risk exposures. These include the identification and filling of key vacancies, the standardisation of key policies and the implementation of a robust performance development process. The number of audit findings/observations was reduced, bringing risks within tolerance. We completed control assessments, key risk indicators and engagement indicators from the Mirror survey. These are indicators of the appropriate level of risk and are reported on a monthly and quarterly basis to various levels.

The People Risk Framework describes best governance practices and provides clarity on roles and responsibilities while addressing risks associated with employee behaviour, capability and attitude towards risk management.

The Group mitigates people risk by:

- Linking the People Risk Framework to AsOne2023 strategic choices
- Working closely with external partners to address the overall wellness of our employees, specifically mental health amid the pandemic
- Targeting a high-performance culture by improving talent management and skills retention
- Focusing on sustainable e-learning programmes within the people development capability
- Accelerating innovation through automated process throughout the human capital value chain
- Focusing on diversity in terms of skills, gender and age group
- Focusing on the disability category of the Employment Equity Plan

Key risk indicators

- Vacancies in key positions
- Leave and overtime
- Employee turnover
- Male to female remuneration receives equal pay
- Industrial actions (employee grievance, disciplinary hearings, etc.)
- Affirmative action measures (Namibia only)

Priorities for 2021 and progress made

Regularly reviewing and updating the risk framework is critical to ensure that it aligns to micro and macrochanges, for example, to include the impact of COVID-19 and align it to risk tolerance levels.

Some of the recent adjustments include:

- Transitioning employees to new ways of working (social distancing, teams and cultural diversity)
- Implementing and embedding the new working model (including remote working)
- Training initiatives for managers focusing on the workforce of the future and employee engagement
- Strengthening positive relationships with unions, including ongoing engagement with union leaders and resolving issues through formal engagement structures
- Improving the performance management process supported by technology
- Development and approval of a Talent and Leadership Framework

Governance oversight

Detailed risk reports are submitted to risk committees post engagement with the respective people risk owners in the respective entities. A quarterly risk report is compiled from subsidiary information and submitted to the Group risk committee, Group BARC and the Group board human resources ("HR") committee.

Outlook for this risk

We expect a green outlook with a stable trend. The Group strategic objectives continue to guide our actions despite the changing circumstances caused by the pandemic. All key performance issues are to be resolved via appropriate engagements. We continue to build a stronger foundation that will add value to all other priorities. Global access to talent created new avenues to accelerate innovation.

Residual risk

Amber

Reputation risk

Reputation risk is mainly a consequence of other risks materialising. It is the risk of failing to understand, identify or manage events that harm the Group's reputation. The Group has no appetite for conduct that places its reputation at risk.

How we mitigate this risk

A Group Reputation Risk Framework and strategic stakeholder engagement plan are in place.

Each entity's PRO for reputation risk continuously receives reputation risk management best practices, case studies and tips on dealing with a crisis from a communication and media perspective.

External consultants were contracted to monitor the Group and its subsidiaries' online presence, including traditional and social media channels. Monthly reports are generated and assist in adjusting strategies and responses to mitigate any potential reputation risks.

The Group mitigates reputation risk by:

- Continuously monitoring compliance with the brand manual (visual identity guidelines) and endorsement strategy among all entities
- Continuing to implement the Group's strategic stakeholder engagement plan and enhancing the plan with inputs from stakeholders through a comprehensive stakeholder audit
- Enhancing reputation risk awareness internally with a focus on responding to cybersecurity risks
- Implementing the brand and communication strategy to address the risks and opportunities associated with the Capricorn brand following the outcome of the brand audit
- Building a strong ethical culture through employee communication and engagement initiatives
- Using the Capricorn Foundation's activities, and the five employee community outreach initiatives, to build a positive reputation for the Group as Connectors of Positive Change

Key risk indicators

- Percentage of negative, neutral or positive reporting on social media
- Number of incidences not reported which had or could have had a reputational impact
- Customer service survey results
- Number of customer complaints
- Percentage of negative media reports on the subsidiary per month

More information

Read more in the Group chairperson's message in the integrated report from page 10 and the BSEC report from page 66.

Outlook for this risk

Reputation risk is expected to remain stable. The nature of reputation risk makes it difficult to predict its likelihood and impact over a medium to longer term, but the policies, processes and tools to manage any potential risk are in place and will lessen potential negative impact.

Governance oversight

The Group and subsidiary boards receive reports on material reputation risk issues via the BARC or a board risk committee (as the case may be). Quarterly reputation risk profiles are compiled for all entities and reported to the BARC.

Priorities for 2021 and progress made

- Crisis communication plans were developed and implemented to respond to the pandemic and to effectively manage social media reputation risks
- The Group's Corporate Communication, Social Media and Stakeholder Engagement Management Policies were reviewed and enhanced
- Group PRO oversight of reputation risk management improved, and subsidiaries' reporting was enhanced
- A brand audit, conducted by external consultants, tested stakeholders' perceptions of the Capricorn brand and informed the decision to postpone the rebranding of the Group's banking subsidiaries
- Visible improvement in the compliance of entities to the Group's brand manual (visual identity guidelines)
- The Capricorn Foundation was launched and received its certificate as a registered welfare organisation
- The Group's strategic stakeholder engagement plan was reviewed and enhanced, after which several stakeholder engagements supported our brand position of being Connectors of Positive Change
- Internal awareness was created on reputation risks, and Group PRO oversight in managing and reporting reputation risk issues was increased
- The communication plan, which was developed to build a strong ethical culture with the theme "Do the right thing", increased awareness on ethical behaviour

Residual risk

Green

Strategic risk

Strategic risk is the uncertainty and untapped opportunities created and affected by internal and external events and/or scenarios that could inhibit the achievement of the Group's strategic intent and strategic objectives.

How we mitigate this risk

During the year, we mitigated strategic risk in three ways:

- Applied governance per the Capricorn Group Strategic Risk Management Framework
- Adopted best practice strategy development methodology consistently across the Group, entities and centres of expertise, thus ensuring strategic alignment
- Implemented strategy with clear and appropriate actions, outcomes, metrics and performance targets

Key risk indicators

- Market share in loans and advances (Bank Windhoek and Bank Gaborone)
- Market share in total deposits (Bank Windhoek and Bank Gaborone)
- Customers per full-time employee (Bank Windhoek and Bank Gaborone)
- Customer growth rate (Bank Windhoek and Bank Gaborone)
- Customer contribution (Bank Windhoek and Bank Gaborone)

Outlook for this risk

We expect strategic risk to remain stable in terms of impact and likelihood for the following reasons:

1. The strategy development methodology used will remain the same, with strategic choices anchoring the strategies.
2. There was good alignment with choices and strategy between the Group and entities. The annual staff engagement survey provided evidence to this effect.
3. We use a data-driven strategy execution scorecard with actions, outcomes, metrics and targets tied to strategic choices. We measure strategy performance on a quarterly basis across the Group with feedback to boards, the executive committee, entity executive management teams and other stakeholders.
4. Evidence proved that performance against strategy was directionally in line with expectations, and where execution gaps presented themselves, the appropriate actions were implemented to close such gaps.

The impact of COVID-19 and how the Group and entities respond remain key considerations. Scenario development and stress testing as a result of COVID-19 will play a material role in how we respond to the pandemic while continuing to build a sustainable Group.

More information

Read more in the section on our strategic landscape and material matters from page 20 of the integrated annual report.

Governance oversight

The Group and subsidiary boards, and entity executive management teams conduct annual strategy sessions to develop and/or approve strategies for the Group and subsidiaries, respectively. Managing directors of the entities report progress on the implementation of the strategy at quarterly board meetings.

Priorities for 2021 and progress made

- Directionally, we continued with the key priorities identified in the previous year, namely growing market share, optimising business processes and improving customer experience.
- We made significant progress in our understanding of our customer through advanced analytics and other data methodologies.
- We continued our investment in business process capabilities by training employees in the discipline, and a number of business process optimisation projects were successfully completed.
- The AsOne2021 to 2023 strategic choices were developed through a robust and participative Group process. Progress will be monitored from 1 July 2021 onwards.

Residual risk

Amber

Technology risk

Technology risk is the risk that the strategic technology investment is not aligned to the Group's purpose or business strategy, or catastrophic failure of technology to deliver secure IT services that provide critical business services. System breakdowns or systems being offline are examples of this risk materialising.

How we mitigate this risk

The cybersecurity and IT risk and compliance teams collaborate with the technology Group PRO and subsidiary PROs to identify risks. These are communicated to managers who are responsible for executing remediation plans.

An effective control environment was created to identify critical issues as they arise and to deal effectively with severity incidents as they occur. Risks are tracked and reported within the risk governance structures.

The Group employs a standardised architecture to combat threats and reduce the effort required to support and maintain all systems.

Cyber risk is an inherently high risk that is escalating due to the increased prevalence of digital platforms and inter-connectedness. Banks remain an attractive target for cybercriminals, and cyber risk is a material matter that is receiving strong focus and support from the board. The Group launched a cyber resilience programme as part of our continued drive to enhance cybermaturity. In addition, we apply various technical and non-technical controls including patching of systems, perimeter security controls, network security controls and security awareness to employees to combat cyberattacks. International frameworks and standards such as International Organization for Standardization ("ISO") and National Institute of Standards and Technology ("NIST") standards are used to augment and support internal processes, standards and policies.

The Group mitigates technology risk by:

- Continuing to enhance key risk indicators
- Enhancing vendor management process and controls
- Continually revising and improving cybersecurity controls
- Enhancing DevOps capabilities
- Enhancing the cybercapabilities of the Group

Key risk indicators

- Repeat moderate severity incidents
- System uptime
- Cyber resilience
- Disaster recovery failures
- Support call metrics
- IT change metrics

Outlook for this risk

The technology risk is expected to decrease within the current strategic cycle as controls are continuously enhanced and the cyber resilience programme is implemented. However, as seen globally, cyberattacks will continue to be an area of concern for all companies, and we will have to continually refine our defence and resilience capabilities.

More information

Read more about IT governance on page 21 of the governance report.

Governance oversight

Technology risks are reported to subsidiary management risk committees. Quarterly risk reports are submitted to the subsidiary board risk and compliance committees, and the Group risk committee and BARC. Material technology risks are reported to the GBITC.

Priorities for 2021 and progress made

- An enterprise-wide cyber resilience programme was approved.
- A leadership role was assigned with dedicated focus on managing cyber risk.
- Group IT continued reducing the complexity and single point of failure for the banks' internal and external network connectivity and systems. Progress is evident from the decrease in severity incidents noted in 2020.
- Full data centre recovery capabilities were successfully tested in Botswana and Namibia.
- An enhanced IT Organisation Design was implemented to improve delivery, lower delivery cost and increase accountability per platform.

Residual risk

Amber

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